

# Q2



# Q2 Table of contents

04	<b>Director's report</b>
10	<b>Statement of comprehensive income</b>
11	<b>Balance sheet</b>
12	<b>Statement of changes in equity</b>
13	<b>Cash flow statement</b>
14	<b>Notes</b>

# In short

## Highlights

The Statnett Group's underlying profit after tax amounted to NOK 333 million in the second quarter of 2014 (NOK 145 million in the second quarter of 2013). In the first half of 2014, the underlying profit amounted to NOK 687 million (NOK 434 million). The higher profit was primarily due to higher regulated permitted revenue due to increased activity and an increase in the asset base of the enterprise. Operating costs were lower in the second quarter and in the first half of 2014 than in the corresponding periods in 2013.

The underlying profit or loss is based on the regulated permitted revenue, whereas the recorded profit or loss will depend on stipulated tariffs and congestion revenues. The difference (higher or lower revenue) will level out over time through adjustment of tariffs, ensuring that Statnett's recorded accumulated revenue corresponds with the regulated permitted revenue.

The recorded net profit for the Group amounted to NOK 328 million in the second quarter of 2014 (loss of NOK 20 million), and NOK 499 million in the first half of 2014 (NOK 64 million). This reduced the higher revenue balance for previous years by NOK 258 million including interest in the first half of 2014.

The power situation continues to be good. Due to low precipitation, the hydrological balance fell by approximately nine TWh in the second quarter of 2014, which resulted in a shortfall of about four TWh at the end of the quarter. There was a change in reservoir water levels from 2.4 TWh at the beginning of the quarter to 1.7 TWh above the median at the end of the quarter.

## Important events

- Work in Myklebustdalen on Ørskog - Sogndal project is stopped after Gulating Appeal on June 27 passed a ruling that concluded that Statnett does not have accession to the properties. The case is pending in the Ministry of Petroleum and Energy (MPE). The work stoppage means that the project will be delayed, but the extent of the delay depends on the further process.
- A new subsea cable facility in outer Oslofjord was commissioned on 1 July. The new cable facility is important for security of supply to the Oslo area and for import and export of electric energy. The facility is 13 kilometres long and situated at a depths up to 200 metres.
- In June, Statnett entered into an agreement with Lofotkraft and Trollfjord Kraft concerning takeover of the Lofotrinen power supply lines and incorporating the facilities into the main grid. The agreement entails that Statnett will initially take over a subsection from Sortland to Kvitfossen, whereas the remaining facilities will be taken over after the ongoing upgrade work has been completed.
- Statnett has entered into an agreement with JM and Miliarium concerning the sale of Statnett's previous head office in Husebyplatået in Oslo. The agreement relates to the main section of the property in Husebyplatået. The maximum purchase price will be about NOK 700 million, depending on the final regulation of the area.
- In May, the power markets in Portugal and Spain were connected, thus joining the price coupling initiative in northwestern Europe. This means there is now one common price calculation model for 17 European countries. This will create a larger and more liquid European market, and contribute to optimising the benefit of investments in the power system.



# Director's report

## Security of supply

At the beginning of the second quarter of 2014, reservoir water levels were 39 per cent, three percentage points above the median (from the 1993-2013 measuring period). The quarter was hotter and drier than normal, and the spring of 2014 was one of the hottest recorded since 1900.

At the end of the quarter, reservoir water levels were about 69 per cent, two percentage points above the median. Due to low precipitation, the hydrological balance was somewhat impaired throughout the period, resulting in a shortfall of about four TWh at the end of the second quarter.

Total power generation and consumption was 33 TWh and 28 TWh, respectively, in the second quarter of 2014. This resulted in net export of approximately five TWh. There was no net exchange in the corresponding period in 2013.

There were some extensive outages in the second quarter of 2014 in connection with maintenance and projects. These include the following:

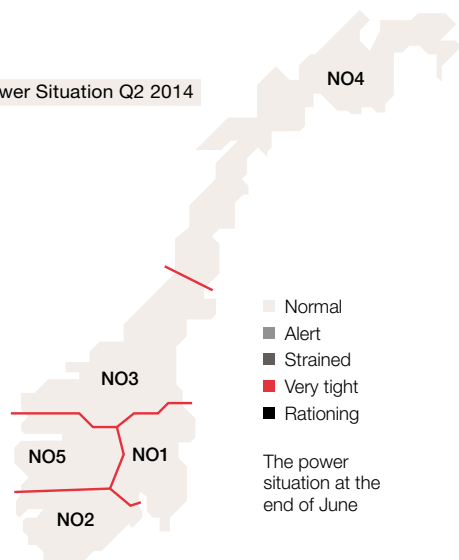
- On 1 July, the Rød-Hasle interconnector was reconnected after having been out of service for about two months. The last set of cables has now been installed and the interconnector is operating at full capacity. Holen-Rød was disconnected for maintenance from 24 April to 24 July, resulting in somewhat limited capacity between NO2-NO1 and NO3-SE1.
- In connection with construction of the Ørskog-Sogndal power line, there will be long-term disconnections on the Høyanger-Fardal (22 May - 4 August) and Haugen-Sykkylven sections (13 May-1 November).
- Skagerak and Norned interconnectors have been disconnected or operated with reduced capacity during the quarter.

As a result of reduced capacity and power producers' desire for high production, there have been extended congestion periods in southern Norway and at times major price differences.

