# STATKRAFT SF
# INTERIM REPORT
# Q3/06

Statkraft

# STATKRAFT SF GROUP
# THIRD QUARTER 2006

## *Summary*

Statkraft posted strong results for the first nine months of the year combined. The financial results of its operating activities were also strong in the third quarter alone, with operating profits up by NOK 723 million (58 per cent) on the third quarter last year. However, weaker results from associated companies and an increase in net financial expenses resulted in a profit before tax for the quarter of NOK 1.2 billion, marginally below that achieved in 2005. Furthermore, taxes were higher, such that net profit for the quarter was NOK 0.4 billion, a drop of NOK 0.6 billion. The increase in taxes may be ascribed primarily to a rise in resource rent tax as a result of higher spot prices.

For the first nine months of the year combined, profit before tax totalled NOK 7.4 billion, while net profit totalled NOK 4.6 billion, an improvement of NOK 2.0 billion and NOK 0.7 billion respectively compared with last year. Net profit rose by 18 per cent.

Both output and prices were high in the third quarter, as they had been in the first half of the year. The high prices were largely due to a poor hydrological balance, with low reservoir water levels, and a substantial cut in Swedish nuclear power output. Consumption in the third quarter was lower than normal as a result of the good weather.

The average spot price during the first nine months of the year was NOK 399/MWh, which is 75 per cent higher than in the same period in 2005. This can largely be ascribed to higher consumption in the Nordic region, as well as lower than normal snow reserves and precipitation. Statkraft's output so far this year totals 36.3 TWh, an increase of 6 per cent compared with last year. The rise in spot prices and output is reflected in revenues from net physical spot sales, which rose by 118 per cent in the third quarter and by 81 per cent in the year to date. The increased spot sale revenues are, however, offset by a substantial reduction in earnings from hedging activities.

At the start of November it became clear that the Svartisen power plant would be out of operation for four to five months. The power plant has an installed capacity of 350 MW, and a mean annual output of 2.2 TWh.

In the government's proposed national budget for 2007, which was announced in October, Statkraft's dividend for 2006 was set at 98 per cent of the Group's profit for the year after tax and minority interests. The high dividend rate could lead to an income correction, which in turn could lead to the imposition of a tax correction.

Construction of two gas-fired power plants in Germany and one in Norway is going according to plan. Kjøllefjord Wind Farm was opened in October. Construction of the Heimdal district heating plant in Trondheim and the Leirfossene power plant in Nidelva are also underway. Licence applications for additional wind and hydropower plants in Norway are currently being evaluated by the authorities.

Naturkraft, which is jointly owned by Statkraft and Norsk Hydro, is currently building a gas-fired power plant in Kårstø, Western Norway, with an expected start-up date in the autumn of 2007. The Norwegian national budget proposal includes a grant of NOK 720 million for further work on a carbon capture facility at Kårstø, the enabling of $CO_2$ value chains and necessary clarifications with respect to government involvement in this area. An estimated NOK 680 million of this proposed sum is linked to the realisation of the carbon capture facility. Naturkraft already has all the necessary licences for the construction of the power plant.

To achieve a closer level of coordination between Trondheim Energiverk (TEV) and Statkraft, and to realise economies of scale within the Group, it has been decided that energy optimisation and hedging trading associated with TEV's hydropower portfolio shall be undertaken by Statkraft's Generation & Markets business unit. TEV shall remain as a regional company and shall continue to own, operate and maintain its generating facilities. Furthermore, a coordination of administrative functions is also being implemented. This coordination of effort is not expected to lead to any loss of jobs.

## *Statkraft SF's business*

Statkraft SF's object is to own all the shares in Statkraft AS and provide that company with loans. In addition, Statkraft SF owns certain assets which may not formally be transferred to Statkraft AS. This applies to power plants which have reverted to state ownership and which have been leased out to third parties, and plants which will become the property of Statkraft SF upon their reversion to state ownership. It also applies to certain international investments (Asian Power Invest AB and Nordic Hydropower AB).

Statkraft SF's consolidated financial statements will, with the exception of the retained assets, be identical to the consolidated financial statements for its subsidiary the Statkraft AS Group.

The closing balance for the third quarter 2006 showed that the total assets of the Statkraft SF Group were worth NOK 732 million more than those of the Statkraft AS Group. Around NOK 600 million of this sum corresponds to the book value of the power plants that have been leased to third parties and the above-mentioned international investments, while the remainder is made up of current items, cash and cash equivalents.

The Statkraft SF Group had NOK 3 billion more in long-term interest-bearing debt than the Statkraft AS Group, since Statkraft SF has borrowed NOK 3 billion from an established line of credit in order to finance the payment of dividend for the 2004 financial year. Interest-bearing debt totalled NOK 33.4 billion at the end of the third quarter, compared with NOK 35.2 billion at the same point last year and NOK 34.6 billion at the start of the year. The interest-bearing debt ratio was 43.6 per cent, compared with 46.3 and 47.7 per cent respectively. Current assets excluding cash and cash equivalents totalled NOK 4.6 billion, while short-term interest-free liabilities totalled NOK 8.1 billion.

In the Income Statement, the difference between Statkraft SF and Statkraft AS is largely composed of revenues and expenses linked to the ongoing operation of the retained assets. These differences, which are presented in the following table, are relatively modest.

## Income Statement — Year to date 2006

| Amounts in NOK million | Statkraft SF Group | Statkraft AS Group | Difference |
|---|---|---|---|
| Power revenues | **9 995** | 9 953 | 42 |
| Other operating revenues | **2 242** | 2 128 | 114 |
| **Gross operating revenues** | **12 237** | 12 080 | 156 |
| Transmission costs | **-693** | -693 | - |
| **Net operating revenues** | **11 543** | 11 387 | 156 |
| Salaries and other payroll costs | **908** | 906 | 2 |
| Compensation and licence fees | **243** | 238 | 5 |
| Other operating expenses | **1 133** | 1 068 | 65 |
| Ordinary depreciation | **1 133** | 1 115 | 17 |
| Property tax | **456** | 449 | 6 |
| **Operating expenses** | **3 872** | 3 776 | 96 |
| **Operating profit** | **7 671** | 7 611 | 61 |
| **Share of profits from associates** | **1 187** | 1 157 | 30 |
| Financial income | **171** | 177 | -6 |
| Financial expenses | **-1 646** | -1 566 | -80 |
| **Net financial items** | **-1 475** | -1 389 | -86 |
| **Profit before tax** | **7 384** | 7 380 | 5 |
| Taxes | **-2 772** | -2 805 | 33 |
| **Net profit** | **4 612** | 4 575 | 37 |
| Of which minority interest | **211** | 204 | 7 |
| Of which majority interest | **4 401** | 4 372 | 29 |

Further details regarding Statkraft's operations and financial results for the first nine months of the year are presented in the enclosed quarterly report for the Statkraft AS Group.

