

# SN | POWER

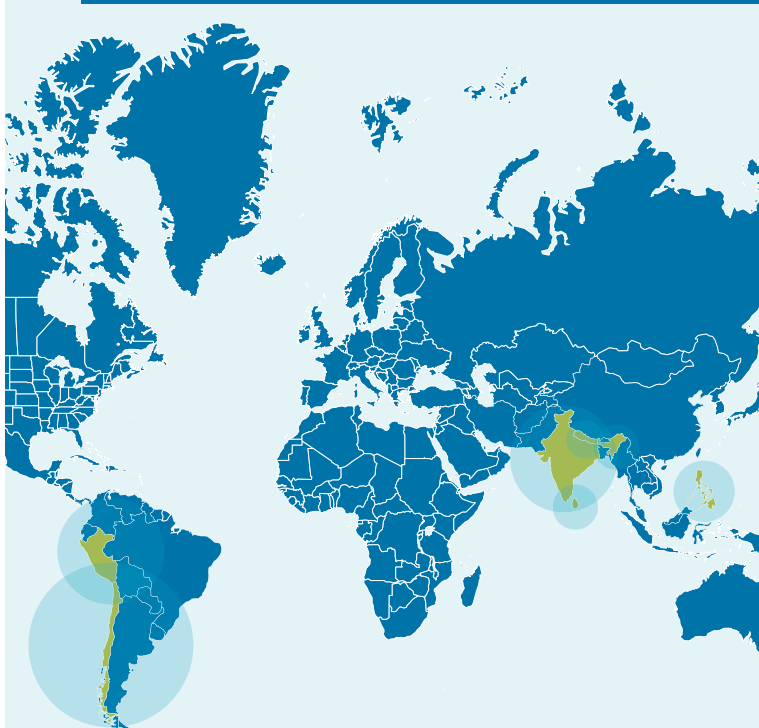


## CONTENTS

---

Message from the CEO	2
The Management Team	4
Vision & core values	5
<b>Our business at a glance</b>	<b>6</b>
SN Power in Asia	8
Nepal	9
The Philippines	11
SN Power in Latin America	12
Chile	13
Peru	14
<b>Our people</b>	<b>16</b>
<b>Our social and environmental responsibility</b>	<b>18</b>
Rural electrification in Nepal	20
Reducing greenhouse gas emissions	21
<b>Key figures</b>	<b>22</b>
Board of Directors' Report	23
Income statement	29
Balance sheet	30
Cash flow	32
Notes	33

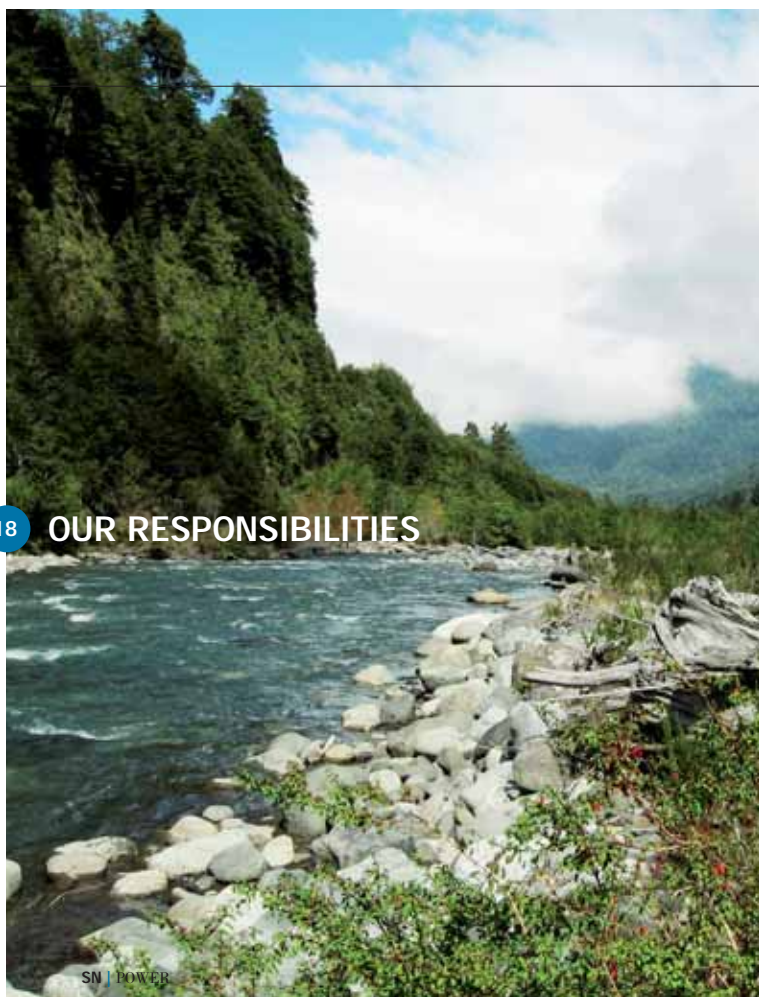




## 6 OUR BUSINESS AT A GLANCE

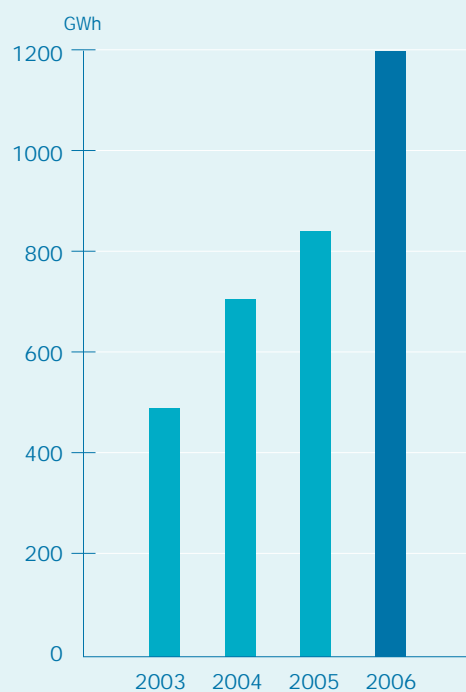


## 16 OUR PEOPLE

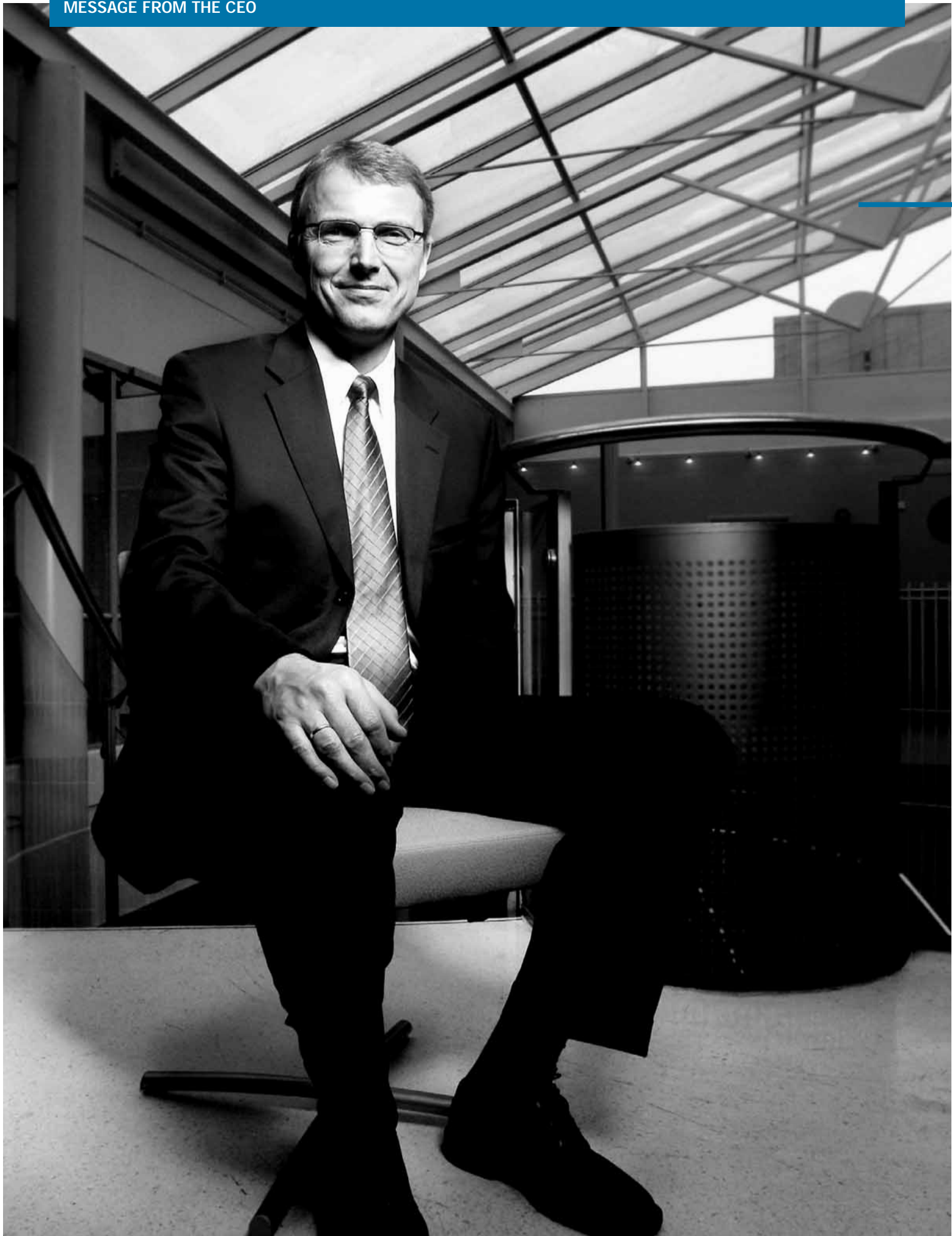


## 18 OUR RESPONSIBILITIES

## 22 KEY FIGURES



ANNUAL POWER GENERATION IN GWH





# SN POWER TURNS A PROFIT FOR THE FIRST TIME IN 2006

2006 was an exciting year for SN Power. Sound management, good investment decisions and high energy prices ensured that the company moved into profitability.

We successfully expanded our asset and human resource bases, key components in our growth strategy. At year-end, we had increased our gross portfolio of projects in operation and under construction to 614 MW, and we had secured an additional increase of 360 MW for amalgamation in 2007. By mid-2007 we will have accumulated 1,030 MW in our gross portfolio surpassing our 2007 goal of 1000 MW. Key personnel were also taken on in Nepal, Chile, the Philippines and Singapore to help increase our presence in key markets.

We continued our commitment to keeping corporate social responsibility and concern for the environment at the core of our business operations and decision-making in 2006.

**A year of milestones** | The transfer of Statkraft AS's majority ownership stake in Himal Power Limited to SN Power in May 2006 helped us enter the Nepalese market for the first time. Nepal has vast hydropower potential and is a key potential provider of clean energy to the Indian power market which is currently experiencing a significant deficit.

In March, SN Power's 155 MW La Higuera project, which we are developing together with Pacific Hydro in Chile, was approved by the United Nations' CDM Executive Board to generate Certified Emissions Reductions. Approval under this scheme is granted only to projects which can demonstrate their contribution to decreasing greenhouse gas emissions and environmental and social sustainability. This approval represents a

significant achievement for SN Power and is a concrete reflection of our commitment to developing environmentally sustainable projects.

In December 2006, a successful bid in the Philippines together with our local partner, Aboitiz Equity Ventures, for the 360 MW Magat plant helped us enter the Philippine market in a significant way. Magat is the



Further growth is a key priority for SN Power in 2007.

largest conventional hydropower plant in the Philippines and shows great potential for improved efficiency and production capacity. Our entry into the Philippines was well timed as we are now positioned to take advantage of the on-going privatization process which will lead to several hundred megawatts of state-controlled generation assets being sold off to the private sector in 2007-2008.

**Looking forward** | Further growth is a key priority for SN Power in 2007. To that end, we will focus on expanding our foothold in the Himalayan and Andean regions, pursuing new acquisition opportunities, advancing

our greenfield project pipeline, achieving financial close on new greenfield projects and securing CDM approval. We will also continue to explore opportunities to enter the African continent.

I also expect SN Power to be actively engaged on the industrial front in 2007 as we work to integrate the Magat plant into our portfolio and to keep our greenfield construction projects in Chile and India squarely on-track for completion in 2008.

To ensure that we can deliver growth and build on the existing strength of our business, we will enhance our human resource base and bring in new personnel with expertise in business and greenfield development and operation and maintenance.

As we pursue our growth agenda next year we will continue to reinforce our commitment to the 10 principles of the United Nations Global Compact and look forward to continuing to contribute to the long-term economic health of the countries in which we are investing.

**Øistein Andresen**  
Chief Executive Officer



## 1 | ØISTEIN ANDRESEN CEO

Øistein has 18 years experience from the international power sector. Prior to joining SN Power, Øistein held senior management positions in ABB, Akershus Power Company and Statkraft Engineering.

Øistein holds a Masters in Electrical Engineering from the Norwegian Institute of Technology, Trondheim.

## 2 | BENGT VERNMARK EXECUTIVE VICE PRESIDENT FOR LATIN AMERICA AND AFRICA

Bengt has 15 years experience from the international power sector, banking and construction. Prior to joining SN Power, Bengt held senior management positions in the Swedish Export Credit Corporation, the Vattenfall Group and NRG Energy.

Bengt holds a Masters in Civil Engineering from Chalmers University of Technology, Sweden and an MBA in Finance from the University of Wisconsin, USA.

## 3 | EINAR STENSTADVOLD EXECUTIVE VICE PRESIDENT FOR ASIA

Einar has 20 years experience in marketing and administration within international companies. Prior to joining SN Power, Einar held senior management positions in Hydrogas A.S, Norsk Hydro ASA and Norske Skogindustrier ASA.

Einar holds a Masters in Economics from the Norwegian School of Economics and Business Administration, Bergen.

## 4 | TOR STOKKE EXECUTIVE VICE PRESIDENT AND CFO

Tor has 15 years experience in finance. Prior to joining SN Power, Tor held various CFO positions in major Norwegian and international companies, including Clay International, Raufoss ASA and Posten Norway BA.

Tor holds an MBA from the Norwegian School of Business Administration and Economics, Bergen.

## 5 | NADIA SOOD EXECUTIVE VICE PRESIDENT ORGANIZATION AND CORPORATE SOCIAL RESPONSIBILITY

Nadia has 8 years experience in communications, and corporate social responsibility within international companies and organizations. Prior to joining SN Power, Nadia held senior management positions at Nestlé and worked for Strategy XXI Group Ltd, and the United Nations.

Nadia holds a Masters in International Affairs from Columbia University, New York.

## VISION

---

To become a leading hydropower company in emerging markets, contributing to economic growth and sustainable development.