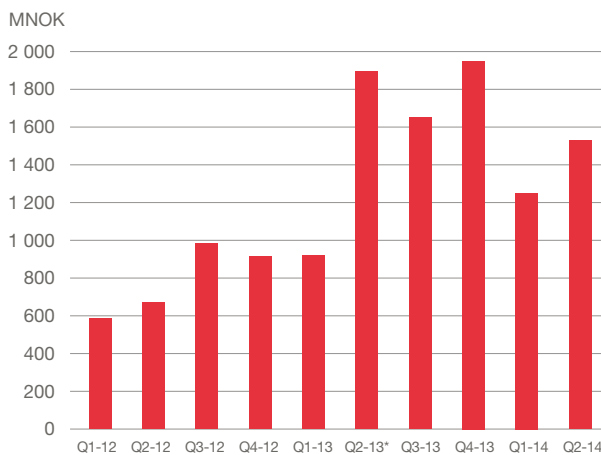
The following major faults and operational disruptions occurred in the second quarter of 2014:

- On 11 April, a fault in a circuit breaker resulted in reduced capacity to Møre. The fault was repaired and the circuit breaker was reconnected on 8 May.
- On 20 May, a breakdown occurred in a transformer in Smestad. This disrupted 42 MW of consumption in Oslo and Bærum for about four minutes before reconnection in a subsidiary grid.
- On 2 June, Mel-Fardal had to be disconnected due to a forest fire in Leikanger. The power line between Fardal and Høyanger had already been disconnected for modification work. Production in the area was high. Thus, a major decrease in generation was necessary to handle the disconnection. The power line was reconnected the following day.
- Outages in Lakselv on 4 June disrupted all consumption in Lakselv and Karasjok for about one hour.
- On 10 June, an outage occurred on the Husnes-Børtveit-Stord power line due to lightning. This disrupted the entire load at Husnes (approx. 150 MW) and about 55 MW at Kårstø. Generation from Midtfjell Vindpark fell by 90 MW. The power line was reconnected after a few minutes.

The Power Situation Q2 2014



Investments Statnett Group



\* Incl. acquisition of Nydalen Allé 33

## Investments

Statnett is planning and implementing major development projects. The plans are presented in Statnett's 2013 Grid development plan. The plans are in line with Report No. 14 to the Storting (2011-2012), the Grid Report.

Statnett invested NOK 2 862 million (NOK 2 812 million) in total in the first half of 2014, including both commissioned projects and projects under construction. Planned investments for 2014 total NOK 6 billion.

The main projects are listed in the table below.

## Overview of major investment projects

See [statnett.no](http://statnett.no) for more information about the projects.

Project	Location	Expected investments NOK million
<b>UNDER IMPLEMENTATION</b>		
Ørskog–Sogndal, new 420 kV power line	Møre og Romsdal/Sogn og Fjordane	4 600–5 600
Station investments (transformer capacity Eastern Norway, reactors for power reduction, spare transformers, Feda, Frogner and others)		1 700–2 100
Skagerrak 4	Norway/Denmark	1 400–1 700 <sup>1</sup>
Ofoten–Balsfjord, new 420 kV power line	Nordland/Troms	3 200–3 700
Eastern Corridor, voltage upgrade and new power line	Vest-Agder/Telemark	1 300–1 600
Ytre Oslofjord	Vestfold/Østfold	1 200–1 400
<b>FINAL LICENCE GRANTED</b>		
Namsos–Trollheim, new 420 kV power line	Trøndelag/Møre og Romsdal	5 400–7 300
Kløbu–Namsos, voltage upgrade	Trøndelag	700–1 000
<b>PLANNED INVESTMENTS, LICENCES PENDING OR APPEALED</b>		
Western Corridor, voltage upgrade	Vest-Agder/Rogaland	8 000–10 000
Balsfjord–Hammerfest, new 420 kV power line	Troms/Finnmark	5 000–8 000
Station investments (Hamang, Salten, Western Norway and others)		1 500–2 200
Indre Oslofjord, reinvestments interconnectors	Akershus/Buskerud	1 150–1 650
<b>INTERCONNECTORS, LICENCES PENDING</b>		
Cable to England		6 000–8 000 <sup>1</sup>
Cable to Germany		6 000–8 000 <sup>1</sup>
<b>ICT PROJECTS</b>		
Renewal of Statnett's central operations system		500–600
New Regulation and Market System		200–250
Computer network for power system management		200–250

<sup>1</sup> Statnett share

The amounts in the table show the anticipated interval including all project costs  
Projects under construction are shown in current NOK, other projects in 2014 NOK

### Important project events in the second quarter of 2014

- Ørskog - Sogndal: The Ørskog-Sykkylven section came online in May. The project will be delayed due to the Myklebustdalen ruling (please also see page 3 Important events).
- Ofoten-Balsfjord: On 8 May, Minister of Petroleum and Energy Tord Lien marked the occasion for the start-up of work on a new 420 kV power line. The project is important to improve security of supply in northern Norway and facilitate new renewable power production.
- Indre Oslofjord: The NVE has granted Statnett a licence for new subsea cables across inner Oslofjord. The decision involves the construction and operation of seven 420 kV subsea cables and two new landing facilities for each of the interconnectors Solberg-Brenntangen and Filtvet-Brenntangen between the municipalities of Hurum and Vestby.
- Voltage upgrade Aurland-Sogndal: In April, a notification was submitted to the NVE stating that Statnett wishes to upgrade the power line between Aurland and Sogndal. The scheduled project will enable new power production whilst providing more reliable power supply in the area.
- Namsos - Trollheim: In June, Statnett's Board of Directors made an investment decision in principle for a new power line between Namsos and Storheia, which constitutes the first step of the construction. Preparation for the development has started, on the assumption that the scheduled wind power projects along the whole Namsos - Trollheim line are realised.
- Western Corridor: In June, Statnett's Board of Directors made an investment decision in principle for upgrading the transmission grid between Kristiansand and Sauda. The project is important for security of supply, renewable energy production and international power trading.
- Interconnector Germany: German regional authorities in Schleswig-Holstein have granted a licence for NordLink. The licence relates to the connection point to the German grid and installation of a cable up to the 12-mile zone off the coast of Germany. The project is still awaiting additional licences, and work is ongoing based on a planned investment decision by the end of 2014.

### Financial performance

The interim report has been submitted in accordance with International Standards for Financial Reporting (IFRS) and interpretations stipulated by the International Accounting Standards Board (IASB). The accounting standards for presentation of financial accounts (IAS1) and interim reports (IAS34) have been adhered to. The accounting policies and calculation methods used in the interim financial statements are the same as in the most recent annual financial statement.

