

# Annual Report 2006



## Contents

This is Statnett	2
Statnett's history	2
Key figures	3
CEO's considerations	4
The electricity market	6
The Norwegian energy map	7
Operations	8
Grid operations	10
Administrative responsibilities	12
Other activities	14
Corporate Social Responsibility	16
Ownership and Corporate Governance	22
Statnett Group Management	24
The User Council 2006	25
Statnett's Board of Directors	26
Board of Director's report	28
Profit and loss account	35
Balance sheet	36
Cash flow statement	38
Notes	39
Auditor's report	65
Statistics	66



Statnett is currently in a period of major investment and high activity. The large investments in the Main Grid are partly due to a sharp rise in consumption, but without there having been any corresponding increase in electricity generation. The challenges are particularly great in Central Norway, where in the past few years Statnett has invested NOK 2 billion, and there will be further and extensive investments in the next two years.

The building of new power lines is also necessary to improve security of supply in several parts of Norway. In planning this new capacity, Statnett's aim is to establish future-oriented solutions capable of accommodating alternative development features in the energy system. The development of the Main Grid is based on socio-economic criteria, where the environment is valued on a par with other considerations. For the whole of Norway, Statnett is planning investments for NOK 19 billion over the next ten years.

# This is Statnett

Statnett is a company wholly owned by the Norwegian State and whose prime responsibility is to provide Norwegian consumers with a secure supply of electricity. This involves 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.

As the Transmission System Operator (TSO) in Norway, we have an overarching responsibility for managing the operation of the country's electric power system. Statnett is not responsible for the generation of the electricity itself, but for ensuring that the electricity reaches the end-user.

Statnett's vision is to be Europe's leading and most efficient Transmission System Operator. Our task is to safeguard the interests of the entire community by ensuring that electricity is brought securely all the way from the electricity generating plants to industrial customers and private households.

Statnett's business idea is to facilitate a well-functioning power market with high quality of delivery. We are responsible for Norway's Main Grid and have a statutory duty to ensure that it is open to all participants in the power market. 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 Main Grid.

We develop and operate the grid on the basis of socioeconomic criteria. This means that our aim is to provide Norwegian society

with a reliable supply of power with sufficient capacity at the lowest possible overall cost. When Statnett builds a new grid our choices are based on our expectations of how power generation and consumption will change over time. Therefore, it is important that we have a good knowledge of where new power generation will be established, and whether consumption will increase or decrease in the various parts of the country.

Statnett also owns half of the Nordic power exchange, Nord Pool ASA, and 100 % of the wholly owned subsidiaries Statnett Transport and Statnett Forsikring AS.

## STATNETT'S MISSION IS TO

- ensure quality of supply in the long term by developing the Norwegian Main Grid.
- ensure quality of supply in the short term by co-ordinating 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's history

Statnett was formed on 20 December 1991, following a resolution of the Norwegian Parliament (Storting) on 8 November the same year. Statnett commenced operations on 1 January 1992.

### 1919-21

Norges vassdrags- og elektrisitetsvesen (NVE), the Norwegian water resources and electricity service, is conceived and established.

### 1932

The programme for co-ordination of Norway's power stations (the Norwegian Power Pool) is formed.

### 1986

The state-owned power stations are split off from the Norwegian Water Resources and Energy Administration.

### 1991

The current Energy Act comes into force.

### 1992

The state-owned administrative enterprise Statkraftsverkene is divided into two independent state enterprises, Statkraft SF and Statnett SF.

### 1993

The Norwegian Power Pool becomes part of Statnett. Statnett Marked AS is set up as a wholly owned subsidiary of Statnett and is put in charge of the Norwegian power exchange.

### 1996

Norway and Sweden establish a joint market for electricity. Statnett Marked AS extends its sphere of operations and becomes Nord Pool ASA. Svenska Kraftnät becomes a co-owner of Nord Pool ASA, so that Statnett and Svenska Kraftnät each own 50 per cent of the Nordic power exchange and operate a joint power exchange for the Nordic region.

Statnett's two ships, C/S "Skagerrak" and M/S "Elektron", are split off in the wholly owned subsidiary Statnett Rederi AS.

### 1997

Statnett's construction and maintenance operation is split off from Statnett SF as the wholly owned subsidiary Statnett Entreprenør AS.

# Key figures

PARENT COMPANY			GROUP			
2004	2005	2006	(Amounts in NOK million)	2006	2005	2004
<b>MAIN FIGURES</b>						
5 071	5 096	6 661	Operating revenues	6 848	5 244	5 214
769	424	529	Operating profit	580	466	800
543	179	353	Profit before tax	412	235	591
391	131	261	Net profit for the year	303	174	431
11 830	12 477	13 539	Total assets	13 978	12 845	12 156
<b>KEY RATIOS</b>						
7.7 %	4.4 %	4.9 %	Return on capital employed	5.4 %	4.7 %	8.0 %
7.1 %	4.0 %	4.6 %	Return on assets before tax	5.0 %	4.4 %	7.4 %
8.9 %	3.0 %	5.8 %	Return on equity after tax	6.3 %	3.7 %	9.3 %
37.3 %	35.8 %	33.8 %	Equity ratio	35.2 %	37.1 %	38.5 %

<b>Return on capital employed:</b>	$\frac{\text{Operating profit}}{\text{Average capital employed}}$
<b>Return on assets before tax:</b>	$\frac{\text{Operating profit} + \text{financial income}}{\text{Average total assets}}$
<b>Return on equity after tax:</b>	$\frac{\text{Annual result}}{\text{Average equity}}$
<b>Equity ratio:</b>	$\frac{\text{Equity at 31 December}}{\text{Total assets at 31 December}}$

## 1998

Finland becomes part of the Nordic electricity market.

## 1999

West Denmark becomes part of the Nordic electricity market.

## 2000

The cable-laying vessel C/S "Skagerrak" is sold. The Skagerrak cables are opened up to all participants in the electricity market from January 2001. East Denmark becomes part of the Nordic electricity market.

## 2001

Owing to extremely cold weather, a consumption peak of 23 054 MW is reached between 9 a.m. and 10 a.m. on 5 February.

## 2002

The company Nord Pool Spot is established. Nord Pool Spot is owned by all the Nordic system operators and Nord Pool ASA with a 20 per cent stake each. Statnett Rederi changes its name to Statnett Transport. The Storting passes a parliamentary resolution

laying down Statnett's duties as the Norwegian transmission system operator. The Storting removes government guarantees from state enterprises with effect from 1 January 2003.

## 2003

Statnett sells Statnett Entreprenør to Eltel Networks Corporation.

## 2004

Statnett and the Dutch transmission system operator, TenneT, are awarded a licence

to lay a DC subsea interconnector between Norway and The Netherlands (the NorNed cable). Statnett is given extended responsibility to ensure there is balance in the Norwegian electricity system at all times.

## 2005

Construction work on the NorNed cable begins. Statnett resolves to build a new preparedness vessel to replace the current vessel, M/S "Elektron".

## 2006

Statnett signs contracts to purchase two mobile reserve power generation plants totalling 300 MW, to be sited wherever required in Central Norway. Statnett also agrees a pilot scheme for energy options with eight Norwegian industrial firms.

## CEO's considerations

# Norwegian hydropower a European environmental resource

Climate change is the biggest challenge the world faces today, and we cannot escape from the fact that it is closely linked to the generation and consumption of energy. This is a challenge that also concerns us at Statnett, and which we take very seriously.

As Norway's transmission system operator (TSO), it is Statnett's job to ensure that the electricity market functions as intended. One of many objectives in this respect has been to expand the market and to help facilitate the trade in electric power across national borders. In this way, we believe it has been possible to make best use of these vital energy resources.

This is becoming even more important as we see climate change taking place. Norway, like the rest of the world, is experiencing big fluctuations in climate. These fluctuations impact on the inflow of water to hydropower reservoirs, which again impacts on the possibilities for electricity generation. At the same time, changes in weather and temperature are creating big variations in electricity consumption. We believe, therefore, that in the more unpredictable electricity market we are facing, tighter integration and freer trade with the Nordic countries and with Europe will give us a more secure supply of electricity, as well as an extra leg to stand on.

We also believe that the trade in electricity is beneficial from an environmental point of view. There is a close link between electric power trading and emissions of CO<sub>2</sub> from the electricity sector in the various countries. Even though it is important to look at emissions from Norway, we must not forget that actions taken in Norway can impact on emissions in other countries. This is particularly evident in the electricity sector. Increased net imports of electricity to Norway help drive up emissions from

coal and gas-fired power plants in our neighbouring countries, while exports of electricity create a corresponding reduction in emissions. Good co-operation between the various countries is important in order to achieve an effective overall reduction of CO<sub>2</sub> emissions.

## GREEN ELECTRICITY FROM NORWAY HEATS EUROPE

Most of the new electricity generation that is expected in the Nordic region in the next 20 years has little flexibility. In Finland they are investing in nuclear power, and in Sweden and Denmark there are ambitious aims to develop wind power and CHP (combined heat and power) generation. In the case of these "combined power plants" which generate both district heating and electricity, power generation is basically driven by the need for heating. Germany is planning to develop offshore wind farms capable of generating up to 19,000 MW (the consumption peak on a particularly cold winter day in Norway is approximately 23,000 MW). Wind turbines generate power when the wind blows, and as a consequence are not a very flexible source of energy.

Less flexible power generation and more power generation controlled by the weather requires that there will be greater opportunities for trading in electricity over long distances, so that supply can be adapted to consumption. In this connection, Norwegian hydropower, which permits a high degree of regula-

**A better balance in Norway between electricity supply and demand, and increased exchange capacity, will both help bring about lower CO<sub>2</sub> emissions from the electricity sector in our neighbouring countries.**

tion and at a low cost, can play an important role. Better access to this regulating ability will increase the opportunities to run neighbouring countries' power generation facilities effectively and make it easier in these countries to employ wind power, for example. The typical pattern of trading will be for Norway to import electricity at night and at weekends and when the wind farms are producing a lot of power, while we export when there is high demand for power amongst our neighbours and when their renewable energy sources are providing only a low supply.

A better balance in Norway between electricity supply and demand, and increased exchange capacity, will both help bring about lower CO2 emissions from the electricity sector in our neighbouring countries.

#### **INCREASED NEED FOR ELECTRICITY, NEW POWER LINES – DEMAND FOR CABLING**

An increasing awareness of nature and the environment is not something we encounter only in connection with the big, global questions. The growing need for new power transmission capacity in Norway has meant that we at Statnett currently have applications pending for licences for a number of new power transmission line projects, that are being considered by local and central government authorities. We are experiencing increasingly vociferous demands for these new interconnectors to be laid in subsea cables or buried in underground cables, and we encounter these demands in connection with almost every project we undertake.

It is the natural prerogative of the politicians to continue pursuing their policy in this area, and Statnett must naturally comply with the current guidelines. However, it is also our duty to make people aware that a more liberal cabling policy has costs for society. The consequences for industry, other businesses, the public sector and ordinary consumers must be made evident. The point we wish to make, in other words, is that in the debate surrounding power lines and cabling, we need to discuss both the visual and economic consequences, and

we need to be aware of the consequences for the environment of using high voltage cables.

#### **STATNETT SEES NATIONAL NEEDS**

The Ministry of the Environment and the Ministry of Petroleum and Energy have produced some central guidelines, which have been endorsed by the Norwegian parliament, the Storting. The guidelines were based on the following premise: If subsea or underground cabling of a high voltage 420 kV line is first chosen in a number of places, this practice will spread to a great extent to all facilities that are built or rebuilt in the future. At the same time, a reinforcement of the Main Grid is a collective effort where everyone takes part.

The benefits of cabling can always be linked to a limited area, while the costs are paid by everyone. Thus, those who get all the benefits in one particular instance pay only a small part of the costs. Laying the new power lines planned by Statnett either underground or in subsea cables will be 6 – 12 times more costly than if they were to be overhead lines on masts. This cost will go to the consumer. If, in a few years' time, we end up with cabling on, for example, 10 per cent of power line routes, this will give rise to costs that will almost double the Main Grid tariff.

Greater environmental awareness in society and the world in general is, in other words, creating challenges for Statnett which we must and will tackle in the years ahead. Statnett will work actively to find solutions that are the most environmentally appropriate, for Norway and for Europe.



**Odd Håkon Hoelsæter**  
CEO





## The electricity market

# How is it structured?

Like other commodities, electricity is delivered to the end-user after the buying and selling details, price and delivery terms have been established. However, the sales process is more complicated than in the case of traditional commercial commodities, since electricity cannot be stored and supplied over the counter. The sale of electricity is conducted either via the Nordic power exchange, Nord Pool, or directly between the buyer and seller (bilaterally).

As opposed to markets where buyers and sellers deal in a physical product that is handed over directly, the sale of electricity requires both a system for price-setting and for supplying the product. Therefore, in order to supply electricity there must be a well-functioning power system capable of delivering the total amount of energy called for, exactly when the user wants it and without any disruption of supply.

### THE ELECTRICITY MARKET – AN UMBRELLA TERM

The Nordic electricity market consists of many very different participants: households, enterprises, large and small electricity suppliers, energy-intensive major industrial concerns, and everything from small local power plants to large generators. The electricity market also consists of a number of sub-markets.

We are all participants in the end-user market when we choose from among suppliers who offer us electricity. The physical wholesale electricity market is where the big players meet. A considerable proportion of the power purchased here is then supplied to the end-user market. The financial market is primarily where the less big players appear, such as power companies and more traditional financial institutions. Power derivatives are traded in the financial market in order to hedge against future movements in the spot price, or to speculate in an attempt to make a profit on the price.

In a well-functioning power market, we must have good trading models and sufficiently many and large participants for the market to be liquid. That is the case when there are always enough buyers and sellers when someone wants to conduct a transaction. In the physical wholesale market, and the financial market in the Nordic region, the joint Nordic power exchange, Nord Pool, is the most important marketplace.

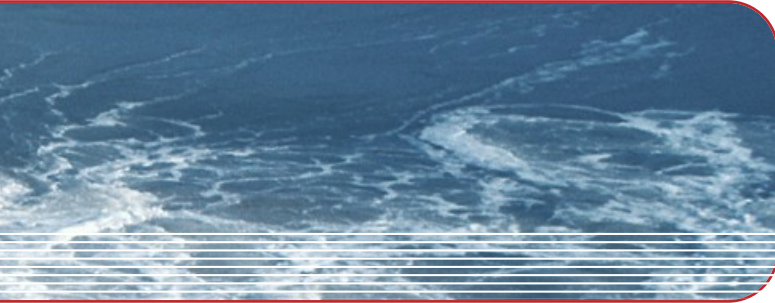
Viewed in an international context, the Norwegian and Nordic electricity markets function well. Nevertheless, we need to develop further the existing market solutions in order to maintain an efficient total market. Good trading models, liquid marketplaces with the right products, and sufficient competition in the electricity market, are the conditions required for the markets to function.

### THE VARIOUS MARKETS

#### The physical wholesale electricity market

The most important Nordic marketplace for electric power is Nord Pool's physical delivery power exchange (Nord Pool Spot). This is where contracts are formed in the Elspot market, where the trading principles adapt to the fluctuations in consumption and demand over a 24-hour period. In all the Nordic countries, Nord Pool's Elspot market has had a steadily rising market share in relation to total consumption, with a market share in the Nordic countries of 63.3 % in 2006, compared with 45 % in 2005. In





addition to strengthening the liquidity, the high market share has the effect of strengthening the spot price as a reference price.

The Nordic region is one market, but within this market there are restrictions in transmission capacity. Accordingly, the market is divided up into a number of fixed areas. Norway and Denmark normally have two fixed areas each (Norway has three at the start of 2007), while Finland and Sweden make up one fixed area each.

#### **The financial market**

Nord Pool's financial market is the only Nordic marketplace with a licence to trade in financial power contracts, that is to say futures and forward contracts as well as power options. Futures and forward contracts and options are used by generators and large end-users in the wholesale market for the purpose of price hedging and risk management.

#### **The retail electricity market**

The retail electricity market is deregulated in all the Nordic countries. This permits end-users a free choice of power supplier, based on price and other criteria. Thus far, however, the possibilities of choice are restricted to one's own country. The retail market in the Nordic region is not harmonised and therefore does not function as a single Nordic market.

#### **The regulating power market**

The regulating power market is a "residual market" for other markets, and monitoring this market is important in order to avoid abuse of the other markets. Consequently, Statnett monitors and analyses trade in the regulating power market with a view to identifying imbalances. Any matters meriting reaction are notified and reported to the Norwegian Water Resources and Energy Directorate (NVE) and, viewed overall, monitoring the market in this way helps the power market as a whole to function smoothly.

### **The Norwegian energy map**

## **Who is responsible for what?**

#### **THE AUTHORITIES**

**The Government** decides whether permission should be granted for energy development projects.

**Stortinget (Parliament)** makes the formal decision on whether large/controversial regulation and energy development projects should be granted a licence. The King in Council is the formal issuer of the licence.

**The Royal Norwegian Ministry of Petroleum and Energy (OED)** is responsible for facilitating a co-ordinated and integrated energy policy. It exercises the ownership functions of the Norwegian State in the companies Statnett SF, Statoil ASA, Gassco AS, Petoro AS and Enova SF.

**The Norwegian Water Resources and Energy Directorate (NVE)** is the specialist directorate responsible for managing Norway's water resources and hydro energy.

**Enova** is the state-owned company responsible for facilitating the shift of the Norwegian power industry to a more environmentally friendly use and production of energy.

#### **THE GENERATORS**

**The electricity generators**, such as Statkraft, generate power from various energy sources such as water, coal, wind, gas, oil, biomass and nuclear power. The generators sell the power on the Nordic power exchange, Nord Pool, and deliver it through the transmission grids. Consequently, it is not possible afterwards to distinguish the various power deliveries from one another. When a consumer switches on the electricity, neither he nor she knows which generator the power is coming from.

#### **THE GRID COMPANIES**

**Statnett** is responsible for the Norwegian Main Grid and also for co-ordinating and managing the power system hour by hour, so that the electricity reaches its destination as cheaply as possible and with minimal impact on the surrounding environment.

**The local and regional grid companies** own, and are responsible for, the local and regional electricity grids. Their job is to ensure that the electricity is transmitted all the way to your house. As it would be highly unprofitable for competing grid companies to each build their own parallel power grids, local and regional grid companies have a monopoly on their services within their own geographical areas. It is not therefore possible to switch to a different grid company.

