

Statnett

Q4



Interim Report

04:11

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# In short

## Highlights

Total operating revenues for the Statnett Group in the fourth quarter of 2011 amounted to NOK 1 317 million (NOK 2 012 million in the fourth quarter of 2010). For the year 2011, the Group's operating revenues amounted to NOK 5 497 million (NOK 7 247 million in 2010).

The Group reported a profit after tax of NOK 226 million in the fourth quarter of 2011 (NOK 567 million). In 2011, the Group's profit after tax totalled NOK 1 000 million (NOK 2 198 million). The reduction was due to downward adjustment of tariffs for 2011 and lower congestion revenues in the fourth quarter of 2011. This was reflected in the higher revenue which totalled NOK 120 million in the fourth quarter of 2011 (NOK 641 million) and NOK 984 million for 2011 (NOK 2 191 million). The higher revenue will be returned to Statnett's customers over time through adjustment of tariffs. The profit after tax adjusted for changes in higher/lower revenue after tax was NOK 292 million.

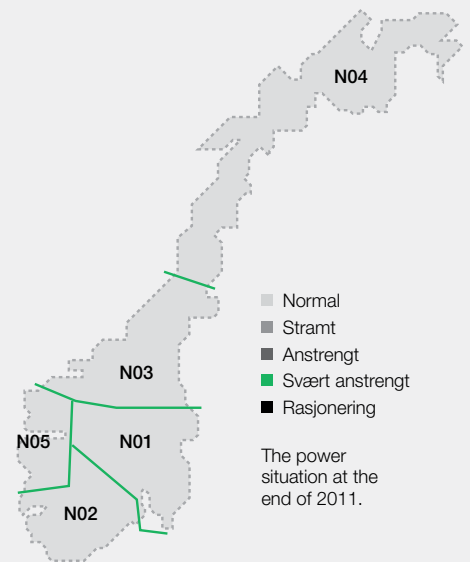
The power situation in Norway has been good throughout the fourth quarter. However, due to weather conditions, the operation of Statnett's assets has been demanding and there has been several faults in the grid. Statnett has a significant project portfolio and, in general, there has been steady progress in Statnett's development projects throughout the quarter. This resulted in a high activity level and extensive utilisation of capacity.

4 November there was a tragic accident in one of Statnett's development projects, where an employee of the general contractor died. The accident is being investigated by the police and the Labour Inspection Authority. Statnett has also instigated its own investigation of the accident.

## Important events

- On 25 and 26 December, the storm Dagmar caused several power line outages in several parts of western and eastern Norway. Interruptions for end-users were mainly caused by faults in the regional and distribution grid, with the exception of the power line to Nyhamna. A power system with substantial distributed production and systematic utilisation of this helped prevent more numerous and extensive outages. The storm was challenging for Statnett, but was handled in a satisfactory manner. The evaluation work following the Dagmar storm will be included as part of Statnett's continuous evaluation work following incidents and drills.
- In December, the Ministry of Petroleum and Energy (MPE) granted Statnett a final licence for the remaining sections of the Ørskog - Fardal project.
- Contractual irregularities were identified during testing of the oil cables for the new subsea cables in the Oslofjord. The cables were scheduled to be installed by the end of 2011. Nexans has informed Statnett that new oil cables must be remanufactured and that these will be delivered in 2013. This results in a delayed completion of the project from October 2012. See additional information on page 6.
- In November, Statnett presented its 2011 Grid development plan. The Grid development plan is a continuation of Statnett's ambitions and specifies investments to be made by 2021 to secure the electricity supply to Norwegian consumers and facilitate Norwegian climate policies and value creation. The planned investment is between NOK 40 and 50 billion.
- The introduction of smart metering systems and the development towards a common Nordic end-user market for electricity require major changes. The Norwegian Water Resources and Energy Directorate (NVE) has awarded Statnett the task of study and to have the overall responsibility for the development of a common ICT solutions to ensure efficiency once these changes have been adopted.

# Directors' report



## Security of supply

The power situation in Norway has been good throughout the fourth quarter. The period was characterised by unseasonably mild weather, which resulted in significant inflow even towards the end of the year when inflow normally subsides. In addition, snow in the mountains increased in the period, and the snow level was normal at the end of the quarter (compared with the measuring period 1979 – 1999). Reservoir levels increased in the period compared with the median (from the 1993 - 2010 measurement series), from 86 percent at the end of September to 80 percent at the end of December. This is 10 percent above the median and equal to the maximum level for the measuring period.