### Operating revenues

The Group's operating revenues in the second quarter of 2014 totalled NOK 1 452 million (NOK 1 124 million in the second quarter of 2013). Operating revenues from regulated operations totalled NOK 1 422 million (NOK 1 087 million), while other operating revenues amounted to NOK 30 million (NOK 37 million).

Total operating revenues for the Statnett Group for the first half of 2014 amounted to NOK 2 776 million (NOK 2 385 million). Operating revenues from regulated operations totalled NOK 2 713 million (NOK 2 298 million), while other operating revenues amounted to NOK 63 million (NOK 87 million). The increase was mainly due to higher fixed tariff revenues as a consequence of an adjusted tariff strategy, somewhat offset by a reduction in energy components due to lower energy prices. In addition, congestion revenues were higher. Low energy prices in southern Norway have resulted in increased price differences between Norway and the Netherlands and between the Nordic countries.

Statnett's operating revenues mainly derive from grid operations regulated by the NVE, which stipulates a cap (permitted revenue) for Statnett's revenues. Permitted revenue increased from NOK 2 700 million in the first half of 2013 to NOK 2 994 million in the first half of 2014, mainly due to increased activity and an increase in facilities. Operating revenues from regulated activities in Statnett consist primarily of fixed grid tariffs from customers as well as congestion revenues (price differences between areas in the Nordic region and towards the Netherlands). If the total revenues from grid operations for one year diverge from the permitted revenue, so-called higher or lower revenue will occur. Higher/lower revenue will level out over time through adjustment of future grid tariffs. In the second quarter of 2014, Statnett's lower revenue amounted to NOK 20 million (lower revenue of NOK 244 million). The lower revenue for the first six months of 2014 amounted to NOK 281 million (lower revenue of NOK 402 million). Accumulated higher revenue including interest was NOK 2 155 million at the end of the first half of 2014.

### Operating costs

The Group's operating costs totalled NOK 937 million in the second quarter of 2014 (NOK 1 103 million). The reduction was mainly due to lower transmission loss costs and lower depreciation and write-downs. Operating costs as of the first half of 2014 amounted to NOK 1 968 million (NOK 2 192 million). This was a

result of lower system services and transmission loss cost, wage and staff costs in addition to the effects from the internal efficiency program.

System services costs amounted to NOK 131 million in the second quarter of 2014, down NOK 26 million compared with the corresponding period in 2013. System services costs in the first half of 2014 were NOK 284 million, down NOK 53 million from the first half of 2013. Costs related to purchase of tertiary reserves were lower in 2014 due to mild weather and less need for adjustment. Secondary reserves costs were also reduced.

Transmission losses totalled NOK 99 million in the second quarter of 2014, compared with NOK 157 million in the second quarter of 2013. In the first half of 2014, transmission losses were NOK 270 million, NOK 115 million lower than in the corresponding period in 2013. The reduction was due to lower prices and lower loss volume due to a favourable power situation and mild weather.

Wage and staff costs in the second quarter of 2014 totalled NOK 165 million, compared with NOK 181 million in the corresponding period in 2013. Wage and staff costs totalled NOK 350 million in the first half of 2014, down NOK 38 million compared with the first half of 2013. The reduction was due to increased capitalisation of own hours for investment projects, somewhat offset by increased wage costs due to an increase in staff in the enterprise.

Depreciation and write-downs totalled NOK 267 million in the second quarter of 2014 (NOK 318 million). The level of depreciations and write-downs was extraordinarily high in the second quarter of 2013, due to obsolescence of Statnett's former head office in Oslo, as well as write-down of the Sydvestlinken. Underlying depreciations and write-downs have increased as a result of a higher activity level. Depreciation and write-downs totalled NOK 527 million in the first half of 2014. Corrected for extraordinary depreciation and write-downs in the first half of 2013, depreciation and write-downs increased by NOK 97 million in the first half of 2014.

Other operating costs amounted to NOK 275 million in the second quarter of 2014, compared with NOK 290 million in the corresponding period in 2013. Other operating costs amounted to NOK 537 million in the first half of 2014, a reduction of NOK 19 million compared with the corresponding period in 2013. The

reduction was primarily due to lower office costs, partly offset by an increase in maintenance and ICT service agreement costs.

### Operating profit

The Group's operating profit in the second quarter of 2014 was NOK 515 million (NOK 21 million). Operating profit for the first half 2014 was NOK 808 million (NOK 193 million).

### Financial items

Net financial items amounted to a loss of NOK 73 million in the second quarter of 2014 (loss of NOK 56 million). Net financial items for the first half of 2014 amounted to a loss of NOK 135 million (loss of NOK 116 million). The increase in financial items was mainly due to an average increase in loans as a result of a higher activity level.

### Net profit

The Group's profit after tax in the second quarter of 2014 was NOK 328 million (loss of NOK 20 million). The Group's profit after tax for the first half of 2014 was NOK 499 million (NOK 64 million). The underlying profit after tax, corrected for changes in the higher revenue balance, amounted to NOK 687 million in the first half of 2014 (NOK 434 million).