## CORE VALUES

---

Our core values are embedded into the foundation of our business strategy and underpin all our conduct and decision making.

**PROACTIVE** | We actively seek out opportunities, partnerships and technology that allow us to succeed. We are proactive in our approach to knowledge and technology transfer. We look for ways to adapt, be innovative and learn so that we can continuously improve our business model.

**EXCELLENCE** | We are driven to excel in everything we do. We aim to be a leader in hydropower development and operation in emerging markets.

**RESULTS-DRIVEN** | We are commercially oriented, and always looking to reinforce our financial, market, environmental and hydropower expertise. We continuously look to improve our performance and our results.

**INTEGRITY** | We deliver what we promise. We are honest, transparent, ethical, responsible and trustworthy in our dealings with stakeholders, customers, partners, local communities and our own employees. We seek out partners with the same values.

# OUR BUSINESS AT A GLANCE

## PERU:

### ARCATA

#### Operating plant

Location	Arequipa region
Installed capacity	5.4 MW
Average annual output	37 GWh
SN Power ownership	99.9%

### CAHUA

#### Operating plant

Location	Pativilca River
Installed capacity	43 MW
Average annual output	280 GWh
SN Power ownership	99.9%

### GALLITO CIEGO

#### Operating plant

Location	La Libertad region
Installed capacity	37 MW
Average annual output	150 GWh
SN Power ownership	99.9%

### PACASMAYO

#### Operating plant

Location	La Libertad region
Installed capacity	25 MW
Average annual output	20 GWh
SN Power ownership	99.9%

### PARIAC

#### Operating plant

Location	Ancach region
Installed capacity	4.9 MW
Average annual output	24 GWh
SN Power ownership	99.9%

### CHEVES 1

#### Project under development

Location	Oyón province
Estimated capacity	168 MW
Estim. average annual output	834 GWh
SN Power ownership	100%

## CHILE:

### LA HIGUERA

#### Plant under construction

Location	Rio Tinguiririca
Installed capacity	155 MW
Average annual output	810 GWh
SN Power ownership	50%
Partner	Pacific Hydro Ltd

### LA CONFLUENCIA

#### Project under development

Location	Rio Tinguiririca
Capacity	145 MW
Average annual output	700 GWh
SN Power ownership	50%
Partner	Pacific Hydro Ltd

### TRAYENKO PROJECTS

(Pellaifa, Reyehueico, Liquiñe, Maqueo):

#### Projects under development

Location	Los Rios region
Estimated capacity	Approx. 600 MW
Estim. average annual output	Approx. 2700 GWh
SN Power ownership	80%
Partner	Pavez Group

## INDIA:

### MALANA

#### Operating plant

Location	Kullu district
Installed capacity	86 MW
Average annual output	370 GWh
SN Power ownership	49%
Partner	LNJ Bihlwara Group

### ALLAIN DUHANGAN

#### Plant under construction

Location	Kullu district
Installed capacity	192 MW
Average annual output	800 GWh
SN Power ownership	49%
Partner	LNJ Bihlwara Group



## NORWAY:

### SN POWER HEADQUARTERS

Location

Oslo

## SRI LANKA:

### ASSUPINIELLA

#### Operating plant

Location	Aranayake
Installed capacity	4 MW
Average annual output	16 GWh
SN Power ownership	30%
Partner	Lanka Transformers Ltd

## SINGAPORE:

### SN POWER HOLDING SINGAPORE

#### Regional Head Office

Opened in 2003

## THE PHILIPPINES:

### MAGAT

#### Operating plant (Takeover 25 April 2007)

Location	Isabela Province/ Ifugao
Installed capacity	360 MW
Average annual output	1000 GWh
SN Power ownership	50%
Partner	Aboitiz Equity Ventures

## NEPAL:

### KHIMTI

#### Operating plant

Location	Ramechhap and Dolakha Districts
Installed capacity	60 MW
Average annual output	350 GWh
SN Power ownership	50.4%

### BELIHULOYA

#### Operating plant

Location	Belihuloya
Installed capacity	2.1 MW
Average annual output	10 GWh
SN Power ownership	30%
Partner	Lanka Transformers Ltd



## SN POWER IN ASIA

We continue our strategy of focusing on hydropower in the Himalayas and the Philippines, while we cultivate opportunities in the Greater Mekong region as a long term option.

In India, SN Power is concentrating its efforts on Malana Power Company. The Malana power plant has undergone, and will continue to work on, an operational enhancement program. The Allain Duhangan project is currently in an intense and critical phase of its construction. The goal is to start operations of the power plant next year.

With the transfer of Statkraft's shares in Himal Power Limited, we gained a foothold

into the Nepalese power sector. We added to that by establishing a liaison office in order to further develop our portfolio in the country.

In 2006, our joint venture company SN Aboitiz Power placed a successful bid on the 360 MW Magat Hydropower plant in the Philippines. The Magat acquisition is an important step for SN Power, giving us a strong entry into the Philippine power market

while at the same time taking the company's gross portfolio to over 1000 MWs of generation capacity, including assets under construction. We will continue to expand our portfolio in the country.

SN Power is also following the Vietnamese power market and is evaluating specific projects which we will continue to explore in 2007.



# EXTENDING OUR PRESENCE IN THE HIMALAYAN REGION: NEPAL

SN Power entered the Nepalese power market in 2006 after the transfer of Statkraft's majority share in Himal Power Limited. We then started work on developing new hydropower projects in Nepal and opened a representative office in Kathmandu.



In March 2006, Statkraft transferred its 50.4 percent voting share in Himal Power Limited (HPL), thereby effecting SN Power's entry into the Nepalese power market. HPL operates the 60 MW Khimti hydropower plant east of Kathmandu. The company was established in 1992 by the Norwegian companies, Statkraft SF, ABB Energy and Kvaerner Energy, and the Nepalese Butwal Power Company. Construction of the Khimti plant started in 1996, and when the plant started operating in 2000, it brought much needed electricity to the Nepalese grid. In 2006, HPL sold 371 GWh to the Nepal Electricity Authority. Khimti's contribution to the grid amounts to almost 10 percent of the country's total installed capacity of 614 MW – of which 90 percent comes from hydropower.

Since its establishment, HPL has worked extensively on developing good relations with the local communities surrounding the Khimti plant through various social and environmen-

tal development programmes. SN Power is committed to continuing these efforts.

**Developing a portfolio in Nepal** | Nepal has a vast untapped hydropower potential, which is estimated at 83,000 MW, of which some 44,000 MW can be feasibly developed. The Nepalese domestic demand for electricity is increasing, on average at 8 percent a year, and there is a potential to export electricity to power-starved India.

Using HPL's experience from operating in the Nepalese market, positions SN Power to participate in further developing the country's power sector and to exploiting regional synergies between Nepal and India where we are also invested.

In 2006, SN Power set up a representative office in Kathmandu and applied for survey licenses for the Tamakoshi-3 (275 MW) and Tamakoshi-2 (207 MW) Hydroelectric Projects in the Tamakoshi River Valley, in

the vicinity of the Khimti Project. These were granted in early 2007.

As part of our Nepalese expansion strategy, we have also entered into a cooperative agreement with Bhutwal Power Company and have expressed interest in developing the Upper Tamakoshi Hydroelectric Project jointly with Nepal Electricity Authority.

**Transmission lines to India** | Currently, only a few low-capacity transmission lines connect the Nepalese grid with the Indian market. This is however in the process of changing, as several projects to expand the connection between the two countries are being undertaken by the Nepal Electricity Authority and Infrastructure Leasing & Financial Services of India. Cross-border transmission lines would give much-needed power to the Indian market, allow Nepal to earn export revenues from its rivers and help alleviate the peak-power deficit situation in Nepal.



# ACHIEVING A STRONG FOOTHOLD IN THE PHILIPPINE POWER MARKET

Through our joint venture SN Aboitiz Power, SN Power successfully bid USD 530 million for the 360 MW Magat hydropower plant in 2006. By acquiring the Philippines' largest conventional hydropower plant, SN Power doubles its operating capacity.



In 2005 SN Power formed the joint venture SN Aboitiz Power together with Aboitiz Equity Ventures (AEV), a Philippine company with extensive experience in the country's energy sector. The joint venture aims to acquire, develop, own and operate hydropower plants in the Philippine power sector, which is undergoing a privatization process. A successful restructuring of the energy sector is key to reducing the government's debt and strengthening the country's economy.

**Take-over in 2007** | SN Aboitiz Power took over the plant in April 2007, and will work on improving energy management and enhancing generation efficiency by rehabilitating and upgrading plant equipment.

The Magat plant is expected to generate approximately 1000 GWh per year. As a sizable hydropower plant, Magat plays a strategic role in the Luzon grid as a source of both

peaking power and ancillary services. The plant is served by a large reservoir with a usable storage capacity of 933 million cubic metres. The reservoir, separate from the power plant, is owned and operated by the National Irrigation Authority and serves as a water source for almost 85,000 hectares of rice fields.

**Will bid for more hydropower plants** | SN Power sees the Magat acquisition as a bridgehead for further development in the Philippines, a market showing robustness as power sector liberalization and restructuring proceeds under the Electric Power Industry Reforms Act. Magat also helps secure our position as a leading hydropower player in South East Asia. In 2007 and 2008, SN Aboitiz Power intends to bid for at least three additional power plants, and also consider placing bids on power administration contracts.

Through the Magat acquisition, SN Aboitiz Power will be the largest private independent power trader on the power exchange. Statkraft's experience from trading in the deregulated Scandinavian and European markets, which SN Power can draw upon, will be a critical success factor to both SN Power's revenues and the continuous positive development of the liberalized Philippine power market.

## MAGAT:

Completed in 1983
Capacity: 360 MW/1000 GWh
Dam Type: Earth and rock-fill dam
Dam Height: 114 m
Max Reservoir Level: 193 m above sea level
Min Reservoir Level: 160 m above sea level







## SN POWER IN LATIN AMERICA

Our 2006 activities in Latin America were primarily focused on Chile and Peru, but we also continued to explore business opportunities in Brazil.

In Chile, the construction of La Higuera has been proceeding and the hydropower plant is scheduled to start operating in 2008. The upstream project La Confluencia in the same river has also been progressing, and financial close and construction start is anticipated in 2007. The Trayenko projects in the Los Rios Region are still in a very early phase, and in 2006, land access and design optimization activities were prioritized.

The Cahua organization in Peru continued on its ambitious path to pursue excellence in all aspects of the business. Financial results improved, capacity increased and greenfield opportunities, such as the Cheves project, were further developed.

In Brazil, SN Power continued to monitor the progress of the new regulatory system and the market development.

With well performing operating assets, projects under construction and a substantial greenfield pipeline in Chile and Peru, SN Power is well positioned for further growth in the region. Latin America will continue to be an important pillar in the company's growth strategy.





# THE LA HIGUERA PROJECT IN CHILE

## CERTIFIED TO GENERATE CARBON CREDITS

In 2006, the 155 MW run-of-river project Hidroelectrica La Higuera became the first hydropower project in Chile, and the largest hydropower project in the world, to be granted Certified Emission Reductions (CERs) once it becomes operational in 2008.



The Hidroelectrica La Higuera hydropower project is owned by a 50/50 joint venture between SN Power and the Australian company Pacific Hydro. Once operational, the plant will eliminate approximately 470,000 tonnes of greenhouse gas emissions each year. Given the current price of USD 6-20 per tonne, this means that La Higuera's estimated greenhouse gas elimination could give the project additional revenues of up to USD 9.4 million per year.

Announcing the successful registration, SN Power CEO, Øistein Andresen called it "an important achievement for SN Power and Chile, that will give significant reductions in greenhouse gases," and went on to express the company's pride in making such a positive contribution.

This reinforces our participation in tackling the challenge of climate change through the UN Framework Convention on Climate Change. It also reflects our commitment to staying at the forefront of sustainable solutions.

SN Power expects to go to the market with the CERs from La Higuera, in 2008.

**A milestone for Chile** | Hidroelectrica La Higuera's CDM registration was not only an important milestone for SN Power and Pacific Hydro, but also for Chile. It confirmed the progress Chile has made in establishing an appropriate CDM regulatory framework – a key factor in the country's strategy of developing renewable energy projects.

### HIDROELECTRICA LA HIGUERA PROJECT

- Part of the Tinguiririca Project, a 50/50 joint venture between SN Power and Pacific Hydro Ltd.
- Run-of-river project fed by seasonal rainfall and glacier melt from the Tinguiririca River.
- Approved by the Chilean Government as complying with all sustainable development and environmental goals and regulations.
- To be commissioned in 2008.

The construction of La Higuera will help mitigate Chile's shortfall in energy capacity, a result of diminishing natural gas supplies from Argentina, and also reduce its need to build Greenhouse Gas-generating thermal power stations.

### SN POWER CHILE

SN Power has been active in Chile since early 2003. A local holding company has been established to follow-up ongoing projects and develop new opportunities. In the Tinguiririca Joint Venture, SN Power is constructing the La Higuera project in addition to developing a second project, La Confluencia. Further project opportunities are evaluated within the same river system. Additionally, a back up thermal power plant will be built: Colmito. Other potential projects are being developed in the Los Rios Region.

The Tinguiririca Project is the first building-block in a strategy to become a top four player in the Chilean central grid by 2010.

# CAHUA: INCREASED PROFITS AND EFFICIENCY

After SN Power acquired Cahua S.A. in 2003 as a first entry step into the Peruvian market, Cahua has gone through major changes. The company's operating results for 2006 show that these efforts have paid off, as operational costs are decreasing and profits achieve record levels.



Cahua S.A. believes that the evolution of a company is reflected in its achievements, its employees and its culture. The company has gone through a deep structural transformation over the last three years, to succeed in the marketplace and to establish a unique company culture.

In 2006, Cahua started enjoying the rewards of the improvements it had instituted: costs were reduced, and EBITDA improved by MNOK 19.7 from 2003 to 2006. The company exhibits its efficiency at all levels, and lowered operational risk has reduced insurance costs.

**Achieving ISO certification** | SN Power has challenged Cahua to work to become

“Best in Class” within the SN Power group, in order to develop a sound platform for further expansion in Peru, and also intends to use the experiences in other parts of the SN Power organization. The Cahua employees have taken this challenge to heart and share a clear vision of the company's goals. Cahua decided to reduce operational costs and increase efficiency, to change the commercial strategy to ensure stabilization of income, and to cut back on financing costs.

As part of the new strategy, Cahua initiated implementation of improvements to its management system in 2005 with the goal of certifying the company's compliance

with international standards within one year. In 2006, Cahua achieved certification of its plants on the quality standard ISO 9001 and on the environmental standard ISO 14001, and is close to qualifying for the OHSAS

## || CAHUA S.A.:

- 99.9% owned by SN Power
- Acquired in 2003
- 97 employees
- Operates 5 facilities of 11 hydropower plants and 1 thermal plant
- Total generation capacity: 115 MW
- Total average yearly production: 511 GWh



18001 standard as well. The process of implementing the ISO and OHSAS standards has involved revising and upgrading 14 company processes, both at the power plants and the main office.