The overall power consumption in the fourth quarter was 42 TWh and the overall power production was 48 TWh. This resulted in net exports of 6 TWh for the quarter. In the corresponding period in 2010, the import volume was 0.5 TWh. Low consumption and significant inflow compared to normal levels for the period have kept electricity prices on a generally low level. As in the two previous quarters, the lowest average price in the Nordic region was in NO5.

In the fourth quarter there were major price differences between Southern Norway and the rest of the Nordic region. This was mainly due to extraordinary inflow. Available capacity for the quarter was generally good, with only a few hours of faults or modifications affecting trade capacities. In Western Norway, it was difficult to transmit the power surplus, even though the grid remained intact. The challenges in this area were mainly related to uneven power distribution between the corridors leading out of the area.

Towards the end of the fourth quarter, there were significant challenges relating to security of supply. Several periods with strong winds resulted in short-term outages in the main grid. During the night of 25 December, the Dagmar storm resulted in blackouts affecting especially North-Western Norway. However, the underlying errors were mainly at the regional grid level. The most important incidents affecting the main grid were a three-day downtime of the Viklandet - Fræna power line and two and a half weeks of separate operation at Årdalstangen after a pylon broke down on the Øvre Årdal power line.

The periods of high winds affected consumption in the oil and gas industry in particular, as these loads are highly sensitive to very brief grid interruptions. Both the facility at Nyhamna and the facility at Kårstø experienced several load reductions during the quarter, the most extensive resulting in three days of significantly reduced operations at Nyhamna.

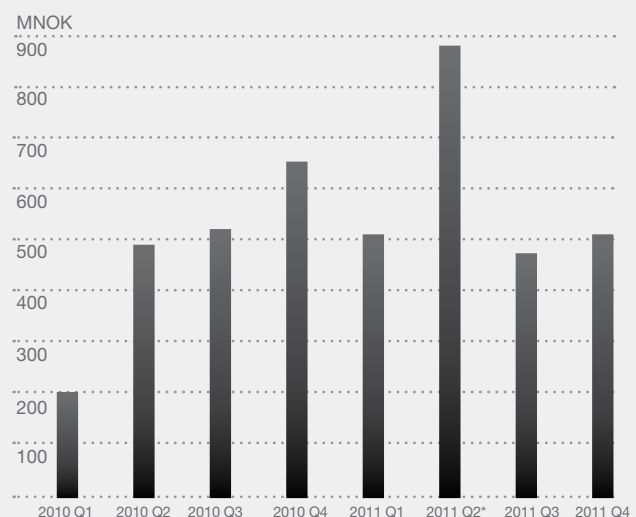
In Kvandal, one of the two transformers broke down on 31 October. This resulted in Troms and Finnmark being supplied by a single power line, the Kvandal - Bardufoss power line. This resulted in a vulnerable operating situation in the region for much of the quarter, where, in the worst case scenario, a breakdown of a single component could have resulted in necessary disconnect of consumption. The Kvandal replacement transformer is scheduled to be put into operation in early February.

## Investeringer

Statnett has major development projects under planning and implementation in order to maintain security of supply, create value and facilitate lower greenhouse gas emissions.

In total, Statnett invested NOK 2 384 million in 2011 (NOK 1 892 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	Cost
<b>Ongoing major investment projects</b>		
		<i>Funds granted</i> <sup>1</sup>
Ørskog - Fardal	Møre og Romsdal/Sogn og Fjordane	NOK 4 900 million
Skagerrak 4	Norway/Denmark	Statnett share NOK 1 700 million
Ytre Oslofjord	Vestfold/Østfold	NOK 1 200 million
Sima - Samnanger	Hordaland	NOK 1 045 million
Major investment in transformer stations		NOK 700 million
Voltage upgrade in southern Norway		
Subsection Kristiansand - Bamble (eastern corridor)	Vest-Agder/Telemark	NOK 650 million
Varangerbotn - Skogfoss	Finnmark	NOK 500 million
Increased preparedness: New back-up transformers		NOK 250 million
Sauda - Liastølen	Rogaland	NOK 200 million
<b>Licences pending or appealed</b>		
		<i>Estimated cost</i>
Balsfjord - Hammerfest	Troms/Finnmark	NOK 4 000 - 6 000 million
Ofoten - Balsfjord	Nordland/Troms	NOK 2 000 - 3 000 million
Storheia - Snillfjord - Trollheim/Orkdal	Sør-Trøndelag/Møre og Romsdal	NOK 2 000 - 3 000 million
Namsos - Roan - Storheia	Trøndelag	NOK 800 - 1 200 million
Voltage upgrade in southern Norway		
Subsection Tonstad - Lyse (western corridor)	Vest-Agder	NOK 1 300 million
Subsection Feda - Tonstad (western corridor)	Vest-Agder	NOK 460 million
Subsection Kristiansand - Feda (western corridor)	Vest-Agder	NOK 70 million
Nettforsterking Grenland Bamble - Rød (eastern corridor)	Telemark	NOK 700 - 1 000 million
Voltage upgrade in Central Norway		
Subsection Klæbu - Namsos	Trøndelag	NOK 700 - 1 000 million
Hamang station	Akershus	NOK 400 - 600 million
<b>Planning proposal submitted</b>		
		<i>Estimated cost</i>
The South West Link	Norway/Sweden	NOK 2 000 - 4 000 million
"Arctic Circle" Skaidi - Varangerbotn	Finnmark	NOK 2 000 - 4 000 million
<b>ICT projects</b>		
		<i>Funds granted</i>
Renewal of Statnett's central operations system		NOK 490 million
New Regulation and Market System		NOK 240 million
Computer network for power system management		NOK 220 million
Modernisation of ICT infrastructure in Statnett stations		NOK 130 million

