Statnett

Annual Report 2005

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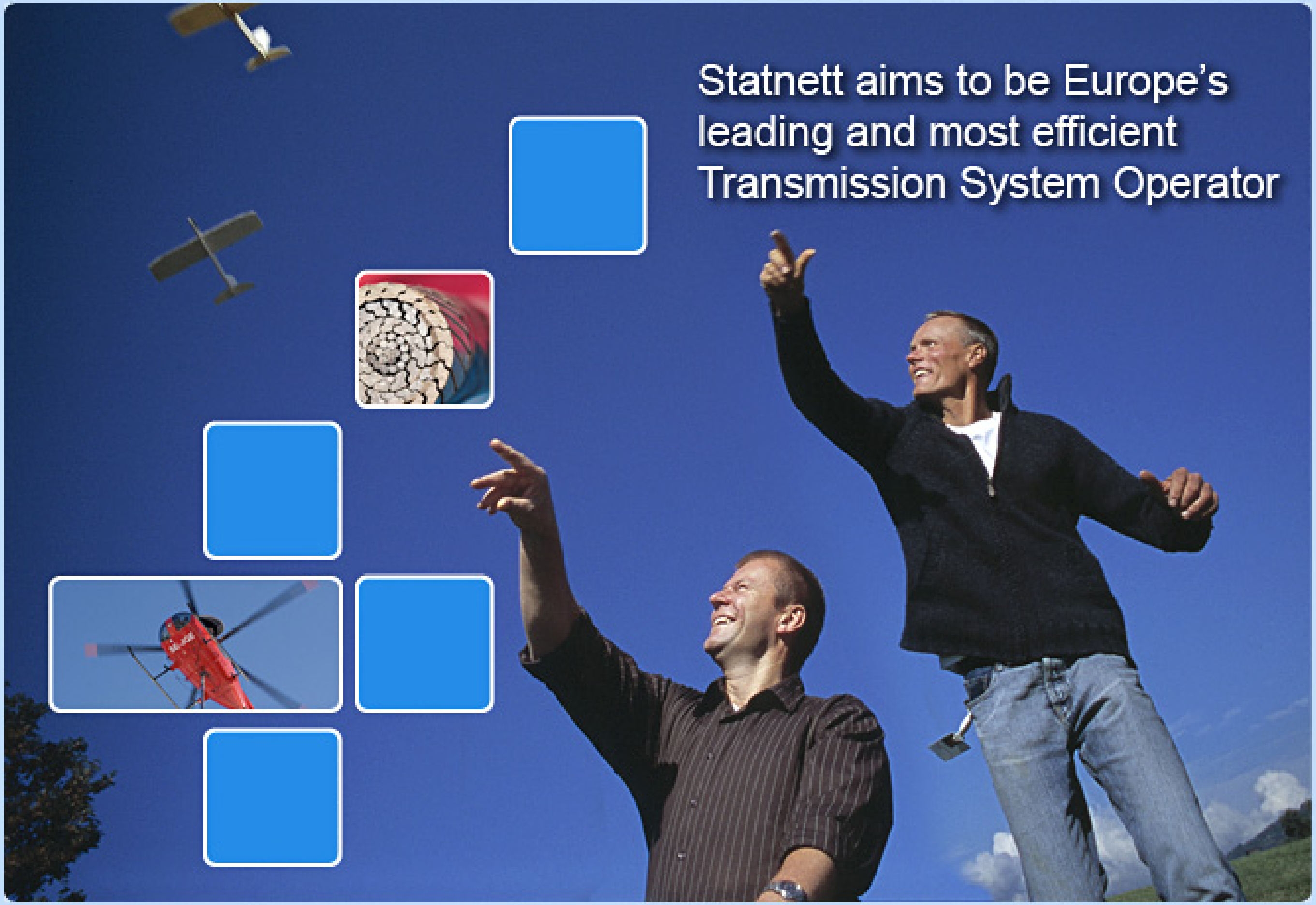

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Challenges waiting in line

Statnett has long warned that Norway will experience an increasingly difficult energy situation. There is already a shortfall of hydropower in a year of normal precipitation. This problem cannot be resolved by building more transmission lines in Norway. In the short term, security of supply can be improved by developing more transmission links to the Continent (provided that someone has a surplus of power generation "to spare"), or by increasing power generation in Norway itself. For Statnett, this has been a very important message to get across.

President and CEO Odd Håkon Hoelsæter

As many will be aware, Statnett has long been particularly concerned about the power situation in Central Norway. In 2008, in this region alone the shortfall in a year of normal precipitation will be around 9 TWh. That makes the situation in Central Norway extremely serious. As a consequence, Statnett has for several years been warning of the dangers of failing to act in response to these developments. This has helped place the matter on the government agenda.

Statnett is now fully focused on taking the action required to manage the power situation in the region during the years it will take to establish long-term, robust solutions. We believe this will have to be done by establishing substantial, new power generation in Central Norway.

Essential to secure flexibility in consumption

Our "sister enterprise", Enova, was established by the Government among other things in order to promote new sources of renewable energy and a more rational use of energy. Good results from Enova will enable better utilisation of the power system as a whole. We have therefore set up a cooperation agreement between our two enterprises. For Statnett, it is of course important to ensure flexibility of consumption. The energy we have must be utilised to the optimum. We are now working on developing the possibilities to buy back energy from major consumers through a voluntary, market-based scheme using energy options.

I have noted with interest that while in Central Norway Statnett is encountering demand for more rapid expansion of power lines, in Hordaland we are meeting opposition to the new power line between Eidfjord and Samnanger, a line that will secure the electricity supply in the whole of Hordaland. This shows how important it is to communicate at an early stage the need for new power lines to regions that will need increased transmission capacity. If we do not develop the Sima - Samnanger line now or start up new power generation in the area, in a few years´ time Hordaland will experience a very tight power situation, if not as serious as the one we are now seeing in Central Norway.

Following social economic principals

As a builder of power lines, we often encounter stiff opposition from politicians, environmental organisations, the tourism industry, local communities and others to our plans, and in recent years we have seen growing resistance to these projects.

As a monopoly based entity, we have a statutory duty to invest according to socio-economic principles, in addition to complying with the authorities´ guidelines with regard to, for example, the use of conventional overhead power lines. This demand for socio-economic profitability sets some limits as to what we can build and the kind of solutions we can choose. When the grid rent has to be paid, all consumers should be able to feel secure that Statnett is spending the money as society would wish. We may well now be facing a debate as to how much society is willing to pay to "conceal" the encroachments on the landscape, for example in the form of underground cables instead of overhead lines.

At the same time as we are experiencing opposition to new power lines, it is evident that there is also opposition to the expansion of the power industry in general. This applies to gas power, hydropower and wind power.

There is a paradox in all this. There is a strong desire in Norway for economic growth, positive industrial development and, not least, more jobs. That industry and those jobs will depend on a secure supply of electricity. It is not possible over time to ensure a secure electricity supply and keep electricity prices stable and at an acceptable level, without at the same time developing more power generation and line capacity.

Mid-Norway- the closest of our big challenges

By the end of 2006, Statnett will have invested almost NOK 2 billion in expanding the grid in Central Norway since 2002. The most important challenge in the next few years will still revolve around the situation in Central Norway. In the longer term, however, the challenges will be waiting in line.

The next region where substantial investment is required is the county of Hordaland. Here, we have analysed the situation in collaboration with the power company Bergenshalvøens Kommunale Kraftselskap (BKK) and concluded that there is a need for more transmission capacity. A new transmission line between Sima in Eidfjord and Samnanger will be the best solution, based on an overall assessment of the situation. If there is no solution for this proposed link, we can expect more frequent and longer lasting power outages in Hordaland. In the slightly longer term, the central area of Eastern Norway will also require attention. This is an area where consumption is steadily growing and which, in a few years´ time, will have to have access to more energy. In Northern Norway, there is uncertainty surrounding the development of wind power, which will give rise to challenges in the time ahead. Substantial wind power development in the north will demand investment in power lines totalling many billions of kroner. Thus far, these wind power projects do not appear to be socio-economically profitable, although this may change.

If the nationwide balance between supply and demand continues developing negatively in the next few years, security of supply will be weakened if we do not put into place new interconnectors enabling us to import power from abroad. Whether anyone has surplus power to spare, and whether our growing dependency on importing electricity is the right strategy for the future in relation to security of supply, will be important questions to address in the coming years.

Odd Håkon Hoelsæter
President and CEO

Responsibilities and main figures

Statnett´s responsibilities

Statnett´s vision is to be Europe´s leading and most efficient Transmission System Operator (TSO). Statnett´s business idea is to create conditions conductive to a well-functioning electricity market with high security of supply. As the TSO in Norway, Statnett is responsible for co-ordinating and managing the electric power system hour by hour, day by day. Electricity cannot be stored but must be used the moment it is generated. Statnett´s job is to ensure that power supply and demand are always in balance.

Statnett is also responsible for Norway´s Main Grid and has a statutory duty to ensure that it is open to all participants in the power market, as provided by the 1991 Energy Act. The Main Grid comprises the highest voltage transmission lines and substations that are important for a whole region, several regions or the entire country. Statnett owns approximately 85 per cent of the facilities in the Main Grid.

All market participants are entitled to open and equal access to the power grid. This openness and the use of a single price system are the most important prerequisites for the purchase and sale of electricity based on open competition. A large proportion of power trading is done on the Nordic power exchange Nord Pool ASA, which is owned 50:50 by Statnett and Affärsverket Svenska Kraftnät of Sweden. Statnett and the other Nordic TSOs are, together with Nord Pool ASA, joint owners of Nord Pool Spot AS.

Statnett shall

- ensure quality of supply in the long term by developing the Norwegian Main Grid
- ensure quality of supply in the short term by coordinating electricity generation and consumption
- offer access to the power transmission grid on equal terms to all by operating the Main Grid Commercial Agreement
- ensure accessible transmission routes by means of good maintenance practices.

Statnett SF in figures

PARENT COMPANY			(Amounts in NOK million)			GROUP
31.12.03	31.12.04	31.12.05		31.12.05	31.12.04	31.12.03
			MAIN FIGURES			
5 757	5 071	5 096	Operating revenues	5 244	5 214	5 884
994	769	424	Operating profit	466	800	997
769	543	179	Profit before tax	235	591	789
570	391	131	Net profit for the year	174	431	585
11 504	11 830	12 477	Total assets	12 845	12 156	11 773
			KEY RATIOS			
10,3 %	7,7 %	4,4 %	Return on capital employed	4,7 %	8,0 %	10,3 %
9,3 %	7,1 %	4,0 %	Return on assets before tax	4,4 %	7,4 %	9,3 %
13,0 %	8,9 %	3,0 %	Return on equity after tax	3,7 %	9,3 %	12,8 %
38,2 %	37,3 %	35,8 %	Equity ratio	37,1 %	38,5 %	39,2 %

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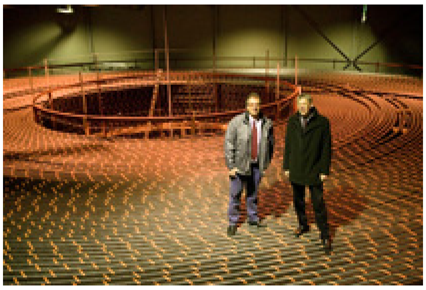
Statnett has entered a period when we are involved in a much higher rate of investment than for many years. In addition to executing the major investment projects to build the NorNed cable and the Viklandet - Fræna - Nyhamna power line, a number of other new projects are in the planning stage. In view of these large-scale investments, Statnett´s Board of Directors applied in January 2005 to Statnett´s owner, the Norwegian State, for an injection of equity capital. The application is still being considered by the Ministry of Petroleum and Energy.



The first 154 km of the NorNed cable was produced towards the end of 2005 and beginning of 2006. (Foto ABB: Hans-Peter Bloom)

In 2005, the hydropower market in Norway was characterised by very high precipitation and high reservoir levels, but also a sharp increase in electricity consumption. Consumption has now risen to the same level as for the winter of 2002 - 2003, a period that was dominated by a strong focus on the supply situation and unusually high prices.

Statnett´s Board of Directors is concerned to ensure that, in a period of major investment projects, the enterprise should also maintain its focus both on the efficient implementation of projects and on day-to-day operations. It is with satisfaction that the Board has registered that international comparisons show Statnett to be a highly efficient transmission system operator (TSO).

Statnett´s work with the new power line from Viklandet till Nyhamna (picture) will be done in 2006. (Foto Hydro: Leren)

Quality and security of supply

Good reliability of supply

In 2005, the Main Grid´s supply reliability rating was just over 99.99 per cent. The remainder is "undelivered energy" viewed in relation to total energy transmission. Statnett´s target, to ensure that no end-user is without electricity for more than two hours owing to a fault in Statnett´s transmission facilities, was achieved.

The power situation

The power situation in winter 2005 - 2006 was a comfortable one, as a result of very high precipitation levels in 2005. Aggregate power consumption in 2005 totalled 125.9 TWh, which is about 3 per cent up on 2004. Figures from the Norwegian Meteorological Institute show that 2005 was the sixth warmest year on record in Norway since 1867.

Power-intensive industry increased its consumption in 2005 to 34 TWh, while general consumption rose by approximately 3 per cent to almost 84.4 TWh. Other consumption is consumption in electric boiler plants, pumped storage and calculated physical energy losses in the grid.

Owing to the very high inflow of water to hydropower plants, in 2005 aggregate power generation was as high as 138 TWh, while reservoir levels also rose. This gave a net export of just over 12 TWh.

New tariff to promote better localisation

With effect from 2005, Statnett has introduced a new, lower Main Grid tariff for new power generation in areas with a considerable power shortfall. This has been done to encourage new generation facilities to be located to the areas where they are most needed.

The tariff was put into effect in 2005 in two defined areas in Central Norway and in the county of Hordaland. For 2006, the scheme will be extended to include the county of Sunnhordland.

This special tariff will apply for 15 years from the date of the investment decision.

The tariff is the same regardless of which type of power plant the power is generated from: hydropower, wind power, gas power and all other alternatives are treated equally.

Measures for managing extremely difficult power situations

Under the Regulations relating to the system responsibility in the power system, Statnett, as the Norwegian transmission system operator (TSO), is responsible for looking into and developing the necessary measures to manage extremely difficult power situations. Consequently, towards the end of 2005 Statnett applied to the Norwegian Water Resources and Energy Directorate (NVE) for approval for proposals to develop new measures and also the criteria for determining when the measures may be brought into use. The aim is to reduce the risk of electricity rationing in years with little precipitation.

In its application to NVE, Statnett has stated that we envisage developing three types of measures in addition to those available today:

* A special information campaign aimed at the electricity market and at the general public in order to encourage the market participants to act as prudently as possible and to encourage the public to save electricity

* An energy options scheme related to consumption, which will involve entering into agreements with consumers, primarily in industry, to reduce their production and thus their electricity consumption in order to avoid electricity rationing

* A permanent reserve generation scheme, which for example could entail introducing mobile gas power plants that can be used to avoid electricity rationing.

Statnett has requested NVE´s approval for its proposals to work on and concretise these measures, among other things with a view to establishing a one-year pilot scheme for contracts with consumers aimed at reducing their electricity consumption based on market conditions, through the use of "energy options".

Substantial investment in the transmission grid

Statnett´s operations are currently dominated by our involvement in a number of substantial investment projects, at both the planning and implementation stage. This is owing in part to a high increase in electricity consumption, particularly in some parts of Norway, but without generation capacity having been increased correspondingly in the areas in question. Statnett has for several years now expressed concern over the fact that the situation of an ever weakening overall power balance nationwide has been met to only a slight extent by an increase in generation. The Board wishes to emphasise that failure to tackle the situation now will undermine future security of supply.

Recently, most of the focus has been on the situation in Central Norway, which Statnett regards as giving great cause for concern. New transmission lines for transmitting sufficient power into the region will not be commissioned before 2012 at the earliest, and the period from when most of the new industrial consumption is expected to be in place, from 2008 up until 2012, will be problematical for the electricity system. Statnett has estimated that, unless action is taken, in 2010 the electricity shortfall in this region will be approximately 9 TWh. 9 TWh is equivalent to the total electricity consumption in one year in the city of Oslo. The highest measured import of electricity into the region between 1996 and 2004 was 5.4 TWh per annum. A shortfall of 9 TWh will therefore be difficult to deal with.

Some of the problem can be solved by building new transmission interconnectors. In spring 2006, Statnett will apply for a concession to build a 420 kV power line from Nea in Tydal to the Norwegian border with Sweden and also forward a planning proposal for a new power line between Ørskog and Indre Sogn to improve the import capacity into the area. Internally within the region, the power line currently being built between Viklandet and Nyhamna will also be finished. However, in addition to investing substantially in developing the grid within this region, Statnett has also pointed to a clear need for new power generation in the area. Building a gas power plant will, in Statnett´s view, be the best response to this need, since it will provide a large, regular power supply in an area where there is a shortage. The region has two landing sites for gas from the Norwegian Sea, which will facilitate the use of gas for power generation here. Statnett has calculated that an 800 MW gas power plant at Fræna will reduce the need to invest in power lines by approximately NOK 1 billion.

The establishment of new power lines for "importing" electricity into the region does not represent an overall solution to the problem, however. Since there is also a nationwide shortfall of power, a solution of this type will primarily serve to "shift" the problem elsewhere, in that an overall power balance already under strain will be weakened in other places.

Statnett also sees other regional challenges for the electricity system in the long term. The county of Hordaland is one area that demands particular attention. The establishment of a new transmission interconnector into the region will be important for future security of supply. In the slightly longer term, continued growth in consumption in central Eastern Norway will probably also demand action.

