

# Quarterly Accounts

as of 30<sup>th</sup> June

# 2006



## Contents

- 3 Board of directors' report
- 6 Profit and loss account
- 8 Balance sheet
- 10 Cash flow statement

The Statnett Group posted a net profit after tax of NOK 62 million for the second quarter to 30 June 2006. The low profit is due to increased operating costs as a result of increased power transmissions in the grid, and increased operating costs owing to changed rules for accrual accounting for holiday pay.

Statnett has identified a need for investments totalling NOK 19 billion for the period up until 2016. Consequently, the Board of Statnett applied to its owner in 2005 for an injection of equity capital totalling NOK 2.0 billion. The application was refused in the Revised National Budget 2006. Statnett will maintain and carry out its investment plans even though the company will not receive an injection of equity capital. Statnett still has a strong financial position.

In June, the rating agencies Standard & Poor's and Moody's Investor Service maintained their credit ratings for Statnett with respect to long-term borrowing of AA and Aa3 respectively.

### **Quality and security of supply**

Statnett's target to ensure that no end-user is without electricity for more than two hours owing to a fault in Statnett's transmission facilities was achieved during the quarter.

Owing to plentiful precipitation in 2005, reservoir levels were high at the start of 2006, although by the end of the second quarter they were reduced and are now below the median for the last 15 years.

Aggregate power consumption to 30 June totalled 66.3 TWh, an approximately 1.5 per cent increase on the second quarter 2005. Aggregate power generation to 30 June was 67.4 TWh. This gave a net export of approximately 1 TWh.

In the second quarter, Statnett launched a one-year trial scheme with energy options in consumption. The scheme entitles Statnett, against payment, to require participating industry firms to reduce their electricity consumption. Downwardly adjustment of energy consumption among these companies can help resolve any short-term energy problems.

Statnett has also applied to the Norwegian Water Resources and Energy Directorate (NVE) for approval of

a reserve power generation scheme and is working on the possibility of installing reserve generation facilities in order to maintain satisfactory security of supply in the event of a very tight power situation.

### **Investment in the transmission grid**

Operations are currently dominated by Statnett's involvement in a number of substantial investment projects, at both the planning and implementation stage. The need for investment is due in part to a high increase in electricity consumption, particularly in some parts of Norway, but without generation capacity having been increased correspondingly in the areas in question. Statnett will therefore invest in transmission capacity both within and into these areas.

Recently, most of the focus has been on the situation in Central Norway, which Statnett regards as giving great cause for concern.

In the next two years, Statnett will invest in the region of NOK 500 million in facilities designed to stabilise the voltage in the power grid in Central Norway. Central Norway is faced with an increasing shortfall of electricity. To ensure a reliable supply of electricity in an area that is seeing a sharp increase in consumption, Statnett will among other things buy in equipment to keep the voltage within acceptable limits. It has now been decided to install capacitor banks and voltage compensation systems – Static Var Compensation (SVC) – which will help provide voltage support in Central Norway. The capacitor banks will be placed in existing transformer stations in Nordland, Trøndelag and Oppland by the winter of 2007/2008 and the SVC systems in the autumn of 2008.

In April, Statnett notified plans to build a new power line between Roan in Trøndelag and Namsos. The line is necessary to transmit power to consumers from the planned wind power plant on the Fosen peninsula. The line is expected to be finished in 2010.

In June, Statnett applied for a concession to build a power line between Eidfjord and Samnanger in Hordaland. The line is needed to strengthen the electricity supply into the Bergen area. The line is expected to be finished in 2010.

### **Under construction**

#### **NorNed**

The North sea cable between Norway and The Netherlands (NorNed) will be 580 km long and thus the world's longest subsea cable. To date, the project is on budget and on schedule. The laying of the first part of the subsea cable on the seabed was carried out in the second quarter. Statnett's share of the total investment costs will be approximately NOK 2.3 billion. NorNed is expected to be completed by the end of 2007.

#### **Viklandet - Fræna - Nyhamna**

The construction of the new 420 kV power line from Viklandet in Sunndal to Fræna is on schedule and will be completed during 2006. It is estimated to cost almost NOK 600 million. Statnett will also build a new 420 kV power line from Fræna to Nyhamna for Norsk Hydro. This will strengthen security of the electricity supply in outlying areas of the county of Møre og Romsdal and also facilitate the supply of electricity to the new gas treatment facility for Ormen Lange in Aukra.