#### **THE ELECTRICITY MARKET**

**Nord Pool** is the joint Nordic power exchange, where electricity is bought and sold as on any ordinary commodity exchange. The retail electricity markets are still national markets, but electricity customers can choose any electricity supplier within their own country.

**The electricity suppliers**, or "end-user companies", are the participants in the electricity market that ordinary consumers come into contact with most frequently. Most suppliers purchase electricity on the Nordic power exchange and then sell it on to domestic households.

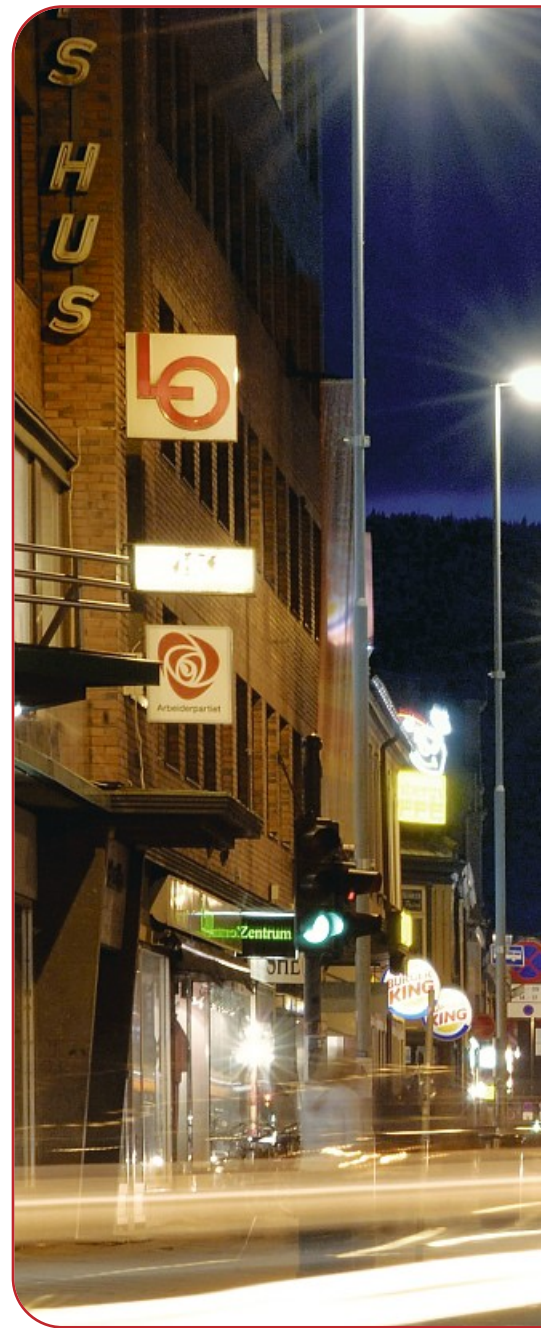
## Operations:

# High pace of activity in 2006

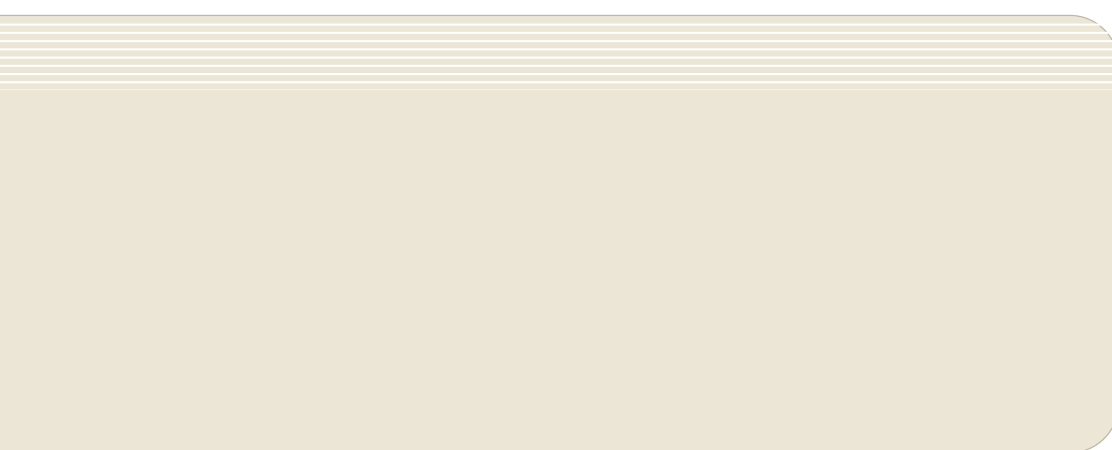
Statnett's operations comprise the three main areas of Grid Operations, the Main Grid Commercial Agreement, and Regulating Power, in addition to the subsidiaries Nord Pool and Statnett Transport.

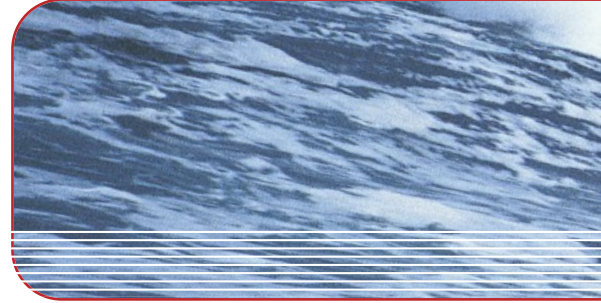
Most of Statnett's revenues are earned by leasing transmission facilities to the Main Grid Commercial Agreement. In addition, Statnett earns revenues as the national Transmission System Operator (TSO) responsible for co-ordinating Norway's entire electric power system.

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.



1 terrawatt hour (1 TWh) is equal to 1 billion kilowatt hours. 1 TWh will light 25 million 40-watt bulbs for one hour, which is equal to approximately one year's electricity consumption in a town with 50 000 inhabitants. A total of 122.5 TWh was consumed in 2006.





## Grid Operations:

# Big investments and secure 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).

2006 was dominated by Statnett being in a major investment period, with many projects being planned and executed. Norway had very little inflow to reservoirs through the summer and early autumn of 2006, causing concern for the power situation in winter 2007.

The construction of the subsea power cable between Norway and The Netherlands (NorNed) is well advanced, and the project to connect the Ormen Lange facility to the main grid was completed on schedule and on budget.

At the start of 2006, the hydropower situation in Norway was very good, with reservoirs 77 % full. However, lower than usual precipitation in the winter season with relatively low snow storages before the spring thaw, followed by low precipitation in the summer and early autumn, caused reservoirs in September to drop to their lowest levels in the past ten years. Precipitation failed at the same time as transmission capacity to Denmark was halved, due to a breakdown affecting the Skagerrak 3-cable, with the prospect of the cable not coming into service again until spring 2007. There was also uncertainty attached to the situation regarding Swedish nuclear power. Altogether, this caused concern for security of supply in the winter of 2006/2007.

The Skagerrak 3-cable resumed operation several months earlier than first estimated, while November and December were mild months with high precipitation and consequently a good inflow to reservoirs. As a result, the hydropower situation at the end of 2006 was satisfactory, with reservoirs 67 % full.

The new transformer for the Skagerrak 3-cable broke down in January 2006, after only three months in operation. The repairs

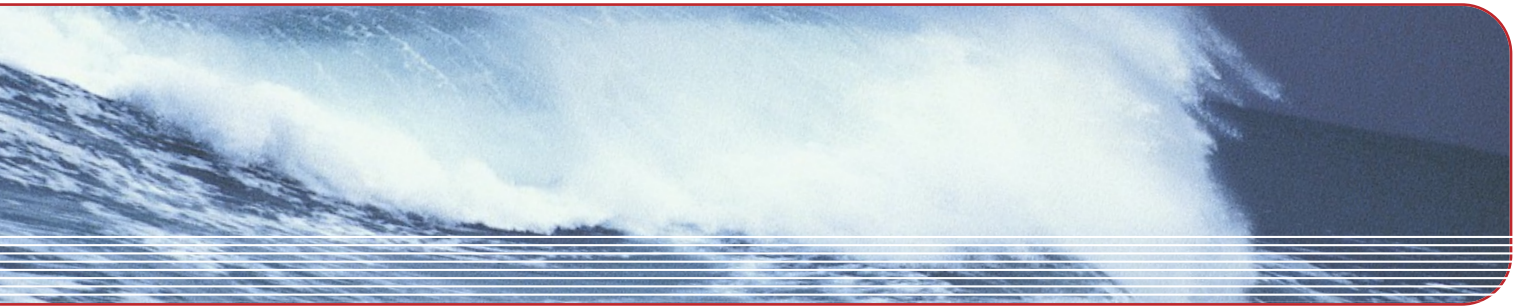
to the transformer are expected to be completed in the spring of 2007, although a temporary solution enabled the cable to resume service already on 30 November 2006.

From 20 November 2006, North and Central Norway were divided into two (with the former NO2 region divided into NO2 and NO3), and the counties of Trøndelag and Møre og Romsdal were established as a separate market area. The area has low production capacity relative to consumption and depends on large power imports. This separate market area was set up to facilitate the supply of power to the region from the rest of Norway and Sweden through efficient utilisation of the transmission grid.

### The storm Narve brought challenges

The extreme weather system Narve brought major challenges to North Norway in the New Year. The storm lasted for six days and caused many and frequent outages of power lines from Salten and northwards. The extreme weather conditions caused damage to the power grid and telecommunications network. Narve was at its height on Friday 20 January, and there was a complete blackout caused by faults in Statnett's facilities in parts of North Norway north of Ofoten for 1 1/2 hours.

In 2006 there were considerable price differentials in the Elspot market between Norway and Jylland (Denmark). These differentials have been increasing since 2005, and were greatly impacted by the congestion that occurred for the good 10 months that the Skagerrak 3-cable was out of service. Import capacity from South Sweden to South Norway during low load periods, such as nights and weekends, was reduced for long periods. This was largely due to problems affecting the West Coast interface in South Sweden.



#### **Statnett's facilities among the most reliable**

On the maintenance side, Statnett has long been committed to delivering accessible, reliable and cost-effective facilities. Three independent international benchmarkings in 2006 showed that Statnett is right in the forefront of performance in this area.

Emphasis was also placed during the year on further reducing faults and errors caused by our own staff and contracted personnel. In addition, the work of forest clearance along power line routes continued, to prevent outages as a result of contact between trees and power lines. In 2006 a three-year plan was also established to locate necessary disconnections in the grid at optimum times, for the purpose of maintaining and improving system security.

#### **Major expansion activity**

The building of NorNed, the world's longest subsea HVDC interconnector, is well advanced. The work is on schedule and the cable should come into service at the turn of the year 2007/08. Over 500 kilometres of cable have been produced and tested. Statnett and the Dutch grid operator TenneT are also well advanced on developing systems for power trading between the two countries in collaboration with the Nord Pool and APX power exchanges. In December 2006 Statnett decided to build a 420 kV power line through the Setesdal valley to ensure sufficient capacity in the domestic grid (subject to the award of a licence).

Statnett had major expansion activity in Central Norway in 2006. Two new substation facilities were built and commissioned 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. Among other, these projects will ensure the power supply to the Ormen Lange facility. Statnett

has also decided to put into effect extensive measures to improve grid voltage conditions. Capacitor banks and SVC units will be installed in a total of seven substations in the region.

In December 2006, Statnett made the decision to establish 300 MW of reserve power generation in Central Norway. The reserve power plants will be on standby to generate power in the event of an extreme power situation in the winter of 2007/08. Statnett has also decided to build a 420 kV power line from Nea in Central Norway to Järpstrømmen in Sweden in collaboration with Svenska Kraftnät. The projects in Central Norway have a total cost framework of just over NOK 3 billion.

#### **Further plans for the power grid**

Central Norway is also in focus on the planning side, and in the spring of 2006 Statnett put forward a planning proposal for a 420 kV power line from Ørskog in Sunnmøre to Fardal in Sogn. An application for a licence will be made at the start of 2007. Ørskog-Fardal is important for the capacity to import electricity to Central Norway. Statnett was also awarded a licence in January 2006 to build the 420 kV connector between Tjeldbergodden and Trollheim. This connector will be relevant if a gas power plant is established at Tjeldbergodden.

Statnett applied in summer 2006 for a licence to build a new 420 kV power line between Sima at the head of the Hardangerfjord and Samnanger. This project has arisen due to an increased need to import electricity in Hordaland north of the Hardangerfjord.

Statnett's activity in the sphere of system planning is in general on the increase, as a result of growth in electricity consumption, new generation plans, and greater focus on security of supply.



## Administrative responsibilities

# New solutions in the regulating power market

Besides exercising its core responsibilities relating to the Main Grid, Statnett is also responsible for administering, on behalf of the Norwegian power supply, the Main Grid Commercial Agreement as well as the regulating power system, the balance settlement system and Ediel. These are responsibilities which have no effect on Statnett's profits, but which are absolutely essential for a well-functioning electricity system.

### 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 power generators, consumers (processing industry) or regional power companies selling on power to the end-user.

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.

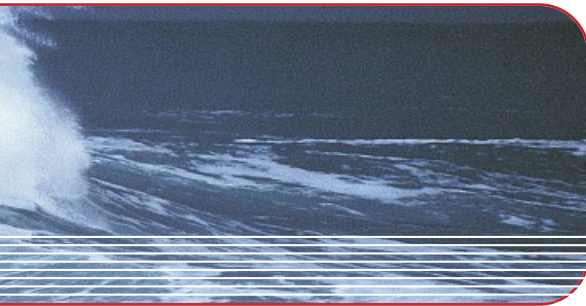
The aggregate tariff revenue is intended over time to cover all the costs in the Main Grid Commercial Agreement. In some years there will be a discrepancy between revenues and costs. If aggregate tariff revenue in one year is higher than the costs for the year, a surplus or "higher revenue" arises. If the aggregate tariff revenue is lower, a deficit "lower revenue" occurs. At the end of

2006 there was an accumulated deficit of NOK 92 million. The accumulated revenue was taken into account when setting tariffs for 2007. 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 2006 totalled approximately NOK 3 billion. The Main Grid costs from 2004 to 2006 are illustrated on page 13.

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 market participants. The settlements are based on the prices in the regulating power market.

In 2006, approximately 135 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.

Statnett works actively to facilitate a more well-functioning regulating power market. Intensified monitoring of 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. Security requirements bind participants' capital and are therefore a problem. With efficient market monitoring there are no surprises and we can predict the settlement before it is calculated, enabling us to maintain a low security requirement. The second purpose of the monitoring activity is to keep the imbalances in the regulating power market at an acceptable level.

New IT solutions are being continuously developed to provide support for secure and stable operations and to give customers better service. In November 2006, a newly developed balance settlement system was brought into operation. In this web-based system (BalanceWeb.no), the regulating power members

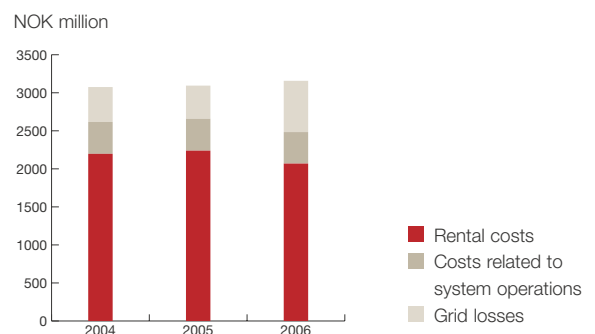
can see all their trading relations, financial settlement of regulating power, and history. The system has been developed in close co-operation with the members.

### Statnett's Ediel activity

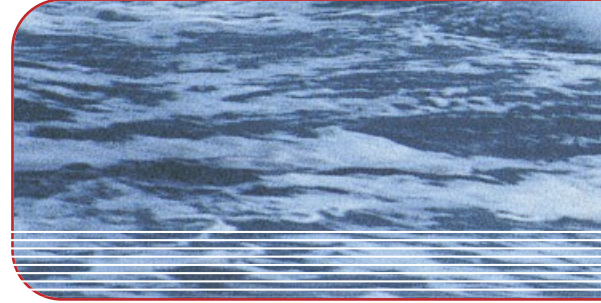
Ediel is the name of the power sector's international standard for electronic exchange of trading information. The standard is to some extent adapted to national conditions. Ediel messages are used, for example, between participants in the electricity industry in connection with supplier change and when exchanging meter readings. In Norway, approximately 370 participants exchange Ediel messages with one another.

Through System Support for Ediel (SSE), Statnett has been given responsibility for maintaining the standard, and for enabling the use of the current standard by all participants. To fulfil this task, test solutions have been established in the Ediel portal ([www.ediel.no](http://www.ediel.no)).

All participants are obliged under their licensing conditions to be approved by SSE in order to exchange Ediel messages. Statnett's Ediel activity is therefore working actively, in partnership with the electricity industry, to develop the scheme further, and to harmonise the Norwegian standard at Nordic and European level. This work is important in order to enable a well-functioning exchange of information in the industry. The collaboration with Sweden was furthered in 2006, and approximately 440 Swedish participants are now using SSE's test solutions.



MAIN GRID COMMERCIAL AGREEMENT COSTS 2004–2006



## Other activities

# New trading record on Nord Pool and heavy assignments for Statnett Transport

In addition to its own operations, Statnett owns half of the Nordic power exchange, Nord Pool ASA, as well as 20 per cent of the physical delivery electricity market, Nord Pool Spot AS, and 100 per cent of the subsidiary Statnett Transport AS.

### **NORD POOL – THE NORDIC POWER EXCHANGE**

**Nord Pool is the world's first and largest international commodity exchange for trading in electricity, green certificates, and CO2 emission rights. Nord Pool is the marketplace and clearing house for physical delivery and financially-settled power contracts in the Nordic countries (Finland, Sweden, Denmark and Norway).**

The Nord Pool Group comprises Nord Pool ASA and Nord Pool Spot AS. Nord Pool ASA comprises the wholly owned subsidiaries Nord Pool Clearing ASA and Nord Pool Consulting AS. Nord Pool ASA is owned 50:50 by Statnett and Svenska Kraftnät of Sweden.

Nord Pool Spot is the Nordic marketplace for trade in physical power contracts, and is owned by the Nordic Transmission System Operators (TSOs) with a 20 per cent stake each, in addition to Nord Pool ASA.

Nord Pool has offices in Oslo, Fredericia, Stockholm, Helsinki, Berlin and Amsterdam.

### **Nord Pool – the world's largest powerexchange**

The TSOs use the electricity spot market as the basis for balancing the flow of electricity between the Nordic countries. In 2006, a total of 250 TWh were traded in the market, compared with 176 TWh in 2005, which is a huge rise of 42.5 per cent.

