

Statnett

Annual report 2020

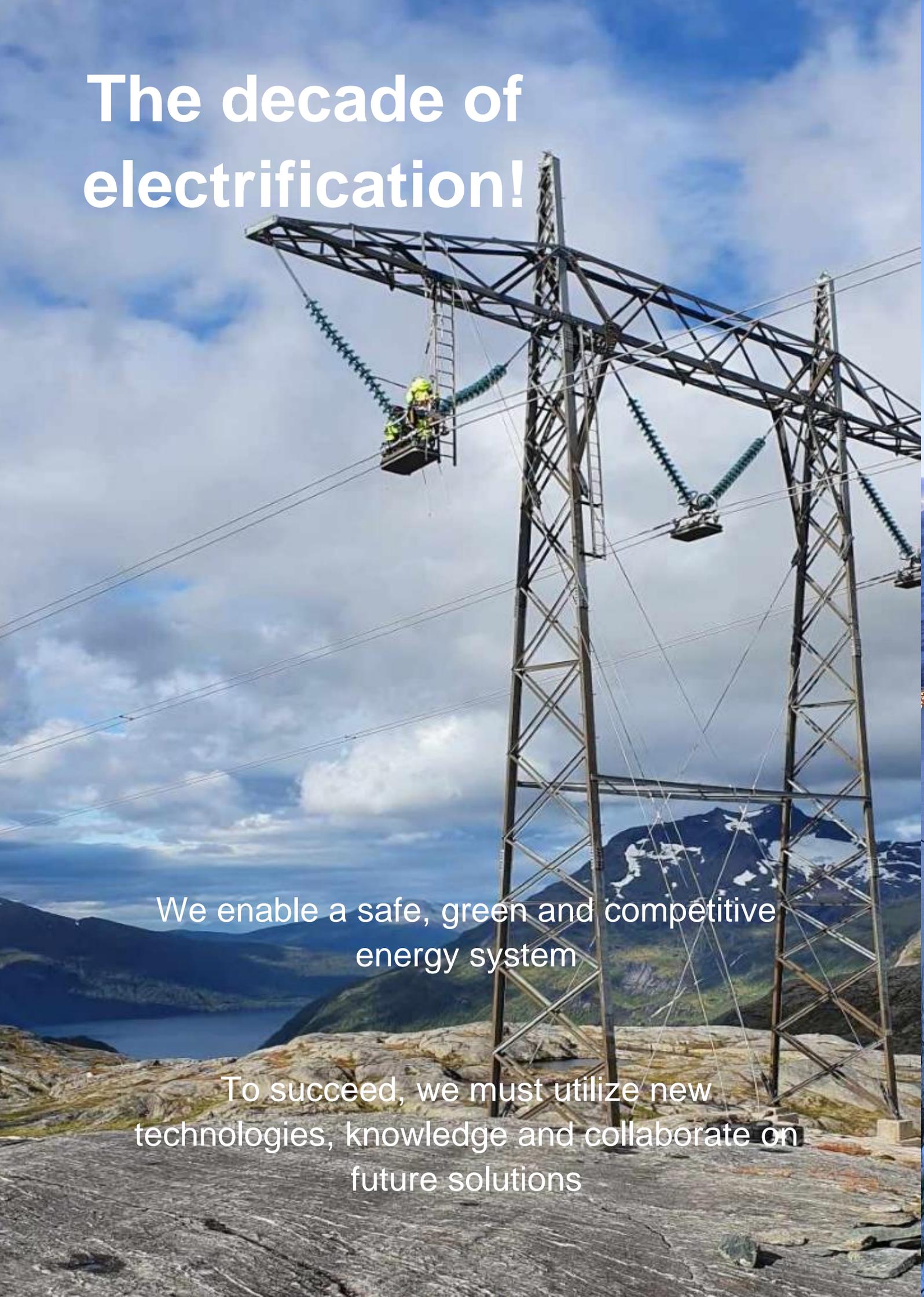
The future is electric!



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The decade of electrification!

A photograph of a high-voltage power line tower. Two workers in yellow safety gear are on a platform, working on the insulators. The tower is made of metal lattice. In the background, there are mountains with snow patches and a lake. The sky is blue with white clouds.

We enable a safe, green and competitive energy system

To succeed, we must utilize new technologies, knowledge and collaborate on future solutions

This is Statnett

Statnett operates the transmission grid, i.e. the grid connects electricity producers, consumers and underlying networks in a nationwide system. Statnett is responsible for operating and developing an efficient nationwide power grid with a high security of supply. At the same time, Statnett is tasked with enabling the national grid to handle the impact of increased renewable power production, new power intensive businesses and electrification to reduce CO₂ emissions. This makes Statnett an important contributor to value creation and an enabler for the establishment of new green industries, as well as to the fulfilment of national and international climate commitments.

Statnett is the transmission system operator in Norway

Statnett is the operator of the transmission grid and system operator in the Norwegian power system (Transmission System Operator, TSO). Statnett is responsible for developing, operating and maintaining the transmission grid in a socio-economically rational manner.

Statnett's mandate is operationalized through three integrated primary roles:

- **System administrator**
Responsible for safeguarding satisfactory delivery quality and system operation, as well as market solutions that contribute to efficient development and utilization of the power system.
- **Grid owner**
We plan, design, build, operate and maintain the entire Norwegian transmission grid and grid connections to other countries' power systems in a cost effective way.
- **Power system planning**
We assess possible development needs related to transmission capacity and prepare an overall plan for the development of the transmission grid.

Planning the nationwide power grid and being responsible for the system requires neutrality, transparency and trust. These tasks affect all players in the power market. The role of owner of the transmission grid also requires Statnett to work closely with the authorities and other stakeholders in planning the power system to ensure that the right capacity is available at the right time.

Socio-economic development of the power grid

The Norwegian Energy Act and Statnett's Articles of Association require the power grid to be developed in a socio-economically rational manner. This applies both to decisions made by Statnett and decisions made by the authorities when issuing necessary permits for projects. Socio-economic analyses ensure that decision-makers receive expertly prepared documentation and comparable decision-making support.

Statnett is owned by the Norwegian state

Statnett is a state-owned enterprise established in accordance with the Act relating to state-owned enterprises and is owned by the Norwegian state through the Ministry of Petroleum and Energy (OED). The Norwegian Water Resources and Energy Directorate (NVE) is responsible for supervision in accordance with watercourse and energy legislation. The Norwegian Energy Regulatory Authority (RME) is a regulatory authority, which performs its tasks as an independent authority. RME's mandate is to ensure that operators comply with the regulations intended to ensure competitive conditions in the power market and an efficiently run power grid.

In Norway, power transmission is a monopoly franchise. State ownership is intended to contribute to rational socio-economic operation and development of the transmission grid. Statnett is responsible for critical infrastructure and performs assignments of major importance for civil security. State ownership helps ensure neutrality. Our revenues are regulated by RME, which sets an upper limit for the tariffs we can charge for our services. This regulation is based on the premise that, over time, Statnett's income will cover its costs and provide a reasonable return on invested capital, assuming efficient operation, utilization and development of the grid.

Access to the power grid is part of the climate solution

We are in the decade of electrification. At the same time, there is a considerable need for upgrading existing facilities. The strong growth in electrification and new renewable power production requires more automation, increased interaction and faster exchange of information throughout the power industry in Norway, the Nordic countries and Europe. Statnett is mandated to ensure the operationally viable connection of new or increased consumption or production to the grid, while maintaining the power system's security of supply. If connection to the existing grid is not operationally viable, Statnett must investigate and make necessary investments in the transmission grid in accordance with prevailing laws and regulations.

Statnett's customers

Everyone who is connected to the transmission grid is a customer of Statnett. This means power producers, power consumers and owners of regional grids. In most cases, users are connected to regional grids and enter into a connection agreement with grid operators other than Statnett. However, in such cases local grid operators must clarify with Statnett whether there is sufficient capacity in the transmission grid.

We are entering the decade of electrification

The power system must facilitate zero emissions from the energy sector in 2050 and major emission cuts as early as 2030. Electrification is central to achieving this goal. Statnett's strategy is to develop a future-proof and efficient power system that facilitates increased renewable power production, new power-intensive business activities and electrification in order to reduce carbon emissions. The company aims to help satisfy customers' need for green energy and ensure good delivery quality and high available grid capacity.

We must develop methods and resources to minimize the risks of building too late or building too early or building the wrong types of infrastructure. Among other things, this includes digitalization and other solutions to make better use of existing grid capacity, more comprehensive planning of reinvestments and new investments. It also means better market solutions, measures that promote more flexible consumption, new solutions for system operations as well as measures that can reduce the risk of faults and interruptions or reduce the social costs of power outages or limited grid capacity.

Statnett is implementing extensive digitalization measures in order to develop, operate and maintain the grid more cost effectively and to extend the operational lifespan of existing infrastructure. New, smart solutions can also help us make better use of the power system. This will help ensure that customers do not pay more than needed for a secure power supply. Together, digitalization, efficient markets and cost reductions must provide maximum security of supply for the investments made.

Health, safety and the environment (HSE)

Everyone who works at or for Statnett should arrive home from work safely each day. Statnett adopts a zero tolerance approach to accidents and has a target of becoming a leader in HSE among European TSOs and leading in digital security.

Statnett works safely and sustainably

Statnett contributes to the UN's Sustainable Development Goals by facilitating electrification and performing necessary tasks in a safe and sustainable manner. In 2020, Statnett implemented a number of measures in its daily work to ensure that the company takes its share of responsibility for counteracting global challenges such as climate change, social dumping, corruption and the loss of biodiversity. Among other things, we have raised the issue of sustainability to a strategic level and strengthened our ambitions related to key sustainability focus areas, such as decent working conditions, our own greenhouse gas emissions and increased diversity in the company. Our work to coordinate and intensify our efforts in the area of sustainability in recent years has yielded results: in 2020, the company was able to obtain its first two green bonds totaling NOK 3.6 billion.

Reports and investigations are available

To meet society's needs, Statnett performs a number of analyses and investigations to provide a basis for decisions regarding additional potential measures. These may include choice-of-concept studies, analyses related to specific projects, or background work. Statnett also prepares a Grid Development Plan and Power System Assessment every other year.

Published reports can be viewed at www.statnett.no.

Operations and development

Statnett operates around 11,412 km of high-voltage power lines, 174 transformer substations and 1,798 km of subsea and land cables across Norway. The power system is developed and managed by Statnett's nationwide organization, which is also responsible for emergency preparedness. The grid is monitored by Statnett's control centers. Statnett is also responsible for interconnectors with Sweden, Denmark, Finland, the Netherlands, Germany and Russia.

Substantial developments in the transmission grid

Over the past ten years, Statnett has been engaged in a great deal of construction activity, with many ongoing projects throughout Norway. Since 2009, Statnett has constructed and upgraded more than 2,000 km of power lines and more than 80 new and existing substations. In addition, the company has completed construction and initiated service trials of a new interconnector to Germany and will complete construction of an interconnector to the United Kingdom in 2021.

Balance between production and consumption of electricity

In Norway, Statnett has the task of coordinating power production and consumption ensuring that the power system is always in balance. This is called instantaneous balance. The power trading market determines how much power will be produced and at which price. This is the market where power producers and power suppliers meet. However, buyers and sellers never produce and use the exact volumes agreed upon in advance. Statnett is responsible for ensuring that the load on the grid is kept within acceptable limits.

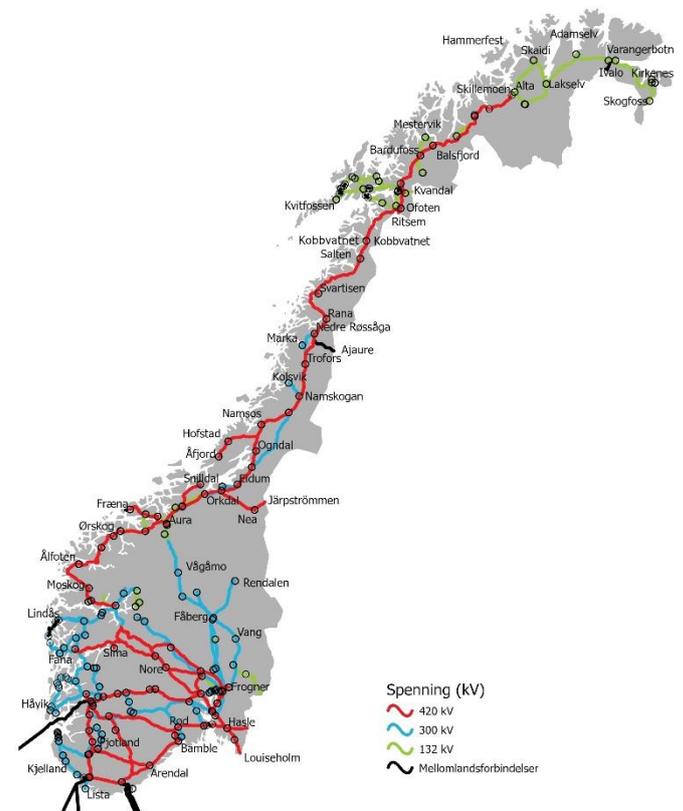
Grid levels in the power market

In Norway, the transmission grid and the distribution grid are administered separately.

The transmission grid links major producers and consumers in a nationwide system, which also includes international interconnectors. The transmission grid is high voltage, normally 300 kV or 420 kV, though in some areas of Norway it can be 132 kV. Statnett operates the transmission grid in Norway.

The distribution grid comprises the regional power grids that normally distribute power to smaller end users. The distribution grid has voltages up to 132 kV.

The transmission grid in Norway in 2020



Please visit www.statnett.no for further information about Statnett.

Operational key figures

Power lines divided into voltage level¹⁾

Voltage level	Unit	2020	2019	2018	2017	2016
AC 132	km	2 380	2 409	2 411	2 411	2 468
AC 300	km	4 136	4 043	4 180	4 387	4 601
AC 420	km	4 629	4 492	4 132	3 803	3 276

¹⁾ Statnett also operated power lines at following voltage level: 22 kV, 152 kV, 220 kV, 250 kV, 350 kV.

Transmission lines and cables in operation ²⁾	Unit	2020	2019	2018	2017	2016
Power lines in operation	km	11 412	11 076	10 947	10 855	10 600
Underground cables and subsea cables in operation ¹⁾	km	1 798	1 616	1 423	1 287	1 282
Power lines commissioned	km	105	156	225	232	157
Upgraded existing power lines	km	0	106	119	155	0
Demolished facilities	km	12	61	50	54	25
Number of commissioned field circuit breaker	Number	59	94	67	50	61

²⁾ The principles for reporting were amended in 2016. Values have been updated for all years. The figures show installed running meters of cable, not route kilometers.

Financial key figures	2020	2019	2018	2017	2016
Investments	7 299	9 618	12 377	9 235	7 695
Equity	18 938	17 783	16 194	14 011	13 867
Total assets	82 885	76 323	70 281	58 721	50 743
Operating revenues	10 761	9 641	9 138	7 401	6 678
Profit after tax	2 697	1 906	2 213	813	645

Highlights

Secure power supply for Norwegian consumers

Covid-19 has had major impact on society in 2020, and the pandemic has also affected Statnett's operations. Statnett has a robust emergency response organization, with expertise in areas such as risk analysis, plans and measures for dealing with a pandemic. We started our emergency response work as early as January 2020. When the Norwegian government introduced nationwide restrictions, Statnett implemented strict measures to ensure maintaining a secure power supply, contribute to limiting the spread of the virus and generally keep operations running. Throughout the period, Statnett has assessed and adjusted its response based on these principles, ongoing risk assessments, the rate of infection and the authorities' instructions. Despite the pandemic, Statnett maintained a satisfactory operating situation throughout 2020 with stable domestic system and infrastructure operations.

Power production record in 2020

The year 2020 was out of the ordinary in a number of ways, also for the power sector. A total of 153.3 TWh of electricity was produced in Norway. Never before has so much electricity been produced. The high volume is attributable to high precipitation levels throughout the year. In a normal year, the Norwegian Water Resources and Energy Directorate (NVE) calculates Norwegian production capacity to be about 151 TWh, and actual production is usually well below this level. From 2010 to 2019, average production was just over 140 TWh. Full reservoirs have led to high production levels and a large surplus of power. This has also resulted in low electricity prices. Norwegian consumption in 2020 was 132.9 TWh. This is roughly on par with the last five years.

Reduced grid tariffs in 2021

Statnett has received permission from the Norwegian Energy Regulatory Authority (RME) to temporarily reduce Statnett's share of the grid tariffs for 2021 by NOK 1.25 billion versus the 2020 rate. This decision was taken to help elevate the economic consequences from the Covid-19 pandemic and subsequent lockdowns are having on Norwegian consumers and businesses.

New CEO

Auke Lont announced his resignation as CEO in August 2020 after 12 years as the Group's chief executive. Statnett's Board of Directors appointed Hilde Tonne as the new CEO of the company on December 21. Tonne comes to Statnett from her previous position as Executive Vice President and Head of Innovation in the Rambøll Group.

She holds an MSc from the Norwegian University of Science and Technology (NTNU) and RWTH Aachen in Germany. She has experience from several different industries, having worked for Hydro and Telenor before Rambøll. Tonne has held a number of board positions, including in the power sector as Chair of the Board of Hafslund and as board member of Statkraft and Vattenfall. She was involved in the start-up of Digital Norway, of which Statnett is also a member. She also chairs the Research Council of Norway. Tonne will assume her position on March 15, 2021.

High project activity level

On December 8, power from the NordLink cable between Norway and Germany was available on the power exchanges for the first time. This marks the start of trial operations of the new interconnector between Norway and Germany, and is a significant milestone for Statnett. The subsea power cable between Norway and Germany and the converter station on the Norwegian side were completed in the autumn of 2020. Trial operations are estimated to last for three months before the new interconnector will be put into ordinary operation. NordLink will be an important part of the switch towards renewable energy. We can increase the proportion of renewables by exchanging electricity based on wind and hydropower at the same time as we ensure a secure power supply. NordLink will help us to achieve our climate goals and create value on both the Norwegian and German sides. NordLink is 632 km long and runs between the Sirdal municipality in Norway and Wilster, Schleswig-Holstein in Germany. Construction started in 2016.

Work on laying the subsea power cable between Norway and the UK continued in 2020. Approximately 270 km of subsea cable were laid from Hylsfjorden in Suldal, Rogaland and outwards through the fjords to the North Sea. The converter station in Kvilldal has been completed, while construction work in Blyth in the UK is ongoing. An additional 240 km of subsea cable will be laid in 2021, before the Norwegian manufactured cables from Nexans are connected to the cables manufactured by Prysmian on the British side. Two thirds of the cable from the British side have been laid since 2018. The cable is due to go into operation in 2021. The power exchange capacity will help boost value creation and security of supply, and will aid the transition to a more climate-friendly European energy system.

Record-high congestion revenues

Throughout 2020, Statnett has received record-high congestion revenues from the exchange of power with other countries. An abundance of snow in the mountains combined with reduced export opportunities led to long periods when electricity prices in Norway as a whole were low, while prices in South Norway were extremely low. This led to substantial discrepancies between the price of electricity in Norway and prices abroad. At certain times in South Norway, even negative electricity prices were recorded.

Reduced trading capacity

Trading capacity with international markets was lower than normal, particularly in the summer months. This is attributable to lengthy faults on both sides of Norway's international interconnectors, as well as planned operational shutdowns. Capacity on the NordNed interconnector was reduced on several occasions due to a faulty filter in the Netherlands and faults on the Dutch power grid. From October, full export capacity from Norway to Denmark (1,632 MW) was restored following damage to the two oldest Skagerak cables in February 2020. However, due to a fault in the underground cable on the Danish side of the newest interconnector, Skagerrak 4, it will still take some time before there is full trading capacity in both directions. Capacity to Sweden was also restricted due to various factors. The Tegneby substation operated at reduced capacity in the period up to March due to overheating in the SF6 system.

Market connection of Nordic power exchanges

In June, Statnett and the other transmission system operators in the Nordic region opened up for market connection between several power exchanges. This makes the Nordic region the second region in Europe to facilitate competition between power exchanges.

Agreed acquisition of transmission grids

During 2020, Statnett has agreed to acquire transmission grids from a total of 11 companies in line with EU's 3 Energy Market Package. Statnett has been successful in finding favorable solutions for all parties through voluntary deals based on book values. The total deal value amounts to approximately NOK 400 million. With few exceptions the change of ownership was completed as of January 1, 2021. The selling parties will provide services for a transition period. Many of the acquired facilities needs rehabilitation and new investments, which Statnett has planned for.

Statnett has sold the 132 kV grid in Møre and Romsdal to Mørenett

Statnett has entered into an agreement with Mørenett to take over our 132 kV grid in Møre and Romsdal. The transfer will take place once the grid has been classified as a regional distribution grid and after approval by NVE. In connection with the sale, we have also entered into an agreement for operation, maintenance and emergency preparedness. Statnett will provide services for maintenance and emergency preparedness for five years after Mørenett has taken over the installations.

420 kV power line to Finnmark now operational

In December, Statnett put the new 420 kV power line from Balsfjord to the Skillemoen substation outside Alta into operation. The new 420 kV line from Balsfjord to Skaidi is part two of the development in the northern region that started with the 420 kV power line from Ofoten to Balsfjord, which was completed in the autumn of 2017. The line will safeguard security of supply in Finnmark and facilitate increased value creation and increased renewable power production.

Concept evaluation for Bergen and the surrounding area sent to the OED for consideration in November

Over the past year, Statnett has been working on solutions to adapt to new consumption in the Bergen region. There are now plans that can more than double consumption in Bergen and the surrounding area in a relatively few years. Two thirds of the planned consumption will come from new land-based industry, while one third relates to the electrification of petroleum extraction platforms. The solutions we have worked on are described in a concept evaluation that outlines needs and possible overarching solutions to safeguard the power supply in Bergen and the surrounding area. Statnett proposes to proceed with a concept that involves a third connection to Kollsnes from either Samnanger or Modalen. In addition, Statnett has started projects that involve upgrading the existing power grid, and these will be carried out independently of the concept evaluation.

New loan facility

In June, Statnett obtained its first two green bonds with a value of NOK 3.6 billion. Prior to this, Statnett's framework for green bonds was rated as dark green by CICERO (Center for Climate Research). Green bonds are targeted at financing projects that have a positive climate impact. There is great interest in the market for this type of financing, and the loans were obtained on very good terms.

Financial framework conditions

Revenues and results

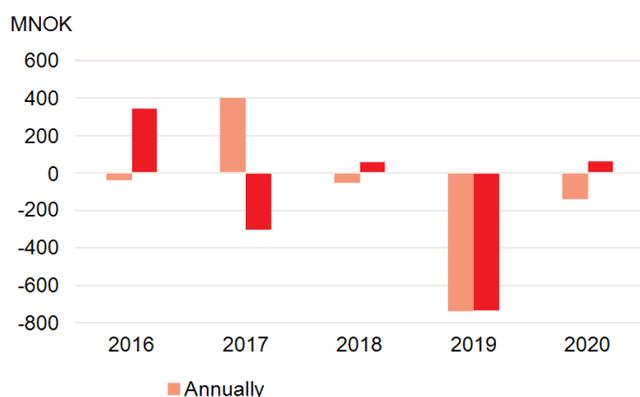
Changes in revenues and results over the last five years are primarily attributable on the one hand to higher grid capital due to an increase in the number of facilities that have been set into operation, and on the other hand to a somewhat lower RME interest rate during the period. In recent years, Statnett has had considerable higher/lower revenues, which are largely due to major variations of congestion revenues. This has resulted in major fluctuations in recognized operating revenues and operating profits. Revenues and profits adjusted for higher/lower revenues show that underlying activities are more stable than is reflected in the reported financial results.

Statnett's formulated price strategy includes instructions for establishing the annual tariff for the transmission grid. Statnett emphasizes the need for stable and predictable tariffs over time, and this impacts higher/lower revenue. At the end of 2020, Statnett had accumulated higher revenues of NOK 60 million. The RME has given Statnett permission to build up lower revenues in 2021, based on our application for reduced grid tariffs based on the Covid-19 pandemic.

The investment level affects revenues and the balance sheet

Only completed investments are included in the basis for Statnett's regulated income. Following IFRS, Statnett's equity is not adjusted for higher/lower revenues. Statnett's actual equity is established after adjusting for accumulated higher/lower revenues after tax. Net interest bearing liabilities have increased in line with investment levels. Equity at the end of 2020 totaled 23 per cent. Adjusted for higher/lower revenues, the equity ratio for 2020 equalled 25 per cent.

Changes in higher/lower revenues, Group



Operating revenues, regulated activities

Statnett's revenues comprise the grid rental from transmission grid customers, the fee for balancing and settlement services, and the congestion revenues. Congestion revenues arise when power is transmitted from areas with a low power price to areas with a high power price in the Nordic region, as well as between Norway and the Netherlands, and Norway and Germany. The grid rental charge (tariff) is established ahead of each calendar year. In addition, Statnett receives revenues from fees for balancing and settlement coordination within the Norwegian power system and as operator of Elhub.

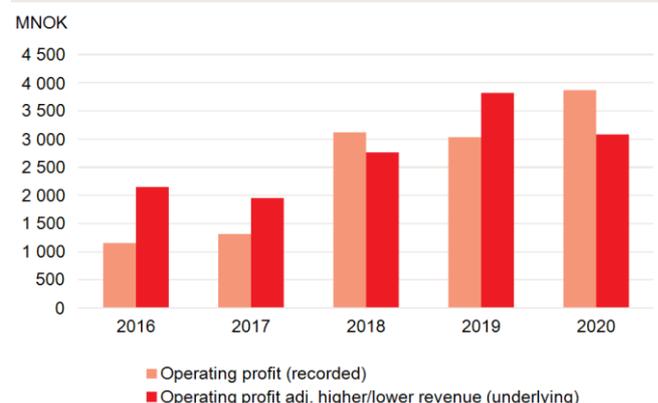
Permitted income, regulated activities

Since grid activities are a natural monopoly, Statnett's revenues are regulated and controlled by the Norwegian Energy Regulatory Authority (RME), which establishes the annual permitted income. Permitted income is intended to cover the cost of developing and maintaining the grid, provide a reasonable return on investments, provided the transmission grid is planned, constructed, operated and maintained in a cost-effective manner. The fees determined for balancing and settlement should cover annual operating costs and provide a reasonable return on invested capital, provided efficiency is maintained.

Higher-/lower revenue

The actual income from regulated activities recognized in the financial statements in each financial year will differ from the final permitted income, which the RME establishes after the end of the year. These differences are higher or lower revenue, which are equalized over time through adjustment of future grid rental charges. Consequently, higher/lower revenues represent temporary amounts in Statnett's accounts, which in accordance with IFRSs are not recognized in the balance sheet.

Group EBIT adjusted for higher/lower revenues



Key Figures and Alternative Performance Measures*

Key figures (MNOK)	2020	2019	2018	2017	2016
Accounting result					
Operating revenues	10 761	9 641	9 138	7 401	6 678
Depreciation and amortization ¹⁾	-2 820	-2 339	-1 941	-2 273	-2 120
EBITDA	6 688	5 366	5 062	3 585	3 272
EBIT	3 868	3 027	3 120	1 312	1 152
Profit before tax	3 420	2 440	2 701	976	783
Profit for period ²⁾	2 697	1 906	2 213	813	645
Adjustments					
Change in accumulated higher/lower revenue (+/-) before tax	792	-791	362	-646	-1 003
Change in accumulated higher/lower revenue (+/-) after tax	618	-617	279	-491	-752
Accumulated higher/lower revenue (+/-) before tax	60	-732	59	-303	343
Underlying result (adjusted for change in higher/lower revenue) ²⁾					
Operating revenues	9 969	10 432	8 776	8 047	7 681
EBITDA	5 896	6 157	4 699	4 231	4 275
Underlying operating profit (EBIT)	3 076	3 818	2 758	1 958	2 155
Profit before tax	2 628	3 231	2 339	1 622	1 786
Underlying profit for the year	2 079	2 523	1 934	1 304	1 398
Key figures balance sheet					
Investments (additions, facilities under construction including interest on construction loans)	7 299	9 618	12 377	9 235	7 695
Property, plant and equipment	60 296	54 637	40 948	35 653	33 861
Long term and current interest bearing liabilities including hedging effect	56 129	50 199	45 737	39 189	32 633
Market value interest and currency swaps relating to loans	6 551	4 569	3 451	2 701	2 844
Interest bearing liabilities adjusted for effect of interest and currency hedging	49 578	45 630	42 286	36 488	29 789
Equity	18 938	17 783	16 194	14 011	13 867
Equity adjusted for higher/lower revenue after tax	18 891	18 354	16 149	14 241	13 610
Total assets	82 885	76 323	70 281	58 721	50 743
Capital employed ³⁾	68 382	62 705	55 507	49 299	41 322
Key financial ratios					
Return on capital employed before tax, adjusted for higher/lower revenue ⁴⁾	4,7 %	6,5 %	5,3 %	4,3 %	5,6 %
Return on equity after tax ⁵⁾	14,7 %	11,2 %	14,7 %	5,8 %	4,7 %
Equity ratio	22,8 %	23,3 %	23,0 %	23,9 %	27,3 %
Equity ratio after tax, adjusted for higher/lower revenue	22,8 %	24,0 %	23,0 %	24,3 %	26,8 %

¹⁾ Depreciation, amortization and impairments per statement of total comprehensive income less impairments disclosed in Note 9 plants under construction.

²⁾ The underlying result is based on regulated permitted revenue, while the accounting result will vary depending on established tariffs and congestion revenues. The difference is known as higher/lower revenue (see Note 2).

³⁾ Capital employed = Property, plant and equipment + Facilities under construction + Trade and other current receivables + Trade and other current payables.

⁴⁾ Return on capital employed before tax, adjusted for higher/lower revenue = EBIT, adjusted for higher/lower revenue / Average capital employed last two years.

⁵⁾ Return on equity after tax = Net result for the year / Average equity last two years.

* To provide a better understanding of Statnett's underlying result we also present a number of alternative performance measures. Alternative performance measures are defined in ESMA's guidelines as a financial measure of historical or future financial performance, financial position, or cash flows, other than a financial measure defined or specified in the applicable financial reporting framework. Statnett's alternative performance measures are adjusted for higher/lower revenue and supplement the figures in the IFRS financial statements. In addition to annual higher/lower revenue, reported accumulated higher/lower revenue also include applied interest and any prior-year adjustments.

Changes in selected key financial and operational ratios used by management to monitor alternative performance measures over time are also shown.

A word from the CEO

Clear direction – faster pace

A microscopic virus turned much of society on its head in 2020. The energy sector was no exception. Nevertheless, the long term transformation of the energy system was not significantly delayed, and is now picking up speed. Electrical power continued to be supplied efficiently, and Statnett's efforts to develop the power systems and transmission grid of the future were not materially hampered by the pandemic. This is attributable to the hard work and determination of our own employees and our suppliers to embrace change and innovation. Power and energy systems seem set to change increasingly fast in the next few years, making our ability to adapt and innovate even more important than ever before.

Covid-19 made 2020 a year like no other and will continue to shape our lives at home and at work in 2021 as well. Statnett's construction projects have mainly remained on schedule, despite the introduction of extensive infection prevention measures. We have contributed to the combined national effort to limit the spread of infection, and have placed additional emphasis to shield key operational personnel. This has meant widespread working from home and other measures to limit the risk of infection – which we have succeeded in doing. Our employees all deserve a huge thank you for their extraordinary efforts and remarkable capacity to adapt to the new circumstances.

In 2020, we discovered that digital office solutions were more valuable than anyone could have foreseen. The pandemic became a "tipping point" for new ways of working, and can also contribute to changes in entirely different areas. The international community has, despite the challenges, shown a capacity to act and work together. We see that economic support packages in many parts of the world have been designed to promote new, sustainable solutions. In 2020, the EU adopted its European Green Deal, with the goal of achieving zero net greenhouse gas emissions by 2050, slashing emissions by 55 per cent compared with 1990 by 2030, and an ambition to develop an international carbon tax regime. Previously, the plan was to cut emissions by 40 per cent by 2030. The UK has

the same level of ambition as the EU. Norway has accepted this new plan with a 50% reduction target.

There is growing recognition all over the world that emissions must be cut rapidly, and an increasing number of countries are moving to concrete and lower targets in the run up to the COP26 conference in Glasgow in 2021. Willingness to set ambitious targets for greenhouse gas emission reductions has been boosted by the fact that green energy solutions are becoming less expensive. More ambitious emission targets in Europe, the USA, China and a number of other countries will change the energy markets and lead to faster improvements in and lower costs for emission free technologies.



The speed of change is accelerating even faster with the financial sector pricing long-term risk into its lending terms and favoring sustainable investments. As a result, Statnett was in 2020 able to raise NOK 3.6 billion in green bonds at favorable terms to finance important investments. Politics, green technology developments and more favorable financing for sustainable investments reinforce each other and create "tipping points", significantly increasing the pace of change. The EU's ambition to develop a carbon tax that can create a level playing field for its industry may prove to be the most powerful climate initiative since the establishment of the EU Emission Trading System (ETS).

"The speed of change is accelerating even faster now that the financial sector is pricing long-term risk into its lending terms and favoring sustainable investments."

In Norway – and even more in our neighbouring countries – a great deal of wind power is being built on land, and plans are made for the construction of ambitious offshore wind farms, particularly in the North Sea.

Increased access to renewable power and a more robust power grid are essential if Europe is to succeed in directly

electrifying its transport, industry and heating, and achieving indirect electrification via hydrogen.

The Norwegian power system is affected not only by changes in Norway but also by the substantial changes underway in our region. In the years to come, we can expect more short term fluctuations in electricity prices and smaller price differences between wet and dry years, due to increases in the international power exchange and in generation of more variable power sources, particularly wind power. We can expect electricity prices to be high during cold periods with little wind in Northern Europe, and we can expect low prices in periods when the weather is windy and mild.

Controllable hydropower helps us handle the increase in variable wind power and power trading, but we should also exploit and further develop opportunities for flexible consumption. Digital solutions and correct incentives from markets and tariffs will be important to trigger flexible consumption and fully harmonise the various parts of the energy system. This will contribute to the effective exploitation of both energy resources and the grid, limiting the costs to the consumer and the energy system's environmental burden.

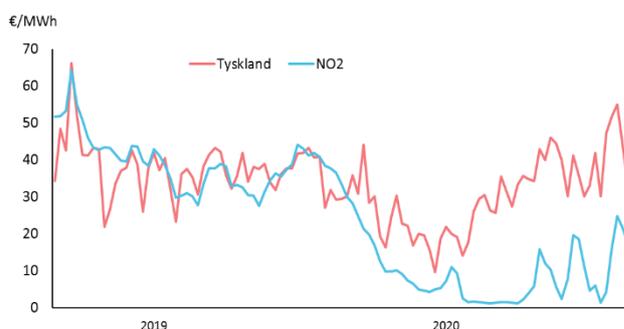
“Digital solutions and correct incentives from markets and tariffs will be important to trigger flexible consumption and fully harmonise the various parts of the energy system.”

In 2020, system operations proceeded without any extraordinary incidents with serious consequences for consumers. The power market, on the other hand, experienced unusually low prices through much of the year, as shown in the graph.

This was due to a combination of an abundance of snow in the mountains from the winter of 2019/2020, a great deal of precipitation through the year and increased wind power production, as well as reduced export opportunities due to faults and maintenance outages on the part of our trading partners. It has been estimated that 15 TWh of power production was lost in 2020, which illustrates the importance of adequate trading capacity to exploit variable power production in an efficient manner.

NordLink, our new transmission cable to Germany, went into operation at the end of 2020, while the North Sea Link (NSL) to the UK will be connected at the end of 2021.

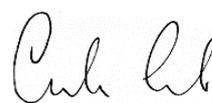
Increased trading capacity will provide enhanced value creation by ensuring a more efficient utilization of the power plants in Northern Europe. When there is wind power amply supply on the continent and in the UK, Norway can increase imports. In those situations the Norwegian hydro power plants can save water, which can be utilized later when there is less supply and higher prices.



The profit will be extra high in years with extreme precipitation, like 2020 when magazines had overflow from time to time. In stead, in the future this energy can be sold through the new cables. During cold and dry Norwegian winters the opportunity to import power will also be profitable. However, in normal years, when Norway and Sweden have a significant power surplus the likely of being in such a situation is small.

The 2020s will be the decade of electrification. A lot will happen in the run up to 2030. To succeed, Statnett, the authorities and the rest of the energy sector must expand their understanding of the challenges and opportunities of the decade. This rapid transition requires not only the ability to plan and execute the necessary changes, but also the ability to innovate quickly. Continued electrification and the development of green and value-creating industries are two important milestones on the road to an emission-free 2050. However, to pave the way to that destination, a robust and flexible power system will have to be established in time. That is no easy job – but neither is the challenge we have ahead of us.

After 12 years as CEO of Statnett, I will retire as of March 15, 2021. I am grateful to have been able to work towards an electrical future. These have been exciting and fulfilling years. I wish to thank all employees, the board of directors and external stakeholders for their great and inspiring cooperation!


Auke Lont

Group Management

Auke Lont

President and CEO

Employed in 2009

Education/qualifications: MSc in Econometrics from Vrije University in Amsterdam

Previous experience: CEO of ECON and Naturkraft, and various management positions at Statoil

Directorships: Director at Spektør

Elisabeth Vike Vardheim

Executive Vice President Construction

Employed in 2007 and a member of Group Management since 2014

Education/qualifications: MCs in Engineering from Norwegian University of Science and Technology (NTNU), Degree in Business Administration, Master's in Board Governance from the Norwegian Business School (BI)

Previous experience: Several management positions at Statnett, public sector, construction projects/organization

Directorships: Chair of Statnett Transport AS

Peer Olav Østli

Executive Vice President Grid Operations

Employed and a member of Group Management since 2007

Education/qualifications: MSc in Computer Science and postgraduate studies in management from Henley Business School in the UK

Previous experience: Management positions at Telenor, Schibsted Nett and Scandinavia Online AB, Head of Technology at NRK, Executive Vice President ICT until 2019

Gunnar G. Løvås

Executive Vice President Market and System Operation

Employed and a member of Group Management since 2019

Education/qualifications: MSc in Engineering from the Norwegian University of Science and Technology (NTNU) and a doctorate in mathematical statistics from the University of Oslo

Previous experience: Several management positions at Statnett until 2014, and member of Group Management 2007–2014, Deputy Director General at the Norwegian National Railway Administration, independent consultant

Directorships: Chair of Elhub AS, Director of Fifty AS and NordLink Norge AS

Håkon Borgen

Executive Vice President Technology and Development

Employed in 1995 and a member of Group Management since 2004

Education/qualifications: MSc in Engineering from the Norwegian University of Science and Technology (NTNU) and Technische Hochschule Darmstadt (THD) in Germany, management and leadership studies from the International Institute for Management Development (IMD)

Previous experience: Several management positions at Statnett and BKK in power supply, planning and construction
Directorships: Chair of NordLink Norge AS, Chair of ENTSOE Research Development and Innovation Committee (RDIC)

Knut Hundhammer

Executive Vice President and CFO Corporate and Public Relations

Employed and member of Group Management since 2011

Education/qualifications: Norwegian Military Academy and an MBA from the Wharton School of Business in the USA

Previous experience: Company Commander in the Norwegian Armed Forces, Consultant at McKinsey & Co, SVP Leif Høegh & Co, CFO of Finansbanken ASA, President of Klavenes Commercial Management and President of the Norwegian Defence and Security Industries Association

Beate Sander Krogstad

Executive Vice President IT

Employed in 2009 and member of Group Management since 2019

Education/qualifications: MSc in Engineering from the Norwegian University of Science and Technology (NTNU) and studies in international management from the FGV Foundation in Rio de Janeiro, Brazil

Previous experience: Manager at Accenture, several management roles at Statnett

Directorships: Director of Fifty AS, Elhub AS, DIGITALNORWAY – Toppindustrisenteret AS and Western Norway Regional Health Authority

Organizational structure

Statnett is headquartered in Oslo and has administrative offices in Alta, Trondheim, Sandnes and Sunndalsøra. The Group's activities are organized into six divisions.

Please visit www.statnett.no for further information about Statnett's organization.

Subsidiaries, joint ventures and associates

The majority of the Group's activity takes place in the parent company Statnett SF. The activities of subsidiaries, joint ventures and associates are described below.

NordLink Norge AS (100 per cent)

This subsidiary has been responsible for the construction and is now responsible for operating Statnett's share of NordLink, an interconnector between Norway and Germany. The company was established to provide an ownership structure that is symmetrical on both the Norwegian and the German sides. On the German side, the cable is owned by DC Nordseekabel GmbH & Co. KG, which in turn is owned by the German TSO TenneT GmbH and the state-owned bank KfW in a joint venture. The operational activities of NordLink Norge take place as part of the Statnett Group.

Statnett Forsikring AS (100 per cent)

The company is the Group's own insurance company. It was established in 1998, and is a fully owned subsidiary of Statnett SF.

Statnett Transport AS (100 per cent)

Statnett Transport AS ("Statnett Transport") has essentially become an empty company, after the business that handles Statnett's emergency preparedness obligations with respect to heavy transport were transferred to Statnett SF with effect from 1 July 2020. The plan is to liquidate the company during 2022.

Elhub AS (100 per cent)

The company went into operation in February 2019 and operates the central data hub for meter values and market processes in the Norwegian power market. Elhub's main functions are automated meter value processing and meter value distribution as well as the processing of market

processes such as supplier changes, relocations and reporting.

Nydalshøyden Bygg C AS (100 per cent)

Nydalshøyden Bygg C AS owns Statnett's building (head office) at Nydalen Allé 33, Oslo.

Fifty AS (50 per cent)

Fifty AS is a joint venture owned together with Svenska Kraftnät. Fifty AS's objective is to develop and operate the IT systems used to balance the Nordic power system.

eSett OY (25 per cent)

Statnett SF owns a 25 per cent stake in eSett OY. The company delivers balance settlement services to market players in Finland, Sweden, Denmark and Norway.

KraftCERT AS (33.3 per cent)

KraftCERT AS works to improve security in process control systems by assisting the power industry to ensure that industry players are up to date on relevant vulnerabilities and threats, and thus be able to detect and counter digital attacks.