Under construction

NorNed

In spring 2005, construction work began in connection with the NorNed project, to build a high-voltage direct current (HVDC) subsea transmission link between Norway and The Netherlands. This will be the first direct transmission link between Norway and the Continental electricity market, which is expected to contribute significantly to security of supply on both sides of the North Sea.

The North Sea cable between Norway and The Netherlands (NorNed) will be 580 km long, and thus the world´s longest subsea cable.

Thus far, the project is on budget and on schedule. Statnett´s share of the total investment costs will be approximately NOK 2.3 billion. NorNed should be completed by the end of 2007.

Viklandet - Fræna - Nyhamna

The construction of the new 420 kV power line from Viklandet in Sunndal to Fræna is on schedule and will be completed during 2006. It is estimated to cost almost NOK 600 million. Statnett will also build a new 420 kV power line from Fræna to Nyhamna for Norsk Hydro. This will strengthen security of the electricity supply in outlying areas of the county of Møre og Romsdal and also facilitate the supply of electricity to the new gas treatment facility for Ormen Lange in Aukra. However, these projects will not be sufficient to deal satisfactorily with the power shortfall in the region (see above).

Financial results

Operating revenues

The Statnett Group recorded total operating revenues of NOK 5 244 million in 2005, which is NOK 30 million up on the year before.

Of operating revenues, power transmission accounted for NOK 3 173 million, which is on a level with 2004. Power transmission consists mainly of the Main Grid´s revenues, which are set by the Norwegian Water Sources and Energy Directorate (NVE).

Statnett operates the entire Main Grid and invoices Main Grid customers through the transmission tariff. At year-end 2005, Statnett owned 85 per cent of the Main Grid. The other Main Grid owners earn their share of revenues by leasing transmission grid to the Main Grid. Total revenues invoiced to the Main Grid and shared regional grids amounted to NOK 3 295 million, which produced higher revenues of NOK 242 million. The higher revenue will be credited to coming years´ tariffs, and is therefore booked as a liability on Statnett´s balance sheet.

Power sales in 2005 totalled NOK 1 756 million, a decrease of NOK 47 million on 2004. Most power sales consist of power sold by Statnett in connection with the balance settlement on behalf of all the customers in the regulating power market. Corresponding sums are booked under operating costs so that the effect on the results of the power purchases/power sales in the balance settlement is zero.

Other operating revenues amounted to NOK 315 million, an increase of NOK 83 million, which is largely made up of revenues earned from the construction of the Fræna-Nyhamna transmission line on behalf of Hydro.

Operating costs

The Statnett Group recorded operating costs totalling NOK 4 778 million in 2005, compared with NOK 4 414 million the year before. The rise in costs is largely due to increased costs of transmission losses, amounting to NOK 71 million, and increased costs relating to the purchase of power through the regulating power market by NOK 96 million. Materials and subcontractors increased by NOK 53 million and must be seen in connection with increased revenues from the sale of external services. Wage and pension costs increased by NOK 46 million. Here, pension costs and a reduction in sales of working hours against investment projects accounted for the greater part of the increase. Depreciation of fixed assets rose by NOK 69 million compared with the 2004 accounts, which had a reversal of previously written-down costs relating to the NorNed project. The level of activity has been rising as a consequence of new tasks that Statnett is obliged to undertake, including as a result of Government White Paper 18 (2003 - 2004) On security of the electricity supply etc.

Results

The Statnett Group had an operating profit of NOK 466 million in 2005, compared with NOK 800 million the year before. Net financial costs totalled NOK 231 million, as against NOK 209 million in 2004.

The Statnett Group recorded a net profit after tax of NOK 174 million in 2005, compared with NOK 431 million in 2004.

The Parent Company, Statnett SF, recorded a net profit after tax of NOK 131 million, compared with NOK 391 million in 2004.

The drop in profit is associated with the fact that the revenue ceiling relating to the grid operations that is set by NVE has been reduced in line with NVE´s current revenue regulation of the grid companies, and the fact that operating costs have risen as a result of increased power transmission in the grid.

Investments

Statnett invested a total of NOK 855 million in 2005, compared with NOK 1 067 million in 2004. NOK 469 million was invested in new power lines and transformer stations. Investments in maintenance of the existing Main Grid (reinvestment) amounted to NOK 163 million and other investments to NOK 223 million.

Cash flow and balance sheet

Operating activities in the Group produced a cash flow of NOK 453 million. Investments totalling NOK 855 million were carried out during the year. In total, loans were repaid for NOK 1 367 million, and new loans were raised for NOK 2 201 million. At year-end 2005, the Group´s liquid assets totalled NOK 1 475 million, an increase of NOK 59 million on the year before.

At 31 December 2005, the Group had total assets amounting to NOK 12 845 million, compared with NOK 12 156 million at year-end 2004.

The Group´s equity totalled NOK 4 767 million at year-end 2005, compared with NOK 4 680 million at year-end 2004. Statnett´s non-restricted equity is NOK 1 760 million. The equity ratio is 37.1 per cent, compared with 38.5 per cent the year before.

Guarantees

The State-owned Enterprises Act has been amended, with the removal with effect from 2003 of Government guarantee backing for state-owned enterprises. The Government will, however, continue to be liable for loans raised by Statnett SF prior to 31 December 2002. These loans are backed by Government guarantees, and are guaranteed until the loans mature. The Government-guaranteed loans totalled NOK 2 287 million at 31 December 2005. The last Government-guaranteed loan falls due according to schedule in 2010.

Statnett pays individual guarantee premiums to the Government for the loans that are guaranteed. The guarantee premiums are included in financial costs and amounted to NOK 9.5 million in 2005.

Transport operations and preparedness

Statnett SF has a statutory duty to provide transport preparedness for the Norwegian power supply. The wholly owned subsidiary Statnett Transport AS is required to ensure effective operational implementation of this duty and to see to it that the company is run efficiently and competitively.

Operating revenues for the subsidiary Statnett Transport AS were NOK 27 million in 2005, compared with NOK 38 million the year before.

Statnett Transport AS recorded a net loss for the year of NOK 3 million, compared with a net loss of NOK 1 million the year before. The increased loss is owing to a lower level of activity than in 2004.

The Nordic Power Exchange, Nord Pool

The Nord Pool Group consists of the companies in the Nord Pool Group and associated companies.

The Nord Pool Group includes the parent company, Nord Pool ASA, and the wholly owned subsidiaries Nord Pool Clearing ASA and Nord Pool Consulting AS.

Nord Pool ASA is owned 50:50 by Statnett SF and Svenska Kraftnät of Sweden. The Nord Pool Group also includes the associated company Nord Pool Spot AS, in which Nord Pool ASA and Statnett each have a 20 per cent stake.

The Nord Pool Group contributed a net profit of NOK 26 million after tax to Statnett´s earnings in 2005, including Statnett's share of Nord Pool Spot´s earnings.

Financial risk
Statnett has adopted a financial policy aimed at ensuring that it can obtain the necessary finance to realise the planned programme of operations and investment at the lowest possible cost. This includes objectives aimed at minimising Statnett´s interest rate risk, currency risk and credit risk.

Statnett´s revenues are in Norwegian kroner (NOK). The revenues from grid operations are exposed to interest rate changes in that the return on the grid capital is based on an average of daily interest rates quoted on three-year Norwegian government bonds. Statnett seeks to obtain optimum correlation between the effect of these interest rate changes and the financial costs.

Currency risk is minimised by using currency swap agreements to hedge the risk in the currency obligations in investment projects.

Statnett is exposed to credit risk in investing surplus liquidity with issuers of securities. Statnett has set credit ratings that must be met by counterparties and set maximum exposure for each individual investment.

Statnett aims to be able to fund 12 months´ operations, investments and refinancing without incurring any new debt. The company has a credit facility of NOK 1.5 billion and liquid reserves of about NOK 962 million. The credit facility will run until 2012 and had not been utilised at year-end 2005.

Statnett has a high credit rating, with long-term ratings of AA and Aa3 from Standard & Poor´s and Moody´s Investor Service respectively. All Statnett´s loans in foreign currency are converted to Norwegian kroner through currency swap agreements.

Statnett´s corporate social responsibility

Statnett´s ambition is to further develop a culture of corporate social responsibility in all its commercial operations. This framework includes developing systems to enable Statnett to perform its environmental responsibilities, protect proprietary rights and ensure employee welfare.

Environment
During 2005, Statnett further developed its environmental policy to implement solutions and methods that will further reduce environmental impact and pollution. This is particularly important when building new power lines, but also in order to reduce the environmental impact of all our activities.

The new environmental policy has a higher level of precision in relation to the environmental measures already undertaken in Statnett´s operations, and forms the basis for certifying Statnett in accordance with ISO 14001:2004 Environmental Management Systems. The work of accomplishing environmental certification was completed in 2005 and the certificate was issued at the start of 2006.

The fact that Statnett´s transmission lines and other transmission facilities cover large areas constitutes an environmental challenge for the company. Altogether, Statnett´s transmission lines cover approximately 92,666 acres, about half of which is forested area.

The disposal of hazardous materials is done in accordance with the authorities´ requirements and guidelines.

Statnett is taking seriously the question concerning the possible health effects of high-voltage power lines, and is pursuing a moderately cautious policy when planning routes for new power lines. At the same time, Statnett is ensuring that the company remains continually updated with respect to current research in this field.

Further environmental information is available on Statnett´s website.

Employees
At the turn of the year 2005/2006, Statnett SF had 599 permanent employees, as against 576 the year before. The total number of FTEs was 581, as against 554 in 2004. The increase in staff is partly owing to an increased workload in connection with new grid development projects and the development of a competence environment for socio- economic analysis.

Statnett´s employees are enthusiastic and committed, and identify strongly with the company´s activities. This emerged clearly from the staff survey carried out in autumn 2006, when 85.2 per cent of employees said that they were satisfied or very satisfied with working for Statnett.

Sickness absence in the parent company in 2005 was 3.6 per cent, compared with 3.4 per cent in 2004. Overall sickness absence in the Group was 3.7 per cent.

In 2005, Statnett SF registered 2 instances of personal injury resulting in absence. Both were accidental injuries relating to snow scooter driving, and following this an instruction manual and training have been introduced for the use of snow scooters and other cross-country vehicles.

The injury-absentee frequency rate (H value) for Statnett SF was 1.9 (compared with 3.0 in 2004), the same as for the Group in total.

Sickness absence in the subsidiary Statnett Transport AS was 5.2 per cent. No absences due to injury were reported by Statnett Transport.

External contractors working on projects for Statnett reported only one injury resulting in absence in 2005.

Gender equality

Four of the nine members of Statnett´s Board of Directors (45 per cent) are women. Two of the seven-member Group management team are women.

The gender equality accounts for 2005 show that a good 23 per cent of Statnett´s employees are women. Female managers fill a little over 20 per cent of managerial positions (including substation managers and transmission line supervisors), a slight increase from 2004. The proportion of women in office management positions is approximately 62 per cent. Women work on average 89.3 per cent of full-time post (98 per cent excluding regulated part-time posts), while the figure for men is 99.3 per cent.

Employment conditions for women and men are continually monitored using a variety of methods, including salary reviews and staff surveys. The most recent staff survey showed that employees feel that women and men have equal opportunities at work. Women and men with approximately the same educational background and experience and employed in comparable posts receive equal pay. Statnett aims to increase the proportion of women in technical and managerial posts.

Good corporate governance

Statnett´s bonds are listed on both the Oslo Børs (Stock Exchange) and London Stock Exchange. The Board has resolved that Statnett will follow Oslo Børs´ recommended principles for corporate governance. Statnett´s corporate governance principles aim to facilitate constructive processes, good risk assessment and high-quality decision-making, in order to create value through time.

Outlook

Statnett has identified a need for investments totalling NOK 15 - 16 billion for the period 2005-2014.

A volume of investment of this magnitude will have a major impact on Statnett´s financial situation. Statnett´s booked assets are expected to increase by almost 70 per cent, from approximately NOK 13 billion to approximately NOK 20 billion from the end of 2005 to the end of 2014.

Statnett´s role dictates that it must enjoy a high level of trust and credibility in the market. Based on the role it plays in society, there must never be any doubt about Statnett´s financial position and robustness. Statnett today enjoys a high degree of trust and credibility in the market. Preserving this confidence and satisfactory financial strength in a situation where Statnett has a considerable investment requirement necessitates strengthening the enterprise´s equity capital. Consequently, the Board of Statnett applied in 2005 for an injection of equity capital totalling NOK 2.0 billion. The application is still being considered by the Ministry of Petroleum and Energy.

In March 2006, Statnett signed a contract for a new vessel to be built to replace the old M/S Elektron. The new preparedness vessel will be finished in autumn 2007 and will cost approximately NOK 180 million.

The results in 2006 are expected to be slightly weaker than in 2005. The reason for this is primarily that Statnett will receive lower revenues as a result of the low interest rate level that is reducing Statnett´s revenue ceiling.

A new model for regulating the revenues of grid companies will be introduced from 2007. The proposed revenue regulation system will produce a better accounting result for companies that are in an investment phase, such as Statnett. It is important not least in the current situation that the regulation model should provide incentives for socio-economically effective investment in the power grid.

As of 1 January 2007, Statnett will begin reporting under IFRS (International Financial Reporting Standard). Based on the current IFRS, differences have been identified in relation to accounting principles based on good accounting practice in Norway that relate to accounting for tangible fixed assets, accounting for income on an accruals basis, and accounting for pensions and financial instruments. In addition, proportional consolidation of jointly-controlled companies will possibly disappear.

In accordance with the Norwegian Accounting Act, section 3.3.A, the Board confirms that the conditions exist for continued operation of the company on a going concern basis.

Allocation of profit

When deliberating the Government Budge for 2005, the owner stipulated a divided from Statnett of 50 per cent of the net profit for the 2005 financial year. The Board therefore recommends that the net profit from Statnett SF be allocated as follows:

Amounts in NOK million	
Dividend	87
Transfer to other equity	44
Total	**131**

Oslo, 16 March 2006

Svein Rennemo
(Chair of the Board of Directors)

Grethe Høiland

Kjell Olav Kristiansen
(Vice Chair of the Board of Directors)

Thor Håkstad

Christine Meyer

Heidi Ekrem Skar

Kirsten Faugstad

Steinar Jørandstad

Ole Bjørn Kirstihagen

Odd Håkon Hoelsæter
(President and CEO)

Profit and loss account

Including the Main Grid Commercial Agreement

PARENT COMPANY			(Amounts in NOK million)		GROUP		
31.12.03	31.12.04	31.12.05		Note	31.12.05	31.12.04	31.12.03
			OPERATING REVENUES				
3 355	3 179	3 173	Power transmission	4, 22	3 173	3 179	3 355
2 282	1 803	1 756	Power sales	4, 5	1 756	1 803	2 282
120	89	167	Other operating revenues	4	315	232	247
5 757	**5 071**	**5 096**	**Total operating revenues**		**5 244**	**5 214**	**5 884**
			OPERATING COSTS				
2 307	1 853	1 949	Power purchases	5	1 949	1 853	2 307
157	300	250	Systemwide services		250	300	157
591	472	543	Transmission losses		543	472	591
379	331	375	Leasing of transmission facilities		375	331	379
146	115	168	Materials and subcontractors	6	168	115	146
230	263	307	Wage costs	6, 7, 8	354	308	273
613	687	698	Depreciation of tangible fixed assets	9	706	696	621
50	-50	19	Write-downs of tangible fixed assets	6, 9	19	-50	50
290	331	363	Other operating costs	6	414	389	363
4 763	**4 302**	**4 672**	**Total operating costs**		**4 778**	**4 414**	**4 887**
994	**769**	**424**	**Operating profit**		**466**	**800**	**997**
10	-	-	Divested operations	11	-	-	14
1 004	**769**	**424**	**Profit before financial items and tax**		**466**	**800**	**1 011**
103	62	66	Financial income	10	80	80	119
338	288	311	Financial costs	10	311	289	341
235	**226**	**245**	**Net financial items**		**231**	**209**	**222**
769	**543**	**179**	**Profit before tax**		**235**	**591**	**789**
199	152	48	Tax	17	61	160	204
570	**391**	**131**	**Net profit for the year**		**174**	**431**	**585**
			Disclosures of allocations:				
518	370	87	Dividend		87	370	518

Balance sheet

Including the Main Grid Commercial Agreement

PARENT COMPANY			(Amounts in NOK million)		GROUP		
31.12.03	31.12.04	31.12.05		Note	31.12.05	31.12.04	31.12.03
			ASSETS				
			INTANGIBLE ASSETS				
-	-	-	Computerised trading systems	9	10	14	10
150	112	104	Deferred tax asset	17	73	85	122
150	**112**	**104**	**Total intangible assets**		**83**	**99**	**132**
			TANGIBLE FIXED ASSETS				
9 119	9 515	9 518	Tangible fixed assets	9	9 528	9 523	9 136
757	667	792	Plant under construction	6	792	667	757
9 876	**10 182**	**10 310**	**Total tangible fixed assets**		**10 320**	**10 190**	**9 893**
			FINANCIAL FIXED ASSETS				
151	151	148	Investment in Group companies	11	-	-	-
16	16	16	Investment in other shares and holdings	11	70	72	64
50	50	50	Loan to companies in same Group	12, 16	-	-	-
1	-	-	Other long-term receivables	12	-	-	1
58	55	42	Pension assets	8	42	55	58
276	**272**	**256**	**Total financial fixed assets**		**112**	**127**	**123**
			CURRENT ASSETS				
253	263	292	Trade accounts receivable	12	299	270	261
9	12	11	Intercompany accounts receivable	16	-	-	-
61	32	29	Other short-term receivables	12	43	52	71
4	2	504	Pre-payments to suppliers		504	2	4
-	-	9	Short-term loans		9	-	-
744	776	762	Investment in market-based securities	13	966	938	877
131	179	200	Liquid assets		509	478	412
1 202	**1 264**	**1 807**	**Total current assets**		**2 330**	**1 740**	**1 625**
11 504	**11 830**	**12 477**	**Total assets**		**12 845**	**12 156**	**11 773**