Oslo, 8 November 2006
The Board of Directors of
Statkraft SF

# STATKRAFT SF GROUP

## INCOME STATEMENT

| Figures in NOK million | Third quarter 2006 | Third quarter 2005 | Year to date 2006 | Year to date 2005 | The year 2005 |
|---|---|---|---|---|---|
| Power sales revenues | **2 749** | 2 104 | **9 995** | 7 961 | 11 571 |
| Other operating revenues | **625** | 522 | **2 242** | 1 929 | 3 770 |
| **Gross operating revenues** | **3 374** | 2 627 | **12 237** | 9 890 | 15 341 |
| Transmission costs | **-126** | -121 | **-693** | -495 | -746 |
| **Net operating revenues** | **3 248** | 2 506 | **11 543** | 9 394 | 14 595 |
| Salaries and payroll costs | **317** | 314 | **908** | 930 | 1 352 |
| Compensation and licence fees | **78** | 86 | **243** | 246 | 350 |
| Other operating expenses | **360** | 374 | **1 133** | 1 188 | 1 955 |
| Ordinary depreciation and write-downs | **380** | 368 | **1 133** | 1 100 | 1 909 |
| Property tax | **153** | 126 | **456** | 373 | 502 |
| **Operating expenses** | **1 288** | 1 268 | **3 872** | 3 837 | 6 067 |
| **Operating profit** | **1 960** | 1 237 | **7 671** | 5 557 | 8 528 |
| **Share of profits from associated companies** | **-3** | 204 | **1 187** | 968 | 1 605 |
| Financial income | **-3** | 337 | **171** | 1 045 | 845 |
| Financial expenses | **-728** | -446 | **-1 646** | -2 137 | -2 395 |
| **Net financial items** | **-731** | -109 | **-1 475** | -1 092 | -1 550 |
| **Profit before tax** | **1 226** | 1 333 | **7 384** | 5 432 | 8 582 |
| Taxes | **-836** | -333 | **-2 772** | -1 512 | -2 553 |
| **Net profit** | **390** | 1 000 | **4 612** | 3 921 | 6 030 |
| Of which minority interest | **45** | 20 | **211** | 110 | 176 |
| Of which majority interest | **345** | 980 | **4 401** | 3 811 | 5 853 |

## BALANCE SHEET

| Figures in NOK million | 30.09.06 | 30.09.05 | 31.12.05 |
|---|---|---|---|
| **ASSETS** | | | |
| Intangible assets | **6 718** | 3 464 | 6 270 |
| Property, plant and equipment | **50 023** | 46 844 | 47 978 |
| Investments in subsidiaries and associates | **30 633** | 28 021 | 29 047 |
| Other financial fixed assets | **578** | 856 | 657 |
| **Fixed assets** | **87 951** | 79 185 | 83 953 |
| Inventories | **53** | 46 | 50 |
| Receivables | **4 163** | 4 540 | 3 436 |
| Short-term financial investments | **370** | 344 | 335 |
| Cash and cash equivalents | **3 117** | 5 844 | 4 619 |
| **Current assets** | **7 703** | 10 774 | 8 441 |
| **Assets** | **95 654** | 89 960 | 92 394 |
| **EQUITY AND LIABILITIES** | | | |
| Paid-in capital | **29 250** | 29 250 | 29 250 |
| Retained earnings | **10 113** | 7 610 | 4 811 |
| Minority interests | **3 880** | 3 937 | 3 953 |
| **Equity** | **43 243** | 40 797 | 38 014 |
| Provisions | **10 938** | 9 205 | 10 320 |
| Subordinated loans | **-** | 52 | 54 |
| Interest-bearing long-term liabilities | **31 647** | 32 633 | 32 409 |
| **Long-term liabilities** | **42 585** | 41 891 | 42 782 |
| Interest-bearing current liabilities | **1 758** | 2 591 | 2 240 |
| Taxes payable | **4 377** | 2 239 | 2 237 |
| Other non-interest-bearing liabilities | **3 691** | 2 442 | 7 119 |
| **Current liabilities** | **9 826** | 7 273 | 11 596 |
| **Equity and liabilities** | **95 654** | 89 960 | 92 394 |

## CHANGES IN EQUITY

| Figures in NOK million | 30.09.06 | 30.09.05 | 31.12.05 |
|---|---|---|---|
| **Paid-in capital 30.09/31.12** | **29 250** | 29 250 | 29 250 |
| Retained earnings 01.01 | **4 811** | 3 623 | 3 623 |
| Net profit for the period | **4 400** | 3 811 | 5 853 |
| Implementation of new accounting principles | **369** | - | - |
| Dividend | **-** | - | -4 720 |
| Change due to acquisitions | **-6** | 123 | 123 |
| Change in translation differences | **539** | 53 | -68 |
| **Retained earnings 30.09/31.12** | **10 113** | 7 610 | 4 811 |
| Minority interests 01.01 | **3 953** | 3 966 | 3 966 |
| Net profit for the period | **211** | 110 | 176 |
| Implementation of new accounting principles | **-16** | - | - |
| Capital reduction | **-72** | - | - |
| Dividend | **-** | - | -101 |
| Exit minority interests | **-210** | - | - |
| Change due to acquisitions | **13** | -114 | -124 |
| Change in translation differences | **1** | -25 | 36 |
| **Minority interests 30.09/31.12** | **3 880** | 3 937 | 3 953 |
| **Equity 30.09/31.12** | **43 242** | 40 797 | 38 014 |

## CASH FLOW STATEMENT

| | Year to date | | The year |
|---|---|---|---|
| Figures in NOK million | 2006 | 2005 | 2005 |
| **CASH FLOW FROM OPERATING ACTIVITIES** | | | |
| Profit before tax | **7 384** | 5 432 | 8 582 |
| Gain/ loss on sales of fixed assets | **-2** | -280 | -276 |
| Ordinary depreciation and write-downs | **1 133** | 1 100 | 1 909 |
| Share of profits from associated companies | **-1 187** | -968 | -1 605 |
| Taxes | **-816** | -698 | -908 |
| **Cash flow from operating activites** | **6 512** | 4 586 | 7 702 |
| Changes in long-term items | **358** | 1 978 | 1 933 |
| Changes in current items | **-386** | 285 | 1 345 |
| Dividend from associates | **1 107** | 988 | 971 |
| **Net cash flow from operating activities** | **7 591** | 7 837 | 11 952 |
| **CASH FLOW FROM INVESTING ACTIVITIES** | | | |
| Investments in property, plant and equipment | **-2 675** | -1 681 | -2 238 |
| Proceeds from sales of fixed assets | **53** | 10 | 39 |
| Loans to third parties | **-** | -63 | -42 |
| Repayment of loans to third parties | **-10** | 98 | 98 |
| Investments in other companies | **-598** | -203 | -4 511 |
| Proceeds from the sale of other companies | **-** | 2 005 | 2 029 |
| **Net cash flow from investing activities** | **-3 230** | 166 | -4 625 |
| **CASH FLOW FROM FINANCING ACTIVITIES** | | | |
| New long-term debt | **515** | 3 981 | 3 992 |
| Repayment of long-term debt | **-1 583** | -8 932 | -9 483 |
| Capital reduction | **-72** | - | - |
| Dividend paid | **-4 720** | -3 474 | -3 474 |
| **Net cash flow from financing activities** | **-5 860** | -8 425 | -8 965 |
| **Net change in cash and cash equivalents** | **-1 499** | -422 | -1 638 |
| Currency effect on cash flows | **-3** | -17 | -27 |
| Cash and cash equivalents 01.01 | **4 619** | 6 283 | 6 283 |
| Cash and cash equivalents 30.09/ 31.12 | **3 117** | 5 844 | 4 619 |

