

Statnett

Q2



Interim Report
02:12

Table of contents

02:12

004	Directors' report
012	Statement of comprehensive income
013	Balance sheet
014	Statement of changes in equity
015	Cash flow statement

In short

Highlights

Total operating revenues for the Statnett Group in the second quarter of 2012 amounted to NOK 1 238 million (NOK 1 189 million in the second quarter of 2011). The Group's operating revenues for the first half of the year totalled NOK 2 633 million (NOK 2 841 million in the first half of 2011).

The Group reported a profit after tax of NOK 187 million in the second quarter of 2012 (NOK 126 million). The increase was due to higher congestion revenues and lower system services costs in the period, partially offset by lower tariff revenues due to planned downward adjustment of tariffs for 2012. The increase in congestion revenues was reflected in the higher revenue which totalled NOK 189 million in the second quarter of 2012 (NOK 161 million).

The Group's profit after tax for the first half of 2012 was NOK 452 million (NOK 520 million). The reduction was due to lower tariff revenues due to planned downward adjustment of tariffs for 2012, somewhat offset by an increase in congestion revenues in 2012. This was reflected in the higher revenue which totalled NOK 390 million in the first half of 2012 (NOK 490 million). The higher revenue will be returned to Statnett's customers over time through adjustment of tariffs. The profit adjusted for changes in higher/lower revenue after tax and calculated interest cost on higher revenue was NOK 154 million in the first half of 2012.

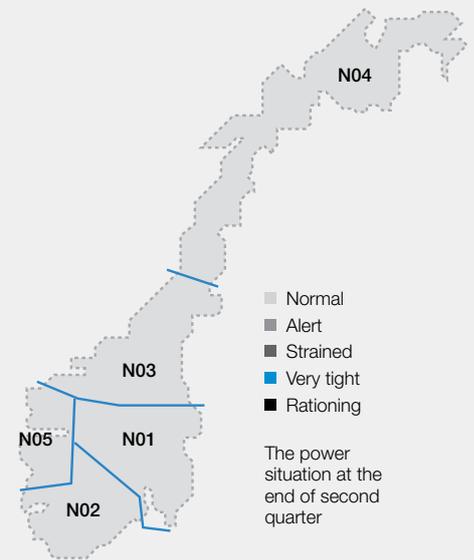
At the end of the first quarter reservoir levels were 14 percentage points above the median. In the second quarter precipitation was above normal. However, temperatures were below normal which resulted in late spring culmination in Norway, and at the end of the quarter reservoir levels were only one percentage point above the median. The hydrological balance was reduced during the second quarter, mainly due to high production and export, but is still above the average for the last ten years. Reservoir levels increased in July due to heavy precipitation, which resulted in the lowest average prices for one month since year 2000.

In short

Important events

- In June, Statnett, TenneT and the German state financial institution KfW Bankengruppe agreed to develop an electricity interconnector between Germany and Norway. The interconnector, with a planned capacity of up to 1 400 MW, is expected to be completed in 2018, provided an investment decision is made in 2014 and suppliers have sufficient capacity.
- Statnett and National Grid signed an agreement in June confirming the plans to develop an electricity interconnector between Norway and the UK, with a goal to have it operational in 2020.
- A new 420 kV power line on the Sauda – Ljostøl section (29 km) entered operation on 27 June.
- On 28 June, Statnett was granted a licence from the Norwegian Water Resources and Energy Directorate (NVE) for a 420 kV power line from Storheia in Åfjord municipality to Trollheim in Surnadal municipality. The line is important to facilitate development of wind power in Central Norway as well as for the development of a more robust main grid.
- On 10 May, the NVE granted Statnett a licence for reconstruction and expansion of the Mestervik station in Balsfjord municipality in Troms. The reconstruction entails demolishing the existing switching facility and replacing it with a new and upgraded facility. Statnett is planning to start construction in the autumn of 2012 and start-up of the facility before the end of 2013.
- The NVE has submitted for consultation a new method and assumptions for calculating the NVE interest rate. The NVE interest rate is used to calculate the return on grid capital and constitutes an important part of the grid companies' permitted revenue. The new NVE interest rate will fluctuate more in line with the grid companies' loan costs. In addition, it has been proposed that the NVE interest rate should be applied to calculate interest on the grid companies' higher/lower revenue above a given threshold. For 2013, this may lead to a penalty rate for Statnett on the basis of high balance for higher revenue in the implementation of the scheme. In the long term, such a scheme could result in Statnett having an incentive to vary the tariff level more from year to year due to fluctuating congestion revenues. The deadline for consultation feedback is 21 September.
- The NVE has submitted for consultation several regulations and legal amendments which affect Statnett's responsibility for the system, for emergency preparedness, for operation and maintenance, as well as for planning and development responsibilities. The deadline for consultation is 1 October.
- On assignment from the NVE, Statnett has assessed the need for common ICT solutions to ensure an efficient end-user market for energy. The project has recommended that a data hub is established which will function as the market's point of contact with the grid companies.

