



Statnett SF
Investor Presentation
March 2011
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Credit Summary

- Low investment risk
 - Supportive regulatory framework
 - Predictable cash flow and profitability
 - Regulated revenues

- Strong owner support
 - Strategic importance to the Norwegian society
 - 100% state ownership, privatisation highly unlikely

- Strong rating with stable outlook
 - A+ / A2
 - Both ratings reconfirmed December 2010

- Conservative financial policy



Content

- ❖ **This is Statnett**
- ❖ Regulation; low investment risk
- ❖ Building the next generation central grid
- ❖ Finance Policy and funding going forward



This is Statnett

- ❖ Statnett is Norway's Electricity Transmission System Operator (TSO) and was founded in 1992
- ❖ 100% owned by the Norwegian State (through the Ministry of Oil and Energy)
- ❖ Responsible for socioeconomic rational operation and development of the main electricity transmission grid
- ❖ Monopoly position – revenue regulated by the Norwegian Water Resources and Energy Directorate (NVE)
- ❖ Owns about 90% of Norway's main grid
 - Includes 10.000 km of high voltage lines and 125 substations
 - Employs about 900 people
 - Total assets about NOK 20 billion



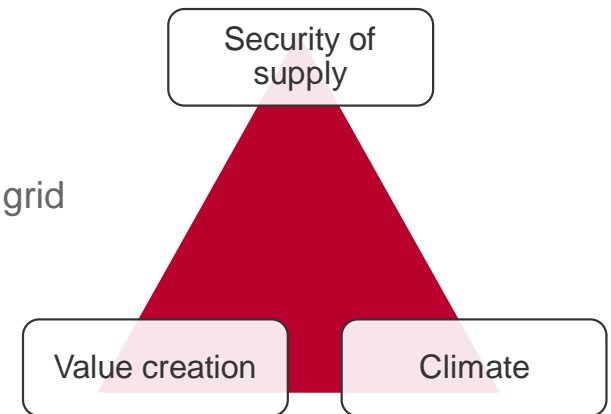
Business idea and main objectives

Business idea

- ❖ Statnett shall create conditions for an efficient power market with high quality of power supply

Main objectives

- ❖ Provide satisfactory quality, capacity and security in the main grid
- ❖ Create value for our customers and the society
 - Valuable services/products
 - Cost efficiency
- ❖ Facilitate the realisation of climate change policy and energy supply
 - New renewable production
 - Electrification of petroleum and transportation sector



The Statnett Group

- ❖ **Statnett SF**
 - TSO core business
- ❖ **Statnett Transport AS (100%)**
 - Transportation of heavy equipment on road and by sea. Necessary for TSO-related activities. Idle capacity sold to others.
- ❖ **Statnett Forsikring AS (100%)**
 - Insurance captive, part of the optimizing insurance costs
- ❖ **Nord Pool Spot AS (30%)**
 - Strategic necessity for well functioning market



National importance of Statnett

- ❖ Statnett is governed by the Ministry of Oil and Energy, rather than the Ministry of Trade and Industry, due to Statnett's vital importance to Norwegian society

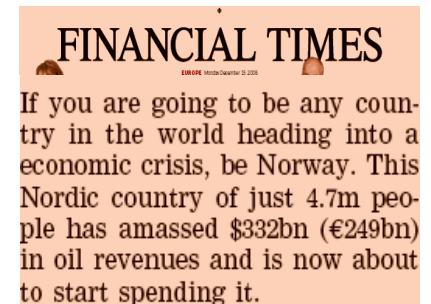
- ❖ Official Report on State Ownership, (NOU 2004:7, 6.2.2)
 - "Statnett is a special enterprise with **clearly defined public and monopoly tasks** within the power sector. Through system responsibility, main grid ownership, interconnectors and ownership in the Nordic Power Exchange, Statnett is **of crucial importance** to ensure power supply.[...] Statnett SF meets the purpose originally intended when founded, and **is vital** to ensure a well functioning power market. Ministry of Oil and Energy **emphasizes the importance of state ownership** [...]"