PARENT COMPANY			(Amounts in NOK million)				GROUP
31.12.03	31.12.04	31.12.05		Note	31.12.05	31.12.04	31.12.03
			EQUITY AND LIABILITIES				
			EQUITY				
2 700	2 700	2 700	Contributed capital		2 700	2 700	2 700
1 694	1 716	1 760	Other equity		2 067	1 980	1 919
4 394	**4 416**	**4 460**	**Total equity**	18	**4 767**	**4 680**	**4 619**
			PROVISIONS FOR LIABILITIES				
110	102	94	Pension liabilities	8	102	108	116
-	-	-	Provision for Natural Disaster Assistance Fund	20	20	19	15
-	-	-	Provision for periodic maintenance		1	1	1
110	**102**	**94**	**Total provisions for liabilities**		**123**	**128**	**132**
			LONG-TERM LIABILITIES				
4 037	4 365	4 565	Bond loans	14	4 565	4 365	4 037
800	400	-	Government loans	14	-	400	800
250	187	-	Loans from financial institutions	14	-	187	250
33	31	29	Other long-term liabilities	15	29	31	33
5 120	**4 983**	**4 594**	**Total long-term liabilities**		**4 594**	**4 983**	**5 120**
			CURRENT LIABILITIES				
513	1 179	2 400	Short-term interest-bearing debt	14	2 400	1 179	513
521	358	556	Trade accounts payable		559	369	527
1	1	2	Group liabilities	16	-	-	-
145	114	39	Tax payable	17	49	123	148
75	59	81	Tax payable and deductions		84	62	78
518	370	87	Provisions for dividends		87	370	518
107	248	164	Other current liabilities		182	262	118
1 880	**2 329**	**3 329**	**Total current liabilities**		**3 361**	**2 365**	**1 902**
11 504	**11 830**	**12 477**	**Total equity and liabilities**		**12 845**	**12 156**	**11 773**
19	9	9	Secured liabilities, guarantees	19	9	9	19
			Financial derivatives	2			

Oslo, 16 March 2006

Svein Rennemo
(Chair of the Board of Directors)

Grethe Høiland

Kjell Olav Kristiansen
(Vice Chair of the Board of Directors)

Thor Håkstad

Christine Meyer

Heidi Ekrem Skar

Kirsten Faugstad

Steinar Jørandstad

Ole Bjørn Kirstihagen

Odd Håkon Hoelsæter
(President and CEO)

Cash flow statement

PARENT COMPANY			(Amounts in NOK million)			GROUP
31.12.03	31.12.04	31.12.05		31.12.05	31.12.04	31.12.03
			CASH FLOWS FROM OPERATING ACTIVITIES			
769	543	179	Profit before tax	235	591	789
-68	-10	-4	Loss/ gain(-) on sale of fixed assets	-6	-10	-77
663	637	717	Ordinary depreciation and write-downs	725	646	671
348	-172	169	Change in trade accounts receivable/ trade accounts payable	161	-167	357
-343	-6	-664	Change in other accruals	-662	-10	-303
1 369	**992**	**397**	**Net cash flow from operating activities**	**453**	**1 050**	**1 437**
			CASH FLOWS FROM INVESTING ACTIVITIES			
186	80	10	Receipts from sale of tangible fixed assets	13	81	186
-674	-1 153	-711	Payments on purchase of tangible fixed assets and intangible fixed assets	-718	-1 157	-692
-221	140	-144	Change in stocks, plant under construction	-144	140	-221
11	1	-	Change in long-term loans receivable	-	1	-
-	-	-9	Change in short-term loans receivable	-9	-	-
66	7	-	Change in share investments	-	-1	33
-632	**-925**	**-854**	**Net cash flow from investing activities**	**-858**	**-936**	**-694**
			CASH FLOWS FROM FINANCIAL ACTIVITIES			
1 299	1 196	2 201	Receipts on new long-term borrowing	2 201	1 196	1 299
-1 887	-665	-1 367	Repayments of long-term debt	-1 367	-665	-1 889
-401	-518	-370	Dividends paid	-370	-518	-401
-989	**13**	**464**	**Net cash flow from financial activities**	**464**	**13**	**-991**
-252	**80**	**7**	**Net cash flow for the period**	**59**	**127**	**-248**
1 127	875	955	Cash and cash equivalents at start of period	1 416	1 289	1 537
875	955	962	Cash and cash equivalents at end of period	1 475	1 416	1 289

Restricted tax deductions payable amounting to NOK 32 million in the Parent Company and NOK 35 million in the Group are included in cash and cash equivalents at 31 December 2005.

Unutilised credit facilities totalling NOK 1 500 million are not included in cash and cash equivalents above.

Notes

1 - Accounting principles

General
The accounts for the Parent Company and for the Group are prepared in accordance with the (Norwegian) Accounting Act of 17 July 1998 and with good accounting practice.

Basis of consolidation
Consolidated companies
The consolidated accounts comprise Statnett SF and subsidiaries in which Statnett SF has a controlling interest. These will normally be companies in which Statnett SF, either directly or indirectly via subsidiaries, holds more than 50 per cent of the voting shares. The consolidated accounts are prepared using the purchase method and show the Group as though it were one entity. For the consolidated accounts, all outstanding items and internal transactions between the companies in the Group have been eliminated.

The cost price of shares in subsidiaries has been eliminated against equity at the time of the transaction. Excess value greater than the underlying equity in subsidiaries is apportioned to those assets and liability items to which the excess value can be related. The portion of the cost price that cannot be attributed to particular assets represents goodwill.

The wholly-owned subsidiary Statnett Forsikring AS has now been consolidated, including the comparative figures for 2003 and 2004. The company was previously not consolidated as its operations (insurance) differed substantially from those of the rest of the Group. The recent development in good accounting practice makes it natural to consolidate.

Statnett SF´s Group Pension Fund is not part of the Group. The Pension Fund is valued at the lowest of cost price and actual value, and is classified as financial fixed assets.

Investments in jointly-controlled companies
Significant shareholdings in companies where there is a cooperation agreement giving joint control together with one or more other parties are included with proportional share of assets, liabilities, revenues and costs line by line in the accounts (proportional consolidation method). The treatment of excess value and outstanding items, as well as internal transactions, in the jointly-controlled companies is done according to the same principles as for consolidation of subsidiaries.

Investments in associated companies
Shareholdings in companies where the Group has a significant interest are treated using the equity method. These will normally be companies where the Group has a 20 - 50 per cent stake. This involves the Group´s share of net profit for the year after tax and amortisation of any excess value being entered as financial items in the profit and loss account. The treatment of excess value in the associated companies is done according to the same principles as for consolidation of subsidiaries. Shareholdings in associated companies are entered on the consolidated balance sheet as financial fixed assets at original cost plus accumulated shares of profits and with a deduction for dividends.

Acquisition/sale of subsidiaries, jointly-controlled companies and associated companies
The acquisition and sale of subsidiaries, jointly-controlled companies and associated companies are included in the consolidated accounts for that part of the year they formed part of or were associated with the Group.

Investments in other companies
Investments in companies in which the Group owns less than 20 per cent of the voting share capital are treated using the cost method.

Investments in subsidiaries, jointly-controlled companies and associated companies in Statnett SF (company accounts)
Investments in subsidiaries, jointly-controlled companies and associated companies are treated using the cost method in the company accounts. Group contribution rendered (net after tax) is added to the cost price of the investment in subsidiaries. Group contribution received and dividend are entered on the profit and loss account as financial income to the extent that dividend and group contributions are within the income earned in the ownership period. Dividend in excess of earnings in the ownership period is treated as a reduction in the share investment.

Cash Flow Statement
The cash flow statement is prepared using the indirect method. Cash and cash equivalents consist of liquid assets and market-based securities.

Principles for recording revenue and costs in the accounts

Revenues/costs are recorded in the profit and loss account as they are earned/incurred.

Main Grid Commercial Agreement (power transmission)

Power transmission revenues

The input and outtake of power from the Main Grid is invoiced to consumers in accordance with a set price system. The price system consists of a fixed element and a variable element (amount of electricity x price of electricity). The fixed element is recorded as income at regular intervals over the year, while variable elements are recorded as income according to the rate of input or outtake of power from the grid.

Price regulation

The Main Grid Commercial Agreement shall break even over time. Any higher/lower revenues from the operation of the Main Grid Commercial Agreement are calculated into and recouped/incorporated into prices for subsequent years. Higher/lower revenues are included in the accounts on an accruals basis as Trade accounts payable and Trade accounts receivable respectively.

Leasing of Main Grid facilities

Statnett owns most of the overall Main Grid. The remainder is leased from other owners. The leasing costs are recorded in the accounts as a separate item under Operating costs. The leasing of Statnett´s Main Grid facilities is eliminated in the Parent Company´s accounts.

Shared regional grids

Shared regional grids are treated in the accounts in the same way as the Main Grid Commercial Agreement.

System operator functions

Revenues

Statnett has a separate revenue ceiling for transmission losses in the Main Grid. Part of Statnett´s ordinary revenue ceiling is linked to transmission losses in the regional grids. This element has been transferred to the system operator function in separate shared regional grids. The revenue ceiling for transmission losses is adjusted at year-end in accordance with the actual spot price of electricity throughout the year. This correction is calculated and taken account of in the accounts.

The revenue ceilings for the operator are equivalent to costs in the Main Grid Commercial Agreement and shared regional grids. These are eliminated in the financial accounts.

Pursuant to the guidelines, differences between the revenue ceiling for transmission losses and the actual costs must be apportioned between the owners of the infrastructure in the shared grids. In the accounts it is assumed that other owners in the Main Grid will cover a share according to their revenue ceiling for 2005.

Transmission losses (power purchases)

Expenses are charged in line with the measured difference between input and outtake of electricity in the Main Grid. The amount of loss per hour will vary inter alia according to temperature, load on the grid and the price of electricity. Loss in conjunction with power transmission in the Main Grid and the shared regional grids is covered by the system operator and recorded in the accounts as ordinary operating costs.

Leasing of grid

Recognition of revenue

Grid revenues are regulated by means of a revenue ceiling set by the Norwegian Water Resources and Energy Directorate (NVE).

A new regulating period for Statnett SF began from the start of 2003. The revenue ceiling for this period is based on the cost levels in the period 1996-1999, adjusted for inflation and an efficiency factor. The revenue ceiling may be increased for new investment, subject to special application. In addition, property tax and transit costs will be covered in accordance with actual costs. The efficiency factor for the years 2003-2005 has been set at 1.5049 per cent.

Earnings above the maximum level must be returned to customers, while earnings below the minimum level can be charged to customers.

Statnett has facilities at Main Grid and regional grid level. Statnett divides the revenue ceiling between these grid levels. One-twelfth of the revenue ceiling is recorded in the accounts every month. Revenues from the cables to the Continent (outside the Norwegian sector) are contract-based and are not included in Statnett´s revenue ceiling. Increased revenues resulting from matters that require applications to adjust revenue ceilings or interpretations of regulations for which clarification has been sought from NVE are only included in the accounts to the extent it has been considered highly probable that the income will crystallise.

Power sales/purchases
Revenues/costs are recognised in the profit and loss account as they are earned/incurred, i.e. at the time of delivery.

Customer projects
Revenues from projects are recorded on an ongoing basis. This involves recording revenues as the work is carried out in accordance with the degree of completion. In other words, the earned share of the project´s revenues is taken to income. The degree of completion is determined on the basis of the production carried out. Revenues are included in Other operating revenues. Invoiced and earned project revenues are included in Trade accounts receivable.

In the case of projects that are expected to run at a loss, the entire estimated loss is charged as a cost.

Maintenance / Upgrades
Maintenance costs are recognised in the profit and loss account as they are incurred. Provisions have only been made for periodic maintenance of the Group´s vessel.

Costs that substantially extend the life of the facility and/or increase its capacity are recorded as investments.

Compensation
Ongoing compensation in connection with the acquisition of land etc. is charged to the profit and loss account in the year in which the liability is incurred. Lump sum compensation payments are included in the cost price of the operating asset.

Interest income/costs
Interest income/costs are recognised in the profit and loss account as they are earned/incurred.

Taxation
The tax charge on the profit and loss account comprises both tax payable for the period and changes in deferred tax. Changes in deferred tax reflect the future tax liability arising from the year´s operations. Deferred tax on the balance sheet is the tax on the accumulated profit, which is, however, to be paid during later periods. Deferred tax is computed under the liability method from the net positive (tax-increasing) temporary differences between accounting and taxable values on the balance sheet after assessment of negative (tax-reducing) temporary differences and tax loss carry-forwards. If negative temporary differences and tax loss carry-forwards exceed positive temporary differences, the tax asset is only recorded on the balance sheet if it is probable that the tax asset will crystallise.

In consolidating Statnett Forsikring AS, technical provisions (except for provisions for the National Fund for Natural Disaster Assistance) and claims provisions for own account have been treated as temporary differences.

Property taxes are charged to the profit and loss account and paid in the income year. These are classified under Other operating costs.

Classification of balance sheet items
Assets related to the product life cycle, receivables due for payment within one year and "assets not intended for long-term ownership or use in the business" are current assets. Other assets are fixed assets. The difference between current and long-term liabilities is extended by one year to the due date.

The first year´s instalments on long-term loans will be reclassified as current liabilities.

Securities
Bonds are classified as current assets. Securities are managed as a portfolio and valued using the portfolio method. The portfolio is valued at the lower of cost and net realisable value (market value) on the balance sheet date. Net unrealised losses on portfolio trading are recorded as costs under financial items, while net unrealised gains are recorded as income (reversed) against previously charged losses. Realised gains/losses are recorded net under the same item.

Shares classified as fixed assets are valued at cost, or net realisable value if the drop in value is not temporary.

Trade accounts receivable
Trade accounts receivable are valued at nominal value less estimated losses.

Own investment projects
Own investment projects in the Parent Company are capitalised at estimated full cost.

Cable projects, pre-engineering
Engineering costs (pre-engineering) in connection with investments are recorded on the balance sheet as plant under construction following the investment decision. The question of whether licensing conditions or other circumstances demand the complete or partial write-down of accumulated project costs is continuously assessed. Write-downs are reversed if the basis for the write-down is no longer present.

Interest during the construction period
Interest on construction loans associated with own plant under construction is recorded on the balance sheet. The interest is calculated based on an average rate of interest and the scope of the investment, since the financing is not specifically identified with individual projects.

Tangible fixed assets/depreciation
Tangible fixed assets are valued at cost less ordinary depreciation and write-downs.

Ordinary straight-line depreciation is provided from the time the asset was put into normal operation and is estimated based on the useful economic life of the asset. The same applies to operating assets acquired from other grid owners. Useful economic life is estimated based on recommendations set out in the Norwegian Electricity Industry Association´s publication "Depreciation in the Power Supply Industry" and in NVE guidelines on setting transmission tariffs. The asset is written down to recoverable value if the recoverable value of the asset is lower than the balance sheet value. Recoverable value is estimated as the greater of the sale price and discounted future cash flows. The write-down is reversed if the basis for the write-down is no longer present.

Spare parts are capitalised together with the associated operating assets, and are depreciated at the same rate.

Gains/losses on the sale of operating assets are entered as ordinary operating revenues/costs.

Financial leasing
The cooperation agreement regarding investment in fibre-optic cables in the electricity grid and leasing them out for use in commercial telecommunications is treated as financial leasing. Annual payments are treated as income for the period.

Foreign currency receivables and debts
Liquid assets denominated in foreign currency are translated at exchange rates on the balance sheet date.

Long-term borrowing in foreign currencies is linked to swaps and treated as borrowing in Norwegian kroner.

Liabilities in Norwegian kroner (NOK)
Liabilities in Norwegian kroner are valued at nominal value. Costs of borrowing are recorded on the profit and loss account over the term of the loan.

Financial instruments
Financial instruments comprise securities, Government loans and loans from financial institutions, and financial derivatives. Financial derivatives are agreements entered into with financial institutions for determination of future interest terms and/or exchange rates. See Note 2 for details of the various types of derivatives used by the Parent Company.

Financial derivatives are classified when entered into as either hedging transactions or trading transactions. Classification is determined by the intention of the transaction when it is made. Hedging transactions consist of contracts intended to neutralise an existing or anticipated interest rate risk and/or current risk in the balance sheet.

Gains/losses on such transactions are accounted for on an accruals basis together with the underlying object.

Hedge accounting
The aim of the Parent Company is to financially protect against losses in the following situations:

1. *Losses on liability items as a result of changes in interest rates.*
2. *Losses on purchase/sales contracts in foreign currencies as a result of changes in exchange rates.*

In hedge accounting, changes in the value of a hedging object and the hedging transaction are recorded in the same period.

The Parent Company adopts hedge accounting when the following three criteria are met simultaneously:

1. *The object or group of objects to be hedged (hedging object) must be specifically identified, and it must expose the Parent Company to a possible reduction in equity through changes in interest rates and/or exchange rates.*
2. *The instrument(s) used must be specifically designated as hedging.*
3. *It is highly likely that there will be a high degree of negative correlation in the fair value of the hedging instrument and the object to be hedged.*

The instruments the Parent Company employs to hedge against losses are described in further detail in Note 2 on financial market risk.

Pension costs and pension liabilities
The Parent Company and the subsidiaries operate pension schemes entitling employees to future benefits (defined-benefit schemes). The benefits are based on the number of years of service and final pensionable salary at retirement age.