Directors' report



Security of supply

The power situation in Norway was good throughout the second quarter of 2012 and is considered normal. Precipitation levels were higher than normal. However, temperatures were lower than normal which resulted in late spring culmination in Norway, and thus reduced reservoir levels compared with the median. At the end of the second quarter reservoir levels were 67 percent, one percentage point above the median (from the 1993 - 2011 measuring period). Due to heavy precipitation in July, water levels were at 85 percent at the end of the month, eight percentage points above the median.

The hydrological balance was reduced throughout the second quarter. At the end of June there was a power surplus of approximately 5 TWh in Norway. The surplus was mainly due to more snow in the mountains than normal. The reduction in the hydrological balance is mainly due to high production and export.

The overall power consumption in the second quarter was 28 TWh and the overall power production was 33 TWh. This resulted in net exports of 5 TWh for the quarter. In the corresponding period in 2011, it was an import of approximately 1 TWh. The export was mainly due to high production as a result of a sound hydrological balance. On 3 April, the power exchange was the highest ever recorded; 5 255 MW.

Spot prices in Norway and the Nordic region were lower than normal for the season, with the lowest prices in Southern Norway. Price differences between the elspot areas were small.

The new power line between Sauda and Liastølen entered into operation on 27 June. It has helped to effectively relieve other power lines in the area and has improved the operating and supply situation in Western Norway.

There were several operational interruptions in the second quarter that resulted in loss of consumption or lower security of supply. The most important events were:

- On 4 April, two pylons on the Aura - Viklandet power line broke down due to an avalanche, and the operating situation to the Møre area has been affected by this. The situation

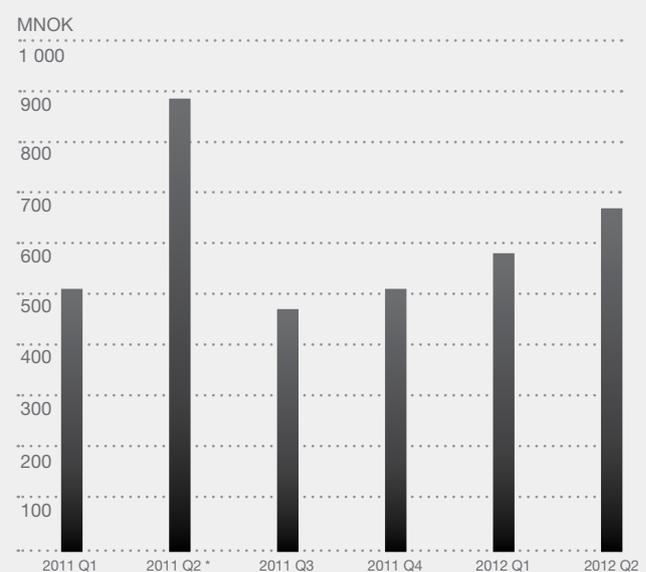
improved throughout spring due to lower consumption and higher production in the area. The line is expected to resume operation in the autumn.

- An outage of Salten T1 on 19 April resulted in a separate area under Salten and loss of 50MW of industrial consumption. Outages also affected several production units in the area.
- An outage of the Leirdøla - Fardal section on 25 May resulted in a separate area in Indre Sogn. The separate operation broke down and all generation and consumption in the area was disconnected. Shortly afterwards, the area was energised from Fardal, and production and consumption could be uploaded.

Investments

Statnett has major development projects under planning and implementation in order to maintain security of supply, create value for customers and society and facilitate lower greenhouse gas emissions. Statnett invested NOK 1 257 million in the first half of 2012 (NOK 1 399 million), which is the sum of commissioned and ongoing investment projects.