The certification process has been catalytic in order to establish processes on Health, Safety and the Environment, and has transformed the Cahua organization so that it is at the forefront in Peru on these issues.

**Better maintenance systems** | To increase operational efficiency and reliability of the plants, and to reduce maintenance costs, a Reliability Centred Maintenance philosophy has been adopted. This ensures that

operations are optimized and that processes become more reliable. This philosophy is backed by the implementation of the maintenance system Jobtech, which gives more stability in the power production. The Jobtech system supports the planning of maintenance works, maintenance cost evaluations and provides the necessary statistics to evaluate the performance of the Reliability Centred Maintenance philosophy.

A water balance methodology has been developed and implemented by Cahua for the water users at the river basin where the Gallito Ciego plant operates. The benefits are not only reflected in a higher predictability of energy production, but also in a much

more efficient use of water for the farmers downstream of the power plant.

Cahua has also worked hard to develop a strong company culture, based on core values and a long-term vision. This unique culture will provide a solid basis for achieving the company's ambitious goals in the future.

SN Power is very pleased with the achievements made by the Cahua organization. Moving forward, Cahua will continue on the path to excellence and pursue growth in the Peruvian marketplace, in order to reach the aim of positioning SN Power among the four largest generators in that market.





## HANDLING THE GROWTH CHALLENGE

As a dynamic and ambitious company operating in a growth industry, SN Power faces the challenge of building a robust organisation and attracting highly qualified people. In 2006 we did both.

Our success as a business depends heavily on our ability to recruit, develop and retain the right people. We have to maintain a core staff with a unique skill set consisting of project management, technical and financial expertise, and competence in corporate social responsibility and climate change.

Our current growth phase meant that human resources were a key focus for all SN Power companies in 2006.

We strengthened our organisations in Oslo, Singapore and Chile, opened an office and appointed a project director in Nepal, and strengthened our team in the Philippines in connection with our new joint venture with Aboitiz Equity Ventures. This renewed focus on increasing SN Power's local presence in key markets will continue in 2007, to support our growing portfolio.

**Culture as competitive advantage** | We believe that our company culture is a decisive factor in attracting talented and motivated people to SN Power. That's why we have built our organisation around a common vision anchored in clear business principles. In 2006, we continued to make progress in implementing a common corporate culture, based on our values, high standards and focus on green energy.

SN Power culture has three main dimensions. The entrepreneurial character of our business means that we must encourage excellence, creativity and educated risk taking. The international nature of our operations demands a culturally sensitive workforce with the ability to thrive in different environments, to integrate, and to tackle challenges head-on. Since we aim to become a leading hydropower company

in emerging markets, we also need people who share our ambition to provide sustainable energy solutions and contribute to sustainable development.

We are pleased with the high calibre, enthusiastic, motivated employees we have managed to attract. As we continue to grow in 2007, our people will remain a central focus for us.

### PEOPLE

- 19 employees in Oslo
- 192 employees internationally
- Approx. 630 employees in non-consolidated companies

## MILAGROS PAREDES HR MANAGER

Cahua S.A., Lima, Peru  
Peruvian citizen  
Age 34  
Joined SN Power in 2006



**Work experience** | Before joining SN Power Milagros worked for eight years as training and development manager in a Latin American telecommunications group, with responsibility for recruitment, training, development, international human resources projects and regional SAP implementation. She also worked closely with US and European investment companies.

### What characterises working at an SN Power company?

– The way we combine advanced technology and leading expertise with a genuine commitment to the development of the countries and communities in which we invest. This makes me proud and is very empowering to all the employees.

### What are your responsibilities/tasks?

– I support management by creating human resources policies aligned with SN Power vision and values and by designing and implementing programs for people development. I also manage company culture processes and internal communication.

### How is your work rewarding?

– I am enjoying being part of a multinational company that considers diversity a strength and understands that work-life balance results in satisfied employees.



## ERIK KNIVE PROJECT DIRECTOR

SN Power Singapore, currently based in Manila, Philippines  
Norwegian citizen  
Age 36  
Joined SN Power in 2005

**Work experience** | Erik has international experience from start-ups and operational entities, working with multinational telecom, service providers, international financial institutions and government ministries in the USA, Asia, Europe and the Middle East.

### What characterises working at SN Power?

– We have a long-term vision in the markets we operate, and exercise responsibility in relation to the communities we work with. I like that I have the freedom to execute strategies and drive projects forward.

### What does your job currently entail?

– I played a central role in our recent acquisition of the Magat hydropower plant in the Philippines, where we are currently working to achieve financial close. In addition to our strong focus on the Philippines, we are working on developing new projects in Vietnam and Laos, as well as strengthening our Singapore operations.

### How is your work rewarding?

– I can clearly see the positive effects of our work both in the markets we operate and on the local communities that we interact with.

## KJELL HEGGELUND PROJECT DIRECTOR

SN Power HQ, Oslo, Norway  
Norwegian citizen  
Age 60  
Joined SN Power in 2002



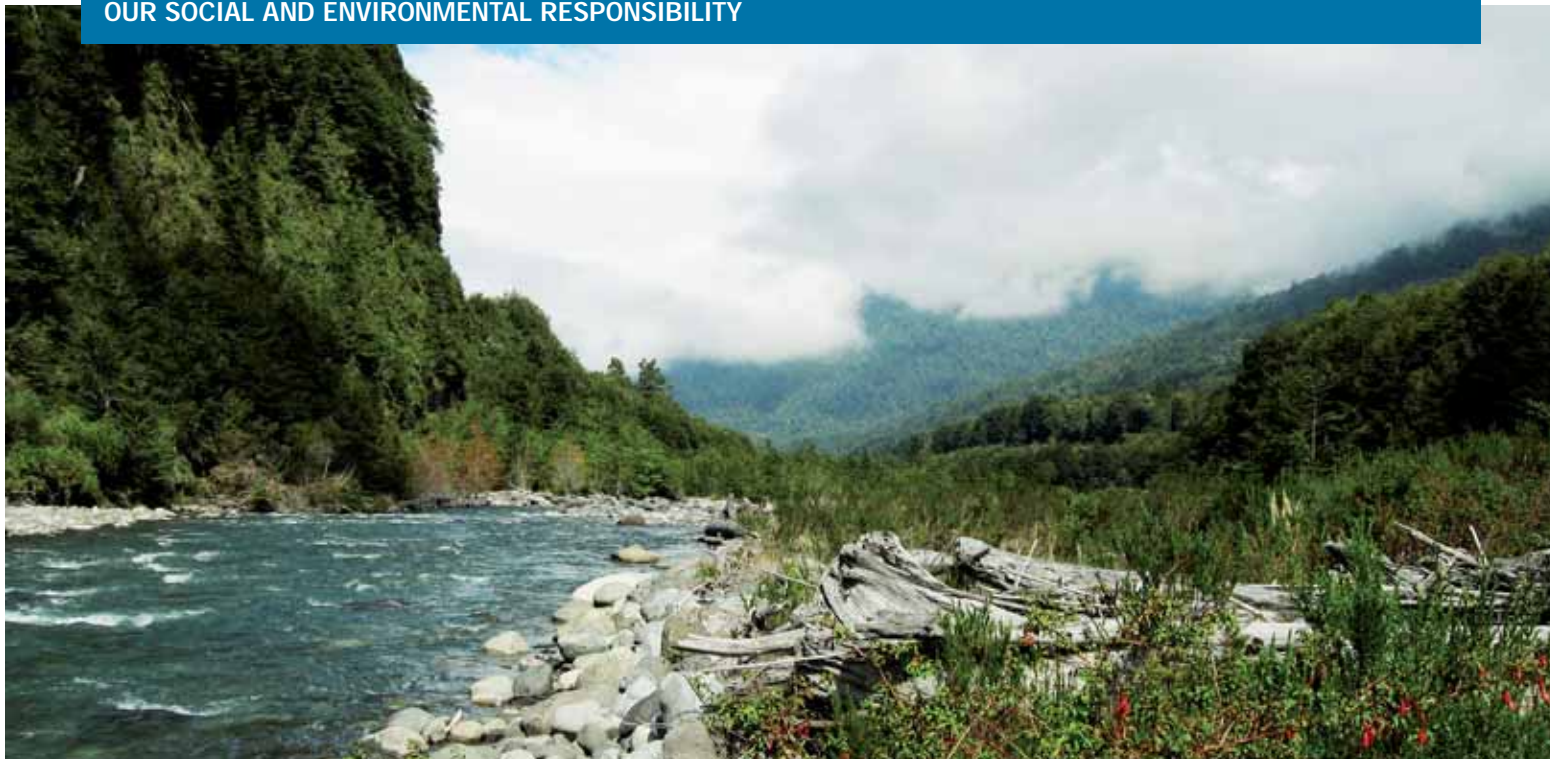
**Work experience** | Kjell has more than 20 years of international hydropower experience, holding business development and management positions in power and consulting companies, government agencies and the Asian Development Bank in Europe, Asia, Africa and South America.

### What does an SN Power project director do?

– A project director is involved with anything and everything from identification of investment opportunities and due diligence of acquisitions, to bringing the project to financial close. This includes evaluation and analysis of the project and management of all activities. Currently, I work on our projects in Chile.

### What makes your work rewarding?

– The fact that it involves disciplines as diverse as hydrology and geology, socio-economic, environmental, and financial analysis, as well as the law.



## OUR SOCIAL AND ENVIRONMENTAL RESPONSIBILITY

As a long-term investor in the renewable energy sector, SN Power is committed to developing commercially viable projects that also make lasting economic, social and environmental contributions to the societies in which we operate.

SN Power's approach to social and environmental responsibility involves a series of different initiatives which when combined ensure that our business maintains high standards and that potential negative footprints from our activities are minimized.

Our business principles form the basis of our activities worldwide. All SN Power employees are required to comply with our business principles, and we also expect our business partners and contractors to adhere to them.

SN Power supports fundamental human rights as outlined in the UN Universal Declaration on Human Rights, and recognizes the importance of social, economic, cultural, religious and political rights.

We do not provide employment to children before they have reached the age to have completed their compulsory education, and we act in accordance with the ILO Conventions 138 on minimum age for employment and 182 on the worst forms of child labour. We believe in providing equal opportunities, and will not discriminate against any individual on the basis of race, colour, sex, national origin, age, religion, marital status, sexual orientation, or disability. We believe that the best results are achieved through a diverse and dynamic organization.

Operating in countries where corruption persists, it is vital to promote transparency and take a strong stand against any form of corruption or bribery. We have a zero tolerance policy on corruption, and do not

make contributions to political parties or their representatives.

SN Power applies the precautionary principle, and we seek to minimize the environmental footprint of our activities. We encourage the protection of biodiversity, and in 2006 we contributed a donation to the important work of the World Wide Fund for Nature (WWF). Through our strategy to develop renewable energy, we contribute to protect the climate. We also work to secure Clean Development Mechanism certificates for all new projects, and we make an effort to use energy-efficient and environmentally friendly technologies.

SN Power has pledged its commitment to the UN Global Compact's 10 principles address-





ing human rights, labour standards, the environment and corruption. We report regularly on progress through the Global Compact website and work to constantly improve our performance.

SN Power is represented on the Board of the International Hydropower Association, and supports the association's Sustainability Guidelines which are designed to set the standard for best practice in the hydropower sector.

**From Principles to Practice** | We take an active and collaborative approach to the implementation of our business principles. We undertake clear communication of our principles to employees, partners, contractors and suppliers. We conduct extensive impact assessments and develop environmental and social management plans, and we seek to partner with relevant organizations to strengthen our projects.

**Social and Environmental Impact** | Environmental and Social Impact Assessments

(ESIAs) which comply with the International Finance Corporation's Policy and Performance Standards on Social and Environmental Sustainability are carried out on all our projects worldwide. Throughout the assessment process, we engage in an open dialogue with local communities, and ensure that all affected stakeholders are informed and able to express their concerns. We give priority to ensuring that the voices of women, indigenous peoples or other groups which may require special attention are heard and that their concerns are addressed.

On the basis of the findings in the impact assessments, social and environmental management plans are developed and implemented throughout the lifecycle of our projects.

Environmental and Social Impact Assessments for all our projects are available on our website.

**Fighting Corruption** | Corruption is a challenge in many of the markets where we are

entering or operating. We take several internal measures to protect us against corruption, including partner due diligences and a clear communication of our business principles. We also collaborate with the anti-corruption organization Transparency International on practical measures and initiatives to help protect our business from corruption.

At a corporate level, SN Power is a member of Transparency International Norway. In Uganda, we entered into a working partnership with Transparency Uganda, the national chapter of Transparency International. Transparency Uganda has actively advised us on how to manage corruption within the country. They have worked with us to develop measures and initiatives that could be introduced into projects to protect against corruption and to ensure transparency.

**Lasting Benefits of Local Investment** | In addition to the benefits our business brings to local communities through direct employment, training and capacity building, contracts to local suppliers or service providers ▶

and tax income, SN Power also institutes community development programmes.

To help us develop good projects, we have started working with the United Nations Development Programme (UNDP) in a number of countries where we are planning or have existing projects. UNDP has extensive experience in international develop-

ment, and access to local networks and partners which can help us develop better and more targeted projects.

In Uganda, where SN Power was contemplating the development of several small hydropower schemes, we worked with UNDP to develop a program that would ensure that the projects would have a positive impact on

the livelihoods of the communities around the projects. Going forward we plan to apply the cooperative partnership model we have developed with UNDP Uganda to build a further set of partnerships with local UNDP offices in other countries where we are entering or operating and where we can identify projects of mutual interest.

## || RURAL ELECTRIFICATION IN NEPAL

Lighting more than 4000 households in the steep and hilly landscape of Eastern Nepal, has changed people's livelihoods "I am grateful for getting access to electricity, as it makes life easier and it allows me to increase my income," says Suku Maya Tamang in Dolakha district near the Khimti hydropower plant.

Suku has received electricity through an extensive rural electrification programme in the neighbouring areas of the Khimti hydropower plant. The rural development project has been run by Himal Power Limited, a SN Power subsidiary operating the Khimti hydropower plant, in partnership with the Norwegian Development Agency.

Getting access to electricity allows Suku to spend the evenings making thread from the Allo plant, to dye and weave beautifully patterned cloth, which is an important part of the family income.

In addition to household use, electricity has provided opportunities for local entrepreneurship. When electricity reached Chakra Bahadur Tamang's village, she used the opportunity to buy a mill, with the help of a loan provided by the project. The mill saves her and other women in the village the three hour long walk to what was previously the nearest mill. In addition, she is able to earn an income which has greatly improved her family's living conditions. In the Khimti Besi, a bustling village centre has developed after electrification, with small shops, metal workshops and bakeries. The local baker, Dev Bahadur Khadka has almost paid back the

entire loan he took in order to buy an oven and start his own bakery. His customers are lining up every day to buy bread and cakes, and the business is going so well that he has expanded to a staff of four. "As long as I have access to stable electricity, my business runs very well", he says.