- ❖ "Statnett shall have a financial position which enables the enterprise to carry out all socio-economic profitable grid investments. This basis has been fixed since the **enterprise was established**" (Government letter to the Parliamentary Energy and Environment Committee dated 23 October 2009)



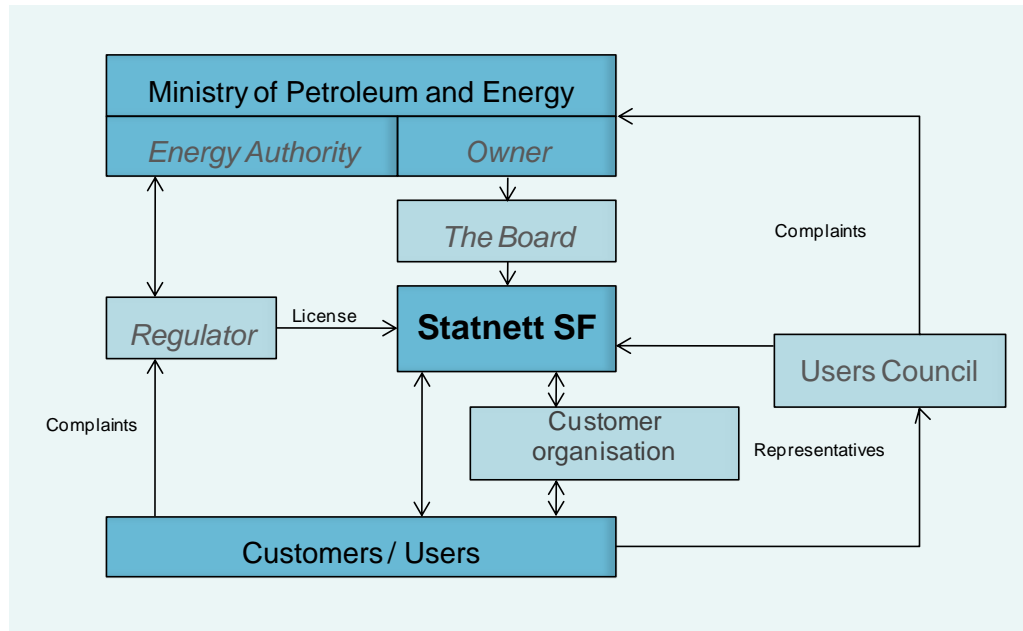
As a financially strong and strategic owner the Norwegian State provides further comfort

- ❖ Norway is extraordinarily well placed financially
 - AAA /stable sovereign rating
 - Less affected by the financial crisis than most other countries
 - No significant bank bail-outs – a solid financial sector
- ❖ High ability to support if required
 - No special need to increase dividends from State-owned enterprises
 - Natural resources sector provides long-term future prosperity



Financial Times Europe Monday, December 15, 2008

Ownership and Dividends



- ❖ 100% owned by the Ministry of Oil and Energy
- ❖ No plans to privatize Statnett
- ❖ Long term dividend policy of 50%

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Regulatory Regime

- ❖ Due to its monopoly position, Statnett is regulated by the Norwegian Water Resources and Energy Directorate (NVE) through a revenue cap
- ❖ The revenue cap:
 - Provides a predictable and supportive regulatory framework
 - Aims to give the regulated entity incentives to operate efficiently and to conduct the necessary investments in the grid
 - Ensures Statnett low investment risk
- ❖ All grid investments included in the revenue cap (incl. interconnectors)
- ❖ Statnett has a positive and cooperative working relationship with the regulator



Cost Recovery and Return

- ❖ The revenue cap is based on historical cost and return on the regulated asset base (RAB)
- ❖ Historical cost is based on 40% of Statnett's actual costs and 60% "norm" cost
 - The norm is based on benchmarking between other TSOs in Europe and provides an incentive to construct and operate efficiently
 - Statnett has repeatedly been measured as efficient, which results in 100% cost recovery and reasonable return on regulated assets.
- ❖ There is no time lag for investments. Hence Statnett may increase tariffs 1st of January in first year of operation of the investment
- ❖ Regulated rate of return on investments ("NVE-rate") consists of:
 - Risk free rate (daily average of yield of five years Norwegian government bond)
 - Plus a risk premium (about 3%, depending on the risk free interest rate)

Revenue Cap

- Calculated every year, minimizes time lag

<i>Cost Base for Revenue Cap in 2010:</i>	
	Operational and Maintenance costs in 2008, adjusted for inflation
+	Transportation Loss in 2008 (volume) x power price in 2010
+	Depreciation in 2010
+	Regulated Asset Base in 2010 x NVE rate* in 2010