Investments Statnett Group



* Includes acquisition of assets from Hafslund NOK 323 million

Overview of major investment projects

Project	Location	Expected investments NOK million
Completed projects		
Sauda – Liastølen	Rogaland	200
Ongoing major investment projects		
Ørskog – Sogndal (Fardal)	Møre og Romsdal/Sogn og Fjordane	4 700 – 5 500
Skagerrak 4	Norway/Denmark	1 400 – 1 700 ²⁾
Ytre Oslofjord	Vestfold/Østfold	1 250 – 1 350
Sima – Samnanger	Hordaland	900 – 1 100
Major investment in transformer stations (Hasle, Frogner, spare transformers and reactors for power reduction)		1 200 – 1 500
Eatsern corridor Kristiansand – Rød	Vest-Agder/Telemark	1 300 – 1 800 ¹⁾
Varangerbotn – Skogfoss	Finnmark	500 – 600
Licences pending or appealed		
Voltage upgrade western corridor	Vest-Agder/Rogaland	5 000 – 7 000 ¹⁾
Balsfjord – Hammerfest	Troms/Finnmark	4 000 – 6 000
Ofoten – Balsfjord	Nordland/Troms	2 000 – 3 000
Storheia – Snillfjord – Trollheim/Orkdal	Sør-Trøndelag/Møre og Romsdal	2 000 – 3 000
Namsos – Roan - Storheia	Trøndelag	800 – 1 200
Voltage upgrade in Central Norway Subsection Klæbu – Namsos	Trøndelag	700 – 1 000
Reinvestments Indre Oslofjord – interconnectors		670 – 870
Station investments (Hamang, Lakselv, Mestervik, Feda and transformer capacity Eastern Norway)		1 700 – 2 400
Planning proposal submitted		
The South-West Link	Norway/Sweden	2 000 – 4 000
"Arctic Circle" Skaidi – Varangerbotn	Finnmark	2 000 – 4 000
Interconnectors		
Cabel to England		6 000 – 8 000 ²⁾
Cabel to Germany		6 000 – 8 000 ²⁾
ICT projects		
Renewal of Statnett's central operations system		400 – 500
New Regulation and Market System		200 – 250
Computer network for power system management		200 – 250
Modernisation of ICT infrastructure in Statnett stations		90 – 110

¹⁾ Sections are under licensing

²⁾ Statnett share

The amounts in the table show an anticipated interval including all costs of the project. Commissioned and ongoing projects are shown in current value, other projects in 2012 NOK.

See www.statnett.no and the 2011 Grid Development Plan for more information about the projects.

Important project events in the second quarter of 2012

Completed projects

- Sauda - Liastølen: A new 420 kV and 29 km long power line was energized in June. After a rerouting of the grid in the area this is part of the Sauda - Saurdal power line.

Ongoing major investment projects

- Ørskog - Sogndal (Fardal): The largest contracts have been signed and construction has started on the power line and several substations.
- Skagerrak 4: Installation and construction work has started at Kristiansand transformer station and on the cable route in Norway and Denmark. The production of the cable has started.
- Ytre Oslofjord: The expected project implementation costs have increased due to a delay in the delivery of oil cables from the supplier and scheduled project completion in 2013.
- Sima - Samnanger: Progress is somewhat behind schedule due to late snow melting and protest actions directed at the installation. Scheduled for completion in 2013.
- Eastern corridor Kristiansand - Rød: Final licence from the MPE has been received for the Kristiansand - Bamble section. Investment decision made in May. Several contracts have been signed and construction work has started at Arendal transformer station. A licence application is pending for the Bamble - Rød section. The NVE conducted a final inspection of this section in May 2012.
- Varangerbotn - Skogfoss: Good progress on the power line and ongoing construction activity at both stations.

Licences pending or appealed

- Voltage upgrade Western corridor: An additional application has been submitted to the NVE for an alternative location of the Feda and Kvinesdal station in connection with a voltage upgrade on the Feda - Tonstad section. NVE's consultative process for applications for the sections Tonstad - Lyse and Lyse - Saurdal was conducted in June 2012.
- Ofoten - Balsfjord - Hammerfest: The NVE has granted Statnett a licence for these sections, including new transformer stations and expansion of existing ones. The decision has been appealed and has been submitted to the

Ministry of Petroleum and Energy (MPE).

- Storheia - Snillfjord - Trollheim/Orkdal: The NVE has granted Statnett a licence.
- Namsos - Roan - Storheia: The project has been appealed to the MPE. An appeal inspection was conducted by the MPE in 2011.
- Voltage upgrades Klæbu - Namsos: The NVE has granted Statnett a licence.
- Reinvestments Indre Oslofjord: Two cable facilities are scheduled for replacement due to their age and condition. The facilities are scheduled for commissioning in 2015 and 2016. A licence application was submitted to the NVE in May 2012.

Planning proposal submitted

- The SydVest link: Statnett has notified the NVE regarding the Norwegian part of the project.
- "Arctic Circle" Skaidi - Varangerbotn: The impact assessment programme has been received from the NVE. The work relating to the licence application and its associated impact assessments is performed in accordance with the Grid Development Plan, which stipulates that the power line will be built after completion of Ofoten - Balsfjord - Hammerfest. Consequently, the power line will be commissioned after 2020.

Interconnectors

- Subsea cable between Norway and Germany: The project is under development and scheduled for commissioning in 2018. Together with TenneT and the German state-owned financial institution KfW Statnett has agreed to further develop, construct and operate the interconnector.
- Subsea cable between Norway and the UK: The project is under development and scheduled for commissioning in 2020. Statnett and National Grid International Limited have signed a collaboration agreement confirming the plan to build the interconnector.