**Owned and operated through a cooperative** | More than 60 small enterprises have been created through the electrification of the hilly rural areas in the Khimti valley. And the biggest enterprise is the electricity provision itself, which was transferred from Himal Power Limited to a cooperative in 2006, the Khimti Rural Electric Cooperative, run by the villagers through an elected management committee. In addition to the transmission and distribution lines, the cooperative has also been given the mini hydropower plant Jhankre of 620 kW which supplies power to the households. As the electrification programme is expanded, a new mini hydro will be built, and transmission and distribution lines will be extended to villages further away from the Khimti hydropower plant. These assets will also be transferred to the same cooperative and administrated by them.



Suku Maya Tamang

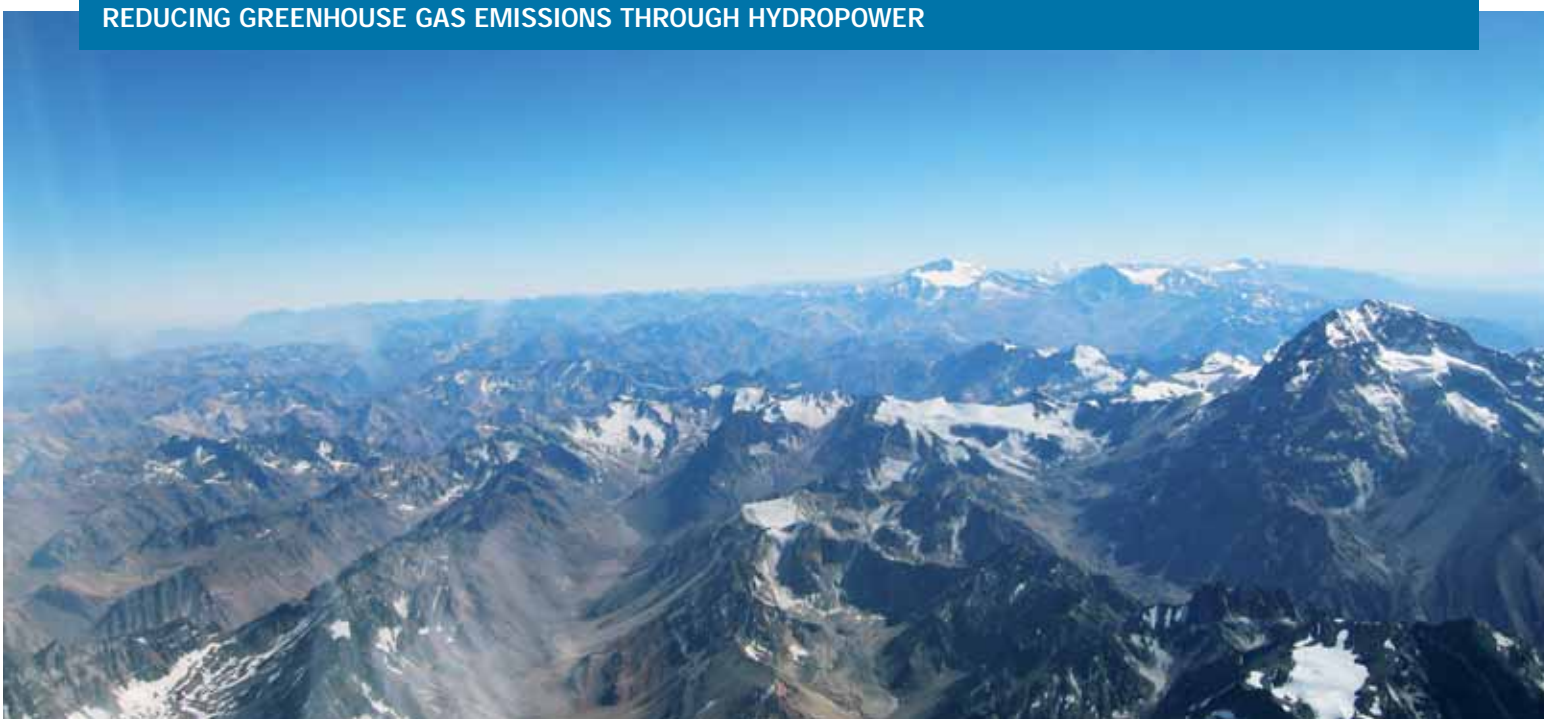


Dev Bahadur Khadka

### || THE RURAL ELECTRIFICATION PROGRAMME

- Managed by Himal Power Limited
- Co-funded by Norwegian Development Agency
- Located in Dolakha and Ramechhap Districts in Nepal
- Aimed at improving livelihood of local communities around Khimti Plant
- 4367 households electrified, 3100 more in next project phase
- Power supplied by 620 kW Jhankre mini hydro





# REDUCING GREENHOUSE GAS EMISSIONS THROUGH HYDROPOWER

As a renewable energy company committed to social and environmental sustainability, it was natural for SN Power to take an early interest in the Clean Development Mechanism (CDM).

Hydropower produces 60 times less greenhouse gases than coal-fired plants and over 20 times less than the least carbon intensive of the thermal generation options, the natural gas combined cycle. In fact, emissions produced during the lifecycle of a hydropower facility are equivalent, per kilowatt-hour, to those of solar or wind power.\*

As an active and responsible player in the renewable energy sector, SN Power is committed to developing projects which can contribute to reductions in greenhouse gas emissions. The ability to generate and trade carbon credits has a positive effect on the environment and can at the same time provide a second income stream for our projects, strengthening their financial viability and stability.

Active steps have been taken to comply with CDM criteria on all new projects developed so that they can be approved to produce

Certified Emission Reductions by the CDM Executive Board. We have already succeeded with the registration of the La Higuera project in Chile. The next potential CDM project is the Allain Duhangan run-of-river hydropower project in Himachal Pradesh,

India, a JV project with LNJ Bhilwara Group. The project has been validated and is expected to be registered with the CDM Executive Board before mid-2007.

\*Source: Canadian Hydropower Association 2005.

## CLEAN DEVELOPMENT MECHANISM (CDM)

In 1997, the Parties to the United Nations Framework Convention on Climate Change agreed by consensus that developed countries should accept a legally binding commitment to reduce their collective emissions of greenhouse gases by at least 5% compared with 1990 levels by the end of 2012. The Protocol also established an emission trading regime and a "Clean Development Mechanism" (CDM).

The CDM enables industrialised countries to finance emission-reduction projects in

developing countries and to receive credits for doing so. The CDM Executive Board decides whether a project meets the CDM criteria and has the authority to grant credits. Once certified, the reduction in emissions becomes a Certified Emission Reduction (CER) which can be used by industrialised countries to meet emission reduction targets, and be traded in the global emissions trading scheme envisaged under the Kyoto Protocol.

Although no global greenhouse gas trading system is yet in place, local, regional and national initiatives are appearing in places like California, the EU and Japan.



# KEY FIGURES

	UNIT	2006	2005	2004	2003
<b>GROSS POWER PORTFOLIO <sup>1)</sup></b>					
Gross installed capacity	MW	267	207	203	117
Capacity under construction	MW	347	347	4	0
Production, annual mean (existing plants)	GWh	1 195	845	843	487
Production, actual	GWh	1 200	845	709	490
Net production (SN Power share)	GWh	813	652	451	47
<b>FINANCIALS</b>					
Gross operating revenue	MNOK	328.2	155.7	150.9	21.3
EBITDA	MNOK	149.4	19.7	4.7	(24.3)
Net profit/loss for the year	MNOK	64.2	(8.9)	(31.5)	(31.6)
Income from associated companies	MNOK	18.4	20.8	0.0	0.0
Cash and cash equivalents	MNOK	756.3	532.2	731.4	830.9
Equity	MNOK	1888.9	1 135.6	929.3	964.3
New equity	MNOK	505	800	0	200
Cash Flow from operational activities	MNOK	97.3	(7.8)	33.5	(75.8)
Equity investments from SN Power	MNOK	382	366	349	209
Interest bearing debt\equity ratio <sup>2)</sup>	%	28.0	20.2	25.7	24.6
Return on equity after tax <sup>3)</sup>	%	4.2	(0.4)	(3.3)	(5.5)
Equity ratio <sup>4)</sup>	%	72.4	75.2	71.6	72.2
<b>HUMAN CAPITAL <sup>5)</sup></b>					
Sickness absence	%	0.2	1.5	1.1	6.2
Lost-time injury frequency		6	4.9	3.8	N/C
Employees	Number	220	122	110	114
<b>ENVIRONMENT</b>					
Environmental fines	MNOK	0	0	0	0
Carbon dioxide emissions	Million tonnes	0.004	0.004	0.018	0.000

<sup>1)</sup> All figures are gross results for the full year, except "Net production" which show SN Power's share of production from time of acquisition

<sup>2)</sup> Long-term and short term liabilities to financial institutions/Total equity

<sup>3)</sup> Net profit/loss for the year x 100/Average equity

<sup>4)</sup> Equity x 100/Assets

<sup>5)</sup> New KPIs for Health and Safety are being introduced and reporting on these will begin in 2007.

## CHIEF FINANCIAL OFFICER'S COMMENTS ON THE ACCOUNTS

SN Power's business activities are divided into three main areas which employ different measurement standards.

The operational activities are consolidated according to the equity method where a controlling influence is needed for consolidation. The consequence of this is that joint venture companies will appear only in the line "income from associated companies" in the Profit and

Loss statement. A pro-rata consolidation will over time will give broader picture regarding the SN Power group's financial performance and status. The EBITDA for SN Power's operational companies (Cahua S.A., Hima Power Limited, Malana Power Company and Nividhu Private Limited) amounted on a pro-rata basis to MNOK 182 in 2006.

SN Power has two projects under construction. They are

both accounted for using the equity method. SN Power's commitment towards the completion of the projects is limited to ca MNOK 350.

A third important part of SN Power's business activity is business development. Expensed costs directly related to business development amounted to MNOK 26, in addition to this MNOK 50 were capitalized costs on projects under development.

# BOARD OF DIRECTORS' REPORT

## FINANCE

### SN POWER TURNED ITS FIRST PROFITS IN 2006

SN Power generated a net profit of MNOK 63.8 in 2006. SN Power improved its net earnings after tax and minority interest by MNOK 30.4, from a loss of MNOK 8.9 to a profit of MNOK 21.5.

These positive improvements to the group's results can mainly be attributed to the transfer of Statkraft's 50.4% voting share of Himal Power Ltd to SN Power in March 2006.

The group's operating revenues reached MNOK 328.2 as compared to MNOK 155.7 in 2005. EBITDA increased from MNOK 19.7 to MNOK 149.4. In addition, the group's operating result went from a loss of MNOK 15.7 (2005) to an operating profit of MNOK 75.7 (2006).

The group's assets totaled MNOK 2,611 at 31 December 2006 (2005: MNOK 1,511), of which MNOK 756 was cash and cash equivalents. Interest-bearing debt amounted to MNOK 547, while equity amounted to MNOK 1,853 (2005: MNOK 1,136).

SN Power has committed MNOK 350 towards the completion of greenfield projects which are currently under construction.

#### Statkraft Norfund Power Invest AS (SNPI)

The parent company, Statkraft Norfund Power Invest AS (SNPI), recorded an operating loss of MNOK 46.7, compared with MNOK 45.9 in 2005. Net financial items were MNOK 12.4 (2005: MNOK 7.2) and the loss after tax was MNOK 34.3 (2005: MNOK 38.7).

In connection with the decision to acquire the 360 MW Magat Plant in the Philippines, SNPI's owners increased their equity com-

mitment by MNOK 900 in November 2006. Total equity injections in 2006 to provide for various investments and the transfer of Statkraft's 50.4% voting share of Himal Power Limited (HPL Ltd) in Nepal to SN Power in March of 2006 were MNOK 505. As of year end the paid-in equity amounted to MNOK 1,705. During 2006, SNPI's disbursement in new investments amounted to MNOK 505.

The board has proposed that no dividend be paid, and has proposed the following coverage of the net loss for the year in SNPI:

Uncovered loss	MNOK 34.3
Total allocated from equity	MNOK 34.3

The directors of the board confirm that the annual accounts have been prepared in accordance with the provisions of the Norwegian Accounting Act, on the going concern basis.

**SN Power Holding Singapore** | SN Power Holding Singapore Pte Ltd recorded an operating loss of MNOK 8.9, compared with MNOK 4.0 in 2005. The equity as of year-end was MNOK 751. Total assets amounted to MNOK 756.

## OPERATIONS 2006

### SN POWER OPERATIONS SHOWED SOLID PROGRESS IN 2006

#### ASIA

**India** | The Malana Power Company Ltd (MPCL), SN Power's joint-venture company with LNJ Bhilwara Group, implemented a three-month generation stoppage in order to undertake repair works in the tunnel and surge shaft to improve the operational performance of the 86 MW Malana run-of-river hydropower plant in 2006.

Malana has a mean annual generation of

370 GWh. During the 2006 calendar year Malana generated 309 GWh.

Through its subsidiary AD Hydro Power Ltd, MPCL is responsible for development of the 192 MW Allain Duhangan run-of-river hydropower project which is expected to have a mean annual generation of 800 GWh. The construction on the Allain Duhangan project started in the summer of 2005, and the first stage of the project is expected to be commissioned in the summer of 2008. The project has experienced some cost overruns mainly due to increased prices on steel, cement and rising Indian wages.

MPCL is consolidated in accordance with the equity method and contributed MNOK 15.7 to SN Power's earnings after tax.

**Nepal** | The transfer of Statkraft's 50.4% voting share in Himal Power Ltd to SN Power was effective as of March 2006. Himal Power Ltd was included in the company's consolidated accounts from the start of the second quarter.

HPL's operating plant, the 60 MW Khimti hydropower plant has a mean annual generation of 350 GWh. During the calendar year, Khimti generated 370 GWh.

HPL contributed MNOK 34.4 to SN Power's earnings after tax and minority interest. SN Power's pro rata share of the EBITDA amounted to MNOK 59.1.

**Philippines** | Aboitiz Equity Ventures, Inc. (AEV) and SN Power formed a consortium in 2006 and agreed to jointly bid for and develop hydro projects in the Philippines. Through the Joint Venture company SN Aboitiz Power (SNAP) the consortium placed a successful bid on the Philippines' largest hydro power facility, the 360 MW Magat plant in December 2006. The bid price was 530 MUSD. The plant was suc- ▶



**1 | KJELL ROLAND (Chairman)**  
**MANAGING DIRECTOR, NORFUND**

Co-founder, CEO and President of the Norwegian consulting company ECON. Adviser to the Norwegian government and international institutions. Research officer in the Research Department of Central Bureau of Statistics.