## SEGMENTS

| Figures in NOK million | Statkraft SF Group | Generation & Hedging | Trading and Origination | Distribution grid | Retail sales | District heating | Development | Other | Group functions and eliminations |
|---|---|---|---|---|---|---|---|---|---|
| **Third quarter 2006** | | | | | | | | | |
| Gross operating revenues | 3 374 | 2 892 | 141 | 420 | 152 | 34 | 5 | 69 | -340 |
| Ordinary depreciation and write-downs | 380 | 253 | 2 | 98 | 4 | 8 | 0 | 0 | 14 |
| Other operating expenses | 1 034 | 836 | 78 | 139 | 152 | 28 | 36 | 70 | -305 |
| Operating profit | 1 960 | 1 803 | 62 | 183 | -3 | -2 | -31 | -1 | -49 |
| Share of profits from associated companies | -3 | 112 | 12 | 23 | -8 | -2 | 0 | -100 | -50 |
| Profit before financial items and tax | 1 957 | 1 915 | 74 | 206 | -11 | -4 | -31 | -101 | -99 |
| **Year to date 2006** | | | | | | | | | |
| Gross operating revenues | 12 237 | 10 596 | 407 | 1 242 | 543 | 189 | 22 | 235 | -1 000 |
| Ordinary depreciation and write-downs | 1 133 | 754 | 4 | 290 | 11 | 24 | 1 | 6 | 43 |
| Other operating expenses | 3 433 | 2 610 | 259 | 540 | 535 | 128 | 109 | 184 | -933 |
| Operating profit | 7 671 | 7 232 | 144 | 412 | -3 | 37 | -87 | 45 | -110 |
| Share of profits from associated companies | 1 187 | 355 | 19 | 90 | -8 | 0 | 0 | 830 | -87 |
| Profit before financial items and tax | 8 859 | 7 587 | 163 | 502 | -11 | 37 | -88 | 876 | -198 |
| **Balance sheet 30.09.06** | | | | | | | | | |
| Investment in associated companies | 30 633 | 9 683 | 26 | 1 937 | 329 | 55 | 4 | 18 205 | 393 |
| Other assets | 65 020 | 55 957 | 872 | 6 153 | 319 | 1 055 | 519 | 501 | -355 |
| Total assets | 95 654 | 65 639 | 898 | 8 091 | 648 | 1 111 | 524 | 18 705 | 39 |
| Current liabilities | 9 826 | 9 671 | -567 | 573 | 90 | 52 | 408 | 179 | -580 |
| Non-interest-bearing long-term liabilities | 10 938 | 9 559 | - | 653 | 44 | 67 | 12 | 65 | 537 |
| Interest-bearing long-term liabilities | 31 647 | - | - | - | - | - | - | - | 31 647 |
| Total liabilities | 52 410 | 19 230 | -567 | 1 226 | 134 | 119 | 420 | 245 | 31 604 |
| Maintenance investments | 492 | 401 | - | 50 | - | - | - | 41 | - |
| Investments in new capacity | 2 184 | 1 899 | - | 71 | - | 214 | - | - | - |
| Investments in shareholdings | 598 | 575 | - | - | - | - | - | 23 | - |
| **Third quarter 2005** | | | | | | | | | |
| Gross operating revenues | 2 627 | 2 180 | 130 | 346 | 86 | 34 | 11 | 51 | -210 |
| Ordinary depreciation and write-downs | 368 | 237 | 2 | 97 | 4 | 8 | 0 | 0 | 19 |
| Other operating expenses | 1 021 | 699 | 120 | 149 | 87 | 21 | 71 | 47 | -172 |
| Operating profit | 1 237 | 1 244 | 7 | 100 | -5 | 5 | -60 | 4 | -57 |
| Share of profits from associated companies | 204 | 38 | 1 | -17 | 4 | -3 | 12 | 185 | -16 |
| Profit before financial items and tax | 1 442 | 1 282 | 9 | 83 | -2 | 2 | -47 | 189 | -73 |
| **Year to date 2005** | | | | | | | | | |
| Gross operating revenues | 9 890 | 8 303 | 433 | 1 130 | 357 | 157 | 14 | 155 | -659 |
| Ordinary depreciation and write-downs | 1 100 | 709 | 6 | 293 | 11 | 25 | 0 | 0 | 56 |
| Other operating expenses | 3 232 | 2 143 | 336 | 548 | 357 | 94 | 120 | 148 | -515 |
| Operating profit | 5 557 | 5 451 | 90 | 289 | -11 | 38 | -106 | 7 | -199 |
| Share of profits from associated companies | 968 | 272 | 1 | 15 | -14 | -4 | 0 | 753 | -56 |
| Profit before financial items and tax | 6 525 | 5 723 | 92 | 303 | -25 | 34 | -106 | 760 | -256 |
| **Balance sheet 30.09.05** | | | | | | | | | |
| Investment in associated companies | 28 022 | 8 844 | 26 | 1 897 | 341 | 60 | 192 | 16 448 | 214 |
| Other assets | 61 938 | 51 021 | 659 | 6 263 | 224 | 515 | 1 632 | 3 388 | -1 764 |
| Total assets | 89 960 | 59 865 | 685 | 8 160 | 564 | 575 | 1 825 | 19 835 | -1 550 |
| Current liabilities | 7 273 | 8 599 | 678 | 508 | 40 | 21 | 190 | 1 425 | -4 188 |
| Non-interest-bearing long-term liabilities | 9 205 | 8 183 | 13 | 650 | 28 | 62 | 1 | 35 | 233 |
| Interest-bearing long-term liabilities | 32 688 | - | - | - | - | - | - | - | 32 688 |
| Total liabilities | 49 166 | 16 782 | 691 | 1 159 | 68 | 83 | 190 | 1 459 | 28 734 |
| Maintenance investments | 390 | 238 | - | 101 | - | 26 | - | 25 | - |
| Investments in new capacity | 1 291 | 1 081 | - | 84 | - | 126 | - | - | - |
| Investments in shareholdings | 203 | 185 | - | - | - | - | 18 | - | - |
| **The year 2005** | | | | | | | | | |
| Gross operating revenues | 15 341 | 13 520 | 579 | 1 634 | 536 | 235 | 25 | 218 | -1 405 |
| Ordinary depreciation and write-downs | 1 909 | 1 339 | 8 | 377 | 15 | 33 | 32 | 1 | 105 |
| Other operating expenses | 4 905 | 3 856 | 436 | 774 | 531 | 140 | 131 | 204 | -1 168 |
| Operating profit | 8 528 | 8 325 | 135 | 482 | -10 | 62 | -138 | 13 | -341 |
| Share of profit from associated companies | 1 605 | 426 | 3 | 30 | -1 | -6 | - | 1 181 | -28 |
| Profit before financial items and tax | 10 133 | 8 752 | 138 | 512 | -11 | 56 | -138 | 1 194 | -369 |
| **Balance sheet 31.12.05** | | | | | | | | | |
| Investment in associated companies | 29 047 | 9 378 | 7 | 1 914 | 347 | 57 | 5 | 16 977 | 361 |
| Other assets | 63 347 | 60 290 | 703 | 5 985 | 303 | 1 052 | 1 627 | 1 063 | -7 677 |
| Total assets | 92 394 | 69 668 | 710 | 7 900 | 650 | 1 110 | 1 632 | 18 040 | -7 315 |
| Current liabilities | 11 596 | 11 007 | 1 185 | 621 | 79 | 83 | 178 | 917 | -2 472 |
| Non-interest-bearing long-term liabilities | 10 320 | 9 435 | 4 | 639 | 45 | 60 | 9 | 45 | 83 |
| Interest-bearing long-term liabilities | 32 463 | - | - | - | - | - | - | - | 32 463 |
| Total liabilities | 54 379 | 20 442 | 1 188 | 1 260 | 124 | 143 | 186 | 963 | 30 074 |
| Maintenance investments | 471 | 254 | - | 132 | - | 2 | - | 40 | 43 |
| Investments in new capacity | 1 767 | 1 388 | - | 147 | - | 232 | - | - | - |
| Investments in shareholdings | 4 511 | 4 501 | - | - | - | - | - | 10 | - |

# COMPANY ACCOUNTS, STATKRAFT SF

## INCOME STATEMENT

| Figures in NOK million | Third quarter 2006 | Third quarter 2005 | Year to date 2006 | Year to date 2005 | The year 2005 |
|---|---|---|---|---|---|
| **Net operating revenues** | **38** | 33 | **113** | 106 | 142 |
| Salaries and payroll costs | **-** | - | **-** | - | 4 |
| Compensation and licence fees | **2** | 2 | **5** | 5 | 8 |
| Other operating expenses | **23** | 21 | **67** | 64 | 75 |
| Ordinary depreciation and write-downs | **4** | 4 | **12** | 11 | 14 |
| Property tax | **2** | 2 | **6** | 6 | 9 |
| **Operating expenses** | **31** | 28 | **91** | 87 | 110 |
| **Operating profit** | **6** | 4 | **22** | 20 | 32 |
| Financial income | **292** | 357 | **1 018** | 1 427 | 6 538 |
| Financial expenses | **-320** | -350 | **-963** | -1 393 | -1 711 |
| **Net financial items** | **-28** | 6 | **55** | 34 | 4 827 |
| **Profit before tax** | **-22** | 11 | **77** | 54 | 4 859 |
| Taxes | **16** | 80 | **33** | 297 | -199 |
| **Net profit for the period** | **-6** | 90 | **109** | 351 | 4 660 |

