Annual Report 2007

Statnett

CONTENTS

Statnett ensures reliable and stable electricity transmission in Norway. We coordinate and control the power system day by day, hour by hour, to ensure that Norwegian consumers have power in their outlets at home.

This is Statnett

Statnett's job is to ensure that consumers in Norway have a stable supply of electricity all year round, by co-ordinating, maintaining and developing the national power grid.

Statnett SF is a public enterprise, established under the Public Enterprises Act and owned by the Norwegian State through the Ministry of Petroleum and Energy. Our mandate is to safeguard the interests of the wider community through socio-economically profitable investment.

As Norway's Transmission System Operator (TSO), Statnett has an overarching responsibility for co-ordinating 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.

In tight power situations, Statnett's job is to monitor the situation continuously and to consider various measures that can be taken to assure the electricity supply to consumers.

Statnett owns approximately 87 per cent of the main power grid in Norway. This is made up of the highest-voltage power lines and substations which are important for an entire region, a number of regions or for the country as a whole.

We develop and operate the main power grid on the basis of socio-economic criteria. This means that we aim to provide Norway with a reliable supply of power with sufficient capacity at the lowest possible overall economic cost and cost to the environment.

Statnett also owns half of the Nordic power exchange, Nord Pool ASA, and 100 per cent of the wholly owned transport subsidiary Statnett Transport and insurance subsidiary 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 administering the Main Grid Commercial Agreement.
- ensure accessible transmission routes by means of good maintenance practices.

In 2007, Statnett completed the construction of a new rectifier facility at Feda in Kvinesdal. The facility is part of the NorNed interconnector, the world's longest submarine power cable, between Norway and The Netherlands.

Highlights and key ratios

PARENT COMPANY 12.12.06	PARENT COMPANY 31.12.07	(Amounts in NOK million)	GROUP 31.12.07	GROUP 31.12.06
		HIGHLIGHTS		
3 180	3 387	Operating revenues	3 415	3 205
290	1 000	Operating profit/loss	1 025	308
141	818	Profit/loss for period after tax	880	204
105	598	Net profit/loss for period after tax	651	163
13 525	15 825	Total assets	16 439	13 938
		KEY RATIOS		
2.7 %	8.2 %	Return on capital employed	8.4 %	2.9 %
2.9 %	7.7 %	Return on total assets	7.8 %	3.3 %
2.3 %	12.6 %	Return on equity after tax	12.4 %	3.4 %
33.5 %	31.5 %	Equity ratio	33.8 %	35.2 %

Return on total assets:

$$\frac{\text{Operating profit/loss + financial income + income from joint ventures and associated companies}}{\text{Average total assets}}$$

Return on equity:

$$\frac{\text{Profit/loss for the period after tax}}{\text{Average equity}}$$

Equity ratio:

$$\frac{\text{Equity at 31 December}}{\text{Total assets at 31 December}}$$

Interview with the President and CEO:

Statnett aims to help reduce CO_2 emissions

Statnett is on the verge of implementing major development plans and reinforcements in several parts of Norway, as well as possible new cble links with other countries. In this interview, Odd Håkon Hoelsæter talks about how Statnett intends to meet the challenges posed by a high rate of development and expansion, new technology, and environmental concerns.

"As Norway's Transmission System Operator, Statnett has a prime responsibility for ensuring that Norwegian consumers have a reliable electricity supply. Our job is to look after society's interests by ensuring that electricity is delivered safely to industry, the public sector and households. To put it another way, we have a responsibility to develop the electricity grid so as to help meet the challenges facing society in the energy sector," Hoelsæter explains.

Statnett wishes to be viewed as a company that takes environmental concerns seriously. What specifically is Statnett doing in practical terms to be an environmentally friendly company?

"Statnett has always taken environmental concerns seriously. In recent years, it has become evident that the environment is coming under even greater strain with the threat of global warming. This is where Statnett and the electricity industry as a whole can be part of the solution to the problem by limiting our emissions of CO_2. New renewable electricity is necessitating greater transmission capacity in the grid, thus increasing our need for investment in the years ahead. This desire to facilitate the development of new renewable electricity generation is having a direct impact on several of our projects that are currently in the planning phase, both in the form of more transforming points and in the choice of power line routes that can accommodate the presence of wind farms, for example."

But isn't it the case that nature conservationists do not want to see more power lines built?

"One might well say that while wind power and small-scale hydropower plants are helping to solve global environmental problems, they are also creating local environmental conflicts. As Statnett sees it, we have to make a choice. If we are in favour of developing more environmentally friendly electricity, it would be somewhat inconsistent to say no when Statnett comes along with a power line to transport that same electricity to those who need it. It is unfortunately the case taht there are no solutions that are purely advantageous. Deciding not to develop more electricity facilities and not to build more power lines is also a choice that has its disadvantages."

We know now that new technology is being developed, which among other things will make it cheaper to bury power lines underground. Can Statnett not wait to build these lines until the new technology is available?

"No-one would welcome new technology more than Statnett. That is also why we are working together with ABB and Siemens to ensure that the new high-voltage direct current technology, also known as HVDC-VSC, becomes available as soon as possible. But developing technology takes time, and the technology must be sufficiently quality-assured before it can be used in an integrated electricity system. For this reason, Statnett is unable to use this technology in connection with our projects that are already at an advanced stage. It would cause considerable delays to do so. This is the case not least with our on-going projects aimed at strengthening security of supply in Central Norway.

However, we are currently working on plans in collaboration with the Swedish TSO, Svenska Kraftnät, to build a new interconnector from Skåne in Sweden to the Oslo area. We are assuming that we in this connection will be able to use the new HVDC-VSC technology that is presently under development. This will be a milestone in technological development, and I am looking forward to a situation in which the HVDC-VSC technology can become an important element in the transmission grid," adds Hoelsæter.