Pension rights earned are secured primarily through pension schemes in Statnett SF´s Group Pension Fund and the Norwegian Public Services Pension Fund. In addition, the Parent Company has early-retirement pension liabilities that are covered by its operations.

Contributions to the pension fund are made in accordance with the actuarial calculation method. The assets in the pension fund are primarily invested in securities.

Pension liabilities are calculated according to the NRS Norwegian Accounting Standard on pension costs. Pension liabilities are valued at the present value of the future retirement benefits that have accrued on the balance sheet date and which are to be covered by Statnett´s pension fund or funded by operations.

Net pension liabilities recorded on the balance sheet are after correction for deferred entry on the profit and loss account of the effect of changes in estimates and pension schemes, and variation between actual and expected return on pension assets not yet recorded on the profit and loss account. Net pension liabilities are shown as provisions for liabilities. Over-funded schemes where assets cannot be transferred to under-funded schemes are shown as pension assets (financial fixed assets).

Changes in the pension liability and the pension assets that arise due to changes and variations in the calculation assumptions (estimate changes) are apportioned over the estimated average remaining contribution time if the variation at the beginning of the year is greater than 10 per cent of the greater of gross pension liabilities and pension assets. Only that part of the variation that exceeds 10 per cent is amortised.

The net pension cost for the year is included in wages in the profit and loss account. Paid premiums are treated as investments in pension assets.

Changes in Group structure
Statnett Forsikring AS has been incorporated in the consolidated accounts from the 2005 financial year. Accounting figures for previous years have been restated. In consolidating Statnett Forsikring AS, technical provisions (except for provisions for the National Fund for Natural Disaster Assistance) and claims provisions for own account have been treated as temporary differences. 28 per cent of these provisions are included as deferred tax and are netted against the deferred tax asset in other group companies. The remaining 72 per cent are included in equity.

The jointly-controlled company EuroKabel AS was dissolved in 2004. The company has not traded in recent years, and there has consequently been no need to restate previous years´ profit and loss accounts.

Statnett Entreprenør AS was sold on 10 April 2003 to Eltel Networks AS and changed its name to Eltel Services AS. The sale also included companies owned by the then Statnett Entreprenør AS (Statnett Helimatic AS: 100 % and Elkom Entreprenør AS: 51.45 %). The companies are included in the consolidated accounts up to 31 March 2003. The companies´ results for the period they were owned by Statnett and the gain on the divestment are shown on a separate line in the profit and loss account for 2003.

IFRS implementation

As of the 2005 financial year, all listed companies in Norway are required to prepare consolidated accounts under the IFRS international accounting standards from IASB. The EU directive (to which Norway as an EEA member is subject) includes a member state option which permits enterprises with listed bond issues to wait until 2007 to implement IFRS.

Following an overall assessment, Statnett has chosen to wait until 2007 to implement IFRS. The first year´s accounts prepared under IFRS will include one year´s set of comparative figures.

In 2003, Statnett appointed a project group that was made responsible for studying the consequences for Statnett SF of the transition from the current accounting principles based on good accounting practice in Norway to accounting principles based on IFRS. IFRS accounting principles are, however, under continuous development and as a consequence it is uncertain what changes in principles can be expected upon transition to IFRS. Based on the current IFRS standard, differences have been identified in relation to accounting principles based on good accounting practice in Norway that relate to accounting for tangible fixed assets, accounting for income on an accruals basis, and accounting for pensions and financial instruments. In addition, proportional consolidation of jointly-controlled companies will possibly disappear.

Statnett SF will also explore the possibility that exists under IFRS to present the profit and loss account according to function in addition to the current method of presentation according to type of business. Up until IFRS is implemented, the form of presentation will be considered afresh, including the gross/net presentation of investments in jointly-controlled companies, the Main Grid and the purchase/sale of power.

Note 2 - Financial market risk

Interest rate and currency swaps

These are agreements where the contracting parties exchange currency and/or interest rate terms for an agreed amount over a defined future period.

The agreements below are related to existing balance sheet liabilities:

(Amounts in NOK million)

Maturity:	Principal Lending	Principal Borrowing	Market value*	Interest rate terms Statnett receives	Interest rate terms Statnett pays
2006	NOK 100	NOK 100	-1	Fixed	Fixed
2006	NOK 200	NOK 200	-11	Nibor 6 months	Fixed
2006	NOK 200	NOK 200	-10	Nibor 6 months	Fixed
2006	NOK 400	NOK 400	19	Fixed	Nibor 6 months
2006	NOK 296	NOK 296	1	Nibor 6 months	Fixed
2008	NOK 250	NOK 250	-21	Nibor 3 months	Fixed
2008	NOK 250	NOK 250	-14	Nibor 3 months	Fixed
2008	NOK 200	NOK 200	13	Fixed	Nibor 6 months
2008	NOK 300	NOK 300	-26	Nibor 6 months	Fixed
2008	NOK 200	NOK 200	-15	Nibor 6 months	Fixed
2008	NOK 800	NOK 800	55	Fixed	Nibor 6 months
2010	CHF 150	NOK 782	1	Fixed CHF	Nibor 6 months
2010	NOK 250	NOK 250	-17	Nibor 6 months	Fixed
2010	NOK 250	NOK 250	-9	Nibor 6 months	Fixed
2010	NOK 282	NOK 282	-2	Nibor 6 months	Fixed
2010	JPY 1 000	NOK 87	-27	Fixed JPY	Nibor 6 months
2010	NOK 87	NOK 87	0	Nibor 6 months	Fixed
2014	JPY 5 000	NOK 296	-8	Fixed JPY	Nibor 6 months
2014	NOK 200	NOK 200	-7	Nibor 6 months	Fixed
2014	NOK 200	NOK 200	-3	Nibor 6 months	Fixed
2015	NOK 200	NOK 200	21	Fixed	Nibor 6 months
2015	NOK 200	NOK 200	0	Nibor 6 months	Fixed
Total			**-61**		

* *Market value is inclusive of accrued interest. In the case of combined interest rate and currency swap agreements, the unrealised currency effect on exchange of principals is included in market value.*

The overview shows the gross amount on interest rate swaps. Many of the swaps will "go against one another" and the net amount will be less exposed to interest rate changes.

At 31 December 2005, Statnett had no interest rate swaps with start in the future.

The agreements below are related to investments in the bond market:

(Amounts in NOK million)

Maturity:	Principal Investment	Interest rate Swap	Market value	Interest rate terms Statnett receives	Interest rate terms Statnett pays
2006	NOK 50	NOK 50	0	Nibor 6 months	Nibor 3 months
2006	NOK 100	NOK 100	-8	Nibor 6 months	Fixed
Total			**-8**		

Interest rate options:

Statnett had no interest rate options at 31 December 2005.

Forward exchange contracts:

Forward exchange contracts are entered into to hedge the currency risk on transactions in currencies other than Norwegian kroner (NOK).

At 31 December 2005, Statnett had 13 forward exchange contracts in total, concerning a total purchase of EUR 11 million against sales of NOK. All the contracts relate to capital expenditure on plant in foreign currency. Unrealised gains/losses on forward exchange contracts will reduce/increase the cost price of the investments when they materialise. Unrealised gains on forward exchange contracts totalled approximately NOK 0.3 million at 31 December 2005.

Commodity futures:

Commodity futures contracts have been entered into to hedge the investment in subsea power cable.

At 31 December 2005, Statnett had a total of 12 commodity futures contracts, which are financial contracts used to hedge the future purchase of 4100 metric tonnes of lead. All the contracts relate to capital expenditure on plant. Unrealised gains/losses on commodity futures will reduce/increase the cost price of the investments when they materialise. Unrealised gains on commodity futures totalled approximately NOK 5.4 million at 31 December 2005.

Note 3 - Information on business areas

(Amounts in NOK million)	Statnetts operations 1)	Other tasks 2)	Elimin. Parent Company	Statnett SF	Other Exchange 3)	Other operations 4)	Elimin. Group	Total Group
Tariff revenues		3 364	-69	3 295				3 295
Higher/lower revenues for year, power transmission			-244	-244				-244
Revenue ceiling Statnett SF	2 316		-2 205	111				111
Revenue ceiling, transmission losses	468		-468	0				0
Power sales	771	2 047	-1 062	1 756				1 756
Leasing revenues from cables to Continent	11			11				11
Other operating revenues	163	15	-11	167	137	48	-37	315
Total operating revenues	**3 729**	**5 426**	**-4 059**	**5 096**	**137**	**48**	**-37**	**5 244**
Power purchases	-790	-2 047	888	-1 949				-1 949
Systemwide services	-403		153	-250				-250
Transmission losses	-554	-458	469	-543				-543
Leasing costs, external installation owners	-1	-316		-317				-317
Leasing costs, Statnett´s facilities		-2 187	2 187	0				0
Reversal higher/lower revenues, infrastructure owners		-87	29	-58				-58
Costs from overlying grid		-73	73	0				0
Materials and subcontractors	-168			-168				-168
Wages and social security costs	-300	-7		-307	-33	-15	1	-354
Depreciation	-698			-698	-7	-5	4	-706
Write-downs	-19			-19				-19
Other operating costs	-278	-8	17	-269	-70	-34	53	-320
Property tax	-94			-94				-94
Total operating costs	**-3 305**	**-5 183**	**3 816**	**-4 672**	**-110**	**-54**	**58**	**-4 778**
Operating profit/loss	**424**	**243**	**-243**	**424**	**27**	**-6**	**21**	**466**
Financial income	66	2	-2	66	8	22	-16	80
Financial costs	-311	-2	2	-311	-6	-2	8	-311
Total financial items	**-245**	**0**	**0**	**-245**	**2**	**20**	**-8**	**-231**
Profit before tax, Statnett	**179**	**243**	**-243**	**179**	**29**	**14**	**13**	**235**
Tax	-48			-48	-8	0	-5	-61
Net profit/loss for the year	**131**	**243**	**-243**	**131**	**21**	**14**	**8**	**174**
Higher/lower revenue on the balance sheet			**243***					

* Higher/lower revenues related to other tasks are recorded on the balance sheet of Statnett SF.
For notes 1) to 4) see below.

(Amounts in NOK million)	Statnett SF	Power Exchange 3)	Other operations 4)	Elimin. Group	Total Group
Assets					
Intangible assets	104	13	2	-36	83
Tangible fixed assets	10 310	5	13	-8	10 320
Financial fixed assets	256	31		-175	112
Current assets	1 807	309	227	-13	2 330
Total assets	**12 477**	**358**	**242**	**-232**	**12 845**
Equity and liabilities					
Contributed capital & share capital in group companies	2 700	120	37	-157	2 700
Other equity at 1 January 2005	1 716	127	26	111	1 980
Net profit/loss for year (after proposed dividend)	44	10	15	18	87
Total equity at 31 December 2005	**4 460**	**257**	**78**	**-28**	**4 767**
Provisions for liabilities	94	6	153	-130	123
Long-term liabilities	4 594	50		-50	4 594
Current liabilities	3 329	45	11	-24	3 361
Total equity and liabilities	**12 477**	**358**	**242**	**-232**	**12 845**

1) Statnett´s commercial operations.

2) Comprises the Main Grid Commercial Agreement, three shared regional grids and the balance settlement system.

3) Comprises 50 per cent of Nord Pool ASA, Nord Pool Clearing ASA and Nord Pool Consulting AS.

4) Comprises Statnett Transport AS, Statnett Forsikring AS and Statnett Skagerrak AS.

Note 4 - Operating revenues

PARENT COMPANY			(Amounts in NOK million)			GROUP
2003	2004	2005		2005	2004	2003
			Power transmission			
3 297	2 840	3 295	Tariff revenues	3 295	2 840	3 297
-82	182	-242	Higher(-)/lower revenues for year - Main Grid and shared regional grids	-242	182	-82
145	113	111	Leasing, regional grid facilities	111	113	145
-12	1	-2	Higher(-)/lower revenue, regional grid facilities	-2	1	-12
-6	32	-	Higher(-)/lower revenues, KILE	-	32	-6
13	11	11	Leasing, cables to Continent	11	11	13
3 355	**3 179**	**3 173**	**Total transmission revenues**	**3 173**	**3 179**	**3 355**
			Power sales			
1 900	1 467	1 499	Sales, regulating power	1 499	1 467	1 900
382	336	257	Power sales to Sweden and Denmark	257	336	382
2 282	**1 803**	**1 756**	**Total power sales**	**1 756**	**1 803**	**2 282**
			Other operating revenues			
10	7	6	Revenues from fees	105	96	88
13	34	102	External contracts	124	57	35
97	48	59	Other operating revenues	86	79	124
120	**89**	**167**	**Total other operating revenues**	**315**	**232**	**247**

Power transmission

The price (tariff) for input and outtake of power from the Main Grid and shared regional grids is charged to the user in accordance with a set price system.

Leasing of regional grid facilities includes services that are not included in the Main Grid Commercial Agreement or shared regional grids.

Cables to the Continent are included in the Main Grid. Leasing outside the Norwegian sector is invoiced separately to the Danish customer.

Higher/lower revenue on the balance sheet

(Amounts in NOK million)	Lower rev. on bal.sheet 2004	Higher rev. on bal.sheet 2004	Higher/lower revenues for the year	Lower rev. on bal.sheet 2005	Higher rev. on bal.sheet 2005
Main Grid Commercial Agreement	80		-236		-156
Shared regional grids	9	-4	-6	9	-10
Total shared grids	**89**	**-4**	**-242**	**9**	**-166**
Leasing, shared regional grids	1		-2		-1
Total ex. KILE	**90**	**-4**	**-244**	**9**	**-167**
KILE *	32				
Total power transmission	**122**	**-4**	**-244**	**9**	**-167**

** KILE is charged to leasing of shared regional grids in 2005 and is shown as a net sum equal to zero in total transmission revenues.*

Lower revenue on the balance sheet is included in Trade accounts receivable and can be charged to customers in the form of increased tariffs in subsequent years. Higher revenue on the balance sheet is included in Trade accounts payable and shall be credited to customers in the form of lower tariffs in subsequent years. In setting the tariffs for 2006, account is taken of accumulated higher/lower revenues.

Unresolved matters
See Note 22 (Unresolved matters).

KILE
As of 2001, NVE introduced the "KILE" scheme (Quality-Adjusted Revenue Ceilings for Undelivered Energy). The scheme is intended as an incentive to ensure acceptable quality of transmissions. NVE has calculated an expected "KILE ceiling" for grid owners that is intended to reflect the socio-economic costs resulting from outages. At year-end there will be a difference between the actual KILE level and the framework, the "higher/lower revenues". Statnett has carried out an assessment of how the actual KILE amount can be expected to develop over time in relation to the estimated KILE amount. In the past few years Statnett has invested substantially in new grid facilities in order to reduce the likelihood of outage costs. The historic trend for the years 2001 to 2005, as well as investments and greater concentration on forest clearance, is expected to bring about a lasting reduction in outage costs.

For 2005, KILE costs were low. A total of NOK 57 million in KILE was recorded as revenue, which has been charged directly to the Main Grid Commercial Agreement and shared regional grids.

In the 2004 accounts, the accumulated lower revenues for previous years, and the year´s lower revenue, were recorded as income with NOK 18 million and NOK 14 million respectively. For the years 2002 and 2001, the aggregate lower revenue was marginal. The accumulated lower revenue was charged to the Main Grid Commercial Agreement and shared regional grids in 2005.

In 2003, Statnett elected to await further developments in outage costs before recording the lower revenue as income, particularly owing to the major fluctuations in 2001 and 2002 and the uncertainty associated with 2003. As a result, the accumulated lower revenue taken to income as of 2002 was reversed in the accounts this year.

Power sales in Statnett SF
The booked figures are after eliminations. Gross figures and the correlation with power purchases are shown in Note 5.

Power sales - the different markets

Gross sales

(Amounts in NOK million)	2005	2004	2003
Spot market*	43 489	39 064	35 881
Regulating power*	2 047	2 080	2 498
Total	**45 536**	**41 144**	**38 379**

Sales in TWh

	2005	2004	2003
Spot market*	175,9	166,6	117,9
Futures market (trading)**	786,0	590,2	545,1
Regulating power*	8,1	8,2	8,3
Total trade in TWh	**970,0**	**765,0**	**671,3**
Clearing of bilateral contracts in TWh* **	**2 102,0**	**1 207,0**	**1 218,6**

* *The spot market is cleared by Nord Pool Spot AS. Regulating power is cleared by Statnett SF.*
** *In 2005, sales in the financial market totalled NOK 189.4 billion.*
For 2004 and 2003, sales were NOK 148.5 billion and NOK 139.4 billion
*** *In 2005, the contractual value of clearing OTC contracts was NOK 209.2 billion.*
For 2004 and 2003, it was NOK 201.6 billion and NOK 214.6 billion.

On 1 January 1996, a joint power market and a joint power exchange were established based on the company Nord Pool ASA. As of 1 January 2002, Nord Pool ASA was split into three different companies: Nord Pool ASA, Nord Pool Clearing ASA and Nord Pool Spot AS. The power market now covers all the four Nordic countries.

Nord Pool Spot AS is the marketplace for organised trade in physical delivery contracts in the Nordic region.

Nord Pool ASA has been awarded a licence to operate as an exchange for commodity derivatives with electricity as the underlying product. At the same time, Nord Pool Clearing ASA was granted a licence to operate as a clearinghouse for commodity derivatives with electricity as the underlying product.

Posting of security

Physical-market trade - Elspot via Nord Pool Spot AS

When entering into member agreements for physical-market power trade, members accept the terms and conditions of the Rulebook for the Physical Electricity Market (Rulebook). The Rulebook´s security posting requirement under the "Rules for settlement and security posting" reflects Nord Pool Spot AS´ settlement risk, and is calculated on an ongoing basis to the members´ last two weeks of net trading in the Elspot market.