## BALANCE SHEET

| Figures in NOK million | 30.09.06 | 30.09.05 | 31.12.05 |
|---|---|---|---|
| **ASSETS** | | | |
| Intangible assets | **391** | 431 | 391 |
| Property, plant and equipment | **420** | 417 | 414 |
| Investments in subsidiaries and associates | **32 046** | 32 177 | 32 165 |
| Other financial fixed assets | **18 328** | 19 383 | 19 225 |
| **Fixed assets** | **51 184** | 52 409 | 52 195 |
| Receivables | **657** | 711 | 5 215 |
| Cash and cash equivalents | **124** | 122 | 119 |
| **Current assets** | **781** | 833 | 5 334 |
| **Assets** | **51 965** | 53 242 | 57 529 |
| **EQUITY AND LIABILITIES** | | | |
| Paid-in capital | **29 250** | 29 250 | 29 250 |
| Retained earnings | **329** | 627 | 217 |
| **Equity** | **29 579** | 29 877 | 29 467 |
| Provisions | **95** | - | 121 |
| Interest-bearing long-term liabilities | **21 531** | 22 087 | 22 678 |
| **Long-term liabilities** | **21 626** | 22 087 | 22 799 |
| **Current liabilities** | **760** | 1 278 | 5 264 |
| **Equity and liabilities** | **51 965** | 53 242 | 57 529 |

## CASH FLOW STATEMENT

| Figures in NOK million | Year to date 2006 | Year to date 2005 | The year 2005 |
|---|---|---|---|
| Net cash flow from operating activities | **4 976** | -334 | -337 |
| Net cash flow from investing activities | **1 135** | 8 616 | -9 |
| Net cash flow from financing activities | **-6 106** | -9 027 | -402 |
| **Net change in cash and cash equivalents** | **5** | -745 | -748 |
| Cash and cash equivalents 01.01 | **119** | 867 | 867 |
| Cash and cash equivalents 30.9/ 31.12 | **124** | 122 | 119 |

## CHANGES IN EQUITY

| Figures in NOK million | 30.09.06 | 30.09.05 | 31.12.05 |
|---|---|---|---|
| **Equity 01.01** | **29 467** | 29 526 | 29 526 |
| Implementation of accounting principles | **3** | - | - |
| Net profit for the period | **109** | 351 | 4 661 |
| Dividend | **-** | - | -4 720 |
| **Equity 30.9/31.12** | **29 579** | 29 877 | 29 467 |

# STATKRAFT AS GROUP
# THIRD QUARTER 2006

## Summary

Statkraft posted strong results for the first nine months of the year combined. The financial results of its operating activities were also strong in the third quarter alone, with operating profits up by NOK 747 million on the third quarter last year. This represents an improvement of 62 per cent. However, weaker results from associated companies and an increase in net financial expenses resulted in a profit before tax for the quarter of NOK 1.2 billion, marginally below that achieved in 2005. Furthermore, taxes were higher, such that profit after tax for the quarter was NOK 0.4 billion, a drop of NOK 0.5 billion. The increase in taxes may be ascribed primarily to a rise in resource rent tax as a result of higher spot prices.

For the first nine months of the year combined, profit before tax totalled NOK 7.4 billion, while profit after tax totalled NOK 4.6 billion, an improvement of NOK 2.0 billion and NOK 1.0 billion respectively compared with last year. Profit after tax rose by 29 per cent.

Both output and prices were high in the third quarter, as they had been in the first half of the year. The high prices were largely due to a poor hydrological balance, with low reservoir water levels, and a substantial cut in Swedish nuclear power output. Consumption in the third quarter was lower than normal as a result of the warm weather.

The average spot price during the first nine months of the year was NOK 399/MWh, which is 75 per cent higher than in the same period in 2005. This can largely be ascribed to higher consumption in the Nordic region, as well as lower than normal snow reserves and precipitation. Statkraft's output so far this year totals 36.3 TWh, an increase of 6 per cent compared with last year. The rise in spot prices and output is reflected in revenues from net physical spot sales, which rose by 118 per cent in the third quarter and by 81 per cent in the year to date. The increased spot sale revenues are, however, offset by a substantial reduction in earnings from hedging activities.

At the start of November it became clear that the Svartisen power plant would be out of operation for four to five months. The power plant has an installed capacity of 350 MW, and a mean annual output of 2.2 TWh.

In the government's proposed national budget for 2007, which was announced in October, Statkraft's dividend for 2006 was set at 98 per cent of the Group's profit for the year after tax and minority interests. The high dividend rate could lead to an income correction, which could, in turn, lead to the imposition of a tax correction.

Construction of two gas-fired power plants in Germany and one in Norway is going according to plan. Kjøllefjord Wind Farm was opened in October. Construction of the Heimdal district heating plant in Trondheim and the Leirfossene power plant in Nidelva are also underway. Licence applications for additional wind and hydropower plants in Norway are currently being evaluated by the authorities.

Naturkraft, which is jointly owned by Statkraft and Norsk Hydro, is currently building a gas-fired power plant in Kårstø, western Norway, with an expected start-up date in the autumn of 2007. The Norwegian national budget proposal includes a grant of NOK 720 million for further work on a carbon capture facility at Kårstø, the enabling of $CO_2$ value chains and necessary clarifications with respect to government involvement in this area. An estimated NOK 680 million of the proposed grant is linked to the realisation of the carbon capture facility. Naturkraft already has all the necessary licences for the construction of the power plant.

To achieve a closer level of coordination between Trondheim Energiverk (TEV) and Statkraft, and to realise economies of scale within the Group, it has been decided that energy optimisation and hedging trading associated with TEV's hydropower portfolio shall be undertaken by Statkraft's Generation & Markets business unit. TEV shall remain as a regional company and shall continue to own, operate and maintain its generating facilities. Furthermore, a coordination of administrative functions is also being implemented. This coordination of effort is not expected to lead to any loss of jobs.

## Financial performance [1]

***Third quarter.*** The Group made a profit before tax of NOK 1,233 million in the third quarter (NOK 1,317 million) and a profit after tax of NOK 380 million (NOK 904 million). This represents a fall of 6 and 58 per cent respectively, compared with the same quarter in 2005. Both output and the average sport price were higher than in the third quarter last year, which resulted in a marked increase in operating revenues. However, three factors pull in the opposite direction. Firstly, the Group's share of the profits from associated companies was lower than in the third quarter 2005 due to low hydropower production and a halt in nuclear power production on the part of E.ON Sverige. In the third quarter last year the Group recorded as income a gain on the sale of shares in Hedmark Energi Holding AS. This, together with a loss of foreign exchange, had a negative impact on net financial items. Thirdly, the amount of resource rent tax payable increased as a result of higher average spot prices.

***Year–to-date profit.*** For the first nine months of the year overall profit before tax totalled NOK 7,380 million (NOK 5,343 million), while profit after tax came to NOK 4,575 million (NOK 3,534 million). Compared with the same period last year, this represents an improvement of 38 and 29 per cent respectively before and after tax. The main reasons for the strong performance so far in 2006 are a high level of output sold at good prices, and an increase in the Group's share of the profits from associated companies. However, this is offset somewhat by increased net financial costs and taxes.