<i>Calculation of total Revenue Cap</i>	
	40% x Cost Base
+	60% x Norm Cost
+/-	KILE**
+	Compensation for System operation costs
+	Property tax (100% passthrough)

*NVE rate: $1,14r + 2,39\%$, where r is the daily average yield of the 5 years government bond in 2010

**Quality adjustment for non-delivered energy

Financial accounting

- ❖ Actual revenues may temporarily differ considerably from regulated revenue cap
 - Tariffs set ahead of the year. Final revenue cap calculated later.
 - Congestion revenues from price differentials between Nordic price areas
 - Trade revenues from interconnectors
- ❖ Temporary difference from revenue cap will be balanced out in subsequent years tariffs
- ❖ Meanwhile, all revenues enters P&L
 - Not recognized as debt / accruals on the balance sheet under IFRS.
 - But treated as debt/accruals for all practical purposes, including the basis for dividends to the owner.
 - Statnett has reported under IFRS since 2007.
- ❖ Underlying result easily calculated by adjusting P&L with the figure for higher/lower revenues found in the notes. As per Q4-2010, underlying profit is $2228 - 2178 * 0,72 = 660$ mill (0.72 is 1-tax rate).

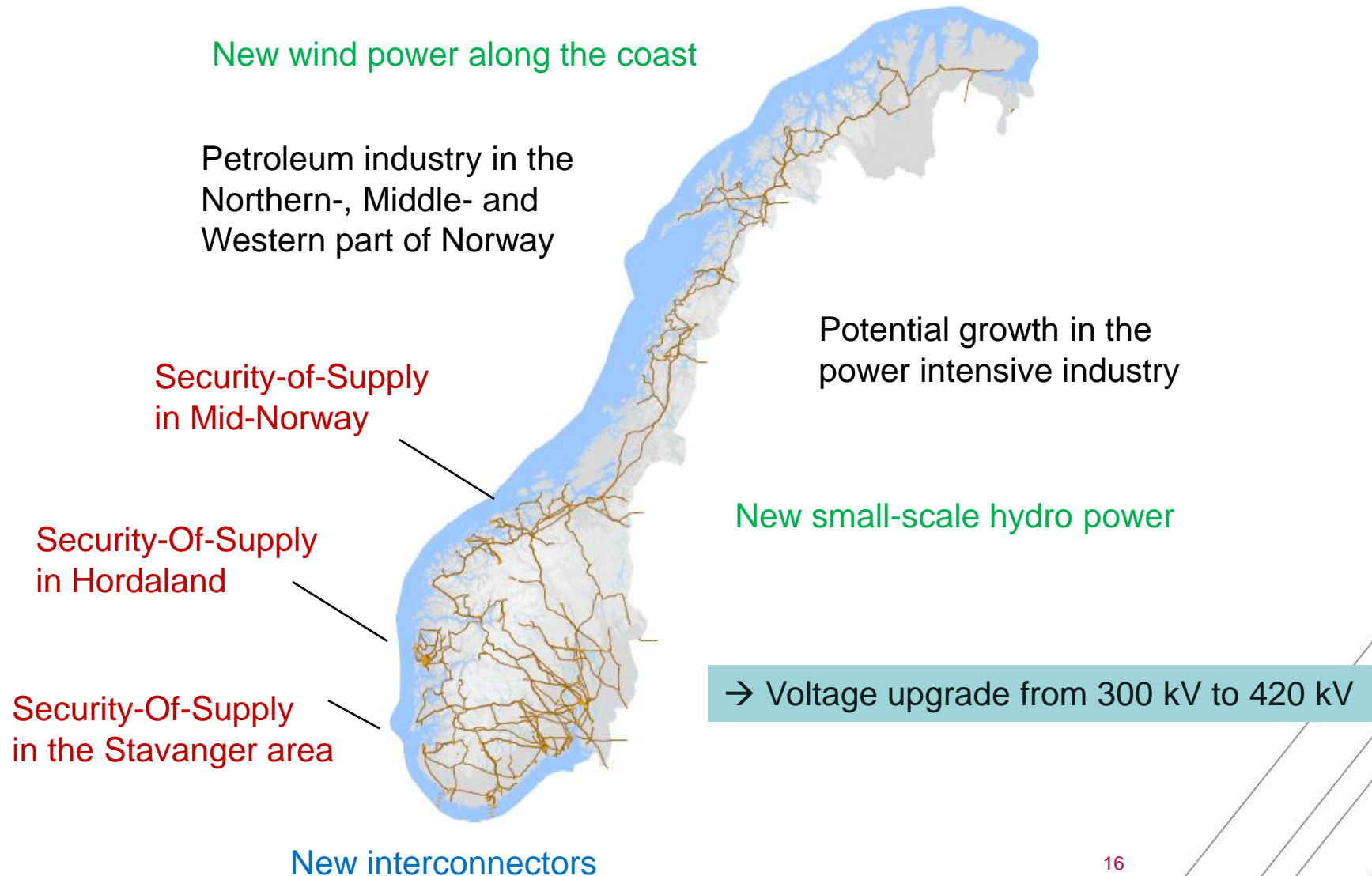
Profit/loss for the period	2 228
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higher revenue NOK 2,178 million	