TSO Holding (30.2 per cent)

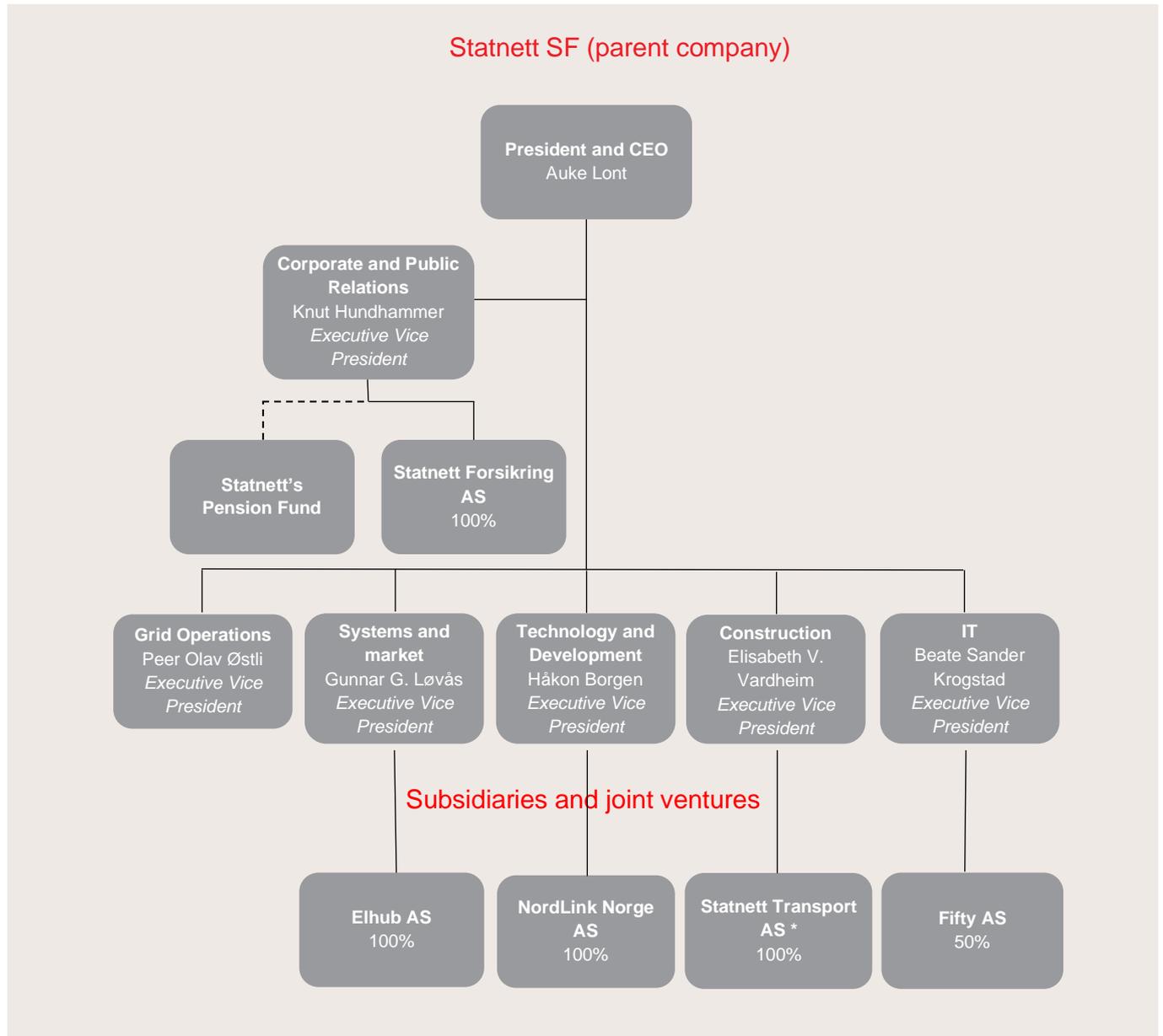
Statnett owns 30.2 per cent of TSO Holding AS. The other owners are the Nordic and Baltic TSOs. TSO Holding owns 34 per cent of Nord Pool Holding AS. The remaining 66 per cent is owned by Euronext N.V. The Nord Pool companies aim to organize and operate a marketplace for trading electrical power in the Nordic countries and Europe.

Statnett SF Pensjonskasse

Statnett SF Pensjonskasse is a pension fund that is a separate legal entity. All employees in the member companies who meet the requirements for membership have the right and obligation to be a member of the pension fund.

See notes 20 and 22 for further information on subsidiaries.

Key figures, Operations	2020	2019	2018	2017	2016
No. of employees	1,576	1,493	1,461	1,415	1,326
Sickness absence %	2.8	2.9	3.2	3.4	3.2
Lost-time injuries, own employees	1.5	2.3	1.9	1.6	3.6
Lost-time injuries, including suppliers	3.6	4.2	5.6	3.6	5.6



* The company is being wound up, and the business has been transferred to Statnett SF

Our values establish a framework for expected behaviors based on teamwork, dialogue and transparency

Statnett's values
Long-term perspective
Respect
Community

Corporate governance

Statnett's corporate governance is based on the company's external frameworks, including applicable legislation, regulations and authority measures, along with frameworks in constitutive documents adopted by the company's governing bodies. Corporate governance 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 governance are satisfied by the descriptions in the following text.

1. Statement of 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 the Group's 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, grid owner responsibility, power system development and system 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.

2. Operational performance

Statnett's objects are rooted in sector policy and the company's activities are clarified in its 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 (TSO), Statnett is responsible for at all times ensuring instantaneous balance between production and consumption of electrical power in Norway. The role of transmission system operator is mainly regulated through TSO regulations and the TSO licence.

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 may be found on the Group's website.

3. Equity and dividends

The owner's dividend policy is established in the Norwegian national budget. Dividends are decided at the Annual General Meeting following each financial year. The owner's dividend policy for the financial years 2019–2022, as expressed in the Norwegian national budget for 2019–2020, is 50 per cent of the Group's underlying profit. The dividend basis is defined as the Group's profit for the year after tax, adjusted for the change in the year's post-tax higher/lower revenues. In other respects, the capital structure is managed through the raising and repayment of short-term and long-term debt, as well as changes in liquidity reserves. There have been no significant changes in the targets and guidelines for capital management throughout the year.

4. Equal treatment of owners and related-party transactions

Statnett SF is wholly owned by the Norwegian state. As a result, the company does not have dedicated guidelines governing the 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 disclose any issues concerning their legal competence.

5. Tradeable shareholdings

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

6. General Meeting

As sole owner, the Norwegian Ministry of Petroleum and Energy 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 matters that fall to the General Meeting in accordance with legislation or the company's 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 Ministry of Petroleum and Energy's authority in the enterprise is exercised through 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 of board members

The Ministry of Petroleum and Energy 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 in 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 should comprise seven to nine members and any deputy members.

Two, if relevant 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 their 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 managed 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 help to ensure the Board remains independent in its work. The Board adopts Statnett's strategy, determines rules of procedure for the CEO and ensures that Statnett is appropriately organised. The Board adopts financial frameworks, ensures that Statnett satisfies formal requirements, legislation and regulations and performs satisfactory asset management and has a sound 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 good long-term value-creation at Statnett. Statnett's Code of Conduct instructs the board members, on their own initiative, to disclose 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, please refer to the report of the Board of Directors in the annual report.

Selection Committee

The Board established a separate committee to assist in the process of selecting a new CEO, including choosing a recruitment company and keeping in contact with them, conducting interviews and preparing a recommendation to the Board.

Audit Committee

The Board has established an Audit Committee to prepare matters for consideration by 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 financial reporting process and monitor the systems for risk management and internal control, including the company's internal audit function.

The Audit Committee must 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 the follow-up of Statnett's investment projects. The Project Committee must in particular ensure sound governance of Board-approved projects and must follow up projects from the time investment decisions are made in Statnett's project model. The Project Committee must present the result of its deliberations to the Board, but must not make decisions on behalf of the Board.

Owner meeting

In addition to management meetings, the Ministry of Petroleum and Energy 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 at 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 risks 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 chapter on risk management and internal control in the annual report. Cumulatively, Statnett's Code of Conduct and core values, together with the company's organisation, corporate governance and reporting lines provide a basis for a sound internal control environment. Internal control is an integral part of corporate governance 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 determines the ambition level for internal control maturity, based on Statnett's role, social mandate 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 non-conformances with 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's provisions with respect to facilitating reporting of any censurable conditions, and serves as a whistleblowing 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, temporary personnel and other parties who act on behalf of Statnett.

Ethical guidelines for suppliers

Statnett attaches substantial importance to ensuring that suppliers and partners satisfy the Group's Supplier Code of Conduct. A commitment to comply with this Code of Conduct is included 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

Remuneration of the Board of Directors is determined by the owner (Ministry of Petroleum and Energy). A detailed overview of the remuneration paid to the Board of Directors is disclosed in the annual financial statements.

12. Remuneration paid to executive employees

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 executive employees 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 strictly 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 open governance and transparency. Financial and operational information, as well as the company's financial calendar, may be found on Statnett's website.

14. Acquisition of the company

Statnett SF is a state-owned enterprise. The sale of shares in the enterprise would involve a change in its form of incorporation, which would require a legislative amendment adopted by the Norwegian Parliament (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 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.

Risk management and internal control

Statnett is a transmission system operator (TSO) that owns and operates critical infrastructure. The company's risk management and internal control reflect our social mandate and contribute to the company achieving its goals.

Statnett's risk management and internal control cover the entire business, including strategic, market, operational and financial matters. Integrated risk management ensures that risks relating to HSE, the supply of electrical power, facilitation of value creation, financial position and reputation are maintained at an acceptable level.

Responsibility

Statnett's Board has overall responsibility for ensuring that the company are maintaining good internal control and appropriate risk management systems. The Board determines the company's risk profile, supervises relevant processes and monitors the company's key risk areas.

Statnett's Audit Committee, as the preparatory body for the Board, is responsible for monitoring the risk management and internal control systems, as well as for the company's internal audit.

Group Management is responsible for the operationalization of the company's risk management and internal control, including ensuring the correct handling of key risks in line with Statnett's goals and corporate social responsibility.

Most risks are identified, owned and managed in the divisions, but to the extent that relevant risks affect overlying organizational levels, the immediate manager will be the risk owner.

The finance function is responsible for facilitating risk management and internal control, including ensuring that the company has an appropriate framework and suitable tools.

Framework and implementation

The framework for corporate governance is based on recommendations given by the Norwegian Corporate Governance Board (NUES). In terms of risk management and internal control, the framework builds on the

Committee of Sponsoring Organizations of the Treadway Commissions (COSO) and on guidelines for risk management given in ISO 31000. Risk management also complies with guidelines given in ISO 55001, Asset management, and ISO 14001, Environmental management systems.

The status of goals and risk is reviewed at least quarterly throughout the organisation. The process ensures that the status of goal attainment is assessed and that significant risks are identified, managed and communicated across organizational boundaries. As part of this process, the Board is presented with a balanced view of all significant risks, in addition to risk mitigation plans.

In 2020, Statnett further developed its framework for risk management and internal controls. This is to ensure compliance with internal and external requirements and guidelines, ensure safe and efficient operations and ensure that risk management and internal controls become an integral part of the company's activities and functions across organizational boundaries. The work included the implementation of coordinated goal and risk management, as well as further development of a standardized and risk-based internal control system. In terms of the latter, Statnett has had a particular focus on risk in processes and the function of key controls. As part of this work, we have focused on coordination with improvement and quality processes to ensure effective support and follow-up in the Group. Further development and implementation are part of the company's continuous improvement work and will be continued in 2021.

Financial risk framework

The Board has drawn up principles for financial risk management through the company's adopted finance policy. The finance policy establishes specific frameworks for financial management, including for credit risk, settlement risk and counterparty risk. Internal control routines are established and performed by an independent party.

Risk factors

Statnett's main targets are to ensure a secure supply of electrical power and high availability of grid capacity to the market. At the same time, Statnett shall facilitate a forward-looking and efficient power system. There will always be risks associated with goal achievement, be they strategic, operational or financial in nature. The most important risk areas are discussed below.

Strategic risk

In 2021, Statnett will complete its work on a new Group Strategy for the period 2021–2025. Part of this work includes identifying and managing strategic risk. Three strategic risk areas stand out. These will be further developed and integrated into our strategy work, including translating the strategy into targets that support our social mandate.

Strategic risk	Risk description	Management
<p>Security of supply</p>	<p>Statnett aims to ensure a secure supply of electric power and high availability of grid capacity to today's market, as well as in the future. Capacity needs are continuously changing. The power system will undergo significant changes in the coming years due to new international cable connections and changes in system operations, among other things. Statnett is also taking over a number of facilities in accordance with EU's Third Energy Package. Despite the ongoing focus on maintaining high security of supply to all parts of the country, certain geographical areas will be challenging in a slightly longer perspective (three to eight years).</p>	<p>Statnett strives continuously to identify and manage risks related to supply security in the short term and in a more long-term perspective. This is reflected in Statnett's plans for operation and development of the transmission grid and in the development of market solutions.</p>
<p>Collaboration on the power system of the future</p>	<p>Statnett collaborates on national, Nordic and European levels to meet the goal of a forward-looking and efficient power system. Statnett's position and opportunity to exert influence in all these arenas is essential for Norwegian value creation and security of supply. European framework conditions are constantly changing, at the same time as developments in digitalisation and new technology are accelerating. There is a standing risk that Norwegian needs will not be adequately safeguarded, that digitalisation will not go fast enough, or that short-term and urgent needs will challenge the company's position and scope of action, both nationally and regionally.</p>	<p>Statnett is actively involved in Nordic and European efforts concerning market and system development, and undertakes significant IT projects to handle future operations. Statnett is also heavily involved in efforts to influence European regulations in order to make them appropriate for Nordic conditions.</p> <p>At the national level, we are working closely with regional grid companies on important grid developments. There is also ongoing collaboration on the division of tasks between TSO and DSO in the power system of the future.</p>

Operational risk

Operational risk is associated with people, machines and processes. Statnett works continuously to minimise operational risk, for example through further development of management systems and internal control, including strengthening operational planning and risk assessments.

Operational risk	Risk description	Management
<p>HSE</p>	<p>Each day, Statnett's employees may perform a great many potentially high-risk operations. It must nevertheless be safe to work at Statnett.</p> <p>We put safety first, and aim to be the leading European TSO in the field of HSE. Statnett adopts a zero-tolerance approach to accidents and wants to see everyone who works in the company return home safely. As a construction client, Statnett also sets high HSE standards for its contractors and subcontractors.</p>	<p>Statnett has identified the following HSE focus areas:</p> <ul style="list-style-type: none"> • Internal control and systematic activities to maintain statutory compliant • Analysis and training • Management engagement and HSE culture <p>Throughout 2020, Statnett worked systematically to improve a large range of internal requirements and guidelines. Among other things, we have strengthened our governing documents related to planning and risk assessment of work on electrical installations. Furthermore, all reported HSE incidents have been followed up. All operational personnel received weekly learning reports and, throughout the year, focus was set on managers being engaged in the work and the importance this has for the company's HSE culture.</p>
<p>Environment and climate</p>	<p>Statnett must take a holistic environmental responsibility. The need for new transmission capacity must be met, but with limited impact on nature and low greenhouse gas emissions from our own operations. We must be a leader with respect to environmental and climate issues in our sector. This means that we must minimize the impact our facilities have on biodiversity and landscape values, and reduce our own greenhouse gas emissions.</p> <p>Non-compliance with requirements related to the external environmental and the climate, as well as expectations related to corporate social responsibility, can have consequences for the company.</p> <p>More extreme weather and a greater focus on climate policy, with ensuing stricter legal requirements in Europe and Norway, entail risk and uncertainty for Statnett's operational work.</p>	<p>The Group's principles with respect to the environment and climate are included in internal policies. Our work is based on the precautionary principle, focusing on a holistic approach to environmental and climate responsibility in planning, developing and operating the company's facilities.</p> <p>Our environmental and climate strategy sets out guidelines for our internal environmental and climate activities. It describes measures that are currently being implemented in the planning, construction and operation of our facilities.</p> <p>Systems for internal control have been established in accordance with the Energy Act Regulations, and these are followed up through internal routines and systems. For example, the company carries out regular risk assessments of physical damage to installations that could affect security of supply.</p>

Operational risk	Risk description	Management
<p>Security of supply</p>	<p>Statnett safeguards the supply of electrical power to customers, and ensures the transmission grid has the capacity needed to meet the market's needs. This requires a good understanding of risk factors, continuous monitoring and good risk assessments in both system and facility operations.</p> <p>The grid normally operates at an N-1 level of security. This means that failure of one individual component will not result in a power outage. In situations with a normal level of operational security, multiple simultaneous faults could cause outages.</p> <p>Some regions are still deemed particularly vulnerable. Where the grid is periodically operated with N-0 security, a single fault event could interrupt the supply. Weather-related incidents and extreme weather events, equipment failures, attacks on or hacking of operational control systems and acts of terrorism against physical installations are events that constitute a risk to the security of supply.</p> <p>New transnational interconnectors will boost value creation and security of, but are also expected to make operation of the transmission grid more challenging.</p>	<p>The most important risk-reducing measures in the short term are good operational planning, correct maintenance of physical installations and effective data-protection measures. Contingency planning reduces the consequences of faults and errors.</p> <p>Important measures that will boost security of supply in the longer term include Statnett's ongoing and planned investment projects for the renewal of its physical infrastructure and necessary increases in capacity.</p> <p>To accommodate future operations, Statnett also has a number of ongoing initiatives related to the Nordic region and Europe. Implementation of significant IT projects within market and system development is part of this effort.</p>
<p>Digital security</p>	<p>Digital solutions are a key part of our business, and increasingly, digital solutions and systems will be even more combined with the physical power grid.</p> <p>Statnett's digital systems are critical for society and could be subject to attack. In 2020, the power sector was once again highlighted by the Norwegian National Security Agency (NSM) and the Norwegian Police Security Service (PST) as an area where a cyberattack could have wide-reaching consequences, and where it must be expected that state actors are actively engaged. It is also of note that, in 2020, there has been a general increase in the number of cyberattacks on society in general. Keeping digital security, a high priority thus remains important to protect information, systems and infrastructure.</p> <p>Statnett takes digital risk extremely seriously, and has implemented several measures to</p>	<p>Several large companies have experienced cyberattacks during the Covid-19 pandemic. Statnett has managed this risk by focusing on strong data security and secure solutions both at substations and at home offices. We are using additional resources to strengthen our expertise and capacity regarding operational security, our information security management system and security architecture.</p> <p>A priority in 2020 was to strengthen the organization's awareness of digital security. We have introduced mandatory annual training in digital security for all employees and consultants. We have also carried out simulated phishing tests and established solutions that make it easier for employees to detect malicious e-mails.</p> <p>In 2020, we continued to develop our information security management system, which is based on standards such as ISO 27001. The initiative is one of several aimed at</p>

Operational risk	Risk description	Management
	protect critical infrastructures. Cooperation within the industry and with the national authorities is important for the success of these efforts.	developing good and clear guidelines for our digital security activities.
Stakeholder dialogue	<p>Statnett's operations are critical to society and affect a great many people. This applies to both the company's day-to-day operation of the power system and its construction activities. A regular, close and fruitful dialogue with a wide range of actors and stakeholders is therefore necessary.</p> <p>The various risks associated with the company's operations also require a good dialogue with various parties. Among other things, this includes ensuring that the company's contractors and subcontractors comply with regulations related to pay and employment.</p>	<p>Through a variety of forums and communications initiatives, Statnett strives to provide good information and build an understanding for its mission. This is particularly important when it receives many requests for the connection of new consumption and new production, as well as in relation to the construction of new facilities.</p> <p>We have implemented a number of measures to ensure that contractors and subcontractors comply with requirements and guidelines.</p>
The Covid-19 pandemic	<p>The Covid-19 pandemic affected the risk situation for the entire world in 2020 and has prompted considerable uncertainty related to consequences at the macro level in Norway, Europe and the rest of the world. This will probably continue in 2021.</p> <p>Our main goal throughout the pandemic has, as usual, been to maintain a secure power supply.</p>	<p>In January 2020, Statnett assessed that Covid-19 could spread to Norway. Accordingly, we established a working group to revise our existing pandemic response plan. Our pandemic response plan and several underlying action plans were prepared and updated throughout 2020, and form the framework for Statnett's handling of the Covid-19 pandemic.</p> <p>Statnett's Covid-19 emergency response group was established on 13 March 2020. It is an interdisciplinary group comprised of personnel from across divisions, and it works on a daily basis to develop and organize Statnett's Covid-19 strategy within the framework provided by Group Management. Internal and external communication is an essential part of this work. We assess infection control measures on an ongoing basis, based on risk assessments and in accordance with internal and external requirements and guidelines. We pay particular attention to our control centers and other operations-critical areas. Statnett works closely with contractors and subcontractors to handle situations of imported infection and possible subsequent spread of infection.</p>

Financial risk

Statnett is exposed to several types of financial risk, and we work continuously to develop and strengthen our policies, processes and procedures for dealing with these risks.

Financial risk	Risk description	Management
Cost optimization	Statnett's revenues are exposed to risk through the Norwegian Energy Regulatory Authority's (NVE-RME) determination of its permitted revenue. NVE-RME has proposed a new method for determining Statnett's cost norm and permitted revenue from and including 2021, but it has not yet been formally adopted. In the proposal, Statnett's permitted revenue is based the results of an efficiency analysis, where Statnett's costs are compared with a historical cost levels at the company. The analysis assesses Statnett's cost based on the development of its asset base. The result is multiplied with Statnett's cost base. If Statnett becomes more (less) efficient than the baseline for this analysis, the cost norm will increase (decrease), and the permitted revenue for the company will increase (decrease).	Cost efficiency measures are important to reduce Statnett's risk relating to future revenues. Statnett has established a separate efficiency program, which runs until 2022, where the goal is to improve the company's efficiency by 20 per cent.
Interest and liquidity risk	The company is exposed to interest rate risk in the borrowing portfolio and liquidity portfolio, which can affect Statnett's costs over time. Statnett is exposed to liquidity risk related to the maturity of operational and financial payment obligations.	<p>Statnett reduces interest rate risk and earnings fluctuations by entering into interest swaps for associated liabilities. The residual interest rate risk in the borrowing portfolio is reduced in that the income side is affected by market rates through the reference rate used to regulate the company's revenue.</p> <p>Statnett has access to multiple financial markets and has a diversified loan maturity structure. Access to borrowing is supported by a credit rating for long-term borrowings of A+ and A2 from Standard & Poor's and Moody's Investor Service, respectively.</p> <p>Statnett's available cash flow is intended to secure financing of operations and investments on a 12-month rolling basis, without obtaining new loans. Available liquidity facilities include a drawdown facility of NOK 8 billion maturing in January 2024. This reduces the risk of Statnett being unable</p>

Financial risk	Risk description	Management
		to refinance its borrowings in periods when fresh capital is scarce.
Ash flow Currency risk	Statnett's revenues are mainly denominated in NOK, though some of the Group's costs are incurred in foreign currencies.	Foreign exchange risk is minimized by hedging exposure to major procurements in investment projects using forward foreign exchange contracts or similar, and through the company's revenue regulation. All Statnett's foreign-currency borrowings are converted to NOK using currency swaps.
Credit risk	Statnett is exposed to credit risk through investment of surplus liquidity in banks and interest funds. Statnett also assumes credit risk through its role as Settlement Officer in the flexible market.	The Group has frameworks establishing requirements for creditworthiness and maximum exposure for each individual placement of surplus liquidity. This risk is managed by means of established routines for monitoring and pledging of security for participants in this market.
Counterparty risk	Statnett is exposed to counterparty risk through its derivatives counterparties.	Statnett enters into CSA agreements to reduce this risk.

Statnett's Board of Directors

Jon Fredrik Baksaas

Board member since 2018, Chair since 2018
 Chair of the Compensation Committee since July 2020
 Directorships: LM Ericsson AB, Handelsbanken AB, Cloudberry Partners AS and Chair DNV GL
 Experience: International telecoms adviser and adviser for technology start-ups in Norway, CEO of Telenor 2002–2015, various key positions at Telenor since 1989, other work experience from Aker, Stolt-Nielsen Seaway and Det norske Veritas

Wenche Teigland

Board member since 2020
 Member of the Audit Committee
 Experience: Investor and advisor for start-up companies, Executive Vice President at BKK 2006–2020, CEO of Naturgass Vest and various management positions at Shell/Gasnor, Aibel and Aker Engineering.
 Directorships: VY-gruppen AS, Quantafuel ASA, Powerzeek AS, Mocean Invest AS

Christian Reusch

Board member since 2020
 Member of the Compensation Committee
 Experience: Lawyer/partner at Advokatfirmaet Simonsen Vogt Wiig, lawyer at the Office of the Attorney General of Norway, Senior Adviser at the Prime Minister's Office

Einar Anders Strømsvåg*

Board member since 2015
 Chair of the Audit Committee until June 2020
 Directorships: Chair of Western Norway Regional Health Authority
 Previous experience: Senior Advisor and several management positions at Equinor, including Director of Refineries, Offshore Wind and Internal Audit

Maria Sandsmark

Board member since 2013
 Member of the Project Committee, and the Compensation Committee
 Experience: Researcher at Møreforskning Molde AS, Associate Professor at Molde University College and Consultant at ECON Analyse

Tove Elisabeth Pettersen

Board member since 2018, Deputy Chair since 2019
 Chair of the Audit Committee
 Experience: Director of Finance and Administration of the Red Cross Norway, Vice President Finance and Administration Bane NOR SF and Executive Vice President of Hafslund ASA
 Directorships: NRC Group ASA

Egil Gjesteland

Board member since 2012
 Chair of the Project Committee
 Experience: Owner of Gjesteland Consulting, IT Director and Project Director for a number of Equinor's oil and gas projects

Steinar Jøråndstad

Employee-elected board member since 2004, employee since 1981
 Member of the Project Committee until July 2020, then member of the Compensation Committee
 Experience: Team Coordinator in Statnett's division for Grid Operations, Head of the nationwide Electrician and IT Workers Union and member of the Working Environment Committee at Statnett

Ole Bjørn Kirstihagen

Employee-elected board member since 2018, employee since 1986
 Member of the Compensation Committee until July 2020, then member of the Audit Committee
 Experience: Procurement and operations for Statnett's operating centres, Operator at Norsk Hydro's operating centre, Chief Employee Representative and Chair of NITO Statnett

Ingeborg Ligaarden

Employee-elected board member since 2020, employee since 2015
 Member of the Project Committee.
 Experience: Senior Analyst in security of supply and risk consulting, Senior Consultant at Lloyd's Register and researcher at SINTEF.
 Previous experience from key positions in Tekna

Pernille Dørstad*

Employee-elected board member since 2018, employee since 2014
 Member of the Audit Committee until June 2020
 Directorships: Statnett SF's Pension Fund, private sector and other organisations
 Previous experience: Senior Engineer Buildings and Construction, various positions in construction projects at Equinor, Project Manager at Kværner, Chief Employee Representative and Chair at Tekna Statnett industry group

* Stepped down in June 2020

Sustainability report 2020



Responsible business

Statnett is facilitating the electrification of society, and we perform our tasks in a sustainable fashion. In this way, Statnett assumes its share of the responsibility for ensuring that the UN Sustainable Development Goals are reached by 2030.

Global challenges and sustainable solutions

Business enterprises are affected by a number of development trends, such as globalisation, technological advances, climate change, loss of biodiversity and a shortage of natural resources. Global targets for sustainable development, such as the United Nations Sustainable Development Goals (SDGs) and the Paris Agreement, are pursued through regional and national directives that change companies' framework conditions. There is a growing expectation that value must be created in a sustainable way. This means that companies' products and services, and the way they are made and used, must be compatible with the UN SDGs. For us at Statnett, this means facilitating electrification and making sustainable choices in our day-to-day working lives.

Climate change is one of the biggest challenges of our time. Electrification is an important factor in reaching global and national climate targets. Our contribution is to reinforce and renew the power transmission grid, so that fossil energy can be replaced by renewable, emission-free electricity. We have a good starting point for further electrification in Norway. In Norway, 98 per cent of the power generated is renewable, with the bulk coming from controllable hydropower plants. Although Norway is currently one of the world's most highly electrified countries, around half of the energy the country uses comes from fossil sources. The potential for further electrification is particularly large in the areas of transport and industrial production.

By means of our core activity, we enable Norway and our neighbouring countries to increase the proportion of renewable energy and reduce greenhouse gas emissions. At the same time, we will combat climate change and other global challenges by the way we perform our tasks. Among other things, this means reducing greenhouse gas emissions from our own operations.

In addition, we must do our part to address other global challenges. We maintain a high level of activity, have a great many work processes with a high level of inherent

risk, own space-intensive facilities, and work with international contract partners. The loss of biodiversity, social dumping, unsafe working conditions and unethical business practices are therefore all relevant challenges for us.

Global challenges constitute a risk for society at large and for Statnett. In our strategy, we take the position that systematic efforts in the field of sustainability are a necessary part of our business operations. We have defined six sustainability areas where our efforts are important. These are described in this report.

In 2020, the coronavirus pandemic and the measures implemented to limit its spread, have affected our priorities in the sustainability area. We have emphasised measures to safeguard all those who work at or for Statnett. Through effective follow-up of the quarantine regulations and clear guidelines for employees working on site and at home, we have managed to keep the rate of infection low. In addition, we have implemented measures to counteract unfortunate health-related consequences. An in-house coronavirus team, with relevant expert resources, and the occupational health service have played a prominent role here.

We have succeeded in keeping the operation of our facilities and our construction activities at a high level in 2020. Nevertheless, we have been obliged to postpone some of our sustainability-related activities. This applies, for example, to the verification of pay and working conditions at our construction sites. Despite the uncertainty caused by the pandemic, we have managed to strengthen our focus on sustainability by raising it to the strategic level.

Statnett's contribution to the UN Sustainable Development Goals

Statnett supports the UN Sustainable Development Goals (SDGs) that were adopted by world leaders in September 2015. The 17 goals are designed to contribute to a more sustainable planet and a good life for future generations. In order for the goals to be achieved, both public authorities and business must take responsibility.

In 2019, we evaluated which SDGs are most relevant for us. In 2020, we continued this effort, and have defined the most important contributions we are making to their realisation. We have identified seven SDGs to which we contribute through the fulfilment of our social mandate and our sustainability areas, which applies to the way we perform our tasks. This is illustrated in the graphic below, where we have included our main focus for each of the goals shown.

The SDGs provide a framework for our efforts. In 2020, we formalised our commitment to work for the realisation of these goals by joining the UN’s sustainable business initiative: the UN Global Compact.



Although our activities make a largely positive contribution to the UN SDGs, conflicts between them may arise. In other words, the same activity may contribute positively to the achievement of one SDG while having a negative impact on others.

This illustrates that sustainability is a complex field, which affords both opportunities and risks. Some examples of opportunities and risks, as well as necessary trade-offs are shown in the figure below.

	<p>Statnett contributes to the electrification of society (UN SDG 7.2).</p> <p>Our facilities may have a negative impact on life on land, e.g. on habitats and biodiversity (UN SDG 15.5). Read more in the section on environmental work.</p>
	<p>We maintain a high level of activity and work with a large number of subcontractors. We aim to ensure that employees who work at and for Statnett enjoy safe and decent working conditions (UN SDGs 8.7 and 8.8).</p> <p>At the same time, personal injuries and employment law violations constitute a risk. There was one fatal accident among our subcontractors in 2020. Read more in the section on personal safety and the selection of subcontractors.</p>
	<p>The electrification of society is one of several measures needed to achieve global climate targets. We must also reduce our own greenhouse gas emissions.</p> <p>Our facilities are vulnerable to the effects of climate change (UN SDGs 13.1 and 13.3). Read more in the section on climate risk.</p>

Organisation and responsibility

Statnett will behave in a sustainable, ethical and socially responsible manner. Our corporate social responsibility policy rests on the expectations state-owned enterprises are subject to in the areas of human rights, labour rights, climate and the environment, as well as anti-corruption. This policy is also based on the ten principles laid down in the UN Global Compact.

The report to the Norwegian Storting entitled: “The state’s direct ownership of companies – sustainable value creation”, published in 2019, sets out what is expected of Statnett and other state-owned enterprises. For example, expectations regarding efforts to increase diversity and the gender balance were made more explicit. We have included this as an important sustainability area, and will clarify it in our policy in 2021.

Implementing corporate social responsibility

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The most important guidelines for Statnett’s sustainability efforts are set out in our governing documents:

- Governance policy for corporate social responsibility
- Ethical guidelines for employees
- Ethical guidelines for suppliers
- HSE policy
- Pay and working conditions
- Environmental and climate strategy
- Procurement instructions
- Personnel handbook

In 2020, Statnett’s corporate strategy was updated to make sustainability a priority in the time ahead. The sustainability team has contributed to this effort, and will also provide assistance when the strategy is operationalised in the form of goals and initiatives that will

be integrated into existing activities and decision-making processes.

Statnett’s Ethics Representative

Statnett has an Ethics Representative, whose role is to strengthen legal protection for employees, and to help to uncover and deal with circumstances that are in breach of our codes of conduct. The codes of conduct have been adopted by the Board of Directors and, among other things, they highlight Statnett’s zero-tolerance approach to corruption, harassment and work-related crime.

The Ethics Representative receives and processes reports from anyone who has observed wrongdoing and/or mistakes committed by Statnett, our employees, our management or our suppliers. The Ethics Representative is required to ensure that the person making contact is guaranteed total confidentiality and anonymity if requested. The Ethics Representative reports to the President & CEO and the Board of Directors.

Prioritising sustainability areas

As part of Statnett’s corporate strategy review in 2020, we identified our most important sustainability areas. The analysis was conducted in line with the principles of the Global Reporting Initiative Standards (GRI Standards).

There is a growing awareness of sustainability in society in general and among a number of our stakeholders, such as young jobseekers, government authorities, civil society and lenders. We keep ourselves constantly updated about new requirements and expectations. In 2020, for example, the EU’s European Green Deal, the 2019 report to the Storting on state-ownership and Report to the Storting No. 13 (2020–2021) Climate Plan for 2021–2030 were all relevant in this respect. The sustainability team helped to assess the most important expectations and the current status of our sustainability efforts.

Going forward, the following will be given priority:

- Take a holistic responsibility for the environment and the preservation of biodiversity
- Reduce greenhouse gas emissions and manage climate risk
- Increase diversity in terms of competence, background and gender
- Make sure all employees enjoy safe working conditions
- Ensure decent working conditions throughout the supply chain
- Fight corruption, human rights abuses and unethical behaviour in all our undertakings

Work within these areas is described in the present report.

The sustainability areas and their associated goals were discussed by Group Management and the Board of Directors in 2020.

Dialogue with stakeholders

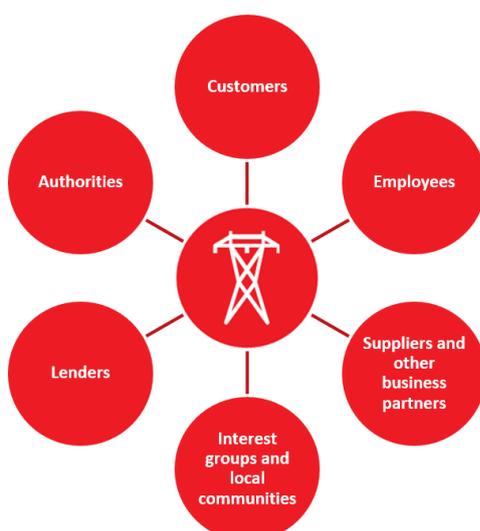
Statnett's values are long-term perspective, respect and community. Dialogue with stakeholders impacted by our business is vital in living up to these values.

We have a range of stakeholders in Norway and the rest of Europe. At a national level, our stakeholders extend from government authorities to local landowners and people living near our facilities. In addition, society as a whole depends on the secure supply of electricity. International stakeholders include suppliers, contractors, investors, lenders, government agencies and councils in the Nordic region and the EU, as well as transmission system operators (TSOs) in countries with which we exchange electricity.

Many of our stakeholders attach increasing importance to sustainability. For example, more young people than before want to work for sustainable companies, and local communities react powerfully to interventions in the landscape and companies' unethical behaviour. In addition, lenders have gained a significant role in the area of sustainable value creation. All of this impacts us.

Our dialogue with the various stakeholders is described in more detail in the chapter "Our contributions to sustainable economic growth" later in this report. There, we also discuss the various initiatives and networks to which we belong.

The overview below shows the most important groups of stakeholders with which Statnett engages.



About the report

The report is structured in accordance with a widely used categorisation of the UN Sustainable Development Goals: Planet, People and Prosperity. We have called the three chapters:

- Our social contributions
- Our environmental and climate contributions
- Our contributions to sustainable economic growth

In each of the chapters, we show which of the UN Sustainable Development Goals we contribute to and explain how. Our six important sustainability areas are discussed in these three chapters. In addition, we have included some other relevant sustainability areas and a chapter containing detailed information, called "Accounting for sustainability".

Our reporting is in accordance with the Global Reporting Initiative (GRI) Standards, Core level. This covers indicators for different topics and requirements for the reporting process. We also report on relevant sector-specific indicators for the energy sector (GRI G4 Electric Utilities Sector Disclosures).

The GRI table links the GRI indicators to the UN Sustainable Development Goals. Several of the indicators contribute to the UN Sustainable Development Goals.

We believe the report provides accurate information on the key corporate social responsibility topics for Statnett. We have engaged Deloitte AS to review the report. The auditor's statement is attached.

Although this report forms part of Statnett's 2020 annual report, we have elected to publish it as a separate document. Some elements in the GRI table refer to other chapters in the annual report than that relating to sustainability.

Our social contributions

Statnett has a duty to ensure that everyone working at and for the company enjoys safe working conditions as well as a decent salary and working conditions. We also aim to be an attractive employer, who provides equal opportunities to our employees, irrespective of gender or background.

These are our key objectives in this respect:

- Make sure all employees enjoy safe working conditions
- Ensure decent working conditions throughout the supply chain
- Increase diversity within the company in terms of background, competence and gender.

These are linked to several of the UN SDGs. The three most relevant are:

- 5: Gender equality
- 8: Decent work and economic growth
- 12: Responsible production and consumption

We have a duty to ensure all employees enjoy safe working conditions

Many Statnett employees perform tasks involving an inherently high level of risk. For this reason, the safety of our employees is our top priority. In 2020, we also paid additional attention to the working environment.

Statnett's efforts to protect its employees' personal safety rest on a zero vision. This presumes that every accident can be prevented and that the safety of the individual must come first. Our employees are our most important resource. A zero vision is ambitious, but draws considerable support from the Norwegian Working Environment Act. At the same time, it requires the continuous improvement of technical solutions, frameworks and competence.

Statnett's management use three supporting principles to underpin HSE work in the business. We ensure the best possible HSE outcomes by means of:

- A developing HSE culture
- Developing and using technical solutions
- Systematic management, learning and continuous improvement work

Statnett will further develop itself as a professional construction client, and will set high standards for those we contract to work on our behalf. We are constantly

improving our work processes on the basis of knowledge about safe working methods, ongoing risk assessments and systematic training. For example, we work to achieve our zero vision by choosing risk-reducing solutions when we plan and design our construction projects.

We expect that a zero vision also underpins the activities of our building contractors and subcontractors. Building contractors are responsible for the establishment of procedures and provision of adequate training for their own employees, so that our standards can be met. They must also ensure that the same goes for their own subcontractors.

Management of accidents and injuries

Good management of undesirable incidents and hazardous conditions means that we identify and exploit their learning potential. We are working continuously to maintain open communication and learning within and between our professional environments. In 2020, we implemented a new digital solution that simplifies the reporting and extraction of non-conformance data and improvement suggestions.

We also kept our construction projects running on schedule in 2020, despite the pandemic. Compared with 2019, the number of injuries fell. However, the frequency of serious incidents increased. The latter encompasses near-misses, hazardous conditions and serious environmental damage.

An employee of one of our contractors died following an accident in 2020. An internal inquiry was carried out after the accident, which was also investigated by the police and the Norwegian Labour Inspection Authority. No breaches of the Construction Client Regulations were discovered. Statnett's standard operating procedure for the use of ATVs was revised after the accident. The procedure reflects regulatory requirements, which apply irrespective of employer. The focus has been on personal protective equipment and physical safety measures.

Improving compliance procedures

In 2020, we reinforced our internal control system in the area of HSE to ensure compliance with internal and external requirements and standards. This included the establishment of compulsory courses for all operative leaders within the company. The course programme encompasses basic training in the relevant regulations, as well as practical training in systematic HSE work, including the establishment of local risk registers linked to the operation of construction sites and properties. Work on this was delayed due to the coronavirus pandemic in 2020, but will be resumed as soon as the situation permits.

To ensure compliance with electrical safety regulations and learning across the organisation, we made preparations for a review of all our operational areas in 2020. The planning and risk assessment of tasks is a key regulatory requirement. A standard methodology for the performance and documentation of the review, which will take place in 2021, has been established.

A major cross-functional effort has also been undertaken in recent years to meet the regulatory requirements for work in electromagnetic fields. A guide was completed in December 2020, and an e-learning course will be offered to everyone with independent access to Statnett's high-voltage facilities in 2021.

A survey of the chemical substances held at Statnett's facilities was carried out in 2020. The risk attached to the chemicals concerned has been assessed and recorded in a digital substance database. At many sites, the solutions used to store chemicals are being upgraded to improve their safety. We have also implemented measures to improve systems and procedures for the handling of explosives. Among other things, roles and responsibilities have been clarified.

Working environment

During the coronavirus pandemic, many of Statnett's employees have gone the extra mile to safeguard the supply of electricity and keep construction projects and other tasks on track. The majority have worked from home, and we paid additional attention to the working environment in 2020.

Early in 2020, a special Covid team was set up to prepare measures and draw up guidelines for Statnett, based on the level of infection nationally and regionally. The team has played a key role in ensuring a good working situation for all our employees. It has been in constant communication with Group Management and has informed employees about measures and restrictions via e-mail and text message, in addition to normal in-house communication channels. Over the course of 2020, members of the Covid team have replied to over 5,000 e-mails on virus-related issues. The team has also carried out employee surveys and launched initiatives relating to psychosocial and ergonomic issues.