Lower degree in Philosophy, University of Tromsø, Master in Economics from the University of Oslo. Visiting scholar at Stanford University.

**2 | INGELISE ARNTSEN**  
**EXECUTIVE VICE PRESIDENT, NEW ENERGY IN STATKRAFT. MEMBER OF THE STATKRAFT GROUP'S EXECUTIVE MANAGEMENT**

Senior Management positions in Kværner Fjellstrand Shipyards, Sogn og Fjordane Energiverk AS, Arthur Andersen Business Consulting/BearingPoint Norway. Chair of the board in Småkraft AS, and board member of BKK AS, IM Skaugen ASA and Orkla Foods.

Bachelor of Science, Economics Degree from Handelshøyskole Syd, Denmark.

**3 | PER EMIL LINDØE**  
**PROJECT DIRECTOR FOR AFRICA, NORFUND**  
Senior management positions in Det Norske Veritas and Norfund. Chair of the board of Aureos Capital, and non executive director of The African Management Company, AMSCO.

MBA from the Norwegian School of Management, Oslo

**4 | TONE WILLE**  
**DIRECTOR, FINANCE AND BUSINESS SUPPORT AT NORWAY POST, MAIL DIVISION**

Senior management positions in Norfund, Elkem ASA, General Electric and the Kværner Group. Board member of CityMail AB, Talk2me AS and Customer View AB.

Master in Business from the Norwegian School of Economics and Business Administration, Bergen.

**5 | STEIN DALE**  
**EXECUTIVE VICE PRESIDENT, STRATEGY, M&A AND LEGAL IN STATKRAFT. MEMBER OF THE STATKRAFT GROUP'S EXECUTIVE MANAGEMENT**

Senior management positions in the Telia Group and Tandberg ASA. Board member in E.ON Sverige AB, and board member of Fjordkraft AS.

Masters in business economics from the Norwegian School of Management, Oslo.

**6 | TORE HAGA**  
**SENIOR VICE PRESIDENT FINANCE, STATKRAFT NEW ENERGY**

Senior management positions in Aker AS, the Kværner Group and Lindorff Holding AS. Chairman of the board of Smøla Vind, Hitra Vind and Kjøllefjord Vind, and board member of Fuglesangs Limited AS.

Master in Accounting and Finance from the Norwegian School of Economics and Business Administration, Bergen.



cessfully transferred to SN Aboitiz Power on 25 April 2007.

The Magat plant is expected to generate approximately 920 GWh in an average year. The plant is vital for the power grid in the Philippines as it is laid out to supply power when demand is at its highest or stability needs to be maintained.

**Sri Lanka** | SN Power's jointly owned Nividhu Private Limited (30% SN Power ownership) plant Assupinella had its first full year of production in 2006. Assupinella has a mean annual generation of 16 GWh.

Belihuloya, Nividhu's existing 2.1 MW hydropower plant, has a mean annual generation of 10 GWh.

Nividhu is consolidated in accordance with the equity method and contributed MNOK 0.5 to SN Power's earnings after tax.

## LATIN AMERICA

**Chile** | The La Higuera hydropower project in Chile is owned on a 50/50 basis by SN Power and Australian based Pacific Hydro Limited. The project is currently in the first stage of a planned multi-stage development of more than 300 MW in the Tinguiririca valley. Construction of La Higuera, which started in late 2005, was delayed and experienced cost overruns in 2006 due to a number of turn-key contract issues.

Once commissioned, the La Higuera project is expected to have an installed capacity of 155 MW and an estimated mean annual generation of 810 GWh.

To mitigate the market risk associated with dry years, a 60 MW back-up dual fuel turbine will also be built for the project.

In conjunction with its partner, the Pavez

Group, SN Power began the development of four greenfield hydropower projects with a generation potential of approx. 600 MW. The projects are situated in the Los Rios region in Chile.

**Peru** | Cahua S.A., SN Power's Peruvian subsidiary, generated 500 GWh in 2006 and contributed MNOK 31.2 to SN Power's earnings after tax. The company gained MNOK 12.1 on a strong Peruvian Nuevo Sol, PEN. EBITDA amounted to MNOK 82.9.

As a result of improvements to management systems which were introduced in 2005, Cahua received ISO certification in ISO 9001 (quality) and ISO 14001 (environmental) in 2006.

A close down of Cahua's 25 MW Pacasmayo Diesel Power Plant is being analyzed. The appraisal conducted indicated a market value lower than the book value. Therefore, it was decided to execute a partial write down of this plant which amounted to MNOK 8.9 and which is reflected in the company's 2006 accounts

Cahua/SN Power are developing a number of hydropower greenfield projects in Peru including the 158 MW Chevez project, the 77 MW Copa and the 89 MW Rapay projects. Cahua is currently increasing the capacity in Pariac with 0.7 MW and plans a further increase of 7.7 MW in 2007/08.

## GOVERNING BODIES

SNPI's two owners, Statkraft AS and Norfund, nominate directors to represent them on the board of SNPI. Directors of the board are elected for two-year terms during the general shareholders meeting. The chairperson is also elected for a two-year period and alternates between repre-

sentatives from the two owners. At the end of 2006, the board consisted of Kjell Roland (Chairman), Ingelise Arntsen (Vice-Chair), Per Emil Lindøe, Tone Wille, Stein Dale and Tore Haga.

Directors of the board of SNPI have extensive experience in international equity investment and the energy sector. None of the directors of the board have private business interests which are related in any way to SNPI or any of its subsidiaries. The company's management team is not represented on the board of directors of SNPI.

## ORGANIZATION

SN Power is continuously working to develop its organizational capacity and improve its management systems.

**Liaison and regional offices** | Two new subsidiary companies of SN Power Holding Singapore Pte Ltd (SN Aboitiz Power and MORE) were established in the Philippines. A new liaison office was also established in Nepal. Three people were recruited into the Singapore and Nepal offices in 2006.

**Organizational capacity** | The group's consolidated companies and representative offices had a total of 189 employees at the end of 2006. Of those, 19 are based in Norway at the company's headquarters in Oslo, 99 in Peru, 52 in Nepal, 4 in the Philippines, 2 in Singapore and 13 in Chile.

SN Power's non-consolidated companies had approx. 630 employees at the end of 2006.

**Health and Safety** | Lost time injury frequency (the H1 value which indicates the number of injuries with lost time per million hours worked) for consolidated compa- ▶

nies was 5.8 as compared to 4.9 in 2005. Sickness absence for the group went down to 0.2%, as compared to 1.5% in 2005. Two fatalities occurred at its joint venture construction projects: a car crash at La Higuera in Chile, and falling rock near the construction site road of Allain Duhangan in India resulted in two deaths. SN Power is committed to high occupational health and safety standards in all its operations. Following the two fatalities, SN Power worked closely with its joint venture companies to take steps to reinforce compliance with health and safety procedures at both sites.

SN Power has formalized a global Operational Health and Safety policy and began work on implementing the policy throughout its consolidated companies and is introducing the policy into its non-consolidated joint ventures.

**Diversity** | SN Power has a strong commitment to diversity, and does not discriminate on the basis of gender or race. The group's employees and associates represent nine different nationalities, reflecting the group's widespread international presence.

Two out of six of the directors of the board of SNPI are women as compared to three out of six in 2005. One of the five management team members is female and 3.6% of SN Power's overall workforce is made up of women.

## RISK MANAGEMENT

SN Power is exposed to a number of risk factors through its operations and greenfield development. The company has in place a risk evaluation methodology which is applied both to new developments as well as throughout the project and asset lifecycles.

SN Power has a balanced portfolio of investments including operating assets and greenfield projects under construction. These are distributed between different markets and geographic regions.

Risk mitigation measures include hedging parts of its foreign exchange exposure related to equity investments (exposures related to the operational activities are managed by the local companies in which SN Power has invested), evaluating equity and taking out insurance against political risk on a case by case basis.

SN Power has decided it will carry out internal audits in all its engagements on a rotational basis. These internal audits form part of its risk control system.

## CORPORATE GOVERNANCE AND BUSINESS PRINCIPLES

In 2005, SN Power developed and implemented a robust set of corporate governance principles. Since 2003 it has also had a set of business principles which set the standard for its worldwide activities. SN Power's business principles are made publicly available, and the company expects its employees, representatives, partners, subsidiaries and suppliers to adhere to these principles.

Unfortunately, in some of the markets where SN Power operates, bribery and corruption can be considered accepted business practices. The company therefore takes steps on a regular basis to reinforce its existing anti-corruption mechanisms and implement additional measures. In 2006, additional measures included the introduction of a code of ethics for companies that SN Power has invested in.

## SUSTAINABLE DEVELOPMENT

Since SN Power's establishment in 2002, its focus has been on developing hydropower projects which are environmentally and socially sustainable.

**Environmental and Social Impact** | All projects go through rigorous World Bank standard compliant social and environmental impact assessments prior to investment decision. All investment decisions on greenfield and acquisition projects take the potential environmental and social impacts of the projects into consideration. Project design is also reviewed and adjusted to reduce to a minimum any potential negative environmental and social impacts of the projects. Environmental and social mitigation programs are introduced on all projects and reviews carried out throughout the life-cycle of the projects to ensure that these plans are being adequately implemented.

**Environmental Emissions** | The company's hydropower plants in Peru, India and Sri Lanka produce few emissions.

CO<sub>2</sub> emissions from a diesel back-up facility in Peru were 4,500 tonnes in 2006 compared with 4,000 tonnes in 2005.

**Clean Development Mechanism** | SN Power actively seeks Carbon Emission Reduction (CER) credits related to the Clean Development Mechanism (CDM) under the Kyoto Protocol.

Following a process of international scrutiny, SN Power's La Higuera project in Chile was approved for the creation of carbon credits (Certified Emission Reductions or CERs) when it becomes operational in 2008. La Higuera is the first hydropower project in Chile and the largest hydropower project in the world to be registered under the CDM framework.

## MARKET OUTLOOK

High fossil energy prices continue to increase the global demand for renewable energy. In addition, the emerging carbon market for reductions in greenhouse gas emissions makes investing in renewable energy like hydropower increasingly attractive.

In Latin America, the increasing need to develop renewable energy sources in Chile to reduce dependency on imported fuel, and the potential for participation in the development of the Peruvian electricity sector, continue to make these countries attractive investment priorities for SN Power.

In Asia, high economic growth, the restructuring of energy sectors, and the active effort by several countries to attract private

investors, make investing in this region a continued priority for the company.

In Africa, a careful entrance into selected markets in the sub-Saharan region is a goal. In particular, Uganda and Mozambique have been identified as investment opportunities because of their untapped hydro resources and the growing demand for electricity.

## 2007 PRIORITIES

In 2007, SN Power will continue to work on improving the efficiency in its operating companies including introducing operational efficiency improvements to the 360 MW Magat plant in the Philippines. Financial close and formal transfer of the plant to SN Aboitiz Power took place on 25 April 2007.

The company will retain a focus on successfully implementing construction at Allain Duhangan in India and keeping the La Higuera project construction on-track in Chile.

SN Power will also be working actively to expand its business in existing markets like Chile, Peru, India and Nepal, and will continue to participate in the privatization process in the Philippines.

The owners are expected to continue their contribution to the company's expansion, in line with SN Power's ability to close new projects.

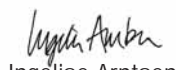
The current pipeline of projects is expected to meet the company's goals for new investments in terms of both profitability and local development effects.

Oslo, 4 May 2007

The Board of Directors of Statkraft Norfund Power Invest AS



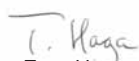
Kjell Roland  
Chairman



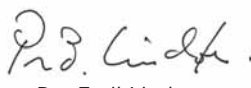
Ingelise Arntsen  
Vice-Chair



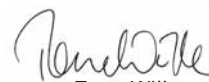
Stein Dale  
Director



Tore Haga  
Director



Per Emil Lindø  
Director



Tone Wille  
Director



Income statement	29
Balance sheet 31 December	30
Cash flow statement	32
Note 1 Accounting principles	33
Note 2 Large single transactions	34
Note 3 Financial, political and market risk	34
Note 4 Sales revenues	35
Note 5 Power reserves and removal costs	35
Note 6 Salary and personnel costs	36
Note 7 Other operating costs	36
Note 8 Intangible fixed assets	37
Note 9 Tangible fixed assets	38
Note 10 Subsidiaries and associated companies	38
Note 11 Inventories	39
Note 12 Share capital and shareholders information	39
Note 13 Equity	40
Note 14 Pension costs, plans and commitments	40
Note 15 Tax	41
Note 16 Other current liabilities	42
Note 17 Debt, mortgages and guarantees, etc	42
Note 18 Events after the balance sheet date	43
Auditor's report	44

## SN POWER GROUP

STATKRAFT NORFUND  
POWER INVEST AS

2006 USD*	2006 NOK	2005 NOK	NOTE		2006 NOK	2005 NOK
				OPERATING REVENUES AND EXPENSES		
52 570	328 204	155 680	4	Sales revenues	16 652	8 823
52 570	328 204	155 680		Total operating revenues	16 652	8 823
8 127	50 741	37 367		Cost of goods sold	0	0
7 946	49 607	36 785	6	Salary and personnel costs	24 514	22 910
10 317	64 412	35 004	8, 9	Ordinary depreciation and amortization	185	229
1 426	8 905	425	8, 9	Write-down	0	0
12 563	78 435	61 822	7	Other operating costs	38 691	31 573
40 380	252 100	171 403		Total operating costs	63 390	54 712
12 190	76 104	-15 723		Operating profit/loss	-46 738	-45 889
				FINANCIAL INCOME AND EXPENSES		
2 950	18 417	20 836	10	Income from investments in associates	0	0
3 034	18 944	15 490		Interest income	11 545	10 128
2 274	14 196	965		Other financial income	13 549	-2 866
-7 488	-46 747	-15 928		Interest expenses	-45	-33
-1 272	-7 939	-9 935		Other financial expenses	-12 619	0
-501	-3 129	11 428		Net financial items	12 430	7 229
11 689	72 975	-4 295		Profit/loss before tax	-34 308	-38 660
-1 408	-8 789	-4 647	15	Tax	0	0
10 281	64 186	-8 942		NET PROFIT/LOSS FOR THE YEAR	-34 308	-38 660
6 784	42 356	0		Minority interest		
3 497	21 830	-8 942		Majority interest		
				ALLOCATIONS		
				Uncovered loss	-34 308	-38 660

\* Figures presented in USD are the figures from the accounts denominated in NOK converted at the exchange rate as of 31 Dec 06. The exchange rate applied was 6.2432.