The contracts were worth NOK 101 billion. Nord Pool Spot's market share for purchase and sale of power in the Nordic countries averaged 63 per cent in 2006, which is a new record. The increase is owing to the transition from notification of net figures to notification of gross figures, which means that both gross sales and gross purchases must be notified to the exchange. The change is as a result of new EU rules.

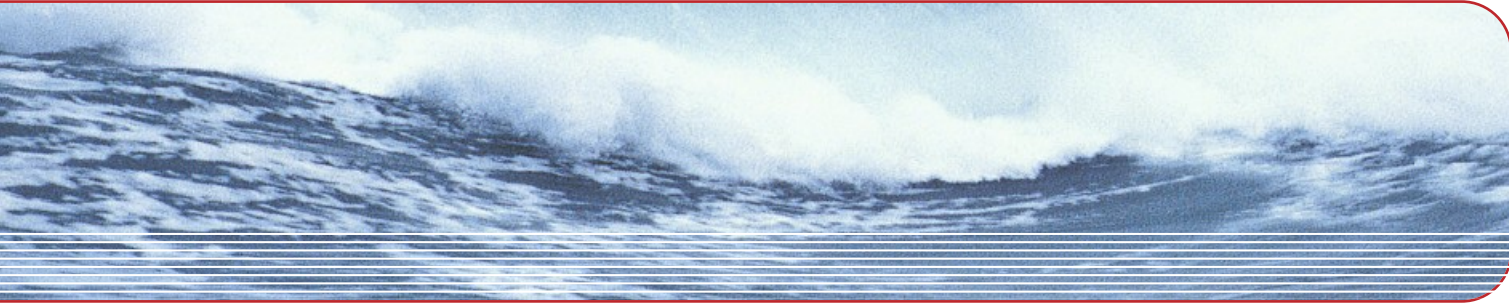
The physical market is divided into Elspot and Elbas. Elspot is a joint Nordic marketplace for trade in physical power contracts for next-day delivery. Elbas is a physical balance adjustment marketplace for Sweden, Finland and Eastern Denmark, with continuous, round-the-clock trading of hourly power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

Excluding Nord Pool Spot, contracts worth NOK 660 billion were traded and cleared over the exchange in 2006, compared with NOK 390 billion in 2005. This is the highest value ever recorded. At the end of 2006, Nord Pool had over 295 members in the physical market and 340 members in the financial market, making Nord Pool the world's largest power exchange.

### **New trading record**

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 to guarantee prices and manage risk when trading power. The Elspot system price functions as the established reference price for pricing the





financially-settled power trade in the Nordic countries. In 2006, 766 TWh in total were traded in the exchange's financial market with contracts worth NOK 302 billion. Nord Pool also achieved the highest number of transactions ever recorded in the financial market with a total of 141 000, which is 13.4 per cent up on 2005.

#### **Clearing volume increased**

Nord Pool Clearing enters into financial contracts as counterparty to all contracts traded on the 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. The total traded volume cleared by Nord Pool Clearing ASA was 2 220 TWh in 2006, compared with 2 102 TWh the year before.

#### **Outlook**

The respective boards of directors expect the positive development in the power exchange's market share and growing number of members to continue in 2007.

#### **STATNETT TRANSPORT AS**

**Statnett Transport AS has the market's 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 M/S 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. 2006 was a very good year, with many large commissions.

Statnett Transport carries out commissions primarily for the Norwegian power supply, but also has a number of 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 also operates efficiently and competitively.

Turnover in 2006 totalled NOK 45 million, compared with NOK 27 million in 2005. The company recorded a after tax profit of NOK 5 million, as against a loss of NOK 3 million in 2005. The improvement is largely due to high demand for Statnett Transport's expertise both on land and sea. The company fulfilled a large number of major commissions in 2006.

#### **Outlook**

Given the continuing need for replacements and new investment in the power supply, Statnett Transport takes a positive view of market prospects for the immediate future. The company will work to sustain its good financial results, while maintaining its effort to ensure safe, secure and efficient implementation of its preparedness obligations. This is being done among other things through investments and reinvestments.

The company moved to a new location in 2006. Its registered address and head office is now at Holmen in Drammen. Statnett Transport AS has 25 employees.

## Corporate Social Responsibility: Statnett's policy of openness and honesty

As Statnett owns, co-ordinates and plans the operation of the entire Main Grid, our activities are of major importance for Norwegian society. Consequently, it is an important principle for us to be open and honest in all our dealings.

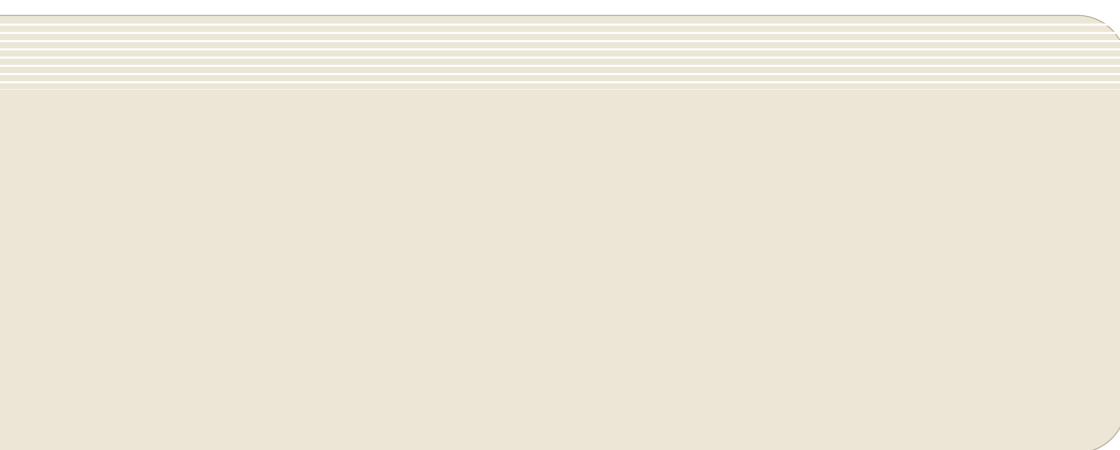
Our policy of maintaining an open dialogue is aimed at giving our customers and society at large an insight into our operations and a greater understanding of Statnett's role. At the same time, our experience is that promoting open discussion also helps facilitate good, effective solutions.

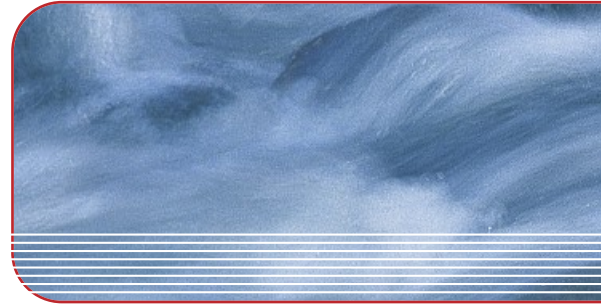
Statnett's physical installations affect local communities as well as many other different and vital interests in society in general. Where new projects are proposed, an early dialogue with local communities enables us to work together to find solutions geared to reconciling local needs and technical and financial considerations.

In line with our business idea, Statnett aims to facilitate a well-functioning electricity market. Our vision is to be a leading, independent expert organisation on the electricity market and the electricity system. This is the foundation on which we build, and our aim is for there never to be any doubt that we are exercising our role in a professional and trustworthy manner.



Norway's longest overhead power line span is over 4.5 km long, and stretches across the Sognefjord. Only one overhead fjord span in the world is longer – the Ameralik span on Greenland, which is more than 5 km long, built with assistance from Statnett.





### **ETHICS OMBUDSMAN MAINTAINS ORDER**

**In 2006, Statnett appointed an Ethics Ombudsman, as one of the first companies in Norway to do so. The Ethics Ombudsman is an officer of the company whose duty is to strengthen the legal protection of employees and to help uncover misconduct and defects in business practices.**

In the past few years, a number of high-profile corruption cases have destroyed the illusion that Norwegian companies are more upright and honest and have higher morals than in many other countries. The task of the Ethics Ombudsman is to help ensure that it is difficult for undesirable work cultures, business practices and attitudes to develop among employees. At Statnett, the office of Ethics Ombudsman is held by a lawyer in our Legal Department.

#### **Position of trust**

The job of the Ethics Ombudsman is to make investigations in response to issues raised by employees or employees' unions, to provide guidance for employees in ethical matters, and to take up matters on his or her own initiative. Any suspected wrongdoings or mistakes made by the company, individual staff or management will be investigated and reported directly to the President and CEO. In cases where the Statnett Group Management or the President may be involved, the Ethics Ombudsman will have direct contact with the Chair of Statnett's Board. Ethical problems should be dealt with initially within the line organisation, for example by taking the matter up with one's immediate superior. All employees may contact the Ethics Ombudsman directly and anonymously, without risk of reprisal. The Ethics Ombudsman is required to make an annual report on the number of matters notified and of matters that have been dealt with.

#### **New rules about "whistle-blowing" in the Working Environment Act**

In 2006, the Norwegian Parliament, the Storting, passed new rules (which came into force on 1 January 2007) with regard to notification or "whistle-blowing". These rules are incorporated in the Working Environment Act. The Act states that an employee has the right to issue warnings or "blow the whistle" on any censurable conditions occurring in the business that he or she works in. One of the main objectives of the amendment to the

Act is to send a signal that whistle-blowing is both lawful and desirable. "Censurable conditions" are understood to mean, among other things, practices that are illegal or against the company's ethical rules, or a poor working environment, generally poor work culture or damaging activity. It is whistle-blowing if an employee speaks out about such matters, either internally (to the management or others in the business) or externally (to supervisory authorities, the media, and so on). A separate regulation entitled "Protection from retaliation against notification" prohibits retaliation against whistle-blowers. The term "retaliation" shall be interpreted broadly, so that the employee is ensured the best possible protection.

Companies of a certain, modest size (a category Statnett clearly falls into) have a duty under the Act to "draw up procedures for internal notification or to put into effect other measures that facilitate internal notification of censurable conditions in the undertaking". The Ethics Ombudsman system aims to satisfy the new statutory requirements for notification.

It is important that the whistle-blower is able to remain anonymous, and that he or she is protected by the Group's top management and board of directors should the person concerned choose to speak out. The success of the scheme will be closely related to the confidence felt in the Ethics Ombudsman and the execution of the Ethics Ombudsman's office.

#### **Ethical principles for Statnett's employees**

The role Statnett plays both in Norwegian society and in the electricity system dictates that we must demand absolute integrity of ourselves and that we should not deviate from our ethical principles. Statnett's employees are required to conduct themselves with honesty and decency, and with openness, transparency and compliance with rules within the organisation. We shall not behave in a manner likely to compromise our neutrality, integrity and credibility. We are not permitted to accept gifts or services that might influence our conduct or our independence.

Our standards stipulate that all procurements and purchases for Statnett may only be made 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 they must refrain from disclosing any information given confidentially or which could wrongly benefit an individual



supplier. 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.

### **STATNETT – A CONSTRUCTIVELY DEMANDING CUSTOMER**

**Statnett is involved in a phase of substantial investment. Over the next 10 years, we will be building power lines, cables and transformer stations for approximately NOK 19 billion. This means that Statnett needs access to a well-functioning market of high-quality professional suppliers, both locally and globally.**

We seek to co-operate with competitive suppliers who can contribute to a positive development for Statnett within a working relationship based on high ethical standards and mutual respect. This means that we stress the importance of being a good customer through openness, predictability and equal treatment in relation all our suppliers.

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.

It is Statnett's policy to provide the market with information both prior to and following major procurements. We post project information on Statnett's website when projects are submitted to the authorities for consideration, and before we invite tenderers. As part of our process of continuous improvement, we frequently organise meetings to give feedback to suppliers whose tenders are not accepted, we carry out quality audits during the project implementation phase, and we also give feedback to suppliers once delivery is completed.

### **CREATING VALUE WITH RESEARCH AND DEVELOPMENT**

**Statnett aims to spend 1.2 per cent of its annual revenue ceiling on Research and Development (R&D). To date, our investment in R&D has resulted in a number of projects**

**which have helped strengthen our position as a leading Transmission System Operator in Europe.**

We seek to be where the premises for the future are laid, and consequently seek to engage in development environments both in Norway and abroad. Our own priorities come first, but we are also keen to contribute to win-win situations with external partners. Statnett collaborates with, among others, SINTEF Energiforskning AS in Norway and the STRI research laboratories in Sweden, which is co-owned by Statnett.

#### **Only the best is good enough**

Statnett's R&D activity takes place within the company's various divisions and departments, where highly qualified staff and management take part. Many regard this as an opportunity for professional development and involvement.

Our R&D activity also attracts the attention of students, particularly university students. Statnett projects provide a challenge for those engaged in doctoral studies, masters' dissertations and degree course projects. Statnett's R&D activity makes manifest the exciting challenges facing the workforce of the future, and is important with a view to recruitment.

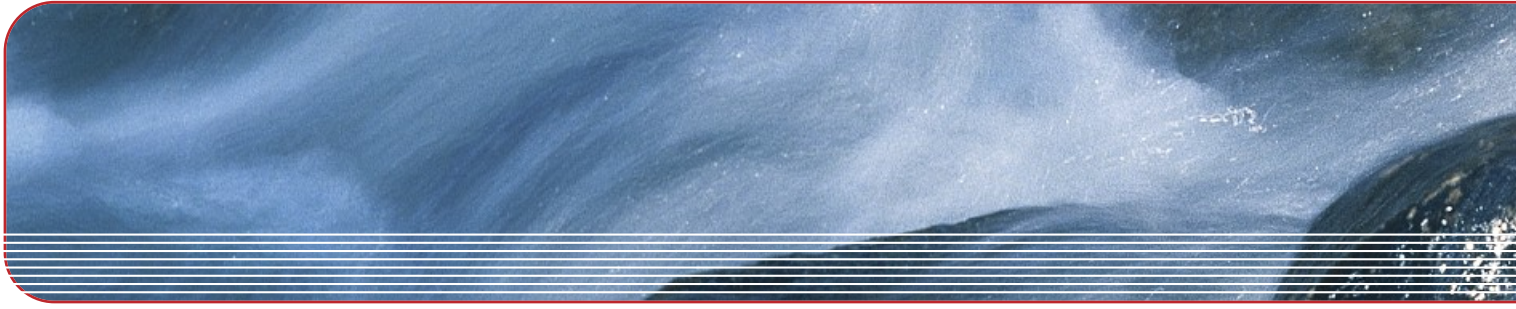
#### **Research and testing**

The results of our investment in R&D are rendered visible through the achievement of greater cost-effectiveness and solutions which help make the Group more efficient and effective in other areas. Our R&D projects have both long and short time horizons. They often involve complex processes, where new ground must be broken and the results weighed and tested.

Statnett's R&D activity in 2006 was executed in five strategic R&D programmes which mobilise competence from all technical areas in Statnett, and in relevant external environments.

### **TAKING RESPONSIBILITY FOR THE ENVIRONMENT**

**Environmental goals provide active guide rules for Statnett's environmental activity, and are reported on a par with strategic goals. Statnett is certified to the international environmental standard ISO 14001:2004, which provides guide rules for achieving environmentally-friendly operations in all aspects of Statnett's activities.**



The requirements laid down in the ISO 14001 standard facilitate the establishment of an environmental management system, which allows us to take in account both the statutory environmental requirements laid down by law and Statnett's own self-imposed environmental requirements.

Annual environmental reviews and audits form the basis for Statnett's environmental goals. Together with our own environmental Key Performance Indicators (KPIs), these make up Statnett's environmental programme. The environmental goals are implemented in Statnett's goal and performance-oriented management system, and are 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. All changes to laws and regulations relating to the environment are checked against the various procedures to ensure that they are complied with. 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**

Statnett maintains a high focus on the outer environment in all its operations. Nature and the environment will continue to be emphasised on a par with functional, technical and economic considerations. 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 SF6 gas in Statnett's installations. SF6 is a gas which functions extremely well as an isolator in transformers, but which damages the ozone layer if it escapes.

Statnett also continues to take 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.

#### **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 raining programmes geared to meeting Statnett's needs, strategies and corporate values.**

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.

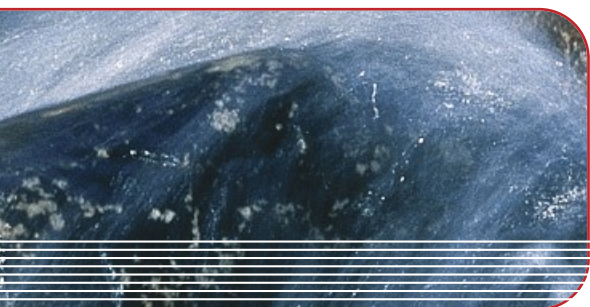
In the past few years, all Statnett managers have gone through a comprehensive management programme focusing on practical management skills, goal and performance-oriented management, and good communication. Statnett holds regular internal management seminars, designed to maintain the focus on good management at all times.

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 most recent staff survey 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 2006, 25 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 recruiting and retaining highly qualified staff with a technical background, such as skilled workers and graduate engineers. To help ensure that we retain the best staff, we are implementing a talent programme for 2006/2007, which will be repeated in 2007/2008.

#### **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.

Statnett has for several years participated in the "Female Future" programme run by the Norwegian Confederation of Business and Industry (NHO), which requires the company to work actively to recruit and retain women in management positions and at boardroom level. A total of 10 women managers from Statnett have taken part in the programme, which in addition to building qualifications in management and boardroom work, contributes to network building among women in managerial and executive posts.

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. We have 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. In that connection we have formed an agreement with "The Science Shop" at the University of Oslo, and posted offers on their web portal inviting students to take part in projects at Statnett.

## **ENCOURAGING CULTURAL INVOLVEMENT**

**Our desire to create good opportunities for children and young people has prompted Statnett to provide funding for**

**many voluntary clubs and organisations. This desire also prompted the establishment in 2001 of a cultural partnership between Statnett and The Brazz Brothers. After six successful years, the partnership came to an end in December 2006.**

Statnett's involvement in activities for children and young people is aimed at helping to create a good environment in local communities for children to grow up in. Through a system of funding, we encourage our employees to do something useful for society in this important area.

In 2006 Statnett provided funding for children's and young people's activities to 33 different clubs and organisations. To be eligible for funding, a Statnett employee must hold a position of trust or fulfil some other important and active role in the event, organisation or club for which funding is sought. The activity must be organised through a voluntary club, association or similar. The activity must also have a clear, non-profit-making objective.

### **The Brazz Brothers**

The aim of our partnership with the jazz ensemble The Brazz Brothers 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 in Norway. The Brazz Brothers' music is spontaneous and creative, and as such is expressive of Statnett's own values.