Two surveys were carried out in 2020 to evaluate the work-related situation facing employees during the pandemic. The survey's questions focused on work tasks, social relations with co-workers, ergonomics, collaborative working and digital tools. Based on the results of the surveys, measures have been implemented to improve social and ergonomic conditions. Some employees have needed additional support, which they have received through dialogues with their manager, the

HR department and the Covid team. Such tailored support has, for example, been provided through our occupational health service.

The majority of our employees have worked from home, and many of them experience less follow-up from their managers, according to the surveys. Managers have therefore been given support to enable them to follow up their team members during the pandemic by means of information meetings and experience sharing via various digital channels. The HR department has been available for managers desirous of advice and assistance.

The company's occupational health service has provided coronavirus testing and offers of help in the event of psychosocial problems. Both the occupational health service and the employee safety representatives are important for following up and limiting sickness absence. This has also been discussed with the trade unions. We have a good system for individual work adaptation, in addition to the services the authorities provide through the Norwegian Inclusive Working Life initiative.

The occupational health service takes part in inspections and is represented on the Working Environment Committee. In 2020, a total of 33 occupational health and safety districts were established nationwide in Norway, primarily in operational areas and near administrative buildings. Every such district has a local HSE group where the local safety representative and a representative of the employer hold regular meetings and report to the Working Environment Committee each year.

We will ensure decent working conditions throughout the supply chain

Statnett has a duty to uphold human rights and behave in a socially responsible manner. Our approach is based on the International Labor Organization's eight core conventions. This also applies to our suppliers and other contractual partners. We expect our contractual counterparties in all countries to comply with our standards for pay and working conditions.

Sustainable purchasing

We must use our procurement procedures to promote decent working and environmental conditions at all contractual parties. This is required by the Norwegian public procurement legislation and is embedded in our procurement guidelines. This includes a new set of procedures and strategies for different categories of procurement.

We are a major buyer of goods and services. In 2020, we paid NOK 8,669 million to 4,382 suppliers. The largest

payments were made to building contractors and for the purchase of materials for the construction and operation of our facilities.

Statnett makes clear demands on all suppliers, and follows up on risk topics throughout the procurement process.

Choice of suppliers

Suppliers must undergo a qualification procedure to ensure they can fulfil our contracts and comply with requirements. This process involves documenting that they have well-functioning systems for HSE, environmental management and quality. For work or products assessed to be high risk, the qualification procedure includes audits and site visits. High-risk suppliers are audited regularly by means of Achilles Utilities NCE and through Statnett's own audits. Increasingly, these latter examine the risk of human rights abuses, serious environmental harm and unethical behaviour.

In 2020, we revised our Supplier Code of Conduct, which was approved by the board early 2021. In 2021, we will revise the appendix to our contracts that covers pay and working conditions. We have learned from the experience of other institutions and are working to formalise a requirement that would prevent us from signing contracts with suppliers that have been excluded from investment by the Norwegian Government Pension Fund Global (GPF) at the recommendation of the Council on Ethics, or that are registered on the joint list of ineligible firms and individuals drawn up by the World Bank and other development banks. Any exclusion must be based on factors encompassed by our supplier code of conduct.

Statnett has conducted an ongoing dialogue over several years with the Norwegian Tax Administration and the Labour Inspection Authority in the regions where our biggest projects have been based. In 2019, we entered into a formal information-sharing agreement with the Norwegian Tax Administration. The agreement means that we are able to check suppliers against the Norwegian Tax Administration's registers before contracts are offered. The agreement is therefore a tool with which to exclude "cowboy" companies from our construction projects.

Follow-up of pay and working conditions

For us, it is important to carry out systematic checks to ensure compliance with the terms covering pay and working conditions set out in our contracts. Some breaches of those terms may be so serious as to verge on the abuse of fundamental human rights. In recent years, we have uncovered several serious incidents of employment law violations at our construction sites. This

has highlighted the need for regular checks of suppliers at all levels in the supply chain. The uncovering of these incidents has clearly positioned us as an organisation that is determined to root out employment law violations.

We conduct regular checks on pay and working conditions based on an in-house methodology that involves systematically obtaining and checking written information from the supplier and, in parallel, holding conversations with workers in their own language. This provides us with a basis for comparing the written information obtained from the employer with oral feedback from the employees. The methodology has proved effective at uncovering non-conformances.

As the regulations require, our checks on suppliers at construction sites focus on workers from low-cost countries. We assess the risk of non-conformances based on the individual countries' track records in this area.

In 2019, the target was to check all major suppliers using foreign labour at our construction sites. Material non-conformances were uncovered at some subcontractors. This led us to expand our checks to encompass all suppliers at our construction sites.

However, the coronavirus pandemic in 2020 prevented us from carrying out our planned and ad hoc checks. We have performed checks on written documentation from employers, but coronavirus restrictions have hampered the gathering of oral information from workers at our construction sites. These checks have therefore not been finalised. This situation has demonstrated that the verification of written material provided by employers through interviews with workers is a precondition for documenting non-conformances. As soon as the health situation allows, we will resume our on-site checks of suppliers.

Trade unions

Statnett recognises and appreciates the value of the Norwegian working-life model. This involves a tripartite collaboration between the government, the trade union movement and overarching employers' organisations, and collaboration at the local level between employers and their employees (often through relevant trade unions). Good relations between management and employee representatives at individual firms are vital to companies' development and to their ability to adapt and rationalise.

We believe a high level of trade union membership to be positive, and take steps to enable the various trade unions to operate effectively and constructively. This also plays an important part in ensuring the best possible

basis for decision-making, and that such decisions have the support of the employee representatives.

Employee representatives must be guaranteed a genuine opportunity to exert an influence. Statnett continuously engages in an open dialogue with the trade unions to ensure an exchange of information and views on matters important to employees. Regular information and liaison meetings are held, as are more formal discussion meetings in connection with matters that may be of major significance for the employees' jobs. Larger-scale meetings with all employee representatives are held twice a year.

In 2020, the coronavirus pandemic has curtailed opportunities for in-person meetings, though they have been carried out digitally. Unfortunately, digital meetings do not provide the same opportunities for relationship building and interaction. Employee-elected representatives and safety delegates have been heavily involved in the development of infection-prevention and emergency response measures during the pandemic.

The employees elect three members to Statnett's Board of Directors, with several of the trade unions drawing up lists of candidates. The employees are also represented on the board of the pension fund, the pensions steering committee and the Working Environment Committee.

Diversity boosts profitability in practice



Erik Mesøy and Jan Kristian Haugland at work for Statnett. Photo: Unicus

In 2020, Statnett began collaborating with the IT company Unicus, a social entrepreneur whose consultants all have Asperger's syndrome. For the past six months, IT consultants Jan Kristian Haugland and Erik Mesøy have checked millions of datapoints for Statnett.

Both have Asperger's syndrome and say their different way of thinking is a strength when it comes to work.

Their department head at Statnett, Olav Resser, is extremely pleased with the consultants' contribution to the creation of a robust and secure digital foundation for the company.

"Our collaboration with Unicus shows that diversity boosts profitability. We need different perspectives and capacities to perform all the tasks required in the business world. Jan Kristian and Erik's analytical abilities help us to exploit the vast quantities of data that we receive every day from sensors and control systems," he says.

For the past six months, Jan Kristian and Erik have gone through vast quantities of data, performed probability analyses and worked to develop a mathematical model in collaboration with Statnett.

"There's a lot of data to be processed. For example, a month's worth of power data comes to around 100,000 lines of data," explains Jan Kristian.

The two IT consultants have, among other things, calculated power consumption minute-by-minute in selected periods, reviewed historic weather data, consumption and production data and historic imbalances. Martin Eide from Unicus describes the project as complex and challenging, which suits the consultants' competence and capacities extremely well.

Both Jan Kristian and Erik have many years of experience from the IT industry. Jan Kristian started writing his own programming language aged 11, and completed a doctorate in analytical number theory at Oxford University when he was just 25. In addition, he worked at Princeton University as a postdoctoral researcher. Eric studied statistics, computer science and mathematics at university, and reads at a speed of up to 2,000 words a minute.

"Many people with Asperger's fall through the cracks in the labour market, despite the fact they are extremely competent. Statnett is helping to unlock the potential that Erik and Jan Kristian possess and getting a high-value piece of work in return – which is positive for both sides. We appreciate the faith that Statnett has shown in us," says Eide.

We will increase our diversity of background, competence and gender

For Statnett, it is important to be an attractive employer, irrespective of its employees' background or gender. In 2020, we have taken steps to boost our diversity with respect to background, competence and gender.

Equality and diversity

We must safeguard employee diversity in terms of gender, age and background. Women and men with approximately the same education/training and experience must receive equal pay. This is described in governing documents, which are based in part on the ILO's core conventions.

We wish to increase the proportion of women in the workforce and the diversity of our employees' backgrounds and competence. This is an important factor if we are to cultivate a larger number of talented people in various professional fields. The need for greater diversity was therefore raised to the strategic level in 2020. We have already implemented several measures. This work will be reinforced going forward. We will establish goals and specific initiatives tailored to different parts of the organisation.

In addition, we received unambiguous signals in the 2019 report to the Storting, which expressed clear expectations that measures would be taken to increase workforce diversity. In its report to the Storting, the government announced an ambition that state-owned companies should have at least 40 per cent of both genders in their executive management teams. This is a goal we will follow up on. As at 31 December 2020, women accounted for 29.7 per cent of those employed at the two highest management levels at Statnett.

One of the measures intended to boost diversity has been the adoption of a new recruitment tool in 2020. A conscious approach to diversity in the recruitment process is important if we are to attract job applicants from different backgrounds. This tool gives us better data on the applicant pool, so that we can analyse trends and implement targeted initiatives.

We have also provided training in how to write good job adverts. By increasing awareness of how we present ourselves and the language we use, we will attract a larger number of qualified applicants.

Statnett's life phase policy must facilitate working life for employees of all ages. Initiatives under the seniors policy,

such as an additional week's holiday and training opportunities, help to keep the average retirement age high. Among other things, we offer a company kindergarten, social events committees and an active company sports club. For younger employees, we have a dedicated group called "Young at Statnett", which arranges both professional and social events. In 2020, much of this has taken place digitally, which has been important for many young employees who lack a wide social network outside of the workplace. In 2020, we staged our trainee programme and hired summer students as normal, despite the pandemic.

Competence and employee development

Statnett is an expertise-based company. It is important to further develop the organisation's business-critical core competences. All employees must complete compulsory training courses, and may take relevant courses via our competence portal. Development of the individual employee's competence is monitored through compulsory follow-up meetings with their manager.

We note that our competence needs are changing. This is due partly to the fact that we are digitalising more of our core processes. To realise the benefits of new technology, we are working systematically to train managers and implement new digital solutions. A new corporate governance system and a new solution for handling non-conformances were given priority in 2020.

In 2020, the HR department, in close consultation with the organisation, drew up an action plan for strategic competence management. The plan provides a framework for how we will develop our competence to meet future needs. We will encourage both temporary job swaps and permanent reassignments within the organisation. This will help managers and employees to broaden their competence and better equip us to meet the demand for new skills. Talent development programmes and succession planning are also part of the action plan.

All new line and project managers at Statnett undergo compulsory management training courses, covering corporate governance, HSE, employment law and our pay policy. The management training courses focus strongly on our values and management expectations, and lay down guidelines for how the company is to be led. The value "respect", in particular, is fundamental for manager's efforts to achieve diversity and equality. In connection with the development of management teams, diversity is one of the topics evaluated as a means to improve efficiency and performance.

Our environmental and climate contributions

Climate change and loss of biodiversity are two major global challenges that we aim to counteract through our day-to-day activities. The following are two of our important sustainability areas:

- Take a holistic responsibility for the environment and the preservation of biodiversity
- Reduce greenhouse gas emissions and manage climate risk

Our efforts in these areas contribute to the realisation of several UN SDGs:

- 12: Responsible production and consumption
- 13: Climate action
- 15: Life on land

Our environment and climate strategy follows up these two sustainability areas by setting guidelines for our efforts with respect to biodiversity, landscape management and greenhouse gas emissions. These guidelines are based on the precautionary principle. Our strategy highlights goals and initiatives to ensure a more environment-friendly procurement of products and services, and emphasises the documentation of the impact of our decisions on the environment and climate. The Environmental department supports the rest of the organisation in implementing these measures.

In 2020, we have focused particularly on the phasing-in of environmental goals in our construction projects, in line with our environment and climate strategy. In addition, we have worked to reduce the environmental impact of the way we operate our facilities and in the procurement process.

We will take a holistic responsibility for the environment and preserve biodiversity

We strive to reduce the environmental impact of our facilities and activities beyond that required by law. We place particular emphasis on the preservation of biodiversity and landscapes. This requires the environment to be integrated into the planning and operation of our facilities.

We comply with environment-related statutory provisions and political directives. Report to the Storting No. 14 (2011–2012) entitled “We build Norway – on the construction of the power grid” stated that an in-house or third-party impact assessment must be performed with

respect to any measures we implement, and that affected parties must be involved. In line with Proposition to the Odelsting No. 62 (2008–2009), we always try to meet the need for additional transmission capacity through limited use of the natural environment. Among other things, we assess whether it is possible to make better use of existing power facilities. As well as limiting the need for interventions in additional areas of countryside, voltage upgrades translate into lower energy losses per transported MWh. In our planning work, we also assess whether it is possible to restructure or remove older grid infrastructure when developing the power system.

As a part of the terms and conditions of licences for major projects, the authorities require preparation of an environment, transport and construction plan (MTA plan), which describes environmental considerations and remedial measures during both the construction and operation phases. This plan underpins the construction work that is to be carried out and is taken forward into operation of the facilities.

Biodiversity

To preserve biodiversity, we must apply best practice. This means that we must constantly improve our knowledge and practices. Statnett considers habitat types and species distribution when planning and selecting solutions, and during the construction and operation of its facilities. This involves, for example, avoiding bogland and other vulnerable natural habitats.

In connection with construction projects, we impose restrictions on building activity to preserve biodiversity. Restrictions are imposed during particularly sensitive periods, such as nesting times for endangered and vulnerable bird species and calving periods for reindeer. Requirements can also be imposed in terms of restrictions on felling and ground transportation, which could also apply during the operational phase. We restore construction sites, temporary roads and rigging areas, as well as any damage to the terrain, in line with Statnett’s terrain management handbook. The handbook was revised in 2020 on the basis of experience derived from its practical application.

In 2019, we launched a pilot project to survey non-native species at our substation facilities in southern Norway. The survey showed that measures to prevent the spread of non-native species in vulnerable areas was strongly recommended at around 20 per cent of our substation facilities. In addition, the implementation of measures should be evaluated at a further 30 per cent of the sites. Based on these findings, in 2020 we started work on a guide to the management of non-native species. It is intended to show how non-native species should be

removed and how we can prevent them from spreading. We will continue the survey in 2021.

Landscape

We will always use best practice in our efforts to preserve the natural landscape. When we plan new facilities, we will find solutions that enable them to merge aesthetically into their surroundings. We use laser scanning and three-dimensional modelling of the terrain to make it possible to select options that take into consideration the form and features of the landscape.

We have prepared a standard procedure for forest clearance for power line routes to reduce the visual impact of power lines in forests. In addition, we camouflage power lines, towers and insulators, remove old facilities and use new types of towers to reduce their visibility. In 2020, we built 63 km of camouflaged towers and removed 12 km of power lines.

Environmental incidents

Statnett's vision is to cause zero major emission events and no environmental damage. Environmental incidents are incidents that cause serious or irreversible environmental impacts. Environmental incidents are reported both to project owners and to Group Management.

In 2020, five such environmental incidents were reported. This included the discovery of a landfill during work at one of our sites. The landfill contained components from a former switching station, among other things. The find led to the work being halted and the Norwegian Pollution Control Authority (SFT) being notified. The waste that was uncovered was removed along with polluted materials, and dealt with as required by law.

Three of the incidents concerned actual or potential damage to places of cultural heritage at one of our construction projects. The fifth incident concerned intervention in an important natural habitat. This was a breach of the requirement for approved land use. To reduce the risk of such incidents occurring, we developed a digital solution in 2020, through which contractors can see project-specific maps that display their position in real time on a mobile phone or tablet device. We also introduced compulsory training in environmental control for employees tasked with following up environmental requirements during the construction phase.

In addition, two major leaks of sulphur hexafluoride (SF₆) gas were discovered in 2020. A combined total of 70 kg of the gas escaped. An internal inquiry into two previous leaks of SF₆ gas has been undertaken to prevent such occurrences. Based on the results of the inquiry, we have improved our procedures for maintenance and reporting of

faults. Competence-enhancing measures were also implemented.

In February 2020, three interconnectors in the outer Oslofjord were damaged by the anchor of a ship. This incident is described in the annual report's section auditor's report. One of the interconnectors was oil insulated. To prevent water from entering the interconnector and destroying it, oil is still pumped into the interconnector after such damages. The consequence is that oil leaks into the water. The oil has characteristics that limit negative consequences for nature and the environment. It is very thin fluent and is classified as not harmful to marine organisms. In total 6000 liter of oil leaked into the water during a period of nine days. No negative consequences for nature and the environment were recorded as a result of the spill.

We will reduce greenhouse gas emissions and manage climate risk

We are affected by climate risk, in the form of both climate change, which could impact our facilities, and due to more stringent climate policies. We aim to reduce our own emissions in accordance with the Paris Agreement and Norway's Climate Change Act. We also aim to systematise our efforts with respect to climate risk and report in accordance with the Task Force on Climate-related Financial Disclosures (TCFD).

Reduction in greenhouse gas emissions

Our goal is to reduce greenhouse gas emissions by 50 per cent by 2030. This includes emissions from our own operations and from those of our contract partners. Our goal is to have reduced our own emissions by 25 per cent by 2025.

We have analysed the sources of our emissions on the basis of their volume, climate risk and realistic measures. Based on these assessments, we have identified climate-related measures that will enable us to reach our goals in the short and long term. The measures that can be implemented quickly will reduce our operating costs. This includes, for example, transitioning our vehicle fleet to zero-emission alternatives. We are working on a plan to implement this transition. We are also working to increase our use of drones instead of helicopters and assessing if our heavy vehicles can run on biofuel containing no palm oil.

Measuring and calculating greenhouse gas emissions from bogland



In collaboration with the Norwegian Institute for Nature Research (NINA) and the Norwegian University of Science and Technology (NTNU), Statnett is investigating greenhouse gas emissions from various types of natural habitat. This provides important information for our decisions on where to site new facilities.

One relevant type of natural habitat is bogland. Bogs have been storing carbon dioxide for thousands of years. When they are drained and excavated, the carbon dioxide stored underground is released into the atmosphere.

One of the goals of this research project, called Greener Natural Intervention and Reduction in Greenhouse Gas Emissions Linked to Construction Work or GRAN for short, is to develop a climate calculator for emissions from different types of natural habitat, including bogland. Because the depth and carbon density of different bogs varies significantly, we took 160 depth measurements and 15 carbon samples from an area of bogland in Tydalen, Trøndelag, in 2020. Based on the measurements, we can see how well theoretical calculations match the actual figures, and how a calculator based on a mapping tool could give us good enough estimates to be included in our decision-making process.

The objective is to develop greater awareness of the emissions resulting from our activities, and enable us to make better choices when the pros and cons of an action are to be weighed up.

The project also includes environmental surveys, environmental contract stipulations and a methodology for training both engineers and building site workers. Read more about the project on our website.

In 2020, we took several steps to reduce emissions from the use of SF₆ gas. These included improved maintenance procedures and the technical qualification of alternative gases. The objective is to reduce the SF₆ emission rate to 0.15 per cent from the current level of 0.33 per cent. The technical qualification means that we can use alternatives to SF₆ gas at new facilities of up to 132 kV and on passive components in facilities at the highest voltage level. For example, the new substation at Hamang in Bærum will use an alternative gas mixture containing less SF₆.

The estimated greenhouse gas emissions linked to purchasing of materials indicate that this is one of our largest sources of emissions. In 2020, we therefore endeavoured to introduce climate-related requirements into our contracts.

Construction work at new sites is another major source of greenhouse gas emissions. This is why we now require fossil-free construction sites in all projects where there is a mature supplier market. In 2020, we started fossil-free construction work at our new Hamang substation in

Bærum. In addition, the construction work is fossil-free at several ongoing projects. Examples include Smestad–Sogn in Oslo and the Fagrafjell substation in Rogaland.

In 2020, Statnett Transport was merged into Statnett SF. This organisation had a higher level of activity than in 2019, which increased its emission levels. Overall, greenhouse gas emissions were somewhat lower in 2020 than the year before. This is partly due to a reduction in air travel due to the coronavirus pandemic. In addition, emissions deriving from contractors' use of helicopters decreased, since we built and removed fewer kilometres of power lines in 2020 than in previous years.

Climate, weather and physical climate risk

Climate change means we must equip ourselves to handle different weather patterns and more frequent natural events going forward. This is particularly true for more violent extreme weather events and changes in precipitation patterns. Some places will experience less precipitation, while it will rain and snow more in others. More extreme precipitation is likely, and we must also prepare ourselves for landslides and floods in the vicinity of our facilities. It influences electricity consumption and renewable power production, and therefore also transmission requirements. The weather also impacts the load on the grid.

Faults on power lines, in transformers and control systems affect the operational reliability of the power system and may result in interruptions to the supply. For power lines, variations in both weather and vegetation play a large role. Our operations suffer the greatest number of interruptions in years with a large number of extreme weather events and much lightning. The number of faults on power lines has remained relatively stable at 60–90 per year over the past five years. This is lower than in the previous five-year period, when we suffered several extreme weather events. Less than 10 per cent of the faults on power lines are of lasting duration and require repair. To better equip ourselves to deal with extreme weather events, we have taken steps to secure the power lines.

Extreme weather also makes high demands of emergency preparedness. When an extreme weather event is forecast, we halt ongoing maintenance work to keep as many power lines as possible in operation. In this way, we ensure the supply of power is as robust as possible when the extreme weather hits. After each extreme weather event, we evaluate our response and start preparing for the next one.

We adapt to climate change on an ongoing basis in operational situations and by means of long-term planning. We perform regular risk assessments of our existing facilities and implement safety measures as required. We design our new facilities to withstand scenarios involving extreme weather situations.

Political change and adaptation risk

Climate change and the measures needed to combat it affect society. We expect to see further requirements for more climate-friendly solutions in the years ahead, both in terms of legislation and standards. This will affect us. For example, we must presume that the technologies, materials and solutions chosen in future will have a low impact on the environment and the climate.

We are monitoring political developments and assess which decisions affect us directly and indirectly. Norway has set ambitious climate targets, and it is probable that the legislation will be tightened up in other sustainability-related areas in the years to come. To reduce our risk exposure, we must include this likelihood in our decision-making processes.

In recent years, the Norwegian government has stated its ambition to make the building and construction sector fossil free by 2025, and submitted action plans covering areas such as green shipping and alternative fuels. At Statnett, we are working towards fossil-free construction sites becoming the standard in the longer term.

Proposition 1 LS (2019-2020) for the 2020 fiscal year – Taxes, duties and customs 2020 states that SF₆ may be subject to environmental taxes. SF₆ gas has exceptionally good properties in terms of electrical insulation and circuit breaking, but it is also an extremely polluting greenhouse gas. Handling is subject to stringent requirements, and we work continuously to change to facilities and components with lower emissions. At the end of 2018, storage and consumption of SF₆ became subject to a reporting requirement in Norway.

Report to the Storting No. 13 (2020–2021) Climate Plan for 2021–2030 states that the government will evaluate measures to reduce both the use of and emissions from SF₆. One such measure could be a tax. In addition, an increase in the tax on CO₂ has been announced. This will also have an impact on us. We meet the adaptation risk by implementing climate measures, as described above.

Our contributions to sustainable economic growth

To create value in a sustainable way, we must maintain a high ethical standard and make clear demands of our own employees and our suppliers. This will become more and more important due to increasing globalisation and less transparency in the supplier market. This is why we have defined the following as one of our most important sustainability areas:

- Fighting corruption, human rights abuses and unethical business conduct in all areas of our business.

We aim to make it clear that our responsibility to contribute to the UN SDGs extends beyond our own company to our contract partners as well.

We must also be at the forefront of the societal changes that generate new requirements, new needs and new technologies. This presumes that we maintain a good dialogue with our partners and other actors in society, and work systematically to develop and adopt new technologies and competences.

We will fight corruption, human rights abuses and unethical behaviour in all areas of our business

Through clear requirements in our supplier code of conduct and dialogue with individual companies, we will secure zero tolerance for corruption and all forms of bribery, fraud and unlawful business activity throughout the supply chain.

The Ethics Representative works closely with our Department for Working-Life Relations. This department is responsible for our pay and working conditions.

We have drawn up codes of conduct for our own employees and our suppliers. Our Supplier Code of Conduct is attached to our contracts. We use this code of conduct actively in our assessment of contract partners. This is crucial if we are to ensure we work with responsible suppliers. Another important step taken in 2020 was to learn from the experiences of external expert entities, such as the Council on Ethics for the Government Pension Fund Global (GPF), the World Bank and the development banks with regard to qualifying suppliers.

Whistleblowing

Whistle-blowing on censurable conditions can be done in several ways, including to the Ethics Representative.

Statnett's Ethics Representative received a total of 55 reports in 2020. The vast majority of these were of such a nature that a solution was found relatively quickly.

However, a small number of cases required more time, work and follow-up. These included cases relating to internal working conditions and cases relating to our suppliers. The coronavirus pandemic has made it challenging to follow up of these types of cases, particularly reports relating to terms of employment at our suppliers. Such reports are normally followed up by means of workplace inspections and interviews with employees. These cases are followed up by Statnett's Department for Working-Life Relations, working closely with the Ethics Representative, who is responsible for dialogue with any whistleblowers. The follow-up of suppliers in 2020 is described in the chapter "Our social contributions".

Training

Information and training with respect to our Ethics Representative arrangement and codes of conduct is part of our onboarding process for new employees. Project-specific courses have also been held, with the focus on tackling work-related crime. As part of these, the Ethics Representative has talked about what Statnett expects of its employees and suppliers, as well as experiences from and issues associated with their work on this type of case. In 2020, these training courses were held digitally.

Dialogue and cooperation

Statnett supplies critical infrastructure and administers public resources. This is why transparency about how we carry out our work is important.

Our social mandate encompasses three different functions: Transmission system operator, power grid owner and power system planner. These are described in the "This is Statnett" chapter in the annual report and on our website. All three functions involve extensive dialogue and collaboration with relevant stakeholder groups. Much of this is regulated by law. For example, there have been a great many requests for new connections in recent years. These processes require intense dialogue with the actors requesting a connection and with affected parties, such as local power distribution companies, local authorities and landowners, pursuant to the Regulations Relating to Transmission System Assessments and Licensing Processes.

In a licensing process, it is important to quickly engage in a dialogue with the stakeholders concerned, both to ensure acceptance for the measures being planned and to elicit suggestions for local adjustments. This is why, in many cases, we arrange meetings with local stakeholders beyond the statutory requirements, for example by holding

open days. These provide an opportunity to discuss concerns in areas such as construction traffic, noise, electromagnetic radiation, impacts on the landscape and environmental interventions. These topics are explored in more detail where the licence requires an environment, transport and construction plan (ETCP). This plan is drawn up in dialogue with those affected and will in some cases also be sent out for consultation. The ETCP describes how environmental considerations are to be taken into account in the development project and planned measures to mitigate the impact on the local community. In built-up areas, we implement measures to reduce noise and protect vulnerable road users. In the countryside, our measures are more targeted towards preserving biodiversity, protected areas and cultural heritage sites.

On our website, we provide information about individual projects in the form of messages and news, for example, as well as by publishing various documents such as licence applications and reports.

Network membership and participation

We engage in an ongoing dialogue with organisations and entities within the industry, with government and regulatory authorities, numerous other stakeholders and civil society bodies. In addition, we participate in various networks, initiatives and forums at the national and international level.

One such example is the Market and Operations Forum, which represents Statnett's customers. The forum discusses and shares insights into matters of strategy and principle relating to markets and operations, and meets with Statnett's Board of Directors. The minutes from this forum's meetings are published on Statnett's website. We also participate actively in Nordic and European collaborations, for example the European Network of Transmission System Operators (ENTSO-E).

In 2020, we also joined the UN Global Compact and the ODA Network. In addition, we have participated in the Confederation of Norwegian Enterprise's Green Supply Chains initiative, the Green Construction Industry network and the Energy Transitions Commission.

Local value creation

Our main contribution to value creation is the secure supply of electricity and the connection of new production and new consumption to the power grid. In addition, we contribute to local value creation by utilising Norwegian suppliers of all sizes. We divide our construction projects into multiple contracts, so that local and regional suppliers have an opportunity to offer their services. The figure below shows

what we paid our suppliers in 2020. The breakdown between Norwegian and international suppliers is based on their company registration number.

Our local offices and substation groups also have the opportunity to support local projects in areas such as sport, culture and youth work. Because these projects are also intended to benefit the local community, applications for financial support are assessed by Statnett employees with local knowledge. For Statnett, it is important to make a positive contribution to the local communities in which we operate.



Green financing

More and more in recent years, banks and investors have been integrating consideration for people, society and the environment into their investment activities. This affects us because rating agencies specialising in sustainability have given us an ESG rating¹, which is used by our lenders. Good work in the field of sustainability can therefore affect our financial terms and conditions.

Good work in the field of sustainability can also give access to new lending markets. In 2020, Statnett received payment of its first two green bond loans, worth a combined NOK 3.6 billion. Green bonds are loans intended to finance environmentally positive initiatives. Our green loans will be used to finance construction projects that will have a positive effect on the climate. This time, the funds will go to the Smestad–Sogn project, which will help Oslo to reach its climate targets and improve security of supply to the Norwegian capital. They will also go to the North Sea Link interconnector, which will facilitate increased production

¹ ESG stands for Environmental, Social and Governance. It is a term used primarily by investors, fund managers and the financial sector.

and consumption of renewable energy in Norway and the UK.

To participate in the market for green bonds, we have established a framework describing which processes may qualify as green. We were also qualified by the Center for International Climate Research (CICERO), which means that both the company and its projects have a positive impact on the climate. CICERO awarded Statnett the designation dark-green, which is the highest grade it is possible to achieve. We have established a cross-functional committee to assess projects. It is made up of employees with environmental, analytical and financial competence.

New knowledge and new technologies will become increasingly important

To reach the climate targets by 2050 will require massive changes in the way we produce and consume energy. Today's fossil-based energy must be replaced by renewable energy. Climate targets and other drivers, such as digitalisation, have already accelerated the pace of electrification in society.

Electrification creates the need for new solutions, innovation and competence in all our core areas. The reorientation of the power system is proceeding at speed and requires the rapid implementation of new solutions and technologies. To handle this, we have brought together R&D and technology development under one roof. The purpose of this joint centre is to enable the creation of an electrified and emission-free society. One of the means to achieve that goal is a roadmap showing how new technology will be deployed in our construction projects.

In addition to society becoming more dependent on electricity, we are also becoming more digital. This is also true of the power system, where digital solutions are increasingly being connected to the physical power grid. For Statnett, digitalisation is increasingly important to its ability to fulfil its social mandate as well as possible. Better exploitation of power system data means that we can work smarter and more efficiently. This is crucial, not least if we are to manage the large number of actors wishing to

connect to the grid. More data and better analyses mean that more customers can be connected without us having to build new transmission grids.

Through our work on Statnett's corporate strategy in 2020, we have determined the specific benefits deriving from digitalisation. In addition to the faster connection of customers, digitalisation can result in better utilisation of the power system and high security of supply.

The focus on digital solutions is also reflected in the R&D programmes that got underway in 2020. The programme period, which runs until the close of 2023, comprises the following programmes:

- Cooperation in the energy system
- Digital, safe and cost-effective solutions
- Real-time control and efficient markets

The programmes and the projects they encompass are described on our website.

Many other transmission system operators in the Nordic region and the rest of Europe face the same issues with respect to intermittent power generation, increasing digitalisation and automation, among others. We collaborate with 150 partners in 90 different projects to develop and adopt the best solutions.

One example is IMPALA, a collaborative project between Statnett, Svenska kraftnät, Optimeering and researchers from the Norwegian University of Science and Technology (NTNU). The objective is to use artificial intelligence and machine learning to predict imbalances in the power system. This is a topical issue because we are using electricity in more and more new ways and areas, and the amount of intermittent power production being built, particularly wind power, is increasing all the time.

The project is developing a self-learning system to provide better forecasts for imbalances in the power system. This is important to enable greater electrification going forward. In 2020, IMPALA received the Norwegian Smartgrid Centre's innovation award.

Sustainability accounts

We have collected detailed information on the three main categories described in the Sustainability report.

Information on social conditions

Safety

Serious Incident Frequency SIF	2020		2019		2018	
	Number	SIF value	Number	SIF value	Number	SIF value
Total	29	6,2	15	2,9	15	2,6

Lost-time injuries (LTIF)	2020		2019		2018	
	Number of injuries	LTIF value	Number of injuries	LTIF value	Number of injuries	LTIF value
Employees	4	1,5	6	2,3	5	1,9
Subcontractors	13	6,6	16	6,2	28	8,6
Total	17	3,6	22	4,2	33	5,6

Injuries (TRIF)	2020		2019		2018	
	Number of injuries	TRIF value	Number of injuries	TRIF value	Number of injuries	TRIF value
Employees	12	4,4	15	5,7	16	6,1
Subcontractors	23	11,7	34	13,2	50	15,4
Total	35	7,5	49	9,4	66	11,3

Fatalities	2020		2019		2018	
	Number	Value	Number	Value	Number	Value
Employees	0		0		0	
Subcontractors	1		0		0	

Lost day rate (LDR)	2020		2019		2018	
	Number of lost days	LDR value	Number of lost days	LDR value	Number of lost days	LDR value
Employees	67	24	62	23	120	45
Subcontractors	258	131	155	60	366	113
Total	325	70	217	42	486	83

Total recordable injuries (TRIF) and lost-time injuries (LTIF) are not differentiated by gender or region. The lost-time injuries frequency (LTIF) shows the frequency of work-related lost-time injuries per million working hours. The total recordable injury frequency (TRIF) shows the total number of work-related injuries per million working hours. The serious incident frequency (SIF) indicator captures the most serious incidents/conditions involving injuries, near misses, environmental harm and recorded hazardous conditions per million working hours relating to electrical safety and working at height. Absence days are defined as lost working days in relation to the total number of working days the injured person is away from the first day after the work injury occurred. Lost day rate shows the absence rate or the frequency of absence due to the work injury per million hours worked. A fatal accident is considered as 230 days absence. Differences in results between employees and subcontractors can be explained by the fact that the contractors work operationally, while the employees also includes administrative positions.

Sanctions, health and safety	Unit	2020	2019	2018
Cases where legal or administrative sanctions have been issued for serious breaches of health and safety legislation	Number	0	0	0
Fines or charges for serious breaches of health and safety legislation	MNOK	0	0	0

Supply chain

Payment to suppliers ¹⁾	2020		2019		2018	
	MNOK	Number of suppliers	MNOK	Number of suppliers	MNOK	Number of suppliers
Development and operation	5 638	982	5666	842	6002	869
ICT	1 072	428	903	440	936	462
Administrativt	463	2313	490	2463	517	2589
Consultants	982	397	733	332	983	377
Other	514	1338	2105	1471	1513	1399
Totalt (unique suppliers)	8 669	4382	9898	4403	9951	4519

1) Payments are categorized by procurement categories. ICT includes ICT-consultans.

Decent working life

Trade unions	Unit	2020	2019	2018
Percentage of employees with collective agreements as at 31.12	%	78	80	77

Penal sanctions, human rights	Unit	2020	2019	2018
Cases where legal or administrative sanctions have been issued for material breaches of human rights legislation ¹⁾	Number	0	0	0
Fines or charges for material breaches of human rights legislation	MNOK	0	0	0

¹⁾ Material legal sanctions for discrimination, forced labour, child labour or breaches of freedom of association, indigenous rights or employee rights.

Working environment

Employees	Unit	2020	2019	2018
Employees as at 31 Dec	Number	1530	1445	1426
Employees in subsidiaries as at 31 Dec ¹⁾	Number	46	48	38
Employees in full-time positions as at 31 Dec	%	98,6	98,8	98,3
Turnover	%	2,3	4,7	3,0
Apprentices as at 31 Dec	Number	28	30	36
Trainees as at 31 Dec	Number	9	10	10

Age distribution	Unit	2020	2019	2018
Employees under 30	%	8,0	8,3	9,0
Employees aged 30–50	%	47,2	47,2	48,0
Employees over 50	%	44,8	44,5	43,0
Average age, all employees	Years	46,9	46,8	45,7
Average age, men	Years	47,4	47,3	46,3
Average age, women	Years	45,4	45,3	43,9

Gender equality	Unit	2020	2019	2018
Female quota, Group	%	26,8	26,2	27,0
Female quota, management positions	%	24,7	25,9	29,0
Female quota, Group Management	%	28,6	28,6	28,6
Female quota, Board of Directors	%	44,4	37,5	43,0
Female quota, new employees	%	36,7	26,6	40,0
Female quota, new managers	%	28,7	25,3	29,0
Female quota, full-time employees	%	26,1	25,3	26,0
Female quota, part-time employees	%	68,1	75,0	63,0

Equal pay ²⁾	Unit	2020	2019	2018
Average salary for women as a percentage of average salary for all employees	%	99,0	99,4	99,7
Average salary for men as a percentage of average salary for all employees	%	100,4	100,2	100,1
Average salary for female managers as a percentage of average salary for all managers	%	100,5	101,8	104,5
Average salary for male managers as a percentage of average salary for all managers	%	99,8	99,4	98,3

Sickness absence	Unit	2020	2019	2018
Short term, 1–16 days	%	1,1	1,4	1,4
Long term (>16 days)	%	1,7	1,5	1,8
Women	%	3,7	4,5	5,2
Men	%	2,4	2,5	2,6
Totalt	%	2,8	2,9	3,2

Statnett as employer	Unit	2020	2019	2018
Employee satisfaction and motivation				
Employee engagement ³⁾	Scale of 1-5	-	4,2	4,3
Response rate	%	-	89	90
Employees who have had an annual appraisal	%	82	81	81

¹⁾ Elhub

²⁾ Reported for the first time in 2019; not all historical figures are available.

³⁾ From Statnett's annual internal organisation survey. Replaced with two work environment surveys in 2020.

Environmental and climate information

Environment

Form of protection	2020			2019		
	Number of protected areas	Kilometres of power lines	Areal (km2)	Number of protected areas	Kilometres of power lines	Areal (km2)
Biotope protection under the Norwegian Wildlife Act	4	85	6	4	85	6
Animal protection area	11	44	3	11	44	3
Landscape protection area	14	141	11	14	141	11
National Park	0	0	0	0	0	0
Nature reserve	68	120	8	65	117	8
Protected plant area	0	0	0	0	0	0
Total	97	390	28	94	387	28

Waste type ¹⁾	Unit	2 020	2019	2018
Biological waste and sludge	tonnes	2 495	2 646	3 778
Paper and cardboard	tonnes	33	69	68
Glass	tonnes	1	5	40
Metals	tonnes	3 151	556	1 132
WEEE	tonnes	261	551	74
Soil and inorganic materials	tonnes	315	1 193	924
Plastics	tonnes	28	46	21
Chemicals	tonnes	0	2	2
Batteries	tonnes	7	13	3
Hazardous waste	tonnes	359	103	474
Total source-separated waste	tonnes	6 648	5 183	6 516
Mixed waste	tonnes	701	674	732
Source separation rate	per cent	89	87	89
Estimated reported	per cent	85	85	85

¹⁾ Statnett classifies waster in accordance to NS9431

Sanctions, environment	Unit	2020	2019	2018
Cases where legal or administrative sanctions have been issued for material breaches of environmental legislation	Number	0	1	0
Fines or charges for breaches of environmental legislation	MNOK	0	0,6	0

Environmental incidents ¹⁾	Unit	2020	2019	2018
Statnett				
Serious environmental incidents ²⁾	Number	1	1	2
Less serious environmental incidents ³⁾	Number	2	17	25
Contractors				
Serious environmental incidents	Number	4	0	1
Less serious environmental incidents	Number	7	11	547
Total	Number	14	29	575

1) The method for reporting environmental incidents was changed in 2019. Incidents for which contractor is responsible and incidents for which Statnett is responsible are split.

2) Incidents that cause serious or irreversible environmental impacts.

3) Incidents that cause minor or moderate negative environmental impacts.

Climate

Energy consumption	Unit	2020	2019	2018
Electricity				
Own consumption	GWh	20,4	17,1	15,4
Grid losses	GWh	2 336	2 238	2 444
Grid losses as percentage of power transported in the transmission grid	%	2,3	2,4	2,4
Fossil fuels				
Natural gas, gas-powered plants	Ton	5	23	184
Fuel, own cars and machinery	m ³	892	934	930
Fuel, business car travel	m ³	37	48	59
Percentage of electric cars used for business car travel	%	15	12	8
Fuel, Statnett Transport	m ³	1 395	586	1 421
Fuel, own helicopter use	m ³	297	308	220
District heating and cooling				
Own consumption	kWh	2 545	2 441	2 460
Of which renewable	%	82	67	66

Emission intensity	Unit	2020	2019	2018
Total greenhouse gas emissions	tCO ₂	60 929	61 292	63 958
Total power transmission in the main grid	TWh	101	95	101
GHG emission intensity	tCO ₂ /TWh	602	644	635

Greenhouse gas emissions ¹⁾	Unit	2020	2019	2018
Direct emissions (scope 1)	tCO ₂ equivalents	18 141	13 159	16 522
From fuel consumption ²⁾	tCO ₂ equivalents	2 215	2 205	2 230
From company car travel ³⁾	tCO ₂ equivalents	84	108	134
From helicopter use (Statnett) ⁴⁾	tCO ₂ equivalents	754	781	558
From fugitive emissions (SF6) ⁵⁾	tCO ₂ equivalents	11 203	8 389	9 173
Fra Statnett Transport	tCO ₂ equivalents	3 871	1 612	3 930
From reserve power facilities (natural gas)	tCO ₂ equivalents	14	63	498
Indirect emissions (scope 2)⁶⁾	tCO ₂ equivalents	40 067	42 638	40 351
Electricity	tCO ₂ equivalents	347	323	253
Grid losses	tCO ₂ equivalents	39 712	42 298	40 082
District heating and cooling ⁷⁾	tCO ₂ equivalents	8	17	16
Other indirect emissions (scope 3)	tCO ₂ equivalents	2 721	5 495	7 086
From company air travel ⁸⁾	tCO ₂ equivalents	824	2 685	3 165
From helicopter use ⁴⁾	tCO ₂ equivalents	1 897	2 811	3 921
Total emissions	tCO ₂ equivalents	60 929	61 292	63 959

¹⁾ Greenhouse gas emissions relate to Statnett, with the exception of helicopters (contractors). Consolidation is based on operational control. The figures in the table have been calculated in accordance with the GHG protocol and show emissions using the location-based method of calculation. In 2020, total scope 2 emissions using the market-based method, which corrects for sales of guarantees of origin, amounted to 933 317 tonnes of CO₂ (emission factor per NVE equates to 396 tonnes CO₂/GWh).