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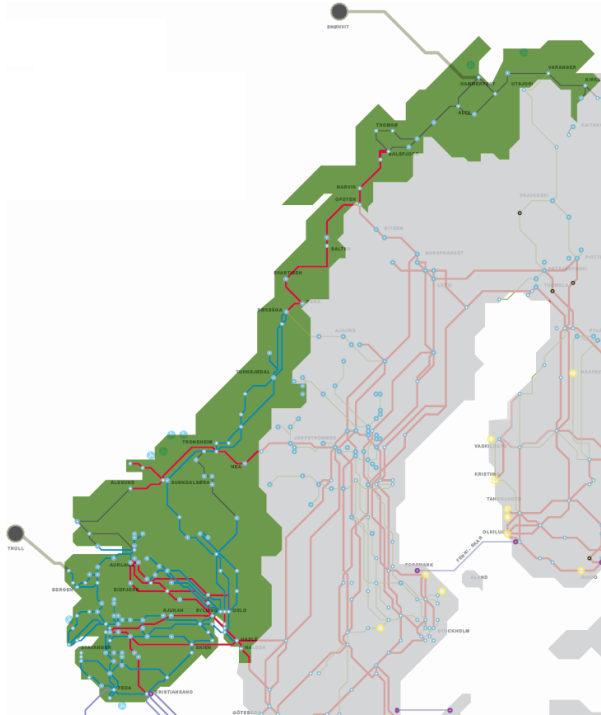