Financial results

The interim report has been submitted in accordance with International Standards for Financial Reporting (IFRS) and interpretations stipulated by the International Accounting Standards Board (IASB). The accounting standards for presentati-

on of financial accounts (IAS1) and interim reports (IAS34) have been adhered to. The accounting principles and calculation methods used in the interim financial statements are the same as in the most recent annual financial statement.

Operating revenues

The Group's operating revenues in the second quarter of 2012 totalled NOK 1 238 million (NOK 1 189 million in the second quarter of 2011). Operating revenues from regulated operations totalled NOK 1 171 million (NOK 1 154 million), while other operating revenues amounted to NOK 67 million (NOK 35 million). The increase in operating revenues was due to higher congestion revenues in the Nordic region and towards the Netherlands in 2012. Higher congestion revenues in 2012 is a result of high exports to the Netherlands, Denmark and Sweden and the outage of the NorNed cable during much of the second quarter of 2011. Lower tariff revenues in 2012 because lower tariffs were stipulated for 2012 than for 2011, as well as lower electricity prices in 2012 reduced the deviation.

Total operating revenues for the Statnett Group for the first half of 2012 amounted to NOK 2 633 million (NOK 2 841 million). Operating revenues from regulated operations totalled NOK 2 515 million (NOK 2 762 million), while other operating revenues amounted to NOK 118 million (NOK 79 million). The reduction in operating revenues was due to lower tariff revenues in 2012, somewhat offset by increased congestion revenues.

Statnett's operating revenues mainly derive from regulated grid operations. Operating revenues from regulated activities in Statnett's financial reporting consist primarily of fixed grid tariffs from the customers as well as congestion revenues (price differences between areas in the Nordic region and towards the Netherlands). Statnett's grid operations are regulated by the NVE which stipulates a cap for Statnett's revenues (permitted revenue). If the total revenues from grid operations for one year diverge from the permitted revenue, higher or lower revenue will occur. Higher/lower revenue will level out over time through adjustment of future grid tariffs. In the second quarter of 2012, Statnett's higher revenue amounted to NOK 189 million (NOK 161 million). Higher revenue for the first half of the year amounted to NOK 390 million (NOK 490 million). Accumulated higher revenue including interest was NOK 3 031 million at the end of the first half of 2012.

Operating costs

The Group's operating costs totalled NOK 895 million in the second quarter of 2012 (NOK 951 million). The reduction was mainly due to lower system services costs and lower transmission losses (grid losses). Increased wage and consultancy costs in 2012 reduced the deviation somewhat.

In the second quarter of 2012 system services costs were reduced by NOK 57 million. This is due high production in 2012 and thus lower costs for the purchase of primary reserves. Transmission losses were NOK 52 million lower in the second quarter of 2012 than in the corresponding period in 2011 due to lower energy prices in 2012.

Wage costs increased by NOK 29 million in the second quarter of 2012 compared with the corresponding period in 2011. This was due to an increase in pension costs resulting from changes in actuarial assumptions in pension calculations. In addition there has been an increase in staff throughout 2011 as a result of increased activity in development projects, operation and maintenance.

Depreciation and write-downs in the second quarter of 2012 were on a par with the costs in the corresponding period of 2011.

Other operating costs were NOK 20 million higher in the second quarter of 2012 than in the corresponding period of 2011. This was primarily due to increased activity on the interconnectors.

Operating costs in the first half of 2012 amounted to NOK 1 854 million (NOK 1 982 million). System services costs were reduced by NOK 36 million due to reduced costs of primary reserves. Increased costs of tertiary reserves have reduced the deviation somewhat.

Transmission losses were NOK 186 million lower in the first half of 2012 than in the corresponding period in 2011 due to lower energy prices in 2012.

Wage costs increased by NOK 66million in the first half of 2012 compared with the corresponding period in 2011. The increase

is related to increased pension costs as well as an increase in the number of staff in 2011.

Depreciation and write-downs increased by NOK 14 million in the first half of 2012 compared with the corresponding period in 2011. This was due to a net increase in the value of commissioned facilities.

Other operating costs were NOK 14 million higher in the first half of 2012 than in the corresponding period in 2011. This was primarily due to increased activity on the interconnectors.

Operating profit

The Group's operating profit in the second quarter of 2012 was NOK 343 million (NOK 238 million). The Group's operating profit for the first half of the year was NOK 779 million (NOK 859 million).

Financial items

Net financial items amounted to a loss of NOK 81 million in the second quarter of 2012 (loss of NOK 63 million). Net financial items for the first half of 2012 amounted to a loss of NOK 156 million (loss of NOK 132 million). The increase in financial costs was due to increased borrowing and higher interest rates in 2012.

Net profit

The Group's profit after tax in the second quarter of 2012 was NOK 187 million (NOK 126 million). The Group's profit after tax for the first half of 2012 was NOK 452 million (NOK 520 million). The profit for the first half year adjusted for changes in higher/lower revenue after tax and estimated interest costs of the higher revenue was NOK 154 million.