²⁾ Emission factor: SSB Sales of petroleum products and gov.uk Greenhouse gas reporting

³⁾ Emission factor: OFV AS

⁴⁾ Emission factor JET A-1 (Kerosene): Asplan Viak report "Notodden airport - GHG emissions". The emissions for helicopter use are based on estimated average hourly usage per kilometer line section, which means there is some uncertainty in the numbers.

⁵⁾ Emission factor: United Nation GWP potential, GWP 23,900

⁶⁾ Emission factor: NVE electricity disclosure 2019

⁷⁾ Source: Avantor. A larger proportion of Statnett's buildings that use district heating and cooling have been included in 2019. Figures for previous years have been restated using the new method.

⁸⁾ Source: Via Egencia. A new method (Defra) was introduced in 2019 for calculating greenhouse gas emissions from flights. Figures for 2018 have been restated using the new method.

Levels and emissions, SF ₆	Unit	2020	2019	2018
Levels as of 31 Dec ¹⁾	kg	148 343	146 716	129 281
SF6 emissions	kg	469	351	353
Substations with gaseous components	Number	172	152	141
Of which gas-insulated substations	Number	31	30	30

¹⁾ Levels include SF6 in stations and stock.

Sustainable economic information

Business ethics and anti-corruption

Whistle-blowing cases	Unit	2020	2019	2018
Total number of concerns reported	Number	55	52	55
Of which linked to business ethics and anti-corruption ¹⁾	Number	26	22	-
Of which linked to working environment ²⁾	Number	29	30	-

Sanctions, business ethics and anti-corruption		2020	2019	2018
Cases where legal or administrative sanctions have been issued for material breaches of business ethics legislation ³⁾	Number	0	0	0
Fines or charges for material breaches of business ethics legislation	MNOK	0	0	0

¹⁾ Concerns linked to business relationship, for example work-related crime and impartiality

²⁾ Concerns linked to employees, for example conflicts of interest and discrimination.

³⁾ Material legal sanctions for accounting fraud, corruption.

GRI disclosure 2020

GRI-disclosure	Description	Reporting	UN SDGs ¹⁾	Omissions
GENERAL DISCLOSURES				
102-1	Name of the organization	Statnett SF		
102-2	Activities, brands, products and services	Annual report, This is Statnett		
102-3	Location of headquarters	Oslo, Nydalen		
102-4	Location of operations	Annual report, This is Statnett and note 20		
102-5	Ownership and legal form	Annual report, This is Statnett and note 20		
102-6	Markets served	Annual report, This is Statnett and note 20		
102-7	Scale of the organization	Annual report, This is Statnett and note 20		
102-8	Information on employees and other workers	Sustainability accounts		
102-9	Supply chain	Sustainability report, Our contributions to sustainable economic growth and Sustainability accounts		
102-10	Significant changes to the organization and supply chain	Sustainability report, Our social contributions. No significant changes in 2020.		
102-11	Precautionary Principle or approach	Sustainability report, Our environmental and climate contributions		
102-12	External initiatives	Sustainability report, Responsible business and Our contributions to sustainable economic growth		
102-13	Membership of associations	Sustainability report, Responsible business and Our contributions to sustainable economic growth		
102-14	Statement from senior decision-maker	Annual report, A word from the CEO		
102-16	Values, principles, standards, and norms of behavior	Sustainability report, Responsible business and Our contributions to sustainable economic growth. Annual report, This is Statnett	16	
102-18	Governance structure	Annual report, auditor's report and Sustainability report, responsible business		
102-22	Composition of the highest governance body	Annual report, Statnetts board, Sustainability accounts	5, 16	
102-40	List of stakeholder groups	Sustainability report, Responsible business		
102-41	Collective bargaining agreements	Sustainability accounts	8	
102-42	Identifying and selecting stakeholders	Sustainability report, Responsible business and Our contributions to sustainable economic growth		
102-43	Approach to stakeholder engagement	Sustainability report, Responsible business and Our contributions to sustainable economic growth		
102-44	Key topics and concerns raised	Sustainability report, Responsible business and Our contributions to sustainable economic growth		
102-45	Entities included in the consolidated financial statements	Annual report, This is Statnett, Organizational structure and note 20		
102-46	Defining report content and topic Boundaries	Sustainability report, Responsible business		
102-47	List of material topics	Sustainability report, Responsible business		
102-48	Restatements of information	Sustainability accounts		
102-49	Changes in reporting	No		

GRI-disclosure	Description	Reporting	UN SDGs ¹⁾	Omissions
102-50	Reporting period	2020		
102-51	Date of most recent report	2. april 2020		
102-52	Reporting cycle	Yearly		
102-53	Contact point for questions regarding the report	Knut Hundhammar, e-mail knut.hundhammar@statnett.no		
102-54	Claims of reporting in accordance with the GRI Standards	GRI Standards core		
102-55	GRI content index	GRI disclosure 2020		
102-56	External assurance	Independent assurance report		
MANAGEMENT DISCLOSURES				
103-1	Explanation of the material topic and its boundary	Sustainability report, Responsible business		
103-2	The management approach and its components	Sustainability report, Responsible business		
103-3	Evaluation of the management approach	Sustainability report, Responsible business		
ECONOMIC DISCLOSURES				
201-1	Direct economic value generated and distributed	Annual report, This is Statnett, Financial framework and Financial reporting	8,9	
201-2	Financial implications and other risks and opportunities due to climate change	Sustainability report, Our contributions to sustainable economic growth	13	Statnett will in 2021 and onwards work to establish systems and methods for calculating economic impacts of climate change
405-2	Ratio of basic salary and remuneration of women to men	Sustainability accounts	5	
205-3	Confirmed incidents of corruption and actions taken	Sustainability accounts	16	
ENVIRONMENTAL DISCLOSURES				
302-1	Energy consumption	Sustainability accounts	7, 8, 12, 13	
304-1	Operational sites in, or adjacent to, protected areas	Sustainability accounts	15	
305-1	Direct (Scope 1) GHG emissions	Sustainability accounts	13, 15	
305-2	Energy indirect (Scope 2) GHG emissions	Sustainability accounts	13, 15	
305-3	Other indirect (Scope 3) GHG emissions	Sustainability accounts	12, 13, 15	
305-4	GHG emissions intensity	Sustainability accounts	13, 15	
306-3	Waste generated	Sustainability accounts	12, 15	
306-4	Waste diverted from disposal	Sustainability accounts	12, 15	
306-5	Waste directed to disposal	Sustainability accounts	15	
308-1	New suppliers that were screened using environmental criteria	Sustainability report, our social contributions	8, 12	Proportion not calculated

GRI-disclosure	Description	Reporting	UN SDGs ¹⁾	Omissions
SOCIAL DISCLOSURES				
403-8	Workers covered by an occupational health and safety management system	All workers at Statnett SF	8	
403-9	Work-related injuries	Sustainability report, Our social contributions and Sustainability accounts	8	
405-1	Diversity of governance bodies and employees	Sustainability accounts	5	
406-1	Incidents of discrimination and corrective actions taken	Sustainability report, Our contributions to sustainable economic growth and Sustainability accounts	8	
409-1	Measures taken to contribute to the elimination of forced or compulsory labor	Sustainability report, Our social contributions	8	
413-1	Operations with local community engagement, impact assessments, and development programs	Sustainability report, Our contributions to sustainable economic growth	16	Limited to qualitative information
414-1	New suppliers that were screened using social criteria	Sustainability report, Our social contributions	8, 16	Proportion not calculated
419-1	Non-compliance with laws and regulations in the social and economic area	Sustainability accounts	16	
SECTOR SPECIFIC INDICATORS				
EU3	Number of customers	Statnett has 75 customers in the transmission grid. The customers are divided into three categories; distribution grid companies, power producers and industrial customers (outlets over 15 MW).	7	
EU4	Length of above and underground transmission lines	Annual report, This is Statnett	7, 9	
EU12	Transmission losses as a percentage of total energy	Sustainability accounts	7, 13	
EU25	Number of injuries and fatalities	Sustainability accounts	8	
EU28	Power outage frequency	Annual report, This is Statnett	7, 9	

¹⁾Refer to those of the UN SDG's that we consider to be most relevant to Statnett's activities.



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To the Board of Directors of Statnett SF

INDEPENDENT AUDITOR'S ASSURANCE REPORT ON STATNETT'S SUSTAINABILITY REPORT FOR 2020

We have been engaged by the Board of Directors of Statnett to provide limited assurance in respect of the sustainability information in Statnett Sustainability Report 2020 ("the Report"). Our responsibility is to provide a limited level of assurance on the subject matters concluded on below.

Responsibilities of the Board of Directors

The Board of Directors is responsible for the preparation and presentation of the Report and that it has been prepared in accordance with the GRI Standards, level Core, and other reporting criteria described in the Report. The Board of Directors is also responsible for establishing such internal controls that they determine are necessary to ensure that the information is free from material misstatement, whether due to fraud or error.

Auditor's responsibilities

Our responsibility is to express a limited assurance conclusion on the information in the Report. We have conducted our work in accordance with ISAE 3000 (Revised) Assurance Engagements other than Audits or Reviews of Historical Financial Information, issued by the International Auditing and Assurance Standards Board.

Deloitte AS is subject to International Standard on Quality Control 1 and, accordingly, applies a comprehensive quality control system, including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

The procedures performed in a limited assurance engagement vary in nature and timing from, and are less in extent than for, a reasonable assurance engagement. Consequently, the level of assurance obtained is substantially lower than the assurance that would have been obtained had a reasonable assurance engagement been performed.

Considering the risk of material misstatement, our work included analytical procedures and interviews with management and individuals responsible for sustainability management, as well as a review on a sample basis of evidence supporting the information in the Report.

We believe that our work provides an appropriate basis for us to provide a conclusion with a limited level of assurance on the subject matters.



Conclusions

Based on our work, nothing has come to our attention causing us not to believe that:

- Statnett has established management processes and systems to manage material aspects related to corporate responsibility, as described in the Report.
- Statnett has applied procedures to identify, collect, compile and validate information for 2020 to be included in the Report, as described in the Report. Information presented for 2020 is consistent with data accumulated as a result of these procedures and appropriately presented in the Report.
- Statnett applies a reporting practice for its corporate responsibility reporting aligned with the Global Reporting Initiative (GRI) Standards reporting principles and the reporting fulfils level Core according to the GRI Standards. Statnett's GRI Index 2020 presented in the Report appropriately reflects where information on each of the disclosures of the GRI Standards is to be found within the Statnett Annual Report 2020.

Oslo, 11 March 2021
Deloitte AS

Gry Kjersti Berget
State Authorised Public Accountant

Frank Dahl
Sustainability expert

Note: Translation has been made for information purposes only.

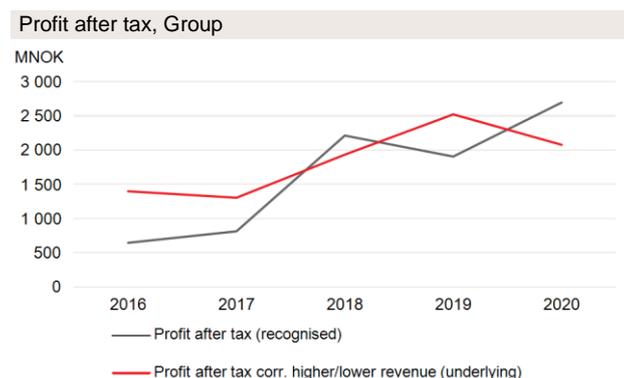
Report from the Board of Directors

2020 was dominated by the coronavirus pandemic. Statnett quickly drew up plans and implemented measures to limit the spread of infection within the organization and shield both control centers and other critical operations from potential infection from other sources. Statnett implemented stringent restrictions to enable it to keep operating, maintain reliable supply of electricity and contribute to the national infection prevention effort. Ongoing pandemic-related assessments have been well integrated into the company's business management processes. We have succeeded in realizing our primary goal throughout the period – maintaining reliable supply of electricity.

In 2020, Statnett processed 58 new connection requests, relating to a total volume of approx. 3,000 MW. The majority of these cases related to new consumption. We also assessed measures relating to volumes for which applications had previously been submitted, including in the greater Bergen area and in Møre and Romsdal County. Overall, the portfolio of connection applications was historically high, and there are a great many plans for new consumption related to industry and data centers. The transition to a zero-emission society is now fully underway, leading to a sharp increase in electricity consumption and the need for greater grid capacity in the years to 2030 and beyond. Close cooperation between grid operators, businesses and government authorities both at the national and regional level is important to facilitate value creation and the green shift.

Results for the year

In 2020, the Statnett Group made an underlying profit¹⁾ after tax of NOK 2,079 million (NOK 2,523 million in 2019). The recognized profit after tax for the year came to NOK 2,697 million (NOK 1,906 million). Total investments in 2020 came to NOK 7,298 million (NOK 9,618 million). The reduction in underlying profit is mainly caused by lower



other revenue of NOK 242 million (see note 4) and NOK 279 million kroner in increased operating costs.

A high investment level and resulting asset growth has increased the yield basis and the Group's permitted income. Operating costs increased somewhat due to high activity levels in large parts of the Group. As in 2019, Statnett's efficiency program reduced the costs increase relative to the increase in the asset base and the level of activity.

Statnett's underlying profit has shown a steady increase in recent years, which has helped to maintain sufficient equity to undertake an extensive investment program. A dividend of NOK 1,039 million has been proposed for the 2020 financial year. This corresponds to 50 per cent of the dividend basis. In order to secure access to financing on competitive terms, Statnett attaches importance to maintaining a robust A-rating

Satisfactory operating performance

2020 was a mild year with high levels of precipitation. In the course of 2020, precipitation corresponding to 180.7 TWh fell in Norwegian power plants' catchment areas. This was 50.7 TWh above normal. However, record high power production (153.3 TWh) resulted in the hydrological balance not increasing by more than 13 TWh through an extremely wet year. Delivery reliability and security of supply in the transmission grid was satisfactory in 2020, even though non-delivered energy was somewhat higher than previous years, due to operational disruptions. During the summer period, international trading capacity was lower than normal, which contributed to major price differences versus foreign markets. This was due to several planned operational shutdowns on both the Norwegian and foreign sides, in addition to several lengthy faults on interconnector cables. In the second half of the year, the situation improved considerably, which together with continued substantial price differences, led to record-high annual congestion revenues.

Projects continued to make good progress

Although the coronavirus pandemic caused problems for several projects, progress was generally good. The subsea interconnector between Norway and Germany, NordLink, went into trial operation in December. Work to lay the subsea interconnector between Norway and the UK continued in 2020. The third of four cable-laying seasons has now been completed. The cable is due to go into operation in 2021. New power exchange capacity with the UK and Germany will contribute to increased value creation

¹⁾ The underlying result is based on regulated permitted income, while the recognized profit is based on actually determined tariffs and congestion revenue for the year. The difference between these two results, which is known as a higher or lower revenue, must be balanced through changes in tariffs, meaning that over time Statnett's recognized revenues will equal the regulated permitted income. See Note 4 to the financial statements for further details.

and security of supply, and pave the way for a more climate-friendly European energy system. Within Norway, the Lyse and Fjotland substation was completed and a new 420 kV facility in Sauda went into operation in June. The construction of a new 420 kV power line between Lyse and Sauda is proceeding as planned. In 2021, the entire Western Corridor will be completed. Europe's longest connection, the 420 kV power line from Balsfjord to Alta, went into operation in December. This is a major boost to the security of supply and electrification of Troms and Finnmark County.

Health, safety and the environment (HSE)

The safety of the individual comes first at Statnett. The company has a zero-vision with respect to accidents and injuries, and is convinced that every HSE-related incident can be prevented.

Statnett has three focus areas for its HSE work:

- Internal control
- Reporting, analysis and learning
- Management engagement and HSE culture

Statnett worked on all three areas through 2020. With regard to internal control, emphasis was placed on compliance with the authorities' requirements relating to explosives handling, electromagnetic fields, chemicals handling and the handling of sulphur hexafluoride (SF6) gas. In the area of electrical safety, procedures for the performance of risk assessments and the planning of work on electrical installations were revised and improved.

In the area of reporting, analysis and learning, new procedures for reviewing and following-up reported HSE incidents were introduced. Reports with learning points from almost 80 incidents were also prepared.

The majority of the reports were produced in the form of simple learning charts. However, a total of 15 incidents were the subject of more detailed investigations or inquiries. Weekly learning reports containing learning points were distributed to the company's operative units throughout the year.

Finally, focus was trained on managers' HSE engagement, the lines' efforts to comply with the management systems' requirements, and the establishment of procedures for the review of HSE-related cases. The objective of all this was to reinforce the company's HSE culture.

Reduction in injury frequency and sick leave

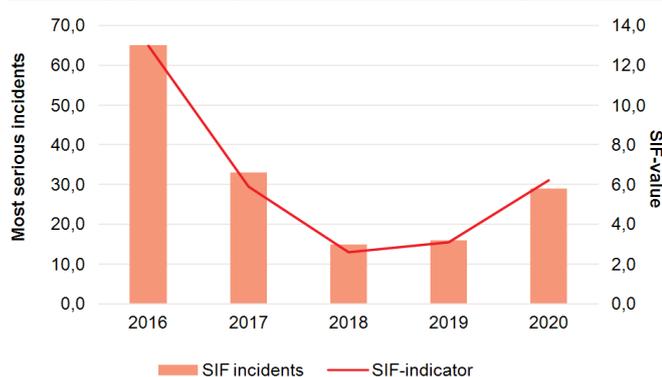
Statnett has, also in 2020 achieved a reduction in the numbers of accidents injuries with personnel injuries with and without leave of absence. Especially, there was a significant reduction in the internal injury frequency. External suppliers in Statnett's projects maintained their results from 2019, when a large reduction in personnel injuries was achieved, compared to previous years.

Tragic accident

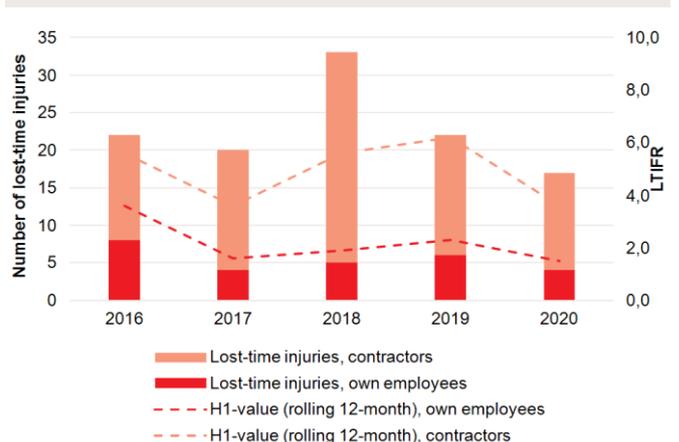
Even though 2020 showed a reduction in the number of personal injuries, the year is marred by a fatal incident on the Lyse-Fagrafjell project. An employee of a sub-contractor died after an accident involving an All-Terrain Vehicle on July 13. The inquiry into the accident found no evidence that the incident could be linked to Statnett and a failure to comply with the Construction Client Regulations.

In total Statnett has an extremely low sickness absence rate. At the close of the year, it stood at 2.8 per cent (rolling 12-month). This is a decrease of 0.1 per cent versus the year before. Statnett has established a number of activities

Serious injury frequency (SIF) indicator, Group - rolling 12-month ³⁾



H-indicator (12-month rolling) and sickness absence rate, Group ¹⁾ and ²⁾



¹⁾ Lost-time injury frequency, number of lost-time injuries per million working hours.

²⁾ Injury frequency, number of lost-time and non-lost-time injuries per million working hours.

³⁾ Number of serious (red) incidents involving injuries, near misses, environmental impact and hazardous conditions relating to electrical safety and working at height per million working hours.

to follow up and reduce sickness absence. These include employee health and safety representatives and occupational health services.

For further information on Statnett's HSE activities, please refer to the Sustainability Report.

Operating and market information

2020 was a mild year with high levels of precipitation. It was also the warmest year since records began 120 years ago, with a deviation from the norm of 2.4 degrees Celsius. In the course of the year, precipitation corresponding to 180.7 TWh fell in Norwegian hydropower plants' catchment areas. This was 50.7 TWh above normal. However, record high power production (153.3 TWh) resulted in the hydrological balance not increasing by more than 13 TWh through the year. At the close of 2020, the Norwegian power system had a hydrological surplus of 15 TWh.

At the start of 2020, the water level in Norway's reservoirs was 63.3 per cent of capacity, 5.1 percentage points below the median. At the end of the year, reservoir levels were 82.3 per cent of capacity, 14.1 percentage points above the median.

Delivery reliability and supply security in the transmission grid were satisfactory in 2020. The amount of non-delivered energy was slightly higher than in recent years. However, there is no indication pointing towards this being a trend. Some regions experienced challenges involving non-confirmative frequency values, while some places experienced periods with voltage dips. Work is being carried out through operations and development to improve these issues. The frequency quality was better than for several years, and total recorded frequency deviation was within the Nordic target.

Outages

March 6: In Oslo, there was an outage on the 300 kV Sogn–Smestad power line due to faults on both Statnett and Hafslund's equipment, and the line remained out of operation until 15 May. Together with the fault at Tegneby, this affected security of supply in the Oslo area.

August 14: There was an outage on the Guolassnippet, islanding the Guolas to Varanger transmission area. The Alta power plant shut down, as did the Goliat and Melkøya facilities.

September 28: A fire in a turbine at Equinor's Melkøya facility led to a similar incident and islanded grid from Guolas to Varanger and outages at the Melkøya and Goliat oil and gas facilities, as well as shutdowns at some wind farms.

August 19: A fire broke out at the Viklandet T1 420/132 kV facility, and the transformer failed. A backup transformer was put into service six weeks later.

October 13: the Tegneby 300 kV facility failed, cutting power to approx. 68,000 households from Ski to Sarpsborg. Normal electricity supplies were restored after about an hour.

November 12: a similar outage occurred on all the transformers at Tegneby.

There were just over 7,500 planned operational shutdowns involving power outages during the year. Many of these outages were due to a high level of grid construction activity.

Throughout 2020, Statnett has received record-high congestion revenues from the exchange of power with other countries. An abundance of snow in the mountains combined with reduced export opportunities led to long periods when electricity prices in Norway as a whole were low, while prices in South Norway were extremely low. This led to substantial discrepancies between the price of electricity in Norway and prices abroad. At certain times in South Norway, even negative electricity prices were recorded.

Trading capacity with international markets was lower than normal, particularly in the summer months. This is attributable to a number of lengthy faults on both sides of Norway's international interconnectors, as well as planned operational shutdowns. Capacity on the NordNed interconnector was reduced on several occasions due to a faulty filter in the Netherlands and faults on the Dutch power grid. The Skagerrak interconnectors experienced several periods of extremely reduced capacity. Faults on SK4 are still causing a reduction in import capacity. Capacity to Sweden was also restricted due to various factors. The Tegneby substation operated at reduced capacity in the period up to March due to overheating in the SF6 system. The Rød–Hasle connection across the Oslo fjord was put out of action in February when it was damaged by the anchor of a ship that had started to drift in strong winds. Repair work on the cable continued until the summer. From January to December, the Swedish grid company Svenska kraftnät had reduced capacity on the NO1–SE3 link, first due to work at the Skogsäter substation and then due to operational issues in Sweden.

In June, warm weather and substantial snow smelting lead to challenges with overloads on single lines and issues with regulatory mandated resources in non-compliance with power plant regulations for maneuvering.

Important project-related events

Completed

- *Ålfoten – increased substation capacity:* The substation has been put into operation and the project was closed in February.
- *Nedre Røssåga–Namsos:* The project was completed in July.
- *Mauranger – Increased transformation 300/66 300/22:* The substation went into operation in September, and the project closed in December.
- *Marka substation:* New control system is energized and the project closed in December.
- *Substation monitoring project:* The project was completed in 2020.

Under construction

- Although the pandemic caused problems for several projects, progress was generally good.
- *Western Corridor:* Work on the Lyse and Fjotland substations was completed, and the new 420 kV facility in Sauda went into operation in June. Construction of a new 420kV power line between Lyse and Sauda is proceeding as planned. The entire Western Corridor will be completed in October 2021.
- *Lyse–Fagrafjell, new power line and substation:* The line contractor and the groundwork and building contractor started work in February.
- *Balsfjord–Skaidi, new power line and substations:* 132 kV connected to the voltage according to plan in August. The new 420 kV power line from Balsfjord to the Skillemoen substation outside of Alta went into operation in December. This is the first time

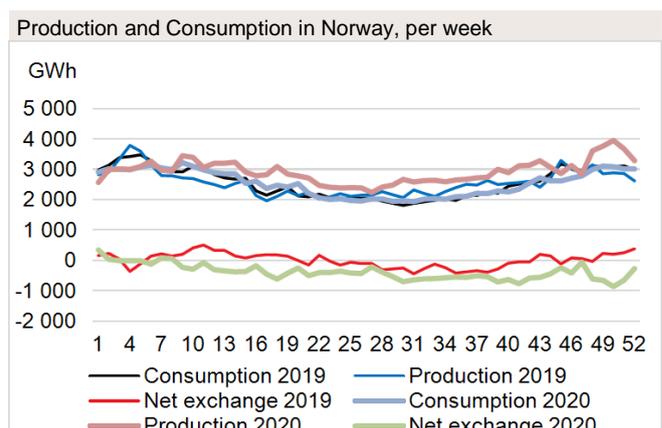
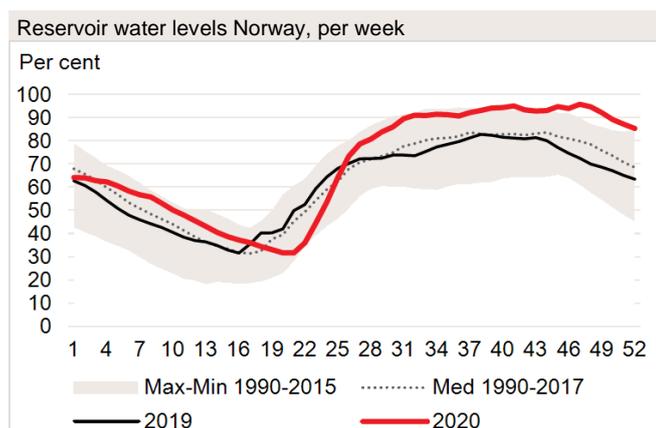
Finnmark’s central grid has obtained this voltage level. The project will be completed in the first quarter of 2023.

- *Kobbvatnet new substation:* The T1 transformer went into operation in October, and the whole substation is now ready for use.
- *Smestad–Sogn substation and cable installation:* The tunnel and structural part of the mountain cavity have now been completed.
- *Salten:* Construction start-up approved in February and license granted in April.
- *Rød control gear and switchgear refurbishment:* Construction start-up approved in May.
- *Samnanger substation:* Construction start-up approved in February.
- *NSO Hamang new transformer substation:* Construction start-up approved in September.
- *Kvandal–Kanstadbotn:* License granted in March, construction start-up approved in November.

Interconnectors

- *North Sea Link (cable to the UK):* The work to lay the subsea cable between Norway and the UK continued in 2020. The third of four cable-laying seasons has now been completed. The converter station in Kvilldal has been completed, while construction work in Blyth in the UK remains ongoing. The cable is due to go into operation in 2021.
- *NordLink (cable to Germany):* The subsea cable between Norway and Germany, as well as the converter stations on the Norwegian and German sides, were completed and the interconnector put into trial operation at the end of 2020.

Planned investments



- *Aurland–Sogndal*: Investment in a voltage upgrade to 420 kV approved in February, and license granted by the NVE in June.
- *Hadsselfjorden – refurbishment of cable installation*: Investment approved in April.
- *Tveiten – expansion and refurbishment of the substation*: Solution and investment approved in June.
- *Tokke, refurbishment of control gear*: Solution and investment approved in September.
- *Skaidi–Adamselv (Lebesby). New 420 kV power line*: Solution approved in September. License application submitted in December.
- *Liåsen new substation*: Investment approved in November.
- *NSO Sogn–Ulven new power line*: Final license granted by the Ministry of Petroleum and Energy in November 2020.

ICT projects

- *New Nordic Balancing Model (NBM)*: New Nordic Balancing Model (NBM): Progress towards realization of the New Nordic Balancing Model is largely on schedule and within budget. The first part deliveries are expected to be phased in with effect from Q4 2021. This relates to the trading market for automatic frequency restoration reserves (aFRR) and the introduction of a new pricing model for imbalances.
- *Dagmar long-term initiative*: Fiber optic cable installation project to improve and safeguard telecommunications to and from our substations and control centers. The project is on schedule and is expected to be completed by the end of 2022.
- *LIFT*: Upgrade of Statnett's ERP system. The IFS ERP system for asset management, as well as for support functions Finance, HR and Procurement. The project will be completed by the end of Q3 2021.

An overview of the company's most important projects is presented on the following page.

List of major investment projects

See www.statnett.no for more information about the projects

Project	Region	Expected investment (MNOK)
Completed		
Nedre Røssåga–Namsos, voltage upgrade	North	
Under construction		
Western Corridor, voltage upgrade	South	6,400–6,500
Balsfjord–Skaidi, 420 kV power line	North	4,090–4,230
Lyse–Fagrafjell, new power line and substation ³⁾	South	2,020–2,080
Smestad–Sogn substation and cable installation	East	1,344–1,385
Hamang, new transformer substation	East	900–960
Rød, refurbishment of control gear and switchgear equipment and increased transformation capacity	East	755–780
Kvandal–Kanstadbotn Refurbishment	North	620–650
Sogn, transformer substation reinvestment	East	580–600
Salten, new substation solution	North	545–575
Sylling, reinvestment	East	545–565
Interconnectors		
Cable to UK (North Sea Link) Under construction ¹⁾		MEUR 750–1,000
Cable to Germany (NordLink) Completed ¹⁾		MEUR 850–900
Final licences granted		
Åfjord–Snilldal, new 420 kV power line and cable installation	Central	1,900–2,700
Sogn–Ulven, new 420 kV power line	East	1,340–1,490
Aurland–Sogndal, voltage upgrade	West	940–1,050
Aura/Viklandet–Surna, voltage upgrade	Central	500–700
Planned investments and licences pending		
Skaidi–Hammerfest 420 kV power line	North	1,800–2,300
Skaidi–Adamselv (Lebesby), new 420 kV power line	North	1,550–1,740
Haugalandet grid reinforcement	West	1,150–1,350
Liåsen new substation	East	565–635
Karmøy reinvestment / new substation	West	530–640
Hamang–Bærum–Smestad 420 kV power line and Bærum substation 2)	East	240–320 / 1120–1370
ICT projects		
New Nordic Balancing Model (NBM)		520 - 620

¹⁾ Statnett's 50% share

²⁾ Cost range relates to overhead/underground cable solution, where the underground cable solution includes costs for accelerated completion of the Bærum substation.

³⁾ Cost range does not include clearance of the Stokkeland substation.

The amounts in the table show the expected interval for project costs.

All costs for "Projects under construction" are shown at the current exchange rate, other projects are shown exclusive of inflation, interest on construction loans and currency hedging.

Development of the power system and power market

As transmission system operator, Statnett is responsible for the efficient operation and development of the power system and power market in Norway. The Norwegian and Nordic power systems are currently being restructured to handle a greater volume of renewable energy production and increased integration through additional international interconnectors, as well as the introduction of a uniform, Europe-wide regulatory environment. This is carried out through the expansion and refurbishment of power transmission grids, as well as the development of system operation solutions at national, Nordic and European levels. This development is intended to facilitate closer market integration in the Nordic region and Europe. This work is complex and resource intensive but is nevertheless crucial if Norwegian interests are to be safeguarded in the ongoing transition to new system and market solutions. Statnett is collaborating directly with other TSOs and through forums, such as the European Network of Transmission System Operators (ENTSO-E).

A holistic view of future power transmission and investment needs is obtained through market analyses, choice-of-concept studies and fundamental technical analyses. Key considerations concerning choice of concept studies are whether needs can be fulfilled through alternatives to investments in the transmission grid. For example, through increased consumer flexibility, system preservation or solution in distributor grids. Environmental concerns, security of supply and flexibility related to unforeseen changes in demand, are factors to be considered in scenario analysis and in dialog with stakeholders, for example in licensing processes. Anchoring of solution decisions will reduce conflict levels and save time and resources. Statnett is responsible for assessing the transmission grid and prepares a bi-annual Power System Assessment (KSU), in accordance with Norwegian regulations concerning energy assessments. The KSU describes the existing power system in terms of production,

consumption, level of security of supply, and available grid capacity for the input of new production. It also outlines possible changes in transmission needs and potential measures, with a horizon of up to 20 years.

Statnett's ongoing construction projects and planned initiatives to meet the needs of the power system are described in the Grid Development Plan (NUP) and the Updated Investment Plan. Both plans have been drawn up in compliance with the Regulations relating to Energy Analyses and are published every second year. They are based on Statnett's continuous efforts to analyze the situation and develop the grid. The latest edition of the Updated Investment Plan was published in the autumn of 2020. The latest Grid Development Plan (NUP) was published in the autumn of 2019. Statnett's main grid development strategy is to reinforce its existing grid structure and boost supplies to regions and major cities in order to facilitate value creation and the transition to a zero-emission society.

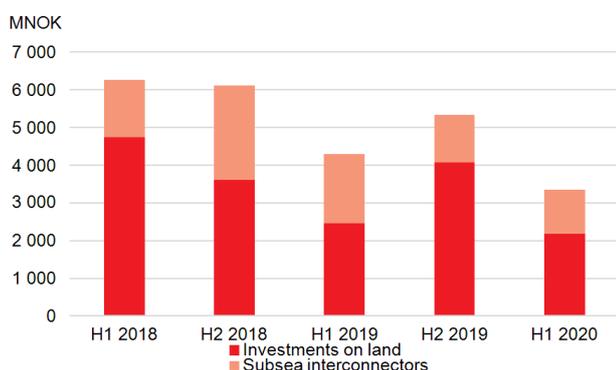
The System Operation and Market Development Plan (SMUP) describes Statnett's mandate for system responsibility, key issues relating to current system operation, the consequences of changes and prioritized measures going forward. These measures are described in a dedicated action plan, which was updated in 2019 for the period 2019–2023. The plan reflects the need for wide-ranging initiatives to respond to a rapidly changing power system.

Overall, these plans provide a description of how Statnett intends to fulfil its social mandate in the years ahead. The published documents facilitate broad involvement and the opportunity for stakeholders to understand the planned initiatives as a whole.

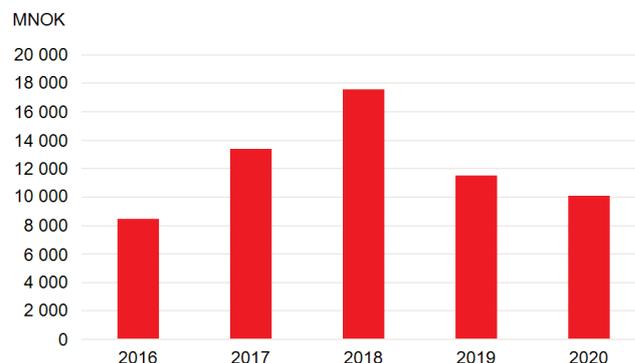
Statnett's total investments

Statnett invested a total of NOK 7,299 million during the reporting period (NOK 9,618 million). The investments

Investments by Statnett, Group



Facilities under construction, Group



included both completed and ongoing grid infrastructure projects, international interconnectors and ICT projects.

Statnett increased its investments in new grid capacity in 2020, with a high level of activity in the projects Grid Plan Greater Oslo and Lyse–Fagrafjell partly offset by reduced activity in the Western Corridor project.

In 2020, Statnett invested NOK 6,754 million in grid infrastructure (NOK 7,433 million). Statnett built 105 km of new power lines and entered 59 field circuit breakers into operation at its substations. The NordLink interconnector to Germany was completed and satisfying progress the construction of the North Sea Link interconnector to the UK was made.

Grid infrastructure worth NOK 8,670 million went into operation in 2020 (NOK 14,003 million). These projects are contributing to stable operations, robust security of supply and value creation for existing and new production and consumption.

ICT-related investments, particularly in the system and market areas, but also in the asset management area, increased by approx. NOK 100 million from 2019 to 2020.

At the close of 2020, the value of facilities under construction came to NOK 10,103 million (NOK 11,514 million).

Financial results

The Group's underlying profit for the year, including higher/lower revenues, totaled NOK 2,079 million in 2020, compared with NOK 2,523 million in 2019. Operating revenues from regulated operations increased sharply as a result of higher congestion revenues. The increased congestion revenues will be used to reduce future grid tariffs. Operating costs increased by 4 per cent, largely as a result of increased activity and higher depreciation. At the close of the year, the Group had an equity ratio of 22.8 per cent. A dividend payout of NOK 1,039 million has been proposed (50 per cent of the year's underlying profit).

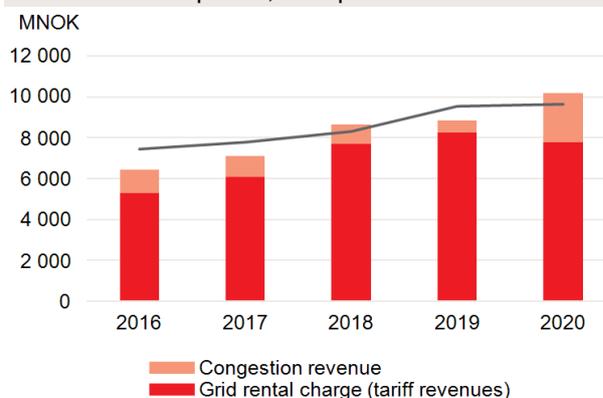
Operating revenues

- In 2020, the Group posted recognized operating revenues of NOK 10,761 million (NOK 9,641 million). Operating revenues from regulated activities amounted to NOK 10,522 million (NOK 9,159 million), while other operating revenues totaled NOK 240 million (NOK 482 million).
- Permitted income from grid operations totaled NOK 9,285 million in 2020 (NOK 9,538 million). The

decrease is attributable to lower tariffs for the energy component as a result of lower electricity prices. Several completed projects have resulted in increased grid capital, though this was offset by lower interest rates.

- Overall congestion revenues rose to NOK 2,408 million (NOK 587 million). The increase is attributable to major price differences between Norway and other countries caused by materially lower electricity prices in Norway than in foreign markets, combined with a weaker exchange rate for the NOK against the SEK and EUR.
- The decrease in other operating revenues is attributable largely to gains on the sale of a backup power plant that were recognized in 2019. In addition, more customer projects were completed in 2019 than in 2020.
- Statnett achieved a higher revenue of NOK 792 million in 2020, including interest, (lower revenue of NOK 791

Revenue development, Group



million). At the close of 2020, the accumulated higher revenue, including interest, amounted to NOK 60 million (lower revenue of NOK 732 million). Higher/lower revenues are not recognized in the balance sheet. The NOK 1,583 million difference is attributable primarily to the sharp increase in congestion revenues. For further details, see Note 4 and the chapter on financial framework conditions.

Operating expenses

The Group's operating expenses in 2020 amounted to NOK 6,893 million, up from NOK 6,614 million in 2019.

- System services are costs relating to Statnett SF's maintenance of an instantaneous balance in the power system and satisfactory security of supply. The cost increase is partly attributable to higher transit costs resulting from increased exports and a weaker NOK. In addition, costs relating to balancing and peak power rose because of increased balancing power purchases. Exports to Denmark were at almost full

capacity, making the two-way exchange of balancing power impossible. Several line faults also contributed to increased costs. Due to high reservoir water levels, costs relating to primary and tertiary reserves were lower.

- Transmission losses were reduced by NOK 629 million compared with the year before, due to substantially lower electricity prices.
- Salary and payroll costs increased by NOK 60 million as a result of a higher level of activity and an increase in the Group's headcount, particularly at the subsidiary Elhub. This was offset by reduced rates of employers' national insurance contributions in parts of the year.
- The NOK 468 million increase in depreciation and impairments compared to 2019 was largely due to a higher level of capitalization in 2019, with full effect in 2020, and continued capitalization in 2020. This applies foremost to the NordLink, North Sea Link, Western Corridor, Namsos–Surma, Balsfjord–Skaidi and Bjerkreim projects.
- Other operating costs increased to NOK 2,030 million in 2020 (NOK 1,758 million). This is attributable primarily to greater activity with respect to digitalization and improvement programs, as well as a general higher level of activity within the Group. A NOK 40 million increase in property tax expenses resulting from the completion of several projects also contributed to the increase.

Profit and loss

Statnett posted a consolidated operating profit of NOK 3,868 million in 2020 (NOK 3,027 million). The underlying operating profit (adjusted for the change in the year's non-capitalized higher/lower revenues) came to NOK 3,076 million (NOK 3,818 million). The decrease in underlying operating profit is attributable primarily to NOK 242 million reduction in other revenues and a NOK 279 million increase in operating expenses.

Consolidated net financial items closed at NOK -449 million (NOK -587 million).