If Statnett is concerned about the environment, how is it that the company is setting up mobile reserve power generation plants at Tjeldbergodden and at Nyhamna? Presumably these will produce CO_2 emissions?

"It is easy to understand the concerns surrounding the mobile reserve power plants which, if the power situation becomes so tight that we have to use them, will be run on natural gas. But that is also the main point of having the plants. They will provide generation capacity that will only be used if it becomes absolutely essential to assure security of supply. The alternative will be an energy shortfall and thus a risk that industry and households in the region will be without electricity.

Statnett's task, as I have already pointed out, is to ensure a reliable supply of electricity to all the country's consumers, and to do that we are obliged for the time being to maintain the reserve power plants as an insurance policy, if a very tight power situation should occur."

The EU has set a target of 20 per cent renewable energy in Europe by 2020, and in that connection there is talk of developing more wind power and possibly establishing an electricity grid – a super grid – at sea. Does Statnett play any role in this?

"The idea of offshore wind farms springs from the enormous potential that lies in harnessing the power of wind in the North Sea, and where the environmental consequences appear to be far less than with similar wind farms on shore or near the coast. Despite the fact that offshore wind farms lie further in the future, and there are a number of technical and economic aspects that remain unclarified, we believe it is appropriate to develop the plans for a possible infrastructure. Our role will be to act as the architect for the infrastructure that will have to be built, to be responsible for the electricity system, and also to facilitate market access by being heavily involved on the investment side.

Just how great a scope all this may have, it is far too early to say at present. It is important that the prospect of a super grid of this kind should not stand in the way of us developing the projects that have licensing potential, and which can be implemented with the current technology and at lower cost.

Statnett's objective is to actively assist in the development of the Norwegian electricity system and Norwegian society in as environmentally friendly a way as possible. We will meet the challenges and problems that face us with great engagement and enthusiasm. We know that this kind of 'can do' attitude brings results in the long term," emphasises Odd Håkon Hoelsæter.

Odd Håkon Hoelsæter
CEO

How the electricity market is structured

Like other commodities, electricity is delivered to the end-user after the buying and selling details, price and delivery terms have been agreed. 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 power generators. The electricity market also comprises a number of sub-markets.

We are all participants in the retail electricity market when we choose 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 supplied to the end-user market. The financial market is primarily where the 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, good trading models and sufficiently many and large participants are essential for the liquidity of the market. Nord Pool, the joint Nordic power exchange, is the most important physical wholesale market and financial market for power in the Nordic region.

Viewed in an international context, the Norwegian and Nordic electricity markets function well. Nevertheless, we need to develop the existing market solutions further 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 prices are determined by fluctuations in supply 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.

In 2007, the market share in the Nordic countries was 68.9 per cent, compared with 63.3 per cent in 2006. In addition to strengthening the liquidity, the high market share has the effect of strengthening the spot price as a reference price. Although the Nordic region is one market, it has within it restrictions in transmission capacity and so it 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 2008), 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 harmonized 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. 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 NorNed project is a collaborative venture between Statnett and the Dutch TSO, TenneT. The interconnector includes two rectifier stations, which convert the electricity from AC to DC and vice versa, here from the sea port of Eemshaven in The Netherlands.

Who is responsible for what?

THE AUTHORITIES

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

Stortinget (Parliament) makes the formal decision on whether to grant a licence to large/controversial regulation and energy development projects. The King in Council formally issues 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, they do not know 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 home. 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. Therefore is it not 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.

The energy flow

The raw material

99 per cent of the electricity generated in Norway comes from hydropower.

The power stations

Norway has a total of 753 power stations.

The Main Grid

Power lines and stations which are the transmission "highways" for the electricity supply.

Step-down transformer facility

Before the electricity can be transmitted to the local grid, the voltage must be reduced.

Norwegian electricity is unusual in that it is 99 per cent hydropower-based. The NorNed project connects Norway to the Dutch electricity market and makes the Norwegian electricity supply and Norwegian consumers less vulnerable to dry years with little rainfall. At the same time, hydropower is of interest for The Netherlands partly because it is easy to regulate and is environmentally friendly.

Regional Grid

This is a network of power lines which is owned by a regional grid company.

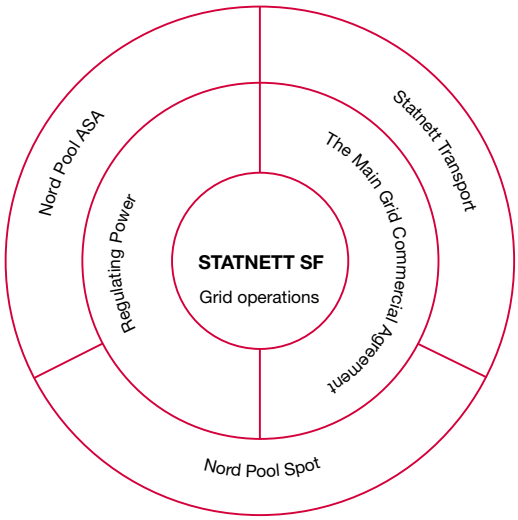
Local Grid

This network transports the electricity to the various local environments and housing areas.

Transformer stations

Before bringing the electricity on the final stage of its way to your house, the voltage must be reduced to 230 volts.

Consumer



Statnett's operation:

New investment, the environment and high precipitation characterised 2007

Most of Statnett's activities are linked to the co-ordination, maintenance and development of the nationwide grid for electric power transmission in Norway. In addition, Statnett is responsible for organising the Main Grid Commercial Agreement and the Regulating Power market. Statnett also owns Statnett Transport and 50 per cent of Nord Pool ASA.

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 also restricting the possibility for high returns from the grid operations.

NorNed consists of a total of eight sections of cable. The first section was laid outside Eemshaven in the northern Netherlands in spring 2006. The entire cable had been laid and jointed by autumn 2007.