***Return on investment*.** Because Statkraft's quarterly results are subject to substantial and irregular seasonal fluctuations, return on investment is calculated on the basis of a rolling 12-month period. This makes it possible to compare whole-year periods in which the seasonal fluctuations are evened out over time.

Over the past 12 months, return on average capital employed, ROACE, totalled 25.4 per cent before tax. The corresponding figure for the 2005 calendar year was 19.3 per cent. These figures have been adjusted for significant non-recurring items, so the ROACE figures reflect the performance of ordinary operations.

Return on equity for ordinary operations in the past 12 months totalled 14.5 per cent after tax but before provisions for dividend payments. Return on total capital after tax totalled 8.5 per cent, compared with 7.8 per cent for the 2005 calendar year.

***Operating revenues.*** The Group had gross operating revenues of NOK 3,339 million in the third quarter, NOK 790 million more than in the corresponding period last year (up 31 per cent). For the period January to September, operating revenues totalled NOK 12,080 million. This is NOK 2,442 million higher than last year, an increase of 25 per cent.

The Group generated 36.3 TWh of electricity during the first nine months of the year. 1.0 TWh of the 2.1 TW increase from the same period last year derives from new operations in Sweden and Finland. The average spot price rose by NOK 171/MWh to NOK 399/MWh for the first nine months of the year as a whole. The main impact of this was a rise in physical spot sales revenues of NOK 3,707 million from the first three quarters of 2005 to the same period this year. On the other hand, revenues from hedging activities fell by NOK 1,183 million to produce a loss of NOK 245 million. Other contracts and revenue items changed significantly less, with net revenues so

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[1] *Figures in parentheses show the comparable figures for 2005*

far this year at the same level as in 2005. A total of 10.2 TWh was sold to industry at an average statutory price of NOK 132/MWh during the first nine months of the year.

***Transmission costs*** increased by NOK 198 million (40 per cent) to NOK 693 million in the first nine months of the year. This substantial increase is due to the fact that the variable elements of the transmission tariff rose sharply as a result of higher electricity prices and higher output than in the same period last year.

***Operating costs*** totalled NOK 3,776 million in the period January to September, an increase of NOK 85 million (2 per cent) compared with the same period in 2005.

In real terms payroll costs rose, partly as a result of an increase in the size of the workforce associated with new business activities and acquisitions, and partly as a result of ordinary pay rises. In the accounts, however, the figure for payroll costs shows a reduction of NOK 15 million (2 per cent) to NOK 906 million. This is due to the fact that approx. NOK 80 million was charged to expenses last year as a result of a revised calculation of the Group's pension liabilities.

Other operating costs in the first nine months of the year fell by NOK 32 million (3 per cent) to NOK 1,068 million. During the same period NOK 46 million was paid in stamp duty associated with Statkraft's previously implemented restructuring. This sum is offset by non-recurring provisions made last year. In addition, the Group's underlying operating costs were higher than in the corresponding period last year, largely as a result of new business activity in Sweden and Finland, as well as development activities associated with the gas-fired power plants in Germany. This increase amounts to some NOK 100 million compared with the first nine months of last year. Other operations therefore show a fall in other operating costs of around NOK 130 million. The bulk of this reduction is due to the fact that, with effect from 2006, a larger proportion of periodic maintenance costs are capitalised and depreciated over the period until the next round of maintenance work. This change has been implemented to comply with IFRS. With identical maintenance levels, this would result in a permanent reduction in other operating costs associated with ordinary operations, which will be offset by a gradual increase in the level of depreciation.

Depreciation rose by NOK 53 million in the first nine months of the year compared with the same period last year. This is due to the start-up of new facilities and the consolidation into the accounts of new businesses. Property tax rose by NOK 82 million as a result of the periodic adjustment of asset values.

***Operating profit*** totalled NOK 1,955 million in the third quarter, a rise of NOK 747 million (62 per cent) compared with the third quarter 2005. For the first nine months of the year combined, operating profit rose by NOK 2,158 million (40 per cent) to NOK 7,611 million. The bulk of this operating profit derives from the Generation & Hedging Trading segment, which contributed 95 per cent of the result, while Distribution Grid operations contributed 5 per cent and Trading & Origination contributed 2 per cent. Other segments and shared functions broke even or made a slight loss – their combined contribution being a deficit of 2 per cent.

***Share of profits from associated companies.*** For the third quarter alone, the Group's share of the profits from associated companies fell by NOK 214 million compared with the third quarter 2005. This can largely be ascribed to the loss made in the quarter by E.ON Sverige, of which Statkraft's share was NOK 86 million. This represents a reduction of NOK 271 million compared with the same quarter last year. The negative result was due to low hydropower output and a halt in production at the Forsmark and Oscarshamn nuclear power plants. Permission was granted for three of the plant's four reactors to restart in October, while the fourth is expected to go back into production from 1 January next year.

So far this year the Group's share of the profits from associated companies has increased by NOK 204 million (21 per cent) to NOK 1,157 million. BKK and Agder Energi's combined contribution is NOK 121 million higher than last year, while E.ON's contribution has risen by NOK 85 million. After the first nine months of 2005 E.ON had recorded non-recurring costs of NOK 359 million to repair the damage caused by Hurricane Gudrun. Corrected for this non-recurring item, Statkraft's share of the profit from E.ON after the first nine months of this year was slightly down on last year. Statkraft's share of the profit from E.ON is based on estimates for the last three months.

***Net financial expenses*** totalled NOK 703 million in the third quarter, an increase of NOK 618 million compared with the third quarter 2005. The increase is due to the fact that a net gain of NOK 272 million from the sale of Hedmark Energi Holding AS was taken to income in the third quarter last year, as well as disagio of NOK 340 million from currency hedging of future EUR cash flows in the third quarter this year, compared with agio of NOK 50 million in the same quarter last year. These factors also explain why net financial items have risen by NOK 327 million to NOK 1,389 million so far this year. A reduction in debt and lower current interest on the Group's debt portfolio compared with the same period in 2005 helped to reduce gross financial expenses. As a result of the repayment of state-guaranteed loans, the guarantee premium paid to the state has been reduced. At the end of the third quarter, the overall portfolio of state-guaranteed debt totalled NOK 19.1 billion, compared with NOK 20.6 billion at the same point last year.

So far this year current interest on loans in SEK has been 2.3 per cent, and for loans in NOK 4.3 per cent. Including accrued losses on previously cancelled interest rate swaps, the interest rate for loans in NOK rises to 6.8 per cent. Interest rate swaps were cancelled as part of a restructuring of the interest rate portfolio to achieve a higher proportion of floating interest rates. Just over half the debt portfolio in NOK and the entire debt portfolio in SEK is at floating interest rates.

***Tax*** totalling NOK 2,805 million (NOK 1,809 million) was charged to expenses in the first nine months of the year. The effective tax rate was 38.0 per cent, compared with 33.9 per cent in the first nine months of last year. The rise in the effective tax rate can largely be ascribed to increased resource rent tax, as well as a proportional reduction in the profits from associated companies for which Statkraft is not tax liable. The increase in resource rent tax is primarily due to higher average spot prices. The impact of this was particularly large in the third quarter, which alone had an effective tax rate of 69.1 per cent, compared with 31.4 per cent in the third quarter last year.

The high level of dividend that was announced in the proposed national budget could lead to a tax correction. This correction is imposed when revenues which, in principle, incur a deferred tax liability are taken out of the company as dividend.

***Cash flow and capital*.** Operating activities generated a cash flow of NOK 6.5 billion in the first nine months of this year. This is an increase of NOK 1.6 billion (32 per cent) compared with the same period in 2005. Changes in short-term and long-term tied capital added NOK 59 million, while dividends from associated companies totalled NOK 1.1 billion. In total, therefore, the net cash flow from operating activities came to NOK 7.6 billion for the period January to September.