- Interest expenses decreased due to lower interest rates, though this was offset by higher net borrowings resulting from increased investment.
- Net financial items includes contributions from associates, which generated financial income of NOK 125 million in 2020 (NOK 14 million), of which Statnett's share of the profit/loss from TSO Holding AS came to NOK 123 million (NOK 11 million).
- The remaining reduction in net financial expenses is attributable to a NOK 25 million increase in the value

of currency derivatives, a NOK 14 million improvement in net agio, as well as a NOK 6 million appreciation in the value of other market-based securities.

In 2020, Statnett posted a consolidated profit after tax of NOK 2,697 million (NOK 1,906 million). The increase in profit is attributable largely to higher operating revenues. The underlying profit after tax, adjusted for the change in non-recognized higher/lower revenues, closed at NOK 2,079 million (NOK 2,523 million).

Cash flow and balance sheet

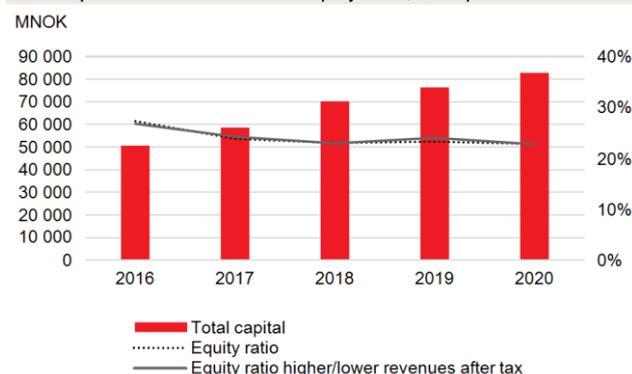
Net cash flow for the period totaled NOK -269 million (NOK 629 million).

- The Group's cash flow from operating activities totaled NOK 6,461 million at the close of 2020, up from NOK 4,499 million in 2019. The increase is attributable to an improved operating profit, higher depreciation and improved working capital.
- Net cash flow from the Group's investing activities came to NOK -8,586 million (NOK -9,040 million).
- Interest-bearing liabilities amounting to NOK 8,484 million were repaid in 2020 (NOK 4,175 million).
- Receipts of new interest-bearing borrowings totaled NOK 10,254 million (NOK 6,259 million)
- At the reporting date, consolidated cash and cash equivalents and market-based securities totaled NOK 2,693 million (NOK 2,424 million).
- Total unused drawdown facilities amounted to NOK 8,000 million at the close of 2020.

At the reporting date, the Group had total assets of NOK 82,885 million (NOK 76,323 million).

- Interest-bearing liabilities totaled NOK 56,129 million (NOK 50,199 million), and included guarantees under the CSA scheme of NOK 6,608 million (NOK 4,685 million). The market value of recognized interest and currency swaps (fair value hedges) relating to interest-

Development total assets and equity ratio, Group



bearing liabilities amounted to NOK 6,551 million. Interest-bearing liabilities excluding these hedges totaled NOK 49,578 million.

- Equity was NOK 18,938 million (NOK 17,783 million) as the year closed and the Group had an equity ratio of 22.9 per cent. Corrected for CSA guarantees, the equity ratio stood at 24.8 per cent.

Cost efficiency

Statnett's construction projects and investments have reached a record level over the past decade. The green shift and the accelerated pace of electrification will continue to drive a high investment level in the years to come. This challenges the Group's efficiency, including its regulatory efficiency. This situation will continue through the 2020s. Statnett's business is a natural monopoly and costs are distributed between producers and consumers through the grid rental charge (tariff setting). The regulation of Statnett is intended to help ensure that the company performs its duties efficiently, and an efficiency factor is therefore included in the calculation of its permitted income.

This efficiency factor is set by the Norwegian Energy Regulatory Authority (-RME). Statnett's costs for constructing and operating the grid have, among other, been benchmarked with corresponding costs at other TSOs in Europe.

The NRV-RME has prepared proposals for a new cost norm calculation model for Statnett. The deadline for comments on this proposal expired in January 2021. It is proposed that the new model should apply with effect from 2021. Under the proposed new model, Statnett's annual costs will be compared with the company's historic cost level, seen in relation to developments in the amount of tasks it undertakes. The efficiency score produced by this comparative analysis is multiplied by the cost basis to calculate a cost norm. If Statnett is more (or less) efficient than its own historical performance, the cost norm will be higher (or lower) than its own costs. A general efficiency requirement of 1.5 per cent of the cost norm has been proposed.

Statnett's efficiency program

In 2019, Statnett established an efficiency program that will run until the end of 2022. The program rests on the prevailing regulations and seeks to reflect the incentives included therein. The efficiency program has been structured around the business's two primary tasks, infrastructure management and system/market operation. The established starting point is Statnett's cost level in the

period 2016–2018, seen in relation to the size of the asset base for asset management and power system planning, as well as the amount of tasks undertaken within the system and market area. Specific targets have been set for efficiency improvements, reductions in operating costs and investments in the program period. At the close of 2020, the efficiency improvement is in line with the phased goals set through the program period.

2020 has demonstrated the importance of having good digital solutions in the workplace. Upgrading to a new office support and collaboration platform before the pandemic broke out has played a major role in helping staff to work efficiently from home. In 2020, the company continued its efforts to obtain synergies after reorganization. It has also given priority to those projects in its IT project portfolio relating to operational security, efficiency improvement and systems support that are necessary to ensure progress and cost-efficiency realization. In addition, the ERP system is being upgraded. Once fully operational in 2021, this is expected to become a nexus for future efficiency improvements.

Simplification of the way construction projects are managed and better resource management have enabled the number of projects being planned and executed to increase without corresponding increases in staffing levels. In recent years, project activity at Statnett has been at a record level.

Digitalization contributes to increased efficiency and high grid utilization

If Statnett is to perform a growing number of tasks in a cost-effective way going forward, more of the Group's work processes must be automated and digitalized. Statnett is already well underway with this endeavor, and is investing considerable sums in new digital solutions for the power market, system operation, asset management and administrative support. System operation will become increasingly complex and integrated with the European power market. This will continue to demand intense focus in the time ahead. Because there is a limited supplier market in this area, Statnett must sometimes develop its own solutions, either by itself or together with other Nordic and European partners. A new control center system and the Elhub data sharing system are among the major solutions put into operation in recent years.

Growing importance of new knowledge and new technology

Electrification demands new solutions, innovation and competence in all of Statnett's core areas. The power system is transitioning quickly, which requires rapid implementation of new solutions and technologies. To meet this need, Statnett has brought its R&D and technology development activities together under one roof. The aim of this hub is to promote innovation and enable society to become electrified and emission free. To facilitate this, a roadmap has been drawn up to show how new technology will be implemented in the company's construction projects.

While society is becoming more dependent on electricity, everyone is becoming increasingly digitalized. This is also true for the power system, where digital solutions are increasingly being connected to the physical power grid. For Statnett, digitalization is becoming more and more important to its ability to properly fulfil its social mandate. Better exploitation of data about the power system allows the company to work smarter and more effectively. It is crucial, for example, if we are to cope with the large number of entities wishing to connect to the grid. More data and better analyses mean that more customers can be connected without the need to construct new power transmission infrastructure.

The focus on digital solutions is also reflected in the R&D programs initiated in 2020. The program period, which runs until the end of 2023, comprises the following:

- Cooperation in the energy system
- Digital, safe and cost-effective solutions
- Real-time control and efficient markets

New tariff model introduced from 2021

For several years, Statnett has been engaged in a process to evaluate and further develop the grid tariff model. Customer organizations have been involved in this task from the start. Important objectives have been simplification, transparency and foreseeability with respect to customer costs. Finally, in September 2020, the Board adopted a new tariff model, which was implemented with effect from 1 January 2021. Statnett aims to keep the tariff model stable in the next few years.

An appropriate tariff structure is vital for efficient development and utilization of the grid. A key premise for the tariff model is that each party will pay for the costs they impose on the grid as well as a share of fixed costs. This is particularly important in situations where grid costs

increase due to increased connection of major new consumption and production entities. We also believe that a higher feed-in tariff than the one currently in effect is socioeconomically sensible. The EU's cap on the feed-in tariff for power production currently limits Statnett's freedom to change tariff levels for power producers.

As a result of the ongoing pandemic and a more precarious general economic situation, the tariff rates for consumption in 2021 were set NOK 1.25 billion lower than the level indicated in the income framework. In practice, this means that electricity consumers have been granted a payment deferral for part of the grid rental charge in 2021.

Statnett works safely and sustainably

Statnett is shouldering its share of the responsibility for ensuring that the UN Sustainable Development Goals are reached by 2030. This means facilitating the electrification of society and performing its tasks in a sustainable fashion. As part of our work on Statnett's corporate strategy in 2020, we have given priority to six areas of sustainability:

- Taking broad responsibility for the environment and preserving biodiversity
- Reducing greenhouse gas emissions and managing climate risk
- Increasing workforce diversity with respect to competence, background and gender
- Ensuring all employees enjoy a safe working environment
- Ensuring decent employment and working conditions throughout the supply chain
- Combatting corruption, human rights abuses and unethical behavior in everything we do

The measures implemented and results achieved in these areas are described in Statnett's Sustainability Report.

Broad responsibility for the environment

Statnett's ambition is to reduce its environmental impact by more than that required by law, with particular emphasis on the preservation of biodiversity and the natural landscape. For example, the company avoids marshland and other vulnerable habitats. This requires active efforts to preserve biodiversity in and around our facilities, and including this aspect as an integral part of the way we plan and operate them.

Preventing the spread of non-native species is a sub goal of UN SDG 15. Based on a survey of the company's facilities, Statnett started compiling a guide to the management of non-native species in 2020. To preserve

the appearance of natural landscapes, Statnett built 63 km of camouflaged pylons and cleared 12 km of power lines in 2020.

Five serious environmental incidents were reported in 2020. These and the associated follow-up measures are described in Statnett's Sustainability Report.

Statnett's goal is to reduce greenhouse gas emissions by 50 per cent by 2030. This includes emissions from the company's own operations and from those of its contractual counterparties. The company aims to have cut its own greenhouse gas emissions by 25 per cent by 2025. With respect to climate risk, the aim is to systematize Statnett's efforts and reporting in keeping with the guidance issued by the Task Force on Climate-related Financial Disclosures (TCFD).

Due to increased emissions from SF6 leaks and transportation, direct emissions rose in 2020 compared with 2019. Overall greenhouse gas emissions decreased slightly in the same period. For further details regarding climate initiatives, the management of climate risk and our environment protection efforts, please see Statnett's Sustainability Report.

Increased workplace diversity

Statnett is a knowledge-intensive company, and aims to be an attractive employer for people at all stages of their lives, irrespective of gender, age, sexual orientation, cultural or religious background. From different backgrounds and competences, emerge new perspectives which, in turn, have a positive impact on companies' profitability, development and risk management. Statnett wishes to increase the proportion of women in its workforce and the diversity of its employees' backgrounds and expertise. This is important if we are to succeed in developing a larger talent pool within the various professional categories. The need for greater diversity was therefore raised to the strategic level in 2020. Steps have already been taken in the recruitment process, and this effort will be reinforced going forward. A new recruitment tool is now in use, and training has been given in the wording and design of job adverts to encourage a larger number of competent candidates to apply.

For further details, please see Statnett's Sustainability Report.

Risk management and internal control

Statnett's risk management reflects the fact that we operate critical infrastructure on behalf of society. Sound risk

management and a high level of emergency preparedness are critical at a time when the company is investing heavily, while striving to keep an ageing power grid, with little spare capacity, operating reliably. Statnett's risk management and internal control framework builds, where relevant, on the Norwegian Code of Practice for Corporate Governance issued by the Norwegian Corporate Governance Board (NUES), and on the guidelines set out in ISO 31000 Risk Management. Risk management also complies with guidelines given in ISO 55001, Asset Management, and ISO 14001, Environmental Management Systems.

For further details, please see the chapter on risk management and internal control in the Annual Report.

Corporate governance

Sound corporate governance is a prerequisite for stable long-term value-creation, and helps ensure that Statnett delivers products and services that satisfy all relevant requirements and expectations. The company's frameworks for corporate governance are based on our group-wide management model, which clarifies role allocation between the owner, the Board and administration. Statnett complies with the government's principles for corporate governance and relevant portions of the Norwegian Code of Conduct for Corporate Governance. For further details about corporate governance at Statnett and the Board's roles and responsibilities, please see the chapter on corporate governance in the Annual Report.

Outlook – the 2020s will be the decade of electrification

Outlook: The green transition continues

The power system in Europe and the Nordic region is in the midst of a radical transformation, with increased power consumption, more wind and solar power production, and the phasing out of fossil fuel driven and nuclear power stations. This trend is continuing despite the coronavirus pandemic and associated economic uncertainty. The power system in Norway is changing as a result of faster electrification to reach the country's climate goals, more wind power and an increase in the international exchange of electrical power. We are becoming more tightly woven into the European energy system, through shared climate obligations, increased power exchange capacity and shared regulations and market solutions.

A zero-emission energy system in 2050

The EU's European Green Deal, which aims to establish a climate-neutral EU by 2050, is clearly signposting a greener European energy system, where electrification and a transition from fossil to renewable energy sources will be key instruments.

According to our analyses, direct and indirect electrification (via hydrogen), is likely to lead to a doubling of European power consumption by 2050. In addition, 2,000–3,000 TWh of renewable energy will be required to replace existing fossil-fueled electricity production in Europe. Together, this will necessitate the development of huge volumes of wind and solar power. Offshore wind farms form a key element in Europe's green shift, and a large proportion of the new generating capacity is expected to be built in the North Sea. In the longer term, offshore wind generation in Norwegian waters could help to maintain a positive energy balance in the country. Hydrogen will play a key role in the power system of tomorrow, partly by exploiting periods of surplus renewable power production.

Statnett contributes to a secure, green and competitive energy system

Although Norway is already one of the world's most electrified countries, almost half of the energy we use comes from fossil sources, like oil, coal and gas. Renewable power, competitive prices and a flexible power system are creating favorable conditions for further electrification and business development.

Statnett expects a substantial increase in both electricity production and consumption in Norway in the coming decades. This increases the need for transmission capacity and coincides with a considerable need for reinvestment. One of Statnett's most important tasks is to strengthen and renew the transmission grid so that we can maintain good security of supply and meet society's need for electricity – now and in the future. At the same time, market and system solutions must be developed to manage larger fluctuations in the flow of power, more complex operations, new market instruments and European regulations.

Statnett will have to maintain a consistently high investment level to meet these needs in the coming years. In many places in Norway, particularly along the coast and in areas surrounding major cities, substantial grid enhancements are needed to strengthen supply security and pave the way for increased consumption. Strong growth in the financial market's desire to invest in green projects will help secure funding for our construction portfolio. Ongoing construction

projects and planned initiatives are described in more detail in Statnett's Grid Development Plan.

Considerations relating to both the climate and the natural environment will increasingly influence the development of the energy system and guide how Statnett performs its tasks. Such considerations will, for example, influence where our new power transmission facilities are built, how they are built and what Statnett should do to exploit the existing infrastructure as effectively as possible, thereby reducing the need for additional investment. Effective market solutions, good sectoral regulation, R&D and digitalization will all be important to limit both costs and the company's impact on the environment. Statnett will shoulder its share of the responsibility for ensuring that the UN Sustainable Development Goals are reached by 2030. This means meeting both social and ethical requirements.

Cooperation and new solutions

A more complex power system demands new and integrated solutions to maintain security of supply and create value for society. This increases the need to work with other levels in the overall power grid system, with other countries, with the Norwegian authorities and with other stakeholders. Efforts to develop system and market solutions at the national, Nordic and European levels will intensify in the years ahead. Widespread construction of offshore wind farms, including in the North Sea, further complicates the picture and will require new technical solutions, new collaborative models and regulations.

The Nordic region is a synchronous area, and the Nordic TSOs must collaborate closely to balance consumption and supply within the power system. New system and market solutions will be implemented in the next few years. A more detailed description of the needs and solutions in this area can be found in Statnett's System and Market Development Plan.

Digital solutions and other new technologies are important to ensure a high level of availability and adequate capacity, while keeping costs and risks down. The increased pace of change and the integration of IT in almost all work processes also require Statnett to further enhance its competence, working practices and cooperation with others.

Changes to the Board

Einar Anders Strømsvåg and Pernille Dørstad left the Board of Directors in connection with the AGM in June. Wenche Teigland, Christian Reusch and Ingeborg Ligaarden were elected to the Board at the same juncture.

New CEO as the decade of electrification gets underway

In August 2020, Auke Lont announced that he wished to step down as Statnett's CEO after 12 years at the helm. With Auke Lont in charge, Statnett has completed an ambitious investment program and modernized the national grid, while the day-to-day operation of the power transmission system has kept the lamps lit in all corners of the country.

The Board of Directors would like to thank Auke Lont for his invaluable work through all these years. By his vision and clear choice of direction, he has helped Statnett and Norway to take important steps towards an energy system that safeguards Norway's competitiveness and paves the way for a climate-friendly and electric future. Under Lont's leadership, the significance of Statnett's role as TSO, not only on the road to a fully electric future but also once it has arrived, has been clearly highlighted. Statnett is now acknowledged as a key national instrument in Norway's efforts to reach its climate targets for both 2030 and 2050.

Ensuring that the company has a good leader is one of the Board's most important tasks. The Board is therefore delighted that Hilde Tonne has agreed to take over from Auke Lont as Statnett's CEO. With her wide-ranging experience from leadership roles, as well as her knowledge of the energy field, the Board is confident that Hilde Tonne is the right person to fill this important position.

The Board thanks all employees

Statnett's Board of Directors would like to thank all our employees for their efforts during the past year, which the coronavirus pandemic rendered unlike any other. You have helped Statnett to maintain stable operations and continue to make good progress in important investment and improvement projects.

Equity and dividends

In line with the government's proposed national budget for 2021, it is proposed that the dividend for 2020 equal 50 per cent of the dividend basis. The dividend basis is defined as the Group's profit for the year after tax, adjusted for the change in the year's post-tax higher/lower revenue. The proposed dividend is consistent with the adopted dividend policy for the enterprise, and is deemed to be reasonable based on Statnett's equity and liquidity. At the close of 2020, the company's equity totaled NOK 18,938 million (an equity ratio of NOK 22.9 per cent).

Outlook in light of the coronavirus pandemic

As at March 2021, Norwegian society and the country's business sector remain affected by the coronavirus pandemic and the measures imposed by the authorities to curb the spread of the disease, including border closures. This has also had an impact on the power sector. At the same time, the mass vaccination program is underway and there is less uncertainty compared with the situation a year ago. Statnett continues to closely monitor developments.

Statnett's project portfolio is dependent on global suppliers and foreign labor. Progress in the various projects was somewhat affected, but remained satisfactory through 2020. However, a further weakening of the supply chains going forward could still have a negative impact on projects' progress, increase costs and defer earnings. Nevertheless, the likelihood of such a long-lasting negative outcome is considered smaller than it was a year ago.

The financial markets have rebounded robustly after a brief period of higher risk premiums and low liquidity. In any case, Statnett has few loan maturities in the coming months and has received significant so-called CSA payments (collateral from derivative counterparties) as a result of the low NOK exchange rate and our currency hedging. Seen in this light, our liquidity situation is good. In addition, Statnett has an unused drawdown facility of NOK 8 billion reserved for situations when the lending market is underperforming, which will be utilized if necessary.

Going concern

In accordance with Section 3-3a of the Norwegian Accounting Act, the Board confirms that the annual financial statements have been prepared in accordance with the going concern principle.

Appropriation of profit for the year

The Group posted a profit after tax of NOK 2,697 million in 2020. The parent company posted a profit after tax of NOK 2,717 million.

Accordingly, the Board proposes the following appropriation of Statnett SF's net profit for the year:

Proposed dividend	1 039
Transferred to other equity	1 678
Total appropriations	2 717

Declaration from the Board of Directors and CEO

We declare that, to the best of our knowledge,

- the financial statements for 2020 have been prepared in accordance with IFRSs, including such supplementary disclosures required by the Norwegian Accounting Act;
- the disclosures in the financial statements provide a true and fair view of the assets, liabilities, financial position and results of the parent company and the Group as a whole;
- the disclosures in the Annual Report and Sustainability Report, including the presentation of Statnett's sustainability performance figures, provide a true and fair view of the parent company and the Group's development, results and position, as well as a description of the most important risk factors and uncertainties facing the Group.

Oslo, March 11, 2021
Statnett's Board of Directors



Jan Fredrik Baksaas
Chairman



Tove Pettersen
Board member



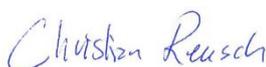
Maria Sandsmark
Board member



Egil Gjesteland
Board member



Wenche Teigland
Board member



Christian Reusch
Board member



Ingeborg Ligaarden
Board member



Ole Bjørn Kirstihagen
Board member



Steinar Jøråndstad
Board member



Auke Lont
President and CEO

Comprehensive income statement

Parent company				Group	
2019	2020	(Amounts in NOK million)	Note	2020	2019
Operating revenue					
8 414	9 649	Regulated operating revenue	4	10 522	9 159
482	562	Other operating revenue	4	240	482
8 896	10 211	Total operating revenue		10 761	9 641
Operating costs					
492	600	System services	5	600	492
882	253	Transmission losses	5	253	882
1 063	1 105	Salaries and personnel costs	6, 7, 23	1 137	1 077
2 229	2 583	Depreciation, amortization and impairment	8, 9	2 873	2 405
1 691	1 989	Other operating costs	27	2 030	1 758
6 356	6 530	Total operating costs		6 893	6 614
2 540	3 681	Operating profit		3 868	3 027
277	428	Financial income	10	209	72
748	662	Financial costs	10	658	659
-471	-234	Net financial items		-449	-587
2 069	3 447	Profit before tax		3 420	2 440
439	729	Tax	19	723	534
1 630	2 717	Profit for the year		2 697	1 906
Other comprehensive income					
129	-246	Changes in fair value of cash flow hedge reserve	15, 28	-246	129
-28	54	Tax effect	19, 28	54	-28
101	-192	Other comprehensive income to be reclassified to profit or loss in subsequent periods		-192	101
86	-114	Changes in estimate deviations of pensions	7, 28	-114	86
-19	25	Tax effect	7, 19, 28	25	-19
67	-89	Other comprehensive income not to be reclassified to profit or loss in subsequent periods		-89	67
168	-280	Total other comprehensive income		-280	168
1 798	2 437	Total comprehensive income		2 416	2 074

Balance sheet

Parent company			Group		
31.12.2019	31.12.2020	(Amounts in NOK million)	Note	31.12.2020	31.12.2019
Assets					
Non-current assets					
28	-	Deferred tax asset	19	-	29
476	586	Intangible assets	8	1 133	1 021
46 349	52 492	Tangible assets	8	60 296	54 637
11 434	9 976	Plants under construction	9	10 103	11 514
2 449	2 447	Investment in subsidiaries	20	-	-
55	65	Investment in jointly controlled company and associates	20	108	108
63	27	Pension assets	7	27	65
8 850	11 012	Other non-current financial assets	14	6 344	4 835
69 704	76 605	Total non-current assets		78 011	72 210
Current assets					
1 856	2 255	Trade accounts and other short-term receivables	11	1 927	1 688
683	1 288	Market-based securities	12	1 635	1 097
-	254	Assts held for sale	29	254	-
1 044	961	Liquid assets	13	1 058	1 327
3 583	4 757	Total current assets		4 874	4 113
73 286	81 362	Total assets		82 885	76 323
Equity and liabilities					
Equity					
5 950	5 950	Contributed capital		5 950	5 950
11 183	12 359	Other equity accrued		12 988	11 833
17 133	18 309	Total equity		18 938	17 783
Long-term liabilities					
2 345	2 968	Deferred tax	19	3 086	2 484
251	273	Pension liabilities	7	275	253
466	501	Other liabilities	24	501	466
41 464	47 464	Long-term interest-bearing debt	16	47 442	41 508
44 526	51 205	Total long-term liabilities		51 304	44 711
Current liabilities					
8 686	9 065	Short-term interest-bearing debt	16	8 687	8 691
2 942	2 783	Trade accounts payable and other short-term debt	17	3 944	5 135
-	-	Tax payable	19	12	3
11 628	11 848	Total current liabilities		12 644	13 829
73 286	81 362	Total equity and liabilities		82 885	76 323

Oslo, March 11, 2021, Statnett's Board of Directors



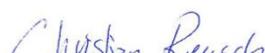
Jan Fredrik Baksaas
Chairman



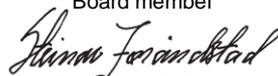
Wenche Teigland
Board member



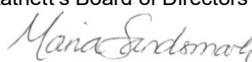
Tove Pettersen
Board member



Christian Reusch
Board member



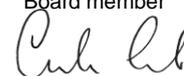
Steinár Jøråndstad
Board member



Maria Sandsmark
Board member



Ingeborg Ligaarden
Board member



Auke Lont
President and CEO



Egil Gjesteland
Board member



Ole Bjørn Kirstihagen
Board member

Changes in equity

Parent company				Group				
Contributed capital	Other items	Other equity accrued	Total equity	<i>(Amounts in NOK million)</i>				
				Total equity	Other equity accrued	Other items	Contributed capital	
5 950	-68	9 937	15 819	01.01.2019	16 194	10 312	-68	5 950
-	-	1 630	1 630	Profit/loss for the year	1 906	1 906	-	-
-	101	67	168	Other comprehensive income, note 28	168	67	101	-
-	-	-484	-484	Dividends declared	-484	-484	-	-
5 950	33	11 150	17 133	31.12.2019	17 783	11 801	33	5 950
5 950	33	11 150	17 133	01.01.2020	17 783	11 801	33	5 950
-	-	2 717	2 717	Profit/loss for the year	2 697	2 697	-	-
-	-192	-89	-280	Other comprehensive income, note 28	-280	-89	-192	-
-	-	-1 261	-1 261	Dividends declared	-1 261	-1 261	-	-
5 950	-159	12 518	18 309	31.12.2020	18 938	13 147	-159	5 950

Cash flow

Parent company				Group	
2019	2020	(Amounts in NOK million)	Note	2020	2019
Cash flow from operating activities					
2 069	3 446	Profit before tax		3 419	2 440
-95	-13	Loss/gain(-) on sale of fixed assets	8	-13	-95
2 229	2 583	Depreciation, amortization and impairment	8	2 873	2 405
-	-1	Reversal of write-down shares	20	-1	-
-	-	Net paid taxes	19	-4	-2
523	445	Interest recognized in the income statement	10	602	590
6	16	Interest received	10	22	16
-634	-707	Interest paid, excl. construction interest	10	-707	-634
168	474	Changes in trade accounts receivable/payable	11, 17	699	384
-556	-209	Changes in other accruals	11, 17	-428	-605
3 710	6 034	Net cash flow from operating activities		6 461	4 499
Cash flow from investing activities					
401	49	Proceeds from sale of tangible assets	8	49	401
-8 500	-7 495	Purchase of tangible and intangible assets and plants under construction	8, 9	-8 505	-9 129
-247	-260	Construction interest paid	9	-260	-338
-90	-	Paid capital to subsidiaries	20	-	-
4	-9	Changes in investment in associates, jointly controlled and other companies	20	-9	4
205	-492	Changes in long-term loan receivables	14	4	9
-1	37	Changes in short-term loan receivables	11	-	-
98	202	Received dividends and group contributions	10, 20	135	13
-8 130	-7 970	Net cash flow from investing activities		-8 586	-9 040
Cash flow from financing activities					
6 259	10 254	Proceeds from new interest-bearing debt	16	10 254	6 259
-4 175	-8 484	Repayment of interest-bearing debt	16	-8 484	-4 175
1 624	1 923	Changes in collateral under CSA (Credit Support Annex) agreements	18	1 923	1 624
1 895	950	Proceeds from sale of market-based securities	12	1 188	2 082
-1 200	-1 530	Purchase of market-based securities	12	-1 764	-1 394
-484	-1 261	Dividends paid		-1 261	-484
3 919	1 852	Net cash flow from financing activities		1 856	3 912
-501	-84	Net cash flow for the period		-269	-629
1 545	1 044	Cash and cash equivalents at period start	13	1 327	1 956
1 044	961	Cash and cash equivalents at period close	13	1 058	1 327

Note 1 General information and basis for preparation of financial statements

General information

Statnett SF (the parent company) is a Norwegian state-owned enterprise that was formed on 20 December 1991. The sole owner of Statnett SF is the Norwegian State, represented by the Ministry of Petroleum and Energy (MPE). Statnett has issued bond loans listed on the Oslo Stock Exchange. The head office is located at Nydalen allé 33, 0484 Oslo.

The consolidated financial statements for the Statnett Group and the financial statements for the parent company, Statnett SF, have been prepared in compliance with the current International Financial Reporting Standards (IFRS), as adopted by the EU, and the Norwegian Accounting Act.

All subsequent references to "IFRS" imply references to IFRS as adopted by the EU.

The financial statements have been prepared on the basis of the historical cost principle, with the following exceptions:

- Derivatives, financial assets and liabilities classified as "fair value carried through profit or loss, amortized cost or fair value through other comprehensive income"
- The carrying value of hedged assets and liabilities is adjusted in order to register changes in fair value as a result of the hedging
- Assets are measured at each reporting date with a view to impairment. If the recoverable amount of the asset is less than the carrying value, the asset is written down to the recoverable amount

Consolidation policies

The Group financial statements comprise the financial statements of Statnett SF and its subsidiaries, presented as if they were one entity.

The consolidated financial statements have been prepared using uniform accounting principles for equivalent transactions and other events under otherwise equal circumstances. The classification of items in the income statement and balance sheet has taken place in accordance with uniform definitions. The consolidated financial statements are prepared in accordance with the acquisition method of accounting and show the Group as if it was a single entity. Balances and internal transactions between companies within the Group are eliminated in the consolidated financial statements.

Associates are companies where Statnett has significant influence, i.e. Statnett can influence financial and operational decisions in the company, but does not have control of the company. Investments in associates are accounted for using the equity method.

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. Joint operations are accounted for on the basis of proportional consolidation.

Joint ventures are arrangements where the parties that have joint control, have agreed to share the net assets of the arrangement. Joint ventures are accounted for using the equity method.

Investments in companies in which the Group owns less than 20 percent of the voting capital are carried at fair value in the balance sheet. Value changes are recognized through profit or loss. These investments are not specified in the notes to the financial statements.

Classification of items in the balance sheet

An asset is classified as short-term (current asset) when it is related to the flow of goods, receivables paid within one year, and "assets that are not intended for permanent ownership or use in the operations". Other assets are fixed assets. The distinction between short-term and long-term loans is drawn one year before maturity. The first year's instalments on long-term loans are reclassified as current liabilities.

Dividends

Dividends paid are recorded during the period in which they are approved by the General Meeting. If the approval and payment occur in different periods, the amount will be allocated to current liabilities until payment is made.

Foreign currency

The consolidated financial statements are presented in Norwegian Kroner (NOK), which is also the parent company's functional currency.

Transactions in foreign currency are recognized at the current exchange rates prevailing at the date of the transaction. Monetary items in currencies are translated into NOK at the exchange rate in effect on the balance sheet date. Non-monetary items measured at acquisition cost are translated into NOK at the exchange rate in effect on the transaction date. Non-monetary items that are measured at fair value

Note 1 General information and basis for preparation of financial statements

expressed in foreign currency are translated at the exchange rate in effect on the balance sheet date. Changes in exchange rates are recorded on a current basis in the income statement during the reporting period and presented as financial items.

The Group uses hedge accounting for all foreign currency long-term debt. Long-term interest-bearing debt in foreign currency is related to interest rate and currency swaps and presented as borrowings in NOK.

Government grants

Government grants are not recorded in the accounts until it is reasonably certain that the Group will meet the conditions stipulated for receipt of the grants and that the grants will be received. Grants are recorded as a deduction in the expenses that they are meant to cover.

Statement of cash flows

The cash flow statement has been prepared based on the indirect method. Cash includes bank deposits. Cash equivalents are short-term liquid investments that can be converted immediately to a known amount of cash, and with a maximum term of three months. Restricted cash consists of employees' tax deductions restricted under Norwegian Law and security deposits related to power sale on the power exchange market.

Segment reporting

Statnett has identified its reporting segment based on the risk and rate of return that affect the operations. Based on IFRS' definition, there is, according to the company's assessment, only one segment. The business is followed up as a single geographical segment. Subsidiaries do not qualify as separate business segments subject to reporting based on IFRS criteria. The parent company and the Group are reported as a single business segment.

The Coronavirus pandemic

The ongoing Coronavirus pandemic has not had any significant impact on the Group's results or financial position. For more details, see also note 9 Assets under construction, and note 18 Financial risk management.

Note 2 Amended accounting principles and new accounting standards

Standards entering into force this year

The Group has identified the following standards that may have an impact on the accounts:

Changes to IFRS 9, IAS 39 and IFRS 7 as a consequence of the IBOR reform

In connection with the ongoing IBOR reform where new benchmark interest rates are established in the fixed income markets, certain amendments to IFRS 9, IAS 39 and IFRS 7 have been adopted in two phases. The standard changes are relevant for Statnett where hedge accounting has been established and where the hedging relationship includes interest rates affected by future changes in reference rates. Statnett has opted to apply the standard changes in the two phases from 2019 and 2020, respectively, and thereby ensuring the continuation of established hedge accounting.

Changes to standards with a future implementation date

The Group has not identified other significant changes to standards or interpretations with a future implementation date.

IFRS 14 Regulatory Deferral Accounts - changes not approved by the EU

IFRS 14 allows companies applying IFRS for the first time to continue to recognize amounts related to price regulation (rate regulation) in line with their previous GAAP. However, in order to facilitate comparability with companies that already apply IFRS, and which do not recognize such amounts, the standard requires that the effects of price adjustments be presented separately from other items in the accounts. The principles in the standard are not available to companies, including Statnett, which already apply IFRS. It has been decided not to proceed with the decision-making process regarding this preliminary standard, but rather to wait for the final IFRS standard. IFRS 14 is a temporary standard, and is scheduled to apply until the IASB has completed the long-term project in the area. A new standard on regulated revenues may have an impact on how Statnett is to account for higher / lower revenue.

IFRS 17 Insurance Contracts - changes not approved by the EU

IFRS 17 requires that all insurance contracts be accounted for in a consistent manner. Insurance liabilities shall be assessed on the basis of the conditions on the balance sheet date ("current values") instead of historical cost, and the information shall be updated regularly. Furthermore, the profit element in the insurance contracts must be recognized over the period in which the insurance service is provided. It is uncertain whether the change will apply to the subsidiary Statnett Forsikring AS (captive company) and whether this will have an impact on the Group.

Note 3 Accounting estimates and assumptions

The preparation of the financial statements in compliance with IFRS requires that the management prepares assessments and estimates and assumptions that affect the application of accounting principles. This affects recognized amounts for assets and liabilities on the balance sheet date, reporting of contingent assets and liabilities, as well as the reported revenues and costs for the period.

Principle

Accounting estimates are used to determine certain amounts that have an impact on the Group's financial statements. This requires that management prepares assumptions relating to values or uncertain conditions at the time of preparation. Key accounting estimates are estimates that are important to the Group's financial performance and results, requiring management's subjective and complex assessment, often related to factors encumbered by uncertainty. Statnett assesses such estimates continuously based on previous results and experiences, consultations with experts, trends, prognoses and other methods which management deems appropriate in the individual case.

Provisions for liabilities are recognized in the income statement when the Group has an existing liability (legal or assumed) as a result of an event that has taken place and it can be demonstrated as probable (more likely than not) that a financial settlement will be made as a result of the liability, and the amount can be reliably measured. Provisions are reviewed on each balance sheet date, and the level reflects the best estimate of the liability. If there is a substantial time effect, the liability will be accounted for at the present value of future liabilities.

Significant items relating to Statnett's use of estimates:

Item	Note	Estimate/assumptions	Group Carrying value
Other intangible assets	8	Estimate of recoverable amount and remaining useful life	1 081
Property, plant and equipment	8	Estimate of recoverable amount and remaining useful life	60 296
Plant under construction	9	Degree of completeness, time when asset is available for use, assessment of cost as maintenance or investment	10 103
Pension liabilities	7	Financial and demographic assumptions	247
Asset retirement obligations	17, 24	Estimate of asset retirement costs, NVE interest rate, retirement dates and price increases in the period leading up to retirement	613
Lease liabilities	16	Estimate of lease term including options to extend, Statnett's incremental borrowing rate	202

Note 4 Operating revenue

Statnett holds a license as transmission grid owner in Norway, and revenues mainly derive from operations regulated by the Norwegian Water Recourses and Energy Directorate (RME). Operating revenue related to the license as grid owner is reported as "Regulated operating revenue".

Statnett SF also holds a license to settle the regulated power market in Norway, regulated by RME. Statnett has a national responsibility to coordinate measurement and settlement of all power sales as well as correct settlement of input and outtake of power to ensure financial balance in the power market. Operating revenue related to this license is reported as "Regulated operating revenue".

Statnett and NordLink Norge AS have the revenue from grid operations. Statnett and Elhub AS have the revenue from the imbalance settlement.

Other operating revenue is revenue related to other activities than regulated operations. Other operating revenue mainly consists of revenue from consultancy assignments, construction on behalf of distribution grid owners (customer projects) and rental income.

Statnett's revenues are mainly regulated, and we have not observed any significant negative impacts on our revenues from the ongoing Coronavirus pandemic.

Principle

Regulated operating revenue from grid operations

Operating revenue consists of actual delivered energy multiplied with a tariff model set by guidelines provided by the Norwegian Water Recourses and Energy Directorate (RME).

Regulated operating revenue is recognized accordingly:

- a) Tariff revenue fixed element generation is recognized evenly throughout the year, based on the tariff set for the year in question.
- b) Tariff revenue fixed element consumption is recognized according to the customer's measured input and outtake from the grid.
- c) Other grid income is mainly recognized based on the customer's measured use of the grid.
- d) Congestion revenue is recognized based on measured input and outtake from the grid between different price areas and on each side of interconnectors.
- e) Income to other owners in the grids is recognized evenly throughout the year based on estimates for the other owners' permitted revenue.

Permitted revenue

Permitted revenue is based on a tariff model in accordance with guideline from RME. Statnett's actual regulated operating revenue is tariff revenue in the transmission and distribution grid and congestion revenue.

Due to deviation between each year's actual revenues and final permitted revenue, which the NVE decides after year-end, a difference arises annually between Statnett's actual regulated operating revenue and Statnett's permitted revenue. This difference is called higher or lower revenue.

Higher/lower revenue grid operation

Higher revenue occur when actual revenues are higher than permitted revenue for the year. Lower revenues means that actual revenues are lower than permitted revenues. Higher revenue, including interest, must be returned to the customers in the form of lower future tariffs whereas lower revenue, including interest, can be recouped from the customers in the form of higher future tariffs.

This follows from regulations "Forskrift 1999-03-11-302 om økonomisk og teknisk rapportering, inntektsramme for nettvirksomheten og tariffier (kontrollforskriften)". The obligation to reduce future tariffs and the opportunity to collect increased tariffs do not qualify for balance sheet recognition according to IFRS, and represents a contingent liability (in the event of accumulated higher revenue) or a contingent asset (in the event of accumulated lower revenue). Consequently, an annual change in these items will not be included in the IFRS income statement.

Where Statnett mainly acts as a settler for the common grid and power trading, revenues are net reported.

Regulated operating revenue from balance settlement

The settlement operator is responsible for balance settlement in the Norwegian power system, operation and development of the data hub Elhub, and issuance of electricity certificates and guarantees of origin. Elhub AS, a 100% owned subsidiary, operates the data hub

Note 4 Operating revenue

and has system support for Ediel. Operating revenues related to the settlement operator are accounted for essentially in line with the actually measured feed and withdrawals from the

Higher/lower revenue balance settlement

In some years, there may be discrepancies between actual fees in these business areas, and the target the regulator allows for the fees. This affects the level of future fees, and is referred to as higher / lower revenue. Higher/lower revenues are not recognized as income, but is included in the calculation of the underlying results, as with higher/lower revenue from regulated grid operations.

RME prepared a proposal for a regulatory model of the fee income of Elhub in connection with the settlement operator setting the fees for the first fee period (2019-2022). To provide incentives for cost-effective operation and further development of Elhub, RME has developed a model for regulating revenues. This is a so-called "Cap & Floor" model, where Elhub is given incentives to reduce its costs in order to increase returns. This regulation will only come into force from the second fee period starting on 1 January 2023. Higher/lower revenue from balance settlement operations in Elhub is calculated according to the proposal, and includes both start-up costs from 2015-2018, which can be collected in 2019-2022, and returns under the floor in 2019 and 2020, which can be collected in the next fee period.

Other operating revenue

Revenues from customer projects are recognized in accordance with transfer of control to the customer. When Statnett performs consulting assignments, control is considered to be transferred to the customer simultaneously as the service is performed. When Statnett constructs facilities on behalf of distribution grid owners, the contractual terms dictates whether control is transferred on an on-going basis during the construction period, or when the construction is complete. Both invoiced and recognized customer project revenues are included in trade accounts and other short-term receivables. When customer projects are expected to incur a loss, the total expected loss is recognized.

Permitted revenue – monopoly-regulated operations

Statnett owns transmission facilities and is the transmission system operator. These are monopoly-regulated operations, implying that the NVE sets an annual limit for Statnett's revenues - a permitted revenue. The basis for Statnett's permitted revenue is the revenue cap. The revenue cap is based on expenditures, including capital expenditures, for a retrospective period of two years. Costs related to transmission losses and system services are also included. The transmission losses included in the permitted revenue are based on measured actual loss (MWh) for a retrospective period two years and this year's regulated reference price based on the elspot for the current permitted revenue year. Statnett's revenue cap is regulated to ensure that the enterprise has incentives for efficient operations. In addition to the revenue cap, Statnett's permitted revenue consists of the following: This year's property tax, transit costs and a supplement for investments. The supplement for investments shall ensure that capital expenditure is reflected in the permitted revenue for the year in which the investment is ready to be used. Furthermore, Statnett's permitted revenue is adjusted for interruptions through KILE (quality-adjusted revenue cap for energy not supplied).

Tariff revenue

Statnett is the operator of the transmission grid and two common regional grids. As operator, Statnett is responsible for setting the annual tariffs for each common grid.