Our partnership with The Brazz Brothers came to an end in December 2006. However, Statnett will continue to maintain a focus on the importance of culture in developing good relations, both externally and internally, in 2007 and the years to come.

## Ownership and Corporate Governance

# Statnett – an independent company

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 wholly responsible for its obligations.

Statnett's 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 also has a mandatory responsibility to carry out inspection and control of Statnett's activities.

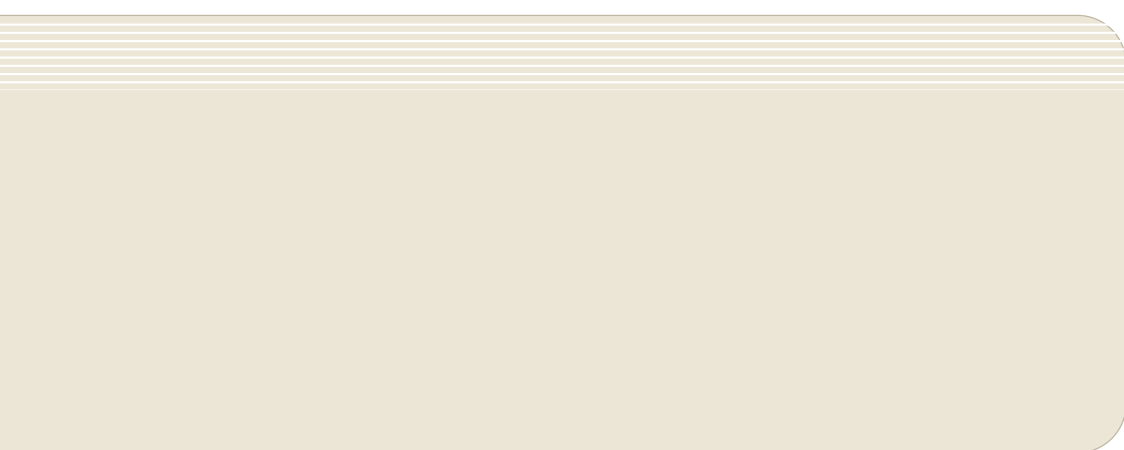
The General Meeting of Statnett deals with the kind of business any corporate general meeting would deal with. Here, decisions are made such as the appointment of the Board of Directors and the User Council. The General Meeting is chaired by the Minister of Petroleum and Energy.

The main responsibilities of the Board of Directors of Statnett are strategy, control and ensuring efficient 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.



At 580 kilometres, the NorNed cable between Norway and The Netherlands will be the world's longest subsea electricity cable when it is completed at the end of 2007. It will have a capacity equal to the annual electricity consumption of half of Oslo.







## Statnett Group Management



**Odd Håkon Hoelsæter**  
President and CEO

Hoelsæter is a Graduate Electrical Engineer 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. He has also been a member of the Board of Gassco AS. Hoelsæter is Vice-chair of the Board of Directors of Nord Pool ASA and is a member of Nordel's Steering Committee.



**Bente Hagem**  
Executive Vice President Commercial Division

Hagem has a Master's Degree in Industrial Economy from the Norwegian University of Life Sciences (UMB). She was formerly Vice President at Gilde Norsk Kjøtt, before being appointed Vice President of Gas Sales and Gas Processing at Statoil ASA. Hagem is Executive Vice President Commercial Division at Statnett with responsibility for markets and market design. She is a member of the boards of NSB AS and the Institute for Energy Technology, and also a member of the Board of the Norwegian Confederation of Business and Industry (NHO).



**Kåre Schjetne**  
Deputy CEO

Schjetne is a Graduate Civil Engineer in Structural Engineering from the Norwegian Institute of Technology (NTH). He worked for engineering consultancies for six years, and has held a number of posts at Statkraft through more than 20 years, most recently Executive Vice President Corporate Staff. In addition to being Deputy CEO at Statnett he is also Executive Vice President Corporate Staff, which comprises responsibility for Corporate Strategy, Human Resources, Communications, Legal, R&D, Resource Optimisation and Quality/HSE.



**Håkon Borgen**  
Executive Vice President Grid Operations

Borgen is a Graduate 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 deputy member of the Board of Nord Pool Spot. The Grid Operations Division is responsible for managing the operation of the Norwegian power system and joint operations with other Nordic countries.



**Anne Breive**  
Executive Vice President and CFO

Breive has a Bachelor's Degree in Business Administration from Oslo Business School and a Master Degree from Glasgow University. Breive was formerly Director of Corporate Controlling and Director of Finance at Norske Skog. She has also worked for the Kreditkassen bank. She is currently a member of the Board of TTS Marine ASA.



**Øivind Kristian Rue**

Executive Vice President Grid Development and Investment

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.



**Audun Severin Hustoft**

Executive Vice President Maintenance Division

Hustoft is a Graduate 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, ensuring that the Main Grid is always accessible.

## The User Council 2006

### MEMBERS

**Ada Solberg**

Chair. Nominated by EBL (Norwegian Electricity Industry Association)

**Karstein Sandvik**

Vice Chair. Nominated by Consumer Council of Norway

**Inger Kristin Holm**

Nominated by NHO (Confederation of Norwegian Business and Industry) at the Federation of Norwegian Industries

**Øivind Torkildsen**

Nominated by EBL

**Cathrine Møller Faaberg**

Nominated by HSH (Federation of Trades and Services)

**Eilif Amundsen**

Nominated by FSN (Forum for Strategic Grid Development)

### DEPUTY MEMBERS

**Linette Heiberg**

Nominated by Consumer Council of Norway

**Berit Flægstad**

Nominated by EBL (Norwegian Electricity Industry Association)

**Helge Stanghelle**

Nominated by NHO (Confederation of Norwegian Business and Industry) at the Federation of Norwegian Industries

**Jørgen Tysnes Fossum**

Nominated by HSH (Federation of Trades and Services)

**Caroline Lund**

Nominated by FSN (Forum for Strategic Grid Development)

**Hans Olav Ween**

Nominated by EBL



## Statnett's Board of Directors



**Svein Rennemo**  
Chair of the Board of Directors

Svein Rennemo was elected Chair of the Board of Directors of Statnett in 2005. He is currently President and CEO of Petroleum Geo-Services ASA, and has previously been a partner at ECON Management, CEO and CFO of Borealis, and has held several senior executive posts at Statoil. Rennemo holds a Master's Degree in Economics from the University of Oslo. As a non-executive director he has served on a number of boards in Norway and abroad.



**Christine Meyer**

Christine Benedicte Meyer is associate professor at the Norwegian School of Economics and Business Administration in Bergen (NHH), and was formerly Junior Minister at the Norwegian Ministry of Labour and Government Administration from 2001 to 2003. She has also been Vice Rector for International Affairs at NHH. Meyer has a PhD in economics and business administration from NHH. She became a member of the Board of Statnett in 2005.



**Kjell Olav Kristiansen**  
Vice Chair of the Board of Directors

Kjell Olav Kristiansen has served on the Board of Statnett since 2000. He has a long energy background from both the public and private sector. He was formerly Director General at the Norwegian Ministry of Petroleum and Energy, and is currently Director of Advisory Services at the company Point Carbon AS. Kjell Olav Kristiansen holds a Master's Degree in Economics from the University of Oslo.



**Heidi Ekrem**

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



**Grethe Høiland**

Grethe Høiland is a Graduate 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 Managing Director of Lyse AS, has broad experience from senior executive posts in the energy sector, and has served on a number of boards.



**Thor Håkstad**

Thor 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 a member of the Corporate Management Board 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**

Ole Bjørn 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.



**Steinar Jøråndstad**

Steinar 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. Jøråndstad is also a Municipal Councillor in Vågå and a member of Vågå Municipal Executive Board, where he represents the Labour Party.



**Kirsten Faugstad**

Kirsten Faugstad has a Master of Science degree in Electrical Engineering from the Norwegian Institute of Technology (NTH). She has been employed by Statkraft/ Statnett since 1989 and chaired the Norwegian Society of Chartered Engineers' (NIF) chapter at Statnett when the company was established. She is currently a project manager with Statnett's Technology Division and has served as an employee representative on Statnett's Board since 2004.

# Board of Directors' report

Statnett's operations are currently dominated by our involvement in both the planning and execution of a number of substantial investment projects. These investments are particularly needed because parts of Norway have seen a sharp rise in electricity consumption, but without any corresponding increase in generation capacity in the areas in question. Statnett is consequently investing in transmission capacity both within and into the areas concerned.

Statnett has been given increased responsibility for managing tight power situations in Norway. In 2006, the company decided to introduce energy options and also to invest in reserve power generation in order to accomplish this task.

The Statnett Group posted a net profit after tax for 2006 totalling NOK 303 million, compared with NOK 174 million the year before. The Board of Directors is satisfied with the financial results for 2006 viewed in the light of the revenue regulation we had up until the New Year, which had a particularly negative impact in periods of high investment activity. 2007 will see the introduction of new, and for Statnett more favourable, guidelines for setting the grid companies' revenues.

In December, the rating company Standard & Poor's confirmed Statnett's AA long-term rating.

There was a fatality in 2006 in connection with the development of Statnett's facilities, when an employee of one of Statnett's subcontractors was fatally injured in an accident during construction work on the landing station for the NorNed cable. This emphasises the importance of continuing a strong focus on health, safety and the environment.

## QUALITY AND SECURITY OF SUPPLY

Aggregate power consumption in 2006 was 122.5 TWh, which is approximately 3 per cent down on 2005. Aggregate power generation in 2006 was 121.7 TWh, giving a net import of approximately 1 TWh. The period between July and October was very dry, with low precipitation, causing prices to rise in the market. However, due to very high precipitation in the last quarter of 2006, reservoir levels at year-end were approximately the average for the period from 1990 to 2003.

## Quality

Statnett's target to ensure that no end-user is without electricity for more than two hours, or disconnected for more than 1000 MW owing to a fault in Statnett's transmission facilities, was achieved during the year. Total KILE costs for 2006 were NOK 17 million, an increase of NOK 9 million on the year before. KILE is the quality-adjusted revenue ceiling for undelivered energy (out-ages) in MWh multiplied by the socio-economic cost of outages. The KILE ceiling adopted by the Norwegian Water Resources and Energy Directorate (NVE) for Statnett is based on the extent of previous outages, and for 2006 was NOK 64 million.

## Security of supply

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 periods when there is a tight power situation (AKS) or a very tight power situation (SAKS) in Norway. Statnett has asked for support from the authorities to manage this task, and has received approval to prepare to employ the following measures:

### *An energy options scheme related to consumption*

As a result of the tight power situation experienced in the autumn of 2006 caused by low precipitation through the summer, Statnett formed agreements with eight companies in Norway concerning the right to cut their power consumption in the winter of 2007. This will permit their consumption to be cut in all by up to 370 MW or 0.9 TWh in total. The purpose of the scheme is to reduce the risk of electricity rationing by getting large firms voluntarily to permit Statnett to reduce the amount of power they consume, against an agreed payment of compensation. These agreements will only be used if Statnett

### **A reserve power generation scheme**

As a long-term permanent measure for managing periods with a very tight power situation, Statnett has formed agreements to acquire mobile reserve power generation plants. These plants will only be used to avoid electricity rationing, and the approval of NVE will be required before these measures can be put into effect. The plants will be installed initially in Central Norway, but can subsequently be moved to other regions if the power situation requires it.

### **INVESTMENTS**

Operations are currently dominated by Statnett's involvement in a number of substantial investment projects, at both the planning and implementation stage. These investments are particularly needed because parts of Norway have seen a sharp rise in electricity consumption, but without any corresponding increase in generation capacity in the areas in question. Statnett is consequently investing in transmission capacity both within and into the areas concerned.

#### **MAJOR INVESTMENT DECISIONS IN 2006**

##### **Stabilisation of voltage in the power grid in Central Norway**

Over the next two years, Statnett will invest in the order of NOK 500 million in facilities designed to stabilise the voltage in the power grid in Central Norway. The region is experiencing an increasing shortfall of electricity. In order to continue to maintain a reliable supply of electricity in an area which has seen a sharp rise in consumption, Statnett will among other things buy in equipment which will help maintain the voltage within acceptable limits. Capacitor banks and SVC units will be installed, which will help provide voltage support in Central Norway. The capacitor banks will be placed in existing transformer stations in the counties of Nordland, Trøndelag and Oppland by the winter of 2007/2008. The SVC units will be installed in autumn 2008.

##### **Trøndelag – Sweden**

The decision has been taken to build a new 420 kV power line between Nea in the county of Trøndelag and the border with Sweden. The line will be 25 km long and replace the existing 300 kV power line. The investment, which includes two substations, will cost approximately NOK 400 million. Svenska

Kraftnät will be responsible for extending the power line 75 km from the Swedish border to Järpstrømmen transformer station. The licence was awarded in the winter of 2007, and the entire project is scheduled for completion in 2009.

##### **Skåreheia – Holen in Setesdal**

The decision was taken in the fourth quarter of 2006 to build a new 420 kV power line running through the valley of Setesdal from Skåreheia in Birkenes municipality to Holen power station in Bykle municipality. A final decision on the licence application is expected during the first half of 2007; Statnett is dependent on a licence being awarded before the development project can commence. The entire power line, including four substations, is estimated to cost approximately NOK 900 million and will be 100 km long. This project is important in order to maintain security of the electricity supply in South Norway by transmitting electricity to and from the subsea cables linking Norway and the Continent, while also accommodating the needs relating to regional energy development plans. The power line is expected to be completed during 2008.

##### **Reserve power generation**

Under the Regulations relating to the system responsibility in the power system, Statnett is responsible for managing tight and very tight power situations. In that connection, it has been decided to invest NOK 1.5 billion in reserve power generation plants. The reserve power plants will be located at Tjeldbergodden and Nyhamna and have a capacity of 150 MW each. The plant at Tjeldbergodden is scheduled for completion no later than 1 January 2008, while the plant at Nyhamna will become operational later the same winter. The plants will remain on standby for contingency purposes, and will only be used in very tight power situations. The reserve power plants will be run on natural gas. Statnett is also considering the future possibilities of running these plants on biodiesel fuel.

#### **INVESTMENT PROJECTS UNDER CONSTRUCTION**

##### **NorNed**

The North sea cable between Norway and The Netherlands (NorNed) will be 580 km long and thus the world's longest high-voltage direct current (HVDC) subsea cable. The cable will considerably boost the potential for two-way trade in electricity

# Board of Directors' report

between the Nordic region and the Continent. To date, the project is on budget. Statnett's share of the total investment cost will be approximately NOK 2.3 billion. NorNed is expected to be completed by the end of 2007.

## **New vessel for heavy transport preparedness**

In order to perform Statnett's preparedness obligation to transport heavy equipment for the electricity industry, a new vessel is being built to replace the existing M/S Elektron, which is coming to the end of its technical lifetime. The new preparedness vessel will be completed in autumn 2007 and will cost approximately NOK 180 million.

## **INVESTMENT PROJECTS COMPLETED**

### **Viklandet – Fræna – Nyhamna**

The construction of the new 420 kV power line from Viklandet in Sunndal to Fræna was completed in December 2006 at a cost of almost NOK 600 million. Statnett has also completed a 420 kV power line from Fræna to Nyhamna for Norsk Hydro. These projects 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.

As well as these projects, Statnett is investing in a number of other smaller facilities and power lines.

## **FINANCIAL RESULTS**

### **Operating revenues**

The Statnett Group recorded operating revenues for 2006 totalling NOK 6 848 million, which is NOK 1 604 million up on 2005.

Of operating revenues, power transmission accounted for NOK 3 466 million, which is NOK 293 million higher than the year before. Power transmission revenues consist mainly of the Main Grid's revenues, which are set by the Norwegian Water Resources and Energy Directorate (NVE). As a result of new revenue regulation from 2007, NVE has changed its method of calculating adjustment parameters for new investments made in 2003 and 2004. The new method gives an increased supplement in relation to the previous method.

The increase of NOK 115 million was recognised as income in 2006.

Statnett operates the entire Main Grid and bills its Main Grid customers through the transmission tariff. Total revenues billed for 2006 amounted to NOK 3 225 million. Accumulated lower revenue recorded on the balance sheet at year-end 2006 totalled NOK 85 million. The lower revenue will be added to the tariffs in the coming year.

Power sales for 2006 totalled NOK 2 878 million, an increase of NOK 1 122 million compared with the year before. Most power sales consist of power sold by Statnett in connection with the balance settlement. 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 for 2006 amounted to NOK 504 million, which is NOK 189 million up on 2005. The increase is largely made up of revenues earned from the construction of the Fræna-Nyhamna transmission line on behalf of Hydro ASA. The effect on results of the building of Fræna-Nyhamna is approximately zero, as the costs have also increased by a corresponding amount.

### **Operating costs**

The Statnett Group recorded operating costs for 2006 totalling NOK 6 268 million, compared with NOK 4 778 million for 2005. The rise from last year is largely due to increased costs of purchasing regulating power through the balance settlement, which totalled NOK 1 054 million, and increased costs of transmission losses, totalling NOK 288 million.

### **Results**

The Statnett Group's operating profit for 2006 was NOK 580 million, compared with NOK 466 million for 2005. Net financial costs totalled NOK 168 million, as against NOK 231 million the year before. The decrease in net financial costs is owing to lower interest rates.

The Group recorded a net profit after tax of NOK 303 million for 2006, compared with NOK 174 million for 2005.



The Parent Company, Statnett SF, had a net profit after tax of NOK 261 million for 2006, as against NOK 131 million the year before.

#### **Investments**

Statnett SF invested a total of NOK 2 180 million in 2006, compared with NOK 855 million in 2005. NOK 1 688 million was invested in new power lines and transformer stations. Reinvestment in the existing Main Grid totalled NOK 165 million and other investments NOK 327 million.

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

Operating activities in the Statnett Group produced a cash flow of NOK 1 117 million in 2006. The Group carried out investments totalling NOK 2 153 million. In total, loans were repaid for NOK 2 400 million, and new borrowings totalled NOK 3 163 million. At 31 December 2006, the Group's liquid assets (including investments in market-based securities) totalled NOK 1 115 million, which is NOK 360 million down on the year before. At the end of the year, the Group's total assets amounted to NOK 13 978 million, compared with NOK 12 845 million at 31 December 2005.