<sup>1</sup> Updated according to 2011 Grid development plan

## Important project events in the fourth quarter

### Commissioned projects

- Insulation of the suspension towers on the Nedre Røssåga - Tunnsjødal power line has been completed. Work was conducted on the live power line (live working - LW) and the project has provided valuable LW experience for voltage upgrades from 300 kV to 420 kV.
- Several minor projects were put into operation in the fourth quarter.

### Ongoing major investment projects

- Ørskog - Fardal: Contracts for construction of power lines and major station components have been signed. The Environment, Transport and Construction plan has been approved by the NVE and the Directorate for Cultural Heritage has granted the necessary dispensation in relation to the Cultural Heritage Act. These conditions are necessary to start the construction work. In December, Statnett was granted a final licence for the remaining sections of the project.
- Skagerrak 4: Construction work is ongoing in Kristiansand and on the cable route in Norway. Testing of a sea cable is ongoing at the factory. All major contracts have been signed.
- Ytre Oslofjord: The facility, which will consist of six oil cables and three plastic-insulated cables (PEX cables), was scheduled for completion in December 2011 and October 2012, respectively. Due to technical irregularities on the oil cables, the cables must be remanufactured. Negotiations with the supplier are completed and the oil cables will be delivered in 2013. This delay will not affect the delivery of the PEX cables.
- Sima - Samnanger: The power line construction work has been challenging due to frequent adverse weather and demonstrators on the construction site. However, the work has proceeded according to plan and the power line is scheduled to be put into operation in 2013. After a new inspection and a more thorough assessment, the Directorate for Cultural Heritage reversed its resolution regarding route changes near cultural heritage sites in line with the appeal lodged by Statnett. However, the release of a minor sub-section is still outstanding. The appeal will be decided by the Ministry of the Environment.
- Varangerbotn - Skogfoss: Approximately half of the pylons on the 132 kV power line are installed and construction work is ongoing on both stations.

- Sauda - Liastølen: The construction of the power line is now completed. A fatal accident on 4 November resulted in the postponement of the remaining work and commissioning of the new power line until spring 2012.

### Licences pending or appealed

- Ofoten - Balsfjord and Balsfjord - Hammerfest: The NVE's final inspection was carried out for both projects in the third quarter of 2011. Additional assessments have been prepared following this inspection along with the necessary additional applications.
- Storheia - Snillfjord - Trollheim/Orkdal: Extensive requirements for additional assessments have been received from the NVE and Statnett submitted an assessment to the NVE in November 2011.
- Namsos - Roan - Storheia: The project has been appealed to the Ministry of Petroleum and Energy. The appeal has been reviewed by the MPE in the fourth quarter of 2011.
- Voltage upgrade western corridor: Statnett is working with alternative solutions for the Feda station in connection with the licence application for voltage upgrade on the Feda – Tonstad section. Whether the alternative should be evaluated further with a view to submitting an additional application is being considered. A licence application was submitted to the NVE in September 2011 for the Kristiansand – Feda section. The application has been submitted for consultation. A licence application for the Tonstad - Tjørholm - Lyse section was submitted to the NVE in December 2011.
- Grid reinforcement Grenland Bamble – Rød (eastern corridor): A licence application has been submitted to the NVE for processing and the consultative process has been completed. A request for additional assessments was received from the NVE in the third quarter of 2011 and an additional application was submitted at the end of the year.
- Voltage upgrades Klæbu – Namsos: The NVE is in the final phase of the licensing process.