Main grid development priorities for the next 10 years

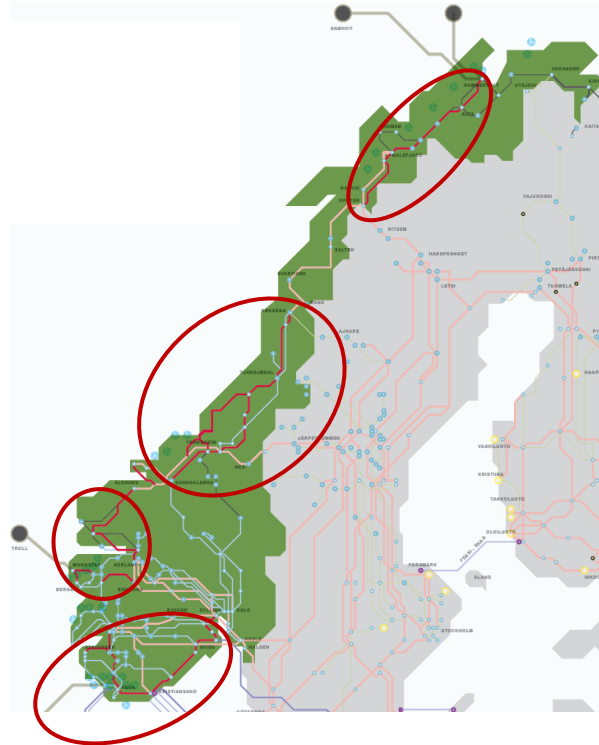


Statnett to build the next generation central grid

2010



2015



2030

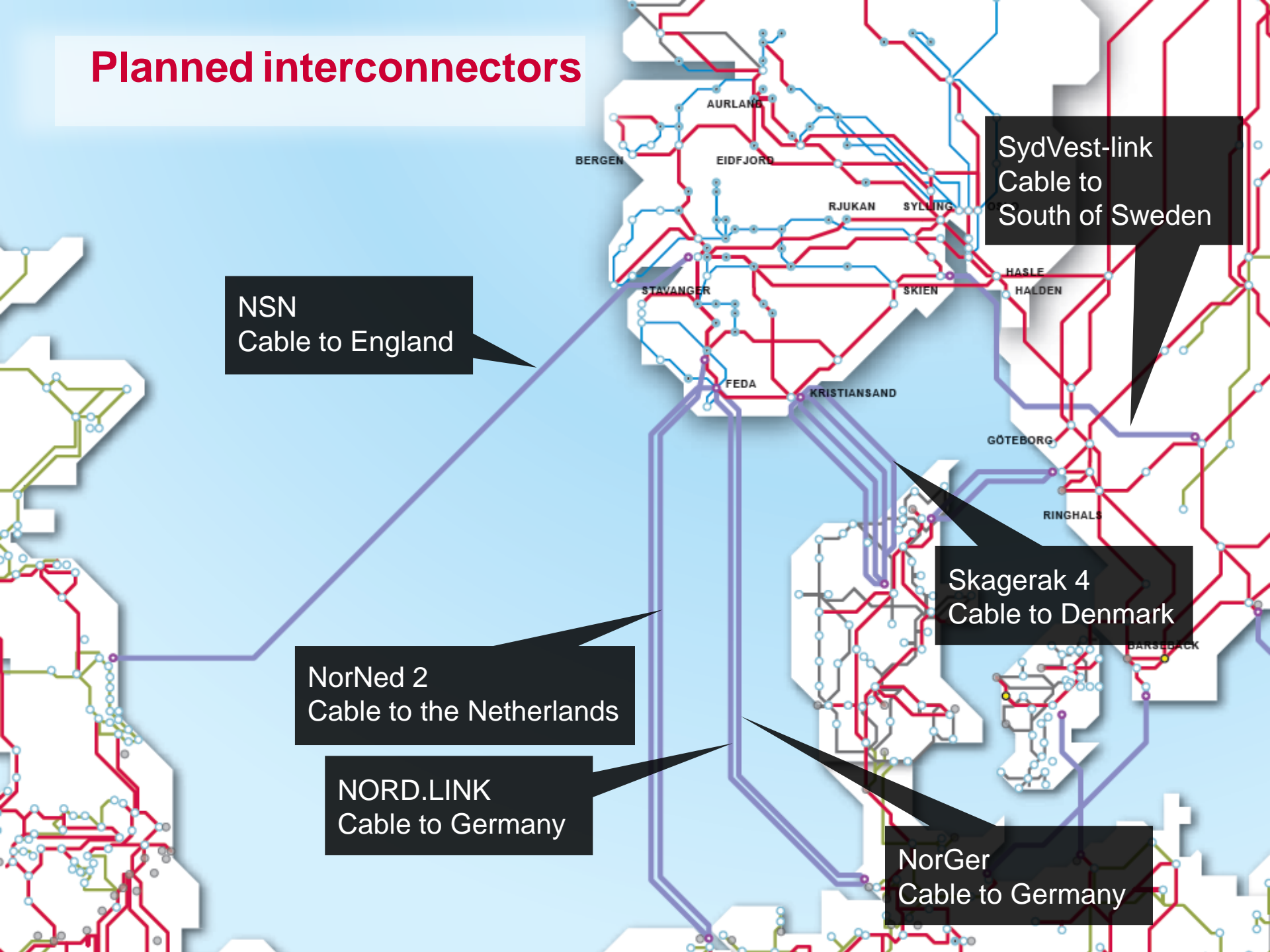


- Current grid with regional challenges

- Facilitate new renewables and increased international trade

- Integrated nordic central grid
- A national 420 kV-grid
- More interconnectors from the nordic countries