At the end of the third quarter investments totalled NOK 3.2 billion, the largest items of which are NOK 1.7 billion in gas-power projects in Norway and Germany, NOK 0.3 billion in the associated company SN Power, NOK 0.2 billion in Trondheim Energiverk's district heating facility, and NOK 0.2 billion in Kjøllefjord Wind Farm. NOK 0.8 billion was spent on other investments in plant and equipment.

So far this year Statkraft has made debt repayments of NOK 0.9 billion, and paid NOK 4.8 billion in dividends and group contribution to Statkraft SF.

Cash and cash equivalents fell by NOK 1.4 billion net during the first nine months of the year. At the end of the third quarter Statkraft had cash and cash equivalents of NOK 3.0 billion, compared with NOK 4.4 billion at the start of the year.

Interest-bearing debt totalled NOK 30.7 billion at the end of the third quarter, compared with NOK 31.8 billion at the same point last year and NOK 31.3 billion at the start of the year. The interest-bearing debt ratio was 40.3 per cent, compared with 42.9 and 43.9 per cent respectively. Current assets excluding cash and cash equivalents totalled NOK 4.6 billion, while short-term interest-free liabilities totalled NOK 8.0 billion.

At the end of the third quarter Statkraft had equity of NOK 45.4 billion before dividend provisions. This corresponds to 47.8 per cent of total capital.

In November Statkraft issued new bond loans amounting to NOK 4.3 billion with a 10-year term in the Norwegian bond market. The issues will be listed on the Oslo Stock Exchange and are included in the Euro Medium Term Notes programme which was set up in the second quarter. The bonds have been issued to finance debt repayments which fall due in December and January.

# Business Units

Statkraft has three operative business units, in addition to other areas responsible for group functions, financial investments and eliminations. The organisational structure is based on the Group's strategic priorities and developments within its three main areas of focus.

| **KEY FIGURES BUSINESS AREAS** (NOK million) | Statkraft AS group | | Generation & Markets | | New Energy | | Regional | | Other * | |
|---|---|---|---|---|---|---|---|---|---|---|
| **RESULT PER 30.09** | **2006** | **2005** | **2006** | **2005** | **2006** | **2005** | **2006** | **2005** | **2006** | **2005** |
| Gross operating revenues | 12 080 | 9 638 | 8 857 | 7 139 | 174 | 215 | 3 079 | 2 390 | -30 | -106 |
| Operating profit | 7 611 | 5 453 | 6 178 | 4 585 | -18 | 39 | 1 555 | 889 | -104 | -60 |
| Share of profits from associated companies | 1 157 | 953 | -6 | (2) | 5 | 2 | 312 | 191 | 846 | 761 |
| **Profit before financial items and tax** | **8 768** | **6 405** | **6 172** | **4 583** | **-13** | **40** | **1 867** | **1 080** | **742** | **702** |

| **FROM THE BALANCE SHEET** | **30.09.06** | **30.09.05** | **30.09.06** | **30.09.05** | **30.09.06** | **30.09.05** | **30.09.06** | **30.09.05** | **30.09.06** | **30.09.05** |
|---|---|---|---|---|---|---|---|---|---|---|
| Property, plant, equipment, intangible assets | 55 929 | 48 747 | 31 745 | 24 612 | 1 469 | 1 563 | 22 310 | 22 198 | 406 | 375 |
| Investments in associated companies | 30 388 | 27 791 | 648 | 165 | 820 | 667 | 10 591 | 10 545 | 18 330 | 16 413 |
| Other assets | 8 604 | 11 551 | 12 473 | 8 117 | 209 | 464 | 2 559 | 1 948 | -6 637 | 1 022 |
| **Total assets** | **94 922** | **88 089** | **44 866** | **32 894** | **2 498** | **2 694** | **35 459** | **34 692** | **12 099** | **17 810** |
| Capital employed | 40 625 | 39 726 | 22 627 | 19 088 | 1 220 | 1 534 | 16 809 | 15 473 | -31 | 3 632 |
| Maintenance investments | 491 | 378 | 328 | 192 | - | - | 144 | 186 | 19 | - |
| Investments in new generating capacity | 2 184 | 1 291 | 1 540 | 493 | 288 | 556 | 356 | 242 | - | - |
| Investments in shareholdings | 598 | 203 | 328 | 185 | 253 | - | 17 | 18 | - | - |

**Includes the investment in E.ON Sverige.*

## *Generation & Markets*

The Generation & Markets business unit is engaged in extensive power trading operations in Europe. In the Nordic region it owns and operates 78 hydropower plants, as well as controlling the output of 26 power plants operated by third parties. Three gas-fired power plants are under construction. Output from the bulk of the generating assets is easily regulated.

***Highlights in the quarter***

During 2006 the emphasis has been on maintaining the efficient operation of Statkraft's core business, planning and building up operational and market activities with respect to the gas-fired power plants in Germany, as well as ongoing joint-venture projects within the Nordic operative organisation.

For a while it has been assessed how the operations belonging to Trondheim Energiverk (TEV) can be coordinated with the Statkraft Group's other business units. In September it was decided that all activities associated with energy optimisation, hedging and trading, as well as the accompanying back and middle office functions, shall be transferred from TEV to Generation & Markets. The collaboration will be regulated by means of a power purchasing agreement between the parties. TEV will own and maintain the power plants. The transfer of business, which affects an estimated 27 people, is in line with the Group's strategy of centralising energy optimisation and hedging trading. Implementation will take effect as of 1 January next year.

At the end of August, Statkraft's Region Eastern Norway took over the responsibility for production management of Skagerak Energi's 25 power plants. This was according to plan.

Preparations for this have taken around a year, and are based on the establishment of shared IT solutions, updated routines and handbooks, as well as auditing of contingency plans and employee training. The transfer was very successful, and did not result in operational problems.

The business unit is working hard to prepare for the start-up of its three gas-fired power plants: Knapsack, Herdecke and Kårstø. The facilities will be completed in 2007 and will increase the Group's generating capacity by around 1,200 MW. Statkraft has started hedging trading in gas, initially on a small scale, as part of its preparations for the gas-power plants' start-up. It is expected that Statkraft will be allocated adequate carbon quotas for Knapsack and Herdecke.

The Herdecke plant will be operated by co-owner Mark-E, while the Kårstø plant will be run by a separate operating organisation under Naturkraft AS. An operating and maintenance agreement has been signed with Fortum with respect to the Knapsack plant. The business unit's preparations for the takeover of the facilities are according to schedule.

In August the business unit was accepted as a participant in the Umbrella Carbon Facility, Tranche 1 (UCF), a World Bank fund. The fund is investing in two new projects in China to reduce HFC-23, an extremely harmful gas whose impact on the climate is 11,700 times more powerful than carbon dioxide. The investment will total EUR 22.5 million in the period up to and including 2013, and Statkraft's 3 per cent share in the fund will provide carbon certificates corresponding to 3.6 million tonnes.

During the third quarter a bank guarantee with DnB NOR was established. The guarantee relates to surety requirements in connection with Nord Pool and replaces the need for cash deposits. At the end of the third quarter EUR 109 million of the EUR 163 million guarantee had been committed. The guarantee limit may be increased at one day's notice.

### *Financial performance*

The Generation & Markets business unit performed extremely well in the first nine months of the year. Profit before financial items and tax totalled NOK 6,172 million, which is NOK 1,589 million higher than at the same time in 2005. The 35 per cent increase is largely due to higher power sales revenues resulting from both higher output and significantly higher prices. Hedging activities produced significantly lower results compared with the period January to September 2005.

The Generation & Trading segment contributed NOK 5,792 million, corresponding to 94 per cent of the business unit's profit before financial items and tax. Statutory priced and concessionary power accounted for 11.4 TWh of total output during the first nine months of the year. Dynamic hedging trading had made a loss of NOK 190 million by the end of the third quarter.

The Trading & Origination and Distribution Grid segments, including European power trading and Baltic Cable, made a profit of NOK 380 million before financial items and tax. All the portfolios have performed well so far this year.