### Planning proposal submitted

- The South West Link: Statnett has notified the NVE regarding the Norwegian part of the project. The notification contains different routes of between 60 and 110 kilometres that will be subject to further assessment, including subsea interconnectors. A construction period of three years is assumed

following a final licence decision.

- "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 2011 Grid development plan, which stipulates that the power line will be constructed after completion of the Ofoten - Balsfjord - Hammerfest section. Consequently, the power line is not likely to be put into operation until after 2020.

## Financial results

The quarterly report has been submitted in accordance with International Standards for Financial Reporting (IFRS) and interpretations stipulated by the International Accounting Standards Board (IAS). The accounting standards for presentation of financial accounts 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 fourth quarter of 2011 totalled NOK 1 317 million (NOK 2 012 million in the fourth quarter of 2010). Operating revenues from regulated operations totalled NOK 1 254 million (NOK 1 952 million), while other operating revenues amounted to NOK 63 million (NOK 60 million). The reduction in operating revenues was due to lower tariff revenues on the basis of lower stipulated tariffs for 2011 compared with 2010, as well as lower congestion revenues. The lower congestion revenues are a result of heavy precipitation, lower than normal consumption and a balanced power situation in the southern price areas of Norway.

The Group's total operating revenues for 2011 amounted to NOK 5 497 million (NOK 7 247 million). Operating revenues from regulated operations totalled NOK 5 316 million (NOK 6 980 million), while other operating revenues amounted to NOK 181 million (NOK 267 million). The reduction was mainly due to lower tariff revenues as a result of lower stipulated tariffs for 2011 compared with 2010.

Statnett's operating revenues mainly derive from regulated

grid operations. Operating revenues from regulated activities in Statnett's financial reporting mainly consist of fixed grid tariffs from the customers as well as congestion revenues (price differences between areas in the Nordic region and towards the Netherlands). The 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, a so-called higher or lower revenue will occur. Higher/lower revenue will level out over time through adjustment of future grid tariffs. In the fourth quarter of 2011, Statnett's higher revenue amounted to NOK 120 million (higher revenue of NOK 641 million). In 2011, the higher revenue totalled NOK 983 million (higher revenue of NOK 2 177 million). As of the end of 2011, accumulated higher revenue including interest was NOK 2 580 million.

### Operating costs

The Group's operating costs totalled NOK 973 million in the fourth quarter of 2011 (NOK 1 143 million). The reduction was mainly due to lower transmission losses and lower costs relating to other operating expenses partly offset by increased depreciation in 2011.

In the fourth quarter of 2011 system services costs increased by NOK 34 million. Power production was lower due to milder weather and lower consumption. Thus more available power and the need to purchase tertiary reserves was reduced. However, special regulation costs were higher in the fourth quarter compared with the corresponding period in 2010. This is due to long-term faults in the grid which increased the need for special regulations in the fourth quarter of 2011.

Transmission losses were NOK 176 million lower in the fourth quarter of 2011 than in the corresponding period in 2010 mainly due to lower energy prices in 2011.

Wage costs increased by NOK 23 million in the fourth quarter of 2011 compared with the corresponding period in 2010. This was due to an increase in staff in 2010 and 2011 as a result of increased activities in development projects, operation and maintenance. Due to high utilisation of capacity related to development projects, a higher proportion of the wage costs have been allocated to investment work in the balance sheet,

thus reducing the growth in the wage costs.

Depreciation increased by NOK 69 million in the fourth quarter of 2011 compared with the corresponding period in 2010. This was due to a net increase in the value of commissioned assets.

Other operating costs were NOK 120 million lower in the fourth quarter of 2011 compared with the corresponding period in 2010. This was mainly due to repair costs for the NorNed cable and an administrative fine issued by the NVE recognised in the 2010 financial statement. This was partly offset by higher costs in connection with the company's increased activity level in 2011.

For the year 2011, operating costs totalled NOK 3 869 million (NOK 3 968 million). System services costs for 2011 remained at the same level as in 2010, but with increased special regulation costs offset by lower costs of tertiary reserves.

Transmission losses were NOK 204 million lower in 2011 than in 2010. This was due to lower energy prices in 2011.

Wage costs increased by NOK 110 million in 2011 compared with 2010. However, the actual increase was NOK 43 million, as the costs in 2010 were reduced by NOK 67 million in connection with changes to the regulations related to pensions. Increased wage costs are due to an increase in staffing mainly related to Statnett's project and maintenance activities.

Depreciation increased by NOK 132 million in 2011, in line with the increased investments.

Other operating costs were reduced by NOK 120 million in 2011. The reduction is related to the mentioned incidents in the fourth quarter.