The Group's equity totalled NOK 4 918 million at year-end 2006, compared with NOK 4 767 million at year-end 2005. Statnett's non-restricted equity is NOK 1 869 million. The equity ratio is 35.2 per cent, compared with 37.1 per cent the year before. The application made by the Board in 2005 for an injection of equity capital totalling NOK 2.0 billion was refused in the Revised Government Budget for 2006. Statnett will maintain and implement its investment plans even if we did not get the additional equity capital. This should be viewed against the background of the rating agencies maintaining their ratings of Statnett and of the revenue regulation having been changed in a positive direction from 2007.

All loans raised before 2003, which had a balance of NOK 1 087 million at year-end 2006, are guaranteed by the Government. Statnett pays a guarantee premium to the Government for the guaranteed loans. The guarantee premium is included in financial costs and totalled NOK 5 million for 2006.

#### **Transport operations and preparedness**

Statnett SF has a statutory duty to provide transport preparedness for the Norwegian power supply. Statnett's wholly owned subsidiary Statnett Transport AS is required to ensure efficient and competitive implementation of this duty.

Operating revenues for Statnett Transport AS for 2006 were NOK 45 million, as against NOK 27 million the year before. The company had a net profit after tax of NOK 5 million, an improvement from the loss of NOK 3 million the year before. The improved results are owing to a higher level of activity.

#### **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 SF each have a 20 per cent stake.

For 2006, the Nord Pool Group contributed a net profit after tax of NOK 41 million to Statnett's earnings, including the share of profits from Nord Pool Spot. The figure for 2005 was NOK 26 million.

#### **Financial risk**

Statnett aims to be able to fund 12 months' operations, investment and refinancing without incurring any new debt. As a result of the increased investments in 2006, the company has extended its credit facility from NOK 1.5 billion to NOK 2.0 billion. The extended credit facility will run until 2012 and is part of Statnett's policy aimed at obtaining the necessary financial flexibility to carry out its programme of investment over the next few years. The credit facility was unused at year-end 2006.

Statnett's revenues are in Norwegian kroner (NOK). During the period up until 2006, the revenues from grid operations were exposed to changes in interest rates because the return on the

# Board of Directors' report

grid capital was based on a three-year average of daily interest rates quoted on three-year Norwegian government bonds. From 2007 the return on grid capital will be based on an annual average of daily interest rates quoted on five-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. All Statnett's loans in foreign currency are converted to Norwegian kroner through currency swap agreements.

Statnett is exposed to credit risk when 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 has a high credit rating, with long-term borrowing ratings of AA and Aa3 from Standard & Poor's and Moody's Investor Service respectively.

## Environment

Statnett seeks to implement solutions that reduce our impact on the environment. This is particularly important when building new power lines, but also in order to reduce the environmental impact of all our operations. We are certified in accordance with ISO 14001:2004 Environmental Management Systems.

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

Statnett takes seriously the question concerning the possible health effects of power lines, and pursues a moderately cautious policy when planning routes for new power lines. At the same time, Statnett ensures that the company remains continually updated with respect to current research within this field.

More environmental information is available on Statnett's website.

## Employees

At the turn of the year 2006/2007, Statnett SF had 613 permanent employees, as against 599 the year before. The

total number of full-time equivalents (FTEs) was 596, compared with 581 in 2005. The increase in staff is largely owing to an increased workload in connection with planning and executing development projects.

Sickness absence in the parent company in 2006 was 3.9 per cent, compared with 3.6 per cent in 2005. Overall sickness absence in the Group was 4.0 per cent. In connection with construction work at the landing station for the NorNed cable, a worker employed by one of Statnett's subcontractors met with a fatal accident on 12 October. Statnett, as the owner, has full and complete responsibility in all its projects for health, safety and the environment. As a result of this, Statnett has reviewed its procedures and taken the necessary steps to ensure that such accidents do not occur again. At the date of this report, we have not yet received the police report on the accident. In 2006 Statnett SF had two instances of personal injury resulting in absence, and in addition to this Statnett's subcontractors had seven personal injuries with absence.

## 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 2006 show that a good 22 per cent of Statnett's employees are women. Women filled 20 per cent of all managerial positions (including substation managers and transmission line) in 2006, unchanged from 2005. The proportion of women in office management positions was approximately 60 per cent in 2006. Women worked on average 91 per cent of full-time post (98 per cent excluding regulated part-time posts), while the figure for men was 99 per cent.

Employment conditions for women and men are continually monitored using a variety of methods, including salary reviews and staff surveys. 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 the 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, thorough risk assessment, and high-quality decision-making, in order to create value over time.

Statnett appointed an Ethics Ombudsman in the summer of 2006. The Ethics Ombudsman is an officer of the company whose role is to strengthen the legal protection of employees and to help uncover misconduct and defects in business practices.

### OUTLOOK

Statnett's activities in the near future will be dominated by the heavy level of investments which are planned for the next few years. The results for 2007 are expected to be better than those for 2006. The reason for this is primarily that Statnett can expect to earn higher revenues as a result of the new guidelines for the way in which the grid companies' revenues are set.

In September 2006, the Norwegian Water Resources and Energy Directorate (NVE) publicised the main features of the new guidelines for setting the grid companies' revenues, which will take effect from the start of 2007. The new guidelines take much more account of the fact that the grid companies, including Statnett, are currently in a phase of high investment

activity. For Statnett, the most important change in the revenue regulation is that the cost base will be updated annually. The risk premium in the so-called "NVE interest rate" has also increased. A model based partly on efficiency measurement is an important signal to Statnett and Statnett's customers that the company must continue to endeavour in the future to maintain and develop further its position as one of the most cost-effective transmission system operators in Europe.

As of 1 January 2007, Statnett will begin financial reporting under IFRS (International Financial Reporting Standards).

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

During deliberations on the Government Budget for 2007, the owner stipulated a dividend from Statnett of 50 per cent of the Group's net profit for the 2006 financial year. The Board therefore recommends that the net profit from Statnett SF be allocated as follows:

Amounts in NOK million:

Dividend	152
Transfer to other equity	109
<b>Total</b>	<b>261</b>

Oslo, 20 March 2007  
The Board of Directors



Svein Rennemo  
Chair of the Board  
of Directors



Kjell Olav Kristiansen  
Vice Chair of the Board  
of Directors



Christine B. Meyer



Grethe Høiland



Thor Håkstad



Heidi Ekrem



Ole Bjørn Kirstihagen



Steifár Joråndstad



Kirsten Faugstad



Odd Håkon Hoelsæter  
President and CEO

# Annual accounts 2006

Profit and loss account	35
Balance sheet	36
Cash flow statement	38
Notes:	
1 – Accounting principals	39
2 – Financial market risk	43
3 – Information on business areas	45
4 – Operating revenues	46
5 – Power sales and power purchases	50
6 – Plant under construction	51
7 – Wages costs, employees, remunerations	52
8 – Pensions and pension liabilities	54
9 – Tangible fixed assets	55
10 – Financial items	56
11 – Shares and holdings	57
12 – Receivables falling due after one year	58
13 – Market value of current assets	58
14 – Interest-bearing debt	59
15 – Other long-term liabilities	60
16 – Intra-group balances	60
17 – Taxation	61
18 – Equity	62
19 – Secured debts, guarantees	62
20 – Insurance	63
21 – Related parties	64
22 – Unresolved matters	64

# Profit and loss account

PARENT COMPANY			INCLUDING THE MAIN GRID COMMERCIAL AGREEMENT				GROUP	
2004	2005	2006	(Amounts in NOK million)	Note	2006	2005	2004	
<b>OPERATING REVENUES</b>								
3 179	3 173	3 466	Power transmission	4	3 466	3 173	3 179	
1 803	1 756	2 878	Power sales	4, 5	2 878	1 756	1 803	
89	167	317	Other operating revenues	4	504	315	232	
<b>5 071</b>	<b>5 096</b>	<b>6 661</b>	<b>Total operating revenues</b>		<b>6 848</b>	<b>5 244</b>	<b>5 214</b>	
<b>OPERATING COSTS</b>								
1 853	1 949	3 003	Power purchases	5	3 003	1 949	1 853	
300	250	258	System services		258	250	300	
472	543	831	Transmission losses		831	543	472	
331	375	335	Leasing of transmission facilities		335	375	331	
115	168	304	Materials and subcontractors	6	299	168	115	
263	307	354	Wage costs	6, 7, 8	408	354	308	
687	698	704	Depreciation of tangible fixed assets	9	712	706	696	
-50	19	-7	Write-downs of tangible fixed assets	6, 9	-7	19	-50	
331	363	350	Other operating costs	6	429	414	389	
<b>4 302</b>	<b>4 672</b>	<b>6 132</b>	<b>Total operating costs</b>		<b>6 268</b>	<b>4 778</b>	<b>4 414</b>	
<b>769</b>	<b>424</b>	<b>529</b>	<b>Operating profit/loss</b>		<b>580</b>	<b>466</b>	<b>800</b>	
62	66	74	Financial income	10	86	80	80	
288	311	250	Financial costs	10	254	311	289	
<b>226</b>	<b>245</b>	<b>176</b>	<b>Net financial items</b>		<b>168</b>	<b>231</b>	<b>209</b>	
<b>543</b>	<b>179</b>	<b>353</b>	<b>Profit before tax</b>		<b>412</b>	<b>235</b>	<b>591</b>	
152	48	92	Tax	17	109	61	160	
<b>391</b>	<b>131</b>	<b>261</b>	<b>Net profit for the period</b>		<b>303</b>	<b>174</b>	<b>431</b>	
<b>Disclosure of dispositions:</b>								
370	87	152	Provisions for dividends		152	87	370	

# Balance sheet

PARENT COMPANY			INCLUDING THE MAIN GRID COMMERCIAL AGREEMENT		GROUP		
2004	2005	2006	(Amounts in NOK million)	Note	2006	2005	2004
<b>ASSETS</b>							
<b>INTANGIBLE ASSETS</b>							
-	-	-	Computerised trading systems	9	7	10	14
112	104	85	Deferred tax assets	17	54	73	85
<b>112</b>	<b>104</b>	<b>85</b>	<b>Total intangible assets</b>		<b>61</b>	<b>83</b>	<b>99</b>
<b>TANGIBLE FIXED ASSETS</b>							
9 515	9 518	9 662	Tangible fixed assets	9	9 671	9 528	9 523
667	792	2 118	Plant under construction	6	2 118	792	667
<b>10 182</b>	<b>10 310</b>	<b>11 780</b>	<b>Total tangible fixed assets</b>		<b>11 789</b>	<b>10 320</b>	<b>10 190</b>
<b>FINANCIAL FIXED ASSETS</b>							
151	148	151	Investment in group companies	11	-	-	-
16	16	16	Investment in other shares and holdings	11	78	70	72
50	50	50	Loans to companies in the same Group	12, 16	-	-	-
-	-	-	Other long-term receivables	12	-	-	-
55	42	27	Pension assets	8	27	42	55
<b>272</b>	<b>256</b>	<b>244</b>	<b>Total financial fixed assets</b>		<b>105</b>	<b>112</b>	<b>127</b>
<b>CURRENT ASSETS</b>							
263	292	694	Trade accounts receivable	12	712	299	270
12	11	24	Intercompany accounts receivable	16	-	-	-
32	29	146	Other short-term receivables	12	162	43	52
2	504	32	Prepayments to contractors		32	504	2
-	9	-	Short-term lending		-	9	-
776	762	374	Investment in market-based securities	13	605	966	938
179	200	160	Liquid assets		510	509	478
<b>1 264</b>	<b>1 807</b>	<b>1 430</b>	<b>Total current assets</b>		<b>2 023</b>	<b>2 330</b>	<b>1 740</b>
<b>11 830</b>	<b>12 477</b>	<b>13 539</b>	<b>Total assets</b>		<b>13 978</b>	<b>12 845</b>	<b>12 156</b>

# Balance sheet

PARENT COMPANY			INCLUDING THE MAIN GRID COMMERCIAL AGREEMENT				GROUP	
2004	2005	2006	(Amounts in NOK million)	Note	2006	2005	2004	
<b>EQUITY AND LIABILITIES</b>								
<b>EQUITY</b>								
2 700	2 700	2 700	Contributed capital		2 700	2 700	2 700	
1 716	1 760	1 869	Other equity		2 218	2 067	1 980	
<b>4 416</b>	<b>4 460</b>	<b>4 569</b>	<b>Total equity</b>	<b>18</b>	<b>4 918</b>	<b>4 767</b>	<b>4 680</b>	
<b>PROVISIONS FOR LIABILITIES</b>								
102	94	95	Pension liabilities	8	108	102	108	
-	-	-	Provision, Nat. Fund for Natural Disaster Assistance Fund	20	21	20	19	
-	-	-	Provision for periodic maintenance		2	1	1	
<b>102</b>	<b>94</b>	<b>95</b>	<b>Total provisions for liabilities</b>		<b>131</b>	<b>123</b>	<b>128</b>	
<b>LONG-TERM LIABILITIES</b>								
4 365	4 565	7 054	Bond loans	14	7 054	4 565	4 365	
400	-	-	Government loans	14	-	-	400	
187	-	-	Loan from financial institutions	14	-	-	187	
31	29	27	Other long-term liabilities	15	27	29	31	
<b>4 983</b>	<b>4 594</b>	<b>7 081</b>	<b>Total long-term liabilities</b>		<b>7 081</b>	<b>4 594</b>	<b>4 983</b>	
<b>CURRENT LIABILITIES</b>								
1 179	2 400	674	Short-term interest-bearing debt	14	674	2 400	1 179	
358	556	699	Trade accounts payable		710	559	369	
1	2	2	Group liabilities	16	-	-	-	
114	39	72	Tax payable	17	90	49	123	
59	81	27	Tax payable and deductions		33	84	62	
370	87	152	Provisions for dividends		152	87	370	
248	164	168	Other current liabilities	22	189	182	262	
<b>2 329</b>	<b>3 329</b>	<b>1 794</b>	<b>Total current liabilities</b>		<b>1 848</b>	<b>3 361</b>	<b>2 365</b>	
<b>11 830</b>	<b>12 477</b>	<b>13 539</b>	<b>Total equity and liabilities</b>		<b>13 978</b>	<b>12 845</b>	<b>12 156</b>	
9	9	9	Secured liabilities guaranties	19	9	9	9	
			Financial derivatives	2				

Oslo, 20 March 2007  
The Board of Directors



Svein Rennemo  
Chair of the Board  
of Directors



Kjell Olav Kristiansen  
Vice Chair of the Board  
of Directors



Christine B. Meyer



Grethe Høiland



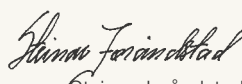
Thor Håkstad



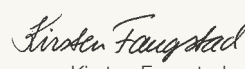
Heidi Ekrem



Ole Bjørn Kirstihagen



Steinar Jøråndstad



Kirsten Faugstad



Odd Håkon Hoelsæter  
President and CEO

# Cash flow statement

PARENT COMPANY				GROUP		
2004	2005	2006	(Amounts in NOK million)	2006	2005	2004
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>						
543	179	353	Profit/loss before tax	412	235	591
-10	-4	-6	Loss/ gain(-) on sale of fixed assets	-6	-6	-10
637	717	697	Ordinary depreciation and write-downs	705	725	646
-172	169	-259	Change in trade accounts receivable/ trade accts payable	-264	161	-167
-6	-664	259	Change in other accruals	270	-662	-10
<b>992</b>	<b>397</b>	<b>1 044</b>	<b>Net cash flow from operating activities</b>	<b>1 117</b>	<b>453</b>	<b>1 050</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>						
80	10	23	Receipts from sale of tangible fixed assets	23	13	81
-1 153	-711	-861	Payments on purchase of tangible fixed assets and intangible assets	-866	-718	-1 157
140	-144	-1 319	Change in stocks, plant under construction	-1 319	-144	140
1	-	-	Change in long-term loans receivable	-	-	1
-	-9	9	Change in short-term loans receivable	9	-9	-
7	-	-	Change in share investments	-	-	-1
<b>-925</b>	<b>-854</b>	<b>-2 148</b>	<b>Net cash flows from investing activities</b>	<b>-2 153</b>	<b>-858</b>	<b>-936</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>						
1 196	2 201	3 163	Receipts on new interest-bearing borrowing	3 163	2 201	1 196
-665	-1 367	-2 400	Repayments of interest-bearing debt	-2 400	-1 367	-665
-518	-370	-87	Dividends paid	-87	-370	-518
<b>13</b>	<b>464</b>	<b>676</b>	<b>Net cash flows from financing activities</b>	<b>676</b>	<b>464</b>	<b>13</b>
<b>80</b>	<b>7</b>	<b>-428</b>	<b>Net cash flow for the period</b>	<b>-360</b>	<b>59</b>	<b>127</b>
875	955	962	Cash and cash equivalents at start of period	1 475	1 416	1 289
955	962	534	Cash and cash equivalents at close of period	1 115	1 475	1 416

Restricted tax deductions payable amounting to NOK 33 million for the Parent Company and NOK 35 million for the Group are included in cash and cash equivalents at 31 December 2006.

Unutilised overdraft facilities totalling NOK 2 000 million are not included in cash and cash equivalents above.



## Note 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.

Statnett SF's Group Pension Fund is not part of the Group. The Pension Fund is valued at the lowest of cost price and fair 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 a 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.

# Notes

## **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 2006.

### **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 2003-2006 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 the insurance company 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.

# Notes

## 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.

## 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. The schemes fulfil the requirements of the Act relating to compulsory occupational pensions.

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.

In calculating the pension liability, account is taken of the employer's contribution that Statnett is required to pay when paying out direct pensions and when paying in premiums to unit trust-based schemes. The employer's contribution is a part-element in Statnett's contribution and is booked as part of the pension liability.

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.

## IFRS IMPLEMENTATION

As of the 2005 financial year, all listed companies in Norway are required to prepare consolidated accounts under the IFRS international financial reporting 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.

Statnett has clarified 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 income on an accruals basis, and accounting for pensions and financial instruments.

## Accounting for income on an accruals basis

NVE sets a revenue ceiling which represents the level of revenue that it is permitted to claim in grid rent. On the basis of its allotted revenue ceiling, and the expected transmission volume, Statnett SF is required to set the tariff (grid rent) which will apply for the coming year. If there are several owners in the shared grid, as in the Main Grid, Statnett SF, as the operator of the shared grid, must also take account of the other owners' revenue ceilings when setting the tariff.