Grid Operations

2007 characterised by high precipitation, new capital expenditure and environmental concerns

The tasks of maintenance, planning, further development, expansion and co-ordination of the Main Grid and the electricity system make up the core of Statnett's operations. 2007 was a year very much marked by new projects, high precipitation, and increasing environmental engagement surrounding planned power lines.

Statnett has taken a number of initiatives to identify solutions aimed at reducing the environmental impact of new power line projects.

Examples of these initiatives include the testing of a new type of mast designed for use in built-up areas and a nationwide mapping of people's attitudes to the aesthetic impact of power lines in various types of surroundings.

During 2007, great progress was made in the sphere of new technology for high-voltage direct current transmission links over long distances (HVDC VSC technology). Statnett is collaborating with the suppliers of this technology, ABB and Siemens, to map potential areas of use in the Norwegian power grid. Statnett's Grid Operations fulfilled all their environmental targets in 2007. This involved full replacement of PCBs in Statnett's facilities, no oil or diesel discharges and SF6 gas emissions well below the 900 kg target. Noise measurements were also carried out on all transformer stations.

High precipitation resulted in high power exports

2007 was a year of high inflow into hydropower reservoirs, high electricity generation and high electricity exports to neighbouring countries. Hydropower reservoir levels were significantly higher at the end of the year than at the beginning.

Norway was divided into three market areas – North Norway, Central Norway and South Norway – for the whole of 2007. Growing consumption by industry in recent years has resulted in a higher dependency on power imports into Central Norway. In November, the Ormen Lange facilities in Aukra came into operation, with a consumption increase of 200 MW. In this area, as for the rest of the country, the power situation throughout the year was generally good.

The wet summer, with high inflow from watercourses into the hydropower stations of South Norway, led to a desire for high electricity generation and high power exports to Sweden and Denmark. As a result of more electricity being generated than consumed overall and of the high export capacity out of South Norway, periodically during 2007 there were significant price differences between South Norway and the rest of Norway and the other Nordic countries. To some degree the price differences were also reinforced by the need to slightly restrict export capacity to Sweden owing to internal congestion (bottlenecks). Planned outages for audits and new facilities also led to congestion.

The Skagerrak 3 cable between Norway and Denmark experienced a prolonged shutdown in 2007 following the breakdown of a main transformer on the Danish side on 28 August. Skagerrak 3 is not expected to resume operations until later in the spring of 2008.

Two new power line projects

Statnett started construction on two new 420 kV power line projects in 2007, one in South Norway and one in Central Norway. Skåreheia-Holen is a 100-km long power line running through the Setesdal valley. A legally binding licence was awarded to build the line in June 2007 and it is expected to be completed in the second half of 2009. Between Nea in South Trøndelag and Järpströmmen in Sweden, an old 300 kV line is being replaced by a new, significantly more powerful line, which is scheduled for completion in the autumn of 2009. Statnett is building 25 km on the Norwegian side of the border, while Svenska Kraftnät is responsible for building the line on the Swedish side.

NorNed, the new subsea power cable between Norway and The Netherlands, was planned for completion at the end of 2007. Owing to a fault on the cable, it will now become operational in 2008.

Future power line projects

During 2007, Statnett applied for a licence to build the Ørskog-Fardal and Namsos-Roan power lines. Ørskog-Fardal will have a very important function as

regards guaranteeing power supplies to Central Norway and facilitating new hydropower and wind power generation in the county of Sogn og Fjordane. The purpose of Namsos-Roan is to connect new wind power at Fosen to the main grid. In addition, the licence applications for the Sima-Samnanger and Nyhamna-Ørskog lines are being considered on the basis of previous licence applications.

Since 2006, it has been Statnett's deliberate policy to submit planning proposals, and possibly apply for licences, for more new power lines in the main grid than previously. This also applies to lines where there is uncertainty concerning whether they will ever be built. The reason for this policy is a desire to cut down as much as possible the time taken from determining the need for a new line and until it becomes operational. As a result of this new approach, Statnett now has a relatively large number of on-going planning proposal and licence application processes.

The Main Grid Commercial Agreement

Continued good balance in 2007

The Main Grid in Norway is owned by Statnett and 24 other companies, with Statnett owning 87 per cent. The Main Grid Commercial Agreement is a system for collective pricing (tariffing) and settlement (invoicing) of transmission services in the Main Grid. Most of Statnett's revenues are earned from leasing transmission facilities to the Main Grid Commercial Agreement.

Most of Statnett's revenues are earned from leasing transmission facilities to the Main Grid Commercial Agreement.

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 or "lower revenue" arises. At the end of 2007 there was an accumulated deficit or lower revenue of NOK 279 million, of which NOK 250 million was increased pension liabilities as a result of a new method of calculation introduced in 2007.

The accumulated result is required to be taken into account when setting the following year's tariffs. 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 2007 totalled approximately NOK 3.4 billion, compared with 3.3 billion in 2006. A set of annual accounts is prepared for the Main Grid Commercial Agreement. For 2007, the Agreement resulted in higher revenue of NOK 13 million, which in Statnett's official accounts is included in the Group's revenues. Up until 2006 the results of the Main Grid Commercial Agreement were incorporated as a part of the balance sheet in Statnett's annual accounts.

Regulating Power

Stable turnover in the Regulating Power Market

As Norway's Transmission System Operator (TSO), Statnett is also responsible for the regulating power system and the balance settlement system. This means that Statnett compares actual and planned energy volumes, calculates any discrepancies, and settles them financially between the participants in the regulating power market. Turnover in this market has stabilised, and for 2007 volume charges generated revenues of approximately NOK 13 million.

Between 2006 and 2007, cable was laid on the entire 580 km stretch between Norway and The Netherlands. The NorNed cable is almost twice as long as the world's second-longest submarine power cable between Tasmania and Australia.