#### **Operating profit**

The Group's operating profit in the fourth quarter of 2011 was NOK 344 million (NOK 869 million). At the end of the year the Group's total operating profit amounted to NOK 1 628 million (NOK 3 279 million).

#### **Financial items**

The Group's net financial items for the fourth quarter of 2011 amounted to a loss of NOK 73 million (loss of NOK 67 million). Net financial items for the year amounted to a loss of NOK 276 million (loss of NOK 232 million).

#### **Net profit**

The Group's profit after tax was NOK 226 million (NOK 567 million) in the fourth quarter of 2011.

For the year, the profit after tax totalled NOK 1 000 million (NOK 2 198 million). The profit after tax adjusted for changes in higher/lower revenue after tax was NOK 292 million. Lower tariff revenues is the main reason for the reduction in profit.

#### **Cash flow and balance sheet**

The Group's operating activities generated an accumulated cash flow of NOK 1 642 million in 2011. The net cash flow from investment activities totalled a loss of NOK 2 489 million. In total, loans were paid down by NOK 1 738 million, and new loans of NOK 2 781 million were raised. At the end of 2011, the Group's liquid assets and market-based securities amounted to NOK 1 602 million (NOK 1 722 million).

At the end of 2011, the Group had total assets of NOK 23 881 million (NOK 22 070 million), and interest-bearing debt amounted to NOK 13 276 million. The market value of recognised interest swap and currency swap agreements (fair value hedges) related to interest-bearing debt was NOK 1 450 million. Net interest-bearing debt, corrected for this, totalled NOK 11 826 million.

#### **Subsidiaries and associated companies**

Statnett SF owns Statnett Transport AS a 100 percent. In 2011 operating revenues for Statnett Transport amounted to NOK 104 million (NOK 88 million) and the profit before tax was NOK 1 million (loss of NOK 2 million).

Statnett SF owns 100 percent of NorGer. The activity is related to early-phase development of a subsea cable connection to Germany. Statnett has integrated the project with Statnett's subsea cable project towards Germany, NORD.LINK. At the end of 2011, costs of NOK 48 million were accrued in NorGer (NOK 75 million), which is in line with the project's budget.



Statnett SF owns 30 percent of Nord Pool Spot AS. Statnett's share of the profit in Nord Pool Spot AS contributed NOK 5 million (NOK 4 million) to the Statnett Group's profit in 2011. In 2010 there were additional revenues of NOK 7 million relating to Statnett's shareholding in Nord Pool ASA, which was sold in 2010.

## Risk

A significant part of Statnett's work relating to development, operations and maintenance, involves operations where there is a risk of serious personal injury. An increase in project volume increases the risk of serious incidents. 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.

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 a significant part of the continuous management of the company. Risk reporting is included in the continuous reporting to the Board and is reported on a six months' basis.

The energy sector is regulated and the development trend points towards even more regulation to achieve political objectives. Furthermore, power lines historically represent controversial disruptions to the landscape and Statnett's facility upgrades will affect many of the country's municipalities in the coming decades. Statnett is dependent on society's acceptance of any disruptions to the landscape as a consequence of the activities. Any changes relating to regulation of the power sector are in any case likely to entail that our vision to construct the next generation power grid will remain unchanged. However, execution may become more challenging without society's full acceptance of our activities.

Operating margins for the grid are becoming increasingly narrow and many of the facilities are approaching the end of their lifetime. Consequently, significant investment plans are in place and several major projects are under construction. There are risks associated with the realisation of these projects in accordance with the exist-

ing plans. Delays and deferrals lead to extended periods with higher electricity supply risks and reduced value creation. An important cause of delays is that the authorities' licensing process takes longer than expected. Statnett seeks to reduce the risk through good processes including dialogue with local stakeholders, and high quality of license applications. Access and prioritisation of resources internally will constitute a risk factor with significant investment plans. In order to increase the company's implementation ability new implementation models are introduced where a greater share of the work is performed by external contractors. Regardless, Statnett will be dependent on the contractors establishing sufficient capacity.

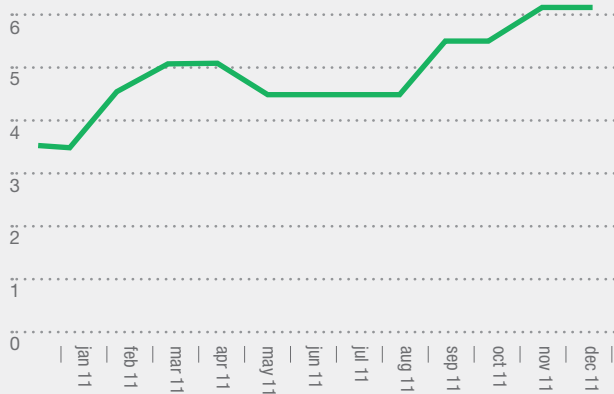
Faults in components during N-0 operation is the risk which most often causes interruptions in the power supply. N-0 operation means that a fault in a single component will cause a power outage for end-users. In recent years, many consumption areas have been supplied by N-0 operation for the whole or parts of the year, and this is expected to continue until the investment plans have been realised. To reduce the risk during N-0 operations Statnett is implementing preventive maintenance measures and improving the company's emergency preparedness work.