## SN POWER GROUP

STATKRAFT NORFUND  
POWER INVEST AS

2006 USD*	2006 NOK	2005 NOK	NOTE		2006 NOK	2005 NOK
				ASSETS		
				Fixed assets		
				Intangible fixed assets		
4 000	24 973	0	8	Water rights	0	0
849	5 299	7 232	8	Road and land rights	0	0
1 277	7 971	9 778	8	Project development	3 400	9 778
171	1 065	0	8	Software licences	316	0
6 296	39 308	17 010		Total intangible fixed assets	3 716	9 778
				Tangible fixed assets		
859	5 363	4 410	9	Land	0	0
159 092	993 243	360 166	9	Plants and machinery	0	0
5 193	32 423	3 267	9	Fixtures and fittings, vehicles, other equipment	158	215
165 144	1 031 029	367 843		Total tangible fixed assets	158	215
				Financial fixed assets		
0	0	0	10	Investment in subsidiaries	1 144 250	665 000
105 816	660 630	542 192	10	Investment in associates	0	0
529	3 303	3 182		Investment in shares	0	0
106 345	663 933	545 374		Total financial fixed assets	1 144 250	665 000
277 785	1 734 270	930 227		Total fixed assets	1 148 124	674 993
				Current assets		
820	5 119	5 224	11	Inventories	0	0
				Receivables		
13 591	84 853	26 647		Accounts receivable	707	10
0	0	0		Intra-group receivables	32 122	17 869
4 019	25 090	16 525		Other receivables	9 155	11 721
17 610	109 943	43 172		Total receivables	41 984	29 600
				Financial current assets		
572	3 570	0		Financial instruments (FX hedge contracts)	3 570	0
572	3 570	0		Total financial current assets	3 570	0
121 137	756 281	532 231	17	Cash and cash equivalents	387 528	391 097
140 139	874 913	580 627		Total current assets	433 082	420 697
417 924	2 609 183	1 510 854		TOTAL ASSETS	1 581 206	1 095 690

\* Figures presented in USD are the figures from the accounts denominated in NOK converted at the exchange rate as of 31 Dec 06. The exchange rate applied was 6.2432.



## SN POWER GROUP

STATKRAFT NORFUND  
POWER INVEST AS

2006 USD*	2006 NOK	2005 NOK	NOTE		2006 NOK	2005 NOK
				<b>EQUITY AND LIABILITIES</b>		
				<b>Equity</b>		
				<b>Paid-in equity</b>		
136 550	852 507	600 000	12,13	Share capital (8 525 070 shares at NOK 100)	852 507	600 000
136 550	852 507	600 000	13	Share premium reserve	852 507	600 000
273 099	1 705 014	1 200 000		<b>Total paid-in equity</b>	1 705 014	1 200 000
				<b>Retained earnings</b>		
-12 231	-76 361	-64 386	13	Other equity	-142 872	-116 193
41 683	260 236	0	13	Minority interests	0	0
29 452	183 875	-64 386		<b>Total retained earnings</b>	-142 872	-116 193
302 551	1 888 889	1 135 614		<b>Total equity</b>	1 562 142	1 083 807
				<b>Liabilities</b>		
				<b>Provisions</b>		
674	4 211	3 079	14	Pension commitments	4 211	3 079
11 175	69 768	69 801	15	Deferred tax	0	0
989	6 176	9 173		Other long-term provisions	0	0
12 839	80 155	82 053		<b>Total provisions</b>	4 211	3 079
				<b>Other long-term liabilities</b>		
75 547	471 655	201 669	17	Liabilities to financial institutions	0	0
75 547	471 655	201 669		<b>Total other long-term liabilities</b>	0	0
				<b>Current liabilities</b>		
9 075	56 657	27 817	17	Liabilities to financial institutions	0	0
3 299	20 595	9 933		Accounts payable	3 783	2 691
1 310	8 178	7 694	15	Tax payable	0	0
141	881	1 662		Public tax payable	881	1 662
3 809	23 780	0		Dividends payable	0	0
0	0	3 106		Financial instruments (FX hedge contracts)	0	0
9 353	58 393	41 306	16	Other current liabilities	10 189	4 451
26 987	168 484	91 518		<b>Total current liabilities</b>	14 853	8 804
115 373	720 294	375 240		<b>Total liabilities</b>	19 064	11 883
417 924	2 609 183	1 510 854		<b>TOTAL EQUITY AND LIABILITIES</b>	1 581 206	1 095 690

\* Figures presented in USD are the figures from the accounts denominated in NOK converted at the exchange rate as of 31 Dec 06. The exchange rate applied was 6.2432.

  
Kjell Roland  
Chairman


  
Ingelise Arntsen  
Vice-Chair

  
Stein Dale  
Director

  
Tore Haga  
Director

  
Per Emil Lindø  
Director

  
Tone Wille  
Director

  
Øistein Andresen  
Chief Executive Officer

## SN POWER GROUP

 STATKRAFT NORFUND  
POWER INVEST AS

2006 USD*	2006 NOK	2005 NOK		2006 NOK	2005 NOK
			<b>CASH FLOW FROM OPERATIONAL ACTIVITIES</b>		
11 689	72 975	-4 295	Profit/loss before tax	-34 308	-38 660
-1 232	-7 694	-4 765	Tax paid	0	0
10 317	64 412	35 004	Ordinary depreciation	185	229
1 426	8 905	425	Write-downs	0	0
181	1 132	1 010	Difference between this year's pension expense and pension premium	1 132	1 010
-2 950	-18 417	-20 836	Income from investments in associates	0	0
-1 401	-8 748	5 412	Effect of exchange rate changes (agio/disagio)	5 856	0
-1 081	-6 748	-12 458	Change in accounts receivable	-697	489
1 471	9 186	5 362	Change in accounts payable	1 092	-1 571
0	0	0	Change in intra-group accounts	-14 253	-9 475
17	105	-3 427	Change in inventories	0	0
-2 856	-17 828	-9 221	Change in other current assets and liabilities	7 523	-3 049
<b>15 582</b>	<b>97 281</b>	<b>-7 789</b>	<b>Net cash flow from operational activities</b>	<b>-33 470</b>	<b>-51 027</b>
			<b>CASH FLOW FROM INVESTMENT ACTIVITIES</b>		
-969	-6 051	-8 349	Investment in tangible and intangible fixed assets	5 934	-9 930
0	0	36	Proceeds from sale of fixed assets	0	0
-22 417	-139 954	-367 512	Investment in financial fixed assets	-259 645	-316 000
22 613	141 174	0	Net effect of cash and cash equivalents from acquisitions	0	0
2 153	13 440	0	Proceeds from realised FX hedge contracts	13 440	0
<b>1 379</b>	<b>8 610</b>	<b>-375 825</b>	<b>Net cash flow from investment activities</b>	<b>-240 271</b>	<b>-325 930</b>
			<b>CASH FLOW FROM FINANCING ACTIVITIES</b>		
0	0	201 669	New long-term debt raised	0	0
-24 486	-152 872	-220 674	Repayment of long-term debt	0	0
0	0	27 817	New short-term debt raised	0	0
-781	-4 877	-18 422	Repayment of short-term debt	0	0
0	0	0	Repayment of long-term intra-group debt	0	5 517
45 715	285 409	200 000	New paid-in equity	285 409	200 000
<b>20 448</b>	<b>127 660</b>	<b>190 390</b>	<b>Net cash flow from financing activities</b>	<b>285 409</b>	<b>205 517</b>
-1 522	-9 501	-5 896	Effect of exchange rate changes on cash and cash equivalents	-15 237	0
<b>35 887</b>	<b>224 050</b>	<b>-199 120</b>	<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	<b>-3 569</b>	<b>-171 440</b>
85 250	532 231	731 351	Cash and cash equivalents 1 Jan	391 097	562 537
<b>121 137</b>	<b>756 281</b>	<b>532 231</b>	<b>Cash and cash equivalents 31 Dec</b>	<b>387 528</b>	<b>391 097</b>

\* Figures presented in USD are the figures from the accounts denominated in NOK converted at the exchange rate as of 31 Dec 06. The exchange rate applied was 6.2432.

## NOTE 1 | ACCOUNTING PRINCIPLES

The accounts have been prepared in accordance with the Norwegian Accounting Act of 1998 and Norwegian Generally Accepted Accounting Principles.

The most important principles applied in the annual accounts for the company and the group are detailed below. All figures in the notes are in NOK 1 000 unless otherwise specified.

### Consolidation principles

The consolidated accounts show the overall financial result and financial position of Statkraft Norfund Power Invest AS and its controlling interests in other companies presented as a single economic entity. The companies included are those in which Statkraft Norfund Power Invest AS has either a direct or indirect controlling influence

Subsidiaries acquired or established during the year are consolidated from the date of acquisition or establishment. All inter-company accounts and internal transactions between companies included in the consolidation are eliminated in the consolidated accounts.

When businesses are acquired, the cost price is calculated and an excess value analysis carried out at the time of acquisition. The cost price of shares in subsidiaries is eliminated against equity in the subsidiaries at the time of acquisition. Any additional value over and above the book value of equity identified by the excess value analysis is allocated to the specific assets in the acquired company which differ in value from their book value. Additional value which cannot be allocated to identifiable assets or liabilities is presented in the consolidated accounts as goodwill.

All subsidiaries registered outside Norway are assessed as independent entities. The accounts of these subsidiaries are converted to NOK in accordance with the current rate of exchange method. This means that all balance sheet items are converted at the closing rate at year end, whilst all income statement items are converted at the average rate for the year. Any conversion differences affecting balance sheet items are recorded directly against equity.

### Principles for associated companies

Investments in companies in which Statkraft Norfund Power Invest AS, directly or indirectly, has a substantial but not controlling interest (normally between 20 and 50%) are treated in the consolidated accounts in accordance with the equity method. This means that the group's share of the net result in the associated companies, adjusted for depreciation of added value, is shown on a separate line in the consolidated income statement. The investments are shown in the consolidated balance sheet as fixed assets, recorded at a value which equals the historical cost price of the shares corrected for the accumulated share of results during the period of ownership, dividend received and possible exchange rate adjustments. Any conversion differences are recorded directly against equity.

### Reclassification

Some figures from the previous financial year have been reclassified to be comparable to the 2006 accounts. In the income statement, intra-group sales revenues are presented as revenues instead of cost reductions. Write-downs have been specified as a separate line item as compared to the previous year. In the balance sheet capital-

ized project development costs have been reclassified from other receivables to intangible assets. Buildings and other property have been reclassified to plants and machinery. The notes to the financial statements have been changed accordingly. In the cash flow statement, effects of exchange rate changes are collated and presented as a single line item.

### International Financial Reporting Standards (IFRS)

SN Power plans to implement IFRS for the consolidated group accounts for the 2007 financial year. Only minor amendments to the opening balance sheet for 2007 are anticipated, owing to possible changes in the expected lifetime of plant and machinery and related depreciation.

### General valuation and classification principles

#### Classification and valuation of assets and liabilities

Assets intended for permanent ownership or use, are classified in the balance sheet as fixed. Other assets are classified as current. Assets and liabilities, including the first year's instalment on long-term debt, which are due for payment within one year, are classified as current.

Fixed assets are valued in the balance sheet at cost price. The company depreciates fixed assets with a limited economic life on a linear basis in accordance with their expected lifetime. Whenever indications of impairment occur, the fair value of the asset or group of assets is calculated. If the fair value is lower than the carrying value, impairment is recognized. Write-downs may be reversed to the extent that the reason for the write-down ceases to apply.

Long-term loans are recorded in the balance sheet at the date they were established, corrected for any capital discount and expenses related to the loan. Capital discount and expenses are amortised over the terms of the loan.

Current assets are valued in the balance sheet at the lower of historical cost price and fair value. Short-term loans are recorded in the balance sheet at the nominal amount from the date when the principal was received.

### Long-term shareholdings

All investments made by Statkraft Norfund Power Invest AS or its subsidiaries are treated in accordance with the cost method in the individual company accounts. Dividends and group contributions received are classified as financial income.

### Inventories/spare parts

Spare parts purchased for use in power station operation are classified as current assets and valued in the balance sheet at the lower of weighted average historical cost and fair value.

### Receivables

Customer receivables or other receivables held by Statkraft Norfund Power Invest AS or its subsidiaries are recorded in the balance sheet at their nominal value after the deduction of estimated provision for bad debts.

### Foreign currencies

All monetary items in the balance sheet are converted at the relevant exchange rate on the balance sheet date.



### Income and cost recognition

Statkraft Norfund Power Invest AS and its subsidiaries record income related to the sale of goods and services in the income statement in accordance with the earned income principle. This means that all income is recorded as and when earned. All costs are recorded in accordance with the matching principle, which means that they will be recorded in the same period as the associated income.

The group's share of the net result in associated companies is recorded in the group accounts in accordance with the earned income principle, while dividends from other companies are recorded when actually decided by the General Meeting. Dividends and contributions from group companies are recognized in the same year as they are accounted for in the contributing company.

### Pension costs

Pension costs and commitments in Statkraft Norfund Power Invest AS are calculated and recorded in accordance with the Norwegian Accounting Standard for Pensions.

The company has a defined benefit pension plan. Pension costs for the year are classified in the income statement as part of the company's payroll. Pension costs for the year are shown net of the period's pension earnings for the employees, adjusted for interest expenses associated with the future commitment and the return on the pension fund's assets for the year. The transitional effect relating to changes in assumptions associated with the closed plan in the Norwegian Public Service Pension Fund is recorded in the income statement over nine years. This is the average remaining vesting period for the seven employees covered by this scheme. The company's future pension commitments are classified as a provision under long-term liabilities.

### Tax

Tax costs for the year in the income statement comprise tax payable and change in deferred tax. The tax payable is calculated on the basis of the company's taxable results. Deferred tax is calculated on the basis of the temporary differences between taxable and accounting values in the company, and losses carried forward. The deferred tax benefit is recorded as an asset in the balance sheet when it is considered likely that the company will be able to take advantage of this benefit in the future.

### Principles for the cash flow statement

When preparing the cash flow statement, the indirect method has been applied for both Statkraft Norfund Power Invest AS and the group. This means presenting, on the basis of the annual results for the company and the group, cash flows generated from ordinary operations by the company and the group as well as investment and financing activities over the past year.

### NOTE 2 | LARGE SINGLE TRANSACTIONS

Statkraft has transferred their 50.4% voting share in Himal Power Ltd in Nepal to Statkraft Norfund Power Invest AS as a contribution in kind. Himal Power Ltd has an installed capacity of 60 MW.

SN Power has via SN Power Holding Singapore Pte Ltd continued the construction of the run-of-river plants Allain Duhangan in India (192 MW) and Hidroelectrica La Higuera in Chile (155 MW). Allain Duhangan is developed through a joint venture with the Indian LNJ

Bhilwara Group and Hidroelectrica La Higuera in a joint venture with the Australian hydropower company Pacific Hydro.