Cash flow and balance sheet

The Group's operating activities generated an accumulated cash flow of NOK 587 million in the first half of 2012. The net cash flow from investment activities totalled a loss of NOK 1 228 million. In total, loans were paid down by NOK 1 090 million, and new loans of NOK 2 700 million were raised. At

the end of the first half of 2012, the Group's liquid assets and market-based securities amounted to NOK 2 571 million (NOK 1 619 million). The high amount of liquid assets at the end of June 2012 was due to a substantial maturity of the loan in early July.

At the end of the first half of 2012, the Group had total assets of NOK 25 661 million (NOK 22 971 million), and interest-bearing debt amounted to NOK 14 867 million. The market value of recognised interest swap and currency swap agreements (fair value hedges) related to interest-bearing debt was NOK 1 407 million. Interest-bearing debt, corrected for this, totalled NOK 13 460 million.

Subsidiaries and associated companies

Statnett SF owns Statnett Transport AS a 100 percent. In the first half of 2012, operating revenues for Statnett Transport amounted to NOK 50 million (NOK 57 million) and the profit before tax was NOK 2 million (NOK 2 million).

At the end of the second quarter of 2012, Statnett SF had an ownership interest of 30 percent in Nord Pool Spot AS. Statnett's share of the result in Nord Pool Spot AS contributed NOK 4 million (NOK 3 million) to the Statnett Group's profit in the first half of 2012. On 1 August 2012 there was an increase in capital in Nord Pool Spot AS; Elering and Litgrid, the system operators in Estonia and Lithuania, purchased an ownership interest of two percent each. Statnett's ownership interest was reduced to 28.8 percent. The Latvian system operator Augstsprieguma has issued a letter of intent to purchase two percent of the shares in Nord Pool Spot and will effectuate this agreement when the power market opens in Latvia. Statnett's shareholding after the three Baltic system operators have become co-owners in Nord Pool Spot will be 28.2 percent.

Risk

Operational risk

Statnett's risk management strategy mainly focuses on risks which may have a potential impact on the electricity supply, health, safety and the environment (HSE), Statnett's value creation for society and Statnett financial situation. Risk management is part of the operational management of the company and is reported to the Board of Directors on a six months' basis.

A significant part of Statnett's work relating to development, operations and maintenance involves operations where there is a risk of serious personal injury. Furthermore, an HSE risk will exist in connection with fault correction, often combined with arduous terrain and challenging weather conditions. This risk is reduced by implementing documented work processes, safe job analyses, strong management focus on HSE, as well as the reporting of incidents and near misses in a learning perspective.

Operating margins in the grid are limited and many of the assets are aging. Consequently, Statnett has significant investment plans in place and several major projects are under construction. There are risks associated with the realisation of these projects in accordance with the existing plans. Delays and deferrals lead to extended periods with higher electricity supply risks and reduced value creation. Consequently, it is important to have sufficient capacity in the supplier market and sound processes for authority licences, and to engage in dialogue with local stakeholders. With significant investment plans, access to and prioritisation of resources internally could constitute a risk factor, as could a tight labour market externally, particularly with regard to expertise in the electric power sector. In order to increase the company's implementation ability new enterprise models are introduced where a greater share of the work is performed by external contractors. Statnett will be dependent on the contractors establishing sufficient capacity.

Fault in components during N-0 operation is the risk which most often causes interruptions in the power supply. N-0 operation means that a fault in a single component will cause

a power outage for end-users. In recent years, important areas such as Stavanger, Bergen and Northern Norway have been supplied by N-0 operation for almost 3000 hours a year. This is expected to continue until the investment plans have been made. To reduce the risk during N-0 operations, Statnett is implementing preventive maintenance measures and improving the company's emergency preparedness work.

In 2012, few incidents have resulted in outages for end-users. Estimated costs of energy not supplied for connected end-users (under the KILE scheme) amounted to NOK 18 million in the first half of 2012, compared with NOK 71 million in the same period in 2011.

Financial risk

Statnett has established a financial policy and framework for financial management, including limits in connection with credit risk, settlement risk and counterparty risk, as well as instructions for implementation of financial transactions. Internal control procedures have been established which are carried out independently.