Transmission volume may fluctuate considerably, depending on climatic conditions, among other things. As a result, differences may arise between the allotted revenue ceiling and the revenue

which the delivered volume for the period can be settled at in accordance with the tariff. If the settled revenue is lower than the revenue ceiling for the period, this amount can be added to the tariff for the next period. Conversely, any settled revenue that is higher than the revenue ceiling (higher revenue) will reduce the future tariff. The result for the Main Grid Commercial Agreement and shared regional grids over time shall be zero. Higher/lower revenues are included in the accounts on an accruals basis as Trade accounts payable and Trade accounts receivable respectively. The accounts treatment is currently in line with good accounting practice in Norway and in accordance with NVE's rules and regulations.

Under IFRS, the main rule for revenue recognition is that the invoiced tariff price forms the basis of the revenue. It is not permitted under IFRS to post in the accounts as an adjustment of the year's revenues any future right to demand payment of lower revenue or to credit customers with higher revenue in subsequent years' tariffs, and higher/lower revenue cannot be recognised on the balance sheet at year-end.

A summary of higher/lower revenues recognised on the P&L account for the last three years and higher/lower revenues recognised on the balance sheet at 1 January and 31 December 2006 are shown in Note 4. Higher revenue recognised on the balance sheet relating to regulating power is referred to in the description of revenue from fees in the note.

#### Pensions

All estimate variances not recognised on the P&L account at 1 January 2006 will be set at zero. All changes after 1 January 2006 will be included in new estimate variances.

#### Financial instruments

The implementation effect will be small and primarily related to derivatives (cash flow hedging).

#### Other

The presentation form with regard to the Main Grid and power sales and purchases will be reconsidered.

## 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:

Maturity: (Amounts in NOK million)	Principal Lending	Principal Borrowing	Market value*	Interest rate terms Statnett receives	Interest rate terms Statnett pays
<b>Interest rate swaps:*</b>					
2008	NOK 250	NOK 250	-13	Nibor 3 months	Fixed
2008	NOK 250	NOK 250	-8	Nibor 3 months	Fixed
2008	NOK 200	NOK 200	4	Fixed	Nibor 6 months
2008	NOK 200	NOK 200	-6	Nibor 6 months	Fixed
2008	NOK 300	NOK 300	-11	Nibor 6 months	Fixed
2008	NOK 800	NOK 800	19	Fixed	Nibor 6 months
2010	NOK 250	NOK 250	-6	Nibor 6 months	Fixed
2010	NOK 282	NOK 282	7	Nibor 6 months	Fixed
2010	NOK 250	NOK 250	1	Nibor 6 months	Fixed
2010	NOK 87	NOK 87	4	Nibor 6 months	Fixed
2014	NOK 200	NOK 200	5	Nibor 6 months	Fixed
2014	NOK 200	NOK 200	8	Nibor 6 months	Fixed
2015	NOK 200	NOK 200	8	Fixed	Nibor 6 months
2015	NOK 200	NOK 200	8	Nibor 6 months	Fixed
2023	NOK 600	NOK 600	0	Fixed	Nibor 6 months
2025	NOK 600	NOK 600	11	Fixed	Nibor 6 months
<b>Total</b>			<b>31</b>		

# Notes

## Note 2 – Financial market risk (continued)

Maturity: (Amounts in NOK million)	Principal Lending	Principal Borrowing	Market value*	Interest rate terms Statnett receives	Interest rate terms Statnett pays
<b>Interest rate and currency swaps:**</b>					
2010	CHF 150	NOK 782	-17	Fixed CHF	Nibor 6 months
2010	JPY 1 000	NOK 87	-33	Fixed JPY	Nibor 6 months
2014	JPY 5 000	NOK 296	-38	Fixed JPY	Nibor 6 months
2017	CHF 250	NOK 1290	-27	Fixed CHF	Nibor 6 months
<b>Total</b>			<b>-115</b>		
<b>Total</b>			<b>-84</b>		

\* Market value is inclusive of accrued interest. In the case of combined interest rate and currency swaps, the unrealised currency effect is included in market value.

\*\* All interest rate and currency swaps are related to underlying loans in currency and loss/(gain) on the swap will therefore be equal to the gain/(loss) on the loan.

At 31 December 2006, Statnett had no interest rate swaps with start in the future.

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

Maturity: (Amounts in NOK million)	Principal Investment	Interest rate swap	Market value	Interest rate terms Statnett receives	Interest rate terms Statnett pays
2007	100	100	-4	Nibor 6 months	Fixed
<b>Total</b>			<b>-4</b>		

### Interest rate options:

Statnett had no interest rate options at 31 December 2006.

### Forward exchange contracts:

Forward exchange contracts are entered into to hedge the currency risk on transactions in currencies other than the Norwegian krone.

At 31 December 2006, Statnett had forward exchange contracts relating to a total purchase of EUR8 million against sales of NOK, and purchase of SEK 94 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 3.5 million at 31 December 2006.

### Commodity futures:

Commodity futures contracts have been entered into to hedge the investment in subsea power cable. At 31 December 2006, Statnett had a total of four commodity futures contracts, which are financial contracts used to hedge the future purchase of 1300 metric tonnes of lead. All the contracts related 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 5.9 million at 31 December 2006.

## Note 3 – Information on business areas

(Amounts in NOK million)	Statnetts operations <sup>1)</sup>	Other tasks <sup>2)</sup>	Elim. Parent Company	Statnett SF	Power Exchange <sup>3)</sup>	Other Operations <sup>4)</sup>	Elim. Group	Total Group
Tariff revenues		3 149	-38	3 111				3 111
Higher/lower revenues for year, shared grid			236	236				236
Revenue ceiling Statnett SF	2 376		-2 268	108				108
Revenue ceiling, transmission losses	737		-737	0				0
Leasing revenues from cables to Continent	11			11				11
Power sales	1 357	3 215	-1 694	2 878				2 878
Higher/lower revenues for year, balance settlement			2	2				2
Other operating revenues	309	15	-9	315	164	68	-45	502
<b>Total operating revenues</b>	<b>4 790</b>	<b>6 379</b>	<b>-4 508</b>	<b>6 661</b>	<b>164</b>	<b>68</b>	<b>-45</b>	<b>6 848</b>
Power purchases	-1 339	-3 215	1 551	-3 003				-3 003
Systemwide services	-408		150	-258				-258
Transmission losses	-810	-725	704	-831				-831
Leasing costs, external installation owners	-2	-306		-308				-308
Leasing costs, Statnett's facilities		-2 163	2 163	0				0
Reversal higher/lower revenues, infrastructure owners		-144	117	-27				-27
Costs from overlying grid		-38	38	0				0
Materials and subcontractors	-304			-304			5	-299
Wages and social security costs	-345	-9		-354	-40	-17	3	-408
Description	-704			-704	-7	-5	4	-712
White-downs	7			7				7
Other operating costs	-271	-9	23	-257	-82	-32	35	-336
Property tax	-93			-93				-93
<b>Total operating costs</b>	<b>-4 269</b>	<b>-6 609</b>	<b>4 746</b>	<b>-6 132</b>	<b>-129</b>	<b>-54</b>	<b>47</b>	<b>-6 268</b>
<b>Operating profit/loss</b>	<b>521</b>	<b>-230</b>	<b>238</b>	<b>529</b>	<b>35</b>	<b>14</b>	<b>2</b>	<b>580</b>
Financial income	84	2	-12	74	14	21	-23	86
Financial costs	-252	-10	12	-250	-5	-1	2	-254
<b>Total financial items</b>	<b>-168</b>	<b>-8</b>	<b>0</b>	<b>-176</b>	<b>9</b>	<b>20</b>	<b>-21</b>	<b>-168</b>
<b>Profit before tax, Statnett</b>	<b>353</b>	<b>-238</b>	<b>238</b>	<b>353</b>	<b>44</b>	<b>34</b>	<b>-19</b>	<b>412</b>
Tax	-92			-92	-12	-5		-109
<b>Net profit/loss for the year</b>	<b>261</b>	<b>-238</b>	<b>238</b>	<b>261</b>	<b>32</b>	<b>29</b>	<b>-19</b>	<b>303</b>
<b>Higher/lower revenue on the balance sheet</b>			<b>238*</b>					

\* Higher/lower revenues related to other tasks are recorded on the balance sheet of Statnett SF. For footnotes 1) to 4), see next page.

# Notes

## Note 3 – Information on business areas (continued)

(Amounts in NOK million)	Statnett SF	Power Exchange <sup>3)</sup>	Other Operations <sup>4)</sup>	Elim. Group	Total Group
<b>Assets</b>					
Intangible assets	85	11	0	-35	61
Tabgible fixed assets	11 780	4	9	-4	11 789
Financial fixed assets	244	33	0	-172	105
Current assets	1 430	349	270	-26	2 023
<b>Total assets</b>	<b>13 539</b>	<b>397</b>	<b>279</b>	<b>-237</b>	<b>13 978</b>
<b>Equity and liabilities</b>					
Contributed capital and share capital in group companies	2 700	120	37	-157	2 700
Other equity at 1 January 2006	1 760	137	41	129	2 067
Net profit for year (after proposed dividend)	109	17	17	8	151
<b>Total equity at 31 December 2006</b>	<b>4 569</b>	<b>274</b>	<b>95</b>	<b>-20</b>	<b>4 918</b>
Provisions for liabilities	95	11	152	-127	131
Long-term liabilities	7 081	50	0	-50	7 081
Current liabilities	1 794	62	32	-40	1 848
<b>Total equity and liabilities</b>	<b>13 539</b>	<b>397</b>	<b>279</b>	<b>-237</b>	<b>13 978</b>

1) Statnett's commercial operations.

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

3) Comprises 50 % 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			GROUP			
2004	2005	2006	(Amounts in NOK million)	2006	2005	2004
<b>Power transmission</b>						
2 840	3 295	3 111	Tariff revenues	3 111	3 295	2 840
182	-242	236	Higher(-)/lower revenue for year - Main Grid and shared regional grids	236	-242	182
113	111	86	Leasing, regional grid facilities	86	111	113
1	-2	22	Higher(-)/lower revenue, regional grid facilities	22	-2	1
32	-	-	Higher(-)/lower revenue, KILE	-	-	32
11	11	11	Leasing, cables to Continent	11	11	11
<b>3 179</b>	<b>3 173</b>	<b>3 466</b>	<b>Total transmission revenues</b>	<b>3 466</b>	<b>3 173</b>	<b>3 179</b>
<b>Power sales</b>						
1 467	1 499	2 342	Sales, regulating power	2 342	1 499	1 467
336	257	536	Power sales to Denmark and Sweden	536	257	336
<b>1 803</b>	<b>1 756</b>	<b>2 878</b>	<b>Total power sales</b>	<b>2 878</b>	<b>1 756</b>	<b>1 803</b>
<b>Other operating revenues</b>						
7	6	9	Revenues from fees	127	105	96
34	102	245	External contracts	278	124	57
48	59	63	Other operating revenues	99	86	79
<b>89</b>	<b>167</b>	<b>317</b>	<b>Total other operating revenues</b>	<b>504</b>	<b>315</b>	<b>232</b>



**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

**Higher(-)/lower revenue on the balance sheet**

(Amounts in NOK million)	Lower rev. on bal. sheet 2005	Higher rev. on bal. sheet 2005	Higher/lower revenues for the year	Lower rev. on bal. sheet 2006	Higher rev. on bal. sheet 2006
Main Grid Commercial Agreement		-156	248	92	
Shared regional grids	9	-10	-12	6	-19
<b>Total shared grids</b>	<b>9</b>	<b>-166</b>	<b>236</b>	<b>98</b>	<b>-19</b>
Leasing, shared regional grids		-1	22	21	
<b>Total power transmission</b>	<b>9</b>	<b>-167</b>	<b>258</b>	<b>119</b>	<b>-19</b>

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. For the Main Grid Commercial Agreement this has brought about a decrease in tariffs for 2006. In setting the tariffs for 2007, account is taken of accumulated higher/lower revenue recognised on the balance sheet.

**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 ceiling, 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 historical trend for the years from 2001 inclusive, as well as investments and greater concentration on tree clearance alongside power line routes, is expected to bring about a lasting reduction in outage costs.

For 2006, KILE costs over and above the costs related to the storm "Narve" were low. A total of NOK 47 million in KILE was recorded as revenue for 2006, which has been charged directly to the Main Grid Commercial Agreement and shared regional grids. The amount recorded as revenue for 2005 was NOK 57 million.

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. This lower revenue was charged to the Main Grid Commercial Agreement and shared regional grids in 2005.

**Power sales i Statnett SF**

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

# Notes

## Note 4 – Operating revenues (continued)

Power sales – the different markets	2006	2005	2004
<b>Gross sales</b> (Amounts in NOK million)			
Spot market*	98 799	43 489	39 064
Regulating power*	3 215	2 047	2 080
<b>Total</b>	<b>102 014</b>	<b>45 536</b>	<b>41 144</b>
<b>Sales in TWh</b>			
Spot market*	249.8	175.9	166.6
Future market (trading)**	766.0	786.0	590.2
Regulating power*	7.9	8.1	8.2
<b>Total trade in TWh</b>	<b>1 023.7</b>	<b>970.0</b>	<b>765</b>
<b>Clearing of bilateral contracts in TWh***</b>	<b>2 221.0</b>	<b>2 102.0</b>	<b>1 207.0</b>

\* The spot market is cleared by Nord Pool Spot AS. Regulating power is cleared by Statnett SF.

\*\* Sales in the financial market totalled NOK 292.1 billion for 2006. For 2005 and 2004, sales were NOK 189.4 billion and NOK 148.5 billion respectively.

\*\*\*The contractual value of clearing OTC contracts was NOK 344.8 billion for 2006. For 2005 and 2004, it was NOK 209.2 billion and NOK 201.6 billion respectively.

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 awarded a licence to operate as a clearinghouse for commodity derivatives with electricity as the underlying product.

### Posting of security

#### *Physical-market trade - Elspot via Nordpool 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" reflect Nord Pool Spot AS' settlement risk, and is calculated on an ongoing basis to the members' last seven days net trading in the Elspot market, including VAT.

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 2006, Nord Pool Spot AS had outstanding claims totalling NOK 616 million linked to the physical power market. The security posting requirement for members at year-end 2006 was NOK 780 million. (As Nord Pool ASA is an associated company, the claim is not shown in the consolidated accounts).

At year-end 2006, 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 2006, Statnett had outstanding receivables totalling NOK 78 million linked to the physical power market. The security posting requirement for regulating power generators at year-end 2006 was NOK 815 million.

At year-end 2006, 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 2006, Nord Pool Clearing ASA had an open balance (future contractual obligations) of NOK 67.1 billion. The security posting requirement for members at 31 December 2006 was NOK 16.4 billion. Total security posted at year-end 2006 was NOK 36.2 billion. At 31 December 2006, all the members had posted satisfactory security, as required by the Rulebook.

## **Fees/charges**

Fees or charges in Statnett SF are related to the regulating power market. Lower revenue for the year amounting to NOK 2 million has been netted against invoiced revenues from fees. Higher revenue on the balance sheet of NOK 15 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 17 million.

## **External contracts**

Statnett has been working on a major customer project to construct a 420 kV transmission line (Fræna-Nyhavna) for Norsk Hydro ASA. The line came into operation in December 2006. The customer will pay Statnett, including the interest element, when the project is finally completed in 2007. 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.

# Notes

## Note 5 – Power sales and power purchases

(Amounts in NOK million)	2006	2005	2004
<b>Power sales</b>			
Sales, regulating power	3 215	2 047	2 080
Sales, power to Sweden and Denmark	1 357	771	812
Eliminations	-1 694	-1 062	-1 089
<b>Total power sales</b>	<b>2 878</b>	<b>1 756</b>	<b>1 803</b>
<b>Power purchases</b>			
Purchases, regulating power	3 215	2 047	2 080
Purchases, power from Sweden and Denmark	1 339	790	776
Eliminations	-1 551	-888	-1003
<b>Total power purchases</b>	<b>3 003</b>	<b>1 949</b>	<b>1 853</b>

### 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. In 2006, Statnett had net income totalling NOK 8 million on this trade.

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 2006, this generated gross revenue from abroad totalling NOK 10 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				GROUP		
2004	2005	2006	(Amounts in NOK million)	2006	2005	2004
874	691	818	Acquisition cost at 1 January	818	691	874
1 067	855	2 180	Additions during the year	2 180	855	1 067
-1 153	-711	-861	Transferred to Tangible fixed assets	-861	-711	-1 153
-87	-17	-14	Write-offs	-14	-17	-87
-10	-	-	Disposals at acquisition cost	-	-	-10
<b>691</b>	<b>818</b>	<b>2 123</b>	<b>Acquisition cost at 31 December</b>	<b>2 123</b>	<b>818</b>	<b>691</b>
-24	-26	-5	Accumulated write-downs	-5	-26	-24
<b>667</b>	<b>792</b>	<b>2 118</b>	<b>Balance sheet value at 31 December</b>	<b>2 118</b>	<b>792</b>	<b>667</b>
-12	-19	-16	Potential and actual write-downs	-16	-19	-12
62	-	23	Reversed latent write-downs	23	-	62
<b>50</b>	<b>-19</b>	<b>7</b>	<b>Write-downs(-)/reversals for the year</b>	<b>7</b>	<b>-19</b>	<b>50</b>

**Write-downs**

Write-downs relate to cable projects to the Continent and associated grid reinforcements on land. Statnett has been and is involved in several such cable projects.

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 break down as follows:**

PARENT COMPANY				GROUP		
2004	2005	2006	(Amounts in NOK million)	2006	2005	2004
724	513	1 747	Materials and subcontractors	1 747	513	724
132	120	145	Wages, social security costs	145	120	132
183	175	215	Other operating costs	215	175	183
<b>1 039</b>	<b>808</b>	<b>2 107</b>	<b>Total operating costs</b>	<b>2 107</b>	<b>808</b>	<b>1 039</b>
28	47	73	Interest on construction loans	73	47	28
<b>1 067</b>	<b>855</b>	<b>2 180</b>	<b>Total</b>	<b>2 180</b>	<b>855</b>	<b>1 067</b>

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

# Notes

## Note 7 – Wages costs, employees, remunerations

PARENT COMPANY				GROUP		
2004	2005	2006	(Amounts in NOK million)	2006	2005	2004
277	291	333	Wages	372	327	310
47	49	55	Employer's NICs	59	55	53
54	62	84	Pension costs	95	66	59
17	25	27	Other benefits	27	26	20
<b>395</b>	<b>427</b>	<b>499</b>	<b>Total wage costs</b>	<b>553</b>	<b>474</b>	<b>442</b>
-132	-120	-145	Of which, own investment projects	-145	-120	-134
<b>263</b>	<b>307</b>	<b>354</b>	<b>Net wage costs</b>	<b>408</b>	<b>354</b>	<b>308</b>

The number of full-time equivalents (FTEs) in 2006 was 606 in the Parent Company and 709 in the Group.