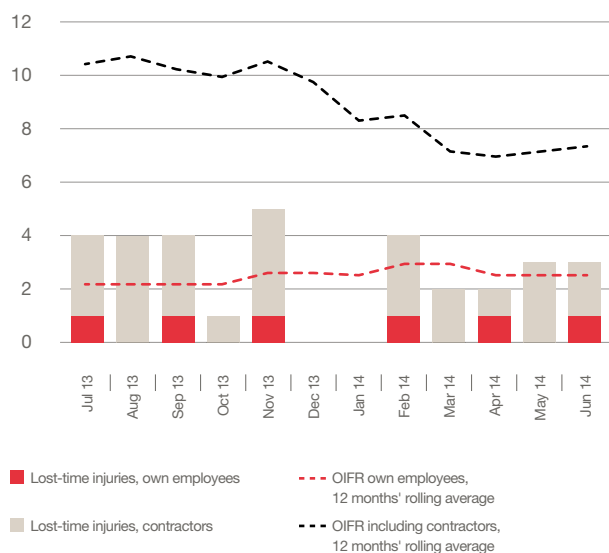
### Cash flow and balance sheet

The Group's operating activities generated an accumulated cash flow of NOK 1 492 million in the first half of 2014, compared with NOK 500 million in the corresponding period in 2013. Net cash flow from investment activities totalled NOK -2 837 million compared with NOK -2 875 million in the corresponding period in 2013. In total, loans were paid down by NOK 1 992 million, and new loans of NOK 1 329 million were raised. In the first quarter of 2014, Statnett received an equity injection of NOK 3 250 million. At the end of the first half of 2014, the Group's liquid assets and market-based securities amounted to NOK 2 862 million (NOK 3 239 million). At the end of the first quarter of 2014, the Group had total assets of NOK 35 166 million (NOK 29 875 million), and interest-bearing debt amounted to NOK 19 560 million (NOK 18 554 million). The market value of recognised interest swap and currency swap agreements (fair value hedges) related to interest-bearing debt was NOK 1 114 million. Interest-bearing debt, corrected for this, totalled NOK 18 446 million.

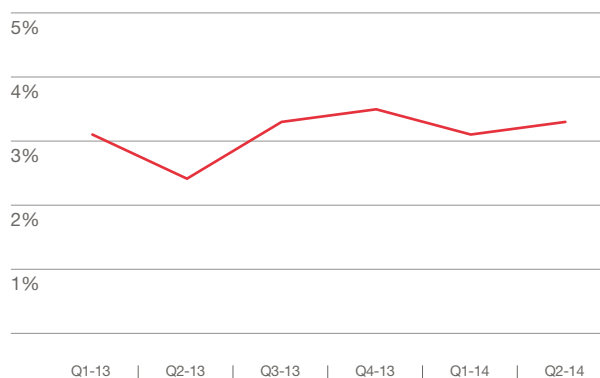
### Subsidiaries and associated companies

Statnett SF wholly owns Statnett Transport AS. In the second quarter of 2014, operating revenues for Statnett

Occupational Illness Frequency Rate (OIFR) and lost-time injuries – own employees and contractors



Absence due to illness



Transport amounted to NOK 77 million (NOK 55 million) and the profit before tax was NOK 23 million (loss of NOK 2 million).

On 3 February 2014, Statnett SF purchased 50 per cent of the shares in Lyse Sentralnett AS.

Following the acquisition, Statnett SF has achieved controlling interest in Lyse Sentralnett AS. This has been consolidated in the Statnett Group accounts. Operating revenues for Lyse Sentralnett AS during the 2014 ownership period amounted to NOK 16 million and profit before tax was NOK 5 million.

Statnett SF has an ownership interest of 28.2 per cent in Nord Pool Spot AS. Statnett's share of the result in Nord Pool Spot AS contributed NOK 9 million (NOK 6 million) to the Statnett Group's profit in the first half of 2014.

**Corporate social responsibility**

Corporate social responsibility in Statnett entails integration of social and environmental considerations in the company's day-to-day operations and vis-à-vis stakeholders. The Group focuses on understanding the expectations of the community, and on handling these expectations in a manner which generates mutual respect. Corporate social responsibility (CSR) is incorporated in Statnett's fundamental values, which is a key element of the enterprise's management system. The key elements are embedded in Statnett's objectives, which

stipulate that Statnett shall maintain security of supply through a grid with sufficient capacity and high quality, that Statnett's services shall generate value for our customers and society at large, and that Statnett shall pave the way for realising Norway's climate objectives.

Statnett reports annually on CSR in accordance with the globally recognised reporting framework, Global Reporting Initiative (GRI). Statnett's GRI reporting complies with the requirements relating to CSR reporting stipulated in the Norwegian Accounting Act. Please see Statnett's 2013 annual report for more information about CSR.

**Health, Safety and the Environment (HSE)**

A total of eight lost-time injuries were reported in the second quarter of 2014; two internal and six contractor/supplier lost-time injuries. This is a minor increase from the corresponding period in 2013, which had seven lost-time injuries. However, this must be seen in the context of a higher activity level. The trend in the number of lost-time injuries was positive in the first half of 2014, with a reduction in the number of lost-time injuries from 21 to 14 compared with the first half of 2013.

The two most serious incidents in the second quarter 2014 were a facial injury caused by stone chipping from construction machinery and a fall incident during stringing of a power line which resulted in rib fracture and graze injuries.



Overall absence due to illness was 3.3 per cent in the Group in the second quarter of 2014. This is about the same as the long term average value.

**Risk**

Statnett's risk management focuses on risk with potential consequences for HSE, security of supply, finance and compliance.

The energy situation is normal in all areas and there is a low risk of a strained power situation nationally and regionally in the present season. This also applies in the event of low inflow in the time ahead.

Statnett is exposed to HSE risks mainly in connection with implementation of development projects as well as operation and maintenance of existing facilities. HSE risk is measured as incidents both in our own activities and in supplier companies engaged in our projects. The historical injury frequency including contractors is above the desired level and a comprehensive improvement programme has been initiated. Statnett's HSE objective is that, by the end of 2017, the company will be the leading TSO in Europe and have a OIFR including contractors below 2.

The enterprise has a credit facility totalling NOK 6 500 million to be able to fund at least 12 months' revolving operation and investments without incurring any new debt. Statnett has long-term credit ratings of A+ and A2 from Standard & Poor's and Moody's Investor Service, respectively.

**Outlook**

Statnett is in a period of high construction activity and strong growth. Necessary escalation of capacity, both in our own organisation and in cooperation with suppliers, is being implemented to bolster executive capacity. Major projects that play a key role in strengthening security of supply will be completed over the next few years. Recently commissioned projects and projects that are scheduled to be completed by the end of 2014 will strengthen security of supply towards Bergen, in east Finnmark and in eastern Norway. A new cable to Denmark, Skagerrak 4, will also be commissioned in 2014.