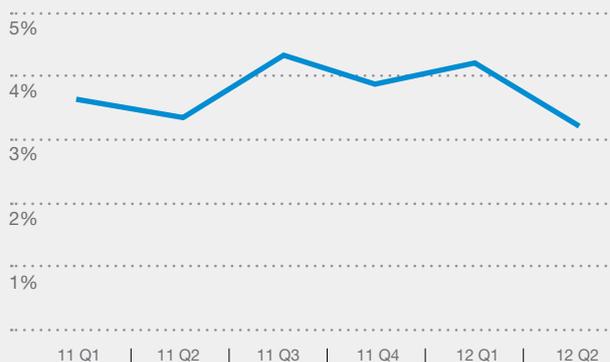
Statnett's permitted revenues from grid activities are partly calculated as return on the enterprise's grid capital. The calculation is based on the interest rate on five-year government bonds and a risk supplement (the NVE interest rate). Statnett's revenues are therefore affected by fluctuating interest rates. In order to reduce the enterprise's total interest rate risk, Statnett seeks to achieve as good a match as possible between movements in interest rates on loans and the interest rate used to calculate return on the enterprise's grid capital. Developments in the financial markets in 2011 and expected developments in 2012 show low Norwegian government interest rates combined with increased borrowing rates. A continued situation with low government interest rates and high borrowing rates will represent a challenge for Statnett's financial result and cash flow. The NVE has submitted for consultation a proposal to change the model for calculation of the NVE interest rate to bring it more into line with the grid companies' real financing costs. The new NVE interest rate is expected to take effect as of 1 January 2013 at the latest.

Statnett has access to multiple credit markets and has a spread maturity structure on the debt portfolio. This reduces the risk of

H value rolling 12 months' average



Absence due to illness



Statnett not being granted refinancing on the company's loans during periods with low capital availability. The enterprise has a credit facility totalling NOK 3.5 billion with a five-year term to be able to fund up to 12 months' operation and investments without incurring any new debt. Statnett has long-term credit ratings of A+ and A2 from Standard & Poor's and Moody's Investor Service, respectively.

Statnett assumes credit risk through placing surplus liquidity with securities issuers. Statnett has limits which set credit rating requirements for counterparties and maximum exposure limits for each investment of surplus liquidity. Statnett is also exposed to credit risk related to the company's collection of main grid tariffs, and as responsible for balance settlement in the regulating power market. Routines have been established for provision of security relating to trade on the regulating power market.

Statnett's revenues are mainly in Norwegian Kroner (NOK), whereas some of the Group's expenses are in foreign currencies. Currency risk is minimised through several measures, including using currency swap agreements to hedge risk in the currency obligations in investment projects. All Statnett loans in foreign currency are converted to NOK through currency swap agreements.

Corporate social responsibility

Corporate social responsibility (CSR) is an integrated part of Statnett's value base, being the core of the management system and contains the tools needed to conduct the activities in the right way. CSR in Statnett is about understanding the expectations of the community, and handling these expectations in a manner which generates mutual respect. The key elements are embedded in Statnett's objectives, which stipulate that Statnett will maintain security of supply through a grid with sufficient capacity and high quality, that Statnett's services will generate value for the customers and society at large, and that Statnett will pave the way for realisation of Norway's climate objectives. CSR in Statnett entails integration of social and environmental considerations in the company's daily operations and that CSR is embedded in the company's continuous corporate governance and anchored in the enterprise's management and organisation. See Statnett's annual report 2011 for more information about CSR.

Health, Safety and Environment (HSE)

In the second quarter of 2012, there were two internal incidents in Statnett which resulted in personal injury. Both incidents were caused by tripping and falling.

After the fatal accident under the work of the Sauda - Liastølen project in 2011, an externally-led investigation was set up to clarify the causal and improvement needs. The internal assessment work has been concluded and measures are being implemented continuously. The accident is still being investigated by the Police and the Norwegian Labour Inspection Authority

The Group's overall absence due to illness was 3.2 percent in the second quarter of 2012, compared with 3.4 percent in the corresponding period in 2011.

Outlook

To ensure security of supply for the future, Statnett will invest NOK 40-50 billion in the years to come. Statnett's 2011 Grid Development Plan forms the basis for the next generation main grid which will be completed by 2030. Statnett has a large project volume in the implementation phase. The coming period will be characterised by further construction and experience phases for the organisation, not least by adopting new enterprise models to increase Statnett's scalability. This will involve both new power lines and facilities and upgrades of existing ones. There will be extensive building activity in this period, and great demands on Statnett when it comes to coordinating a number of projects in existing facilities while operating the power system. Statnett is strengthening operative preparedness to improve the ability to handle any unforeseen and critical incidents.

Statnett has entered into agreements with key parties in Germany and the UK for the construction of interconnectors. These are scheduled to be completed in 2018 and 2020 respectively. These projects are important for the development of the Northern European power grid and are a top priority for all parties involved. They will not least help ensure a reliable supply of energy to Norway during cold and dry spells and balance variations in German and British wind power production throughout the day and night. In addition to the exchange capacity is value-added for Norway, the

projects will support the ambitions to increase generation of renewable energy throughout the region and the EU's climate and energy targets. Furthermore, the new interconnectors will contribute to the further integration of the Northern European power market and strengthen the entire power system.