Power trading requires a minimum security of NOK 100 000. The security must be registered with Nord Pool Spot AS before trading starts.

Security is posted as a guarantee on demand, or as a cash deposit in a pledged bank account, or in another manner approved by Nord Pool Spot AS in accordance with the Rulebook.

The rules for posting security can be amended at one week´s notice.

At 31 December 2005, Nord Pool Spot AS had outstanding claims totalling NOK 160 million linked to the physical power market. The security posting requirement for members at year-end 2005 was NOK 849 million. (As Nord Pool Spot AS is an associated company, the claim is not shown in the consolidated accounts).

At year-end 2005, all members of the physical power market had posted satisfactory security according to the Rulebook.

Physical-market trade - Regulating power via Statnett SF

Through the Balance Agreement, approved members (regulating power members) undertake to post satisfactory security for financial settlement of power trading in the regulating power market.

The security posting requirement is calculated weekly in accordance with the rules set out in the Balance Agreement, Appendix 2. The calculation is based on trading volume and market prices, and reflects the regulating power generators´ settlement risk. In addition, Statnett assesses the security requirement on an ongoing basis and may demand more security at any time if necessary.

Regulating power trading requires a minimum security of NOK 200 000. The security must be registered with Statnett before trading starts.

Security is posted as a guarantee on demand, or as a cash deposit in a pledged bank account, or in another manner approved by Statnett according to the Rulebook.

The rules for posting security can be amended at one week´s notice.

At 31 December 2005, Statnett had outstanding receivables totalling NOK 65 million linked to the physical power market. The security posting requirement for regulating power generators at year-end 2005 was NOK 315 million.

At year-end 2005, all the regulating power members had posted satisfactory security in accordance with the Balance Agreement.

Financial-market trade

When entering into member agreements for financial-market power trade, members accept the terms and conditions for trading and clearing laid down in the Rulebook for the Financial Electricity Market (Rulebook), which inter alia governs posting of security for traded and cleared contracts. Nord Pool Clearing ASA requires posting of both a minimum security and a daily security amount based on each member´s positions.

The daily security requirement is calculated as the sum total of the portfolio´s unrealised losses and maximum anticipated losses for the portfolio as a result of simulation in a risk-based portfolio system.

Security is posted as a cash deposit, as a bank guarantee, or in another manner approved by Nord Pool Clearing ASA according to the Rulebook. Additional, extraordinary security may be demanded at one hour´s notice if special conditions dictate.

At year-end 2005, Nord Pool Clearing ASA had an open balance (future contractual obligations) of NOK 54.9 billion. The security posting requirement for members at 31 December 2005 was NOK 13.5 billion. Total security posted at 31 December 2005 was NOK 24.4 billion. At year-end 2005, all members had posted satisfactory security, as required by the Rulebook.

Fees/charges

Fees or charges are related to the regulating power market. Higher revenue for the year amounting to NOK 1 million has been netted against invoiced revenues from fees. Higher revenue on the balance sheet of NOK 17 million is included in Trade accounts payable and shall be credited to customers in the form of lower fees in subsequent years. The corresponding higher revenue last year was NOK 16 million.

External contracts

Statnett is working on a major customer project to construct a 420 kV transmission line (Fræna-Nyhavna) for Hydro ASA. The project is expected to be put into operation in December 2006. The customer will pay Statnett, including the interest component, when the project is completed. External contracts within the Group are otherwise carried out primarily by Statnett Transport AS.

Geographic markets

The Parent Company´s revenues come primarily from Norway. The Nord Pool companies´ revenues come from within the four Nordic countries.

Note 5 - Power sales and power purchases

(Amounts in NOK million)	2003	2004	2005
Power sales			
Sales, regulating power	2 498	2 080	2 047
Sales, power to Sweden and Denmark	909	812	771
Eliminations	-1 125	-1 089	-1 062
Total power sales	**2 282**	**1 803**	**1 756**
Power purchases			
Purchases, regulating power	2 497	2 080	2 047
Purchases, power from Sweden and Denmark	890	776	790
Eliminations	-1 080	-1 003	-888
Total power purchases	**2 307**	**1 853**	**1 949**

Regulating power
Regulating power is used to regulate the power system so that electricity generation and consumption are always in balance. In the regulating power market, the participants bid a price to reduce, or offer a price to increase, generation and/or consumption. Statnett passes on regulating power between the regulating power generators. The costs of clearing these transactions are covered by fees, and the clearing system is run on a full cost basis.

Sale and purchase of power vis-à-vis other countries
In the event of power imbalances vis-à-vis other countries, similar adjustments must be carried out. Here, too, the adjustments or regulations are done through the regulating power market, although it is known as the purchase and sale of power balance and balancing power. Price differentials between the countries give lower costs/revenues for Statnett. In situations where it is not possible to supply the market with the promised transmission capacity on the international interconnectors, extraordinary congestion or "bottlenecks" may arise during the course of the operations day. As a result, balancing power and power balance are purchased and sold at different prices and Statnett incurs a cost on this trade (although in special cases it can generate revenue). In 2005, Statnett had an aggregate net cost of NOK 24 million on this trade, with the costs arising primarily in connection with three major events that caused reduced transmission capacity to Sweden in February and November.

In addition to managing the balancing mechanism, there are also some sales of system ancillary services to other countries. These are primarily sales of frequency response to Sweden. Statnett buys the frequency response in Norway and sells it on to Sweden. In 2005, this generated gross revenue from abroad totalling NOK 5 million.

Eliminations
Power sold to other countries is purchased domestically in the regulating power market. The opposite is the case when purchasing power from abroad. In addition, some of the sales in the regulating power market have a counter item in the purchase of system ancillary services and are eliminated against the purchase there.

Note 6 - Plant under construction

PARENT COMPANY			(Amounts in NOK million)			GROUP
2003	2004	2005		2005	2004	2003
756	874	691	Acquisition cost at 1 January	691	874	756
885	1 067	855	Additions during the year	855	1 067	885
-659	-1 153	-711	Transferred to Tangible fixed assets	-711	-1 153	-659
-103	-87	-17	Write-offs	-17	-87	-103
-5	-10	-	Disposals at acquisition cost	-	-10	-5
874	**691**	**818**	**Acquisition cost at 31 December**	**818**	**691**	**874**
-117	-24	-26	Accumulated write-downs	-26	-24	-117
757	**667**	**792**	**Balance sheet value at 31 December**	**792**	**667**	**757**
-50	-12	-19	Potential and actual write-downs	-19	-12	-50
-	62	-	Reversed latent write-downs	-	62	-
-50	**50**	**-19**	**The year´s write-downs(-)/reversals**	**-19**	**50**	**-50**

Write-downs

Changes to plans, progress, the design of facilities and uncertainty concerning some projects can cause plant under construction to be written down in value.

Additions during the year are broken down as follows:

PARENT COMPANY			(Amounts in NOK million)			GROUP
2003	2004	2005		2005	2004	2003
584	724	513	Materials and subcontractors	512	724	583
126	132	120	Wages, social security costs	121	134	127
142	183	175	Other operating costs	175	181	142
852	**1 039**	**808**	**Total operating costs**	**808**	**1 039**	**852**
33	28	47	Interest on construction loans	47	28	33
885	**1 067**	**855**	**Total**	**855**	**1 067**	**885**

The year´s change in stocks is carried as a reduction of the respective items in the profit and loss account.

Note 7 - Wage costs, employees, remuneration

PARENT COMPANY			(Amounts in NOK million)	GROUP		
2003	2004	2005		2005	2004	2003
245	277	291	Wages	327	310	275
39	47	49	Employer´s NICs	55	53	45
53	54	62	Pension costs	66	59	56
19	17	25	Other benefits	26	20	24
356	**395**	**427**	**Total wage costs**	**474**	**442**	**400**
-126	-132	-120	Of which, own investment projects	-120	-134	-127
230	**263**	**307**	**Net wage costs**	**354**	**308**	**273**

For 2005, the average number of employees in the Parent Company was 587 and in the Group 628.

Benefits to senior executives/Board members

(Amounts in NOK)	President & CEO	The Board
Salaries/Board members´ fees	1 427 081	1 284 167
Pension expenditure	*	
Other remuneration	121 358	-
Total benefits	**1 548 439**	**1 284 167**

** The President and CEO is a member of Statnett SF´s ordinary pension scheme.*

The President´s normal retirement age is 65, although he is entitled to retire at his own request at any time between 62 and 65 years of age. If the employer so wishes, the President is obliged to retire from his post with pay after termination of employment/early retirement pension after age 60. If retiring at his own request between 62 and 65, the President will receive a pension that is 66% of salary. If retiring at the Board´s request before 62, the President will receive severance pay equal to two years´ salary. For year 2, 50% of any employment income from others than Statnett will be deducted from the pension.

Auditor´s fees

(Amounts in NOK)	PARENT COMPANY	GROUP
Fees for auditing the 2005 accounts	537 750	655 950
Other attestation services	70 600	77 800
Tax-related assistance	223 455	253 955
Other assistance	110 050	123 350
Total fees (excluding VAT)	**941 855**	**1 111 055**

Note 8 - Pension costs and pension liabilities

Pension scheme at 31 December 2005	GROUP	PARENT COMPANY
Members of the pension fund	1 004	901
Of which, pensioners	262	259
Number of persons in the pension scheme *	**742**	**642**

* Members who are employees of jointly-controlled companies are included in this number.

Financial/actuarial assumptions in the Parent Company:	2005	2004	2003
Discount rate	4,5 %	5,0 %	5,5 %
Expected yield	5,0 %	5,5 %	6,0 %
Expected pay adjustments	3,0 %	3,0 %	3,0 %
Expected pension adjustments	3,0 %	3,0 %	3,0 %
Remaining contributory period	15 years	15 years	15 years

PARENT COMPANY			(Amounts in NOK million)	GROUP		
2003	2004	2005		2005	2004	2003
			Defined-benefit schemes			
33	38	41	Present value of year´s pension contributions	45	42	35
27	31	33	Interest cost of pension liabilities	34	33	28
60	**69**	**74**	**Gross pension cost**	**79**	**75**	**63**
-20	-24	-24	Estimated yield on pension assets	-25	-25	-21
13	9	12	Estimate changes and variations on P&L account	12	9	14
53	**54**	**62**	**Net pension cost**	**66**	**59**	**56**
7	8	9	Employer´s contributions	9	8	8
60	**62**	**71**	**Net pension cost including employer´s contributions**	**75**	**67**	**64**
			Defined-benefit schemes			
612	706	813	Calculated pension liabilities	845	731	635
-403	-474	-520	Pension assets at estimated market value	-540	-490	-415
-163	-191	-247	Estimate changes not on P&L account	-252	-195	-169
46	**41**	**46**	**Net pension liabilities excl. employer´s contributions**	**53**	**46**	**51**
6	6	6	Employer´s contributions	7	7	7
52	**47**	**52**	**Accrued net pension liabilities**	**60**	**53**	**58**
			Included in the balance sheet as:			
58	55	42	Pension assets	42	55	58
110	102	94	Pension liabilities	102	108	116

Specification of actual pension assets in the pension fund: (Amounts in NOK million)	**GROUP**	**PARENT COMPANY**
Premium reserve	441	427
Premium fund	50	49
Contingency reserve	1	1
Surplus, financial investments	4	4
Additional provisions	19	18
Pensioners´ surplus fund	4	4
Accrued equity	19	18
Total actual pension assets at 31 December 2005	**538**	**521**

Breakdown of the managed assets in the pension fund in 2005	
Property	12 %
Held-to-maturity bonds	20 %
Norwegian bonds	27 %
Certificates	34 %
Hedge funds and international unit trusts	7 %

Variation between estimated and actual pension assets at 31 December 2005 is mainly due to differences between actual and estimated yield on pension assets in 2005.

Note 9 - Tangible fixed assets and intangible assets

TANGIBLE FIXED ASSETS

GROUP (Amounts in NOK million)	Electrotechnical equipment	ICT equipment	Buildings/ land	Other operating equipment	Total
Acquisition cost at 1 January	**13 488**	**636**	**935**	**299**	**15 358**
Additions, acquisition cost	461	52	85	120	718
Disposals, acquisition cost	-34	-30	-4	-2	-70
Acquisition cost at 31 December	**13 915**	**658**	**1 016**	**417**	**16 006**
Ordinary depreciation at 1 January	**5 126**	**366**	**208**	**135**	**5 835**
Ordinary depreciation charge for year	544	102	27	33	706
Disposals, ordinary depreciation	-31	-27	-1	-4	-63
Ordinary depreciation at 31 Dec.	**5 639**	**441**	**234**	**164**	**6 478**
Capital value balance sheet 31 Dec.	**8 276**	**217**	**782**	**253**	**9 528**
Rate of depreciation (straight-line) (%)	2,5 - 6,6	6,6 - 12,5	0 - 2	10 - 33	

Investments - Disposals

GROUP (Amounts in NOK million)	INVESTMENTS					DISPOSALS				
	2005	2004	2003	2002	2001	2005	2004	2003	2002	2001
Electrotechnical equipment	461	867	533	753	531	1	68	168	8	-
ICT equipment	52	144	52	45	70	-	1	-	-	-
Buildings, land	85	107	65	37	29	8	9	17	11	8
Other operating equipment	120	32	27	104	56	1	3	1	3	2
Total	**718**	**1 150**	**677**	**939**	**686**	**10**	**81**	**186**	**22**	**10**

INTANGIBLE ASSETS

GROUP (Amounts in NOK million)	Computerised trading systems
Acquisition cost at 1 January	**17**
Additions, acquisition cost	0
Acquisition cost at 31 December	**17**
Ordinary amortisation at 1 January	**3**
Ordinary amortisation charge for year	4
Ordinary amortisation at 31 December	**7**
Capital value on balance sheet at 31 December	**10**

Straight-line amortisation has been charged at 20 per cent.

TANGIBLE FIXED ASSETS

PARENT COMPANY (Amounts in NOK million)	Electrotechnical equipment	ICT equipment	Buildings/ land	Other operating equipment	Total
Acquisition cost at 1 January	**13 488**	**636**	**934**	**250**	**15 308**
Additions, acquisition cost	461	52	85	113	711
Disposals, acquisition cost	-34	-30	-4	-2	-70
Acquisition cost at 31 December	**13 915**	**658**	**1 015**	**361**	**15 949**
Ordinary depreciation at 1 January	**5 126**	**366**	**208**	**93**	**5 793**
Ordinary depreciation charge for year	544	102	27	25	698
Disposals, ordinary depreciation	-31	-27	-1	-1	-60
Ordinary depreciation at 31 Dec.	**5 639**	**441**	**234**	**117**	**6 431**
Capital value balance sheet 31 Dec.	**8 276**	**217**	**781**	**244**	**9 518**
Rate of depreciation (straight-line) (%)	2,5 - 6,6	6,6 - 12,5	0 - 2	10 - 33	

Investments - Disposals

PARENT COMPANY (Amounts in NOK million)	INVESTMENTS					DISPOSALS				
	2005	2004	2003	2002	2001	2005	2004	2003	2002	2001
Electrotechnical equipment	461	867	533	753	531	1	68	168	8	-
ICT equipment	52	144	52	45	70	-	1	-	-	-
Buildings, land	85	107	65	37	26	8	9	17	8	6
Other operating equipment	113	35	24	93	30	1	2	1	-	1
Total	**711**	**1 153**	**674**	**928**	**657**	**10**	**80**	**186**	**16**	**7**

Note 10 - Financial items

PARENT COMPANY			(Amounts in NOK million)	GROUP		
2003	2004	2005		2005	2004	2003
			Financial income			
7	2	-	Income from investment in subsidiaries	-	-	-
15	7	10	Income from investment in jointly-controlled companies	-	-	-
-	-	6	Income from investment in associated companies	7	8	7
4	4	4	Interest income from subsidiaries and jointly-controlled companies	-	-	-
58	39	31	Other interest income	41	49	74
8	7	15	Other financial income	17	10	11
11	3	-	Change in value of market-based financial fixed assets	15	13	27
103	**62**	**66**	**Total financial income**	**80**	**80**	**119**
			Financial costs			
-	-	3	Write-downs of financial fixed assets	-	-	1
365	307	343	Other interest costs	343	307	365
-33	-28	-47	Capitalised construction loan interest	-47	-28	-33
6	9	12	Other financial costs	15	10	8
338	**288**	**311**	**Total financial costs**	**311**	**289**	**341**

Note 11 - Shares and holdings

Company (Amounts in NOK 1 000)	Type	Year of acquisition	Registered office	Share-holding	Voting rights	Acquisition cost	Book value	
Statnett Transport AS	Subsidiary	1996	Oslo	100,0%	100,0%	6 680	15 518	
Statnett Skagerrak AS	Subsidiary	2003	Oslo	100,0%	100,0%	100	100	
Statnett Forsikring AS	Subsidiary	1998	Oslo	100,0%	100,0%	30 200	30 200	
Nord Pool ASA	Jointly-contr. company	1992	Bærum	50,0%	50,0%	102 190	102 190	
Nord Pool Spot AS *	Associated company	2002	Bærum	20,0%	20,0%	320	320	
Total subsidiaries, jointly-controlled companies and associated companies						**139 490**	**148 328**	
STRI AB	Contributed capital	1998	Sweden	12,5%	12,5%	1 407	1 407	1)
Statnett SF´s Pension Fund	Contributed capital	1993	Oslo	100,0%	100,0%	15 000	15 000	1)
Total other shares etc.						**16 407**	**16 407**	
Sum total shares and holdings in the Parent Company						**155 897**	**164 735**	

Shares owned by the Nord Pool Group
(Group´s indirect shareholding)

Company (Amounts in NOK 1 000)	Year of acquisition	Registered office	Share-holding	Voting rights	Acquisition cost	Book value	
European Energy Exchange AG	2000/2001	Germany	8,7%	8,7%	18 450	18 450	1)

** The Group´s direct and indirect shareholding is 30%.*

1) The shares are included in investments in other shares and holdings.