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

In 2007, approximately 135 power generators 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 NOK 13 million annually.

Statnett worked actively in 2007 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, firstly to keep the security requirement as low as possible, and secondly 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. Our own in-house developed balance settlement system, which came into operation just before the start of 2007, has been a success throughout the year. The regulating power members report that they are particularly pleased to have a web portal in which they can see all their own trading relations, financial settlement of regulating power, and history. The system was developed in close co-operation with the members.

Statnett carried out a customer satisfaction survey in 2007, which showed that as many as 91 per cent of customers were overall very satisfied with the settlement system. This figure is two per cent higher than at the previous survey in 2005.

Statnett's Ediel activity

Ediel is the name of the power sector's international standard for electronic exchange of trading information. Ediel messages are used, for example, between participants in the electricity industry in connection with change of supplier and for exchanging meter readings.

In Norway, approximately 370 participants exchange Ediel messages with one another. The Ediel standard is to some extent adapted to national conditions. Statnett, through System Support for Ediel (SSE), has been given responsibility for maintaining the standard in Norway 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). 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 closely, 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 ensure a well-functioning exchange of information in the industry, and all the participants in Norway are invited to take part.

The collaboration with Sweden was furthered through 2007, and approximately 440 Swedish participants are now using SSE's test solutions.

In connection with the change by the Norwegian Water Resources and Energy Directorate (NVE) to the model enabling change of supplier in the retail electricity market, Statnett was asked, through SSE, to develop the Nubix service. Nubix is an Internet service that connects up all the grid companies' customer databases and enables the Meter Point ID Number to be searched on from a single location. The Meter Point ID Number is required in order to effect a change of supplier.

The entire section was laid and jointed in autumn 2007. On the way into the Fedafjord, the cable passed its deepest point at 410 meters.

Nord Pool

Nord Pool power exchange – new trading records

The joint Nordic power exchange, Nord Pool, is the most important exchange for trading electricity in the Nordic countries. In 2007, Nord Pool Spot achieved a market share of 68.9 per cent, which is a new record. Turnover in the electricity spot market totalled 291 TWh, compared with 250 TWh in 2006. Contracts were valued at NOK 72 billion.

The Nordic TSOs use the electricity spot market as the basis for balancing the flow of electricity between the

Nordic countries. This 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.

New trading record in the financial market

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 to manage risk in power trading. The Elspot system price functions as the established reference price for pricing the financially-settled power trade in the Nordic countries.

In 2007, Nord Pool ASA set a new trading record on the exchange with a total of 1 060 TWh, equivalent to a market share of 45.9 per cent of cleared volume in the Nordic countries (without option redemption). Several new product launches led to record-high exchange trading and a record-high number of new exchange members. With 1 060 TWh, Nord Pool had a 38.4 per cent increase in trading over the exchange compared with 2006, where the volume ended at 766 TWh. Total traded and cleared volume for 2007 ended at 2 369 TWh, which is 4.1 per cent up on the year before.

Excluding Nord Pool Spot, contracts worth NOK 648 billion were traded and cleared over the exchange in 2007, compared with NOK 660 billion in 2006. At the end of 2007, Nord Pool had over 319 members in the physical market and 400 members in the financial market.

At the end of 2007, Statnett and Svenska Kraftnät sold the part of Nord Pool that comprises the financial market to the OMX power exchange. This was part of a move to strategically refine the company as an exchange in the Nordic spot market.

New contracts strengthen Nord Pool's position as the leading power exchange

With the aim of strengthening the product portfolio and providing the opportunity for trading and clearing in more markets, Nord Pool launched German and Dutch power contracts in January 2008. In June 2007, Nord Pool also launched PEAK products, based on the Nordic system price. This was primarily in response to physical market members wanting to have the opportunity to guarantee prices and to trade during periods of assumed shortage in the market.

In the carbon emissions market, on 1 June 2007 Nord Pool launched standardised "Certified Emission Reduction" contracts (CERs), which made Nord Pool the first regulated power exchange to facilitate trading in a global carbon product under the auspices of the United Nations (Clean Development Mechanism). The CER contracts were the main reason that Nord Pool attracted as many as 40 new members to the emissions credit market, which at year-end 2007 numbered 121 members. The second-half year figures showed that the launch was a success, with 95.1 million tonnes of CO_2 being traded in 2007, compared with 59.6 million tonnes in 2006.

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.

Statnett Transport

Growing volume of commissions for Statnett Transport

Statnett Transport AS is tasked with discharging Statnett's obligations relating to transport preparedness. For 2007, the company recorded a net profit after tax totalling NOK 5 million, the same as for 2006.

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 MV Elektron, this equipment allows Statnett Transport to undertake complicated, heavy transport commissions to locations that are not easily accessible. The company also has an 18-axle freight wagon for transporting units up to 210 tonnes by rail. 2007 was an excellent year, with many large-scale 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 2007 totalled NOK 49 million, compared with NOK 45 million in 2006. The company recorded a profit after tax for the year amounting to NOK 5 million, same as the year before. The result is largely due to high demand for Statnett Transport's expertise both on land and sea.

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 through among other things new investment and reinvestment.

The company's registered address and head office is Kjerraten 19, 3013 Drammen. Statnett Transport AS has 25 employees.

Corporate social responsibility:

Electricity must get to the consumer – as safely and responsibly as possible

Statnett's operations have an impact on many people, and so we take particular care to act responsibly, in the interest of society. At Statnett, our aim is to operate responsibly and ethically and on the basis of healthy commercial activities. At the same time, our corporate culture is founded on principles of integrity, equality, openness, honesty, innovation and environmental awareness.

Through extensive research and development activities, our wish is to maintain our position as one of the leading transmission system operators in Europe. We are working among other things to make Statnett more efficient and to contribute to the development of environmentally friendly solutions.