There have been several incidents in 2011 which have impacted end-users. Estimated costs of energy not supplied for connected end-users (under the KILE scheme) amounted to NOK 208 million in 2011, compared with NOK 28 million in 2010. The costs in 2011 are mainly related to grid outages in the fourth quarter of 2011.

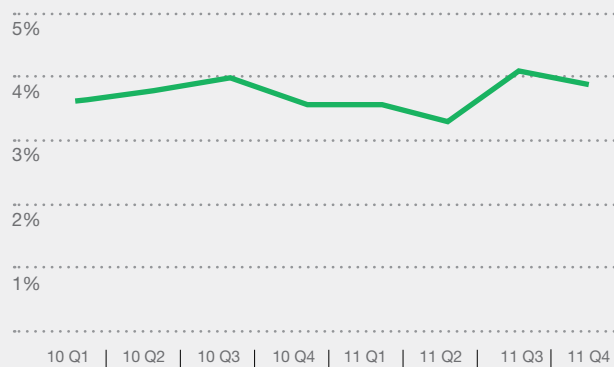
## Financial risk

A large proportion of revenues from grid activities are 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. 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 projected developments for 2012 show that the Norwegian government interest rate will remain low combined with increasing borrowing rates. A continued situation with low government interest rates and high borrowing rates will represent a challenge

**H value rolling 12 months' average**



**Absence due to illness**



for Statnett's financial result and cash flow. Statnett, other grid companies and industry bodies have entered into a dialogue with the NVE regarding these issues.

Statnett has access to multiple credit markets and a spread maturity structure on existing loans. This reduces the risk of 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 without incurring any new debt. Statnett has long-term borrowing 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 individual investment of surplus liquidity. Statnett is also exposed to a limited 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

Statnett's objectives involves a comprehensive social responsibility. Corporate social responsibility (CSR) is an integrated part of Statnett's fundamental values, forms the core of Statnett's management system and contains the means 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 main 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 our 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 day-to-day 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 2010 for more information about CSR.

### Health, Safety and Environment (HSE)

4 November there was an accident under the work of the Sauda - Liastølen project, where an employee of the general contractor died. The incident is being investigated by the police and the Norwegian Labour Inspection Authority. Statnett has also instigated its own externally-led investigation to find out what happened and to ensure learning from the incident and prevent such accidents in the future. Statnett has also reviewed the company's own procedures and equipment for work on power lines.

In addition to the accident, there was one internal incident in Statnett which resulted in personal injuries and two incidents involving contractor personnel in the fourth quarter of 2011. In addition, two critical incidents occurred; the grounding of a barge and a tug boat in Ytre Oslofjord and a car which skidded off the road during work on the Sima - Samnanger project. These incidents did not result in any personal injuries.

Overall absence due to illness in the Statnett Group was 3.9 percent in the fourth quarter of 2011, compared with 3.6 percent in the fourth quarter of 2010.

## Outlook

Statnett's main objective is to ensure a stable supply of electricity and facilitate a well-functioning power market. In 2011 the power system was seriously put to the test. The first quarter was characterised by historically low reservoir levels, severe cold, high consumption and several operating disturbances. In the fourth quarter there was mild weather, high inflow and low consumption combined with weather conditions which caused several grid outages. These experiences have shown that at times there are tight margins in the power system.

To secure a stable security of supply for the future, Statnett will make substantial grid investments in the years to come. Statnett presented the Grid development plan in November 2011. The plan forms the foundation of the next generation main grid, which will be completed by 2030. In the next five-year period Statnett will develop a significantly larger project volume, and the period will to a large extent be a construction and experience phase for the organisation, by, among other measures, adopting new enterprise models to increase Statnett's scalability. This will involve both new power lines and assets and upgrades of existing ones. New grid developments are not expected to have a significant impact in this period, and the aging main grid with narrow margins will be subject to further pressure. It is an essential requirement that development activities take into account the constraints that this entails. At the same time, Statnett will strengthen the company's operational preparedness to increase its ability to handle unforeseen and critical incidents.