Book value, shares in Nord Pool Spot AS

(Amounts in NOK 1 000)	Group	
Book value at 1 January	37 553	
Dividend received	-8 768	
Share of profit for the year	6 741	
Book value at 31 December 2005	**35 526**	1)
Shareholding in associated company	30 %	
Equity in associated company at 31 December 2005	118 421	

The Nord Pool Group

The Nord Pool Group consists of Nord Pool ASA and its wholly owned subsidiaries Nord Pool Clearing ASA and Nord Pool Consulting AS. Nord Pool Spot AS is also included as an associated company.

Nord Pool ASA is owned 50:50 by Statnett SF and Affärsverket Svenska Kraftnät of Sweden.

Statnett SF and Nord Pool ASA each have a 20 per cent stake in Nord Pool Spot AS. The other Nordic transmission system operators (Affärsverket Svenska Kraftnät, Energinet.dk and Fingrid Oy) each own 20 per cent of the remaining shares.

The companies´ activities are described in Note 4 under Power sales - the different markets.

Nord Pool Consulting AS offers consulting services within the establishment and operation of power markets internationally.

Statnett Transport AS

The company operates a land-based heavy transport business, as well as a marine-based transport business.

Engineering and construction

Statnett Entreprenør AS was sold on 10 April 2003 to Eltel Networks AS and changed its name to Eltel Services AS. The sale also included companies owned by the then Statnett Entreprenør AS (Statnett Helimatic AS: 100 % and Elkom Entreprenør AS: 51.45 %). The companies were included in the consolidated accounts up to 31 March 2003.

Summary of P&L account items:

(Amounts in NOK million)	**1st Quarter 2003**
Other operating revenues	32
Operating loss	-6
Net financial items	1
Tax charge	0
Loss after tax	**-5**
Capital gain on divestment	19
Total profit on divestment of business	**14**

The capital gain in the Parent Company was NOK 10 million.

Note 12 - Receivables falling due after one year

Loans to Nord Pool ASA

Nord Pool ASA has been provided with a loan in the amount of NOK 50 million from each of its two owners, which takes priority after all other debt. The loan was disbursed in February 2002. It is an interest-only loan and matures in its entirety after 10 years. Interest is charged at 8.75 per cent p.a.

The borrower is entitled to extend the term of the loan by a further five years, and may redeem the loan in whole or in part after five years, subject to prior approval by the Financial Supervisory Authority of Norway.

Note 13 - Market-based securities

PARENT COMPANY			(Amounts in NOK million)	GROUP		
Acquisition cost	Balance sheet value	Market value*		Acquisition cost	Balance sheet value	Market value*
21	22	22	Government	48	49	49
-	-	-	Municipalities/municipal entreprises	54	54	54
571	568	568	Financial institutions including banks	607	603	603
173	172	172	Private issuers/industry	189	188	188
765	**762**	**762**	**Total bonds**	**898**	**894**	**894**
-	-	-	Norwegian shares	30	51	51
-	-	-	Foreign shares	3	5	5
-	-	-	Foreign unit trusts	15	16	16
0	**0**	**0**	**Total shares and unit trusts**	**48**	**72**	**72**
765	**762**	**762**	**Total**	**946**	**966**	**966**

** The columns show figures inclusive of swap interest rate linked to the bonds.*

The nominal value of all bonds held by Statnett is shown in Norwegian kroner (NOK).

Credit risk

The companies in the Statnett Group have set limits for bond issuers, which are based on ratings or individual credit assessment. Based on the rating or assessment, each counterparty is set a limit for permissible credit exposure, which is updated annually. Observance of this limit is followed up on an on-going basis.

Note 14 - Interest-bearing debt

Loans raised by Statnett SF prior to 31 December 2002 are backed by Government guarantee and are guaranteed until the loans mature. Loans raised from 1 January 2003 are not Government-guaranteed. Statnett SF pays individual guarantee premiums to the Government for guaranteed loans. The guarantee premium is calculated individually for each loan. The balance of Government-guaranteed loans at 31 December 2005 was MNOK 2 287.

Interest-bearing short-term debt*

(Amounts in NOK million)	2005	2004	2003
Certificate issues, Commercial Paper loans	1 200	-	-
Bond loans	800	716	450
Government loans	400	400	-
Loans from financial institutions	-	63	63
Total Parent Company	**2 400**	**1 179**	**513**

** Shows interest-bearing debt falling due in subsequent years, and loans where the counterparty is entitled to request redemption of the loan in subsequent years.*

Interest-bearing long-term debt
Instalment profile

(Amounts in NOK million)	2007	2008	2009	2010	Thereafter	TOTAL
Bond loans	-	1 500	-	869	2 196	4 565
Government loans	-	-	-	-	-	-
Loans from financial institutions	-	-	-	-	-	-
Total Parent Company	**0**	**1 500**	**0**	**869**	**2 196**	**4 565**

The instalment profile includes the principal on interest rate and currency swaps.
On existing bond issues, Statnett SF can issue an additional NOK 2 800 million in the Norwegian market.
Statnett SF has an unutilised credit facility of NOK 1.5 billion that expires in 2012.

Debt falling due more than five years after the end of the financial year

(Amounts in NOK million)	2005	2004	2003
Bond loans	2 196	2 181	1 319
Government loans	-	-	-
Loans from financial institutions	-	-	-
Total Parent Company	**2 196**	**2 181**	**1 319**

The Parent Company has no convertible loans.

Information on interest-bearing debt
Currency

(Amounts in millions)	Average int. rate 1)	Loan amount in currency	Loan amount in NOK
NOK	4,4 %	5 800	5 800
JPY	2,8 %	6 000	383
CHF	4,3 %	150	782
Total			**6 965**

1) All foreign currency loans are converted to Norwegian kroner (NOK) using currency and interest rate swaps. The average interest rate for these loans includes interest rate swaps.

Own holding of bonds:
At 31 December 2005, Statnett had no own holding of bonds.

Note 15 - Other long-term liabilities

The amount consists of pre-paid revenues and relates to compensator stations for the Skagerrak cables. Revenues (including the interest element) are taken to income spread over 25 years in line with the life of the assets.

Note 16 - Intra-group balances

(Amounts in NOK million)	Trade accounts receivable			Long-term lending		
	2003	2004	2005	2003	2004	2005
Subsidiaries	3	8	7	-	-	-
Jointly-controlled companies	6	4	4	50	50	50
Total	**9**	**12**	**11**	**50**	**50**	**50**

(Amounts in NOK million)	Trade accounts payable		
	2003	2004	2005
Subsidiaries	1	1	2
Jointly-controlled companies	-	-	-
Total	**1**	**1**	**2**

Note 17 - Taxation

GROUP

(Amounts in NOK million)

Tax charge	2005	2004	2003
Tax payable	49	123	148
Change in deferred tax	12	37	48
Excess/insufficient provision in previous years	-	-	8
Total tax charge	**61**	**160**	**204**

Summary of temporary differences (base for deferred tax)	Change 2004-2005	2005	2004	2003
Receivables		-	-	-4
Shares and securities	-6	14	8	5
Operating assets	-46	-301	-347	-500
Provisions according to good accounting practice	8	-10	-2	0
Pensions	8	-61	-53	-57
Profit and loss account	11	-22	-11	32
Technical provisions (insurance)	-16	128	112	89
Loss carried forward	-2	-9	-11	
Base for deferred tax asset on bal. sheet	**-43**	**-261**	**-304**	**-435**
Deferred tax asset on balance sheet (28% of base for deferred tax asset)		**73**	**85**	**122**

Note 17 continues over leaf

Note 17 continues

PARENT COMPANY

(Amounts in NOK million)

Calculation of deferred tax and change in deferred tax

Summary of temporary differences (base for deferred tax)	**Change 2004-2005**	**2005**	**2004**	**2003**
Receivables	-	-	-	2
Shares and securities	-4	12	8	-1
Fixed assets	-49	-292	-341	-503
Provision according to good accounting practice	6	-8	-2	-3
Pensions	6	-53	-47	-52
Profit and loss account	11	-30	-19	21
Base for deferred tax asset on the balance sheet	**-30**	**-371**	**-401**	**-536**
Deferred tax asset on the balance sheet (28% of base for deferred tax asset)	**-8**	**104**	**112**	**150**

TAX PAYABLE

	2005	**2004**	**2003**
Base for tax charge and tax payable			
Profit before tax charge	179	543	769
Permanent differences	-8	-2	-34
Base for tax charge for the year	**171**	**541**	**735**
Change in temporary differences	-30	-135	-193
Base for tax payable	**141**	**406**	**541**
Tax payable (in the tax charge)			
28% of base for tax payable	39	114	152
Allowance for tax on dividends	-	-	-7
Tax payable (in the tax charge)	**39**	**114**	**145**
Tax payable on the balance sheet			
Tax payable in the tax charge	39	114	145
Tax effect of group contribution affecting tax payable	-	-	-
Tax payable (on the balance sheet)	**39**	**114**	**145**

TAX CHARGE (SUMMARY)

	2005	**2004**	**2003**
Tax charge			
28% of profit before tax	50	152	215
28% of permanent differences	-2	-	-9
Allowance on dividends received	-	-	-7
Total tax charge on profit on ordinary activities	**48**	**152**	**199**
Breakdown of tax charge on profit on ordinary activities			
Tax payable	39	114	145
Change in deferred tax asset	8	38	46
Insufficient/excess provision for tax payable last year	1	-	8
Tax charge on profit on ordinary activities (tax charge for year)	**48**	**152**	**199**

Note 18 - Equity

PARENT COMPANY

(Amounts in NOK million)	Invested capital	Other equity	Total
Equity at 31 December 2004	2 700	1 716	4 416
Result for year (after proposed dividend)		44	44
Equity at 31 December 2005	**2 700**	**1 760**	**4 460**

GROUP

(Amounts in NOK million)	Invested capital	Other equity	Total
Equity at 31 December 2004	2 700	1 885	4 585
Effect of inclusion of Statnett Forsikring AS		95	95
Equity at 1 January 2005	**2 700**	**1 980**	**4 680**
Result for year (after proposed dividend)		87	87
Equity at 31 December 2005	**2 700**	**2 067**	**4 767**

Note 19 - Secured debt, guarantees

Neither the Parent Company, subsidiaries nor jointly-controlled companies have provided any substantial guarantees. The Parent Company has provided a third-party guarantee for SEK 10 million on behalf of STRI AB.

The Parent Company may not pledge the company´s assets.

Note 20 - Insurance

The insurance company Statnett Forsikring AS was formed on 1 April 1998 with Statnett SF as the sole shareholder. As of the same date, Statnett Forsikring AS took over the obligations and assets from Statnett SF´s captive insurance arrangement in Norsk Energiverk Forsikring AS. The company is licensed to provide cover for risks associated with companies in the Statnett Group.

The company operates both as a direct underwriter and as a reinsurer of Statnett´s risks covered by other insurers. In 2005, the company insured risk in the following categories:

- Property insurance including natural disasters
- Liability insurance

A low loss frequency at Statnett in 2005 resulted in a favourable loss experience for Statnett Forsikring AS in 2005. The stockmarket also performed well, contributing further to the good result.

Statnett Forsikring AS continues to be financially solid. The technical provisions exceed by a good margin the minimum requirement set by the authorities. The company´s capital base totals NOK 60.4 million, equal to a capital adequacy ratio of 55.5 per cent. The minimum requirements set by the Financial Supervisory Authority of Norway at 31 December 2005 were capital base of NOK 22.8 million and a capital adequacy ratio of 8 per cent.

Key figures (Amounts in NOK million)	**2005**	**2004**	**2003**
Premiums written, gross	20,8	20,4	8,7
Premiums earned, net of reinsurance	19,1	15,9	9,1
Profit/loss before contingency reserve and tax	17,8	20,7	22,6
Equity	62,3	45,4	41,2
Technical provisions	153,6	135,4	106,6
Total assets	218,1	184,4	150,8

The accounts of Statnett Forsikring AS have been incorporated in the consolidated figures from the 2005 financial year. The consolidated accounts for the Group for 2004 and 2003 have been restated accordingly.

All technical provisions and claims provisions for own account in the company, except for provisions for the National Fund for Natural Disaster Assistance, have been incorporated in the Group´s equity with 72 per cent.

All Norwegian insurance companies that write fire insurance are obliged to be members of the Norwegian Natural Perils Pool. From the operating surplus of this scheme provision is made to the National Fund for Natural Disaster Assistance. The provision can only be used to cover the costs connected with natural disasters.

Note 21 - Related parties

Ministry of Petroleum and Energy (OED)
As the owner of Statnett SF, the Norwegian Government, represented by the Ministry of Petroleum and Energy (OED), is a related party. Statnett has the following relations with the OED:

Regulatory authority
The Norwegian Parliament (Storting) is the legislative authority that passes legislation based on bills put forward by the Government. Regulations are passed by the King in Council. OED administers its part of this, and delegates, for example, 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 NVE can be appealed to the superior authority, i.e. OED.

Loans
OED provides loans to Statnett on ordinary commercial terms and conditions. See Note 14.

Other related parties are:
Subsidiary companies:
The wholly owned subsidiaries Statnett Transport AS, Statnett Forsikring AS and Statnett Skagerrak AS.

Jointly-controlled companies:
Nord Pool ASA, of which Statnett and Affärsverket Svenska Kraftnät each own 50 per cent.

Joint venture partner
Tennet bv of The Netherlands and Statnett are currently working on planning and building the NorNed cable. The companies will each own 50 per cent of NorNed.

Note 22 - Unresolved matters

Increase in energy delivered

One of the parameters employed by NVE when setting the annual revenue ceiling in the 1998-2002 period was the expected increase in delivered energy. Under NVE´s Regulations on technical and financial reporting, the revenue ceiling must be adjusted upwards each year by half the expected increase in delivered energy in the grid company´s settlement area. The Regulations state furthermore that at the end of the regulatory period NVE must make a post-regulatory period settlement taking into account the actual increase in delivered energy. The result of this final settlement must be recorded as a higher or lower revenue and either be paid out or recouped in the subsequent years´ tariffs.

NVE has notified Statnett of the accumulated lower revenues for the years 1998-2001. Statnett disagrees with the method NVE has used to calculate the actual increase in delivered energy, as it appears in NVE´s notification.

Based on Statnett´s understanding of the rules for calculating the actual increase in delivered energy, the result would be a considerable increase in the calculated lower revenue for the years 1998-2002. This increase in lower revenue has not been taken account of in the financial statements.

ERNST & YOUNG

■ Statsautoriserte revisorer

Ernst & Young AS
Oslo Atrium
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To the General Meeting of
Statnett SF

Auditor's report for 2005

We have audited the annual financial statements of Statnett SF as of 31 December 2005, showing a profit of NOK 131 million for the parent company and a profit of NOK 174 million for the group. We have also audited the information in the Directors' report concerning the financial statements, the going concern assumption, and the proposal for the allocation of the profit. The financial statements comprise the financial statements for the parent company and the group. The financial statements of the parent company and the group comprise the balance sheet, the statements of income and cash flows and the accompanying notes. The regulations of the Norwegian Accounting Act and accounting standards, principles and practices generally accepted in Norway have been applied in the preparation of the financial statements of the parent company and the group. These financial statements and the Directors' report are the responsibility of the Company's Board of Directors and President and CEO. Our responsibility is to express an opinion on these financial statements and on other information according to the requirements of the Norwegian Act on Auditing and Auditors.

We conducted our audit in accordance with laws, regulations and auditing standards and practices generally accepted in Norway, including the auditing standards adopted by the Norwegian Institute of Public Accountants. Those auditing standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. To the extent required by law and auditing standards, an audit also comprises a review of the management of the Company's financial affairs and its accounting and internal control systems. We believe that our audit provides a reasonable basis for our opinion.

In our opinion,

- the financial statements of the parent company and the group are prepared in accordance with laws and regulations and present fairly, in all material respects the financial position of the Company and of the group as of 31 December 2005, and the results of the operations and cash flows for the year then ended, in accordance with accounting standards, principles and practices generally accepted in Norway
- the Company's management has fulfilled its duty to properly record and document the accounting information as required by law and generally accepted bookkeeping practice in Norway
- the information in the Directors' report concerning the financial statements, the going concern assumption, and the proposal for the allocation of the profit is consistent with the financial statements and complies with law and regulations.

Oslo, 16 March 2006
ERNST & YOUNG AS

Jan Egil Haga
State Authorised Public Accountant (Norway)
(sign.)

Note: The translation to English has been prepared for information purposes only.

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■ Arendal, Bergen, Bø, Drammen, Fosnavåg, Fredrikstad, Holmestrand, Horten, Hønefoss, Kongsberg, Kragerø, Kristiansand, Larvik, Levanger, Lillehammer, Moss, Måløy, Notodden, Oslo, Otta, Porsgrunn/Skien, Sandefjord, Sortland, Stavanger, Steinkjer, Tromsø, Trondheim, Tønsberg, Vikersund, Ålesund

Business areas

Statnett´s business areas

Most of Statnett´s revenues are earned by leasing transmission facilities to the Main Grid Commercial Agreement. Statnett also leases out cable capacity between Norway and Denmark, as well as transmission capacity to some regional grids in Norway. In addition, Statnett earns revenues as the national Transmission System Operator (TSO) responsible for co-ordinating Norway´s entire electric power system.