#### **New vessel**

Statnett is building a new vessel to replace the existing M/S Elektron. The vessel is being built in order to better perform Statnett's preparedness obligation to transport heavy equipment for the electricity industry. The new preparedness vessel will be finished in autumn 2007 and will cost approximately NOK 180 million.

### **FINANCIAL RESULTS**

#### **Operating revenues, Q2**

The Statnett Group recorded total operating revenues amounting to NOK 1 586 million for the second quarter, which is NOK 304 million up on the second quarter of 2005.

Of operating revenues, power transmission accounted for NOK 828 million, which is NOK 49 million higher than the same period the year before. Power transmission revenues consist mainly of the Main Grid's revenues,

which are set by the Norwegian Water Resources and Energy Directorate (NVE).

Statnett operates the entire Main Grid and bills its Main Grid customers through the transmission tariff. Total revenues billed from the Main Grid and shared regional grids amounted to NOK 783 million, which gives lower revenues of NOK 54 million. This has reduced accumulated higher revenue recorded on the balance sheet. The remaining higher revenue will be credited to coming years' tariffs, and is therefore booked as a liability on Statnett's balance sheet. Accumulated higher revenues at the end of the second quarter 2006 amounted to NOK 347 million.

Second-quarter power sales totalled NOK 660 million, an increase of NOK 241 million compared with the same period in 2005. Most power sales consist of power sold by Statnett in connection with the balance settlement. Corresponding sums are booked under operating costs so that the effect on results of the power purchases/power sales in the balance settlement is zero.

Other operating revenues amounted to NOK 89 million for the second quarter, which is NOK 14 million up on the second quarter 2005. The increase is largely made up of revenues earned from the construction of the Fræna-Nyhamna transmission line on behalf of Hydro ASA.

Operating revenues to 30 June 2006 totalled NOK 3 261 million, which is an increase of NOK 710 million compared with the same period in 2005.

#### **Operating costs, Q2**

The Statnett Group recorded operating costs totalling NOK 1 452 million for the second quarter, compared with NOK 1 105 million for the same period in 2005. The rise in costs is largely due to increased costs of transmission losses, amounting to NOK 51 million, and an increase in costs, by NOK 252 million, relating to the purchase of power through the regulating power market. Wage costs increased by NOK 53 million and are due to changed rules for accrual accounting for holiday days.

Operating costs to 30 June 2006 totalled NOK 3 092 million, an increase of NOK 861 million compared with the same period in 2005.

#### **Results, Q2**

The Statnett Group had an operating profit of NOK 134 million for the second quarter compared with NOK 177

million in second-quarter 2005. Net financial costs totalled NOK 48 million for the second quarter, as against NOK 53 million in the second quarter of 2005.

The Statnett Group recorded a net profit after tax of NOK 62 million for the second quarter, down from a net profit of NOK 85 million for the same period in 2005. The Group's net profit to 30 June 2006 is NOK 55 million, compared with NOK 148 million for the same period to 30 June 2005.

The Parent Company, Statnett SF, recorded a net profit after tax of NOK 64 million for the second quarter, compared with a net profit of NOK 89 million for the same period in 2005.

### Investments

Statnett invested a total of NOK 454 million in the second quarter compared with NOK 364 million in second-quarter 2005. NOK 357 million was invested in new power lines and transformer stations. Reinvestment in the existing Main Grid totalled NOK 37 million and other investments NOK 60 million.

To date this year Statnett has invested NOK 697 million, compared with NOK 408 million for the same period to 30 June 2005.

### Cash flow and balance sheet

Operating activities in the Statnett Group to 30 June 2006 produced a cash flow of NOK 455 million. Investments totalling NOK 698 million have been carried out in the Group to date. In total, loans were repaid for NOK 2 000 million, and new loans were raised for NOK 1 935 million. At the close of the second quarter the Group's liquid assets totalled NOK 1 194 million, which is NOK 257 million down on the year before. At 30 June 2006 the Group had total assets amounting to NOK 12 956 million, compared with NOK 12 566 million the year before.

Statnett extended the company's overdraft facility from NOK 1.5 billion to NOK 2.0 billion in the second quarter. The overdraft facility will run until 2012. The increase in the credit facility is part of Statnett's strategy to obtain sufficient financial flexibility to carry out the company's programme of investment in the next few years.