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. Statnett is concerned to further improve the cooperation with all involved parties to obtain important input to the process of planning and realisation of new power lines. In this regards, several initiatives have been taken towards local and regional authorities and other stakeholders.

Statnett has several power lines under construction. There is particular focus on progress in the Sima - Samnanger project, as well as Ørskog - Fardal, which are important power lines to secure supply of electricity in the Bergen area and Central Norway, respectively.

Due to the strong increase in Statnett's investment activities in new and existing grid assets, the number of assets will increase significantly. New assets will be put into operation and some of the old assets will be phased out. Statnett is concerned with managing the company's assets 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 optimum asset management in a lifetime perspective. It will ensure that Statnett maintains high cost efficiency in its operations and during the development of the next generation Statnett.

To achieve the goal of 26.4 TWh new renewable energy in Norway / Sweden, it was important to establish a common electricity certificates market by 1 January 2012. Statnett has been responsible for facilitating the certificate issuance in Norway and this was reached in accordance with the assumptions. The first certificate was issued on 8 February 2012.

**Oslo, 16 February 2012**

The Board of Directors, Statnett SF

# Statement of comprehensive income

Statnett Group

<i>(Amounts in NOK million)</i>	Fourth quarter		Year	
	2011	2010	2011	2010
<b>OPERATING REVENUE</b>				
Operating revenue regulated operations	1 254	1 952	5 316	6 980
Other operating revenue	63	60	181	267
<b>Total operating revenue</b>	<b>1 317</b>	<b>2 012</b>	<b>5 497</b>	<b>7 247</b>
<b>OPERATING COSTS</b>				
System services	151	117	575	592
Transmission losses	178	354	854	1 058
Wage costs	167	144	660	550
Depreciation and write-downs of tangible fixed assets	243	174	798	666
Other operating costs	234	354	982	1 102
<b>Total operating costs</b>	<b>973</b>	<b>1 143</b>	<b>3 869</b>	<b>3 968</b>
<b>Operating profit</b>	<b>344</b>	<b>869</b>	<b>1 628</b>	<b>3 279</b>
Revenues from joint ventures and associates	2	2	5	11
Financial income	27	13	80	105
Financial costs	100	80	356	337
<b>Profit before tax</b>	<b>273</b>	<b>804</b>	<b>1 357</b>	<b>3 058</b>
Tax	47	237	357	860
<b>Profit for the period</b>	<b>226</b>	<b>567</b>	<b>1 000</b>	<b>2 198</b>
<b>OTHER COMPREHENSIVE INCOME</b>				
Changes in fair value, held-for-sale investments	-	1	-	1
Changes in fair value for cash flow hedges	-	1	-51	-10
Tax related to other comprehensive income	1	-	15	3
<b>Other comprehensive income</b>	<b>1</b>	<b>2</b>	<b>-36</b>	<b>-6</b>
<b>Total comprehensive income</b>	<b>227</b>	<b>569</b>	<b>964</b>	<b>2 192</b>

# Balance sheet

Statnett Group

(Amounts in NOK million)

	31.12.11	31.12.10	30.09.11
<b>ASSETS</b>			
<b>INTANGIBLE FIXED ASSETS</b>			
Goodwill	53	53	53
Other intangible fixed assets	13	13	13
<b>Total intangible fixed assets</b>	<b>66</b>	<b>66</b>	<b>66</b>
<b>NON CURRENT FIXED ASSETS</b>			
Tangible fixed assets	17 396	16 396	16 701
Plant under construction	2 437	1 848	2 877
Investment in other group companies	54	51	52
Long-term investments	1 188	1 118	1 209
<b>Total fixed assets</b>	<b>21 075</b>	<b>19 413</b>	<b>20 839</b>
<b>CURRENT ASSETS</b>			
Trade accounts receivable and other short-term receivables	1 138	869	901
Investment in commercial market-based securities	600	593	586
Liquid assets	1 002	1 129	504
<b>Total current assets</b>	<b>2 740</b>	<b>2 591</b>	<b>1 991</b>
<b>Total current assets</b>	<b>23 881</b>	<b>22 070</b>	<b>22 896</b>
<b>EQUITY AND DEBT LIABILITIES</b>			
<b>EQUITY</b>			
Contributed capital	2 700	2 700	2 700
Retained earnings	5 577	4 950	5 350
Non-controlling interest	-	-22	-
<b>Total equity</b>	<b>8 277</b>	<b>7 628</b>	<b>8 050</b>
<b>PROVISIONS FOR LIABILITIES</b>			
Deferred tax	406	334	422
Pension liabilities	353	345	336
Other liabilities	66	163	63
Long-term interest-bearing debt	10 974	10 456	9 790
<b>Total long-term liabilities and debt</b>	<b>11 799</b>	<b>11 298</b>	<b>10 611</b>
<b>CURRENT LIABILITIES</b>			
Short-term interest-bearing debt	2 302	1 301	2 966
Trade account payable and other short-term debt	1 232	1 277	1 063
Tax payable	271	566	206
<b>Total current liabilities</b>	<b>3 805</b>	<b>3 144</b>	<b>4 235</b>
<b>Total equity and debt liabilities</b>	<b>23 881</b>	<b>22 070</b>	<b>22 896</b>