### *Operations*

By the end of the third quarter total output had reached 30.2 TWh, 2.4 TWh more than at the same time last year. The high prices in the third quarter have resulted in relatively high output levels, despite low reservoir water levels. This is also linked to the fact that the halt in Swedish nuclear power production made high levels of output necessary on the part of Statkraft and other hydropower producers.

The business area has achieved a utility-adjusted downtime of 3.37 per cent so far this year, which is 1.68 percentage points weaker than targeted. The fault in the Svartisen power plant in August is the main reason for the high utility-adjusted downtime. The power plant came back into operation on 21 October, but broke down again after a few days. The power plant will be out of operation for four to five months during repair of the damages. The halt in production will reduce power sales revenues in 2006 and 2007, but insurance is expected to cover part of the loss. Efforts will also be made to find out if the generators at Skjomen and Kobbelv have suffered similar damage to that inflicted on the Svartisen facility by the storm Narve in January.

During the third quarter there has been a great deal of media attention on the water levels in the country's hydropower reservoirs. The focus has in particular been on Norway's Northern and Eastern regions, due to the low water levels in several reservoirs. Measures to improve the situation have been implemented and affected parties have been notified locally.

## New Energy

The New Energy business unit is responsible for the continued growth of the Group's power output through the development and construction of environment-friendly generating capacity. New Energy is therefore responsible, on behalf of Generation & Markets, for supervising the construction of the three gas-fired power plants. The business unit is responsible for managing the Group's shareholdings in the wind farms, Småkraft AS and Statkraft Norfund Power Invest (SN Power). New Energy is also responsible for the Group's R&D activities.

### *Highlights in the quarter*
Construction of Kjøllefjord Wind Farm's 17 wind turbines was completed during the third quarter and the facility officially opened on 10 October. However, full production is not technically possible before the Adamselv transformer has been upgraded. This work will probably be finished in mid-November.

Prior to the announcement of the 2007 national budget, the government presented a proposal for renewable energy incentives, based on fixed technology-differentiated input tariffs. The proposed incentive scheme needs the approval of the EFTA Surveillance Authority (ESA) before it can be implemented. It is the government's aim to have this in place with effect from 1 January 2008. The announced scheme is not as good as the power industry had expected.

On 18 August a fatal accident occurred in connection with installation of a bridge crane at the gas-power plant being built in Herdecke. German police have investigated the accident and found no reason to prosecute. Statkraft would like to extend its deepest sympathies to the family of the deceased. Statkraft will continue to do its utmost to ensure that a constant focus on health, safety and the environment (HSE) is maintained at its construction sites.

### *Financial performance*
New Energy made a loss before financial items and tax of NOK 13 million in the first nine months of the year, compared with a profit of NOK 40 million in the same period last year. Operating revenues totalled NOK 174 million, NOK 41 million less than in 2005.

New Energy owns three wind farms with a normal output of approx. 600 GWh. The wind farms generated operating revenues of NOK 111 million in the first nine months of the year. Although output was lower than expected, this was offset by higher spot prices.

Revenues from the sale of development and consulting services have risen as a result of the sale of services to the gas-power projects. These projects are included in the Generation & Markets business unit, in whose accounts they are capitalised. Operating costs totalled NOK 189 million, NOK 17 million more than in the same period last year, as a result of increased business activity and the start-up of the second phase of Smøla Wind Farm in the second half of 2005.

### *Operations*
Several of the Norwegian wind farm projects have been met by increasing local opposition, particularly in the west of the country. This has resulted in slower planning and approval processes, as well as increased financial risk associated with project development. Currently the Group has no projects with licence that are awaiting an investment decision. As a result of this, reaching the expansion target of 650 MW, corresponding to 2 TWh of wind power in 2010, will be challenging.

A wind farm project in northern Scotland has been abandoned after local approval was not given, but the other wind power projects in the UK are making good progress. Three projects, with a total output of 151 MW, have received local approval. Statkraft's share of these projects is 50 per cent. The Group is working actively to expand its UK portfolio.

Construction work at the gas-power plants in Germany and Norway is largely on schedule and within budget. Following the end of the quarter, certain welding quality problems have been identified in connection with the heat exchangers at the two German gas-power plants. The consequences of this, and possible remedial measures, are currently being assessed. The gas-power plants are expected to be completed in the autumn of 2007.

Småkraft AS made an operating loss of NOK 8 million during the first nine months of the year. The company has filed 45 licence applications, for a total of 700 GWh, which are currently being evaluated by the Norwegian Water Resources and Energy Directorate (NVE). During the third quarter a licence for 10 GW was granted. The company has decided to build small-scale power plants in Steinsvik, Volda, and Vanndøla, Luster. Vanndøla will be built as a 50-50 joint venture with Luster Energiverk. Together the projects will generate approx. 48 GWh.

SN Power works to develop projects and operate hydropower plants in Asia, Africa and Latin America. The company currently has two hydropower plants under construction. These are expected to be completed in the autumn of 2008.

With respect to the development of new technology, a business plan has been drawn up for investments in osmotic power. New calculations of the potential and costs associated with tidal power have led to a refocusing on areas with a greater energy potential. This means that the construction of a prototype has been postponed until the effects on the construction have been clarified. Several of the ideas which have been presented to Statkraft and the Statkraft Alliance's innovation cooperation (INNOSA) have been qualified, and further work on these is now underway. During the period an innovation process and an innovation strategy have been developed.

## Regional

The Regional business unit is responsible for managing and further developing Statkraft's shareholdings in regional power utilities in Norway. Through these companies Statkraft is exposed along the entire value chain. The Group's largest shareholdings are in the consolidated subsidiaries Trondheim Energiverk (100 per cent) and Skagerak Energi (66.6 per cent). The Group owns less than 50 per cent of Bergenhalvøens Kommunale Kraftselskap (BKK) and Agder Energi, which are therefore treated as associated companies.

***Highlights in the quarter***

All the companies in the business unit are working to develop new and profitable electricity production. This will also help to meet what in some areas is a tight supply situation. So far this year the companies have put three power plants into operation, with a combined mean output of 134 GWh. Skagerak Energi has also filed a licence application for a gas-fired power plant with carbon capture and storage at Herøya, and BKK has issued a pre-application report on its plans to apply for a licence to build a gas-fired power plant in Nordhordland/Gulen.

Agder Energi has restructured its organisation into a more focused format as part of its efforts to increase operational efficiency. It now has four business areas: Energy, Grid, Market and Services.

It has been decided that the Generation & Markets business area shall take over responsibility for energy optimisation and hedging trading at Trondheim Energiverk (TEV). However, TEV will continue to function as a regional company, owning, operating and maintaining its own generating facilities.

The government has recently announced proposals for incentive schemes for electricity generation based on hydropower, wind power and bio-energy. Several of the regional companies have plans to build wind power facilities, but a preliminary assessment indicates that the government's proposals will not be enough for them to embark upon large-scale construction of new wind power capacity. Agder Energi has been working on wind power projects with a total output of 1 TWh, but these will not be profitable with the long-term electricity prices that are currently being forecast.

The NVE has finalised its proposals for a new regulatory regime for power distribution operations. The new regime could, particularly for regional grid operators, lead to increased unpredictability with respect to financial results and weaker incentives to make necessary investments in grid infrastructure.

***Financial performance***
The business unit had gross operating revenues of NOK 3,079 million in the first nine months of the year. This corresponds to 25 per cent of the Group's total gross operating revenues. The business unit made an operating profit of NOK 1,555 million in the first nine months of the year, NOK 666 million (75 per cent) higher than in the same period last year.

The associated companies, Agder Energi and BKK, contributed profit shares of NOK 312 million, an increase of NOK 121 million (63 per cent).