### Transport operations and preparedness

Operating revenues for the subsidiary Statnett Transport AS were NOK 11 million for the second quarter,

compared with NOK 8 million the year before. The company recorded a second-quarter net profit of NOK 2 million, an improvement from the zero result for the second quarter of 2005. The improvement in results is owing to a higher level of activity. The company made a net profit of NOK 2 million for the entire period to 30 June, an improvement on the loss of NOK 1 million for the same period of 2005.

### The Nordic Power Exchange, Nord Pool

The Nord Pool Group contributed a net second-quarter profit of NOK 10 million after tax to Statnett's earnings, including Statnett's share of Nord Pool Spot's earnings. The corresponding figure for the second quarter of 2005 was NOK 4 million.

### WORKING ENVIRONMENT

Sickness absence in the Parent Company was 3.5 per cent in the second quarter, compared with 3.4 per cent the year before. The injury-absentee frequency rate (H value) for Statnett SF was 4 (compared with 0 in 2005), the same as for the Group in total.

### OUTLOOK

The results in 2006 are expected to be slightly weaker than in 2005, primarily as a result of increased operating costs deriving from increased power transmission in the grid.

The Group's activities in the next six months will be dominated by the power situation. Reservoir levels in mid-August 2006 are at 59.4 %, which is 22.8 percentage points lower than the median for the same date. Statnett will follow closely the developments in reservoir levels. Simultaneously, the balance in other countries, belonging to the market we are dependent on, is getting tight. Statnett is continuously preparing measures that can be utilised if the situation requires to.

As of 1 January 2007, Statnett will begin reporting under IFRS (International Financial Reporting Standard).

*Oslo, 31 August 2006*

*The Board of Directors*

## Profit and loss account *Including the main grid commercial agreement*

<b>Statnett Group</b>	<i>Second quarter</i>		<i>To date this year</i>		
(Amounts in NOK millions)	30.06.06	30.06.05	30.06.06	30.06.05	31.12.05
<b>Operating revenues</b>					
Power transmission	828	779	1 622	1 547	3 173
Power sales	660	419	1 432	846	1 756
Other operating revenues	98	84	207	158	315
<b>Total operating revenues</b>	<b>1 586</b>	<b>1 282</b>	<b>3 261</b>	<b>2 551</b>	<b>5 244</b>
<b>Operating costs</b>					
Power purchases	697	445	1 503	915	1 949
System services	69	61	151	136	250
Transmission losses	174	123	418	250	543
Leasing of transmission facilities	87	84	163	161	375
Materials and subcontractors	48	45	101	69	168
Wage costs	105	52	201	147	354
Depreciation of tangible fixed assets	175	173	352	340	706
Write-downs of tangible fixed assets	1	18	1	18	19
Other operating costs	96	104	202	195	414
<b>Total operating costs</b>	<b>1 452</b>	<b>1 105</b>	<b>3 092</b>	<b>2 231</b>	<b>4 778</b>
<b>Operating profit/loss</b>	<b>134</b>	<b>177</b>	<b>169</b>	<b>320</b>	<b>466</b>
Financial income	23	22	44	39	80
Financial costs	71	75	138	146	311
<b>Net financial items</b>	<b>48</b>	<b>53</b>	<b>94</b>	<b>107</b>	<b>231</b>
<b>Profit/loss before tax</b>	<b>86</b>	<b>124</b>	<b>75</b>	<b>213</b>	<b>235</b>
Tax	24	39	20	65	61
<b>Net profit/loss for the period</b>	<b>62</b>	<b>85</b>	<b>55</b>	<b>148</b>	<b>174</b>