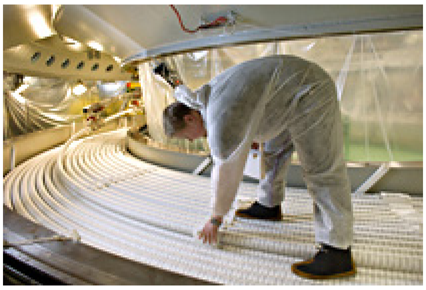
Statnett´s revenues are regulated by means of a revenue ceiling set by the Norwegian Water Resources and Energy Directorate (NVE). The purpose of setting an upper limit for revenues is to create predictable economic operating conditions for the grid companies, while at the same time restricting the possibility for high returns on the grid operation.

Statnett´s operations comprise the three main areas of Grid Operations, the Main Grid Commercial Agreement, and Regulating Power, in addition to the subsidiaries Nord Pool ASA, Statnett Transport AS and Statnett Forsikring AS.

Grid Operations

Grid Operations comprise the development and maintenance of Statnett´s share of the Main Grid, and the co-ordination of the power transmission services (exercise of Statnett´s systemwide responsibilities as TSO). 2005 was dominated by Statnett having now entered a period in which a number of major investments are being planned and executed.

The construction of the subsea power cable between Norway and The Netherlands is well advanced, as is the transmission line from the new Viklandet transformer station to Nyhamna at Aukra outside Molde. The number of faults in Statnett´s facilities causing outages for consumers (unsupplied energy) was at a record low level in 2005.



Impregnation of the NorNed cable at the Nexans factory in Halden

Reservoirs were 71% full at the beginning of the year, which is close to the median reservoir levels for the years 1990-2003. After a year with good inflow from water courses, reservoirs were 77% full at the end of the year. 2005 produced significant power exports from Norway totalling approximately 12.2 TWh.

Good quality of supply

There were few major faults in Statnett´s facilities causing outages for consumers in 2005. Statnett´s objective, whereby no consumer connected to a Main Grid point should experience an outage or reduced supply for more than two hours, was achieved. A programme of systematic forest clearance along power line routes gave us a year without outages as a result of contact between trees and power lines.

Occasional reduction in capacity to the Nordic countries

Power trading capacity between Norway and Jylland was halved from May to October following the breakdown of the main transformer for one of the Skagerrak cables to Denmark. A new transformer was already on order at the time of the breakdown. The reduction in trading capacity gave rise to price differentials in the spot market between Norway and Jylland.

In January, a fault at the Tegneby plant led to greatly reduced trading capacity with Sweden in the Hasle interface. In addition, a fault arose in December at the Porjus plant (Northern Sweden) which had major consequences for the Nordic power system although few consequences for Norwegian consumers.

Congestion and special regulations

Major amounts of precipitation in both Western Norway and Northern Norway gave rise to special regulation costs for long periods, owing to the fact that generation and transmission requirements exceeded transmission capacity.

Also modification work and faults in the power grid gave rise to major special regulation costs in 2005. The 300 kV Nesflaten-Sauda transmission line had reduced transmission capacity at the start of the year following problems with a line splicer which arose in 2004. In September, another main power line in Western Norway from Blåfalli to Sauda was disconnected for a total of ten days because of damage to the line following a rockslide caused by heavy rain.

Major expansion activity

The building of NorNed, the world´s longest subsea DC interconnector which is being laid from Norway to The Netherlands, is well advanced. The work is on schedule and the cable should come into operation at the turn of the year 2007/08. Over 150 kilometres of cable have been produced and tested. Statnett and the Dutch grid operator TenneT have also started work on developing systems for power trading between the two countries in collaboration with the Nord Pool and APX power exchanges.

Statnett initiated major expansion activity in Central Norway in 2005. Two new substation facilities are being built in the Molde area, as well as approximately 100 kilometres of 420 kV power line which connects the facilities with the main grid in Viklandet. These projects, which will ensure the power supply to the Ormen Lange facility, will be completed in 2006. Power consumption has grown greatly in Central Norway in the past few years, and is expected to go on growing.

Statnett has warned of a demanding power situation in the coming years and a need to build further power lines, unless additional power generation is developed in the area. Planning work has therefore been started on a power line from Ørskog to Sogn. Work is also being done to increase the capacity towards Sweden. A number of projects have been carried out to upgrade existing substations; there has been a particular need to replace control systems.

Several large analysis projects have been carried out in the past year. Statnett has taken part in the work done by Gassco on developing gas infrastructure, by studying the synergies between the power grid and gas. The conclusion is that gas power that is localised to the right place in the grid can produce big grid gains. Statnett has analysed the supply situation for parts of Hordaland county, and announced the building of a new power line from Sima to Samnanger.

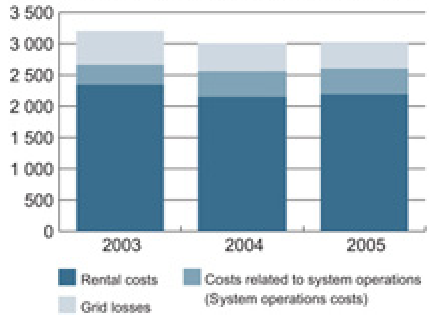
The Main Grid Commercial Agreement

The Main Grid in Norway is owned by Statnett and 26 other companies, with Statnett owning approximately 85 per cent. The Main Grid Commercial Agreement is a system for collective pricing (tariffing) and settlement (invoicing) of transmission services in the Main Grid.

All participants connected to infrastructure in the Main Grid are customers in the Main Grid Commercial Agreement, be they generators, consumers (processing industry) or regional power companies.

As the operator of the Main Grid Commercial Agreement, Statnett is responsible for drawing up and updating connection contracts with customers and for leasing in all the infrastructure included in the Agreement. Statnett is also responsible for setting annual tariffs, and for measuring and settling the volume of power used by customers in accordance with the tariffs.

Figure A
Main Grid Commercial Agreement costs 2003-2005



The aggregate tariff revenue is intended over time to cover all the costs in the Main Grid Commercial Agreement. In some years there will be a discrepancy between revenues and costs. If aggregate tariff revenue in one year is higher than the costs for the year, a surplus or "higher revenue" arises. At the end of 2005 there was an accumulated surplus of NOK 156 million, which was taken into account when setting tariffs for 2006.

The costs in the Main Grid Commercial Agreement are related to leasing power lines and substations from infrastructure proprietors, physical transmission losses in the grid, and system operations costs. The system operations costs include special regulations, purchase of regulating power and regulating power options.

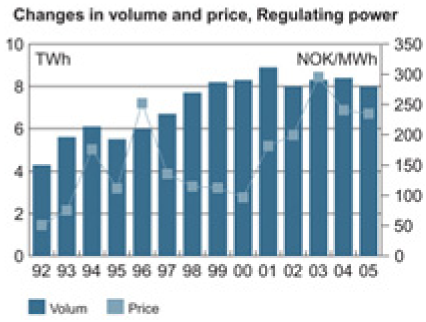
All costs included in the Agreement are regulated by the Norwegian Water Resources and Energy Directorate (NVE) by means of the NVE setting an annual revenue ceiling for individual grid proprietors and operators. The revenue ceiling determines how much a grid proprietor or operator can claim in cost coverage through the Main Grid Commercial Agreement. Costs in the Main Grid Commercial Agreement in 2005 totalled approximately NOK 3 billion. The Main Grid costs from 2003 to 2005 are illustrated in Figure A.

A set of annual accounts is prepared for the Main Grid Commercial Agreement. The result of the Main Grid Commercial Agreement does not affect Statnett SF´s annual result.

The regulating power market, balance settlement and Ediel

As Norway´s Transmission System Operator (TSO), Statnett is responsible for the regulating power system and the balance settlement system. This means that Statnett is responsible for regulating the power system so that there is always a balance between electricity generation and consumption.

Responsibility for the balance settlement system means that Statnett compares actual and planned energy volumes, calculates any discrepancies, and settles them financially between the participants. The settlements are based on the prices in the regulating power market.



In 2005, approximately 140 regulating power members received financial settlement from the balance settlement system, some varying over the year. The settlement of the regulating power market is financed by a volume charge on trading and, given efficient operations, it should balance over time. Turnover in the regulating power market has stabilised at around 8 TWh/year, with volume charges generating revenues of approximately NOK 12 million annually.

The accounts now show accumulated higher revenues of NOK 17 million, which will be carried over to next year´s accounts.

Statnett worked actively in 2005 to facilitate a more well-functioning regulating power market. Intensified work on monitoring the market has been an important contribution in this respect. The market monitoring activity has two purposes. The first is to keep the security requirement as low as possible. The second is to keep the imbalances in the regulating power market at an acceptable level. New IT solutions are being developed to provide support for secure and stable operations and to give customers better service.

Statnett´s Ediel activity

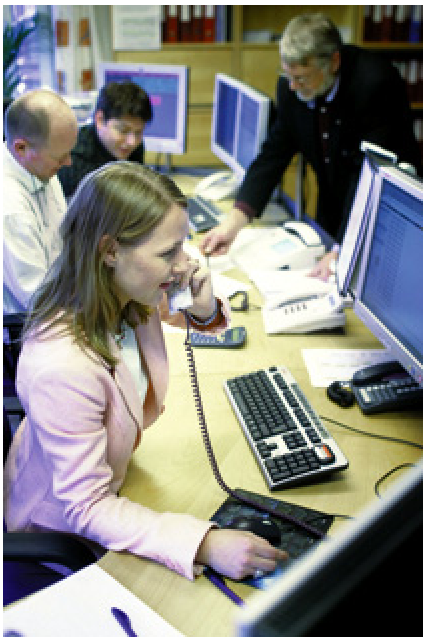
Ediel, the power sector´s international standard for electronic exchange of trading information, was further developed in 2005. New procedures and a new type of EDI (Electronic Data Interchange) message for the settlement basis and settlement of balance being are implemented at all the participants in the Norwegian electricity industry. In that connection an extensive collaborative project has been carried out with the industry. New test solutions have been established at System Support (SSE) for Ediel and approximately 370 participants will be certified.

In Sweden, the sector has also worked actively on further development. In 2005, a new method of communication for the EDI messages was ready to be introduced, which has also led to high activity with certification in the test tool at SSE (approximately 440 participants).

Statnett´s Ediel activity is working closely with the industry on developing Ediel further and harmonising the Norwegian standard at Nordic and European level. These efforts are being prioritised in order to ensure a well-functioning exchange of information in the electricity industry. This is important work in which all the participants in Norway are invited to take part.

Nord Pool - The Nordic Power Exchange

Nord Pool ASA´s vision is to be the world´s leading power exchange. Nord Pool is owned 50:50 by Statnett and Svenska Kraftnät of Sweden. The Nord Pool Group is the marketplace and clearing house for physical delivery and financially-settled power contracts in the Nordic countries, and all areas showed strong, uniform growth in 2005.



Financial market (Photo Nord Pool)

Excluding Nord Pool Spot, trading was conducted and contracts cleared over the power exchange for a total of NOK 399 billion, compared with NOK 350 billion in 2004. In 2005 Nord Pool was also the first power exchange to introduce trading in CO_2 emission rights.

The Nord Pool Group comprises the parent company, Nord Pool ASA, and its wholly owned subsidiaries Nord Pool Clearing ASA and Nord Pool Consulting AS. The Nord Pool Group also includes Nord Pool Spot AS and its subsidiary Nord Pool Finland Oy. Nord Pool Spot is the Nordic countries´ marketplace for trade in physical power contracts. The Nordic Transmission System Operators (TSOs) and Nord Pool ASA each own 20 per cent of Nord Pool Spot.

The physical market is divided into Elspot and Elbas. Elspot is a single Nordic marketplace for trade in physical power contracts for next-day delivery. Elbas is a physical delivery power adjustment marketplace for trading in Sweden, Finland and Eastern Denmark, with continuous, round-the-clock trading of hourly power contracts.

Strong growth in trade via Nord Pool Spot

The TSOs use the electricity spot market as the basis for balancing the flow of power between the Nordic countries. In 2005, a total of 176 TWh was traded in the market, which is 5.6 per cent up on 2004.

Nord Pool ASA offers exchange members trade in futures and forward contracts and in power options in the financial market. These financially-settled contracts are used primarily for price hedging and risk management in power trading. The Elspot system price functions as the established reference price for pricing the financially-settled power trade in the Nordic countries. In 2005, a total of 786 TWh was traded over the power exchange´s financial market with contracts worth NOK 189 billion. This is a 33 per cent rise in traded volume compared with 2004.

Sharp increase in clearing turnover

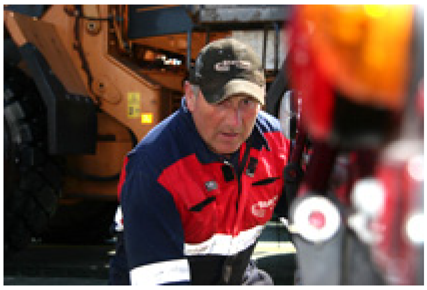
Nord Pool Clearing enters into financial power contracts as counterparty to all contracts traded on the power exchange. By providing daily collateral to cover future settlements, it reduces the financial risk for contractual counterparties. Nord Pool Clearing enters automatically into all contracts traded on the exchange.

For 2005, Nord Pool Clearing recorded an operating profit of NOK 44.3 million. The total traded volume cleared by Nord Pool Clearing ASA in 2005 was 2,102 TWh, compared with 1,207 TWh the year before. Contracts were worth NOK 209 billion in 2005, compared with NOK 202 billion in 2004.

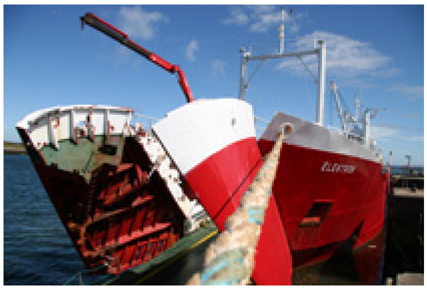
Outlook

By strengthening the company´s sales activity, the Board of Directors has signalled that an even larger increase in traded volume and numbers of Nord Pool members is expected in 2006. This applies to both the financial power market and the CO_2 emissions trading market.

Statnett Transport AS



Statnett Transport AS has the market´s lightest and most effective equipment for transporting units weighing up to 350 tonnes on public highways and up to 500 tonnes in enclosed areas. In combination with the company´s roll-on roll-off transport vessel, the MV Elektron, this equipment allows Statnett Transport to undertake complicated, heavy transport commissions to locations that are not easily accessible. The company also has an 18-axle freight wagon for transporting units up to 210 tonnes by rail. 2005 produced a negative result, largely owing to a weak land carriage market.



In 2005 carried Statnett Transport out several commissions for the British defence on the islands of St. Kilda outside Scotland.

Statnett Transport carries out commissions primarily for the Norwegian power supply, but also has several customers abroad. The company is a wholly owned subsidiary of Statnett SF and its mission is to ensure efficient operational implementation of Statnett´s statutory duty to provide transport preparedness for the Norwegian power supply. The company is also required to operate efficiently and competitively.

Turnover in 2005 totalled NOK 27.4 million, compared with NOK 37.5 million in 2004. The company recorded a net loss after tax of NOK 2.8 million, as against a net loss of NOK 1.1 million in 2004. The result is due to a weak land carriage market, plus reorganisation costs of NOK 0.65 million and an almost doubling of bunkers costs for MV Elektron.

Outlook

Given the need for replacements and new investment in the power supply, the company takes a positive view of market prospects in the time ahead. The company will work to improve its financial results, while maintaining its effort to ensure safe, secure and efficient implementation of its preparedness obligations. This will be done among other things through new ship investment and reinvestment in rolling stock.

Corporate social responsibility

Honest and open communication

For Statnett, it is an important principle to be open and honest. Everything we do, from planning to execution of our operations is governed by this principle.

Through the key role Statnett plays as Norway´s transmission system operator, and as owner of the Norwegian main power grid, Statnett and its activities are of major importance for the whole of Norwegian society. Our physical installations affect local communities and many other different and vital interests in society.

Maintaining an open dialogue with customers and society at large provides insight into our operations and a greater understanding of our role. At the same time, our experience is that promoting an open discussion also helps facilitate good, effective solutions. Where new projects are proposed, an early dialogue with local communities enables us to work together to find solutions geared to reconciling local needs with technical and financial considerations.

In line with our business idea, Statnett aims to facilitate a well-functioning electricity market with high security of supply. Statnett´s vision is to be a leading, independent expert organisation on the electricity market and the electricity system. On this basis, we will build trust and openness around our activities. There will never be any doubt that we are exercising our role in a professional and trustworthy manner.

People with opportunities

Statnett´s vision to be Europe´s leading and most efficient transmission system operator can only be realised if we have committed and competent employees. Accordingly, we invest heavily in staff development, education and training programmes geared to meeting Statnett´s needs, strategies and corporate values.


During 2005 accomplished 11 employees Statnett´s mentor programme

At Statnett we attach great importance to systematic competence development, and so managers´ performance is judged among other things by whether they hold regular staff performance assessment interviews and prepare and carry out competence development plans. Statnett seeks as far as possible to train management´s capacity to inspire and develop their staff.

During 2004 and 2005, all Statnett managers went through a management course focusing on practical management skills, goal and performance-oriented management, and good communication. The effects of management training and other initiatives designed to develop the company are measured by means of staff surveys and various other surveys. The staff survey carried out in autumn 2005 showed a total satisfaction score of 85 per cent.

Statnett fully supports the spread of competence across all divisions of the company, and practises an internal mobility scheme. In 2005, some 30 employees changed jobs internally within the Statnett Group. We also work actively to recruit and keep good employees. For the future, we see a particular challenge with regard to highly qualified staff with a technical background, such as skilled workpeople and graduate civil engineers. To help ensure that we retain the best staff, we will implement a talent programme in 2006, which will be repeated as required.