# Statement of changes in equity

Statnett Group

<i>(Amounts in NOK million)</i>	<b>Total equity</b>	<b>Non-controlling interest</b>	<b>Total equity allocated to the owner of Statnett SF</b>	<b>Other equity accrued</b>	<b>Funds</b>	<b>Contributed capital</b>
<b>Equity as at 1 January 2010</b>	<b>5 618</b>	<b>-</b>	<b>5 618</b>	<b>2 915</b>	<b>3</b>	<b>2 700</b>
Profit/loss for the year	2 198	-25	2 223	2 223	-	-
Other comprehensive income	-6	-	-6	-	-6	-
Dividends paid	-132	-	-132	-132	-	-
Non-controlling interest	-50	3	-53	-53	-	-
<b>Equity as at 31 December 2010</b>	<b>7 628</b>	<b>-22</b>	<b>7 650</b>	<b>4 953</b>	<b>-3</b>	<b>2 700</b>
<b>Equity as at 1 January 2011</b>	<b>7 628</b>	<b>-22</b>	<b>7 650</b>	<b>4 953</b>	<b>-3</b>	<b>2 700</b>
Profit/loss for the period	1 000	-21	1 021	1 021	-	-
Other comprehensive income	-36	-	-36	-	-36	-
Dividends paid	-315	-	-315	-315	-	-
Acquisition subsidiaries	-	43	-43	-43	-	-
<b>Equity as at 31 December 2011</b>	<b>8 277</b>	<b>-</b>	<b>8 277</b>	<b>5 616</b>	<b>-39</b>	<b>2 700</b>

# Cash flow statement

Statnett Group

(Amounts in NOK million)

	31.12.11	31.12.10
<b>Cash flow from operating activities</b>		
Profit before tax	1 357	3 058
Loss/gain(-) on sale of fixed assets	-3	-6
Ordinary depreciation and write-downs	798	666
Loss/ gain(-) on sales on investments on associates and joint ventures	-	-28
Paid tax for the period	-566	6
Interest recognised in the income statement for the period	320	306
Interest received for the period	43	29
Interest paid for the period	-332	-362
Changes in trade accounts receivable/payable	503	-348
Changes in other accruals	-592	494
Profit/loss from companies using equity method	-5	-11
<b>Net cash flow from operating activities</b>	<b>1 523</b>	<b>3 804</b>
<b>Cash flow from investing activities</b>		
Proceeds from sale of tangible fixed assets	12	13
Purchase of tangible fixed assets and plants under construction	-2 384	-1 892
Merger NorGer net for cash acquired	-	-32
Changes in investments in associates and joint ventures	-	93
Changes in long-term loan receivables	-	56
Dividend received	2	22
<b>Net cash flow from investing activities</b>	<b>-2 370</b>	<b>-1 740</b>
<b>Cash flow from financing activities</b>		
Proceeds from new interest-bearing borrowings	2 781	1 250
Repayment of interest-bearing debt	-1 738	-2 364
Proceeds from sale of market-based securities	367	305
Purchase of market-based securities	-375	-336
Dividends paid	-315	-132
<b>Net cash-flow from financing activities</b>	<b>720</b>	<b>-1 277</b>
<b>Net cash flow for the period</b>	<b>-127</b>	<b>787</b>
Cash and cash equivalents at the start of the period	1 129	342
Cash and cash equivalents at the close of the period	1 002	1 129

Included under the item cash and cash equivalents as at 31 December 2011 are reserved tax withholdings to the amount of NOK 49 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 fourth quarter 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 2010.

The accounting principles that have been applied for the interim accounts for the fourth quarter of 2011 are consistent with the accounting principles that were applied for the consolidated accounts presented on 31 December 2010.

# Statnett

**Statnett**

Husebybakken 28B, Oslo  
PO Box 5192 Majorstuen  
N-0302 Oslo

Telephone: +47 23 90 30 00

Fax: +47 22 52 70 01

[www.statnett.no](http://www.statnett.no)