## Profit and loss account Including the main grid commercial agreement

<b>Statnett SF</b>	<u>Second quarter</u>		<u>To date this year</u>		
(Amounts in NOK millions)	30.06.06	30.06.05	30.06.06	30.06.05	31.12.05
<b>Operating revenues</b>					
<i>Power transmission</i>	828	779	1 622	1 547	3 173
<i>Power sales</i>	660	419	1 432	846	1 756
<i>Other operating revenues</i>	53	47	116	77	167
<b>Total operating revenues</b>	<b>1 541</b>	<b>1 245</b>	<b>3 170</b>	<b>2 470</b>	<b>5 096</b>
<b>Operating costs</b>					
<i>Power purchases</i>	697	445	1 503	915	1 949
<i>System services</i>	69	61	151	136	250
<i>Transmission losses</i>	174	123	418	250	543
<i>Leasing of transmission facilities</i>	87	84	163	161	375
<i>Materials and subcontractors</i>	48	45	101	69	168
<i>Wage costs</i>	91	42	176	125	307
<i>Depreciation of tangible fixed assets</i>	174	172	348	336	698
<i>Write-downs of tangible fixed assets</i>	1	18	1	18	19
<i>Other operating costs</i>	82	89	163	167	363
<b>Total operating costs</b>	<b>1 423</b>	<b>1 079</b>	<b>3 024</b>	<b>2 177</b>	<b>4 672</b>
<b>Operating profit/loss</b>	<b>118</b>	<b>166</b>	<b>146</b>	<b>293</b>	<b>424</b>
<i>Financial income</i>	31	31	39	41	66
<i>Financial costs</i>	66	73	132	144	311
<b>Net financial items</b>	<b>35</b>	<b>42</b>	<b>93</b>	<b>103</b>	<b>245</b>
<b>Profit/loss before tax</b>	<b>83</b>	<b>124</b>	<b>53</b>	<b>190</b>	<b>179</b>
<i>Tax</i>	19	35	11	55	48
<b>Net profit/loss for the period</b>	<b>64</b>	<b>89</b>	<b>42</b>	<b>135</b>	<b>131</b>

## Balance sheet Including The Main Grid Commercial Agreement

Parent company				Group		
31-12-05	30-06-05	30-06-06	(Amounts in NOK millions)	30-06-06	30-06-05	31-12-05
<b>Assets</b>						
<b>Intangible assets</b>						
-	-	-	Computerised trading systems	9	12	10
104	112	97	Deferred tax assets	65	80	73
<b>104</b>	<b>112</b>	<b>97</b>	<b>Total intangible assets</b>	<b>74</b>	<b>92</b>	<b>83</b>
<b>Tangible fixed assets</b>						
9 518	9 389	9 239	Tangible fixed assets	9 247	9 400	9 528
792	846	1 408	Plant under construction	1 408	846	792
<b>10 310</b>	<b>10 235</b>	<b>10 647</b>	<b>Total tangible fixed assets</b>	<b>10 655</b>	<b>10 246</b>	<b>10 320</b>
<b>Financial fixed assets</b>						
148	151	148	Investment in group companies	-	-	-
16	16	16	Investment in other shares and holdings	69	67	70
50	50	50	Loans to companies in the same group	-	-	-
42	65	62	Pension assets	62	65	42
<b>256</b>	<b>282</b>	<b>276</b>	<b>Total financial fixed assets</b>	<b>131</b>	<b>132</b>	<b>112</b>
<b>Current assets</b>						
292	250	314	Trade accounts receivable	326	256	299
11	19	23	Intercompany accounts receivable	-	-	-
29	18	18	Other short-term receivables	37	37	43
504	333	539	Pre-payments to contractors	539	333	504
9	19	-	Short-term lending	-	19	9
762	759	443	Investment in market-based securities	664	955	966
200	192	202	Liquid assets	530	496	509
<b>1 807</b>	<b>1 590</b>	<b>1 539</b>	<b>Total current assets</b>	<b>2 096</b>	<b>2 096</b>	<b>2 330</b>
<b>12 477</b>	<b>12 219</b>	<b>12 559</b>	<b>Total assets</b>	<b>12 956</b>	<b>12 566</b>	<b>12 845</b>