As the operator of the transmission grid and two common regional grids, Statnett is responsible for invoicing the users for the services they receive. The invoicing takes place based on a tariff model prepared in accordance with guidelines provided by the RME. The price system consists of fixed elements and variable elements; energy elements. Fixed elements are invoiced evenly throughout the year, while the energy element is invoiced concurrently with the customers' measured input or outtake of power from the grid.

Congestion revenue

Congestion revenue is recognized according to the measured input and outtake from the grid between price zones and on each side of interconnectors. The income is recognized based on volume multiplied with the difference in spot price in the different zones.

Note 4 Operating revenue

Operating revenue

(Amounts in NOK million)

Parent Company			Group	
2019	2020		2020	2019
		Operating revenue from regulated grid operations		
1 764	1 643	Tariff revenue fixed element generation	1 643	1 764
5 785	5 935	Tariff revenue fixed element consumption	5 935	5 785
111	132	Other grid revenue	132	111
812	247	Tariff revenue energy element	247	813
587	2 408	Congestion revenue	2 408	587
-796	-865	Income from other owners in the grids	-221	-232
8 264	9 500	Total operating revenue from regulated grid operations	10 144	8 828
150	149	Operating revenue from imbalance settlement	378	331
8 414	9 649	Total operating revenue from regulated activities	10 522	9 159
482	562	Other operating revenue	240	482
8 896	10 211	Total operating revenue	10 761	9 641

Permitted revenue regulated operations

(Amounts in NOK million)

Parent Company			Group	
2019	2020		2020	2019
		Permitted revenue grid operations		
7 104	6 530	Revenue cap without grid losses	7 170	7 104
966	294	Revenue cap, grid losses	294	966
904	1 821	Supplement to revenue cap	1 821	1 468
8 974	8 645	Total permitted revenue grid operations	9 285	9 538
		Permitted revenue imbalance settlement		
71	99	Permitted revenue imbalance settlement	363	396
9 045	8 744	Total permitted revenue grid operations and imbalance settlement	9 648	9 934

Higher/lower revenue -This year's changed and total balance

(Amounts in NOK million)

Parent Company			Group	
2019	2020		2020	2019
		Regulated grid operations		
711	-854	This year's higher/lower revenue (-/+), not recognized	-859	711
5	3	This year's provision for interest higher/lower revenue (-/+), not recognized	3	5
10	75	Higher/lower revenue adjustment (-/+), not recognized	79	10
726	-777	This year's changed balance for higher/lower revenue (-/+)	-777	726
-59	667	Balance higher/lower revenue (-/+), incl. interest as at 1. Jan	667	-59
726	-777	Changed balance for higher/lower revenue (-/+), incl. Interest	-777	726
667	-110	Balance higher/lower revenue (-/+), incl. interest as at 31 Dec.	-110	667

Note 4 Operating revenue

Parent Company			Group	
2019	2020	Imbalance settlements	2020	2019
-79	-50	This year's higher/lower revenue (-/+), not recognized	-15	65
-79	-50	This year's changed balance for higher/lower revenue (-/+)	-15	65
-	-79	Balance higher/lower revenue (-/+)	65	-
-79	-50	Changed balance for higher/lower revenue (-/+)	-15	65
-79	-129	Balance higher/lower revenue (-/+)	50	65

Parent Company			Group	
2019	2020	Total balance higher/lower revenue	2020	2019
-59	588	Balance higher/lower revenue (-/+ 01.01	732	-59
711	-854	Change in balance for Grid operations	-859	711
-79	-50	Change in balance for Imbalance settlement	-15	65
5	3	Interest on change in balances	3	5
10	75	Prior years' adjustments*	79	10
588	-239	Total balance higher/lower revenue (-/+ 31.12	-60	732

*) Primarily related to adjustments to capital base and amortizations, see note 8.

Note 4 Operating revenue

Operating profit within and outside grid operations and return on invested grid capital

(Amounts in NOK million)

Operating profit within and outside grid operations

Parent company			Group	
2019	2020		2020	2019
2 432	3 574	Operating profit within grid operations	3 972	2 891
109	107	Operating profit outside grid operations	-105	136
2 540	3 681	Total operating profit	3 868	3 027

Basis for return on invested grid capital

The regulatory asset base is defined as the average of the incoming and outgoing balance for invested grid capital, plus one percent of net working capital. The invested grid capital is defined as the initial historical acquisition cost. The share of common fixed assets is included.

Parent company			Group	
2019	2020		2020	2019
43 960	50 109		58 114	48 014

Return on invested grid capital

Return is defined as the operating profit/loss compared to the regulatory asset base. The reported operating profit/loss is given as the annual permitted revenue from own grid less costs of own grid. The difference is explained by the current year's change in higher/lower revenue not recognized under IFRS.

Parent company			Group	
2019	2020	(Return in percentage)	2020	2019
7%	6%		5%	8%

Note 5 System services and transmission losses

System services are costs relating to the exercise of Statnett's system responsibility as defined in the Regulations relating to the system responsibility in the power system (FoS). The frequency in the power grid must be 50Hz. Statnett, as Transmission System Operator (TSO), is responsible for ensuring that this frequency remains stable. The requirement to maintain a reserve capacity for regulating purposes imposes limitations on the producers as they are unable to generate and sell the full generator capacity. The reserve capacity is distinguished between primary-, secondary- and tertiary reserves.

Statnett buys transmission losses (volume) from Nord Pool Spot AS at spot price (market price) for the hour the transmission loss applies. In case of all the transformation or transfer of energy, part of the energy will be lost in the process. The size of the transfer loss will vary, among other things, depending on the temperature, load in the grid and the electricity price. The main grid transmission loss result is distributed between the grid owners in accordance with their proportionate shareholding in the main grid. More than 98 percent of the facilities are owned by Statnett SF.

Principle

Costs for system services and transmission losses are recognized when acquired.

System services can be divided into the following categories:

Primary reserves

The primary regulation is automatic and is activated immediately if any changes occur in the power grid frequency. This takes place by using a pre-agreed reserve capacity. The requirement to maintain a reserve capacity for regulating purposes imposes limitations on the producers, as they are unable to generate and sell the full generator capacity. Primary reserves are costs Statnett incurs by buying reserve capacity from the producers. The extent of primary reserves is determined by agreements at Nordic level and the reserves are acquired through market solutions.

Secondary reserves

Automatic secondary reserves are activated to release the primary reserves so that they in turn can quickly handle any new faults or imbalances. Automatic secondary reserves function by the TSO sending a signal to a market player/power plant, which will then change the plant's generation. Secondary reserves are also referred to as Automatic frequency regulating reserve (aFRR), and in the Nordic countries they are mainly used to handle frequency deviations. The extent of secondary reserves is determined by agreements at Nordic level, and the reserves are acquired through market solutions.

Tertiary reserves

In Norway, there is an options market for regulating power. This is used to ensure that we have sufficient regulating resources available in the Norwegian section of the regulating power market, also during periods of demand for increased output, such as in the winter months. In the winter, the TSO sets up a market where they purchase a guarantee ensuring that market members submit bids for the regulating power lists for the subsequent week. The guarantees can apply for both consumption and production.

Transit costs

Transit costs are compensation for the use of grids abroad. The power system in Europe is connected through transmission lines/cables crossing international borders.

Special adjustments

In some cases, there are restrictions in the transmission capacity (congestion revenues) which may entail that the bids in the regulating power market cannot be utilized in the "correct" price order. Activated regulations that are not in price order are categorized as special adjustments and are compensated for by the associated price of the bid without this affecting the stipulation of the regulating power price. Thus, Statnett will incur a cost equal to the difference between the price of activated bids used for special adjustments and the current hourly price mainly aimed at the regulating power market multiplied by the especially adjusted volume.

Note 5 System services and transmission losses

Specification of system services

Parent company		<i>(Amounts in NOK million)</i>	Group	
2019	2020		2020	2019
13	97	Net regulating and peak power	97	13
134	98	Primary reserves	98	134
47	44	Secondary reserves	44	47
52	38	Tertiary reserves	38	52
93	191	Transit costs	191	93
88	104	Special adjustments	104	88
65	28	Other system services	28	65
492	600	Total system services	600	492

Specification of transmission losses

Parent company			Group	
2019	2020		2020	2019
2 235	2 538	Volume (GWh)	2 538	2 235
394	106	Price (NOK/MWh)	106	394
882	251	Transmission losses	251	882
-	2	Transmission losses other grid owners	2	-
882	253	Total transmission losses	253	882

Note 6 Salaries and personnel costs

Salaries and personnel cost are the total cost relating to remuneration of personnel by the Group and Group officers. These expenses concern only the Group's own employees, not contract manpower. Ordinary salaries can be both fixed pay and hourly wages and are paid periodically. Holiday pay is earned on the basis of ordinary pay and is normally paid in the holiday month the following year. The employer's national insurance contribution is normally paid in arrears every other month.

Principle

Salaries are expensed when they are earned. Ordinary salaries are earned on a regular basis. Holiday pay is earned on the basis of the ordinary pay. The employer's national insurance contribution is calculated and expensed for all pay-related cost. Pensions are earned in accordance with a separate set of rules (see note 7). Compensation to the Board of Directors is earned on an ongoing basis in accordance with special agreements approved by the General Meeting. The salaries and personnel cost are reduced with direct wage cost and a percentage of directly attributable overhead expenses.

Specification of salaries and personnel costs

Parent company			Group	
2019	2020	(Amounts in NOK million)	2020	2019
1 271	1 341	Salaries	1 382	1 304
201	198	Employer's national insurance contributions (NICs)	204	207
219	219	Pension costs (Note 7)	225	223
145	131	Other benefits	133	147
1 836	1 888	Total salaries and personnel costs	1 944	1 881
-773	-783	Of which own investment projects	-807	-804
1 063	1 105	Net salaries and personnel costs	1 137	1 077
1 441	1 527	Number of full-time equivalents	1 573	1 489

Loan to employees

Employees had loans in the company totaling NOK 1 million as at 31 December 2020. The loans are repaid by salary deductions over a period of up to two years. The loans are interest-free for the employee. The interest gain of loans exceeding 3/5 of the basic amount of the national insurance is taxed in relation to the current standard interest rate set by the authorities.

Note 7 Pensions

The parent company and subsidiaries have pension schemes that gives the employees future pension benefits in the form of defined benefit and defined contribution plans. All defined benefit plans are closed, and the defined contribution plans are the Group's main pension schemes for all new employees. The Group's pension plans meet the requirements in the Norwegian Mandatory Occupational Pension Act. For the defined contribution plans, the Group pays an agreed annual contribution to the employee's pension plan, but any risk for the future pension is borne by the employee. The future pension will be determined by the amount of the regular contributions and the return on the pension savings. In a defined benefit plan, the Group is responsible for paying an agreed pension to the employee based on his or her final Pay. The cost for the accounting period equals the employee's increase of entitlement of the agreed future pension in the financial year.

Principle

Contribution pension plan

In the defined contribution pension plan the company is responsible for making an agreed contribution to the employee's pension assets. The future pension will be determined by the amount of the contributions and the return on the pension savings. Once the contributions have been paid, there are no further payment obligations attached to the defined contribution pension, and there is no liability to record in the statement of the balance sheet. The pension costs related to the defined contribution plans will be equal to the contributions to the employees' pension savings for the reporting period.

The AFP plan is a defined-benefit multi-employer plan and the pension costs will be equal as for contribution pension plan, since there are no allocation between the participating companies.

Defined benefit pension plans

The defined benefit pension plans are based on a promise by the company to the employees that they will receive a certain level of pension upon retirement, normally defined as a percentage of final pay. The company is responsible for the amount of the future pension benefit, and the financial value of this obligation must be reported in the income statement and the balance sheet statement.

The accrued liability is calculated on a straight-line basis, and is measured as the present value of the estimated future pension payments that are vested on the statement of financial position date. The capitalized net liability is the sum of the accrued pension liability minus the fair value of associated pension fund assets.

Changes in the liability for defined benefit plans due to changes in pension plans are reported in their entirety in the income statement in the case of changes that give a rise to an immediate paid-up policy entitlement. Other variances from estimates are recognized in equity through other comprehensive income in the period in which they arise. The discount effect of the pension liability and expected return on assets are presented net under "Salaries and personnel cost" as this is assumed to give the best information regarding the Group's pension cost.

More information about the pension plans

Contribution pension plan

Employees in the Group are mainly covered by pension plans classified as defined contribution plans. The defined contribution plan has a contribution level based on the maximum level in accordance with the "Defined pension contribution Act (Lov om innskuddspensjon)". Defined contribution plans also comprise pension plans that are common to several companies and where the pension premium is independent of the demographic profile in the individual companies (multi-employer plans).

The Group is a member of the private contractual early retirement scheme (AFP plan) The AFP plan entails that employees will receive a life-long supplement to the national insurance retirement pension. The pension can be drawn from age 62, also if an employee decides to stay employed. The AFP plan is a defined-benefit multi-employer plan, organized through a general office and financed through premiums stipulated as a percentage of the salaries. The premium level has increased every year since the plan was established, and thus the premiums are expected to increase in the years to come.

Defined benefit pension plans

The Group has one closed defined benefit plan that is classified as a funded contribution plan in addition to two closed defined benefit plans that are unfunded. For employees at a certain age at the time of transition to a contribution plan, a compensation plan was established. This plan is an unfunded defined benefit plan, with a yearly increase in compensation until 67 years of age or earlier if the employee resigns.

Note 7 Pensions

The net pension liabilities in the balance sheet statement consist of defined benefit pension plan in Statnett SF Pensjonskasse eligible for older employees when the Contribution pension plan was established.

A part of the Group management has supplemental pension agreements. For more information on pension arrangements for each member of Group management, see Note 23 Remuneration/benefits to the Group management.

The net pension liabilities in the balance sheet statement are determined after adjustment for deferred recognition in other comprehensive income of the effect of changes in estimates. The net pension liabilities are reported as provisions for liabilities. When a plan has funds exceeding pension liabilities, net pension assets are reported as fixed assets.

Accrued pension rights are mainly secured through pension schemes in Statnett SF's Pensjonskasse. In addition, the parent company has early retirement pension obligations that are funded through operations.

Employees who leave the Group before retirement age, receive a paid-up policy. These paid-up policies are managed by Statnett SFs Pensjonskasse and Storebrand Livsforsikring AS. From the date the paid-up policy is issued, Statnett is exempt from any obligation to employees to which the paid-up policies apply. Assets and liabilities are measured at the date of issue of the paid-up policies, and are separated from pension assets and liabilities.

An external actuary calculates the pension liabilities. When calculating the pension liabilities, the National Insurance contributions that the company is required to pay as part of the payment of direct pensions or the payment of premiums for fund-based schemes are taken into account.

Assumptions defined benefit pension plans

The Group uses Norsk Regnskapsstiftelse's assumptions as a basis for making the assessment as to whether these are applicable for the Group.

The discount rate is based on the corporate covered bonds (OMF). Statnett considers the OMF market to represent a sufficiently deep market to be used in the calculation of the discount rate.

Note 7 Pensions

Pension costs

Parent company			Group	
2019	2020	(Amounts in NOK million)	2020	2019
87	84	Defined benefit plan	86	88
7	3	Interest cost -(income)	3	7
107	112	Defined contribution plan	115	109
18	20	Defined multi-employer plan	21	19
219	219	Pension costs	225	223
23	23	Employer's contributions	24	23
242	242	Total pension costs, incl. employer's contribution	249	247
-86	114	Changes in estimate variances in other comprehensive income	114	-86

Note 7 Pensions

Net estimated pension liabilities

Parent company			Group	
31.12.2019	31.12.2020	(Amounts in NOK million)	31.12.2020	31.12.2019
2 312	2 595	Estimated pension liabilities	2 600	2 330
-2 124	-2 349	Pension assets	-2 352	-2 142
188	246	Net pension liabilities	248	188
-63	-27	Net pension assets - funded plan	-27	-65
251	273	Unfunded pension	275	253
188	246	Net pension liabilities	248	188

Funded and unfunded pension liabilities

Parent company			Group	
31.12.2019	31.12.2020	(Amounts in NOK million)	31.12.2020	31.12.2019
Change in gross pension liability				
2 270	2 311	Gross pension liability at 1 Jan.	2 332	2 289
98	94	Present value of the year's pension contributions	94	100
-	-	Effect of business transfer	-14	-
58	52	Interest costs of pension liability	52	59
-44	215	Actuarial gains and losses	215	-43
-17	-18	Employer's contribution on premium paid	-18	-17
-54	-61	Disbursed pension/paid-up policies	-61	-54
2 311	2 595	Gross pension liabilities as at 31 Dec.	2 600	2 332

Funded and unfunded pension liabilities

Parent company			Group	
31.12.2019	31.12.2020	(Amounts in NOK million)	31.12.2020	31.12.2019
Change in gross pension assets				
1 960	2 124	Fair value of pension assets at 1 Jan.	2 139	1 971
51	50	Interest income on pension assets	50	52
-	-	Effect of business combinations	-13	-
42	101	Actuarial gains and losses	101	42
125	135	Premium paid	136	128
-54	-61	Pension/paid-up policies disbursed	-61	-54
2 124	2 349	Fair value of pension assets as at 31 Dec.	2 352	2 139
188	246	Net pension liabilities as at 31 Dec.	248	188

Note 7 Pensions

Changes in estimate variances for the year

Parent company			Group	
2019	2020	(Amounts in NOK million)	2020	2019
156	322	Change in discount rate	322	156
-43	-101	Interest income on pension assets	-101	-43
-23	-22	Salaries growth	-22	-23
-174	-88	Pension adjustments	-88	-174
-2	4	Effect of experience adjustment	4	-2
-86	114	Total changes in estimate variances for the year	114	-86

Financial/actuarial assumptions, parent company and Group

	2020	2019
Discount rate corporate covered bonds (OMF)	1,50%	2,30%
Interest income on pension assets	1,50%	2,30%
Expected wage adjustments	2,00%	2,25%
Expected pension adjustments	1,00%	1,25%
Expected adjustment of basic amount (G) under NIS	1,75%	2,00%
Mortality table *	K2013FT	K2013FT

* The mortality estimate is based on mortality table K2013FT.

Sensitivity analysis

The figures below give an estimate of the potential effect of a change in certain assumptions for defined-benefit pension schemes. The following estimates and estimated pension costs for 2020 are based on the facts and circumstances at 31 December 2020. Actual results may differ significantly from these estimates.

Sensitivities decrease (increase) benefit obligation as of year-end:

(Amounts in NOK million, except percent)

Parent company			Group	
192	7,4 %	Discount rate increase 0.5 percent	192	7,4 %
-50	-2,0 %	Expected salary increase 0.5 percent	-50	-2,0 %
-184	-7,1 %	Expected pension increase 0.5 percent	-184	-7,1 %

Percentual breakdown of pension assets into investment categories, parent company and Group as at 31 December

	2020	2019
Property	9%	9%
Held-to-maturity bonds	6%	5%
Nordic bonds	12%	18%
Alternative bonds	5%	5%
Foreign bonds	25%	22%
Bank deposits	3%	2%
Nordic money market	2%	2%
Emerging markets shares	6%	6%
Foreign shares	22%	23%
Norwegian shares	10%	8%
Total	100%	100%

Note 7 Pensions

Members of the defined-benefit plan

Parent company			Group	
2019	2020		2020	2019
819	817	Members of the pension fund	819	829
492	505	Of which pensioners	505	497
327	312	No. of active pension scheme members	314	332

Pension disbursement flow Statnett SF

The average weighted maturity for pension liabilities, related to the main scheme in Statnett SF, is estimated at 15 years based on the pension assumptions at 31 Dec. 2020. Statnett SF' Pensjonskasse does not compare the pension assets against the date of payments for the pension liabilities at 31 Dec. 2020.

Note 8 Tangible and intangible assets

Tangible assets comprise power lines, stationary equipment, buildings, land, ICT equipment etc. that are necessary for the Group's operations. Intangible assets are mainly related to proprietary software and are classified as "ICT equipment" in the table below. Goodwill totals a small amount and is classified as «Other».

Principle

Tangible assets

Tangible assets are carried at cost less accumulated depreciation and write-downs. The depreciation reduces the carrying value of tangible assets, excluding building lots, to the estimated residual value at the end of the expected useful life. Tangible assets are depreciated in a straight line from the time the assets were ready to be used. This applies correspondingly to tangible assets acquired from other grid owners. Significant components of tangible asset are assessed separately for depreciation purposes. The significance is assessed based on the acquisition cost of the components in relation to the acquisition cost of the whole asset.

The value of work and facilities carried out is transferred from plant under construction to tangible or intangible assets when the asset is ready for use. In projects where there are significant components that are ready for use at different times, the finished components are transferred to tangible or intangible assets, as they are ready.

Cost estimates for removal of tangible assets are recognized as part of the acquisition cost at the time the Group is considered to have a legal or actual removal obligation. The estimate is assessed at the present value of the expenditure expected to incur at a future point in time. The annual interest cost that incurs as a result of the liability being one year closer to settlement is recognized as a cost. The estimate may be amended later as a result of a change in the estimate of the size of the expense, change in the expected schedule and/or change in the discount rate. The amendments are recognized in the balance sheet as an increase or reduction of the carrying value of the asset. If a potential reduction is higher than the carrying value of the asset, the excess amount is recorded in the income statement. If there is an increase in the carrying value, the Group will assess whether this is a depreciation indicator for the portfolio of assets.

Gains or losses on the divestment or scrapping of tangible assets are calculated as the difference between the sales proceeds and the assets' carrying value. Gains/losses on divestment are recorded in the income statement as other operating revenues/expenses. Losses on scrapping are recognized in the income statement as depreciation, amortization and write-downs.

Lump sum payments in connection with the acquisition of land etc. are included in the acquisition cost of the asset. Current payments are minor amounts and are recognized in the income statement in the year in which the payment is disbursed.

Maintenance expenses are recognized in the income statement when they incur. No provisions are made for the periodic maintenance of the grid (transformer stations or power lines/cables). Even though maintenance is periodic for the individual transformer station or power line, it is not considered periodic for the entire grid as the grid as a whole is regarded as a single cash-generating unit.

If the tangible asset is replaced, any residual financial value will be recorded in the income statement as a loss on scrapping. Expenses that significantly extend the life of the fixed asset and/or increase its capacity are capitalized.

Intangible assets

Intangible assets are measured at acquisition cost on initial recognition. In later periods, intangible assets are recognized at acquisition cost less accumulated amortizations and write-downs. Intangible assets with a fixed useful life are amortized over the asset's useful life, which is assessed at least once a year. Intangible assets are amortized in a straight line as this best reflects the use of the asset.

Right-of-use assets

Right-of-use assets are presented within tangible asset; that is the same line item as that within which the corresponding underlying assets would be presented if they were owned.

At initial recognition of leases, right-of-use assets are measured at cost comprising the amount of initial measurement of the lease liability, initial direct costs incurred by Statnett and an estimate of costs to be incurred by Statnett in restoring the underlying asset to the condition required by the terms and conditions of the lease. The right-of-use assets are reduced by any lease incentives received.

After the commencement date, right-of-use assets are measured at cost less any accumulated depreciation and any accumulated impairment losses. Depreciations are linear during the lease term. The cost of right-of-use assets is adjusted to reflect any changes resulting from reassessments of the lease liabilities.

Note 8 Tangible and intangible assets

Statnett has elected to apply the recognition exemptions in IFRS 16 for short-term leases and for leases for which the underlying asset is of low value. Statnett does not recognize right-of-use assets and lease liabilities for intangible assets other when required by the standard. For leases containing non-lease components, Statnett accounts for any such non-lease components separate

Research and development

Research expenses are recognized on a current basis. Research is an internal process that does not give rise to independent intangible assets that generate future economic benefits. Capitalized development expenses are depreciated in a straight line over the estimated useful life of the asset.

Expenses related to development activities are capitalized in the balance sheet if the product or process is technically and commercially feasible and the Group has adequate resources to complete the development. Expenses capitalized in the balance sheet include material expenses, direct wage costs and a percentage of directly attributable overhead expenses. Capitalized development expenses are recorded at acquisition cost, less any accumulated depreciation and write-downs.

Goodwill

Goodwill is not amortized, but is tested for impairment annually. Write-downs are conducted if the carrying value is lower than the recoverable amount. The recoverable amount is the higher of the net sales value and the value in use. When assessing impairment, goodwill is allocated to fixed assets at the lowest identifiable level of cash-generating units. Write-downs of goodwill cannot be reversed in subsequent periods.

Depreciation

Depreciation is based on the management's assessment of the useful life of property, plant and equipment. The assessments may change owing, for example, to technological developments and historical experience. This may entail changes in the estimated useful life of the asset and thus the depreciation. It is difficult to predict technological developments, and the management's view of how quickly changes will come, may change over time. If expectations change significantly, the depreciation will be adjusted with effect for future periods. The estimated useful life, depreciation method and residual value are assessed at least once a year. For most assets, the residual value is estimated at zero at the end of the useful life.

Write-downs

On each reporting date, the Group considers whether there are any indications of impairment in value for tangible and intangible assets. If there are any indications of impairment in value, the Group will estimate the recoverable amount for the assets and evaluate potential write-down. Estimates of recoverable amounts are in part based on management assumptions, including estimation of the asset's income-generating capacity and probability of gaining licenses for construction projects. Changes in circumstances and in the management's assumptions can lead to write-downs. Tangible assets in the parent company are considered as one cash-generating unit and are assessed combined since they have one combined revenue cap. For the Group's other companies, each part of tangible and intangible assets are assessed individually.

Note 8 Tangible and intangible assets

Parent company

(Amounts in NOK million)

	Power lines	Land and subsea cables	Main circuit equipment	Control and auxiliary equipment	ICT equipment	Buildings and land	Other	Total
Acquisition cost at 1 Jan. 19	18 529	6 310	12 808	3 908	4 142	10 855	2 054	58 606
Implementation IFRS 16 Leases	-	-	-	-	22	189	-	211
Additions, acquisition cost	2 704	599	1 300	578	471	1 988	60	7 701
Disposals, acquisition cost	-11	-	-87	-26	-313	-22	-8	-467
Acquisition cost at 1 Jan. 20	21 222	6 909	14 021	4 459	4 322	13 011	2 106	66 051
Additions, acquisition cost	2 816	84	2 572	472	677	2 109	342	9 071
Disposals, acquisition cost	-38	-6	-130	-83	-203	-5	-24	-489
Reclassification to Assets held for sale	-	-40	-21	-	-	-44	-989	-1 094
Acquisition cost at 31 Dec. 20	24 000	6 948	16 442	4 848	4 796	15 071	1 436	73 540
Accumulated depreciation and amortization at 1 Jan. 19	5 499	1 403	3 749	1 543	2 088	1 781	1 456	17 520
Depreciation and amortization	365	149	364	219	618	351	99	2 164
Disposals, depreciation and amortization	-4	-21	-66	-19	-316	-6	-24	-457
Accumulated depreciation and amortization at 1 Jan. 20	5 860	1 530	4 047	1 743	2 390	2 126	1 530	19 226
Depreciation and amortization	460	168	435	260	630	439	139	2 530
Disposals, depreciation and amortization	-31	-	-95	-81	-203	-26	-18	-454
Reclassification to Assets held for sale	-	-40	-14	-	-	-44	-742	-840
Accumulated depreciation and amortization at 31 Dec. 20	6 289	1 658	4 373	1 922	2 817	2 495	909	20 462
Carrying value at 31 Dec. 19	15 362	5 379	9 974	2 717	1 932	10 885	576	46 825
Carrying value at 31 Dec. 20	17 710	5 290	12 069	2 927	1 979	12 577	527	53 078
Of which intangible fixed assets								
Carrying value at 31 Dec. 19	-	-	-	-	473	-	4	476
Carrying value at 31 Dec. 20	-	-	-	-	582	-	4	586
Of which right-of-use assets								
Carrying value at 31 Dec. 19	-	-	-	-	187	169	-	356
Carrying value at 31 Dec. 20	-	-	-	-	188	180	-	368
Of which asset retirement obligations								
Carrying value at 31 Dec. 19	91	-	105	-	-	-	-	195
Carrying value at 31 Dec. 20	108	12	111	-	-	-	-	231
Acquisition cost for tangible fixed assets fully depreciated, but still in use	349	329	745	610	1 097	377	698	4 205
Depreciation rate (straight-line)	2%	2-7%	2-5%	3-13%	5-33%	0-7%	0-33%	

Note 8 Tangible and intangible assets

Correction of transfer from Plant under construction to Tangible assets for previous periods

In 2020 it was uncovered that a total of NOK 550 million incorrectly not had been transferred from Plant under construction to Tangible assets. The additions amount to NOK 407 million and NOK 143 million in 2018 and 2019 respectively, and have been added to this year's additions. Depreciation for previous periods, NOK 20 million, have been recorded as part of this year's depreciation. The error has not been considered material, and the comparison figures are therefore not reworked. The correction applies to the parent company, and also affects the consolidated accounts.

Agreements entered in connection with the third energy package

In 2020, Statnett has entered contracts for the purchase of grid facilities due to the third energy package for an amount in the order of NOK 400 million. The ownership is valid from 2021 and will be included in tangible and intangible assets from the time of the takeover.

Note 8 Tangible and intangible assets

Group

(Amounts in NOK million)

	Power lines	Land and subsea cables	Main circuit equipment	Control and auxiliary equipment	ICT equipment	Buildings and land	Other	Total
Acquisition cost at 1 Jan. 19	18 529	6 310	12 807	3 908	4 751	10 895	2 410	59 610
Implementation IFRS 16 Leases	-	-	-	-	22	238	-	260
Additions, acquisition cost	2 950	6 089	2 797	697	473	2 675	65	15 746
Disposals, acquisition cost	-11	-	-87	-26	-313	-22	-19	-477
Acquisition cost at 1 Jan. 20	21 468	12 399	15 517	4 579	4 933	13 786	2 457	75 138
Additions, acquisition cost	2 816	87	2 429	460	735	2 266	128	8 921
Disposals, acquisition cost	-38	-6	-130	-83	-203	-51	-71	-582
Reclassification to Assets held for sale	-	-40	-21	-	-	-44	-989	-1 094
Acquisition cost at 31 Dec. 20	24 246	12 440	17 795	4 956	5 466	15 957	1 524	82 385
Accumulated depreciation and amortization at 1 Jan. 19	5 499	1 403	3 749	1 544	2 094	1 792	1 527	17 608
Depreciation and amortization	366	194	389	225	679	362	123	2 339
Disposals, depreciation and amortization	-4	-21	-66	-19	-316	-6	-34	-467
Accumulated depreciation and amortization at 1 Jan. 20	5 861	1 576	4 071	1 749	2 462	2 148	1 613	19 480
Depreciation and amortization	465	304	481	272	694	453	150	2 820
Disposals, depreciation and amortization	-31	-	-95	-81	-203	-26	-65	-501
Reclassification to Assets held for sale	-	-40	-14	-	-	-44	-742	-840
Accumulated depreciation and amortization at 31 Dec. 20	6 295	1 840	4 443	1 940	2 953	2 528	956	20 955
Carrying value at 31 Dec. 19	15 607	10 823	11 446	2 830	2 471	11 638	844	55 658
Carrying value at 31 Dec. 20	17 951	10 600	13 352	3 016	2 513	13 429	568	61 429
Of which intangible fixed assets								
Carrying value at 31 Dec. 19	-	-	-	-	965	-	56	1 021
Carrying value at 31 Dec. 20	-	-	-	-	1 077	-	56	1 133
Of which right-of-use assets								
Carrying value at 31 Dec. 19	-	-	-	-	187	215	-	402
Carrying value at 31 Dec. 20	-	-	-	-	188	181	-	369
Of which asset retirement obligations								
Carrying value at 31 Dec. 19	91	-	105	-	-	-	-	195
Carrying value at 31 Dec. 20	108	12	111	-	-	-	-	231
Acquisition cost for tangible fixed assets fully depreciated, but still in use	349	329	745	610	1 098	377	575	4 083
Depreciation rate (straight-line)	2%	2-7%	2-5%	3-13%	5-33%	0-7%	0-33%	

Note 9 Plants under construction

Statnett is currently undertaking substantial investments. For the most part, this is done through projects that are recorded in the balance sheet as plants under construction until the assets are ready for use.

Principle

Plants under construction are recognized in the balance sheet at acquisition cost less any accumulated losses from impairments. Plants under construction are not depreciated.

Development projects starts with a feasibility and alternative study. Project costs are capitalized when the conclusion from the study is available, and the main development concept has been selected. At this point, a license has not been granted and no final investment decision has been made. Statnett's experience is that once a main concept has been selected for development, it is highly probable that the project will be fulfilled.

The Group is currently constructing a subsea power cable, North Sea Link to England. The total cost is shared equally with the foreign partner. The incurred cost of the cable projects is measured according to progress of the Group's share of the cable, and not according to cable seen as one.

Accrued costs in development projects are measured according to the progress in the project. Deliveries from suppliers where Statnett has gained control are included in the accrued costs.

Ongoing assessments are made of whether licensing conditions or other causes necessitate a full or partial write-down of project expenses incurred. Write-downs are reversed when there is no longer any basis for the write-down.

Construction loan costs related to the company's own plants under construction are capitalized in the balance sheet. The interest is calculated based on the average borrowing interest rate and scope of the investment, as the funding is not identified specifically for individual projects.

When plants under construction are available for use, plants under construction are reclassified as tangible or intangible assets. The term "available for use" means that the asset is in the location and condition necessary for it to be capable of operating in the manner intended by management. For grid infrastructure, available for use means the grid infrastructure is ready to operate in the power grid.

Specification this year's change of plants under construction

Parent company			Group	
2019	2020	(Amounts in NOK million)	2020	2019
10 612	11 425	Acquisition cost at 1 January	11 505	17 657
6 586	6 963	Additions	7 039	7 577
247	260	Capitalized construction interest	260	338
-5 955	-8 642	Transferred to tangible and other intangible fixed assets	-8 670	-14 003
-65	-53	Write-offs	-53	-65
11 425	9 955	Acquisition cost at 31 December	10 081	11 505
9	22	Hedge accounting effects	22	9
11 434	9 976	Plants under construction at 31 December	10 103	11 514

Average capitalization rate used to determine the loan expense that can be capitalized:	2020	2019
	2,13%	2,26%

Contractual obligations

Contractual obligations as at 31 December 2020 amounts to NOK 4.2 billion. The reported obligation includes investment projects where future contractual obligations exceed NOK 50 million.

Effects of the corona pandemic on construction projects

The most important effect of the corona pandemic at the end of 2020 is a gradually tighter plan of progress and project economy due to lower efficiency in various work tasks. At the end of 2020, project time and cost prognosis show only small changes, however, the risk of increase in cost and delays is increasing.

Note 10 Financial income and costs

Financial income and financial costs mainly comprise interest income and interest expenses relating to the Group's financing. Other financial items not attributable to operating conditions are also included.

Principle

Interest income and interest expenses on loans and receivables are calculated using the effective interest method and are recognized when they are earned/accrued. Received dividends and Group contributions are recognized as income when they have been declared by the issuing company, which generally coincides with the payment date.

Impairments and impairment reversals of shares in subsidiaries and gains/losses on the sale of shares in subsidiaries are presented as Net financial income from subsidiaries or as Net financial costs from subsidiaries

Dividends received shares of profits/losses and impairment of shares for associates are recognized net under Net financial income from associates or Net financial costs from associates, see note 20.

Interest income, unrealized and realized changes in value of market-based securities are presented net as Net gain/loss from market-based securities.

Contingency provisions are presented under Other financial costs.

Interest expenses relating to asset retirements are presented under Other interest costs. The interest element in the asset retirements obligations is discussed in more detail in Note 24 Other liabilities.

Interest expenses relating to plants under construction are recognized in the balance sheet together with the plants under construction see note 9.

Currency gains or losses deriving from operating assets and liabilities, and hedging of these items, are classified as Other operating costs, see note 27. Unrealized currency gains or losses relating to hedging of loans are presented net as a change in value derivatives. Other currency effects are presented net as Net currency exchange gain/loss.

The interest element in pension costs is recognized in pensions, see note 7.

Note 10 Financial income and costs

Specification of financial income and financial costs

Parent company			Group	
2019	2020	(Amounts in NOK million)	2020	2019
Financial income				
57	65	Group contribution and dividend from subsidiaries	-	-
4	1	Net financial income from subsidiaries	-	-
13	135	Net financial income from associates	125	14
172	166	Interest income from subsidiaries	-	-
13	15	Other interest income	17	18
18	25	Net gain/loss from market-based securities	30	24
-5	20	Change in value of derivatives	20	-5
-	-	Net currency exchange gain	1	-
5	1	Other financial income	15	21
277	428	Total financial income	209	72
Financial costs				
-	-	Net financial costs from associates	1	-
1	1	Interest costs from subsidiaries	-	-
972	901	Other interest costs	902	973
-247	-260	Capitalized construction interest	-260	-338
12	6	Net currency exchange loss	-	13
11	15	Other financial costs	15	11
748	662	Total financial costs	658	659

Note 11 Trade accounts and other short-term receivables

This note presents trade and other receivables relating to the Group's operating activities. Other current receivables can be either interest bearing or non-interest-bearing.

Principle

Trade receivables are recognized and presented at the original invoice amount (the transaction rate) at the invoicing date.

Subsequently, trade and other current receivables are measured at amortized cost using the effective interest method. The interest element is ignored since it is deemed to be immaterial for the Group's receivables.

Impairment losses

Trade and other current receivables are assessed for potential impairment on an ongoing basis. Impairments for losses on trade receivables follow the simplified method and are measured in an amount corresponding to the expected loss over the asset's lifetime. Loss provision is recognized on a separate provision account if the loss potential is material and it is deemed highly probable that the receivable will not be redeemed. An impairment is immediately recognized for the receivable if attempts to recover the receivable do not succeed and there are objective criteria that a loss-inducing event has occurred that can be reliably measured and will affect repayment of the receivable. For other current receivables, credit risk relating to individual assets is assessed on an ongoing basis. If there is deemed to be a significant increase in expected credit risk for the asset, a loss provision is recognized in an amount corresponding to the expected loss over the asset's lifetime.

Derivatives are measured at fair value at valuation level 2. Derivatives and the measurement hierarchy are described in more detail in note 15.

Specification of trade accounts and other short-term receivables

Parent company			Group	
2019	2020	(Amounts in NOK million)	2020	2019
284	199	Trade account receivables	192	266
262	37	Short-term receivables group companies	-	-
2	565	Derivatives	565	2
13	1	Derivatives non-interest bearing	1	13
1 295	1 452	Other short-term receivables *	1 169	1 407
1 856	2 255	Total trade accounts and other short-term receivables	1 927	1 688

* As of 31 December 2020, Other short-term receivables include pre-payments of NOK 414 million related to purchases of grid facilities.

Age distribution trade account receivables

(Amounts in NOK million)	Not due	1-30 days	31-60 days	61-90 days	Over 90 days	Total trade acc. rec.
Parent company	179	16	-	-	4	199
Group	151	37	-	-	4	192

Impairment assessment

Trade and other current receivables account for a relatively small share of the Group's balance sheet, and errors in the valuation of customers'/debt owners' ability to pay will normally not result in material errors in the financial statements. A material share of the Group's income (around 85 percent) derives from the Group's grid agreements with grid customers for connection to and use of the central grid. Stringent sanctions and requirements for pledging of collateral mean that the risk of losses on these trade receivables is deemed extremely low. A specific assessment is made on material overdue other trade receivables.

As of 31 December 2020, NOK 2 million were recognized as loss for trade receivables and other current receivables.

Note 12 Market-based securities

This note presents the size of the Group's liquidity surplus invested in market-based securities.

Principle

Market-based securities are part of a trading portfolio or have cash flows consisting of payments of more than principal amounts and interest and are classified at fair value with changes in value through profit or loss.

Market-based securities

Parent company		(Amounts in NOK million)	Group	
Acquisition cost	Carrying value		Acquisition cost	Carrying value
Bonds and interest rate funds				
-	-	Government	12	12
-	-	Municipality/municipal operations	27	27
-	-	Financial institutions, including banks	207	212
-	-	Covered bonds	41	42
-	-	Private/industry	41	42
1 280	1 288	Norw. interest rate and money market fund	1 280	1 288
1 280	1 288	Total bonds	1 567	1 581
Equity funds				
-	-	Norwegian equity funds	16	27
-	-	Foreign equity funds	11	27
-	-	Total equity funds	27	54
1 280	1 288	Total market-based securities	1 594	1 635

Market-based securities are recognized at fair value at valuation level 1, since the securities are listed on a stock exchange and freely tradable, and are measured at the most recent quoted price. Please see description of the measurement hierarchy in note 15.

Note 13 Liquid Assets

This note presents the Group's liquid assets.

Principle

Cash and cash equivalents comprise cash and bank deposits. Bank deposits include deposits under Credit Support Annexes (CSAs) that freely can be used by the Group. Restricted funds are funds that the Group may only use to a limited degree. Restricted funds comprise tax withholdings, deposits from power trading and subordinated capital in relation to the settlement of the regulated power market.

Specification of liquid assets

Parent company			Group	
2019	2020	(Amounts in NOK million)	2020	2019
818	690	Bank deposits	786	1 099
226	271	Restricted bank deposits	273	228
1 044	961	Total liquid assets	1 058	1 327

Unused credit facilities of NOK 8.000 million are not included in liquid assets.

Note 14 Other non-current financial assets

This note presents financial items of a non-current nature and includes both interest-bearing and non-interest-bearing items.

Principle

Financial assets are classified as non-current when they include amounts expected to be recovered more than 12 months after the reporting period. Non-current receivables and non-current loans to Group companies are recognized at the transaction rate at the agreement date and subsequently measured at amortized cost using the simplified effective interest rate method, i.e. so that the receivable is amortized on a straight-line basis over its lifetime. Shares that are not part of a trading portfolio are recognized at fair value through profit or loss.

Impairment losses

Impairments of non-current receivables and non-current loans to Group companies are assessed on an ongoing basis. If the expected credit risk is deemed to have materially increased, a loss provision is recognized in an amount corresponding to the expected loss over the asset's lifetime.