Statnett is working on the construction of inter-connectors to Germany and the UK, which are scheduled for completion in 2018 and 2020, respectively. These projects have high priority and are important for the development and integration of the Northern European power system. The projects will help ensure security of supply during cold and dry spells and

balance variations in German and British renewable power production throughout the day. Power exchange capacity generates value creation in Norway. Moreover, the projects will support the ambitions to increase generation of renewable energy throughout the region and the EU's climate and energy targets.

The Ministry of Petroleum and Energy has submitted proposed amendments to the Energy Act for consultation as a result of the third EU energy market package. The proposal entails substantial growth in the tasks assigned to Statnett if Statnett assumes ownership of the remaining 15 per cent of the main grid. This will lead to an increased need for investments and staff in Statnett, but will also allow for an overall more efficient organisation of main grid operations and development. It also places great demands on Statnett when it comes to coordinating a number of projects in existing facilities while operating the power system.

Statnett is involved in cooperation both at a European and Nordic level. This work is important as key framework conditions stipulated by the EU are relevant also for Norway through the EEA Agreement. The establishment of a common European power market makes it necessary to harmonise the framework for the electricity market, as well as for system and grid operations. As the Norwegian power system differs from the European system, it is essential that the framework conditions are formulated to safeguard Norwegian security of supply and ensure value creation from Norwegian hydropower.

Major investments will be made in the main grid over an extended period, and all customer groups must contribute towards the financing. Statnett's work is based on a socio-economic model, and must ensure transparent and grid-based tariffs for all customer groups.

In 2013, the Norwegian Water Resources and Energy Directorate conducted a comparison study, along with about 20 other European regulators, which compared cost efficiency among the respective TSOs. The comparison study concluded that Statnett is one of the most cost-efficient TSOs in Europe. It is important for Statnett to maintain this position throughout the strong growth phase. Consequently, Statnett aims to increase efficiency by 15 per cent, based on the 2013 budget, by the end of 2016.

Oslo, 21 August 2014

**The Board of Directors, Statnett SF**

# Statement of comprehensive income

Statnett Group

(Amounts in NOK million)	Note	Second quarter		Year to date		Year
		2014	2013	2014	2013	2013
<b>OPERATING REVENUE</b>						
Operating revenue regulated operations	2	1 422	1 087	2 713	2 298	4 403
Other operating revenue		30	37	63	87	158
<b>Total operating revenue</b>		<b>1 452</b>	<b>1 124</b>	<b>2 776</b>	<b>2 385</b>	<b>4 561</b>
<b>OPERATING COSTS</b>						
System services		131	157	284	337	569
Transmission losses		99	157	270	385	698
Salaries and personnel costs		165	181	350	388	779
Depreciation and write-downs of tangible fixed assets		267	318	527	526	1 048
Other operating costs		275	290	537	556	1 121
<b>Total operating costs</b>		<b>937</b>	<b>1 103</b>	<b>1 968</b>	<b>2 192</b>	<b>4 215</b>
<b>Operating profit</b>		<b>515</b>	<b>21</b>	<b>808</b>	<b>193</b>	<b>346</b>
Income from associate		7	2	9	6	10
Financial income		36	35	56	53	126
Financial costs		109	91	191	169	393
<b>Profit before tax</b>		<b>449</b>	<b>-33</b>	<b>682</b>	<b>83</b>	<b>89</b>
Tax		121	-13	183	19	7
<b>Profit for the period</b>		<b>328</b>	<b>-20</b>	<b>499</b>	<b>64</b>	<b>82</b>
<b>OTHER COMPREHENSIVE INCOME</b>						
Changes in fair value, held-for-sale investments		-	-	-	-	1
Changes in fair value for cash flow hedges		-37	24	-58	28	33
Tax effect		10	-7	16	-8	-10
<i>Other comprehensive income to be reclassified to profit or loss in subsequent periods</i>		-27	17	-42	20	24
Changes in estimate deviations of pension liabilities		-	-	-	-	60
Tax effect		-	-	-	-	-16
<i>Other comprehensive income not to be reclassified to profit or loss in subsequent periods</i>		-	-	-	-	44
<b>Total other comprehensive income</b>		<b>-27</b>	<b>17</b>	<b>-42</b>	<b>20</b>	<b>68</b>
<b>Total comprehensive income</b>		<b>301</b>	<b>-3</b>	<b>457</b>	<b>84</b>	<b>150</b>

# Balance sheet

Statnett Group

(Amounts in NOK million)

	Note	30.06.14	30.06.13	31.12.13
<b>ASSETS</b>				
<b>FIXED ASSETS</b>				
Goodwill		53	53	53
Other intangible fixed assets		184	77	170
Tangible fixed assets		21 963	18 481	21 472
Plant under construction	5	8 071	5 898	6 020
Investment in associate		86	60	81
Financial fixed assets	3	1 373	1 184	1 161
<b>Total fixed assets</b>		<b>31 730</b>	<b>25 753</b>	<b>28 957</b>
<b>CURRENT ASSETS</b>				
Trade accounts receivable and other short-term receivables	3	574	883	1 080
Claim upon decided, non-registered contributed capital		-	-	3 250
Market-based securities	3	682	678	640
Liquid assets	3	2 180	2 561	970
<b>Total current assets</b>		<b>3 436</b>	<b>4 122</b>	<b>5 940</b>
<b>Total assets</b>		<b>35 166</b>	<b>29 875</b>	<b>34 897</b>
<b>EQUITY AND LIABILITIES</b>				
<b>EQUITY</b>				
Contributed capital		5 950	2 700	2 700
Decided, non-registered contributed capital		-	-	3 250
Other equity accrued		6 641	6 119	6 185
Non-controlling interest		76	-	-
<b>Total equity</b>		<b>12 667</b>	<b>8 819</b>	<b>12 135</b>
<b>LONG-TERM LIABILITIES</b>				
Deferred tax		743	558	557
Pension liabilities		378	469	486
Other liabilities		377	66	255
Long-term interest-bearing debt	3	18 410	17 645	17 441
<b>Total long-term liabilities</b>		<b>19 908</b>	<b>18 738</b>	<b>18 739</b>
<b>CURRENT LIABILITIES</b>				
Short-term interest-bearing debt	3	1 150	909	2 468
Trade account payable and other short-term debt	3	1 436	1 395	1 555
Tax payable		5	14	-
<b>Total current liabilities</b>		<b>2 591</b>	<b>2 318</b>	<b>4 023</b>
<b>Total equity and liabilities</b>		<b>35 166</b>	<b>29 875</b>	<b>34 897</b>