To be able to realise the planned development projects according to schedule, Statnett is dependent on an efficient licensing process and an external supplier market that can offer sufficient capacity in the years to come. The licensing work progressed well last year. Statnett is concerned to further improve collaboration with all parties involved to secure important input to the planning and realisation of new power lines. In this regard, initiatives have been taken in relation to local and regional authorities as well as other stakeholders.

Due to an increase in investment activities in new and existing grid facilities, Statnett's asset base will increase significantly. New

facilities will be commissioned and some of the old facilities will be phased out. Statnett is concerned with managing the company's facilities in a uniform and prudent manner, and aims to become PAS 55 compliant in 2012. PAS 55 is a quality standard which represents best practice for optimal asset management in a lifetime perspective. This will be one of several measures to ensure that Statnett maintains high cost efficiency in its operations and during the development of the next generation main grid.

As transmission system operator in the Norwegian power market, the NVE has assigned Statnett the task of introducing coordinated tariffs of the regional grid scheme from 1 January 2014. In addition to assessing and having overall responsibility for developing a common ICT solution to maintain advanced metering systems (AMS) by 2017, these tasks will require significant effort and changes in the years to come.

Oslo, 23 August 2012

The Board of Directors, Statnett SF

Statement of comprehensive income

Statnett Group

<i>(Amounts in NOK million)</i>	Second quarter		Year to date		
	2012	2011	2012	2011	Year 2011
OPERATING REVENUE					
Operating revenue regulated operations	1 171	1 154	2 515	2 762	5 316
Other operating revenue	67	35	118	79	181
Total operating revenue	1 238	1 189	2 633	2 841	5 497
OPERATING COSTS					
System services	97	154	235	271	575
Transmission losses	110	162	330	516	854
Wage costs	198	169	396	330	660
Depreciation and write-downs of tangible fixed assets	191	187	383	369	798
Other operating costs	299	279	510	496	982
Total operating costs	895	951	1 854	1 982	3 869
Operating profit	343	238	779	859	1 628
Revenues from associate	1	2	4	3	5
Financial income	16	20	40	36	80
Financial costs	97	83	196	168	356
Profit before tax	263	177	627	730	1 357
Tax	76	51	175	210	357
Profit for the period	187	126	452	520	1 000
OTHER COMPREHENSIVE INCOME					
Changes in fair value for cash flow hedges	-11	-24	-6	-3	-51
Tax related to other comprehensive income	3	7	2	1	15
Other comprehensive income	-8	-17	-4	-2	-36
Total comprehensive income	179	109	448	518	964

Balance sheet

Statnett Group

(Amounts in NOK million)

	30.06.12	30.06.11	31.12.11
ASSETS			
INTANGIBLE FIXED ASSETS			
Goodwill	53	53	53
Other intangible fixed assets	13	13	13
Total intangible fixed assets	66	66	66
NON CURRENT FIXED ASSETS			
Tangible fixed assets	17 286	16 822	17 396
Plant under construction	3 369	2 480	2 437
Investment in associate	43	54	54
Long-term investments	1 195	1 346	1 188
Total fixed assets	21 893	20 702	21 075
CURRENT ASSETS			
Trade accounts receivable and other short-term receivables	1 131	584	1 138
Investment in commercial market-based securities	648	556	600
Liquid assets	1 923	1 063	1 002
Total current assets	3 702	2 203	2 740
Total current assets	25 661	22 971	23 881
EQUITY AND DEBT LIABILITIES			
EQUITY			
Contributed capital	2 700	2 700	2 700
Retained earnings	5 908	5 169	5 577
Non-controlling interest	-	-38	-
Total equity	8 608	7 831	8 277
PROVISIONS FOR LIABILITIES			
Deferred tax	448	407	406
Pension liabilities	312	295	353
Other liabilities	73	169	66
Long-term interest-bearing debt	11 908	11 135	10 974
Total long-term liabilities and debt	12 741	12 006	11 799
CURRENT LIABILITIES			
Short-term interest-bearing debt	2 959	1 334	2 302
Trade account payable and other short-term debt	1 221	1 666	1 232
Tax payable	132	134	271
Total current liabilities	4 312	3 134	3 805
Total equity and debt liabilities	25 661	22 971	23 881

Statement of changes in equity

Statnett Group

<i>(Amounts in NOK million)</i>	Total equity	Non-controlling interest	Total equity allocated to the owner of Statnett SF	Other equity accrued	Other items	Contributed capital
Equity as at 01.01.2011	7 628	-22	7 650	4 953	-3	2 700
Profit/loss for the year	1 000	-21	1 021	1 021	-	-
Other comprehensive income	-36	-	-36	-	-36	-
Dividends declared	-315	-	-315	-315	-	-
Non-controlling interest	-	43	-43	-43	-	-
Equity as at 31.12.2011	8 277	-	8 277	5 616	-39	2 700
Equity as at 01.01.2011	7 628	-22	7 650	4 953	-3	2 700
Profit/loss for the period	520	-16	536	536	-	-
Other comprehensive income	-2	-	-2	-	-2	-
Dividends declared	-315	-	-315	-315	-	-
Equity as at 30.06.2011	7 831	-38	7 869	5 174	-5	2 700
Equity as at 01.01.2012	8 277	-	8 277	5 616	-39	2 700
Profit/loss for the period	452	-	452	452	-	-
Other comprehensive income	-4	-	-4	-	-4	-
Dividends declared	-117	-	-117	-117	-	-
Equity as at 30.6.2012	8 608	-	8 608	5 951	-43	2 700

