

Corporate management

Statnett's corporate management is based on the company's external frameworks, including applicable legislation, regulations and authority measures, along with constitutive documents adopted by the company's governing bodies. Corporate management at Statnett complies with the government's corporate governance principles and the company declares its compliance in accordance with the Norwegian Code of Conduct for Corporate Governance (www.nues.no).

The requirements in Section 3-3b items 4, 7 and 8 of the Norwegian Accounting Act on corporate management are satisfied by the descriptions in the following text.

1. Report on corporate governance

Statnett SF is a state-owned enterprise owned by the Norwegian government through the Ministry of Petroleum and Energy (OED) and is organised as a group. The Statnett Group is an independent legal entity that is liable for its own obligations.

Sound corporate management is a prerequisite for stable long-term value-creation and helps to ensure that Statnett delivers products and services in accordance with requirements and expectations of internal stakeholders and external organisations.

Through its corporate governance, the Board ensures that Statnett exercises effective corporate management and internal control and adopts guidelines for Group management, including principles relating to codes of conduct for the enterprise and the enterprise's suppliers, core values and principles relating to management and control, corporate social responsibility, finance, network owner responsibility, power system development and system operator responsibility. Together with Statnett's function policies, process map and other internal governing documents, this forms the management system's frameworks that drive efficiency improvements, continuous improvement and risk reduction.

Statnett focuses on quality management and continuous improvement and is certified to PAS 55 and ISO 55001 (quality standards for asset management) and ISO 14001 (environmental management).

2. Business

Statnett's objects are rooted in sector policy and the company's activities are clarified in the Articles of Association.

Article 2 of Statnett's Articles of Association states that "Statnett SF is the operator of the transmission grid and the system operator of the Norwegian power system." As transmission system operator, Statnett is responsible for at all times ensuring continuous balance between production and consumption of electrical power in Norway. The role of transmission system operator is regulated through the Regulations relating to system operators.

Article 2 further establishes that "the enterprise is responsible for operating and developing the transmission grid in a socio-economically efficient way. Statnett SF shall on its own or in conjunction with others, plan, design, build, own and operate transmission infrastructure. Statnett SF shall undertake the tasks incumbent upon it under the terms of legislation and licences. In other respects, Statnett SF shall operate on commercial principles." Statnett's Articles of Association are displayed on the Group's website.

3. Equity and dividends

The owner's dividend policy is established in the State Budget. In Proposition to the Storting no. 1 (2011–2012), the government proposes a long-term dividend policy of 50 per cent of the defined dividend basis.

The dividend basis is defined as the Group's net result after tax, adjusted for post-tax higher or lower revenue.

A resolution to increase capital can only be adopted by the General Meeting.

4. Equal treatment of owners and related-party transactions

Statnett SF is wholly owned by the State. As a result, the company does not have dedicated guidelines governing equal treatment of different owners.

As required by statute, Statnett uses valuations prepared by independent third parties for material transactions between the company and related parties.

Statnett's Code of Conduct obliges employees, consultants and trustees who represent Statnett to notify any issues concerning their legal competence.

5. Share trading

Statnett is a state-owned enterprise with no tradable shareholdings.

6. General Meeting

As sole owner, the OED exercises the ultimate authority in the enterprise through the General Meeting.

The following topics are reviewed and voted on at the Annual General Meeting. Adoption of Statnett SF's income statement and balance sheet, including appropriation of the surplus for the year or coverage of the deficit for the year, adoption of the consolidated income statement and consolidated balance sheet. Other items that fall to be considered by the General Meeting in accordance with legislation or the Articles of Association are also reviewed, including the election of the Board of Directors and remuneration of Board members and Board committees. The Board and the auditor participate in the General Meeting.

The OED's authority over the enterprise cannot be exercised outside the General Meeting. The General Meeting adopts Statnett's Articles of Association, including Statnett's objects which establish frameworks for Statnett's activities. The Annual General Meeting is held each year by the end of June.

7. Election Committee

The OED appoints the owner-elected Board members at the General Meeting. Employee-elected and any deputy members are elected by and from among the company's employees in accordance with the applicable regulations of the Act relating to state-owned enterprises.

8. Corporate assembly and Board of Directors, composition and independence

Statnett does not have a corporate assembly. In accordance with the Articles of Association, the company's Board of Directors shall comprise seven to nine members and any deputy members. Two or possibly three members and any deputy members are elected by and from among the company's employees in accordance with the applicable rules and associated regulations of Section 20 of the Act relating to state-owned enterprises. In accordance with Section 21 of the Act relating to state-owned enterprises, Board members are elected for a term of up to two years but remain in office until a new Board member has been elected even if the term of office has expired.

In accordance with the Act relating to state-owned enterprises, the CEO cannot serve on the Board of Directors. With the exception of employee representatives,

the Board members are independent of the enterprise and owner.

9. The work of the Board of Directors

The Board is responsible for ensuring appropriate management, governance and control of Statnett. The Board's work follows an annual plan and is performed in accordance with adopted rules of procedure for the Board. These rules clarify the allocation of roles and responsibility between the Board, the CEO and the internal auditor, and thus reinforce the Board's independence. The Board adopts Statnett's strategy, determines rules of procedure for the CEO and ensures that Statnett is appropriately organised. The Board adopts budgets, ensures that Statnett satisfies formal requirements, legislation and regulations and carries out satisfactory asset management and provides a good working environment.