# Statement of changes in equity

Statnett Group

<i>(Amounts in NOK million)</i>	<b>Total equity</b>	<b>Non-controlling interest</b>	<b>Total equity allocated to owner of Statnett SF</b>	<b>Other equity accrued</b>	<b>Other items</b>	<b>Decided, non-registered contributed capital</b>	<b>Contributed capital</b>
<b>Equity as at 1.1.2013</b>	<b>8 852</b>	<b>-</b>	<b>8 852</b>	<b>6 233</b>	<b>-81</b>	<b>-</b>	<b>2 700</b>
Profit/loss for the year	82	-	82	82	-	-	-
Other comprehensive income	68	-	68	44	24	-	-
Dividends declared	-117	-	-117	-117	-	-	-
Decided, non-registered contributed capital	3 250	-	3 250	-	-	3 250	-
<b>Equity as at 31.12.2013</b>	<b>12 135</b>	<b>-</b>	<b>12 135</b>	<b>6 242</b>	<b>-57</b>	<b>3 250</b>	<b>2 700</b>
<b>Equity as at 1.1.2013</b>	<b>8 852</b>	<b>-</b>	<b>8 852</b>	<b>6 233</b>	<b>-81</b>	<b>-</b>	<b>2 700</b>
Profit/loss for the period	64	-	64	64	-	-	-
Other comprehensive income	20	-	20	-	20	-	-
Dividends declared	-117	-	-117	-117	-	-	-
<b>Equity as at 30.6.2013</b>	<b>8 819</b>	<b>-</b>	<b>8 819</b>	<b>6 180</b>	<b>-61</b>	<b>-</b>	<b>2 700</b>
<b>Equity as at 1.1.2014</b>	<b>12 135</b>	<b>-</b>	<b>12 135</b>	<b>6 242</b>	<b>-57</b>	<b>3 250</b>	<b>2 700</b>
Profit/loss for the period	499	1	498	498	-	-	-
Other comprehensive income	-42	-	-42	-	-42	-	-
Paid contributed capital	-	-	-	-	-	-3 250	3 250
Acquisition subsidiary	75	75	-	-	-	-	-
<b>Equity as at 30.6.2014</b>	<b>12 667</b>	<b>76</b>	<b>12 591</b>	<b>6 740</b>	<b>-99</b>	<b>-</b>	<b>5 950</b>



# Cash flow statement

Statnett Group

<i>(Amounts in NOK million)</i>	Year to date		Year
	2014	2013	2013
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>			
Profit before tax	682	83	89
Loss/gain(-) on sale of fixed assets	-3	-2	-3
Depreciation and write-downs	527	526	1 048
Paid taxes	-	-210	-210
Interest recognised in the income statement	145	191	268
Interest received	33	22	45
Interest paid, excl. construction interest	-145	-92	-257
Changes in trade accounts receivable/payable	-57	122	144
Changes in other accruals	319	-134	190
Result from companies using equity method	-9	-6	-10
<b>Net cash flow from operating activities</b>	<b>1 492</b>	<b>500</b>	<b>1 304</b>
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>			
Proceeds from sale of tangible fixed assets	3	4	14
Purchase of tangible fixed assets, other intangible fixed assets and plants under construction	-2 719	-2 129	-5 546
Construction interest paid	-85	-68	-158
Purchase of subsidiary, net of cash acquired	-40	-491	-491
Changes in investment in subsidiaries, associates and joint ventures	-	-	-20
Change in long term loan receivables	-	-191	-
Dividend received	4	-	4
<b>Net cash flow from investing activities</b>	<b>-2 837</b>	<b>-2 875</b>	<b>-6 197</b>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>			
Proceeds from new interest-bearing borrowings	1 329	6 995	8 195
Repayment of interest-bearing debt	-1 992	-2 692	-2 883
Proceeds from sale of market-based securities	323	158	310
Purchase of market-based securities	-355	-159	-276
Dividends paid	-	-	-117
Proceeds from new equity	3 250	-	-
<b>Net cash-flow from financing activities</b>	<b>2 555</b>	<b>4 302</b>	<b>5 229</b>
<b>Net cash flow for the period</b>	<b>1 210</b>	<b>1 927</b>	<b>336</b>
Cash and cash equivalents at the start of the period	970	634	634
Cash and cash equivalents at the close of the period	2 180	2 561	970

Restricted bank deposit amounting to NOK 68 million is included in cash and cash equivalents as at 30 June, 2014. Unused credit facilities of NOK 6 500 million are not included in cash and cash equivalents.

# Notes

## Note 1 - Accounting principles

The interim accounts for the first six months of 2014 have been presented in accordance with IAS 34. The interim accounts do not contain all the additional information required in the annual accounts, and should therefore be read in the context of the 2013 annual accounts.

The accounting principles applied for the interim accounts for the first half of 2014 are consistent with the accounting principles that were applied for the 2013 annual accounts with the following exceptions:

As of 1 January 2014, the Group implemented IFRS 10 Consolidated financial statements. The standard is based on a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 require management to exercise significant judgement to determine which entities are controlled by the parent company, where all controlled enterprises must be consolidated. The decisive factor in determining whether a company is to be consolidated under IFRS 10 is whether there is control. Control exists when the investor has power over the investee; is exposed to or entitled to variable returns from the investee; and has the ability to exercise power to govern activities of the investee that significantly affect the investee's return. Thus, the Group has evaluated which entities should be consolidated pursuant to IFRS 10. However, implementation of the standard has not resulted in any changes with regard to which entities must be consolidated.