Planned interconnectors



NSN
Cable to England

NorNed 2
Cable to the Netherlands

NORD.LINK
Cable to Germany

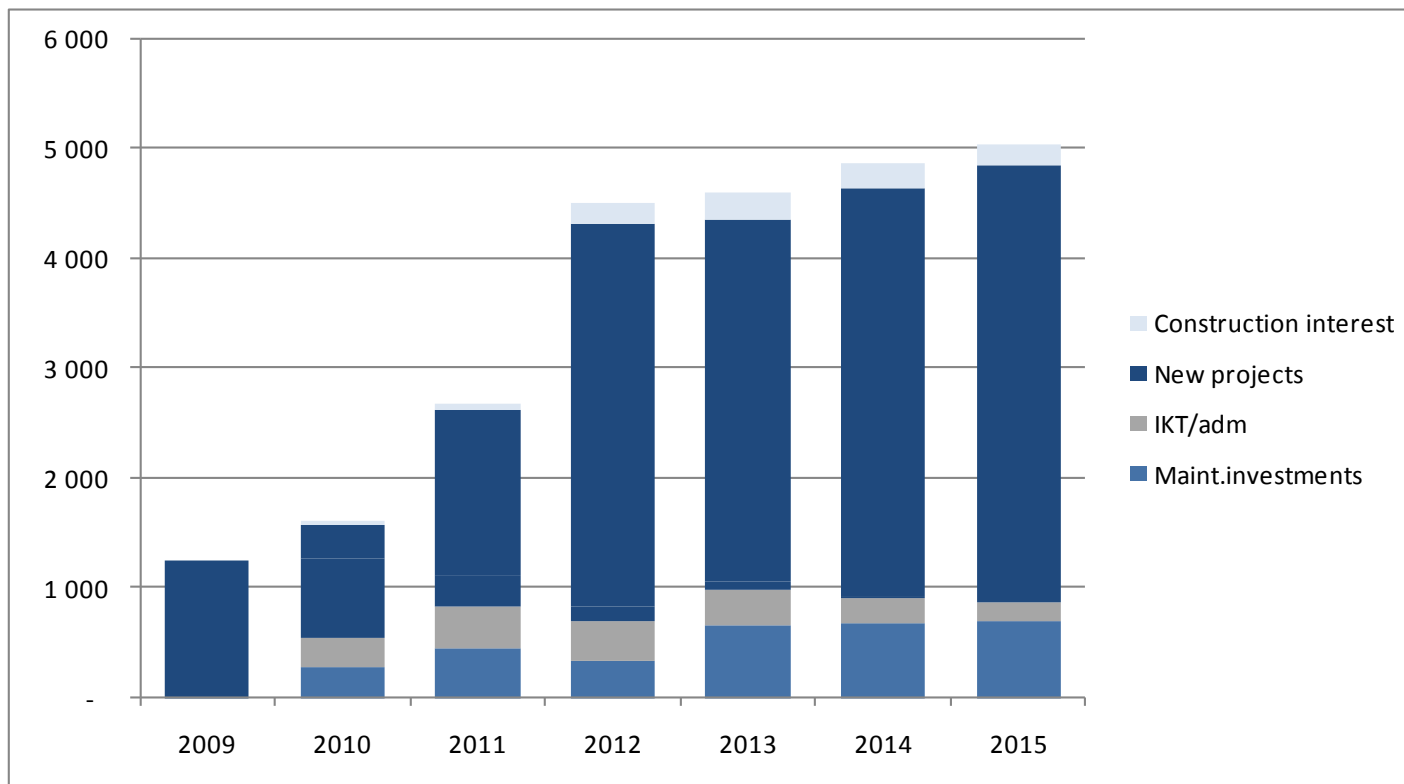
NorGer
Cable to Germany

Skagerak 4
Cable to Denmark

SydVest-link
Cable to
South of Sweden

Investment Plan

- NOK million



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Finance Policy

- ❖ Sources of finance:
 - Access to at least two separate markets with sufficient sources of capital.