We want our relationships with the society around us to be characterised by trust and confidence. This is important not least in connection with many of our major development projects, both locally and nationally. That is why we are ready and willing to listen to what people have to say and to make high demands of ourselves and our partners.

As an employer, Statnett is concerned to provide equal opportunities for both men and women. In a traditionally male-dominated industry, we are working hard to recruit more women to the business at all levels.

New environmental obligations

Climate change is raising new challenges for the electricity sector. We at Statnett are well aware of our responsibility for facilitating the development of a more climate-friendly electricity and energy sector, in line with the goals and strategies of the Norwegian political authorities. In keeping with our expertise and our role in society, we seek to identify possibilities and to show how climate goals can be met most effectively in a manner that is compatible with a robust electricity system.

Statnett has adopted an environmental policy that clearly spells out our obligations and undertakings: ”All our activity will be based on a fundamental attitude of environmental awareness. In all planning, construction and operation of transmission facilities, nature and the environment will be emphasised on a par with functional, technical and economic considerations”.

This policy document also expresses the company’s ambitions for its environmental efforts: ”We will seek to bring about continuous improvement in the area of the environment and undertake to prevent pollution and to satisfy the requirements in the relevant laws and regulations. We regard good environmental performance as an advantage, and we aim to be the leading grid company in this area”. During the course of 2008, Statnett will adopt an environmental strategy designed to take account of climate change and climate policy.

Statnett’s environmental strategy shall:

- Facilitate the development of a more climate-friendly electricity and energy sector

Statnett shall identify possibilities and show how national climate goals can be reached effectively in a manner compatible with a robust electricity system. The ”electrification” of the North Sea, and making manifest the link between a better energy balance in Norway and a reduction of CO_2 emissions in Europe, will be important elements in this endeavour.

- Reduce the environmental and aesthetic impact of Statnett’s grid facilities

Statnett shall establish a policy for laying power lines in underground cables where it is socio-economically profitable and effective to do so, and assist in the development of technology to reduce the costs of cabling and its impact on the landscape. We shall continue our work of utilising the grid more efficiently and to greater effect.

- Lay guide rules for developing credible and viable environmental practices within Statnett

Statnett shall develop its environmental management system further and continue working with its ISO14001 certificate. We shall set stricter environmental requirements for our suppliers and partners, and

Eight transformers have been produced for the NorNed project, four for each country, and each weighing about 250 tonnes.

consider establishing a guarantee of origin for all our own electrical power consumption and for all losses in the grid.

Value-creating research and development

Statnett aims to be an innovative and future-oriented enterprise. We are investing in Research and Development in order both to develop new products, methods and solutions and to develop competence and expertise within key areas of the company. This focus is made manifest in our ambition to spend 1.2 per cent of our annual revenue ceiling on R&D projects and objectives. Our R&D activity makes a significant contribution to value creation within Statnett and within society in general.

Our R&D projects are carried out in close collaboration with external expert environments. Through the EU's R&D Framework Programme, in 2007 we collaborated on a number of projects with other Transmission System Operators (TSOs), the supplier industry and the electricity industry in general, both in the Nordic countries and in Europe. We also collaborate with teaching environments and research institutions, including the energy research company SINTEF Energiforskning in Norway and the STRI research laboratories in Sweden, which are co-owned by Statnett.

Strategic competence development

Statnett's R&D priorities derive from the strategic needs defined in Statnett's group strategy. We aim to develop concrete products, systems and solutions based on specific needs and, through this, to develop and build competence and expertise among our own staff and in external environments.

Our R&D endeavour is organised in large, target-oriented programme areas with participation from all the company's divisions. In total, some 120–140 Statnett employees were involved in executing our R&D programmes in 2007. Highly qualified, committed staff help ensure that the distance is short from research results to practical application in the company's day-to-day work. Statnett gives motivated employees good opportunities to work on research-oriented tasks.

Research results

Statnett's R&D activity comprises projects with both short and long time horizons, within everything from basic research to applied and practically oriented research. The results of our R&D investment are made manifest in the form of greater cost-effectiveness and new environmentally friendly solutions, and through methods and technology which help us increase the quality of supply and security of supply within the company.

Statnett is committed to finding the best solutions, which also visibly address climate and environmental concerns. This will enhance our ability to further develop an efficient Norwegian and Nordic electricity market and to carry out the necessary expansion and development of the Main Grid.

Motivated employees

Statnett's vision is to be Europe's leading transmission system operator. To realise this vision, we need committed and competent employees. Accordingly, our policy is to invest heavily in systematic competence development and to anchor our corporate strategies and values in our employees. Statnett's managers are judged on whether they hold regular staff performance assessment interviews and what benefit staff get from these interviews, and whether they prepare and carry out competence development plans.

Statnett wants the kind of management with the ability to inspire and develop their staff and, in order to accomplish that, regular internal management seminars are held. In the past few years, all managers have undergone a comprehensive management training programme, focusing on practical management skills, goal- and performance-oriented management, and good communication. Statnett carries out regular surveys to measure employee satisfaction. These surveys also measure motivation and employees' perception of how Statnett's management requirements are complied with. The most recent staff survey, in the autumn of 2007, showed an overall satisfaction score of 83.5 per cent.

Internal mobility

Statnett fully supports the spread of competence and competence development across all divisions of the company, and practises an internal mobility scheme. In 2007, 31 employees changed jobs internally within the Statnett Group. Initiatives have been taken to systematise this internal mobility further.

In the current labour market it is a challenge for Statnett to retain and recruit skilled staff. In 2007 we had an overall staff turnover of 4.6 per cent, excluding those who retired. We are also seeing fewer applicants for vacant positions.