Specification of other non-current financial assets

Parent company			Group	
2019	2020	(Amounts in NOK million)	2020	2019
52	49	Long-term receivables	47	50
4 013	4 665	Long-term loans Group companies	-	-
75	75	Subord. capital in Statnett SF's pension fund	75	75
3	3	Shares and funds	3	3
4 707	6 220	Derivatives	6 220	4 707
8 850	11 012	Total Other non-current financial assets	6 344	4 835

Subordinated capital in Statnett SF's Pension Fund and Shares and funds are recognized at fair value at valuation level 3 and derivatives at valuation level 2. Please see description of the measurement hierarchy in Note 15. There were no transfers between the respective levels in 2019 and 2020. There were no changes in level 3 in 2020.

Long-term loans to Group companies account for a material share of non-current financial assets. The risk of default for these loans is deemed to be extremely low both in the short and long term due to the company's non-distributable equity, its various regulated activities, including deliveries to the parent company, and financing agreements and guarantees with the parent company. The credit risk for the loans is deemed to be low.

Long-term receivables account for an immaterial share of the company's balance sheet. Impairments are assessed on an ongoing basis and loss provision is recognized for material changes in the items' credit risk.

Based on the assessment at the end of the year, no loss provisions were recognized for non-current receivables or loans to subsidiaries at the reporting date.

Note 15 Derivatives and hedge accounting

This note describes which of the Group's risk exposures are hedged using derivatives in accordance with hedge accounting principles. The description includes how the risk exposures arise, which derivatives are used as hedging instruments and the Group's hedging policy when using derivatives. Information and tables will be the same for the parent company and the Group due to the fact that only the parent company uses financial derivatives and hedge accounting.

Description of risk exposure hedged in accordance with the rules for hedge accounting

Currency risk

Currency risk is the risk of fluctuations in exchange rates affecting Statnett's income statement and balance sheet. Currency risk arises when the Group has income or costs, raises loans, has bank accounts or makes investments in securities in foreign currency. Some of this currency risk is inherently hedged, but the Group is exposed to currency risk in some major investment projects through material procurements and through new loans in foreign currency. The Group's finance policy defines frames within which the currency risk of loans and major procurement contracts, should be hedged.

Interest rate risk

The Group is exposed to interest rate risk through its loan portfolio, liquidity holdings, placements in interest and money market funds and derivative contracts. Interest rate risk relating to the loan portfolio is hedged using interest swaps. Interest on loans can be hedged both from fixed to floating and from floating to fixed interest rates. Limits have been established providing guidelines on how much of Statnett's loans should be at floating interest rates as well as criteria for hedging interest on loans.

Description of derivatives used in hedging relationships

The Group uses different types of derivatives to manage currency risk and interest rate risk deriving from procurement contracts and new loans. Forward exchange contracts are used to manage currency risk in procurement contracts. Interest swaps or combined currency and interest swaps are used to manage currency and/or interest rate risk in loan contracts.

Principle

Derivatives are initially recognized at fair value at the date the contract is entered into, and subsequently on an ongoing basis at fair value. Derivatives with a positive value are classified as assets, while derivatives with a negative value are classified as liabilities in the financial statements. Changes in fair value and gains/losses on realization are immediately recognized in profit or loss if the derivative is not part of a hedging relationship that satisfies the criteria for hedge accounting. Embedded currency derivatives in major procurement contracts are separated from the host contract and measured individually. Derivatives included in hedging relationships are classified in the balance sheet in the same way as the underlying hedged item. This means that derivatives that hedge the Group's borrowings are classified as interest-bearing, and derivatives that hedge currency risk for procurements are classified as non-interest-bearing. Derivatives that expire within 12 months are classified as current, while derivatives that are settled after more than 12 months are classified as non-current.

Hedge accounting

The Group applies the rules for hedge accounting when derivatives are used to hedge interest and currency risk. A hedging relationship satisfies the requirements for hedge accounting only if the following criteria are satisfied:

1. *The hedging relationship consists solely of hedging instruments and hedged items that satisfy the criteria*
2. *Satisfactory documentation has been established on the entering into of the hedge that describes the hedging relationship, the nature of the risk being hedged and how the Group will assess whether the hedging relationship satisfies the requirements for hedge effectiveness*
3. *The requirements for hedge effectiveness are as follows:*
 - a. *There is an economic relationship between the hedged item and the hedging instrument*
 - b. *The effect of credit risk does not dominate changes in value deriving from the economic relationship*
 - c. *Ineffectiveness in the hedge does not affect the hedge ratio*

The Group uses the following types of hedging relationships

Fair value hedge

A fair value hedge is defined as a hedge of the exposure to changes in fair value of a recognized asset, liability or binding agreement that can be attributed to a particular risk and can affect profit or loss. Changes in the fair value of the derivative designated as a hedging instrument are recognized in profit or loss on an ongoing basis. Changes in the fair value of the hedged item are similarly recognized in profit or loss within the same line item. For fair value hedges of hedged items recognized at amortized cost, the change in value is amortized in the income statement over the residual term to maturity.

Note 15 Derivatives and hedge accounting

The Group discontinues fair value hedging if:

1. The hedging instrument expires, or is sold, terminated or exercised,
2. The hedge does not satisfy the terms for hedge accounting, or
3. The Group cancels the hedge for other reasons

Should a hedging relationship expire, the change in value of the hedged item that has been recognized in the balance sheet is amortized over the residual term using the effective interest rate method.

Cash flow hedge

A cash flow hedge is a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with all or a component of a recognized asset or liability or a highly probable forecast transaction, which could also affect profit or loss.

The effective portion of changes in the fair value of the hedging instrument is recognized in other comprehensive income, and reclassified through profit or loss on implementation of the transaction that the derivative is hedging, and is presented on the same line as the hedged transaction. The ineffective portion is recognized in profit or loss on an ongoing basis. If the forecast future transaction is no longer expected to be implemented, the amount previously recognized in other comprehensive income is recognized under financial income or financial costs. If the hedging instrument expires or is sold, terminated or exercised, or Statnett elects to cancel the hedging relationship, despite the fact the hedged transaction is expected to take place, accumulated gains or losses remain in other comprehensive income and are recognized in profit or loss when the transaction is implemented. If the hedged transaction is no longer expected to take place, the accumulated unrealized gains or losses are immediately recognized in profit or loss.

Effects from the IBOR reform (changes of interest reference rates)

During two phase, certain amendments have been made to IFRS 9, IAS 39 and IFRS 7 in terms of reliefs that can ensure continued hedge accounting under the transition to new interest reference rates under the IBOR Reform. Statnett has chosen to early adopt the amendments from phase 1 as from 2019 and from phase 2 as from 2020. The amendments have had no real impact on Statnett's hedge accounting, and none of the hedge accounting relationships have been cancelled following the amendments. Statnett has organized an ongoing project, with participants from relevant specialist environments, to analyze and manage any financial effects of the reform and also decide on any changes to the Group's financial reporting. Please consult note 16 for an overview over the Group's hedge accounting relationships related to financing, which also includes nominal amounts etc. split on categories of hedge accounting and currencies.

Measurement of financial instruments

The Group uses the following measuring hierarchy to measure and present the fair value of financial instruments:

- Level 1: Fair value are measured using listed prices from active markets for identical financial instruments. No adjustments are made regard to these prices.
- Level 2: Fair value is measured using other observable input than used at level 1, either directly (prices) or indirectly (derived from prices).
- Level 3: Fair value is measured using input that is not based on observable market data.

Information on the measurement hierarchy is provided in the relevant notes for the various financial instruments (note 11 to note 17).

Note 15 Derivatives and hedge accounting

The Group's hedging strategy

The table describes how the Group hedges different categories of risk exposure:

Risk exposure category	Hedged item	Hedging instrument	Hedging strategy	Type of hedge
Currency risk in major contracts with uncertain payment milestones	Major procurement contracts with foreign suppliers in foreign currency. The contract has multiple milestones that are invoiced in accordance with the degree of project completion. The exact payment date for each individual milestone is unknown at the time the contract is entered into, but final completion and the total contract amount is defined as a "firm commitment".	Forward exchange contract in an amount corresponding to the total hedged contract amount. The forward exchange contracts mature after more than one year. A new forward exchange contract is established to hedge residual contract payments.	All or part of the contract is hedged. Ineffectiveness is recognized through profit or loss and classified as Other operating expenses. To achieve an adequate economic relationship, the hedged item is hedged at the forward exchange contract's spot rate. The forward points (forward premiums) are recognized through profit or loss under Other operating expenses.	Fair value hedge
Currency risk in major contracts with fixed payment milestones	Major procurement contracts with foreign suppliers in foreign currency with fixed payment dates.	Forward exchange contract with the same amount and payment date as the hedged cash flow.	All or part of the contract is currency hedged. In essence, no changes are expected in the payment plan. For minor changes in the payment plan, the forward contract is rolled over to the bank account. For major changes in the payment plan, the forward contract is rolled over to a new forward contract. Hedging rate: The forward exchange rate (spot rate plus forward points).	Fair value hedge
Currency and interest rate risk in loan contracts	Loans with fixed or floating interest in foreign currency.	Interest and currency swaps that hedge the loan in NOK at a floating NOK interest rate.	Currency and interest rate risk is hedged in accordance with frameworks for financial management.	Fixed-interest loans: Fair value hedge Floating-interest loans: Fair value hedge
Interest rate risk on Norwegian loans	Floating-rate loans in NOK.	Interest swap with floating interest switched to fixed interest.	Interest rate risk is hedged in accordance with frameworks for financial management.	Cash flow hedge
Interest rate risk on Norw. loans	Fixed-rate loans in NOK.	Interest swap with fixed interest switched to floating interest.	Interest rate risk is hedged in accordance with frameworks for financial management.	Fair value hedge

Note 15 Derivatives and hedge accounting

Description of hedge effectiveness and how this is measured for various risk categories:

<i>Risk category</i>	<i>Assessment of effectiveness</i>	<i>Measurement of effectiveness</i>
Currency risk in major contracts with multiple uncertain payment milestones	Different settlement dates for milestones in the hedged item and hedging instrument create ineffectiveness that must be measured.	Dollar offset method
Currency risk in major contracts with fixed payment milestones	Qualitative assessment based on the Principal Terms Match method provided that critical factors in the hedged item and hedging instrument are matched. Critical factors: <ul style="list-style-type: none"> • currency • amount • payment date Provided that critical factors are matched, the hedge is considered to be approximately 100 per cent effective. Ineffectiveness arises when the payment date is changed and the hedging instrument must be rolled over.	When critical factors are not matched: Dollar offset method
Interest rate and currency risk on loans	Qualitative assessment based on the Principal Terms Match method provided that critical factors in the hedged item and hedging instrument are matched. Critical factors: <ul style="list-style-type: none"> • principal amount (amount and currency) • maturity date • interest dates Provided that receipts from the interest and currency swap match payments on the loan, the hedge will be 100 per cent effective.	When critical factors are not matched: Dollar offset method

Fair value measurement

Foreign exchange forward contracts are measured at fair value based on observable forward rates on contracts with similar terms on the balance sheet date. Fair value for interest and currency swap contracts is the present value of future cash flows based on observable market rates and foreign currency rates at the balance sheet date. Fair value of interest swap contracts is the present value of future cash flows based on observable market rates on balance sheet day. During 2020, the Group started using market data from Bloomberg to calculate fair value of interest and currency swap contracts and interest swap contracts. By using marked data from only one source, the Group ensures that the fair value can be calculated on the same point of time during the balance sheet day for all contracts.

Accounting treatment of derivatives

Cash flow hedges

All derivatives defined as hedging instruments in cash flow hedges are recognized at fair value in the balance sheet while the effect is recognized as cash flow hedge reserve and this year's change is presented through OCI – other income and expenses. When the cash flow is due, prior periods fair value changes related to the hedging instruments are removed from equity to ensure that the hedging instrument and the hedged items affect the result in the same period.

Fair value hedges

In fair value hedging, both the hedging instrument and hedged item are recognized at fair value through profit or loss.

In fair value hedging of loans, the estimated fair value of the hedging instrument will also be used as the fair value of the hedged item when all critical factors are matched and the hedge is deemed 100 percent effective. There has not been any ineffectiveness in fair value hedging of loans in the accounting year.

In fair value hedging of major procurement contracts in foreign currency, fair value is calculated for both the hedging instrument and the hedged item. Different maturity dates for the hedging instrument and hedged item and rolling of the hedging instrument will result in

Note 15 Derivatives and hedge accounting

ineffectiveness that is recognized in profit or loss under Other operating expenses. Realized effects of the hedge for the hedging instrument and the hedged item affect profit or loss in the same period.

Economic hedge - derivatives not included in hedge accounting

Statnett also holds derivatives that does not qualify for hedge accounting under IFRS. These derivatives are measured at fair value and all changes in value are recognized in profit or loss as financial income or costs. This type of derivatives are referred to as "Free standing derivatives".

Embedded currency derivatives

For major procurements contracts, Statnett will separate embedded derivatives if agreed payment is in a currency different from the contract parties own functional currency, and that the contract is not considered to be commonly used for the relevant economic environment defined as the countries involved in the transaction. Embedded derivatives are recorded at fair value in the income statement under Other operating costs.

Repayment profile for derivatives related to debt

Parent Company and Group

<i>Amounts in NOK million</i>	Under 1 year	1 to 5 years	5 to 10 years	10 to 15 years	> 15 years	Total market value	Type of hedge accounting
Assets							
Interest swap fixed to floating	-	170	236	81	-	487	Fair value hedge
Interest and currency swap	543	1 243	2 111	1 985	365	6 247	Fair value hedge
Interest and currency swap	-	-	-	29	-	29	Cash flow hedge
Interest and currency swap	22	-	-	-	-	22	Free standing derivatives
Total assets 31.12.2020	565	1 413	2 347	2 095	365	6 785	
Total assets 31.12.2019	2	920	1 397	2 098	292	4 709	
Liabilities							
Interest swap fixed to floating	-	-27	-	-	-	-27	Fair value hedge
Interest rate floating to fixed	-28	-179	-	-	-	-207	Cash flow hedge
Total liabilities 31.12.2020	-28	-206	-	-	-	-234	
Total liabilities 31.12.2019	-	-58	-12	-70	-	-140	

Note 15 Derivatives and hedge accounting

The table below presents the effect of cash flow hedges that are presented as a hedging reserve in equity (negative figures reduce the Group's equity). During 2019 and 2020, no effects relating to hedge ineffectiveness or hedging instruments that no longer qualify for hedge accounting were recognized in the income statement.

Development in cash flow hedge reserve

Amounts in NOK million

	31.12.2020	31.12.2019
Cash flow hedge reserve before tax at 1 January	41	-88
Change in market value	-246	129
Cash flow hedge reserve before tax at 31 December	-204	41
Deferred tax on cash flow hedge reserve	-45	9
Cash flow hedge reserve after tax at 31 December	-159	32

Derivatives related to investments in foreign currency

Forward exchange options

Statnett makes use of forward exchange contract in order to hedge the currency risk on major acquisitions in currencies other than NOK.

Overview of derivatives related to investments in foreign currency

Parent Company and Group

Amounts in NOK million

	Currency	Nominal amount currency	Hedging rate	Market rate	Under 1 year	1 to 5 years	Total market value
Assets							
Fair value hedge	EUR	1	9,53	10,55	1	-	1
Total assets		-			1	-	1
Liabilities							
Fair value hedge	EUR	-18	11,01	10,54	-8	-	-8
Embedded derivatives	EUR	-9	-	-	-3	-1	-4
Embedded derivatives	SEK	-4	-	-	-	-	-
Total liabilities		-			-11	-1	-13
Net value of foreign currency derivatives					-11	-1	-12

Note 15 Derivatives and hedge accounting

Changes in market value and income statement effects of currency hedging derivatives related to procurement contracts

Parent Company and Group	Hedging instrument			Hedged item			Income statement effects		
	31.12.2020	31.12.2019	Change in market value	31.12.2020	31.12.2019	Change in market value	Unrealized ineffectiveness	Realized ineffectiveness	Realized forward premium
Currency hedging derivatives	-8	8	-15	7	-7	14	1	-	11

Embedded derivatives in procurement contracts in foreign currency

As of year-end 2020, the Group has embedded derivatives with a carrying value of NOK -4 million. NOK 1 million was recognized as a loss related to *unrealized* changes in value in 2020. NOK 7 million were recognized as a loss in 2020 related to *realized* changes in value.

Note 16 Interest-bearing liabilities

This note presents current and non-current interest-bearing liabilities for the Group, including financial derivatives classified as interest-bearing liabilities. The composition and level of interest-bearing liabilities are managed through the company's financing activities and are described in more detail in note 15 Derivatives and hedge accounting.

Principle

Interest-bearing liabilities are recognized at received funds, net after transaction costs. Loans are subsequently recognized at amortized cost using the effective interest method, where the difference between net funds and the redemption value is recognized in profit or loss over the loan term.

As a general rule, derivatives are recognized at fair value through profit or loss. Derivates related to fair value hedges are recognized at fair value through profit or loss. Derivatives relating to cash flow hedges are recognized at fair value through other comprehensive income. See also note 15 for a more detailed discussion of derivatives.

At initial recognition lease liabilities are recognized at the present value of the lease payments that are not paid at that date. Such payments include fixed payments and qualifying variable lease payments. The recorded lease liability is subsequently measured at amortized cost over the lease period. Payments related to expected termination penalties, exercise of payment options and residual value guarantees are included if considered applicable. Under leases that include options to extend or terminate the lease, the lease term is determined on the basis of reasonably certain exercises of such options. Payments are discounted using the interest rate implicit in the lease if that rate can be readily determined. Otherwise are payments discounted using Statnett's incremental borrowing rate. The lease liabilities are adjusted by changes in expected lease payments resulting from changes in indices determining variable lease payments, changes in lease terms or changes in the assessment or exercise of options. The first year's instalments are reclassified as current liabilities.

Specification of interest-bearing debt

Parent company (Amounts in NOK million)	2020		2019	
	Carrying value	Fair value	Carrying value	Fair value
Debt				
Long-term interest-bearing debt	47 067	47 560	41 137	41 430
Long-term interest-bearing debt Group companies	21	21	26	27
Long-term lease liabilities	169	169	161	161
Derivatives	206	206	140	140
Total long-term interest-bearing debt	47 464	47 957	41 464	41 757
Short-term interest-bearing debt	8 627	8 649	8 656	8 678
Short-term interest-bearing debt Group companies	378	378	-	-
Short-term lease liabilities	32	32	30	30
Derivatives	28	28	-	-
Total short-term interest-bearing debt	9 065	9 087	8 686	8 708
Group (Amount in NOK million)				
Debt				
Long-term interest-bearing debt	47 067	47 560	41 163	41 456
Long-term lease liabilities	169	169	205	205
Derivatives	206	206	140	140
Total long-term interest-bearing debt	47 442	47 936	41 508	41 801
Short-term interest-bearing debt	8 627	8 649	8 658	8 680
Short-term lease liabilities	32	32	33	33
Derivatives	28	28	-	-
Total short-term interest-bearing debt	8 687	8 709	8 691	8 712

Derivatives are measured at fair value at valuation level 2. Please see description of measurement hierarchy in note 15.

Note 16 Interest-bearing liabilities

Changes in liabilities arising from financing activities

Parent company			Group	
2019	2020	(Amounts in NOK million)	2020	2019
45 769	50 150	Liabilities in debt portfolio 01.01. - previously reported	50 199	45 737
211	-	Additions of lease liabilities at transition to IFRS 16	-	260
45 980	50 150	Liabilities in debt portfolio 01.01. - previously reported	50 199	45 997
6 259	10 254	Borrowing of new debt (cash flow, received)	10 254	6 259
-4 175	-8 484	Repayment of debt (cash flow, paid)	-8 484	-4 175
1 380	1 923	Changes in CSA liabilities (cash flow, received)	1 923	1 380
727	2 301	Changes in fair value (non-cash flow)	2 301	727
10	9	Amortizations (non-cash flow)	9	10
-7	-5	Changes in intercompany liabilities (cash flow, paid)	-	-
-	66	Changes in intercompany liabilities (cash flow, received)	-	-
-	311	Changes in intercompany liabilities (non-cash flow)	-	-
-24	3	Other (non-cash flow)	-72	1
50 150	56 529	Liabilities in debt portfolio 31.12.	56 130	50 199

Parent company

Repayment profile for interest-bearing debt

The loans are measured at amortized cost adjusted for the effect of fair value hedging.

Maturity date (Amounts in NOK million)	Under 1 year	1 to 5 years	5 to 10 years	10 to 15 years	15 years +	Total
Fixed rate loans						
Certificate issues	-	-	-	-	-	-
Bond issues	1 459	13 110	12 050	8 577	738	35 934
Lease liabilities	32	82	43	18	27	202
Total fixed rate loans 31.12.2020	1 491	13 192	12 093	8 595	765	36 136
Total fixed rate loans 31.12.2019	3 777	5 894	11 868	13 122	698	35 359
Floating rate loans						
Collateral under CSA agreements*	6 608	-	-	-	-	6 608
Other interest-bearing debt	405	227	-	-	-	632
Bond issues	187	3 250	-	-	-	3 437
Loans from financial institutions	373	2 939	2 253	3 620	531	9 716
Total floating rate loans 31.12.2020	7 573	6 416	2 253	3 620	531	20 393
Total floating rate loans 31.12.2019	4 909	4 063	3 048	2 525	246	14 791
Total debt 31.12.2020	9 065	19 607	14 346	12 215	1 296	56 529
Total debt 31.12.2019	8 686	9 957	14 916	15 647	944	50 150

* Debt related to collateral under CSA agreements (Credit Support Annex) reflecting unrealized gains/losses on derivatives. The loans are settled weekly.

Group

The repayment profile for interest-bearing debt of the Group differs from the parent company's repayment profile with intra-group loans. Within "Other interest-bearing debt" Statnett SF has two intra-group loans, totaling NOK 185 million, payable on demand. In addition, Statnett SF has intra-group debt of NOK 214 million, concerning the Group cash pool arrangement. The loans are eliminated in the Group statement.

Note 16 Interest-bearing liabilities

Maturity of fixed interest of the loan portfolio (Amounts in NOK million)	Under 1 year	1 to 5 years	5 to 10 years	10 to 15 years	15 years +	Total
Interest-bearing debt 31.12.2020	48 342	6 103	2 039	18	27	56 529
Interest-bearing debt 31.12.2019	44 759	1 934	3 342	83	32	50 150

Specification of interest-bearing debt and derivatives	Principal debt Currency	Principal debt NOK	Principal swap NOK	Interest rate loan	Interest rate swap	Fair value swap
Secured liabilities - fair value hedging	(Amounts in million)	(Amounts in NOK million)	(Amounts in NOK million)			(Amounts in NOK million)
NOK	4 793	4 793	4 393	3,48%	1,44%	460
CHF	150	923	923	2,40%	0,85%	536
SEK	3 950	3 870	3 870	0,72%	0,95%	269
USD	1 080	7 208	7 208	3,17%	1,28%	3 368
EUR	1 070	10 025	10 025	1,15%	0,92%	2 073

Secures liabilities - cash flow hedging

NOK	2 700	2 700	2 300	2,52%	3,28%	-57
USD	360	3 039	3 039	2,79%	1,31%	29
EUR	312	4 813	3 000	0,88%	2,49%	-150

Unsecured liabilities

NOK - floating interest rate	4 650	4 650	-	2,42%	0,00%	-
NOK - fixed interest rate	7 625	7 625	-	0,83%	0,00%	-

Free standing derivatives

SEK	200	180	180	0,00%	0,35%	22
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CSA

NOK	5 600	5 600	-	*	-	-
EUR	96	1 008	-	**	-	-

Total	-	-	-			6 551
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* NOWA (Norwegian Overnight Weighted Average rate) - daily interest for deposits in NOK

** EONIA overnight - daily interest rates announced by the European Banking Federation (EBF)

Note 17 Trade accounts payable and other short-term debt

This note presents trade payables and other current non-interest-bearing liabilities. Trade payables are directly related to operational activities, while other current liabilities relate to other payables such as public taxes and charges, salaries and holiday pay, accrued interest, etc.

Principle

Non-interest-bearing liabilities are classified as current when they are part of ordinary operations, are used for trading purposes and due by 12 months. Other liabilities are non-current. Trade and other current liabilities are measured at amortized cost using the effective interest method. The interest element is ignored since it is deemed to be immaterial for the overwhelming majority of the Group's current non-interest-bearing liabilities.

Derivatives are valued at fair value at valuation level 2. Both the derivatives and the measurement hierarchy are described in more detail in note 15.

Specification of trade accounts payable and other short-term liabilities

Parent company			Group	
2019	2020	(Amounts in NOK million)	2020	2019
524	565	Trade accounts payable	571	559
26	3	Short-term liabilities Group companies	-	-
147	374	Public fees	383	155
252	280	Payroll	286	258
6	38	Non-interest-bearing derivatives	38	6
338	244	Accrued interest	244	338
1 648	1 279	Other short-term debt*	2 422	3 818
2 942	2 783	Trade accounts payable and other short-term debt	3 944	5 135

* Other short-term debt includes NOK 247 million concerning asset retirement obligations related to grid facilities.

Provisions related to progress measurement of investment projects are classified as other current liabilities. Such progress measurement is further described in note 9 Plants under construction.

Note 18 Financial risk management

Financial risk

The objective of Statnett SF's financial policy is to ensure that the enterprise achieves the necessary financing of planned operational and investment programs in accordance with external legal requirements and internal risk tolerance. A detailed framework is developed for the execution of the finance function in order to minimize the enterprise's credit, interest rate and foreign exchange risks. Statnett SF uses financial derivatives to manage the financial risks.

Capital management

The loan agreements do not impose any capital requirements on the enterprise which are expected to restrict the capital structure in the Group. Nor are there any explicit equity requirements other than those stipulated in applicable laws and regulations. The main objective of Statnett's capital management structure is to ensure that the enterprise has a sound financial position, which enables the enterprise to operate and develop the main grid in a socio-economically profitable manner in line with plans and the owner's expectations. It is a priority with the Statnett Board of Directors to maintain a robust A rating or better. The dividends are decided upon by the company meeting on a yearly basis. The owner's dividend policy for the period 2019-2022, such as expressed in the State Budget 2019-2020, is to distribute 50 percent of the Group's underlying result. The underlying result is the Group's net result for the year after tax adjusted for changes in the net higher/lower revenue after tax. Moreover, the capital structure is managed by raising and paying off short-term and long-term debt, as well as through changes in liquid assets. There have been no material changes to capital management guidelines or objectives through the year.

Overview of capital included in capital structure management

Parent company			Group	
2019	2020	(Amounts in NOK million)	2020	2019
41 464	47 464	Long-term interest-bearing liabilities	47 442	41 508
8 686	9 065	Short-term interest-bearing liabilities	8 687	8 691
1 727	2 249	Liquid assets and investment in market-based securities	2 693	2 424
48 423	54 280	Net liabilities	53 436	47 775

Liquidity risk

Statnett SF aims to be able to carry out 12 months of operations, investments and refinancing without raising any new debt. This will make Statnett less vulnerable during periods of low access to capital in the financial markets and periods with unfavorable borrowing conditions. Liquidity is followed up continuously through weekly reporting.

Statnett reduces liquidity risk related to maturity of financial liabilities by having an evenly distributed maturity structure, limits on the proportion of the loan portfolio that can fall due within a 12-month period, access to several sources of funding in Norway and abroad, and sufficient liquidity to cover scheduled operations, investment and financing needs without incurring any new debt within a time horizon of 12 months.

31 December the liquidity consists of bank/time deposits, investments in market-based securities and a credit facility of NOK 8 billion, running until January 2024. The credit facility has not yet been utilized. Up to NOK 4 billion of the credit facility can be drawn at very short notice. Together with other sources of liquid assets, Statnett has a good ability to handle large liquidity needs that may occur at short notice, e.g. related to collateral for derivatives under CSA agreements with weekly settlement.

Statnett SF has a high credit rating. Standard & Poor's and Moody's Investor Service have given Statnett SF credit ratings for non-current borrowings of A+ and A2 respectively. The high credit ratings provide Statnett SF good borrowing opportunities.

Note 18 Financial risk management

The table below presents all gross cash flows related to financial liabilities. The cash flows have not been discounted and are based on interest rates and exchange rates at the end of the reporting period.

(Amounts in NOK million)

Parent company

	Under 1 year	1 to 5 years	5 to 10 years	10 to 15 years	15 years +	Total
Interest-bearing debt and interest payments	9 796	21 630	16 546	10 888	1 312	60 172
Other liabilities	-	317	50	-	-	367
Trade acc.payable and other short-term debt	2 783	-	-	-	-	2 783
Derivatives	1 762	10 462	7 000	5 378	419	25 021
Financial liabilities 31.12.2020	14 341	32 409	23 596	16 266	1 731	88 343
Financial liabilities 31.12.2019	14 589	19 972	25 470	25 856	1 492	87 379
Derivatives	Under 1 year	1 to 5 years	5 to 10 years	10 to 15 years	15 years +	Total
Received	2 566	12 419	9 386	6 805	715	31 891
Disbursed	-1 762	-10 462	-7 000	-5 378	-419	-25 021
Net derivatives 31.12.2020	804	1 957	2 386	1 427	296	6 870
Net derivatives 31.12.2019	-1	770	1 006	1 773	286	3 834

(Amounts in NOK million)

Group

	Under 1 year	1 to 5 years	5 to 10 years	10 to 15 years	15 years +	Total
Interest-bearing debt and interest payments	9 418	21 609	16 546	10 888	1 312	59 773
Other liabilities	-	317	50	-	-	367
Trade acc.payable and other short-term debt	3 944	-	-	-	-	3 944
Derivatives	1 762	10 462	7 000	5 378	419	25 021
Financial liabilities 31.12.2020	15 124	32 388	23 596	16 266	1 731	89 105
Financial liabilities 31.12.2019	16 782	19 972	25 470	25 856	1 492	89 572
Derivatives	Under 1 year	1 to 5 years	5 to 10 years	10 to 15 years	15 years +	Total
Received	2 566	12 419	9 386	6 805	715	31 891
Disbursed	-1 762	-10 462	-7 000	-5 378	-419	-25 021
Net derivatives 31.12.2020	804	1 957	2 386	1 427	296	6 870
Net derivatives 31.12.2019	-1	770	1 006	1 773	286	3 834

Note 18 Financial risk management

Credit risk

Credit risk refers to the risk that the counterparty will default on its contract obligations, resulting in a financial loss for the Group.

Parent company			Group	
2019	2020	(Amounts in NOK million)	2020	2019
1 044	961	Liquid assets	1 058	1 327
683	1 288	Investment in market-based securities	1 635	1 097
4 723	6 785	Derivatives	6 785	4 723
4 065	4 714	Long-term receivables, excl. derivatives	47	50
1 582	1 689	Trade accounts and other short-term receivables, excl. derivatives	1 362	1 673
12 097	15 437	Total maximum credit exposure	10 887	8 870

Statnett SF is exposed to credit risk through investment of surplus liquidity with issuers of securities and through the use of different interest rate and currency derivatives. To limit this risk, Statnett has frameworks establishing requirements for creditworthiness and maximum exposure for each individual counterparty. Furthermore, the enterprise ensures that credit risk in hedging relationships is extremely low by entering into collateral agreements based on Credit Support Annexes (CSA) for its most important derivative counterparties.

All placements of liquid assets are made within sector limits and maximum limits for individual counterparties with a high credit rating, where higher credit ratings result in higher limits. Market-based securities consist of multiple, well-diversified investment grade fixed interest funds.

A CSA is a legal document that regulates credit support (collateral) for derivative transactions with weekly settlement of unrealized gains/losses. Unrealized gains on derivatives result in Statnett receiving settlements that increase the company's bank balances and current liabilities. Conversely, unrealized losses on derivatives result in Statnett paying settlements to its counterparties that reduce the company's bank balances and increase current receivables.

The table below shows the relationship between collateral pledged under the CSAs, unrealized values of derivatives in scope of the CSA agreements and unrealized values of all derivative transactions with external counterparties. Deposits are recognized in separate accounts, but are not classified as restricted funds. This means that bank balances may not always fully reflect the amounts actually received from counterparties.

Specification of the relationship between collateral and derivatives

(Amounts in NOK million)	Totally paid	Market value derivatives under CSA agreements	Market value all derivatives
Received collateral under CSA agreements	6 608	6 577	6 543
Collateral under CSA posed to counterparty	-	-	-

Internal limits define minimum ratings that counterparties in CSAs should have received with leading rating agencies. Higher rating requirements are defined for counterparties without a CSA arrangement.

The Group's customer base primarily consists of municipal energy companies, Norwegian industrial customers and other Nordic TSOs. Historically losses on trade receivables have been low and as a starting point this situation is not expected to change. Please however refer to note 29 for a description of possible effects in relation to Events subsequent to the balance sheet date. In the event of default, the Group has efficient routines for rapid and close follow-up of customers, stringent sanction options and the opportunity to demand collateral as part of the network agreement. Consequently, the Group deems credit risk for trade receivables to be very low.

Statnett SF do provide loans to subsidiaries and associates being part of the Group. The parent company has established cash pool into which the subsidiaries Elhub AS and NordLink Norge AS have pooled their cash with the cash of their parent. The two subsidiaries are granted a NOK 100 million credit limit each within the cash pool. The creditworthiness of the relevant subsidiaries is closely linked to Statnett SF's own credit rating due to ownership, the pledging of guarantees and/or receipt of services. Statnett SF also provides loans if

Note 18 Financial risk management

needed to the eSett Oy (associated) and Fifty AS (jointly controlled). Credit assessments are carried out when loan terms are established. All companies are monitored through board representation. Some of the loan agreements impose requirements on the equity ratios. No conditions have been registered that indicate potential impairments of loans.

Recognition and measurement of expected credit losses

The Group recognizes provisions for expected credit losses on financial assets measured at amortized cost or at fair value through Profit for the year (Other operating costs) or Other comprehensive income in accordance with IFRS 9. The loss provision is based on the Group's assessment of the financial assets' credit risk.

For banks, derivative counterparties and other credit institutions, creditworthiness is regularly assessed during the year through monitoring of official ratings. Counterparty risk is monitored and reported on an ongoing basis to ensure that the enterprise's exposure does not exceed established credit limits and complies with internal rules. Credit risk for trade payables, other current receivables and non-current receivables is assessed monthly in the event of default or should other information become available that indicates that the borrower may not be able to redeem all or parts of its liabilities. A financial instrument is deemed to be in default if it has not been settled at the agreed date. Impairments are recognized using the following methods:

1. Expected credit loss over the asset's lifetime

The expected credit loss resulting from all potential default events during a financial instrument's lifetime.

If the credit risk for a financial instrument has materially increased since initial recognition, the loss provision for that financial instrument is recognized in an amount corresponding to the expected credit loss over the lifetime.

2. Expected credit loss over 12 months

The portion of the expected credit loss during the lifetime relating to the expected credit loss attributable to potential default events for a financial instrument within 12 months after the reporting date.

If the credit risk for a financial instrument has not materially increased since initial recognition, the loss provision for that financial instrument is recognized in an amount corresponding to the expected credit loss over 12 months.

The Group has defined the following categories for credit scoring to assess credit risk.

Category	Description	Method of impairment recognition
Performing	No overdue liabilities and no increase in credit risk since initial recognition.	Expected credit loss over 12 months.
Doubtful	Liabilities more than 30 days overdue, or there has been a significant increase in credit risk since initial recognition.	Expected credit loss over the asset's lifetime; effective interest is calculated on the gross amount.
In default	Liabilities more than 90 days overdue, but there are indications that the asset is creditworthy.	Expected credit loss over the asset's lifetime; effective interest is calculated at amortized cost.
Write-off	There are indications that the creditor's financial problems are so great that the receivables must be deemed lost.	The receivable is written off in full.

See also note 11 Trade and other current receivables and note 14 Non-current financial assets, for loss assessments.

Foreign exchange risk

Foreign exchange risk is the risk of fluctuations in foreign exchange rates that will result in changes in Statnett's income statement and balance sheet. Currency risk relating to major procurement contracts and loans in foreign currency is hedged within the framework defined for the execution of the finance function. Please refer to note 15 for further information. At the reporting date, currency reserves that were not swapped or reserved for future liabilities amounted to NOK 2 million with the parent company and NOK 7 million with the Group. This reserve consists of bank deposits. The Group also has foreign equity funds and shares of NOK 42 million.

Interest rate risk

The Group is exposed to interest rate risk through its loan portfolio and liquid assets. Statnett SF is also exposed to interest rate levels on which the revenue cap for the grid operations is based (the NVE interest rate).

Note 18 Financial risk management

In order to reduce the interest rate risk and minimize fluctuations in the result, the interest expense of Statnett's debt should correlate to the extent possible with the interest on the revenue side following from the NVE interest rate. The NVE interest rate is calculated based on daily averages of the five-year swap interest rate. In addition, the NVE interest rate comprises a fixed interest rate portion with the addition of inflation and a surcharge for credit risk. To achieve the desired fixed-interest period on the enterprise's debt, interest rate swap agreements linked to the underlying debt are used.

Average effective interest rate

The table below presents the average effective interest rate for the various types of financial instruments.

Parent company			Group	
2019	2020		2020	2019
2,09%	2,56%	Investment in market-based securities	2,85%	1,91%
-1,36%	-0,42%	Bank deposits	0,22%	0,14%
-	-	Shares and equity funds	9,28%	21,55%
2,33%	2,04%	Loans	2,04%	2,33%

Negative interest rates on the parent company's bank deposits have their cause in CSA related bank deposits in EUR carrying negative interest rates in combination with negative bank deposits in NOK.

Sensitivity analysis

Interest rate sensitivity

(Amounts in NOK million)

Parent company		Change in interest rate level	Group	
2019	2020	Percentage points	2020	2019
-9	-8	+ 1	-15	-16
9	8	- 1	15	16

The table presents the sensitivity for parent company and the Group due to potential changes in the interest rate on asset placements. It shows the assumed effect on the result of a change in the interest rate levels with 1 percentage point as at 31 December.

Exchange rate sensitivity

(Amounts in NOK million)

Parent company		Change in NOK exchange rate	Group	
2019	2020	Percent	2020	2019
-13	-3	+ 5	-5	-19
13	3	- 5	5	19

The table presents the company's sensitivity to potential changes in the exchange rate of the Norwegian Krone, if all other factors remain unchanged. The calculation is based on an identical change in relation to all relevant currencies. The effect on the result is due to a change in the value of monetary items that are not fully hedged. Other monetary items and all foreign currency debt are hedged, and the change in value is matched by a change in the value of the derivative.

The effects of the Covid-19 pandemic on Statnett's financial area in 2020

Overall, the turbulence in the financial markets in 2020 following the Covid-19 pandemic has not affected Statnett's financial position or income statement negatively. For a period of time, a weakened Norwegian krone led to substantial payments from Statnett's derivative counterparties as a result of established agreements concerning collateral support (CSA). Measures taken by the central banks', including cuts in interest rates, resulted in lower short and long interest rates. Because of this, Statnett's interest costs were substantially lowered. For the Group, however, lowered interest costs have been counteracted by a lowered NVE interest rate resulting in a lower income (as a result of a lower 5 year swap rate). In June 2020, Statnett for the first time issued green bonds, achieving satisfactory terms and great interest among institutional investors.

Note 19 Taxes

Income tax is calculated in accordance with ordinary tax rules and by applying the adopted tax rate. The tax expense in the income statement comprises taxes payable and changes in deferred tax liabilities/tax assets. Taxes payable are calculated on the basis of the taxable income for the year. Deferred tax liabilities/assets are calculated on the basis of temporary differences between the accounting and tax values and the tax effect of tax losses and interest expenses carried forward.

Principle

The tax expense in the income statement comprise both the annual taxes payable and changes in deferred tax liabilities/tax assets. Taxes payable are calculated on the basis of the taxable income of the year. Deferred tax assets/liabilities are calculated on the basis of temporary differences between the accounting and tax values, and the tax losses and interest expenses carried forward.

Deferred tax liabilities and deferred tax assets are recognized net provided that these are expected to reverse in the same period. Deferred tax assets are recognized to the extent that it is probable that they will be utilized. Deferred tax liabilities/tax assets are recognized using the nominal tax rate.

Tax related to items recognized in other comprehensive income is also recognized in other comprehensive income, while tax related to equity transactions is recognized in equity.

Note 19 Taxes

The tax expense comprises the following

Parent company			Group	
2019	2020	(Amounts in NOK million)	2020	2019
-	-	Income tax	57	18
-1	-	Income tax previous years	-	2
440	729	Change in deferred tax/tax benefit	665	514
439	729	Tax	723	534

Tax payable in the balance sheet

Parent company			Group	
2019	2020	(Amounts in NOK million)	2020	2019
-	-	Tax payable for the year	57	18
-	-	Tax payable on group contribution	-44	-15
-	-	Tax payable	12	3

Reconciliation of nominal tax rate and effective tax rate

The following table provides a reconciliation of reported tax expense and tax expense based on nominal tax rate of 22 percent for 2020 and 2019.

Parent company			Group	
2019	2020	(Amounts in NOK million)	2020	2019
2 069	3 446	Profit before tax	3 419	2 440
455	758	Expected tax expense at nominal rate	752	537
		Effect on taxes of:		
-16	-30	Permanent differences	-32	-5
1	1	Share of profit/loss in associates	3	1
-1	-	Changes in previous years taxes	-	1
439	729	Tax	723	534
21%	21%	Effective tax rate	21%	22%

Note 19 Taxes

Breakdown deferred tax

The following table provides a breakdown of the net deferred tax. Deferred tax assets are recognized in the balance sheet to the extent it is probable that these will be utilized. The tax rate used when assessing deferred tax is 22 percent as of 31 December 2020 and 2019.

Parent company

<i>(Amounts in NOK million)</i>	31.12.19	Recognized	Other comprehensive income	Group contribution	31.12.20
Current assets/current liabilities	4	-3	-	-	1
Fixed assets	3 532	530	-	-	4 062
Pension liabilities	-41	12	-25	-	-54
Other long term items	608	21	-54	-	575
Tax loss carried forward	-1 786	169	-	-	-1 616
Total	2 317	729	-79	-	2 968

Group

<i>(Amounts in NOK million)</i>	31.12.19	Recognized	Other comprehensive income	Group contribution	31.12.20
Current assets/current liabilities	2	50	-	-	85
Fixed assets	3 748	415	-	-	4 162
Pension liabilities	-43	12	-25	-	-55
Other long term items	675	16	-54	-	604
Tax loss/interest expenses carried forward *)	-1 836	172	-	-44	-1 710
Total	2 545	665	-79	-44	3 086

*) Tax Payable for the year regarding group contribution is reclassified from tax payable to deferred tax for the Group.