- ❖ Liquidity:
 - Sufficient liquidity reserves to be able to fund operations and investments over a twelve month period without having to borrow.
 - Statnett has a 3.5 Bn NOK revolving credit facility with 7 banks

- ❖ Refinancing risk:
 - Evenly distributed maturity structure

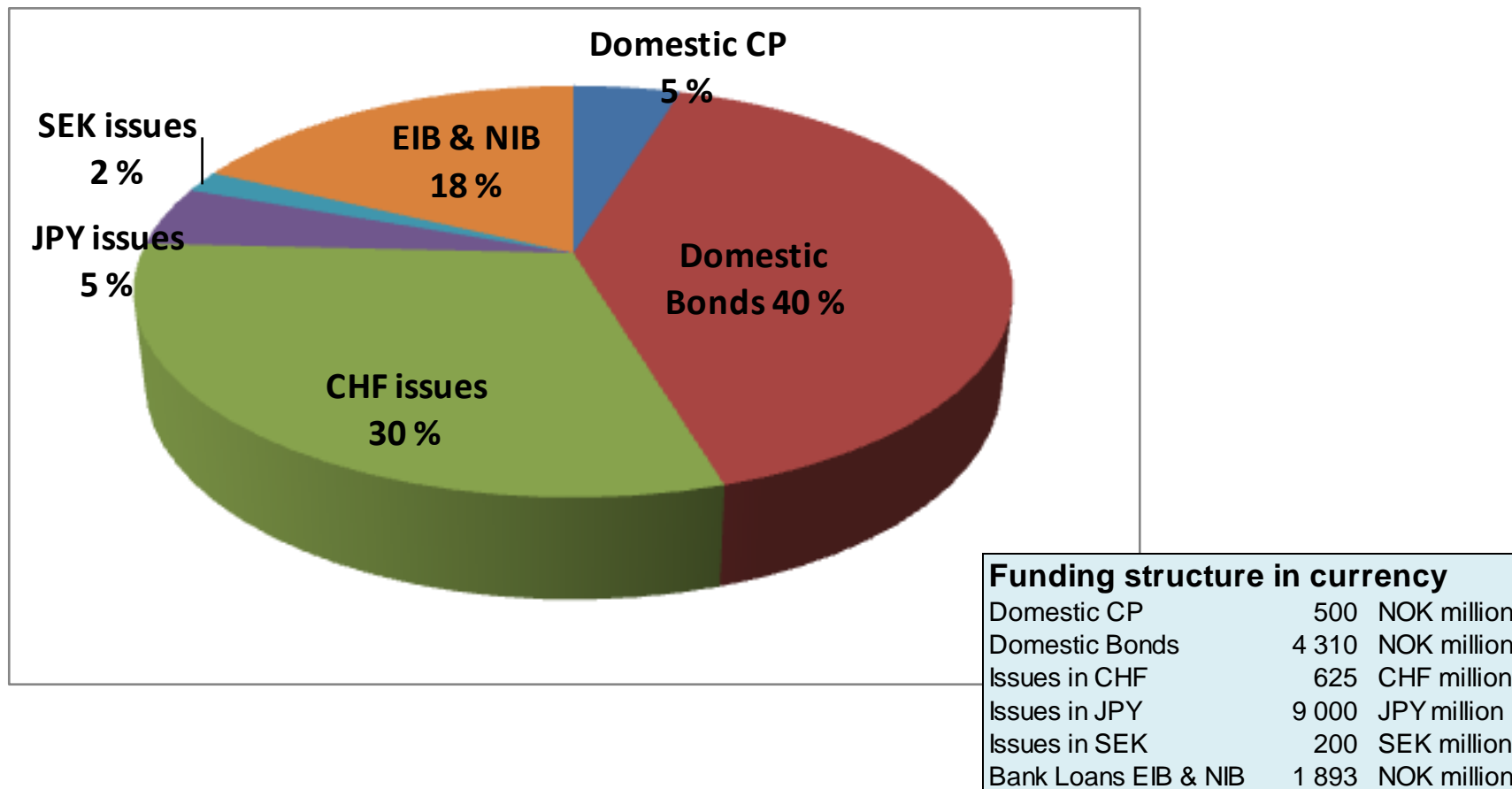
- ❖ Low Counterparty risk:
 - Rating requirements (A+/A1 for international banks)
 - Credit support annex (CSA) work initiated

- ❖ Interest rate risk:
 - Seek to correlate interest rate on debt with NVE-interest rate to reduce overall risk