SN Power has acquired water rights (approximately 500 MW) in the tenth region of Chile in an 80/20 joint venture with the Chilean Pavez Group. The projects will be developed in accordance with economic, social and environmental feasibility factors.

SN Power and the Philippine Aboitiz Equity Ventures Inc have established the joint venture SN Aboitiz Power Inc. The company placed a successful bid of USD 530 million for the largest hydropower plant in the Philippines, Magat (360 MW). Takeover took place on 25 April 2007.

### NOTE 3 | FINANCIAL, POLITICAL AND MARKET RISK

SN Power is through its operations and greenfield development exposed to a number of risk factors. A risk evaluation is carried out both for new developments as well as in the asset management phase. SN Power's future return is closely related to its ability to measure and manage this risk exposure.

#### Political, hydrological and market risk

SN Power's main area of commitment is in regions of the world, which have experienced considerable political and economic instability, both now and in the past. The risks posed have a substantial impact on the company's investments. SN Power is working continuously to improve its method for measuring and evaluating political risk in the various countries. Together with the Global Insight organisation, the company has developed a tool for continuous evaluation of political risk at country level. This enables SN Power both to have the best possible overview of risk before making an investment decision, and to continually to monitor risks in the companies in which it has invested. The company is evaluating equity insurance against political risk on a case to case basis.

The company invests in enterprises where generating and selling hydropower are the principal activities. Access to water and general hydrological conditions will significantly affect the group's cash generating capacity and the prices it can obtain in hydropower markets. This means that its results could vary significantly from one year to another. A geographical diversification will to some extent neutralize this risk.

SN Power's investment strategy is to pursue active ownership. In this context, the company maintains a high focus on optimising the balance between contractual and spot market sales wherever possible. Electricity markets vary widely in their level of deregulation. Big differences exist in this respect not only between Asia and Latin America, but also between the various countries in these regions.

#### Foreign currency exposure

Statkraft Norfund Power Invest AS's functional currency is NOK. The investments in Latin America and Nepal have USD as their functional currency and INR is the functional currency of the investment in India. Future returns of SN Power will be affected by the exchange rate between NOK and the investment currency. The various subsidiaries and affiliate companies in which SN Power invests are also subject to fluctuations between local currencies and USD. That applies particularly in Latin America, where the pricing mechanism

for electricity is partly tied to variations between local currencies and the USD. In most cases, the companies also have their financing in USD.

Statkraft Norfund Power Invest AS makes use of currency swaps and forward contracts to hedge part of the currency exposure related to the investments in subsidiaries and affiliated companies. In accordance with group policy the hedged amount will vary between 40 and 80% of the carrying value of the equity investments with a maturity of 1-10 years. The currency contracts are valued at fair value based on the spot elements of the contracts and recorded as hedging. Variations in the value of the contracts owing to changes in exchange rates are therefore not recorded in the income statement but directly towards equity.

At 31 December 2006 existing forward contracts had a market value of NOK 3.6 million and realized contracts at NOK 13.4 million. This gave an increase of NOK 20.1 million as compared to 31 December 2005. The interest elements of the contracts are separated and charged to the income statement. For 2006 this amounted to NOK 6.8 million. At 31 December 2006, the contracts constituted a total foreign currency hedge of NOK 550.9 million related to INR and USD.

In 2006 a cash flow hedge was purchased to cover an investment in an associated company of USD 30 million. The effects of changes in the currency rate are charged to equity, and amounted to NOK -9.4 million.

The total effect of currency hedges charged to equity amounted to NOK 10.7 million for 2006.

#### Interest and liquidity risk

Statkraft Norfund Power Invest AS's financing is based on capitalization; additional capitalization will be carried out when the company takes on commitments in relation to new investments.

Excess liquidity is placed according to guidelines for the placement of money market funds. These placements have an average duration of three months or less and are therefore classified as bank deposits in the balance sheet.

Both greenfield projects and operational activities are financed on the basis of non-recourse project financing. SN Power is extending limited and capped guarantees primarily during construction.

The group is exposed to interest and credit risk via the financing and customer portfolios held by SN Power's subsidiaries and affiliates. Interest rate exposure related to the subsidiaries and affiliated companies debt financing are secured through fixed interest rate arrangements for a major part of the loans. SN Power's goal for the group's interest risk is to minimise interest costs, reduce fluctuations in these and limit changes in the value of the group's net debt.

#### Insurance risk

SN Power has a substantial risk exposure related to potential damages to assets, subsequent production losses and third party, life and property damages. This type of risk is handled through several different emergency plans and procedures. Monitoring of operational risk has a high priority. Statkraft Norfund Power Invest AS and its subsidiary and associated companies have established insurances covering all types of severe damages.

#### NOTE 4 | SALES REVENUES

SN POWER GROUP			STATKRAFT NORFUND POWER INVEST AS		
2006	2005		2006	2005	
		<b>By business area</b>			
3 275	6 013	Services	16 652	8 823	
324 929	149 667	Power sales	0	0	
<b>328 204</b>	<b>155 680</b>	<b>Total</b>	<b>16 652</b>	<b>8 823</b>	
		<b>By geographical market</b>			
164 200	0	Nepal	0	0	
160 729	149 667	Peru	0	0	
1 738	4 505	Chile	0	0	
1 537	1 508	Norway	16 652	8 823	
<b>328 204</b>	<b>155 680</b>	<b>Total</b>	<b>16 652</b>	<b>8 823</b>	

#### NOTE 5 | POWER RESERVES AND REMOVAL COSTS

SN Power does not have any power reserves/dams of material size and no future removal costs.

## NOTE 6 | SALARY AND PERSONNEL COSTS

SN POWER GROUP			STATKRAFT NORFUND POWER INVEST AS	
2006	2005		2006	2005
51 455	28 483	Salary expenses	16 452	15 349
2 398	2 764	Social security costs	2 379	2 758
4 495	3 775	Pension costs (note 14)	4 495	3 775
811	722	Employee profit-sharing in Peru	0	0
3 373	1 041	Other personnel costs	1 188	1 028
-12 925	0	Capitalized salary and personnel costs *	0	0
<b>49 607</b>	<b>36 785</b>	<b>Total</b>	<b>24 514</b>	<b>22 910</b>

\* Salary and personnel costs capitalized on projects under development.

### Number of employees

Statkraft Norfund Power Invest AS had an average number of 21 man-labour years in 2006. As per 31 Dec 2006 the company had 22 people on staff - whereas 19 at the company's head office in Oslo. The group inclusive associated companies had a total of 819 employees at the same date, 189 in consolidated companies and 630 in non-consolidated companies.

### Chief Executive Officer

The Chief Executive Officer received a salary of NOK 1 257 510, pension premium of NOK 288 061 and other remuneration of NOK 23 575 in 2006. There are no contingent liabilities related to end of employment.

### Board of Directors

No remuneration have been paid by Statkraft Norfund Power Invest AS to any of its Directors in 2006.

### Auditor

Fees to Ernst & Young AS for audit and audit-related services to Statkraft Norfund Power Invest AS for 2006 amount to NOK 208 000.

Fees to Ernst & Young AS for other services to Statkraft Norfund Power Invest AS in 2006 amount to NOK 134 525.

Fees to Ernst & Young for audit and audit-related services to other companies in the group for 2006 amount to NOK 347 797.

## NOTE 7 | OTHER OPERATING COSTS

SN POWER GROUP			STATKRAFT NORFUND POWER INVEST AS	
2006	2005		2006	2005
2 538	1 311	Leasing premises	2 033	1 201
41 515	38 302	External services	24 004	18 597
8 225	5 460	Travel expenses	5 974	5 234
36 081	24 064	Other costs	6 680	6 541
-9 924	-7 315	Capitalized other operating cost *	0	0
<b>78 435</b>	<b>61 822</b>	<b>Total</b>	<b>38 691</b>	<b>31 573</b>

\* Other operating costs capitalized on projects under development.



**NOTE 8 | INTANGIBLE FIXED ASSETS**
**STATKRAFT NORFUND  
POWER INVEST AS**

	Project development	Software licences	Total
Acquisition cost 1 Jan 06	9 778	0	9 778
Additions	988	363	1 351
Disposals	-7 366	0	-7 366
Acquisition cost 31 Dec 06	3 400	363	3 763
Accumulated amortization 31 Dec 06	0	-47	-47
Book value 31 Dec 06	3 400	316	3 716
Amortization for the year	0	-47	-47
Estimated economic life	N/A	3-5 years	

**SN POWER GROUP**

	Water rights	Road and land rights	Project development	Software licences	Total
Acquisition cost 1 Jan 06	0	13 681	9 778	0	23 459
Additions	25 662	16 837	5 696	1 175	49 370
Disposals	0	0	-7 366	0	-7 366
Foreign currency translation difference 31 Dec 06	-689	-751	-137	0	-1 577
Acquisition cost 31 Dec 06	24 973	29 767	7 971	1 175	63 886
Accumulated amortization 31 Dec 06	0	-23 776	0	-111	-23 887
Foreign currency translation difference 31 Dec 06	0	-692	0	1	-691
Book value 31 Dec 06	24 973	5 299	7 971	1 065	39 308
Amortization for the year	0	-2 066	0	-105	-2 171
Estimated economic life	N/A	10 years	N/A	3-5 years	

**NOTE 9 | TANGIBLE FIXED ASSETS**
**STATKRAFT NORFUND  
POWER INVEST AS**

	Fixtures and fittings, vehicles, other equipment	Total
Acquisition cost 1 Jan 06	782	782
Additions	81	81
Acquisition cost 31 Dec 06	863	863
Accumulated depreciation 31 Dec 06	-705	-705
Book value 31 Dec 06	158	158
Depreciation for the year	-138	-138
Estimated economic life	3-10 years	

**SN POWER GROUP**

	Land	Plants and machinery	Fixtures and fittings, vehicles, other equipment	Total
Acquisition cost 1 Jan 06	4 410	426 342	5 928	436 680
Additions*	1 158	1 086 570	41 613	1 129 341
Disposals	0	-3 098	-933	-4 031
Foreign currency translation difference 31 Dec 06	-205	-39 766	-1 729	-41 700
<b>Acquisition cost 31 Dec 06</b>	<b>5 363</b>	<b>1 470 048</b>	<b>44 879</b>	<b>1 520 290</b>
Accumulated depreciation 31 Dec 06	0	-470 516	-12 543	-483 059
Accumulated write-down 31 Dec 06	0	-9 330	0	-9 330
Foreign currency translation difference 31 Dec 06	0	3 041	87	3 128
<b>Book value 31 Dec 06</b>	<b>5 363</b>	<b>993 243</b>	<b>32 423</b>	<b>1 031 029</b>
Depreciation for the year	0	-60 088	-2 153	-62 241
Write-down for the year**	0	-8 905	0	-8 905
Estimated economic life	N/A	10-30 years	3-10 years	

\* Additions are for the main part investment in Himal Power Ltd.

\*\* The write-down concerns the Pacasmayo plant in Empresa de Generacion Electrica Cahua S.A.

**NOTE 10 | SUBSIDIARIES AND ASSOCIATED COMPANIES**
**STATKRAFT NORFUND  
POWER INVEST AS**
**Subsidiary companies**

	Date of establ.	Business office	Parent company	Voting share	Owner share
SN Power Holding AS	27 May 03	Oslo	Statkraft Norfund Power Invest AS	100.00%	100.00%

Shares in subsidiaries are recorded in accordance with the cost method in the balance sheet of Statkraft Norfund Power Invest AS. Paid-in capital to SN Power Holding AS was NOK 1 144 250 at 31 December 2006.

**SN POWER GROUP**
**Subsidiary companies**

	Date of establ./ acquisition	Business office	Parent company	Voting share	Owner share
SN Power Holding Singapore Pte. Ltd	12 Aug 03	Singapore	SN Power Holding AS	100.00%	100.00%
SN Power Holding Peru Pte. Ltd	26 Aug 03	Singapore	SN Power Holding Singapore Pte. Ltd	100.00%	100.00%
SN Power Holding Chile Pte. Ltd	12 Aug 03	Singapore	SN Power Holding Singapore Pte.Ltd	100.00%	100.00%
SN Power Holding Sri Lanka Pte. Ltd	12 Aug 03	Singapore	SN Power Holding Singapore Pte. Ltd	100.00%	100.00%
SN Power Peru Holding S.R.L	07 Oct 03	Lima	SN Power Holding Peru Pte. Ltd	100.00%	100.00%
Empresa de Generacion Electrica Cahua S.A	21 Nov 03	Lima	SN Power Peru Holding S.R.L	99.99%	99.99%
SN Power Chile Inversiones Eléctricas Ltda	09 Dec 04	Santiago	SN Power Holding Chile Pte. Ltd	100.00%	100.00%
SN Power Chile Tinguirica y Cia.	17 Dec 04	Santiago	SN Power Chile Inversiones Electricas Ltda	100.00%	100.00%
SN Power Chile Valdivia y Cia.	15 Feb 06	Santiago	SN Power Chile Inversiones Electricas Ltda	100.00%	100.00%
Hidroeléctrica Trayenko S.A	15 Feb 06	Santiago	SN Power Chile Valdivia y Cia.	80.00%	80.00%
Himal Power Ltd *	01 Mar 06	Kathmandu	SN Power Holding Singapore Pte. Ltd	50.40%	44.80%

\* The subsidiary company Himal Power Ltd has a diverging financial year. The figures consolidated in the group's financial statements represent the 2006 calendar year.

**Associated companies**

	Date of establ./ acquisition	Business office	Parent company	Voting share	Owner share
Hidroelectrica La Higuera S.A	03 Jun 04	Santiago	SN Power Holding Chile Pte. Ltd	50.00%	50.00%
Hidroelectrica La Confluencia S.A	23 Sep 04	Santiago	SN Power Chile Tinguirica y Cia.	50.00%	50.00%
Nividhu (Pvt) Ltd *	27 Oct 03	Colombo	SN Power Holding Singapore Pte. Ltd	30.00%	30.00%
Malana Power Company Ltd *	17 Jun 05	New Dehli	SN Power Holding Singapore Pte. Ltd	49.00%	49.00%
Allain Duhangan Hydro Power Ltd **	17 Jun 05	New Dehli	Malana Power Company Ltd	100.00%	100.00%
SN Aboitiz Power Inc ***	29 Nov 05	Manila	SN Power Holding Singapore Pte. Ltd	40.00%	40.00%
Manila-Oslo Renewable Enterprise, Inc ***	29 Nov 05	Manila	SN Power Holding Singapore Pte. Ltd	16,67%	16,67%

- \* The associated companies Nividhu (Pvt) Ltd and Malana Power Company Ltd have a diverging financial year. The figures specified in the note represent the 2006 calendar year.
- \*\* The International Finance Corporation (IFC) has both a right and an obligation to subscribe 10% through a rights issue at an agreed upon price towards the end of the construction period. The construction period is estimated to finish during 2008.
- \*\*\* SN Aboitiz Power Inc and Manila-Oslo Renewable Enterprise, Inc. was not in operation during the financial year. Manila-Oslo Renewable Enterprise has a 60% owner share in SN Aboitiz Power Inc.