Deferred tax recognized in other comprehensive income

Parent company		<i>(Amounts in NOK million)</i>	Group	
31.12.19	31.12.20		31.12.20	31.12.19
19	-25	Change in estimate deviations of pension liabilities	-25	19
28	-54	Changes in fair value for cash flow hedges	-54	28
47	-79	Total deferred tax recognized in other comprehensive income	-79	47

Note 20 Investments in subsidiaries, jointly controlled company and associates

The activities of Group companies are mainly concentrated in the parent company. The Group also includes seven subsidiaries, one jointly owned company and ownership interests in certain associated companies. Reference is made to note 22, related parties, for a description of the activities of the subsidiaries.

Principle

Consolidated companies

The consolidated financial statements comprise Statnett SF and subsidiaries in which Statnett SF alone has a controlling influence. Normally, Statnett SF is assumed to have controlling influence when direct or indirect ownership interests make up more than 50 percent of the voting shares. If Statnett owns less than 100 percent of the voting shares, or, through an agreement, has less than 100 percent of the votes, the Group assesses whether the Group has actual control.

The consolidated financial statements are prepared using the acquisition method and show the Group as if it was one unit. The cost price of shares in the subsidiaries is eliminated against the equity at the time of acquisition. Any excess value beyond the equity of the subsidiaries is allocated to assets to which the excess value can be attributed. The part of the cost of purchasing a business that cannot be attributed to specific assets, is presented as goodwill.

Statnett SF's Pension Fund is not part of the Statnett Group. Contributed equity to the pension fund is valued at fair value and classified as financial fixed assets.

Jointly controlled company

Currently, one jointly controlled company in the Group, Fifty AS, is considered to be a joint operation. Firstly, the company is considered to be a joint arrangement since Statnett, together with another party, is bound by contract, and the contract gives the parties joint control over Fifty AS. Secondly, the company is considered a joint operation since the parties have rights to the assets and responsibility for the obligations in Fifty AS. The investment in the jointly controlled company is recognized on the basis of proportional consolidation, implying that Statnett accounts for its share of revenues, expenses, assets and liabilities.

Investment in associated companies

Associates are companies where Statnett has significant influence, i.e. Statnett can influence financial and operational decisions in the company, but does not have control of the company. Normally, these will be companies where the Group owns between 20 and 50 percent of the voting shares. Associates are recognized using the equity method. This means that the Group's share of profit/loss and amortization of any excess value is recognized in the income statement. The financial statements of associates are restated in accordance with IFRS. In the consolidated balance sheet, ownership in associates are recognized as financial fixed assets at historic cost plus accumulated profit/loss, less dividends and impairment if applicable.

Purchase/sale of subsidiaries, jointly controlled companies and associates

In the case of acquisition or sale of subsidiaries, jointly controlled companies or associates, the companies are included in the consolidated financial statements for the part of the year which they have been part of or associated with the Group.

Investments in subsidiaries, jointly controlled companies and associates in Statnett SF (parent company accounts)

Investments in subsidiaries, jointly controlled companies and associates are recognized in accordance with the cost method in the parent company accounts. Group contribution paid (net after tax) is added to the cost price of investments in subsidiaries. Group contribution and dividends received are recorded in the income statement as financial income, as long as the Group contribution and dividends are within the earnings accrued during the period of ownership. Dividends in excess of earnings during the ownership period are accounted for as a reduction in the share investment. Group contributions and dividends are recorded in the year they are adopted.

Impairment

At each reporting date, the Group assesses whether there are objective indications of impairment. If such indications exist, the investment is tested for impairment. The investment is impaired if the recoverable amount (higher of fair value less sales costs or value in use) is lower than the carrying value.

Business combinations

Business combinations are recognized according to the acquisition method. Acquisition costs are the total of the fair value on the acquisition date of assets acquired, liabilities incurred or taken over as compensation for control of the acquired enterprise. Transaction costs attributable to business combinations are recognized in the income statement.

Note 20 Investments in subsidiaries, jointly controlled company and associates

The acquired enterprise's identifiable assets, liabilities and contingent liabilities, which satisfy the conditions for recognition according to IFRS 3, are recognized at fair value on the acquisition date. Goodwill arising from acquisitions is recognized as an asset measured as the excess of the total consideration transferred and the value of the minority interests in the acquired company, beyond the net value of acquired identifiable assets and assumed liabilities. If the Group's share of the net fair value of the acquired enterprise's identifiable assets, liabilities and contingent liabilities exceeds the total consideration after re-assessment, the surplus amount is immediately recognized in the income statement.

Statnett SF had the following investments at 31 December 2020:

Company	Business nature	Year of acquisition	Registered office	Ownership interest	Voting rights	Carrying value (Amounts in NOK thousand)
Subsidiaries						
Statnett Transport AS *	Transport and shipping	1996	Drammen	100%	100%	108 021
Statnett Forsikring AS	Insurance	1998	Oslo	100%	100%	30 200
Nord Link Norge AS	Develop and operate national transmission grid	2010	Oslo	100%	100%	2 090 262
NorGer AS	General Partner	2010/2011	Oslo	100%	100%	2 212
NorGer KS	No activity	2010/2011	Oslo	100%	100%	2 776
Nydalshøyden Bygg C AS	Real estate	2013	Oslo	100%	100%	3 959
Elhub AS	Data hub for electricity metering data	2014	Oslo	100%	100%	209 719
Total subsidiaries						2 447 149
Joint controlled company and associates						
Fifty AS	Develop and operate regulation and market systems	2017	Oslo	50%	50%	5 000
TSO Holding AS **	Marketplace	2002/2008	Bærum	30%	30%	45 731
eSett OY	Nordic imbalance settlement	2013	Finland	25%	25%	12 668
KraftCERT AS	IT security	2014	Oslo	33%	33%	1 408
Total jointly controlled company and associates						64 807
Total subsidiaries, jointly controlled company and and associates						2 511 956

* In 2020, Statnett Transport's operations were transferred to Statnett SF. See note 22 for further review.

** Nord Pool Holding AS changed its name to TSO Holding AS in 2020. Ownership has increased from 28,2 to 30,2 per cent in 2020. See note 22 for further review.

Group value of companies recorded according to the equity method

(Amounts in NOK thousand)

	Group value at 1 Jan.	Increase / Deduction	Result for the year	Dividend	Group value at 31 Dec.
2020					
TSO Holding AS, 30,2% **	90 439	9 411	122 782	-135 370	87 262
eSett OY, 25,0%	16 902	-	2 008	-	18 910
KraftCERT AS, 33.3%	958	-	450	-	1 408
Total associates	108 299	9 411	125 240	-135 370	107 580

Note 20 Investments in subsidiaries, jointly controlled company and associates

2019

TSO Holding AS, 28,2% **	92 569	-	10 812	-12 942	90 439
eSett OY, 25,0% *	17 892	-4 411	3 421	-	16 902
KraftCERT AS, 33.3%	692	-	266	-	958
Total associates	111 153	-4 411	14 499	-12 942	108 299

* Ownership in eSett OY was reduced from 33,3 to 25 per cent in May 2019 when Energinet.dk entered the company as a shareholder.

Note 21 Joint operations

The Group has entered into agreements with transmission system operators in the Netherlands, Denmark, Germany and England to construct and operate subsea cables to the continent and the UK. These agreements are regarded as joint operations under IFRS.

Principle

A "joint operation" is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets and obligations for the liabilities relating to the arrangement. The Group recognizes its share of assets, liabilities, revenues and operating expenses relating to its involvement in a joint operation.

Subsea cables

TenneT TSO BV and Statnett SF have constructed a subsea cable to transport energy between Norway and the Netherlands, known as the NorNed cable. Each party owns its physical half of the cable, with Statnett SF owning the northern part and TenneT the southern part. The NorNed cable became operational in May 2008. Costs and trading revenues from the operation of the NorNed cable are shared equally between TenneT and Statnett.

Statnett SF owns Skagerrak cables 1-3 whereas Energinet.dk holds a long-term lease agreement for half of the cable capacity. Income from the lease is included in "Other operating revenue". At the end of December 2014, the Skagerrak Cable 4 became operational. Statnett SF and Energinet.dk each own its physical half of the cable, with Statnett SF owning the northern part and Energinet.dk owning the southern part. Costs and trading revenues related to the operation of the Skagerrak cables are shared equally between Energinet.dk and Statnett SF.

Statnett SF, the German companies TenneT and KfW have built a HVDC interconnector between Norway (Tonstad) and Germany (Wilster). The project's name is NordLink. NordLink has a transmission capacity of 1400 MW. The interconnector consists of 53 km overhead line on the Norwegian side, a 514 km subsea cable and a 55 km land cable on the German side. The ownership is shared equally, where Statnett SF owns the northern part through the wholly owned subsidiary NordLink Norge AS, and TenneT and KfW own the southern part through a jointly owned German company. Costs and trading revenues are shared equally between Germany and Norway. The subsea cables between Norway and Germany, the converter station at Ertsmyra and the overhead line between Ertsmyra and Vollesfjord are completed and the trial operation started in December 2020.

Statnett SF's assets in the cables are included in the asset group Land and subsea cables in the note related to Tangible and intangible assets.

Subsea cables under construction

In the winter, 2015 Statnett SF signed a cooperation agreement with the British company National Grid North Sea Link Ltd (NNL) with the purpose to realize an HVDC interconnector between Kvilldal in Norway and Blyth in North-East England. The North Sea Link project will have a transmission capacity of 1400 MW, and the interconnection consists of converter stations in Blyth and Kvilldal, 714 km subsea cables, 6 km land cable on the Norwegian side and 2 km land cable on the British side. The ownership will be shared equally, with Statnett SF as the owner of the eastern part and NNL the western part. Costs and trading revenues shall be shared equally between the parties. 90 % of the subsea cable is completed, and the third of four laying campaigns was completed in October. The converter station in Kvilldal was finalized in November, and the converter station in Blyth is expected to be completed spring 2021. The whole project will be finalized by 2021.

The value of work performed on the subsea cables under construction is included in the line Plants under construction in the balance sheet. The converter station was by the end of 2020 assessed as ready for use, and is included under Tangible and intangible assets at a total of NOK 2.4 billion.

Note 22 Related parties

Principle

Two parties are related if a party can influence the other party's decisions. Transactions between related parties are conducted at market terms.

Owner

As of 31 December 2020, Statnett SF was wholly-owned by the Norwegian State through the Ministry of Petroleum and Energy (MPE). Statnett has the following relations with MPE both as owner and regulatory authority.

Regulatory authority

The Norwegian parliament (Storting) is the legislative authority that passes legislation based on bills put forward by the government. Regulations are adopted by the King in Council. The MPE administers its areas of responsibilities and delegates the administration of the greater part of the Energy Act to The Norwegian Water Resources and Energy Directorate (NVE). Pursuant to the Norwegian Public Administration Act, any administrative decision made by the NVE may be appealed to the MPE as the superior authority.

The Norwegian Energy Regulatory Authority (RME), part of the NVE, is appointed as a national independent regulatory authority for the electricity market in Norway. RME's task is to ensure that the participants comply with the regulations that ensure competitive conditions in the power market and an efficiently operated power grid. Any decision made by the RME may be appealed to the Energy Complaints Commission.

Other related parties

Investments in subsidiaries, joint venture and associates are listed in note 20

Parent company

Statnett SF is the borrower of the Group's external loans. The central treasury function in Statnett SF coordinates and manages financial risks related to currency, interest rates and liquidity within the Group. Loan agreements have been entered into between Statnett SF and its subsidiaries. The Group has established a cash pool system in 2020. The parent company is the main account holder and other group companies are sub-account holders, linked to the main account. The total bank deposits in the cash pool system are presented as bank deposits in Statnett SF. Sub-account holders' part of the main account, are included in the intercompany balances.

In addition, there are agreements entered relating to services between companies within the Statnett Group. All agreements are part of normal commercial operations, and the transactions are conducted at market terms. Transactions with subsidiaries relate mainly to the following:

Statnett Forsikring AS

Statnett Forsikring AS is licensed to provide insurance coverage and reinsurance, though limited to companies within the Statnett Group where the ownership exceeds 50 percent. In addition, Statnett Forsikring AS operates both as a direct personal insurance company and a non-life insurance company.

Statnett Transport AS

Until 30 June 2020 Statnett Transport AS provided transportation services, transporting heavy machinery/equipment on land and at sea. The operations in Statnett Transport AS have been transferred to Statnett SF with effect from 1 July 2020. The business transfer was implemented with the arm's length principle and assets and liabilities were valued at fair value. Statnett SF had granted Statnett Transport AS a subordinated loan that ranks behind other creditors. The subordinated loan was paid as part of the purchase price. Statnett Transport AS has granted a loan to Statnett SF of 163 MNOK as of 31 December 2020. Until 30 June, Statnett SF has also provided administrative services within ICT, legal, purchasing and finance. From 1 July, there is no operational activity in Statnett Transport AS.

NordLink Norge AS

NordLink Norge AS is the developer and owner of the northern part of NordLink, an electricity cable connecting the German and the Norwegian high-voltage electricity grids. The German companies TenneT and KfW, through a jointly owned German company, will build and own the southern part of NordLink. NordLink is the first direct interconnector between the Norwegian and German electricity markets, with a capacity of 1400 MW. NordLink is operated by the transmission system operators, Statnett and TenneT respectively. The installation of the subsea power cable between Norway and Germany, as well as the converter station at Ertsmyra and the line between Ertsmyra and Vollesfjord are completed. In December 2020, the power exchange started.

Statnett SF is committed to providing the necessary funding for the project. The funding committed is equal to NordLink Norge AS 50 percent share of the total investments costs related to the project. The drawdown will be made at intervals ensuring that NordLink Norge AS will be in a position to fulfil its own obligations. Statnett SF has issued payment guarantees towards the main suppliers on NordLink Norge AS' behalf according to the terms and conditions in the agreements entered into with the respective suppliers. The guarantee fee

Note 22 Related parties

is at market terms. NordLink Norge AS has no employees. Statnett SF provides project services in the construction phase in addition to certain administrative services to support the operation of the company. NordLink Norge AS is part of the group cash pool system.

Elhub AS

Elhub AS operates and develops the central data hub for metering values and market processes in the Norwegian electricity market. Its main function is automated metering processing and distribution of same, as well as processing of market processes such as change of electricity supplier, transfers and reporting. The data hub became operational in February 2019. Elhub AS has a loan from Statnett SF. Statnett SF also provides certain administrative services within ICT, legal, purchasing and finance. Elhub AS is part of the group cash pool system.

NorGer AS and NorGer KS

Statnett SF owns 100 percent of the shares in NorGer AS and 90 percent of the shares in NorGer KS. In addition, NorGer AS owns 10 percent of the shares in NorGer KS. This entails that Statnett SF, including indirect ownership, controls 100 percent of the shares in NorGer KS. The companies have limited operation.

Nydalshøyden Bygg C AS

The company is titleholder to the property Nydalen Alle` in Oslo, where Statnett SF has its head office. The company has granted Statnett SF a loan of NOK 21 million.

Fifty AS

Fifty AS is a jointly controlled company between Statnett SF and Affärsverket svenska kraftnät, where each company owns 50 percent of the shares in Fifty AS. Fifty AS maintains and develops ICT solutions to support the balancing of the Nordic power system. Fifty AS delivers licenses-, development- and maintenance services to Statnett SF. Fifty AS has no employees. Statnett SF provides project services related to the development of ICT systems in addition to certain administrative services to support the operation of the company. Transactions between Statnett SF and Fifty AS is listed in the table below, as jointly controlled company.

TSO Holding AS (previously Nord Pool Holding AS)

TSO Holding AS is an associated company owned 30,2% by Statnett SF. The associated company owns 34% of the shares in Nord Pool AS. Statnett SF purchases transmission losses on Nord Pool AS on a daily basis and settle at the power exchange's market prices.

Effective January 15, 2020, TSO Holding AS (previously Nord Pool Holding AS) sold 66 percent of the shares in Nord Pool Holding 2 AS to Euronext Nordics Holding AS. Nord Pool Holding 2 AS is the sole owner of the shares in Nord Pool AS and European Market Coupling Operator AS. The Statnett Group has an accounting gain from the sale of NOK 127 million. In June 2020, the parent company Statnett SF received a dividend of NOK 135 million from TSO Holding AS.

In May 2020, Statnett SF bought 2% of the shares in TSO Holding AS and increased its holdings from 28.2 to 30.2 percent.

eSett OY

eSett OY delivers services related to imbalance settlement of electricity markets in Finland, Sweden and Norway. In May 2019, an agreement was signed between the Danish transmission system operator Energinet and Svenska kraftnät, Fingrid and Statnett, stating that Denmark will join Nordic imbalance settlement and Energinet will become eSett's new shareholder. The transaction makes Energinet a shareholder in eSett Oy and the share capital is divided equally between the four shareholders, with each party holding 25 percent. The agreement means that Energinet will be part of the Nordic cooperation on settlement of imbalances in the power market, with an expected start in early 2021.

Statnett SF and the other owners provided identical loans to the company. As of December 31, 2020 the loan from Statnett SF to eSett OY amounted to NOK 10 million.

Dividend and group contribution

In 2020, Statnett SF has received dividends and group contribution from subsidiaries and associates totaling NOK 202 million.

Note 22 Related parties

Statnett SF inter-company accounts

<i>(Amounts in NOK million)</i>	Trade accounts		Lending		Borrowing		Trade acc. Payable	
	2019	2020	2019	2020	2019	2020	2019	2020
Subsidiaries	31	83	4 272	4 699	26	399	57	3
Jointly controlled company	107	173	-	-	-	-	-1	6

Interest rates

Interest rates on long-term borrowing and lending have been agreed at six months' NIBOR with a mark-up in the interval 0.3 - 2.5 percent. The interest rates in the cash pool systems are agreed at three months Nibor with a mark-up of 0,25 and 0,7 percent for receivables and liabilities respectively.

Statnett SF's intra-group trading

<i>(Amounts in NOK million)</i>	Regulated operating revenue		Other oper. revenues		Operating costs	
	2019	2020	2019	2020	2019	2020
Subsidiaries	-564	-644	50	85	-124	-66
Jointly controlled company	-	-	43	54	-2	-1

<i>(Amounts in NOK million)</i>	Financial income		Financial costs	
	2019	2020	2019	2020
Subsidiaries	173	167	-1	-1

<i>(Amounts in NOK million)</i>	Group contribution received		Dividend received	
	2019	2020	2019	2020
Subsidiaries	17	66	53	135

Note 23 Remuneration to Group Management

The Board's statement regarding salaries and other remunerations to Group management 2020

The statement concerning remuneration to the President and CEO and the Group management has been prepared in accordance with the enterprise's articles of association, provisions in the Public Limited Liability Companies Act as well as the Ministry of Trade, Industry and Fisheries "guidelines for salary and other remuneration for group management in enterprises and companies with state ownership" as of 13 February 2015.

Management remuneration policy

The Group's guiding principle is to keep remuneration and other benefits for the Group management at a competitive level to ensure that the Group attracts and retains high-quality senior executives, though not taking a leading position when it comes to salary. However, the salary must be competitive for our industry and compared to other companies recruiting in the same market as Statnett. Also, the salary must reflect individual experience, area of responsibility and achieved results. The management remuneration policy is applicable for Statnett SF and subsidiaries.

Guidelines for salary and other remuneration

Based on the Ministry of Trade, Industry and Fisheries "guidelines for salary and other remuneration for group management in enterprise and companies with state ownership" the Board of Directors has set a framework for elements to be included in the Group's future salary and remuneration package for new members of Group management. The following guidelines are applicable:

Fixed salary: Fixed salary is determined based on an assessment of the specific position and the market, while considering Statnett's policy of being competitive without taking a leading position. When the fixed salary is determined, the total remuneration should be used as basis.

Pensions: Membership in Statnett's defined contribution plan.

Personnel insurance: Arrangements applicable for other employees including group life-, accident-, sickness insurance as well as occupational injury- and travel insurance, are also applicable for Group management.

Car arrangement: Car allowance can be offered. In exceptional cases company car can be offered if needed in the line of duty.

Other remunerations: Coverage of newspapers, mobile phone and broadband communication in accordance with established standards.

Internal board members: Internal board members do not receive remuneration. However, board insurance exists for all board members. This is applicable for Statnett SF and subsidiaries and will also be applicable for 2021.

Existing arrangements for Group management

The remuneration to the Group management is prepared in accordance with the guidelines describe above. The Group management may have different remuneration due to individual agreements entered before the guidelines were determined.

In addition to a fixed salary, the Group management is entitled to a company car or car allowance, pension benefits and individual pension arrangements for salary beyond 12 times the Norwegian national insurance scheme basic amount. Three members of Group management has a company car. This complies with agreements entered at an earlier stage. There is no bonus scheme or other incentive based schemes for Group management. In accordance with entered agreements, the retirement age for the President and CEO and four members of Group management is at 65 years of age. Group management employed in 2019 and later follow Statnett practices of a 70-years as an age limit. It is a mutual understanding and acceptance that it is possible to address the need or desire for transition to another position at any time after the age of 60.

The President and CEO has a pension agreement securing 66 percent of the pension base upon resignation at the age of 65. The President and CEO is entitled to 12 months' severance pay in the event of dismissal from the company, after a notice period of 6 months. The general manager in one subsidiaries are entitled six months' severance pay, after a notice period of six months. No other members of Group management have agreements for salaries after the termination of their employment.

Execution of remuneration principles in 2020

The remuneration approval for Group management in 2020 was conducted in accordance with the above guidelines in Statnett and subsidiaries. The Board of Directors approves the annual salary adjustment for the company's president and CEO, and adopts a framework that the president and CEO uses to adjust the for the rest of the salaries Group management team. The salaries for the president and CEO and Group management, were in 2020 adjusted within the same limits as the rest of the Group.

The declaration for 2019 provided information on an ongoing evaluation of the Group management and the need for possible salary measures as a consequence of this. The result was presented to the board in February 2020, which set a framework for salary measures. The first step was implemented from 1 November 2020, and has been completed as of 1 March 2021.

Note 23 Remuneration to Group Management

The Board of Director's assessment is that the remuneration to Group management, is in compliance with requirements in the Ministry of Trade, Industry and Fisheries "guidelines for salary and other remuneration for group management in enterprises and companies with state ownership".

Organization

The Board of Directors has established a remuneration committee, consisting of two owner-appointed board members and one employee representative. The remuneration committee is an advisory and preparatory body for the Board of Directors, and will put forward proposals for salary adjustments in accordance with the guidelines specified above. Separate instructions has been prepared for the remuneration committee. The president and CEO is a regular member of the committee. The Senior Vice President Employer Relations acts as committee secretary.

Remuneration to the Board (Amounts in NOK)		Board remuneration	
		2020	2019
Board members			
Jon Fredrik Baksaas	Chair	449 000	444 000
Tove Elisabeth Pettersen	Vice Chair **)	347 000	309 000
Synne Larsen Homble (until June 2019)	Vice Chair	-	151 000
Egil R Gjesteland	Board member	296 000	296 000
Maria Sandsmark	Board member	278 500	281 000
Einar Strømsvåg (until June 2020)	Board member	148 000	296 000
Wenche Teigland (from June 2020)	Board member	138 000	-
Christian Henrik Prahls Reusch (from June 2020)	Board member	120 500	-
Steinar Jøråndstad	Board member *)	258 500	276 000
Ole Bjørn Kirstihagen	Board member *)	258 500	223 500
Ingeborg Skjelkvåle Ligaarden (from June 2020)	Board member *)	138 000	-
Pernille Dørstad (until June 2020)	Board member *)	138 000	293 500
Total board remuneration		2 570 000	2 570 000

All figures are exclusive of employer's NICs.

Board members receive compensation for their participation in the audit committee, remuneration committee or project committee.

Board remunerations may therefore vary.

*) In the case of employee representatives, only board members' fees are stated.

***) Tove Elisabeth Pettersen entered the board in June 2018 and became the Vice Chair from June 2019.

Remuneration/benefits to the Group management 2020 (Amounts in NOK)		Salary	Other remuneration*)	Pension cost	Total remuneration
President and CEO					
Auke Lont		3 201 565	182 105	2 412 303	5 795 972
Executive Vice Presidents					
Håkon Borgen	Technology & Development	2 222 691	120 528	633 793	2 977 012
Knut Hundhammer	CFO & Chief of staff	2 811 101	138 304	856 299	3 805 704
Peer Olav Østli	Operations	2 292 035	152 118	1 080 873	3 525 026
Elisabeth Vike Vardheim	Construction	2 402 269	230 795	739 357	3 372 421
Beate Sander Krogstad	IT	2 261 175	147 903	200 512	2 609 589
Gunnar G. Løvås	System & Market	2 600 766	143 749	174 204	2 918 719
Total remuneration		17 791 602	1 115 501	6 097 341	25 004 445

All figures are exclusive of employer's NICs.

*) Included value of company car or fixed car allowance, phone, newspapers and personal insurance.

Note 23 Remuneration to Group Management

Remuneration/benefits to the Group management 2019 (Amounts in NOK)	Salary	Other remuneration*)	Pension cost	Total remuneration
President and CEO				
Auke Lont	3 142 030	183 859	2 416 504	5 742 393
Executive Vice Presidents				
Håkon Borgen	2 170 460	140 580	590 343	2 901 383
Øivind Kristian Rue ****)	1 133 282	60 166	418 123	1 611 570
Knut Hundhammer	2 840 317	140 873	820 659	3 801 849
Peer Olav Østli ***)	2 159 212	155 462	851 484	3 166 158
Elisabeth Vike Vardheim	2 321 077	213 867	708 460	3 243 404
Beate Sander Krogstad **)	1 425 290	99 396	131 760	1 656 446
Gunnar G. Løvås **)	1 601 128	95 790	108 075	1 804 993
Total remuneration	16 792 796	1 089 993	6 045 408	23 928 196

All figures are exclusive of employer's NICs.

*) Included value of company car or fixed car allowance, phone, newspapers and personal insurance.

***) AS from 1 May Per Olav Østli changed division from IT to the Operations division.

****) Øivind Kristian Rue has retired from 1 May 2019.

Terms and conditions, senior executives

Title/name	Terms and conditions for retirement age, early retirement pension, retirement pension and severance pay
President and CEO: Auke Lont	<p>From the age of 65, the full annual retirement pension is 66 percent of the pension base. The pension base is adjusted annually by the same percentage increase as in the basic amount under the National Insurance Scheme. From the age of 67, the annual retirement pension of 66 percent will be coordinated with the retirement pension disbursed from Statnett SF's Group Pension Fund and the Norwegian National Insurance Scheme.</p> <p>Upon death, any surviving spouse and children under the age of 21 will receive a pension.</p> <p>Should the President become disabled before the age of 65, he will receive a disability pension. The full disability pension equals the retirement pension awarded at the age of 65. The disability pension disbursement will be reduced according to disability.</p> <p>The President and CEO is entitled to 12 months' severance pay in the event of dismissal from the company, after a notice period of 6 months.</p>
Executive Vice Presidents: Håkon Borgen	<p>The retirement age is 65, but with the right to retire with an early retirement pension after the age of 62. In the event of retirement between 62 and 65 an annual payment of 66 percent of the pension base will be disbursed. The pension base is adjusted annually by the same percentage increase as in the basic amount under the National Insurance Scheme. In the event that income is received from others and this, together with the early retirement pension disbursed by Statnett, exceeds the final salary the early retirement pension will be reduced by 50 percent of the amount that exceeds the final salary.</p> <p>From the age of 65, the full annual retirement pension is 66 percent of the pension base. The pension base is adjusted annually by the same percentage increase as in the basic amount under the National Insurance Scheme.</p> <p>Upon death, any surviving spouse and children under the age of 21 will receive a pension.</p>

Note 23 Remuneration to Group Management

Entitlements to pension benefits beyond what is gained through the collective pension scheme will lapse if they are no longer employed by Statnett SF on their 62nd birthday.

Should any of the above persons become disabled before reaching the age of 65, he or she will receive a disability pension. The full disability pension equals the retirement pension awarded at the age of 65. The disability pension disbursement will be reduced according to disability.

Håkon Borgen is included in the enterprise's defined contribution scheme and related compensation plan.

Terms and conditions, senior executives

Title/name	Terms and conditions for retirement age, early retirement pension, retirement pension and severance pay
Executive Vice President: Peer Olav Østli	<p>The retirement age is 65, with the right to retire with an early retirement pension at any time after 62. The full contribution period is 30 years. In the event of retirement between ages 62 and 65, an annual payment shall be disbursed of 66 percent of the pension base, less one percentage point for each year between 62 and 65. The pension base is adjusted annually by the same percentage increase as in the basic amount under the National Insurance Scheme. Pension disbursement may be reduced if the member receives any salary, pension or remuneration from other companies in the Statnett Group.</p> <p>From the age of 65, the full annual retirement is 66 percent of the pension base. The pension base is adjusted annually by the same percentage increase as in the basic amount under the National Insurance Scheme. From the age of 67, the annual retirement pension is covered through the National Insurance Scheme and Statnett's group pension scheme, plus 66 percent of the part of the pension base that exceeds 12 times the basic amount, provided that there is a full contribution period (30 years).</p> <p>Upon death, any children under the age of 21 will receive a children's pension.</p> <p>If the Vice President leaves the company before retirement age, a pension rights certificate will be issued, which will secure retirement pension benefits from age 65. The pension rights certificate will be adjusted by 75 percent of the increase in the basic amount for each year until retirement.</p> <p>Upon disability before reaching the age of 65, the Vice President will receive a disability pension. The full disability pension equals the retirement pension awarded at the age of 67, based on the pension base at the time the disability occurred. The disability pension disbursement will be reduced according to disability</p>
Executive Vice Presidents: Knut Hundhammer Elisabeth Vike Vardheim	<p>The retirement age is 65. A pension agreement has been entered into in addition to the ordinary membership in the enterprise's group pension scheme, where the pension is secured through a bank saving account balance, including interest, disbursed to Vice Presidents. Statnett will, each year until retirement or resignation, pay up to 30 percent of the difference between the ordinary salary and 12 times the Norwegian national insurance scheme basic amount to the pension fund scheme. Upon death, the surviving spouse or spouse equivalent will receive an amount corresponding to the remaining savings balance including interest from Statnett SF. This lump sum will be taxable for the receiver.</p> <p>Knut Hundhammer and Elisabeth Vike Vardheim are in addition entitled to pension from the enterprise's defined benefit scheme from 67 years of age. Bente Monica Haaland is included in the enterprise's defined contribution scheme and related compensation plan.</p>
Executive Vice Presidents: Beate Sander Krogstad Gunnar G. Løvås	<p>The Executive Vice Presidents has ordinary membership in Statnett's defined contribution pension scheme. Beate Sander Krogstad is also included in the related compensation plan.</p>

No loans have been made or security provided for members of the Group Management or Board of Directors.

Note 24 Other liabilities

Other liabilities mainly consist of asset retirement obligations related to grid facilities and investment grants received.

Principle

Estimates of costs related to retirement of tangible assets are recorded as liabilities from the time the Group deems that a legal or actual retirement obligation exists. Asset retirement obligations are discounted using estimates of future inflation and NVE interest rate. Changes in estimates due to asset retirement obligations approaching the estimated time of settlement are recorded as interest costs (accretion expenses). See note 8 Tangible and intangible assets for a further description of the recording of asset retirement obligations.

Investment grants are financial contributions from other companies to finance facilities to which Statnett builds and retains ownership. The investment grants are recorded as a liability when received and allocated over the lifetime of the relevant facility.

Specification of changes in other liabilities

Parent company/Group

<i>(Amounts in NOK million)</i>	Asset retirement obligations	Other liabilities	Total
Liabilities at 1 January 2019	381	75	455
New or changed estimates	98	13	112
Amounts charged against liabilities	-43	-	-43
Reduction due to divestments	-53	-	-53
Accretion expenses	19	-	19
Reclassification to short-term liability	-25	-	-25
Liabilities at 31 December 2019	378	88	466
New or changed estimates	165	47	212
Amounts charged against liabilities	-44	-	-44
Reduction due to divestments	-9	-	-9
Accretion expenses	21	-	21
Reclassification to short-term liability	-146	-	-146
Liabilities at 31 December 2020	366	135	501

There are no differences between parent company and Group.

For expected timing of cash outflows, see note 18 Financial risk management.

See note 3 Accounting estimates and assumptions for an explanation of the most significant causes to uncertainty in the estimates.

Note 25 Secured debt and guarantees

The parent company may not pledge the enterprise's assets or provide other security, apart from providing security to financial institutions in connection with day-to-day banking transactions, and providing the customary security as part of the day-to-day operations. For guarantees issued on behalf of subsidiaries, see the note on related parties for details.

Note 26 Contingent assets and liabilities

Principle

Contingent assets and liabilities are a potential asset or obligation where the existence is uncertain, and will be confirmed by a future event that may or may not occur, for example the outcome of a legal case or an insurance payment. Contingent liabilities are recorded in the annual financial statements, based on best estimate, if it is likely (more than 50 percent) that an obligation has occurred. When the probability is lower, information is disclosed if the potential obligation is significant and likelihood of payment is very low. A contingent asset will only be recorded in the balance sheet if it is highly probable (more than 90 percent) that the Group will receive the asset. If the probability is less than 90 percent, but there is a certain probability that the asset will benefit the Group, this will be disclosed in the financial statements.

Higher/lower revenues are contingent liabilities/assets in accordance with IFRS and are not recorded in the balance sheet. Please see note 4 for further details.

There are not recorded contingent assets or liabilities in the financial statements.

In 2014 Statnett sold its former head office at Husebyplatået in Oslo to Husebyplatået AS with a recorded gain of NOK 56 million. In 2016 Statnett sold Noreveien 26 with a recorded loss of NOK 39 million, to the same buyer. The settlement is not final, and is dependent on the utilization of the property granted to Husebyplatået AS as part of the future construction permit. Statnett estimates that the entity will receive payments of approximately NOK 800 million during the period 2023 – 2028 if the construction plans for Husebyplatået are realized. These expected payments are not recognized, and the estimates are uncertain.

Note 27 Other operating costs

Other operating costs comprise cost types that are not classified on the other lines under operating costs.

Principle

Other operating costs are recognized when incurred.

Property tax is classified as other operating costs and recognized in the financial year when an invoice that applies to the current year is received from the municipalities.

Leases – IFRS 16

Leases recognized in the balance sheet pursuant to IFRS 16 are shown under note 8 Tangible and intangible assets and note 16 Interest-bearing liabilities.

Parent company			Group	
2019	2020	(Amounts in NOK million)	2020	2019
54	68	Lease rental payable *	68	55
321	459	Contracted personnel/consultants/purchase of services	657	473
91	97	Insurance	83	80
448	486	Materials and subcontractors	380	359
281	320	Property tax	340	300
164	186	IT costs	187	172
332	373	Miscellaneous	315	319
1 691	1 989	Total other operating costs	2 030	1 758

* Includes only rental costs that do not qualify for recognition under IFRS16 Leases.

Auditor's fee

Parent company			Group	
2019	2020	(Amounts in thousands kroner)	2020	2019
1 136	985	Statutory audit	1 471	1 507
514	624	Other attestation services	693	554
138	10	Tax-related assistance	31	150
1 256	132	Other assistance	146	1 274
3 044	1 751	Total fees (excl. VAT)	2 341	3 485

Note 28 Other comprehensive income

Other comprehensive income is part of Total comprehensive income, and is also part of Statement of changes in equity. Other comprehensive income to be reclassified to profit or loss in subsequent periods, is recorded as Other items in the Statement of changes in equity, while Other comprehensive income not to be reclassified to profit or loss in subsequent periods, is recorded as Other equity accrued in the Statement of changes in equity.

Specification of other comprehensive income

Parent company/Group (Amounts in NOK million)	Fair value of financial instruments	Cash flow hedge reserve see note 15	Total Other compre- hensive income recorded in Other items	Estimate deviations of pension liabilities	Total Other compre- hensive income recorded in Other equity accrued	Total Other compre- hensive income
Carrying value 1.1.19	-	-68	-68	-166	-166	-234
Changes, gross	-	129	129	86	86	215
Tax effect	-	-28	-28	-19	-19	-47
Carrying value 31.12.19	-	33	32	-99	-99	-67
Carrying value 1.1.20	-	33	33	-99	-99	-66
Changes, gross	-	-246	-246	-114	-114	-360
Tax effect	-	54	54	25	25	80
Carrying value 31.12.20	-	-159	-159	-188	-188	-346

Note 29 Events subsequent to the balance sheet date

Principle

New information on the company's positions on the balance sheet date is incorporated into the annual financial statements. Events after the balance sheet date that do not affect the company's position on the balance sheet date, but will affect the company's position in the future, are disclosed if they are material.

In 2021, the authorities have introduced entry restrictions related to foreign labor. The restrictions can affect the progress of the projects. In the event of delayed completion of new facilities, this could affect the accrual of permitted income between years.

There have not occurred other events after the balance sheet date that would have affected the financial statements or related assessments in any significant manner.

Note 30 Assets held for sale

Principle

If the carrying amount of a non-current asset is expected to be recovered principally through a sale transaction rather than through continuing use, the asset is to be classified as held for sale. The asset must be available for immediate sale, and its sale must be highly probable and expected to take place within one year. Upon reclassification, depreciations cease even when the asset is still in use, and the asset is to be measured at the lower of its carrying amount and fair value less costs to sell.

The Group has entered an exclusive negotiation process with a prospective buyer of gas turbines and other equipment at the back-up power plant at Nyhamna. The carrying value of the assets is NOK 254 million, and the assets were reclassified as Assets held for sale during the fourth quarter of 2020. The sale is planned to take place during the autumn of 2021.



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To the General Meeting of Statnett SF

INDEPENDENT AUDITOR'S REPORT

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Statnett SF, which comprise:

- The financial statements of the parent company Statnett SF (the Company), which comprise the balance sheet as at 31 December 2020, statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and
- The consolidated financial statements of Statnett SF and its subsidiaries (the Group), which comprise the balance sheet as at 31 December 2020, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion:

- The financial statements are prepared in accordance with the law and regulations.
- The accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2020, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.
- The accompanying consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2020, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Basis for Opinion

We conducted our audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company and the Group as required by laws and regulations, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

The key audit matters identified in our audit are:

- Investments in tangible fixed assets and plants under construction

Investments in tangible fixed assets and plants under construction

Key audit matter	How the matter was addressed in the audit
<p>Refer to the notes 8, 9 and 21 in the group financial statement for specification and description of accounting principles for Statnett's investments in tangible fixed assets and plants under construction. Refer also to note 3 for a description of related estimates and assumptions, and description of the impact investments have on the permitted revenue in note 4.</p> <p>At 31 December 2020, the carrying value of tangible fixed assets amounts to NOK 60,296 million and the carrying value of plants under construction amounts to NOK 10,103 million. The Group's investments amount to NOK 7,299 million in 2020. Investments include additions and construction interest capitalized on plants under constructions.</p> <p>For investments management must make assumptions about:</p> <ul style="list-style-type: none"> • whether costs should be capitalized or expensed, for accounting and tax purposes • estimate accrued costs and stage of completion of the cableprojects at the end of the reporting period <p>For plants under construction, management must make assumptions about when projects are transferred from plants under construction to tangible asset, "the asset is ready to use".</p> <p>For assets that are ready to use and facilities purchased, management must make assumptions about identification of significant components of the asset and remaining useful life for the components.</p> <p>Due to size and complexity of tangible fixed assets and plants under construction, the level of management judgement involved and the impact on the permitted revenue, investments in tangible fixed assets and plants under construction is identified as a key audit matter.</p>	<p>We have assessed Statnett's process for following up investment projects. We have tested the design and implementation of controls established when transferring projects from plants under construction to tangible assets, identification of significant components for projects and purchased facilities, estimating remaining useful life and stage of completion and estimating when the asset is ready to use.</p> <p>We have evaluated and challenged management's assessment about:</p> <ul style="list-style-type: none"> • whether costs should be capitalized or expensed, for accounting and tax purposes • when projects are transferred from plants under construction to tangible asset • remaining useful life • degree of identification of significant components • method for estimating stage of completion of the cables, and • estimated accrued costs at the end of the reporting period. <p>We have tested a sample of this year's additions and evaluated if they are correctly capitalized or expensed. We have also tested a sample of estimated stage of completion and accrued costs at the end of the reporting period.</p> <p>For assets ready to use in 2020 we have for a sample tested when the project is transferred from plants under construction to tangible asset, identification of significant components and estimated remaining useful life.</p> <p>We have assessed the adequacy of the related disclosures in the financial statement.</p>

Other information

Management is responsible for the other information. The other information comprises information in the annual report, except the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.



Responsibilities of the Board of Directors and the Managing Director for the Financial Statements

The Board of Directors and the Managing Director (Management) are responsible for the preparation in accordance with law and regulations, including fair presentation of the financial statements in accordance with International Financial Reporting Standards as adopted by the EU, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's and the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error. We design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's or the Group's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company and the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company and the Group to cease to continue as a going concern.
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely



rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

Opinion on the Board of Directors' report

Based on our audit of the financial statements as described above, it is our opinion that the information presented in the Board of Directors' report and in the statements on Corporate Governance and Corporate Social Responsibility concerning the financial statements, the going concern assumption and the proposed allocation of the result is consistent with the financial statements and complies with the law and regulations.

Opinion on Registration and Documentation

Based on our audit of the financial statements as described above, and control procedures we have considered necessary in accordance with the International Standard on Assurance Engagements (ISAE) 3000, *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*, it is our opinion that management has fulfilled its duty to produce a proper and clearly set out registration and documentation of the Company's accounting information in accordance with the law and bookkeeping standards and practices generally accepted in Norway.

Oslo, 11 March 2021
Deloitte AS

Gry Kjersti Berget
State Authorised Public Accountant (Norway)

Note: This translation from Norwegian has been prepared for information purposes only.