With the present state of the labour market in Norway, we need a strategy in order to be, and to be perceived as, an attractive employer. One of a number of areas in which Statnett is addressing this issue is our own internal development programme (PULS) aimed at young, talented and development-oriented staff. A new PULS programme was launched in 2007. In the autumn of 2008 we plan to start up a new trainee scheme aimed at attracting talented young graduates from universities and university colleges. We will also continue our trainee programme in cooperation with SINTEF (Foundation for Scientific and Industrial Research at the University of Trondheim), the Norwegian Electricity Industry Association (EBL), the Norwegian Water Resources and Energy Directorate (NVE), and a number of grid companies in the industry.

Our collaboration with universities and university colleges will be even more important in the coming years. Our activities are directed particularly at the technical departments of the Norwegian University of Science and Technology in Trondheim (NTNU) and the colleges of advanced engineering, especially those offering electrical subjects, as well as other college and university departments offering energy and environmental sciences. We will in addition consider attracting more staff from abroad.

Equality and diversity

Statnett works systematically to recruit women to management and technical positions. We have 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

employees with young children, and practises flexible working hours. Our recent staff survey shows that both sexes believe that women and men have equal opportunities at Statnett.

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 taken part 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. Statnett will continue to participate in this programme in 2008.

A safe and secure workplace

Statnett rarely experiences mishaps or accidents in connection with its construction, operational or maintenance activities. In 2007 we registered a total of six cases of work-related injury among our own personnel. This gave the Statnett Group (including Statnett Transport) a lost time injury rate (H value) of 4.3 per cent. Despite our attitude-forming efforts, we must nevertheless expect many near-accidents and undesired events not to be reported.

Statnett has initiated or carried out a number of different measures in the area of health, safety and environment (HSE) in the past couple of years, including:

- Competence-raising measures, increased use of resources, and improved procedures in connection with exercising our owner's responsibilities on projects.
- Stronger focus on HSE in audits at suppliers and contractors, and in our own activities.
- Stricter HSE requirements when executing procurements.
- Investigations to increase the standard of fire safety in general, in addition to two pilot projects aimed at strengthening access security through the installation of monitoring equipment.
- Integration of risk management in our operational management, which involves "all Statnett managers undertaking to know the risk of the activity they are responsible for, and taking measures to control the risk".
- Holding an annual HSE forum for local safety representatives, working environment committees and HSE advisers, focusing on topical themes within the area.
- Increased resources for the safety officer's post.

In addition, instructions have been prepared for the operation of snowmobiles and other cross-country vehicles, and work has been started on formalising the requirements for work at heights.

Statnett's commitment to culture

Statnett is involved in a number of different cultural activities. We believe that good cultural experiences are energising and contribute to greater well-being and motivation among our employees. Statnett wants to help employees get involved with their local sports organisations or other cultural activities. In 2007, we awarded grants for children's and young people's activities to 25 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 the 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.

Statnett also views its cultural involvement as an opportunity to promote the company to potential new employees. In that connection, we have entered into a three-year agreement with the Norwegian Concert Institute. Sponsored by Statnett, the Institute tours Norway twice a year putting on performances with internationally renowned artists. Statnett sees this as an opportunity to reach out with information to highly educated young people and to motivate them to apply for a job with us when they have completed their studies. Our partnership with the Norwegian Concert Institute also permits Statnett employees to attend other cultural events organised by the Institute.

The ethics ombudsman scheme

In 2006, Statnett appointed its own 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. His or her task is also to 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.