Parent company						Group
31.12.05	30.06.05	30.06.06	(Amounts in NOK millions)	30.06.06	30.06.05	31.12.05
<b>Equity and liabilities</b>						
<b>Equity</b>						
2 700	2 700	2 700	Contributed capital	2 700	2 700	2 700
1 760	1 852	1 802	Other equity	2 122	2 129	2 067
<b>4 460</b>	<b>4 552</b>	<b>4 502</b>	<b>Total equity</b>	<b>4 822</b>	<b>4 829</b>	<b>4 767</b>
<b>Provisions for liabilities</b>						
94	100	92	Pension liabilities	99	105	102
-	-	-	Provision, Nat. Fund for Disaster Assistance	20	19	20
-	-	-	Provision for periodic maintenance	2	1	1
<b>94</b>	<b>100</b>	<b>92</b>	<b>Total provisions for liabilities</b>	<b>121</b>	<b>125</b>	<b>123</b>
<b>Long-term liabilities</b>						
4 565	3 565	5 165	Bond loans	5 165	3 565	4 565
-	400	-	Government loans	-	400	-
-	187	-	Loans from financial institutions	-	187	-
29	31	29	Other long-term liabilities	29	31	29
<b>4 594</b>	<b>4 183</b>	<b>5 194</b>	<b>Total long-term liabilities</b>	<b>5 194</b>	<b>4 183</b>	<b>4 594</b>
<b>Current liabilities</b>						
2 400	2 363	1 735	Short-term interest-bearing debt	1 735	2 363	2 400
556	411	712	Trade accounts payable	720	418	559
2	-	1	Group liabilities	-	-	-
39	71	13	Tax payable	25	84	49
81	75	69	Tax payable, deductions and holiday pay	72	77	84
87	370	87	Provisions for dividends	87	370	87
164	94	154	Other current liabilities	180	117	182
<b>3 329</b>	<b>3 384</b>	<b>2 771</b>	<b>Total current liabilities</b>	<b>2 819</b>	<b>3 429</b>	<b>3 361</b>
<b>12 477</b>	<b>12 219</b>	<b>12 559</b>	<b>Total equity and liabilities</b>	<b>12 956</b>	<b>12 566</b>	<b>12 845</b>

## Cash flow statement

<b>Parent company</b>				<b>Group</b>		
31.12.05	30.06.05	30.06.06	(Amounts in NOK millions)	30.06.06	30.06.05	31.12.05
<b>Cash flows from operating activities</b>						
179	190	53	Profit/loss before tax	75	213	235
-4	-	-4	Loss/ gain(-) on sale of fixed assets	-4	-	-6
717	354	349	Ordinary depreciation and write-downs	353	358	725
Change in trade accounts						
169	66	134	receivable/ trade accts payable	134	63	161
-664	-572	-114	Change in other accruals	-103	-552	-662
<b>397</b>	<b>38</b>	<b>418</b>	<b>Net cash flow from operating activities</b>	<b>455</b>	<b>82</b>	<b>453</b>
<b>Cash flow from investing activities</b>						
10	1	18	Receipts from sale of tangible fixed assets	18	2	13
Payments on purchase of tangible fixed						
-711	-211	-80	assets and intangible assets	-81	-217	-718
-144	-197	-617	Change in stocks, plant under construction	-617	-197	-144
-9	-19	9	Change in short-term loans receivable	9	-19	-9
<b>-854</b>	<b>-426</b>	<b>-670</b>	<b>Net cash flow from investing activities</b>	<b>-671</b>	<b>-431</b>	<b>-858</b>
<b>Cash flows from financing activities</b>						
2 201	500	1 935	Receipts on new long-term borrowing	1 935	500	2 201
-1 367	-116	-2 000	Repayments of long-term debt	-2 000	-116	-1 367
-370	-	-	Dividends paid	-	-	-370
<b>464</b>	<b>384</b>	<b>-65</b>	<b>Net cash flows from financing activities</b>	<b>-65</b>	<b>384</b>	<b>464</b>
<b>7</b>	<b>-4</b>	<b>-317</b>	<b>Net cash flow for the period</b>	<b>-281</b>	<b>35</b>	<b>59</b>
Cash and cash equivalents						
955	955	962	at start of period	1 475	1 416	1 416
Cash and cash equivalents						
962	951	645	at close of period	1 194	1 451	1 475

Restricted tax deductions payable amounting to NOK 33 million for the Parent Company and NOK 35 million for the Group are included in cash and cash equivalents at 30 June 2006. Unutilised overdraft facilities totalling NOK 2,000 million are not included in cash and cash equivalents above.





**Statnett SF** Husebybakken 28 B, Oslo. PO Box 5192 Majorstuen, NO-0302 Oslo, Norway  
Tel: +47 22 52 70 00 Fax: +47 22 52 70 01 E-mail: [firmapost@statnett.no](mailto:firmapost@statnett.no) [www.statnett.no](http://www.statnett.no)