Cash flow statement

Statnett Group

<i>(Amounts in NOK million)</i>	Year to date		
	2012	2011	Year 2011
Cash flow from operating activities			
Profit before tax	627	730	1 357
Loss/gain(-) on sale of fixed assets	5	-	-3
Ordinary depreciation and write-downs	383	369	798
Paid tax for the period	-271	-566	-566
Interest recognised in the income statement for the period	193	139	320
Interest received for the period	24	25	43
Interest paid for the period	-201	-163	-332
Changes in trade accounts receivable/payable	-270	367	503
Changes in other accruals	101	-69	-592
Profit/loss from companies using equity method	-4	-3	-5
Net cash flow from operating activities	587	829	1 523
Cash flow from investing activities			
Innbetalinger ved salg av varige driftsmidler	6	6	12
Utbetalinger ved kjøp av varige driftsmidler og anlegg under utførelse	-1 249	-1 399	-2 384
Dividend received	15	-	2
Net cash flow from investing activities	-1 228	-1 393	-2 370
Cash flow from financing activities			
Proceeds from new interest-bearing borrowings	2 700	1 281	2 781
Repayment of interest-bearing debt	-1 090	-850	-1 738
Proceeds from sale of market-based securities	80	255	367
Purchase of market-based securities	-128	-188	-375
Dividends paid	-	-	-315
Net cash-flow from financing activities	1 562	498	720
Net cash flow for the period	921	-66	-127
Cash and cash equivalents at the start of the period	1 002	1 129	1 129
Cash and cash equivalents at the close of the period	1 923	1 063	1 002

Included under the item cash and cash equivalents as at 30.6.2012 are reserved tax withholdings to the amount of NOK 50 million in the Group.

Unused credit facilities of NOK 3 500 million are not included in cash and cash equivalents above.

Note 1 - Accounting principles

The interim accounts for the first six months of 2012 have been presented in accordance with IAS 34. The interim accounts do not contain all the additional information required in the annual accounts, and should therefore be read in the context of the consolidated accounts presented on 31 December 2011.

The accounting principles that have been applied for the interim accounts for the first half of 2012 are consistent with the accounting principles that were applied for the consolidated accounts presented on 31 December 2011.

Note 2 – Operating revenues regulated operations

Statnett's operating revenues mainly derive from regulated grid operations. Operating revenues from regulated activities in Statnett's financial reporting consist primarily of fixed grid tariffs from the customers as well as congestion revenues (price differences between areas in the Nordic region and towards the Netherlands). Statnett's grid operations are regulated by the NVE which stipulates a cap for Statnett's revenues (permitted revenue). If the total revenues from grid operations for one year diverge from the permitted revenue, higher or lower revenue will occur. Higher/lower revenue will level out over time through adjustment of future grid tariffs. The obligation/opportunity does not qualify for capitalisation according to IFRS.

Higher revenue for the first half of the year amounted to NOK 390 million (NOK 490 million). Accumulated higher revenue including interest was NOK 3 031 million at the end of the first half of 2012.

Statnett Group	Year to date		
	2012	2011	Year 2011
Tariff revenues	2 241	2 564	4 808
Congestion revenues	380	302	768
Income from other owners in shared grids	-106	-104	-260
Total operating revenues regulated activities	2 515	2 762	5 316
Total permitted revenue	2 125	2 272	4 296
This year's higher/lower (-/+)-revenue, excl. interest	-390	-490	-1 020
This year's provision for interest higher/lower (-/+)-revenue	-24	-23	-44
This year's changed balance for higher/lower (-/+)-revenue	-414	-513	-1 064
Balance higher/lower (-/+)-revenue, incl. interest as at 1 Jan.	-2 617	-1 553	-1 553
Changed balance for higher/lower (-/+)-revenue, incl. Interest	-414	-513	-1 064
Balance higher/lower (-/+)-revenue, incl. interest year to date	-3 031	-2 066	-2 617

Note 3 - Amendments to IAS 19 Employee Benefits - Pensions

The EU has approved amendments to IAS 19 Employee Benefits. The amendments will be effective for fiscal years starting on 1 July 2012 or later. Previous application is permitted. The Group expects to implement the amended standard as of 1 January 2013.

Cf. Note 1 Accounting Principles in the 2011 Annual Report for more details.

Statnett

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