### Benefits to Senior Executives/Board Members

(Amounts in NOK)	Board	Salary	Other remun.	Pension cost	Total remun.
<b>Group Management</b>					
Odd Håkon Hoelsæter, President & CEO		1 444 339	168 722	1 408 515	3 021 576
Kåre Schjetne, Deputy CEO		1 030 646	123 839	840 535	1 995 020
Håkon Borgen, Exec. Vice President		957 827	123 097	382 963	1 463 887
Anne Breive, Exec. Vice President		1 017 539	136 587	551 756	1 705 882
Bente Hagem, Exec. Vice President		997 318	119 917	643 907	1 761 142
Audun Severin Hustoft, Exec. Vice President		1 006 571	121 657	585 752	1 713 980
Øivind Kristian Rue, Exec. Vice President		1 090 928	112 060	724 770	1 927 758
<b>Board of Directors</b>					
Svein Rennemo, Chair	300 000				300 000
Kjell Olav Kristiansen, Vice Chair	200 000				200 000
Heidi Ekrem, Board member	145 000				145 000
Kirsten Faugstad, Board member*	145 000				145 000
Thor Håkstad, Board member	145 000				145 000
Grethe Høiland, Board member	145 000				145 000
Steinar Jøråndstad, Board member*	145 000				145 000
Ole Bjørn Kirstihagen, Board member*	145 000				145 000
Christine B. Meyer, Board member	145 000				145 000
<b>Total remunerations</b>	<b>1 515 000</b>	<b>7 545 168</b>	<b>905 879</b>	<b>5 138 198</b>	<b>15 104 245</b>

Deputy board members and observers do not receive fees. In the case of employee representatives, only board members' fees are stated.

### CONDITIONS FOR GROUP MANAGEMENT

Title/name	Conditions relating to retirement age/early retirement pension/retirement pension
<b>President and CEO</b> <b>Odd Håkon Hoelsæter</b>	The President and CEO has a normal retirement age of 65, but may retire at his own request at any time between his 62nd and 65th birthday.  In the event of retirement between 62 and 65, he will receive an annual payment of 66 % of the pension base (the basis for calculating the entitlement to pension), i.e. the agreed annual salary without any special supplements. The pension base is adjusted annually by the same percentage-wise increase as the change in the basic amount (G) for calculating basic pensions under the Norwegian national insurance scheme.

If the President retires before his 65th birthday and receives early retirement pension, and at the same time receives income (pay or fees) from Statnett SF or Statnett group companies, the early retirement pension shall be reduced by an amount equal to this income. If income is received from another employer/principal and this, together with the early retirement pension paid by Statnett SF, exceeds the President's final salary, the early retirement pension shall be reduced by 50 % of the sum that exceeds the final salary.

From the 65th birthday the full annual retirement pension is 66 % of the pension base, i.e. of the fixed, normal annual salary at retirement. The pension base is adjusted annually by the same percentage-wise increase as in the basic amount (G) for calculating basic state pensions. From the 67th birthday, the annual retirement pension of 66 % will be co-ordinated with the retirement pension paid from Statnett SF's Group Pension Fund and the Norwegian state old age pension.

**Deputy CEO**  
**Kåre Schjetne**

The Deputy CEO's retirement age is 65, but he is entitled to retire with an early retirement pension at any time after his 60th birthday. In the event of retirement between 60 and 65, he will receive an annual payment of 66 % of salary. The payment will be adjusted annually by the same percentage-wise increase as in the basic amount (G) for calculating basic state pensions.

From the 65th birthday the full annual retirement pension is 66 % of the pension base, i.e. of the fixed, normal annual salary at retirement. The pension base is adjusted annually by the same percentage-wise increase as in the basic amount (G) for calculating basic state pensions. From the 67th birthday, the annual retirement pension of 66 % will be co-ordinated with the retirement pension paid from Statnett SF's Group Pension Fund and the Norwegian state old age pension.

**Executive Vice Presidents**  
**Håkon Borgen**  
**Anne Breive**  
**Bente Hagem**  
**Audun Severin Hustoft**  
**Øivind Kristian Rue**

The retirement age is 65, but with the right to retire with an early retirement pension at any time after the 62nd birthday. In the event of retirement between 62 and 65, an annual payment of 66 % of the pension base will be paid, i.e. of the fixed normal annual salary at retirement. The pension base is adjusted annually by the same percentage-wise increase as in the basic amount (G) for calculating basic state pensions.

In the event that income is received from others and this, together with the early retirement pension paid by Statnett, exceeds the final salary, the early retirement pension shall be reduced by 50 % of the sum that exceeds the final salary.

From the 65th birthday the full annual retirement pension is 66 % of the pension base, i.e. of the fixed, normal annual salary at retirement. The pension base is adjusted annually by the same percentage-wise increase as in the basic amount (G) for calculating basic state pensions. From the 67th birthday, the annual retirement pension of 66 % will be co-ordinated with the retirement pension paid from Statnett SF's Group Pension Fund and the Norwegian state old age pension.

The above persons' entitlements to pension benefits over and above paid-up policies from Statnett SF's Group Pension Fund from the 62nd birthday will lapse if they are no longer employed by Statnett SF on their 62nd birthday.

**Auditor's fees**

(Amounts in NOK)

	PARENT COMPANY	GROUP
Fees for auditing the 2006 accounts	445 000	575 200
Other attestation services	327 900	348 525
Tax-related assistance	223 188	223 188
Other assistance*	649 030	669 074
<b>Total fees (ex. VAT)</b>	<b>1 645 118</b>	<b>1 815 987</b>

\* Other assistance is largely related to the forthcoming implementation of IFRS.

# Notes

## Note 8 – Pensions and pension liabilities

Pension scheme at 31 December 2006	Group	Parent Company
Members of the pension fund	1053	925
Of which, pensioners	275	266
<b>Number of persons in the pension scheme *</b>	<b>778</b>	<b>642</b>

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

Financial/actuarial assumptions:	2006	2005	2004
Discount rate	4.5 %	4.5 %	5.0 %
Expected yield	6.0 %	5.0 %	5.5 %
Expected pay adjustments	4.5 %	3.0 %	3.0 %
Expected pension adjustments	4.5 %	3.0 %	3.0 %
Remaining contributory period	15 years	15 years	15 years

Assumptions for contractual early retirement scheme (AFP) withdrawals in the Parent Company:	2006
62 years	25 %
63 years	5 %
64 years	5 %
65 years	35 %

PARENT COMPANY			GROUP			
2004	2005	2006	(Amounts in NOK million)	2006	2005	2004
<b>Defined benefit schemes</b>						
38	41	71	Present value of year's pension contributions	78	45	42
31	33	31	Interest cost of pension liability	33	34	33
<b>69</b>	<b>74</b>	<b>102</b>	<b>Gross pension cost</b>	<b>111</b>	<b>79</b>	<b>75</b>
-24	-24	-28	Estimated yield on pension assets	-30	-25	-25
9	12	10	Estimate changes and variances on P&L account	11	12	9
<b>54</b>	<b>62</b>	<b>84</b>	<b>Net pension cost</b>	<b>92</b>	<b>66</b>	<b>59</b>
8	9	10	Employer's contributions	11	9	8
<b>62</b>	<b>71</b>	<b>94</b>	<b>Net pension cost incl. employer's contributions</b>	<b>103</b>	<b>75</b>	<b>67</b>
<b>Defined-benefit schemes</b>						
739	928	1 267	Calculated pension liabilities	1 326	888	765
-474	-593	-591	Pension assets at estimated market value	-615	-540	-490
-218	-283	-608	Estimate changes not on P&L account	-630	-288	-222
<b>47</b>	<b>52</b>	<b>68</b>	<b>Net pension liabilities incl. employer's contrib.</b>	<b>81</b>	<b>60</b>	<b>53</b>
33	41	83	* Of which, employer's contributions	88	43	34
<b>Included in the balance sheet as:</b>						
55	42	27	Pension assets	27	42	55
102	94	95	Pension liabilities	108	102	108

### Breakdown of the managed assets in the pension fund in 2006

Property	11 %
Held-to-maturity bonds	16 %
Norwegian bonds	37 %
Certifikates	20 %
Hedge funds and international unit trusts	16 %
<b>Total</b>	<b>100 %</b>



## Note 9 – Tangible fixed assets

GROUP (Amounts in NOK million)	Electrotechnical equipment	ICT equipment	Buildings/ land	Other operating equipment	Total
<b>Acquisition cost at 1 January</b>	13 915	658	1016	417	16 066
Additions, acquisition cost	635	94	128	14	871
Disposals, acquisition cost	-44	-93	-7	-3	-147
<b>Acquisition cost at 31 December</b>	<b>14 506</b>	<b>659</b>	<b>1 137</b>	<b>428</b>	<b>16 730</b>
<b>Ordinary depreciation at 1 January</b>	<b>5 639</b>	<b>441</b>	<b>234</b>	<b>165</b>	<b>6 479</b>
Ordinary depreciation charge for year	547	119	23	18	707
Disposals, ordinary depreciation	-32	-89	-3	-3	-127
<b>Ordinary depreciation at 31 December</b>	<b>6 154</b>	<b>471</b>	<b>254</b>	<b>180</b>	<b>7 059</b>
<b>Capital value on balance sheet at 31 December</b>	<b>8 352</b>	<b>188</b>	<b>883</b>	<b>248</b>	<b>9 671</b>
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				
	2006	2005	2004	2003	2002	2006	2005	2004	2003	2002
Electrotechnical equipment	635	461	867	533	753	14	1	68	168	8
Telemathics	94	52	144	52	45	-	-	1	-	-
Buildings, land	128	85	107	65	37	5	8	9	17	11
Other operating equipment	14	120	32	27	104	1	1	3	1	3
<b>Total</b>	<b>871</b>	<b>718</b>	<b>1 150</b>	<b>677</b>	<b>939</b>	<b>20</b>	<b>10</b>	<b>81</b>	<b>186</b>	<b>22</b>

## INTANGIBLE ASSETS – GROUP

(Amounts in NOK million)	Computerised trading systems
<b>Acquisition cost at 1 January</b>	<b>17</b>
Additions, acquisition cost	1
<b>Acquisition cost at 31 December</b>	<b>18</b>
<b>Ordinary amortisation at 1 January</b>	<b>7</b>
Ordinary amortisation charge for year	4
<b>Ordinary depreciation 31 December</b>	<b>11</b>
<b>Capital value on balance sheet at 31 December</b>	<b>7</b>

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

# Notes

## Note 9 – Tangible fixed assets (continued)

### PARENT COMPANY

(Amounts in NOK million)	Electrotechnical equipment	ICT equipment	Buildings/land	Other operating equipment	Total
<b>Acquisition cost at 1 January</b>	<b>13 915</b>	<b>658</b>	<b>1 015</b>	<b>361</b>	<b>15 949</b>
Additions, acquisition cost	635	94	128	10	867
Disposals, acquisition cost	-44	-93	-6	-3	-146
<b>Acquisition cost at 31 December</b>	<b>14 506</b>	<b>659</b>	<b>1 137</b>	<b>368</b>	<b>16 670</b>
<b>Ordinary depreciation at 1 January</b>	<b>5 639</b>	<b>441</b>	<b>234</b>	<b>117</b>	<b>6 431</b>
Ordinary depreciation	547	119	23	15	704
Disposals, ordinary depreciation	-32	-89	-3	-3	-127
<b>Ordinary depreciation at 31 December</b>	<b>6 154</b>	<b>471</b>	<b>254</b>	<b>129</b>	<b>7 008</b>
<b>Capital value on balance sheet at 31 December</b>	<b>8 352</b>	<b>188</b>	<b>883</b>	<b>239</b>	<b>9 662</b>
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				
	2006	2005	2004	2003	2002	2006	2005	2004	2003	2002
Electrotechnical equipment	635	461	867	533	753	14	1	68	168	8
Telemathics	94	52	144	52	45	-	-	1	-	-
Buildings, land	128	85	107	65	37	5	8	9	17	8
Other operating equipment	10	113	35	24	93	1	1	2	1	-
<b>Total</b>	<b>867</b>	<b>711</b>	<b>1 153</b>	<b>674</b>	<b>928</b>	<b>20</b>	<b>10</b>	<b>80</b>	<b>186</b>	<b>16</b>

## Note 10 – Financial items

### PARENT COMPANY

### GROUP

2004	2005	2006	(Amounts in NOK million)	2006	2005	2004
			<b>Financial income</b>			
2	-	12	Income from investment in subsidiaries	-	-	-
7	10	11	Income from investment in jointly-controlled companies	-	-	-
-	6	5	Income from investment in associated companies	14	7	8
4	4	4	Interest income from subsidiaries and jointly-controlled companies	-	-	-
39	31	32	Other interest income	48	41	49
7	15	17	Other financial income	19	17	10
3	-	-7	Change in value of market-based financial assets	5	15	13
<b>62</b>	<b>66</b>	<b>74</b>	<b>Total financial income</b>	<b>86</b>	<b>80</b>	<b>80</b>
			<b>Financial costs</b>			
-	3	-	Write-downs of financial fixed assets	-	-	-
307	343	309	Other interest costs	313	343	308
-28	-47	-73	Capitalised construction loan interest	-73	-47	-29
9	12	14	Other financial costs	14	15	10
<b>288</b>	<b>311</b>	<b>250</b>	<b>Total financial costs</b>	<b>254</b>	<b>311</b>	<b>289</b>

## Note 11 – Shares and holdings

Company (Amounts in NOK 1000)	Type	Year of acquisition	Registered office	Share- holding	Voting rights	Acquisition costs	Book value
Statnett Transport AS	Subsidiary	1996	Oslo	100.0 %	100.0 %	6 680	18 321
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
<b>Total subsidiaries, jointly-controlled companies and associated companies</b>						<b>139 490</b>	<b>151 131</b>
Stri AB	Contributed capital	1998	Sweden	12.5 %	12.5 %	1 407	1 407 <sup>1)</sup>
Statnett SFs							
Pension Fund	Contributed capital	1993	Oslo	100.0 %	100.0 %	15 000	15 000 <sup>1)</sup>
<b>Total other shares etc.</b>						<b>16 407</b>	<b>16 407</b>
<b>Sum total shares and holdings in the Parent Company</b>						<b>155 897</b>	<b>167 538</b>

### Shares owned by the Nord Pool Group

(Group's indirect shareholding)

Company (Amounts in NOK 1000)	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 <sup>1)</sup>

\* The Group's direct and indirect shareholding is 30%

<sup>1)</sup> The shares are included in investments in other shares and holdings.

### Book value, shares in Nord Pool Spot AS

(Amounts in NOK 1000)

	<b>Group</b>
Book value at 1 January	35 526
Dividend received	-7 387
Share of profit for the year	13 962
<b>Book value at 31 December 2006</b>	<b>42 101<sup>1)</sup></b>
Shareholding in associated company	30 %
Equity in associated company at 31 December 2006	140 337

### 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.

# Notes

## 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 value of current assets

PARENT COMPANY				GROUP		
Acquisition cost	Balance sheet value	Market value*	(Amounts in NOK million)	Acquisition cost	Balance sheet value	Market value*
21	21	21	Government	54	51	51
-	-	-	State enterprises	5	5	5
-	-	-	Municipalities/municipal enterprises	29	29	29
275	268	268	Financial institutions incl. banks	340	332	332
86	85	85	Private issuers/industry	109	107	107
<b>382</b>	<b>374</b>	<b>374</b>	<b>Total bonds</b>	<b>537</b>	<b>524</b>	<b>524</b>
-	-	-	Norwegian shares	27	53	53
-	-	-	Foreign shares	2	4	4
-	-	-	<b>Total shares</b>	<b>29</b>	<b>57</b>	<b>57</b>
-	-	-	Foreign unit trusts	20	24	24
-	-	-	<b>Total shares &amp; securities</b>	<b>20</b>	<b>24</b>	<b>24</b>
<b>382</b>	<b>374</b>	<b>374</b>	<b>Total</b>	<b>586</b>	<b>605</b>	<b>605</b>

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

The nominal value of all bonds held by Statnett is shown in Norwegian kroner (NOK). For Statnett SF the average effective interest rate is 3.95 % and the average duration of the current assets is 1.4.

### 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.

## 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 2006 was NOK 1 087 million.

### Interest-bearing short-term debt\*

(Amounts in NOK million)	2006	2005	2004
Certificate issues, Commercial Paper loans	550	1 200	-
Other interest-bearing debt	124	-	-
Bond loans	-	800	716
Government loans	-	400	400
Loans from financial institutions	-	-	63
<b>Total Parent Company</b>	<b>674</b>	<b>2 400</b>	<b>1 179</b>

\* 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

#### Installment profile

(Amounts in NOK million)	2008	2009	2010	2011	Thereafter	Total
Bond loans	1 500	-	782	-	4 772	7 054
Government loans	-	-	-	-	-	-
Loans from financial institutions	-	-	-	-	-	-
<b>Total Parent Company</b>	<b>1 500</b>	<b>-</b>	<b>782</b>	<b>-</b>	<b>4 772</b>	<b>7 054</b>

The instalment profile includes the principal on interest rate and currency swaps. On existing bond issues, Statnett SF can issue an additional NOK 2 600 million in the Norwegian market. Statnett SF has an unutilised credit facility of NOK 2 billion that expires in 2012.

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

(Amounts in NOK million)	2006	2005	2004
Bond loans	4 772	2 196	2 181
Government loans	-	-	-
Loans from financial institutions	-	-	-
<b>Total Parent Company</b>	<b>4 772</b>	<b>2 196</b>	<b>2 181</b>

The Parent Company and the other group companies have no convertible loans.

# Notes

## Note 14 – Interest-bearing debt (continued)

### Disclosures of interest-bearing debt

#### Currency

(Amounts in millions)	Average int. rate <sup>1)</sup>	Loan amount in currency	Loan amount in NOK
NOK	4.3 %	5 150	5 150
JPY	3.8 %	6 000	383
CHF	4.1 %	400	2 072
<b>Total</b>			<b>7 604</b>

<sup>1)</sup> 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 holdings of bonds:

Statnett SF has no holdings at 31 December 2006.