The Board helps to ensure that it is appropriately composed, and that the Board's work is based on transparency, trust, expertise and legal competence, and that the Board members' collective expertise effectively contributes to sound long-term value-creation at Statnett. Statnett's Code of Conduct instructs the Board members, on their own initiative, to notify any matters that could affect their legal competence. Statnett satisfies statutory requirements for representation of both genders on the Board.

For an account of the Board's work, see the Report from the Board of Directors in the Annual Report.

Audit Committee

The Board has established an Audit Committee which functions as a preparatory body to the Board. The Board has adopted rules of procedure for the Audit Committee. The Audit Committee's remit is to prepare the Board's review of the accounting reporting process and monitor the systems for risk management and internal control, including the company's internal audit function. The Audit Committee shall further maintain ongoing contact with the company's elected auditor regarding the audit of the company, as well as assess and monitor the auditor's independence in accordance with the Norwegian Auditors Act.

Remuneration Committee

The Board has established a Remuneration Committee to assist the Board in establishing the CEO's terms of employment, together with the main principles and

frameworks for remuneration of Statnett's Group management. The Board has adopted rules of procedure for the Remuneration Committee.

Project Committee

The Board has established a Project Committee to prepare matters for consideration by the Board relating to follow-up of Statnett's investment projects. The Project Committee shall in particular ensure sound governance of Board-approved projects and shall follow up projects from the time investment decisions are adopted in Statnett's project model. The Project Committee shall present its considerations to the Board but shall not make decisions on behalf of the Board.

Owner meeting

In addition to the general meeting, the OED holds owner meetings with the Board of Directors, which are intended to serve as an informal forum in which the Board and owner can exchange opinions and discuss matters of major economic or strategic importance for Statnett. Statnett's Board and administration duly consider the views expressed by the owner in these meetings. Items that require the owner's approval must be discussed at the General Meeting.

10. Risk management and internal control

Statnett systematically reviews all risk affecting the business and the Board receives an updated risk profile each quarter. For a more detailed description of Statnett's frameworks and risk management procedures, see the report on risk management in the annual report.

Cumulatively, Statnett's Code of Conduct and core values, together with the company's organisation, corporate management and reporting lines provide a basis for a sound internal control environment. Internal control is an integral part of corporate management and is based on the principle of three lines of defence (manager, policy manager/staff and internal auditor). The Board is responsible for ensuring that the company has satisfactory controls and shall determine the ambition level for internal control maturity, based on Statnett's role, societal assignments and risk picture, based on a cost-benefit analysis.

Corporate governance report

Statnett complies with the government's Code of Conduct on Corporate Governance and the recommendations of the Norwegian Corporate Governance Board (NUES) to the extent appropriate. The Board's corporate governance

report is presented as part of the company's annual internal control report and deviations from the recommendations are explained.

Code of Conduct

Statnett's Code of Conduct establishes conditions governing how employees shall relate to each other and their surroundings. All policies and procedures are based on these principles. Statnett has appointed an Ethics Representative who ensures compliance with the Norwegian Working Environment Act with respect to facilitating reporting of any censurable conditions and serves as a whistle-blowing channel for both employees and non-Statnett employees. Violation of the Code of Conduct can have varying consequences, depending on the nature and scope of the breach. Ethical guidelines apply to Board members, managers, employees, hired-in personnel and other parties who act on behalf of Statnett.

Ethical guidelines for suppliers

Statnett attaches major importance to ensuring that suppliers and partners satisfy the Group's Code of Conduct for suppliers. A commitment to comply with this Code of Conduct is agreed in contracts with suppliers. Compliance with the requirements is followed up through inspections and audits during the term of contracts.

11. Remuneration of the Board of Directors

Board fees are not linked to results, option schemes or similar. A detailed overview of the remuneration paid to the Board of Directors is disclosed in the annual financial statements.

12. Remuneration paid to senior management

Statnett complies with the guidelines on management pay in state-owned enterprises. In accordance with Article 8 of the company's Articles of Association, the Board issues a declaration on management pay pursuant to the rules of the Public Limited Liability Companies Act and the Accounting Act, and the guidelines for state-owned enterprises. A detailed overview of remuneration paid to members of senior management is disclosed in the annual financial statements.

13. Information and communication

Statnett is subject to the Norwegian Freedom of Information Act (with certain restrictions) and complies with the rules on the provision of information to the power market and legislation on safety and emergency preparedness. Statnett distributes financial and operational information in accordance with legislation and practises both openness and transparency. Financial and operational information, as well as the company's financial calendar, are displayed on Statnett's website.

14. Company takeovers

Statnett SF is a state-owned enterprise. The sale of shares in the enterprise would involve a change in form of incorporation which would require a change in legislation adopted by the Storting.

15. Auditor

The external auditor is elected by the General Meeting and is independent of Statnett. The auditor presents an annual work plan to the Audit Committee. The auditor meets with the Audit Committee when relevant items are due for review. The auditor participates in Board meetings to review the annual financial statements. The auditor holds an annual meeting with the Board without management being present. The Audit Committee evaluates and issues recommendations concerning the election of the external auditor and is responsible for monitoring the auditor's independence. As an important element of work to ensure the auditor's independence, the Board has established guidelines concerning employment of the auditor for services other than auditing. The auditor reviews the company's internal control each year with the Audit Committee. Details of the auditor's remuneration split between audit and other services are disclosed in the annual financial statements.