Equality and diversity

Statnett has worked systematically for many years to get more women into management and technical positions. We have also set up practical schemes designed to allow women and men to combine work and family life successfully. Statnett runs its own nursery facilities, a scheme of extended parental leave for parents of young children, and practises flexible working hours. We are now finding that increasing numbers of men, at all levels of the company, are taking more parental leave than before and are staying at home with sick children on a par with mothers of small children.

Women and men in comparable positions receive equal pay. Our staff surveys show that both sexes believe that women and men have equal opportunities at Statnett. We will continue our endeavour to recruit more women to technical and management positions. We also want to promote the participation of women in the boardroom, and take a positive view of female employees being elected to directorships of other companies. In 2005, Statnett continued its participation in the "Female Future" programme run by the Norwegian Confederation of Business and Industry, where a total of eight women managers from Statnett took part.

Recruitment and cooperation with universities and colleges

Statnett regularly needs to recruit technical graduates from universities and colleges. These recruiting activities are aimed particularly at the technical departments of the Norwegian University of Science and Technology in Trondheim (NTNU), especially those offering electrical subjects. In 2005, we launched a trainee programme in cooperation with SINTEF (Foundation for Scientific and Industrial Research at the University of Trondheim) and a number of other companies in the industry. To raise awareness of Statnett, we take part in employment fairs organised by students and also offer summer jobs. In the future, Statnett aims to offer even more students the opportunity to write project papers and masters´ dissertations at Statnett.

Creating value with Research and Development

Statnett is joint owner in the Swedish research institute STRI

Statnett´s investment in research and development (R&D) is aimed at developing new solutions, methods and technology designed to strengthen the level of internal competence within the company. This will help us achieve our prime objective of being Europe´s leading and most cost-effective Transmission System Operator. In addition, Statnett will aim to facilitate competence development within the areas in which we otherwise operate in society.

Statnett´s objective is to spend 1.2 per cent of its annual revenue ceiling on R&D. In 2005, a total of NOK 23.5 million was spent on R&D, with approximately 70 per cent of that going to collaborative projects with external partners. R&D is thus a central collaborative platform for Statnett vis-à-vis external environments in both Norway and abroad. In addition to obtaining knowledge and competence for the company, Statnett´s R&D activities also help raise the level of competence among research institutions, technology suppliers and other providers of services.

During 2005, Statnett carried out the major process of reorganising its entire R&D operations. The intention is to facilitate a more strategically oriented R&D activity. This will be accomplished by greater result-orientation and visibility both externally and internally and by bringing about increased awareness of the importance of R&D as a strategic tool in the company´s development. The aim is to strengthen Statnett´s R&D work and to provide a positive contribution to the entire Norwegian electric power environment.

Some results of Statnett´s R&D activities are presented as a series of pictures in the web version of this annual report.

Professional suppliers a necessity

Statnett aims to be a leading, credible and neutral expert organisation with high technical and professional standards, and to work for the good of society. This has consequences for our relations with suppliers. In 2005, Statnett procured goods and services worth approximately NOK 1.5 billion. With this scale of procurements, we are completely dependent on a network of reputable, professional suppliers.

Statnett depends on high quality from every contractor

Statnett´s procurements vary from major investments in new transformer stations and power lines to minor purchases relating to administration and maintenance. That makes Statnett dependent on accessing a well-functioning market of professional suppliers, both local and global.

We seek to co-operate with competitive suppliers who can contribute to a positive development for Statnett within a working relationship based on mutual respect. Openness, predictability and equal treatment are all important aspects of such a relationship.

Health, safety and environment (HSE), together with the external environment, are areas which Statnett regards as extremely important and on which we are highly focused. In addition to being competitive in terms of price and quality, we expect our suppliers to comply with our HSE policy and external environment policy. We laid down even higher standards in these areas in 2005, which has among other things resulted in an amplification of requirements and follow-up vis-à-vis our suppliers.

Statnett is also concerned to ensure that our relations with suppliers are based on high ethical standards.

Clear standards of ethics and integrity

Statnett´s employees undertake to conduct themselves with honesty and loyalty in all relations with their employers and colleagues, and with high integrity in their relations with the rest of society. All commercial relations at Statnett are conducted on the basis of clear ethical guidelines.

Statnett sets strict ethical standards that do not permit employees to accept gifts, payments or other benefits from customers or suppliers, when the intention behind the gift can be interpreted as an attempt to influence a decision in the giver´s favour.

Duty of disclosure

Employees are obliged to disclose any existing or planned ownership interests or shareholdings in businesses that have a commercial relationship with Statnett. This duty of disclosure also applies if holding a directorship or office could imply an inappropriate conflict of interest with Statnett.

Procurements

Our standards stipulate that all procurements and purchases must be made only after a proper and impartial assessment of the factual and objective considerations. Statnett´s employees are not permitted to use their positions for personal gain, and must refrain from disclosing any information given confidentially or that could wrongfully benefit an individual supplier.

Travel

On trips organised by Statnett´s business associates, Statnett pays its own travel and accommodation expenses. At the same time, we view moderate forms of hospitality and socialising as a natural part of courteous business relations. It is, however, a prerequisite that such relations must never develop into anything likely to influence the decision-making process or to impede it.

Taking care of the environment

After several years´ efforts, in 2005 Statnett concluded the work required to accomplish environmental certification to ISO 14001. The certification provides further guide rules for achieving environmentally-friendly operations in all aspects of Statnett´s activities.

The ISO 14001 standard facilitates the establishment of an environmental management system which will allow us to take into account both the statutory environmental requirements laid down by law and Statnett´s own self-imposed environmental requirements. Nemko Certification carried out the environmental audits of Statnett in 2005, and certification was issued early in 2006.

Environmental goals on a par with strategic goals

Annual environmental reviews and audits form the basis for Statnett´s environmental goals. Together with our own environmental KPIs (Key Performance Indicators), these make up Statnett´s environmental programme. During 2005, the environmental goals were implemented in Statnett´s goal and performance-oriented management system and are now being followed up on a par with the company´s strategic goals.

Each year Statnett also undertakes an audit in which the environmental impact of each individual entity´s operations is surveyed and weighted. In addition, Statnett´s projects are systematically audited in order to meet environmental requirements and health, safety and working environment (HSE) requirements.

The outer environment

2005 was a year of further focus on the outer environment in Statnett´s operations. Nature and the environment will continue to be emphasised on a par with functional, technical and economic considerations, and we will continue to set equally high environmental standards for our partners and suppliers. There will also be increased activity with regard to environmental audits in the years to come.

A number of initiatives have been taken to meet the company´s environmental goals, including a programme to replace underground diesel tanks for Statnett´s emergency generator sets. This will reduce the risk of hazardous discharge. Statnett has also laid down requirements to reduce the use of SF_6 gas in Statnett´s installations. SF_6 is a gas which functions extremely well as an isolator in transformers, but which damages the ozone layer if it escapes.

Statnett is also taking seriously the general concern among the population regarding the possible health risks associated with exposure to electromagnetic fields. We have therefore launched a research and development project to develop power masts designed to reduce electromagnetic fields around power lines.

Valuing cultural involvement

Statnett´s involvement in the cultural life of Norway is largely focused on activities for children and young people, and on helping to build local communities and a good environment for children to grow up in. This also has importance for Statnett´s own employees; through a system of funding, we encourage them to do something useful for society in this important area.

Children and youth together with The Brazz Brothers have been central in Statnett´s social commitment

In 2005, Statnett´s scheme to provide funding for children´s and young people´s activities benefited a total of thirty different clubs and organisations, most involving organised activities in sports or culture or other services for the benefit of children and young people.

To be eligible for funding, a Statnett employee must hold a position of trust or fulfil some other important, active role in the event, organisation or club for which funding is sought. Furthermore, the activity must be organised through a club, association or similar and be run according to the normal principles for such activities. The activity must also have a clear, non-profit-making objective.

Cultural partnership with The Brazz Brothers

Our desire to provide good opportunities for children and young people also prompted the establishment in 2001 of a collaborative venture with the jazz ensemble The Brazz Brothers. The aim of this cultural partnership has been to establish a creative form of collaboration to inspire and engage local communities, various authorities and students, as well as Statnett´s customers, management and employees. At the same time, it has been our wish to support the inspiring work done by The Brazz Brothers to promote amateur music and music education throughout Norway. The Brazz Brothers´ music is spontaneous and creative, and as such is expressive of Statnett´s own values.

Ownership and Corporate Governance

Ownership and Corporate Governance

CEO Odd Håkon Hoelsæter together with Minister of Petroleum and Energy Odd Roger Enoksen

Statnett is a public enterprise, established under the Public Enterprises Act and owned by the Norwegian State through the Ministry of Petroleum and Energy. Statnett is an independent enterprise, financed through the financial markets, and is wholly responsible for its obligations.

Statnett´s core business activities are not exposed to competition in the normal sense. Its revenues come primarily from monopoly-based activities and are regulated by a revenue ceiling set by the Norwegian Water Resources and Energy Directorate (NVE). NVE has a mandatory responsibility to carry out control of Statnett´s activities.

The General Meeting, in the person of the Petroleum and Energy Minister, is the owner´s supreme decision-making body, and deals primarily with the kind of business any corporate general meeting would deal with. The General Meeting appoints Statnett´s Board of Directors and User Council. The Board of Directors´ main responsibilities are strategy, control and ensuring effective organisation of Statnett´s activities. Statnett´s User Council has the right to make proposals and recommendations to the Board and also supplements NVE´s control of Statnett´s activities. The President and CEO is responsible for the day-to-day running of the Statnett Group.

Statnett´s Board of Directors

Chair of the Board of Directors

Svein Rennemo

Rennemo was elected as new Chair of the Board of Directors of Statnett in 2005. He is currently President and CEO of Petroleum Geo-Services ASA, and among other things has been a partner at ECON Management, President and CEO of Borealis, and has held several senior executive posts at Statoil. Rennemo holds a Master´s Degree in Political Economics from the University of Oslo, and has served on a number of boards in both Norway and abroad.

Vice Chair of the Board of Directors

Kjell Olav Kristiansen

Kristiansen holds a Master´s Degree in Political Economics from the University of Oslo and has served on the Board of Statnett since 2000. He has long experience from the public sector, was formerly Director General at the Norwegian Ministry of Petroleum and Energy, and is currently General Manager of the energy consultancy Joule AS.

Grethe Høiland

Høiland is a Graduate Civil Engineer in Electrical Power Engineering from the Norwegian Institute of Technology (NTH) and has completed a Foundation Program in Business Administration at BI Norwegian School of Management. She has been a member of the Board of Statnett since 2002. Høiland is Director of Marketing at Lyse AS, has broad experience from senior executive posts in the energy sector, and has served on a number of boards.

Christine Meyer

Meyer is a senior lecturer at the Norwegian School of Economics and Business Administration in Bergen (NHH), and was formerly State Secretary at the Norwegian Ministry of Labour and Government Administration from 2001 to 2003. She has also been Vice Rector for International Relations at NHH. Meyer trained as a business economist and holds a PhD in economics and business administration from NHH. She became a member of the Board of Statnett in 2005.

Heidi Ekrem Skar

Ekrem Skar holds a Law Degree and is a lawyer and partner at the law firm Advokatfirmaet Mageli og Co. Most of her practice involves dealing with corporate law issues for large companies, including those in the energy sector. Ekrem Skar was elected as a new member of the Board of Statnett in the New Year 2006.

Thor Håkstad

Håkstad holds a Degree in Mechanical Engineering from the Norwegian Institute of Technology (NTH). He retired as senior adviser at Norsk Hydro at the end of 2004, after more than 30 years with the company. Håkstad held a number of executive posts at Norsk Hydro, and was in the Group´s senior management team for 10 years. He has served and continues to serve on a number of boards both in Norway and abroad, and has been a member of Statnett´s Board since 2004.

Ole Bjørn Kirstihagen

Kirstihagen is a Graduate Electrical Engineer from Stavanger College of Engineering, and is Senior Engineer with Statnett´s IT and Telecom Division. He has previous experience from Røldal - Suldal Kraft AS and The Norwegian Power Pool. Kirstihagen chairs the Norwegian Society of Engineers´ (NITO) chapter at Statnett and has been an employee representative on Statnett´s Board since 1996.

Kirsten Faugstad

Faugstad is a Graduate Civil Engineer in Electrical Power from the Norwegian Institute of Technology (NTH). She has experience from Statkraft and Statnett and has chaired the Norwegian Society of Chartered Engineers´ (NIF) chapter at Statnett. She is currently a project leader with Statnett´s Technology Division and has served as an employee representative on Statnett´s Board since 2004.

Steinar Jøråndstad

Jøråndstad is an Energy Technician with Statnett and is leader of the Norwegian Electrician and IT Workers Union (EL&IT) chapter at Statnett. He began his career as an apprentice in 1981 after upper secondary school qualifications in electrical engineering; he is a former safety officer at Statnett and currently sits on Statnett´s Working Environment Committee. He has been an employee representative on the Board of Statnett since 2004.

From left: Thor Håkstad, Christine Benedichte Meyer, Odd Håkon Hoelsæter, Heidi Ekrem Skar, Chair of the Board of Directors Svein Rennemo, Grethe Høiland, Ole Bjørn Kirstihagen, Steinar Jøråndstad, Kirsten Faugstad and Vice Chair of the Board of Dirctors Kjell Olav Kristiansen

Statnett Group Management

President and CEO

Odd Håkon Hoelsæter

Hoelsæter is a Graduate Civil Engineer in Heavy Current Engineering from the Norwegian Institute of Technology (NTH). He has experience from The Norwegian Power Pool, from Årdal og Sunndal Verk AS, and as head of Hydro Aluminium Energi at Årdalstangen. He was the first President of ETSO, and remains a member of ETSO´s Steering Committee. Hoelsæter is Chair of the Board of Directors of Nord Pool ASA and sits on the boards of Gassco AS and Nordel.

Senior Vice President

Kåre Schjetne

Schjetne is a Graduate Civil Engineer in Construction Engineering from the Norwegian Institute of Technology (NTH). He has worked for the engineering consultants Tron Horn AS and has held a number of posts at Statkraft, most recently Executive Vice President Corporate Staff. At Statnett he has been Executive Vice President Grid Operations and is now Executive Vice President Corporate Staff, which comprises responsibility for Corporate Strategy, Human Resources, Communications, Legal, R&D, Resource Optimisation and Quality/HSE.

Executive Vice President Finance

Anne Breive

Breive trained initially in retail management and marketing and is an International Master of Business Administration from Glasgow University. Breive was formerly Director of Corporate Controlling and Director of Finance at Norske Skog. She has previously worked for the Kreditkassen bank, primarily in posts relating to customer responsibility and follow-up. Breive took up the post of Executive Vice President Finance in autumn 2005.

Vice President Commercial Division

Bente Hagem

Hagem trained as an agricultural economist at the Agricultural University of Norway, specialising in market economy. She was formerly Assistant Market Director at Norsk Kjøtt (Gilde) and Director of Gas Business Development at Statoil. Hagem is a member of the board of NSB AS and also sits on the Main Board of the Norwegian Confederation of Business and Industry (NHO). At Statnett she heads the Market Division, which has special responsibility for contact with Statnett´s customers.

Executive Vice President Grid Operations

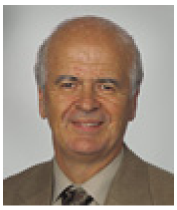
Håkon Borgen

Borgen is a Graduate Civil Engineer in Electrical Power from the Norwegian Institute of Technology (NTH). He was previously divisional manager at BKK and has held several managerial posts at Statnett. Borgen is currently a member of the Board of Nord Pool Spot and is also Chair of Nordel´s Operations Committee. The Grid Operations Division is responsible for managing the operation of the Norwegian power system and joint operations with other Nordic countries.

Executive Vice President Grid Development and Investment

Øivind Kristian Rue

Rue holds a Cand. Polit. Degree (Master´s Degree in Political Science) from the University of Oslo. He was formerly Deputy Assistant Director General at the Norwegian Ministry of Trade and Industry and was Director of Saga Petroleum´s strategy department and of Norwegian Continental Shelf South. Rue currently heads Statnett´s Grid Development and Investment Division, which is responsible for all Statnett´s investment projects in Norway and abroad.



Executive Vice President Maintenance Division

Audun Severin Hustoft

Hustoft is a Graduate Civil Engineer in Electrical Power. He was formerly Operations Manager at Statkraft, Regional Manager at Statnett and head of Statnett´s System Operations Department. Hustoft currently heads Statnett´s Maintenance Division, which is responsible for maintenance and reinvestment in Statnett´s facilities, thus ensuring that the Main Grid is always accessible.

The user council 2005

Members

- Helge Stanghelle (Chair), nominated by PIL (Norwegian Industri)
- Ove Brattbakk (Vice Chair), nominated by EBL (Norwegian Electricity Industry Association)
- Ada Solberg, nominated by EBL
- Karstein Sandvik, nominated by Consumer Council of Norway
- Caroline Lund, nominated by FSN (Forum for Strategic Grid Development)
- Cathrine Møller-Faaberg, nominated by HSH (Federation of Trades and Services)

Deputy members

- Heidi Gill Østvold, nominated by PIL (Norwegian Industri)
- Einar Westre, nominated by EBL (Norwegian Electricity Industry Association)
- Berit Flægstad, nominated by EBL
- Hilde Stenstad, nominated by Consumer Council of Norway
- Eilif Amundsen, nominated by FSN (Forum for Strategic Grid Development)
- Jørgen Tysnes Fossum, nominated by HSH (Federation of Trades and Services)