## 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		
	2004	2005	2006	2004	2005	2006
Subsidiaries	8	7	20	-	-	-
Jointly-controlled companies	4	4	4	50	50	50
<b>Total</b>	<b>12</b>	<b>11</b>	<b>24</b>	<b>50</b>	<b>50</b>	<b>50</b>

(Amounts in NOK million)	Trade accounts payable		
	2004	2005	2006
Subsidiaries	1	2	1
Jointly-controlled companies	-	-	1
<b>Total</b>	<b>1</b>	<b>2</b>	<b>2</b>

## Note 17 – Taxation

### GROUP

(Amounts in NOK million)

<b>Tax charge</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>
Tax payable	90	49	123
Charge in deferred tax	19	12	37
Excess/insufficient provision in previous years	-	-	-
<b>Total tax charge</b>	<b>109</b>	<b>61</b>	<b>160</b>

<b>Summary of temporary differences (Base for deferred tax)</b>	<b>Change 2005-2006</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>
Shares and securities	11	3	14	8
Operating assets	-119	-182	-301	-347
Provision according to good accounting practice	-5	-5	-10	-2
Pensions	19	-80	-61	-53
Profit and loss account	35	-57	-22	-11
Technical provisions (insurance)	1	127	128	112
Loss carried forward	-9	-	-9	-11
<b>Base for deferred tax asset on balance sheet</b>	<b>-67</b>	<b>-194</b>	<b>-261</b>	<b>-304</b>
<b>Deferred tax asset on balance sheet (28 % of base for deferred tax asset)</b>		<b>54</b>	<b>73</b>	<b>85</b>

### PARENT COMPANY

(Amounts in NOK million)

#### Calculation of deferred tax and change in deferred tax

<b>Summary of temporary differences (Base for deferred tax)</b>	<b>Change 2005-2006</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>
Shares and securities	10	2	12	8
Fixed assets	-121	-171	-292	-341
Provision according to good accounting practice	-5	-3	-8	-2
Pensions	14	-67	-53	-47
Profit and loss account	33	-63	-30	-19
<b>Base for deferred tax asset on the balance sheet</b>	<b>-69</b>	<b>-302</b>	<b>-371</b>	<b>-401</b>
<b>Deferred tax asset on balance sheet (28 % of base for deferred tax asset)</b>		<b>-19</b>	<b>104</b>	<b>112</b>

### TAX PAYABLE

(Amounts in NOK million)

<b>Base for tax charge and tax payable</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>
Profit before tax charge	353	179	543
Permanent differences	-28	-8	-2
<b>Base for tax charge for the year</b>	<b>325</b>	<b>171</b>	<b>541</b>
Change in temporary differences	-69	-30	-135
<b>Base for tax payable</b>	<b>256</b>	<b>141</b>	<b>406</b>

# Notes

## Note 17 – Taxation (continued)

	2006	2005	2004
<b>Tax payable (in the tax charge)</b>			
28 % of base for tax payable	72	39	114
<b>Tax payable (in the tax charge)</b>	<b>72</b>	<b>39</b>	<b>114</b>
<b>Tax payable on the balance sheet</b>			
Tax payable in the tax charge	72	39	114
<b>Tax payable (on the balance sheet)</b>	<b>72</b>	<b>39</b>	<b>114</b>

### TAX CHARGE (SUMMARY)

<b>Tax charge</b>			
28 % of profit before tax	99	50	152
28 % of permanent differences	-8	-2	-
Insufficient/excess provision for tax payable last year	1	-	-
<b>Total tax charge on profit on ordinary activities</b>	<b>92</b>	<b>48</b>	<b>152</b>

### Breakdown of tax charge on profit on ordinary activities

Tax payable	72	39	114
Change in deferred tax asset	19	8	38
Insufficient/excess provision for tax payable last year	1	1	-
<b>Tax charge on profit on ordinary activities (tax charge for year)</b>	<b>92</b>	<b>48</b>	<b>152</b>

## Note 18 – Equity

(Amounts in NOK million)	Invested capital	Other equity	Total
<b>PARENT COMPANY</b>			
Equity at 31 December 2005	2 700	1 760	4 460
Result for year (after proposed dividend)		109	109
<b>Equity at 31 December 2006</b>	<b>2 700</b>	<b>1 869</b>	<b>4 569</b>
<b>GROUP</b>			
Equity at 31 December 2005	2 700	2 067	4 767
Result for year (after proposed dividend)		151	151
<b>Equity at 31 December 2006</b>	<b>2 700</b>	<b>2 218</b>	<b>4 918</b>

## Note 19 – Secured debts, 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 2006, the company insured risk in the following categories:

- Property insurance including natural disasters
- Liability insurance
- Project insurance

A satisfactory loss frequency for the company's insurance commitments in 2006 resulted in a favourable loss experience for Statnett Forsikring AS. The financial markets also performed well, contributing further to the good results from the company's investment management activity.

Statnett Forsikring AS' finances are sound. The technical provisions exceed by a satisfactory margin the minimum requirement set by the authorities. The company's capital base has increased by NOK 74.1 million, equal to a capital adequacy ratio of 59.6 per cent of risk-weighted assets. The minimum capital adequacy requirements set by the Norwegian Supervisory Authority of Norway at 31 December 2006 were NOK 23.4 million and 8 per cent. Of the year's net profit after tax of NOK 23.7 million, provision of NOK 11.9 million has been made for dividend to Statnett SF, with the remaining NOK 11.8 million transferred to other equity on the company's balance sheet.

### Key figures

(Amounts in NOK million)	2006	2005	2004
Premiums written, gross	26.0	20.8	20.4
Premiums earned, net of reinsurance	21.8	19.1	15.9
Profit/loss before contingency reserve and tax	27.1	17.8	20.7
Equity	74.1	62.3	45.4
Technical provisions	155.3	153.6	135.4
<b>Total assets</b>	<b>244.9</b>	<b>218.1</b>	<b>184.4</b>

In 2006, the company received a notice from the Central Tax Office for Large Enterprises concerning deviations in the two previous years' tax returns on the basis of technical provisions which in the opinion of the Central Tax Office were NOK 37.9 million too much. The provisions were made in line with the current guidelines of the Financial Supervisory Authority of Norway and on the basis of actuarial reports employed. No provision has therefore been made in the annual accounts for 2006 for increased tax payable and corresponding increase in deferred tax asset, as the company believes there is no basis for the Central Tax Office notice of changed taxation. The effect on the result of an increase in tax payable and corresponding increase in deferred tax asset in the company accounts of Statnett Forsikring will irrespectively be zero.

Upon consolidation of Statnett Forsikring AS, all technical provisions (except for provisions for the National Fund for Natural Disaster Assistance) and claims provisions net of reinsurance in the company, are 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 other 72 per cent are incorporated in the Group's equity. In the consolidated accounts for 2006, no provision has been made either for an increase in tax payable and corresponding increase in deferred tax asset.

All Norwegian insurance companies that write fire insurance are obliged to be members of the Norwegian National Perils Pool. From the operating surplus of the 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 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 is the guarantor for loans raised prior to 1 January 2003. 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

### **Action for damages - magnetic field**

Statnett SF has brought before the Norwegian Supreme Court an action concerning second appraisal relating to the building of the Klæbu - Viklandet power line, and the claims for compensation which had been brought by affected landowners, which were considered by the Court. Statnett has complied with current regulations and practice in building the power line. Anyone who gets a power line close to them will experience some inconvenience. In accordance with current legislation, traditional commercial inconvenience in the form of magnetic fields, impaired aesthetics and noise is inconvenience of a general nature, for which compensation is not normally paid. Compensation is only paid if the inconvenience caused exceeds the so-called "nuisance limit" in section 2 of the Neighbouring Properties Act. Society has increasingly focused on the potential health risks associated with living close to power lines. This risk has been addressed in Proposition to the Storting No. 66 (2005-2006), which recommends that where new facilities are built a limit of 0.4 microtesla should be used as the level warranting further investigation. Microtesla is an expression for how great a magnetic field is.

Both the first appraisal (before the District Court) and the second appraisal (before the Court of Appeal) established that if a property is exposed to a magnetic field of more than 0.4 microtesla, the "nuisance limit" defined in the Neighbouring Properties Act has been exceeded. This gives rise to liability in damages for the owner of the power line. The disputed amount in the case in question is small, and no form of provision for it has been made in the 2006 accounts. The decision of the Supreme Court may nevertheless be important for cases other than the present one.

### **Tax issue - Statnett Forsikring AS**

Please refer to the account in Note 20.

# Auditor's report



To the General Meeting of  
Statnett SF

■ Statsautoriserte revisorer

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Medlemmer av Den norske Revisorforening

## Auditor's report for 2006

We have audited the annual financial statements of Statnett SF as of 31 December 2006, showing a profit of NOK 261 000 000 for the Parent Company and a profit of NOK 303 000 000 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 comprise the balance sheet, the statements of income and cash flows and the accompanying notes. The financial statements of 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 the Group as of 31 December 2006, 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 Company's 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, 20 March 2007  
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

## Statistics

# Steady rise in electricity consumption

Almost all electricity generated in Norway comes from hydro-electric power plants. The ability of the hydropower plants to generate electricity varies greatly with the amount of precipitation from year to year. In years when there is a lot of rain we can produce far more electricity than we actually consume in Norway, while in dry years we are dependent on importing electricity from neighbouring countries. On the following pages we among other present the figures for total electricity generation, potential viable hydro-electric energy, total electricity consumption for the Nordic countries all the way back to 2000. The same figures for Norway are presented all the way back to 1975.

Year	Total-generation (TWh)	Potential viable hydro electric energy (TWh)	Total-consumption (TWh)	Import (TWh)	Export (TWh)	Net exchange (export +/- import -)
2000	380.3	232.3*	377.7	4.5	7.1	2.6
2001	382.5	209.4	388.1	12.0	6.5	-5.6
2002	379.4	177.9	384.8	12.2	6.7	-5.4
2003	360.6	174.6	377.7	21.2	4.2	-17.1
2004	382.3	201.1	394.2	18.8	6.8	-11.9
2005	391.0	227.5	390.0	13.6	14.6	0.9
2006	379.1	182.0	390.5	18.9	7.5	-11.4

\* Inflow 2000 without Finland.

Source: Nord Pool

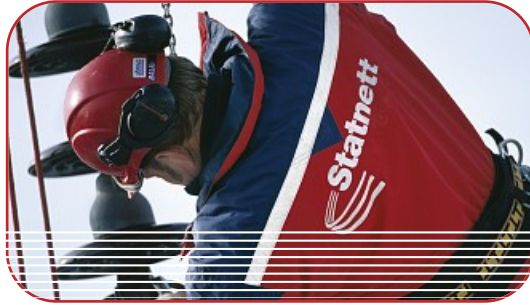
STATISTICS NORDIC COUNTRIES 2000–2006

Year	Total-generation (TWh)	Potential viable hydro electric energy (TWh)	Total-consumption (TWh)	Import (TWh)	Export (TWh)	Net exchange (export +/- import -)	Mean hydropower generation (1970-99)
1975	77.5	126.8	71.9	0.1	5.7	5.6	87.0
1976	82.1	109.5	75.5	0.2	6.9	6.6	88.5
1977	72.4	100.4	73.5	2.7	1.6	1.1	89.5
1978	81.0	107.7	77.6	0.8	4.3	3.4	91.3
1979	89.1	117.2	84.5	0.8	5.5	4.7	93.3
1980	84.1	95.8	83.6	2.0	2.5	0.5	95.9
1981	93.4	121.2	88.2	1.9	7.2	5.2	100.9
1982	93.2	113.2	87.1	0.6	6.7	6.1	103.2
1983	106.4	140.2	93.0	0.4	13.8	13.4	105.4
1984	106.7	122.2	98.4	0.9	9.1	8.3	105.9
1985	103.3	108.2	102.7	4.1	4.6	0.5	108.1
1986	97.3	111.8	99.3	4.2	2.2	-2.0	108.9
1987	104.3	106.7	103.9	3.0	3.3	0.3	111.3
1988	110.0	114.1	104.4	1.7	7.4	5.6	111.8
1989	119.2	145.7	104.3	0.3	15.2	14.9	114.0
1990	121.8	145.8	105.9	0.3	16.2	15.9	114.3
1991	111.0	108.9	108.2	3.3	6.0	2.8	114.3
1992	117.5	130.3	108.8	1.4	10.1	8.7	115.6
1993	120.1	119.2	112.2	0.6	8.5	7.9	115.8
1994	113.2	119.9	113.1	4.8	5.0	0.1	116.3
1995	123.0	132.1	116.3	2.3	9.0	6.7	116.8
1996	104.7	90.2	113.7	13.2	4.2	-9.0	117.2
1997	111.4	125.4	115.2	8.7	4.9	-3.8	117.4
1998	116.8	119.1	120.4	8.0	4.4	-3.6	117.5
1999	122.4	127.2	120.5	6.9	8.8	1.9	117.9
2000	142.8	141.0	123.8	1.5	20.5	19.1	118.0
2001	121.6	114.3	125.2	10.8	7.2	-3.6	118.2
2002	130.5	111.0	120.8	5.3	15.0	9.7	118.3
2003	107.2	111.8	115.1	13.5	5.6	-7.9	118.4
2004	110.5	120.0	122.0	15.3	3.8	-11.5	119.0
2005	138.1	140.9	126.1	3.7	15.7	12.0	119.7
2006	121.7	110.1	122.5	9.8	8.9	-0.9	120.7

Source: NVE

STATISTICS NORWAY 1975–2006

The highest peak consumption of electricity in Norway so far was registered 5th February 2001. This was due to extremely cold weather all over the country. The consumption this morning peaked at 23 054 MW. Peak consumption on an average Norwegian winter day is approximately 20 000 MW.



## Power terminology

### Balance accounting

is a key comparison of planned consumption, generation and bilateral trade and actual consumption and generation for all companies trading in electricity in the wholesale market in Norway. The difference that arises between planned and actual generation and consumption is known as regulating power. The balance accounting gives buyers and sellers access to all transmission grids and thus enables free trade in electricity.

### Balance power

is the discrepancy between planned and actual exchange of electricity between Norway and Sweden ("Cross-border regulating power").

### Balancing service

In Sweden, the term balancing service is used to describe the same function as the regulating power system in Norway; see below for the definition of regulating power system.

### Bilateral contracts

are electricity contracts entered into between two contractual parties.

### Bottleneck

A bottleneck, or congestion, arises when the transmission grid is not capable of transmitting sufficient power, i.e. when the desired consumption in an area exceeds possible generation and import capacity, and correspondingly when the desired generation in an area exceeds consumption and export capacity. A bottleneck occurs as a consequence of too little available generation capacity in conjunction with limited possibilities for import, or as a consequence of a generation surplus in conjunction with limited export possibilities.

### The distribution network

is a network or grid for distributing electricity all the way to the consumer (high-voltage networks of up to 22 kV, low-voltage networks of 230 V and 400 V).

### Higher and lower revenues

are the deviation from the break-even result. The terms are used in conjunction with the services which must break even over time, such as the Main Grid Commercial Agreement and power transmission in shared regional grids. If in one year the arrangements' revenues are higher than their costs, this surplus must be returned to customers in the form of lower prices in subsequent years. Correspondingly, a negative result (lower revenues) can be recouped by charging higher prices in subsequent years.

### High-voltage transmission lines

are power lines carrying voltages of over 1,000 volts (1kV).

### Ice load

In the winter, snow and ice accumulate on power lines. This is called the ice load, and is normally measured in the number of kilograms (kg) per metre of power line. In the Norwegian Main Grid, most power lines are designed to sustain a load of at least 4 kg of ice per metre, but on many stretches lines are designed for loads of up to 20-30 kg per metre.

### The Main Grid

is the main section of the power grid with the highest line voltages (420, 300 or 132 kV). It is part of a system that has common invoicing for transmission services, the Main Grid Commercial Agreement. The Main Grid consists of power lines and stations which are important to a single region, several regions, or the whole country.

### Marginal losses

are changes in energy losses in the transmission grid as a result of changes in generation and/or consumption.

### Operator

Buyers and sellers of electricity in the physical-delivery electricity markets are responsible for their own overall power balance. In other words, operators are financially responsible for maintaining

the balance between consumption and generation when more or less electricity is used than is covered by the contracts entered into. Statnett's balance accounting (see below) uncovers this imbalance through its comparisons, while Statnett's National Control Centre secures the overall power balance by getting operators to increase or decrease generation and consumption (regulating power system, see below).

### The power exchange

is the market place for organised trade in electricity.

### Power units

V = volt (voltage)  
A = ampere (current)  
W = watt (output)  
kV = kilovolt (1,000 volts)  
kW = kilowatt (1,000 watts)  
kWh = kilowatt hour (energy)  
MW = megawatt (1,000 kW)  
MWh = megawatt hour (1,000 kWh)  
GW = gigawatt (1,000,000 kW)  
GWh = gigawatt hour (1 million kWh)  
TW = terawatt (1,000,000,000 kW)  
TWh = terawatt hour (1 billion kWh)

kWh – One kilowatt hour is the amount of energy used to power a 1,000-watt fan-assisted oven for one hour. Average energy consumption in a normal house is estimated at about 25,000 kilowatt hours a year. Average consumption in flats and apartments is lower.

GWh – One gigawatt hour is one million kilowatt hours. This is sufficient energy for a development of approximately 40 houses. In the municipality of Vang in Valdres, which has 1,700 inhabitants, approximately 33 GWh of electrical energy is used in one year.

TWh – One terawatt hour is one billion kilowatt hours. This is approximately as much electricity as used in the town of Drammen in one year. In Oslo, 9 TWh of electrical energy is consumed each year, while Norway as a whole consumed a total of 122.5 TWh in 2006.  
MW – One megawatt is 1 000 kilo-

watts. This is a measurement of output. The maximum output for Drammen is 260 MW, while in Oslo it is almost 2 000 MW. In the municipality of Vang in Valdres, the equivalent figure is 8 MW. The highest figure measured for Norway in total is 23,054 MW (measured on 5th February 2001).

### Regional grids

are grids that are important to large regions, for example parts of one or more counties (as a rule, grid power lines have voltages of 132 kV and 66 kV).

### The regulating power system

is used to regulate the power system so that electricity consumption and generation are always in balance. Operators quote a price to reduce or increase generation and/or consumption.

### The revenue ceiling

is the revenue limit permitted by the authorities for monopolies. The Norwegian Water Resources and Energy Directorate (NVE) sets an upper limit on the revenues that grid companies can earn from their monopoly-based operations.

### Shared grids

are common grid systems, for example at regional grid level. The owners of power lines and stations rent out their installations to a shared grid. The shared grid has a common operator and common power transmission prices for customers.

### System-wide responsibility

is the overall responsibility for co-ordinating the planning and operation of the entire electricity grid. Statnett has system-wide responsibility in Norway and is the Norwegian national grid company or transmission system operator (TSO).

### TSO

Transmission System Operator