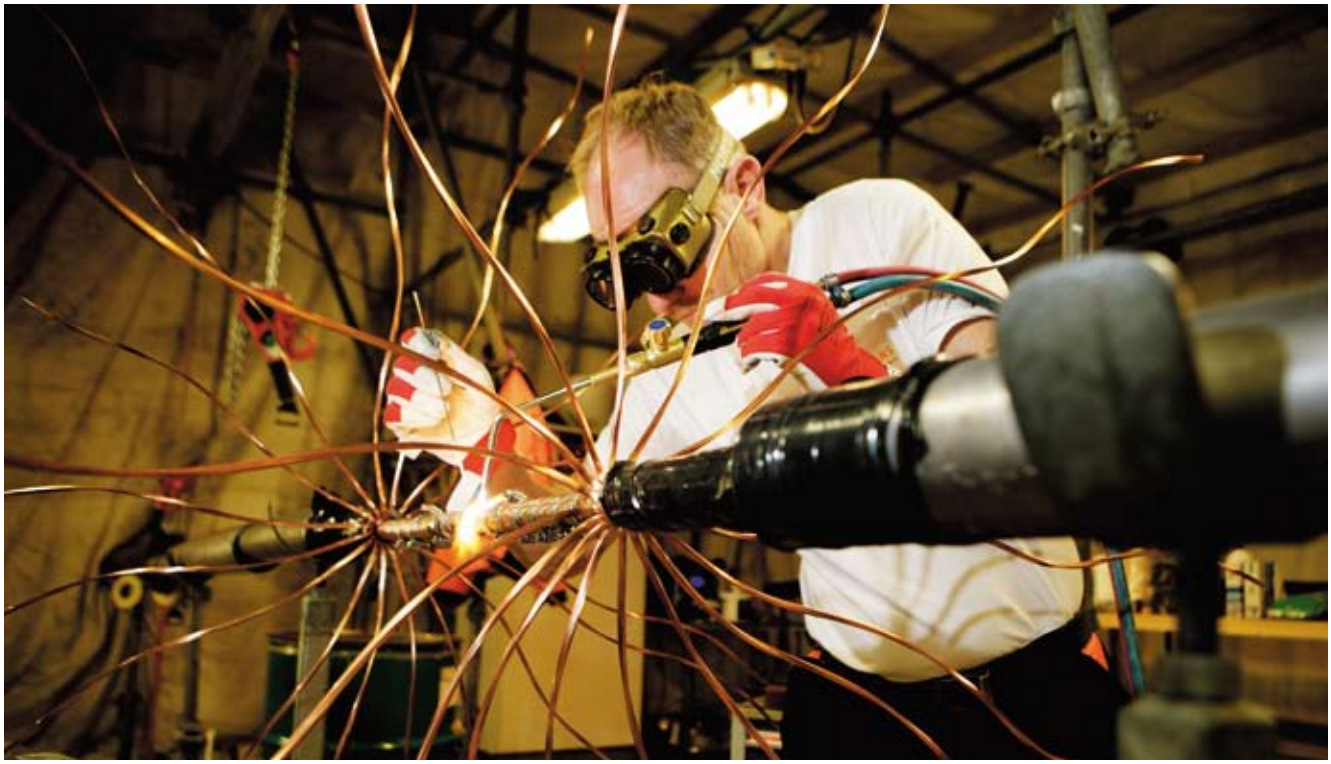
Position of trust

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. Ethical problems should be dealt with initially within the line organisation, for example by the employee taking the matter up with his or her immediate superior. All employees may contact the Ethics Ombudsman directly and anonymously, without risk of reprisal.

On 1 January 2007, new provisions with regard to notification or "whistleblowing" came into force as an amendment to the Working Environment Act. The post of Ethics Ombudsman aims to satisfy the new requirements of the Act as regards notification. It is important that any employee seeing the need to issue a warning or "blow the whistle" on any censurable conditions in the business should be able to do so anonymously, and that he or she should be protected by the Statnett Group Management and Board if the person concerned wishes to speak out. The connection between the confidence felt by staff in the Ethics Ombudsman and the way in which the Ombudsman executes his or her duties is important for the scheme to be a success.

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



The eight cable sections of which NorNed consists, have been jointed together. Seven of the joints were executed at sea under periodically very severe weather conditions. Other jointing was also done, as shown in the picture, to connect the cable to the land facilities.

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.

In 2007, the Ethics Ombudsman drafted new ethical guidelines for Statnett, in cooperation with the trade unions and the employer. The Ombudsman reports annually the number of requests for assistance and matters that have been dealt with. In 2007 the Ombudsman received about 30 concrete requests from employees for a particular issue to be taken up. A common feature of many of these requests is that employees are seeking assistance before ”the damage is done” and want guidance in order to be better armed when they see a potential ethical dilemma approaching.

In addition to these specific cases, a number of requests for assistance of a simpler and more informal nature, as well as feedback on other matters, are also received. The Ombudsman held a number of internal talks within the business in 2007.

Strict requirements for partners

Statnett is involved in a phase of substantial investment, which will continue for at least another ten years. During this period we plan to build power lines, cables and transformer stations and to invest in equipment for a total of approximately NOK 19 billion. This means that Statnett is dependent on a well-functioning market of high-quality professional suppliers, both locally and globally.

We co-operate with competitive suppliers, who can make our projects cost-effective. We demand not only high quality but also high ethical standards from our suppliers. We also require our suppliers to have an environmental and security focus throughout the entire supply chain, both as regards employees and the surrounding milieu. 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 to deal seriously with environmental concerns.

Our procurement principles are based on openness, transparency, predictability and equal treatment in relation all our suppliers.

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 deliberation, and before we invite tenders. As part of our process of continuous improvement, we frequently organise feedback meetings for suppliers whose tenders are not accepted, so that they have the opportunity to improve by the next tender process.

We carry out quality audits during the project implementation phase, and we also give feedback to suppliers once delivery is completed.

The facility at Feda, which was completed in 2007, connects NorNed to the Norwegian power grid. NorNed has a total cost framework of NOK 4.6 billion, and is owned 50/50 by Statnett and TenneT. At its height, several hundred people were involved in the project, which will transmit electricity to Norwegian and Dutch consumers.

NorNed shows the way

The NorNed cable between Norway and The Netherlands is the world's longest submarine electricity interconnector, and binds Norway closer to the European electricity market. It is the largest project ever undertaken by Statnett, and an important piece of a big jigsaw puzzle to integrate the entire European electricity market.

The NorNed cable is 580 km long, approximately twice the length of the world's second-longest subsea cable to date, between Tasmania and Australia. It has been a huge project, ten years in the planning and taking more than three years to build. Many hundred individuals have been involved, at the two partners Statnett and its Dutch TSO counterpart, TenneT, and at the numerous subcontractors.

Never before has an electricity cable been laid at sea over such a long distance and under such extreme weather conditions as in this project. It has involved seven planned cable splices at sea, a new world record. At the same time, the combination of handling cable at sea and the difficult weather conditions has created enormous challenges, which have given rise to delays.

Up until now, Norway has been the Nordic nation, and one of the countries of Europe, with the least capacity for electricity import and export with other countries. At the same time, there has been little capacity for power exchange with countries with the kind of generation that is not affected by precipitation volumes. Norwegian electricity production is 99 per cent hydro-based, while gas power dominates the picture in The Netherlands. That makes for an excellent combination.

Powerful connection

For Statnett, the main purpose of NorNed is to help bring stable electricity supplies to Norwegian consumers also during dry periods. NorNed has a capacity of 700 MW and will boost the Norwegian power exchange capacity by 15–20 per cent. As a result, the electricity supply in Norway and The Netherlands will not only be more reliable, but the cable will also help strengthen the electricity markets, both in the Nordic countries and in the Netherlands/Belgium/France market coupling. This will mean more competition and less power exercised by some suppliers, which is positive for the consumer.

The EU has resolved to establish an integrated European electricity market. The Nordic countries have already set up such a market. France, Belgium, The Netherlands, Luxembourg and Germany are now working towards establishing a regional market among themselves, which is hoped to take effect at the start of 2009. The plan is then to couple the Nordic electricity market with this Continental market. A proposal to build a link between The Netherlands and England has also been adopted, which is planned to become commercially operational in 2010.