## Note 2- Operating revenues regulated operations

Statnett's operating revenues mainly derive from regulated grid operations. Operating revenues from regulated activities in Statnett's financial reporting consist primarily of fixed grid tariffs from the customers as well as congestion revenues (price differences between areas in the Nordic region and towards the Netherlands). Statnett's grid operations are regulated by the NVE, which stipulates a cap for Statnett's revenues (permitted revenue). If the total revenues from grid operations for one year diverge from the permitted revenue, so-called higher or lower revenue will occur. Higher/lower revenue will level out over time through adjustment of future grid tariffs.

Tariff revenues increased from NOK 2 165 million in the first half of 2013 to NOK 2 363 million in the same period in 2014. Congestion revenues increased from NOK 301 million in the first half of 2013 to NOK 453 million in the same period in 2014.

Lower revenue in the first half of 2014 amounted to NOK 281 million (lower revenue of NOK 402 million). Setting the actuarial gains/losses on pensions to zero as of 1 January 2013 means that NOK 143 million of pension expenses is not included in the revenue cap basis. To compensate for this, the higher revenue balance will be reduced by NOK 143 million. Accumulated higher revenue including interest and compensation amounted to NOK 2 155 million at the end of the second quarter of 2014.

Statnett Group <i>(Amounts in NOK million)</i>	Year to date		Year
	2014	2013	2013
Tariff revenues	2 363	2 165	4 150
Congestion revenues	453	301	576
Income from other owners in shared grids	-103	-168	-323
<b>Operating revenues regulated activities</b>	<b>2 713</b>	<b>2 298</b>	<b>4 403</b>
Permitted revenue	1 552	1 370	5 361
<b>Higher/lower (-/+) revenue, excl. interest</b>	<b>281</b>	<b>402</b>	<b>958</b>
Provision for interest higher/lower (-/+) revenue	-23	-30	-59
Changes in higher/lower (-/+) revenue regarding pension liabilities as at 1.1.2013	-	143	143
<b>Changed balance for higher/lower (-/+) revenue</b>	<b>258</b>	<b>515</b>	<b>1 042</b>
<b>Balance higher/lower (-/+) revenue, incl. interest as at 1 Jan.</b>	<b>-2 413</b>	<b>-3 455</b>	<b>-3 455</b>
<b>Changed balance for higher/lower (-/+) revenue, incl. interest</b>	<b>258</b>	<b>515</b>	<b>1 042</b>
<b>Balance higher/lower (-/+) revenue, incl. interest year to date</b>	<b>-2 155</b>	<b>-2 940</b>	<b>-2 413</b>

#### Impact of grid outages on profit

As the transmission system operator, Statnett is in dialogue with the NVE regarding how outages in Nyhamna in connection with system protection activation in the period leading up to 2012 should be handled with respect to the KILE scheme and system operation costs. The financial consequences for Statnett of such grid interruptions/outages have therefore not been clarified. For outages on the Viklandet-Fræna power line after 2012, a provision has been made in the accounts following the same principle as for previous incidents.

## Note 3 – Financial instruments

### Fair values

#### Financial assets and liabilities

The fair value of forward exchange contracts is determined by applying the forward exchange rate on the balance sheet date.

The fair value of currency swaps and interest rate swap is calculated as the present value of future cash flows.

Fair value is mainly confirmed by the financial institution with which Statnett has entered into such contracts.

The fair value of financial assets and long-term liabilities accounted for at amortised cost has been calculated:

- using quoted market prices,
- using interest rate terms for liabilities with a corresponding maturity and credit risk, or
- using the present value of estimated cash flows discounted by the interest rate that applies to corresponding liabilities and assets on the balance sheet date.

In the case of financial instruments such as financial assets available for sale, trade account receivables and other short-term receivables, liquid assets, trade accounts payable and other current liabilities, it is assumed that the book value is a good estimate of fair value, due to the short-term nature of the items.

As 31 March 2014

Group (Amounts in NOK million)	Category	Book value	Fair value
<b>Assets</b>			
Long-term receivables	Loans and receivables	2	2
Subord. capital in Statnett SF's pension fund	Fair value through profit/loss	75	75
Financial assets available for sale	Available for sale	9	9
Derivatives	Fair value through profit/loss	1 287	1 287
<b>Total financial fixed assets</b>		<b>1 373</b>	<b>1 373</b>
Trade accounts receivable	Loans and receivables	64	64
Derivatives	Fair value through profit/loss	34	34
Other short-term receivables	Loans and receivables	476	476
<b>Total trade accounts and other short-term receivables</b>		<b>574</b>	<b>574</b>
<b>Market-based securities</b>	<b>Fair value through profit/loss</b>	<b>682</b>	<b>682</b>
<b>Liquid assets</b>	<b>Fair value through profit/loss</b>	<b>2 180</b>	<b>2 180</b>
<b>Debt</b>			
Other long-term interest-bearing debt	Other liabilities	18 088	18 395
Derivatives	Fair value through profit/loss	322	322
<b>Total long-term interest-bearing debt</b>		<b>18 410</b>	<b>18 717</b>
Other short-term interest-bearing debt	Other liabilities	1 146	1 188
Derivatives	Fair value through profit/loss	4	4
<b>Total short-term interest-bearing debt</b>		<b>1 150</b>	<b>1 192</b>
<b>Trade accounts payable and other short-term debt</b>	<b>Other liabilities</b>	<b>1 436</b>	<b>1 436</b>



**Fair value hierarchy**

Level 1: Fair value is used for quoted prices from active markets for identical financial instruments. No adjustments are made with regard to these prices.

Level 2: Fair value is measured using other observable input than for Level 1, either direct (prices) or indirect (derived from prices).

Level 3: Fair value is measured using input based on non observable market data.