The business unit's profit before financial items and tax rose by NOK 787 million (73 per cent) compared with the same period in 2005 to NOK 1,867 million, which corresponds to 21 per cent of the Group's overall profit. The improvement can largely be ascribed to a sharp increase in electricity prices compared with last year.

The Generation & Hedging segment contributed NOK 1,705 million of the business unit's profit before financial items and tax. Grid Operations contributed NOK 249 million and District Heating NOK 37 million. Other segments and shared functions produced a net loss of NOK 124 million.

***Operations***
During the first nine months of the year, Regional companies generated 5.9 TWh of electricity, 0.4 TWh less than in the corresponding period in 2005. The associated companies generated 8.8 TWh, a fall of 1.8 TWh. The reduction in output was largely due to a significantly lower than normal inflow of water into the reservoirs of all the companies.

Operationally, the business area's various operations have remained largely stable so far this year, and this has played an important part in their improved financial performance.

The construction of Trondheim Energiverk's Heimdal district heating facility has been delayed in relation to original estimates, and the project is now planned for completion in the fourth quarter of 2007. Construction of the new Leirfossene power plant in Nidelva is on schedule.

## Market conditions

***The Nordic electricity market***
At the start of the year the water levels in Norway's reservoirs were higher than normal, while the snow reserves in both Norway and Sweden were substantially below normal levels. So far this year precipitation levels have been lower than normal. Prices in the third quarter were largely affected by a weak hydrological balance with falling reservoir water levels, as well as a lengthy halt in Swedish nuclear power output following a reactor failure.

The average spot price for the first nine months of the year was NOK 399/MWh, compared with NOK 228/MWh in 2005 and NOK 247/MWh in 2004. 2006 started with high prices in the Nordic market, and they have remained higher throughout the first nine months than they were in 2005. The average spot price in August was NOK 531/MWh, which is the highest monthly price so far this year. Furthermore, the average spot price in March and in the period May to September 2006 was higher than it had ever been in those months.

Consumption has been high during the first nine months of the year, though consumption in the third quarter was lower than normal due to unseasonably mild temperatures. The Nordic region's overall electricity consumption in the first nine months of the year was 6.3 TWh (2.2 per cent) higher than in the same period in 2005. Overall consumption in Norway fell by 1.1 per cent compared with the same period last year as a result of lower consumption by power-intensive industry, electric boilers and pumped-storage power plants. Ordinary consumption rose by 2.6 per cent from last year and totalled 60.7 TWh in the first nine months of the year. However, the last couple of months have been extremely mild. Adjusted for temperature, therefore, ordinary consumption totalled 62.6 TWh in the first nine months of the year, an increase of 2.1 per cent compared with the same period last year.

Nordic power production in the first nine months of the year was 3.6 TWh (or 1.2 per cent) lower than in the same period in 2005. Norway's net electricity exports totalled 1.9 TWh during the first nine months of the year, while the Nordic region had net electricity imports of 8.8 TWh. Hydropower production in the Nordic region has been very high during the period, which can be ascribed to high reservoir water levels at the start of the year and a relatively high level of Nordic consumption. The Nordic market has imported electricity mainly from Russia, while it is a net exporter to Germany.

**Electricity generation and consumption in the Nordic region (TWh)**

| | *First three quarters* | | | *Change* |
|---|---|---|---|---|
| | ***2006*** | ***2005*** | ***2004*** | ***2005-2006*** |
| Consumption in the Nordic region | 288.8 | 282.5 | 286.8 | 2.2 % |
| Generation in the Nordic region | 280.0 | 283.6 | 276.7 | -1.2 % |
| Import into (+) / export from (-) the Nordic region | 8.8 | -1.1 | 10.2 | - |
| Consumption in Norway | 89.4 | 90.4 | 88.6 | -1.1 % |
| Generation in Norway | 91.3 | 98.5 | 80.2 | -7.3 % |
| Net import into (+) / export from (-) Norway | -1.9 | -8.2 | 8.5 | - |

At the end of the third quarter the aggregate water level in the Nordic region's reservoirs was 71.9 per cent of normal and 62.0 per cent of maximum capacity.

## HSE and employment levels

At the end of the third quarter the Group had the equivalent of 2,035 full-time employees, 37 more than in the previous quarter and 96 more than at the same point last year. The increase for the quarter includes 27 people who have been recruited to work at the Knapsack gas-power plant. An additional reduction in the workforce has been planned for other parts of the business, but for the Group as a whole the headcount is expected to rise further in 2006 as a result of new business activity.

**Key figures HSE**

| | *Third quarter* | | |
|---|---|---|---|
| | ***2006*** | ***2005*** | ***2004*** |
| Full-time jobs (equivalent) 30.09 | 2 035 | 1 939 | 1 897 |
| H1 (lost-time injuries per million hours worked) | 5.6 | 2.4 | 2.6 |
| H2 (all injuries per million hours worked) | 16.8 | 17.1 | 11.5 |
| F (days lost through injury per million hours worked) | 27 | 46.3 | 21.7 |
| Sickness absence | 3.9 % | 3.7 % | 4.4 % |

During the quarter, there was a fatality at the gas-power plant under construction at Herdecke in Germany. Since the Herdecke operation is included in Statkraft's accounts as an associated company, this fatality does not appear in the HSE figures presented here. A total of 15 injuries were recorded in consolidated group companies during the third quarter, of which five resulted in lost time. This gave a higher H1 value than in the third quarter last year. None of these injuries were serious.

The sickness absence rate rose slightly in the third quarter compared with the same period in 2005. For the first nine months of the year, the Group recorded a sickness absence rate of 4.1 per cent.

HSE is a priority area for the Group. During the third quarter three new HSE coordinators were recruited by the Generation & Markets business unit. In addition, New Energy plans to recruit its own HSE manager. The gas-power projects in Germany will also receive additional HSE resources.

A review of key environmental aspects has been undertaken at all Statkraft's operative units, and efforts to define targets for the five most important environmental aspects (interventions in the landscape and river systems, local pollution, waste management, use of energy and resources, and greenhouse gases) are currently underway. The Group's environmental management system will also be further developed by clarifying relevant environmental indicators.

Following up the Group's targeted 5 percentage point increase in recycling in 2006 is a challenge, because of the large number of units involved, and the differing practices of waste collection and treatment facilities. New agreements with clearer requirements with respect to handling and reporting are under consideration.

The Group has not experienced any serious environmental non-compliances or incidents during the third quarter. However, there were six less serious environmental non-compliances. These related to violations of minimum water flow regulations in the following rivers, Suldalslågen, Gideälven in Sweden, Hogga, Daleelva in Høyanger and Nidelva, as well as a violation of the minimum permitted water level in the Bjørndalsvatn reservoir. These incidents have not led to lasting environmental consequences, and are being followed up in accordance with established non-compliance systems. The Generation & Markets business unit has initiated a project to identify and reduce the risk of environmental non-compliances.

## Outlook

The government has proposed a dividend payment for 2006 at 98 per cent of the consolidated profit after tax and minority interests. The national budget estimates a dividend payment of NOK 5,880 million, based on previous profit forecasts. Over time, such a high level of dividend will affect Statkraft's ability to develop new business opportunities, grow and invest in new capacity. The Board has recommended a long-term dividend level of 50 per cent. The Board has further proposed that the Companies Act's principal rule for setting dividends, ie that the AGM cannot vote to distribute a bigger dividend than that proposed or approved by the Board of Directors, should be implemented for Statkraft.

Given the reservoir water levels at the end of the third quarter, the outage at Svartisen power plant and a relatively normal level of precipitation during the rest of the year, the Group expects its total annual output to be slightly lower than in 2005. The market's price expectations have been adjusted downwards recently, but remain at a high level for the rest of the year. Overall the power sales revenues are expected to be lower in the fourth quarter of this year compared with the forth quarter in 2005. The Board expects the net profit for the year to be lower than the estimate on which the government's dividend proposal was based.

Oslo, 8 November 2006
The Board of Directors of
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