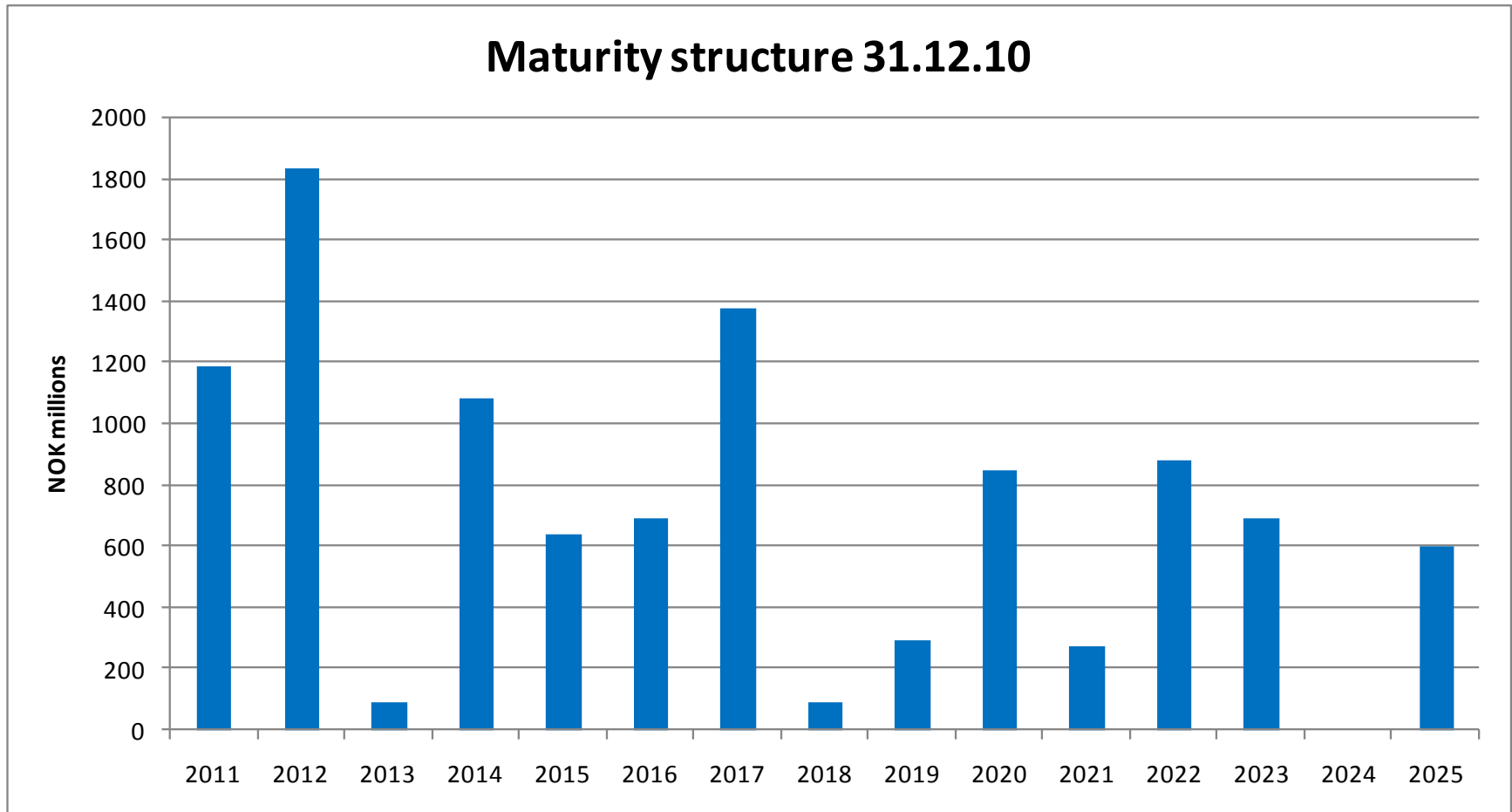
- ❖ Currency and commodity exposure -> Low

Current Funding Structure

31.12.2010 - Does not include the NOK 3.5 billion undrawn Revolving Credit Facility



An Evenly Distributed Debt Maturity Structure



Long term funding 2011

- ❖ Expect NOK 1 billion first half of 2011 and another NOK 2 billion in second half across markets
 - Congestion revenues and investment spending may fluctuate, and alter timing
- ❖ Expect to issue in Norwegian or international bond market, but may consider bank loan from NIB and EIB when competitive with bond markets
- ❖ Documentation normally under the EMTN Program
- ❖ Preferred maturities; From 7 to 20 years.
- ❖ Short term funding mainly in Norwegian CP market

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