As at 30. June 2014

<b>Group</b> (Amounts in NOK million)	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>ASSETS</b>				
<b>Financial assets at fair value through profit or loss</b>				
Subord. capital in Statnett SF's pension fund	-	-	75	75
Investment in market-based securities	682	-	-	682
Liquid assets	3 436	-	-	3 436
<b>Financial assets available for sale</b>				
Minor shareholdings in non-listed companies	-	-	9	9
<b>Hedging</b>				
Derivatives	-	1 321	-	1 321
<b>Total assets</b>	<b>2 867</b>	<b>1 147</b>	<b>84</b>	<b>4 098</b>
<b>LIABILITIES</b>				
<b>Other financial liabilities accounted for at amortised cost</b>				
Interest-bearing debt	19 560	-	-	19 560
<b>Hedging</b>				
Derivatives	-	326	-	326
<b>Total liabilities</b>	<b>-</b>	<b>531</b>	<b>-</b>	<b>531</b>

## Note 4 - Purchase of subsidiary

On 3 February 2014, Statnett SF purchased 50 per cent of the shares in Lyse Sentralnett AS. After the purchase, Statnett SF has acquired 100 per cent of voting rights in the company.

Following this acquisition, Statnett SF has achieved control of Lyse Sentralnett AS, and the company has therefore been included using the acquisition method in accordance with IFRS 3R.

Statnett has an option to acquire another 25 per cent of Lyse Sentralnett once a licence has been granted for the Lysebotn-Støleheia power line and the remaining 25 per cent upon completion.

Lyse Sentralnett owns the main grid facilities in the Lyse area. As part of improving security of supply to the Stavanger area, Lyse Sentralnett AS has applied for a licence for a new 420 kV power line between Lyse and Støleheia. Statnett will be responsible for constructing the new power line.

On the acquisition date, the following identifiable assets and liabilities were included in the consolidated accounts:

<i>(Amounts in NOK million)</i>	<b>Fair value on the acquisition date</b>
<b>Account items</b>	
<b>ASSETS</b>	
<b>Fixed assets</b>	
Deferred tax assets	1
Tangible fixed assets	104
Plants under construction	33
<b>Total fixed assets</b>	<b>138</b>
<b>Current assets</b>	
Trade accounts and other short-term receivables	15
Liquid assets	33
<b>Total current assets</b>	<b>48</b>
<b>Total assets</b>	<b>186</b>
<b>LIABILITIES</b>	
<b>Current liabilities</b>	
Trade accounts payable and other short-term debt	38
Tax payable	1
<b>Total current liabilities</b>	<b>39</b>
<b>Total liabilities</b>	<b>39</b>
<b>Total fair value</b>	<b>147</b>
Non-controlling interest	74
<b>Agreed purchase price</b>	<b>73</b>

Operating revenues and profit for the period in Lyse Sentralnett AS:

<i>(Amounts in NOK million)</i>	<b>First half year 2014</b>	<b>In the period after acquisition (3 February–31 March 2014)</b>
Operating revenue	19	6
<b>Profit for the period</b>	<b>5</b>	<b>1</b>

## Note 5 - Plants under construction

<i>Group (Amounts in NOK million)</i>	<b>2014</b>	<b>2013</b>
Plants under construction at 1 January	6 020	4 277
Additions during the year	2 862	2 037
Transferred to tangible fixed assets	(811)	(396)
Write-offs	-	(20)
<b>Plants under construction at 30 June</b>	<b>8 071</b>	<b>5 898</b>

### Contractual obligations as at 30 June 2014

Contractual obligations as at 30 June 2014 total NOK 3 292 million. The amount concerns development projects where contractual obligations exceed NOK 50 million.

## Note 6 – Sale of Statnett's former head office

With effect as of 1 July 2014, Statnett has entered into an agreement with JM Norway AS and Miliarium AS concerning the sale of Statnett's former head office in Husebyplatået in Oslo. The agreement relates to the main section of Statnett's property in Husebyplatået, which was Statnett's head office from 1992 to 2013. In addition, an option agreement has been entered into for the remaining part of the site. The total framework for the sale is approximately NOK 700 million. The book value of the properties comprised by the agreement is NOK 72 million.

## Note 7 – Suspension of work on parts of the Ørskog-Sogndal power line

On 27 June, Gulating Court of Appeal ruled that the Ministry of Petroleum and Energy's (MPE) licence decision regarding the choice of power line route through Myklebustdalen valley in Bremanger Municipality had been made on an erroneous basis and that Statnett's access right to the properties was invalid. Statnett was thus obliged to suspend the associated work. Approximately NOK 75-100 million had been invested in the area as of when construction was suspended. Statnett has not decided whether the ruling will be appealed to the Supreme Court.

Consequently, the Ørskog-Sogndal project will be delayed. However, the extent of the delay depends on the further process. Statnett must have a valid licence to be able to resume work, and awaits decision in the Ministry of Petroleum and Energy.

## Declaration from the board of directors and CEO

We declare that, to the best of our knowledge, the accounts for the period 1 January to 30 June 2013 have been prepared in accordance with IAS 34 – Interim Financial reporting, and that the formation in the accounts provides a correct impression of the group's assets, liabilities, financial position and result as a whole. We also declare that, to the best of our knowledge, the half-year report provides a correct overview of important events in the accounting period and their influence on the half-year accounts, the most important risk and uncertainty factors facing the business in the next accounting period, as well as significant transactions with closely related parties.

Oslo, 21 August 2014  
The Board of Directors, Statnett SF

Kolbjørn Almlid  
Chairman of the board

Per Hjorth  
Deputy chairman

Maria Sandsmark  
Board member

Egil Gjesteland  
Board member

Synne Larsen Homble  
Board member

Kirsten Indgjerd Værdal  
Board member

Steinar Jøråndstad  
Board member,  
employee  
representative

Pål Erland Opgård  
Board member,  
employee representative

Trine Pande-Rolfsen  
Board member,  
employee representative

Auke Lont  
President and CEO



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