**Book values associated companies**

	Book value 31 Dec 05	Additions/ disposals	Share of this year's profit/loss	Depreciation of goodwill/ excess value	Foreign currency translation difference	Book value 31 Dec 06
Hidroelectrica La Higuera S.A	216 445	128 710	2 146	0	-17 986	329 315
Hidroelectrica La Confluencia S.A	0	11 244	83	0	-2	11 325
Nividhu (Pvt) Ltd	5 794	0	658	-135	-948	5 369
Malana Power Company Ltd	319 952	0	16 973	-1 308	-20 998	314 620
SN Aboitiz Power Inc	0	0	0	0	0	0
<b>Total</b>	<b>542 192</b>	<b>139 954</b>	<b>19 860</b>	<b>-1 443</b>	<b>-39 934</b>	<b>660 630</b>

**NOTE 11 | INVENTORIES**

SN POWER GROUP			STATKRAFT NORFUND POWER INVEST AS	
2006	2005		2006	2005
5 119	5 224	Spare parts for use in power stations	0	0
<b>5 119</b>	<b>5 224</b>	<b>Total</b>	<b>0</b>	<b>0</b>

**NOTE 12 | SHARE CAPITAL AND SHAREHOLDERS INFORMATION**

The share capital of the company at 31 December 2006 comprised a total of 8 525 070 shares at a nominal value of NOK 100 each. The total share capital amounts to NOK 852 507 000. All shares have equal voting rights. No dividends will be paid out for 2006.

	A shares	Voting share	Owner share
Statkraft AS	4 263	50.00%	50.00%
Norfund	4 263	50.00%	50.00%
<b>Total</b>	<b>8 525</b>	<b>100.00%</b>	<b>100.00%</b>



**NOTE 13 | EQUITY**
**STATKRAFT NORFUND  
POWER INVEST AS**

	Share capital	Share premium reserve	Minority interests	Other equity	Total equity
Equity 1 Jan 06	600 000	600 000	0	-116 193	1 083 807
Capital increase	252 507	252 507	0	0	505 014
Foreign currency translation effects on FX-hedges *	0	0	0	7 629	7 629
This year's net profit/loss	0	0	0	-34 308	-34 308
<b>Equity 31 Dec 06</b>	<b>852 507</b>	<b>852 507</b>	<b>0</b>	<b>-142 872</b>	<b>1 562 142</b>

\* In 2006 the FX-hedges were transferred from group level to Statkraft Norfund Power Invest AS. Please see note 3 for further information on FX-hedges.

**SN POWER GROUP**

	Share capital	Share premium reserve	Minority interests	Other equity	Total equity
Equity 1 Jan 06	600 000	600 000	0	-64 386	1 135 614
Capital increase	252 507	252 507	0	0	505 014
Additions minority interests **	0	0	243 622	0	243 622
Dividends	0	0	-23 780	0	-23 780
This year's foreign currency translation differences	0	0	-1 962	-44 540	-46 502
Foreign currency translation effects on FX-hedges *	0	0	0	10 735	10 735
This year's net profit/loss	0	0	42 356	21 830	64 186
<b>Equity 31 Dec 06</b>	<b>852 507</b>	<b>852 507</b>	<b>260 236</b>	<b>-76 361</b>	<b>1 888 889</b>

\* In 2006 the FX-hedges were transferred from group level to Statkraft Norfund Power Invest AS. Please see note 3 for further information on FX-hedges.

\*\* Minority interests include minority's part of a non-interest bearing loan from NDF to Himal Power Ltd subject to special terms. Dividends or other distributions from Himal Power Ltd declared by the Board of Directors are payable on NDF's proportional part of the equity. Therefore the loan is classified as minority interests.

**NOTE 14 | PENSION COSTS, PLANS AND COMMITMENTS**

Statkraft Norfund Power Invest AS has pension plans which cover a total of 20 staff. The pension plans fulfill the legal requirements of mandatory company pension in Norway. The plans confer the right to defined future benefits, which depend primarily on the number of years of pensionable service, the level of pay at retirement and the size of state pension benefits. These commitments are partially covered by a closed plan for 7 employees in the Norwegian Public Service Pension Fund and through a collective pension plan with Nordea Liv. Executive employees have a supplementary plan in addition to the general plan, which provides a pension of 66% of their salary up to a specific level and is applicable from the employee's 65th birthday. This plan requires 30 years of pensionable service and is also funded via Nordea Liv.

Transitional effects of changes in assumptions related to the closed plan in the Norwegian Public Service Pension Fund are written off over 9 years. This is based on the average remaining years of pensionable service for the 7 employees who are members of this plan. The annual effect of this is NOK 169 100.

**Assumptions**

The following assumptions were used in calculating the current year's pension cost and liability:

	2006	2005
Discount rate	4.5%	5.0%
Expected rate of return	5.5%	5.5%
Regulation of pay	4.5%	4.5%
Regulation of pension	2.0%	3.5%
Regulation of base rate	4.0%	3.5%
Turnover	5.0%	5.0%

## Pension costs

## SN POWER GROUP

2006	2005	
3 427	2 883	Net present value of current year's pension earnings
866	725	Interest and administrative expenses
4 293	3 608	Gross pension costs
-702	-552	Return on pension plan assets
349	264	Amortization of past service cost and gains/losses
555	455	Accrued employment tax
4 495	3 775	Net pension costs

STATKRAFT NORFUND  
POWER INVEST AS

2006	2005	
3 427	2 883	Net present value of current year's pension earnings
866	725	Interest and administrative expenses
4 293	3 608	Gross pension costs
-702	-552	Return on pension plan assets
349	264	Amortization of past service cost and gains/losses
555	455	Accrued employment tax
4 495	3 775	Net pension costs

## Pension commitments

## SN POWER GROUP

2006	2005	
20 656	16 557	Pension commitments
14 182	11 103	Pension plan assets
6 474	5 454	Calculated pension commitments
-846	-1 015	Past service cost
-1 929	-1 741	Unrecognized actuarial gains/losses
512	381	Employment tax
4 211	3 079	Net pension commitments

STATKRAFT NORFUND  
POWER INVEST AS

2006	2005	
20 656	16 557	Pension commitments
14 182	11 103	Pension plan assets
6 474	5 454	Calculated pension commitments
-846	-1 741	Past service cost
-1 929	-1 015	Unrecognized actuarial gains/losses
512	381	Employment tax
4 211	3 079	Net pension commitments

## NOTE 15 | TAX

## Tax expense

## SN POWER GROUP

2006	2005	
72 975	-4 295	Loss before tax
-43 004	28 323	Permanent differences
24 285	5 377	Change in temporary differences
54 256	29 405	Tax basis for the year
28%-30%	28%-30%	Tax rate
-16 327	-8 855	Tax payable
7 538	4 208	Change in capitalized deferred tax liability
-8 789	-4 647	This year's tax expense

STATKRAFT NORFUND  
POWER INVEST AS

2006	2005	
-34 308	-38 660	Loss before tax
1 362	1 013	Permanent differences
-66	0	Change in temporary differences
-33 013	-37 647	Tax basis for the year
28%	28%	Tax rate
0	0	Tax payable
0	0	Change in capitalized deferred tax liability
0	0	This year's tax expense

## Deferred Tax

SN POWER GROUP			STATKRAFT NORFUND POWER INVEST AS	
2006	2005*		2006	2005*
233 331	190 504	Fixed assets	-330	-107
-4 211	-3 079	Pension	-3 084	-3 079
-134 427	-101 415	Loss carried forward	-134 427	-101 415
94 693	86 010	Temporary differences 31 Dec	-137 841	-104 601
28%-30%	28%-30%	Tax rate	28%	28%
31 172	40 513	Deferred tax liability / benefit	-38 596	-29 288
-38 596	-29 288	Deferred tax benefit not recognized in the balance sheet	-38 596	-29 288
69 768	69 801	Deferred tax liability / benefit 31 Dec	0	0

\* Previous year's figures have been changed due to corrections in the filed tax papers of Statkraft Norfund Power Invest AS.

Deferred tax benefit is recorded on the basis of an expectation of a future taxable profit. The nature of Statkraft Norfund Power Invest AS's operations imply that future profits will not primarily be taxable. The benefits of deferred tax accordingly cannot be justified for 2006 and have not been included in the company's balance sheet.

## NOTE 16 | OTHER CURRENT LIABILITIES

SN POWER GROUP			STATKRAFT NORFUND POWER INVEST AS	
2006	2005		2006	2005
44 500	32 937	Accrued costs, prepaid income, etc	4 987	2 874
2 947	1 577	Unpaid holiday pay, tax deductions, etc	2 541	1 577
10 946	6 792	Other current liabilities	2 661	0
58 393	41 306	Total	10 189	4 451

## NOTE 17 | DEBT, MORTGAGES AND GUARANTEES, ETC

### Guarantees

Statkraft Norfund Power Invest AS had no loans at 31 December 2006. Guarantees for greenfield projects under construction (Hidroelectrica La Higuera S.A and Allain Duhangan Hydro Power Ltd) amount to NOK 166 million.

### Mortgages

SN Power Chile Inversiones Electricas Ltda holds a loan amounting to USD 45 million which is secured with a mortgage on a time deposit of the same amount in SN Power Holding AS. The loan and the time deposit are eliminated in the group accounts.

For the loan received from Proyecto Jequetepeque, Banco De Credito Del Peru has issued a performance bond totalling USD 425 870. Cahua has pledged as security the concessions related to Generacion Electrica Cahua (USD 28.5 million) and Generacion Electrica Gallito (USD 10.0 million) and the transmission line for Generacion Electrica Cahua (USD 3.9 million)

### Restricted cash and cash equivalents

The company held NOK 951 912 in a bank account at 31 December 2006 as withholding tax for employee income tax. The balance covers withholding tax liability at the same date.



## Loan commitments

Lender	Borrower	Terms	Maturity	Original currency of the loan	Balance 31 Dec 06 in original currency	Balance 31 Dec 06 in NOK	Balance 31 Dec 05 in NOK
Proyecto Jequetepeque	Cahua S.A	6.00%	2011	USD	1 478	9 227	15 084
Bonos Corporativos Cahua	Cahua S.A	LIBOR +1.75%	2015	USD	28 456	177 657	214 402
International Finance Corp.	Himal Power Ltd	11.48%	2011	USD	16 937	105 744	N/A
International Finance Corp.	Himal Power Ltd	13.73%	2011	USD	2 024	12 638	N/A
Asian Development Bank	Himal Power Ltd	10.50%	2011	USD	16 934	105 722	N/A
Asian Development Bank	Himal Power Ltd	13.73%	2011	USD	2 034	12 696	N/A
Eksportfinans	Himal Power Ltd	5.95%	2011	USD	14 595	91 119	N/A
Norfund	Himal Power Ltd	5.50%	2011	NOK	13 509	13 509	N/A
<b>Total liabilities to financial institutions</b>						<b>528 312</b>	<b>229 486</b>
Current portion of long-term debt						56 657	27 817
Long-term debt						471 655	201 669
<b>Total liabilities to financial institutions</b>						<b>528 312</b>	<b>229 486</b>

**NOTE 18 | EVENTS AFTER THE BALANCE SHEET DATE**

SN Power and the Philippine Aboitiz Equity Ventures Inc have established the joint venture SN Aboitiz Power Inc. The company placed a successful bid of USD 530 million for the largest hydropower plant in the Philippines, Magat (360 MW). Takeover took place on 25 April 2007.



To the General Meeting of  
Statkraft Norfund Power Invest AS

■ Statsautoriserte revisorer

Ernst & Young AS  
Oslo Atrium  
Postboks 20  
NO-0051 Oslo

■ Foretaksregisteret:  
NO 976 389 387 MVA  
Tel. +47 24 00 24 00  
Fax +47 24 00 24 01  
www.ey.no

Medlemmer av Den norske Revisorforening

## Auditor's report for 2006

We have audited the annual financial statements of Statkraft Norfund Power Invest AS as of 31 December 2006, showing a loss of NOK 34 308 000 for the Parent Company and a profit of NOK 64 186 000 for the Group. We have also audited the information in the Directors' report concerning the financial statements, the going concern assumption, and the proposal for the coverage of the loss. The financial statements comprise the financial statements for the Parent Company and the Group. The financial statements of the Parent Company and of the Group comprise the balance sheet, the statements of income and cash flows, and the accompanying notes. The regulations of the Norwegian Accounting Act and accounting standards, principles and practices generally accepted in Norway have been applied in the preparation of the financial statements of the Parent Company and the Group. These financial statements and the Directors' report are the responsibility of the Company's Board of Directors and Chief Executive Officer. Our responsibility is to express an opinion on these financial statements and on other information according to the requirements of the Norwegian Act on Auditing and Auditors.

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

In our opinion,

- the financial statements of the Parent Company and the Group are prepared in accordance with laws and regulations and present fairly, in all material respects the financial position of the Company and the Group as of 31 December 2006, and the results of the operations and cash flows for the year then ended, in accordance with accounting standards, principles and practices generally accepted in Norway
- the Company's management has fulfilled its duty to properly record and document the Company's accounting information as required by law and generally accepted bookkeeping practice in Norway
- the information in the Directors' report concerning the financial statements, the going concern assumption, and the proposal for the coverage of the loss is consistent with the financial statements and complies with law and regulations.

Oslo, 4 May 2007  
ERNST & YOUNG AS

Olve Gravråk  
State Authorised Public Accountant (Norway)  
(sign.)

Note: The translation to English has been prepared for information purposes only.

■ Besøksadresse:  
Oslo Atrium  
Christian Frederiks plass 6  
0154 Oslo

■ Arendal, Bergen, Bæ, Drammen, Fosnavåg, Fredrikstad, Holmestrand, Horten, Hønefoss, Kongsberg, Kragerø, Kristiansand, Larvik, Levanger, Lillehammer, Moss, Måløy, Notodden, Oslo, Otta, Porsgrunn/Skien, Sandefjord, Sortland, Stavanger, Steinkjer, Tromsø, Trondheim, Tønsberg, Vikersund, Ålesund

SN Power (Statkraft Norfund Power Invest AS) was established in 2002 and is a Norwegian Limited Company owned by Statkraft and Norfund. Statkraft is a wholly state-owned utility and northern Europe's largest generator of hydropower, operating 91 hydropower stations with 42 TWh in annual generation. Norfund is a leading Norwegian risk capital investor in emerging markets, funded by the Norwegian Government and cooperating closely with other international investment funds.

**SN Power**

Lilleakerveien 6  
PO Box 200 Lilleaker  
0216 Oslo Norway

Phone: +47 24 06 86 20

Fax: +47 24 06 86 21

[www.snpower.no](http://www.snpower.no)