Although NorNed is only a small element in this larger context, it is important for further developments. It is the biggest investment in a submarine electricity cable that has ever been made aimed at integrating the electricity markets within the EU.

Reduced CO_2 emissions

The new cable to the Continent means not only a more reliable electricity supply for Norway and a closer integration of the European electricity market but, as mentioned, Statnett's and TenneT's cable between Norway and The Netherlands will permit greater opportunity for the import and export of hydropower, thermal power and wind power. It also contains the possibility of co-ordinating electricity generation between renewable energy and thermal power-based generation. This can have positive environmental effects.

Hydropower generation is easy to regulate, while starting up and stopping a thermal power facility takes time and is very expensive. Co-ordinating electricity supply between Norway and The Netherlands will chiefly involve Norwegian hydro-based electricity being sent to The Netherlands to cover the high demand in the daytime, while electricity will be sent from The Netherlands to Norway during the night. This will avoid starting and stopping thermal power plants.

In the longer term, the positive environmental effects can be reinforced inasmuch as greater access to hydropower, which is a flexible resource, can contribute to greater generation of wind power in The Netherlands.

Ownership and Corporate Governance

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

Statnett's 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.

Statnett Group Management

Gun Bente Johansen
Executive Vice President
Corporate Staff

Gun Bente Johansen came to Statnett from a position as partner with Hartmark Consulting AS. She was formerly Vice President with responsibility for corporate staff and related commercial activity at Telenor ASA. Johansen has a Degree in Psychology, and also holds an MBA in Financial Control and Management.

Peer Olav Østli
Executive Vice President
Information and Telecommunication Technologies (ICT)

Østli has 20 years' experience of technology management from the telecom, media and IT industries, including various positions with Telenor and Schibsted. His most recent post was as head of the Norwegian Broadcasting Corporation's Technology Department. Østli holds a Cand.Scient. (Master of Science) Degree in Informatics and also has post-graduate management training from Henley Management College.

Odd Håkon Hoelsæter
President and CEO

Odd Håkon 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. Hoelsæter is Vice Chair of the board of Nord Pool ASA and also sits on the board of Nordel. He is a former board member of NAVO and Gassco AS.

Gunnar G. Løvås
Executive Vice President Grid Development and Investment

Gunnar Løvås has been with Statnett for 12 years. His career began in the Power Systems Division, before moving to Grid Operations, and he was most recently departmental head of the Investment and Project Development Department. Løvås is a Graduate Engineer with a PhD in Mathematics.

Bente Hagem
Executive Vice President
Commercial Division and acting CFO

Bente 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. Since 2001 Hagem has been 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 has a seat on the board of the Norwegian Confederation of Business and Industry (NHO).

Håkon Borgen
Executive Vice President
Technology & Project (T&P)

Borgen is a Graduate Engineer in Electrical Power from the Norwegian Institute of Technology (NTH), with a Master's Degree module in Project Management from BI Norwegian School of Management. He was previously divisional manager at BKK and has held several senior executive posts at Statnett, most recently as head of Grid Operations. T&P is responsible for supplying internal engineering services and for implementing Statnett's investment projects. Borgen is currently a member of the board of the technology company SWAY and a deputy member of the board of Nord Pool Spot.

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.

Øivind Kristian Rue
Executive Vice President Grid Operations

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 Operations Division, which is responsible for managing the operation of the Norwegian power system and joint operations with other Nordic countries.

The User Council 2007

MEMBERS

Karstein Sandvik (Chair),
nominated by Consumer Council of Norway

Ada Solberg (Vice Chair),
nominated by EBL (Norwegian Electricity Industry Association)

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

Caroline Lund,
nominated by FSN (Forum for Strategic Grid Development)

Hans Olav Ween,
nominated by EBL

Statnett's Board of Directors

Kjell Olav Kristiansen
Vice Chair of the Board of Directors

Kjell Olav Kristiansen holds a Master's Degree in Economics from the University of Oslo and has served on the Board of Statnett since 2000. He has long experience from the public sector in the sphere of energy, 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.

Christine Meyer
Christine Benedichte Meyer is a member of the Executive Board of Bergen City Council, with responsibility for finance, competition and restructuring, and currently has leave of absence from her post as senior lecturer at the Norwegian School of Economics and Business Administration in Bergen (NHH). Meyer was formerly State Secretary at the Norwegian Ministry of Labour and Government Administration from 2001 to 2003. She has also been Vice Rector for International Affairs at NHH. Meyer holds a PhD in economics and business administration from NHH. She became a member of the Board of Statnett in 2005. Meyer specialises in mergers and acquisitions, strategic analysis and strategic change.

Svein Rennemo
Chair of the Board of Directors

Svein Rennemo was elected Chair of the Board of Directors of Statnett in 2005. He is President and CEO of Petroleum Geo-Services ASA until 1 April 2008, was formerly President and CEO of Borealis, and has held several senior executive posts at Statoil. Rennemo holds a Master's Degree in Economics from the University of Oslo, and as a non-executive director has served on a number of boards in Norway and abroad. He has recently been elected as Chair of the Board of StatoilHydro.

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 in Norway and abroad, and has been a member of Statnett's Board since 2004.

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





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.

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

Kirsten Faugstad
Kirsten Faugstad is a Master of Science 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 depart-mental head in Statnett's Technology & Project Division and has served as an employee representative on Statnett's Board since 2004.

Board of director's report:

Statnett's investment and development activity continued to grow in 2007

The Statnett group invested just under NOK 3 billion in 2007. A number of new investment projects are planned to meet the demands of increased electricity consumption and generation.

The Statnett Group posted a net profit after tax for 2007 totalling NOK 651 million, compared with NOK 163 million for 2006. One reason for the rise in profits is the introduction of a new revenue regulation system as of 2007. The new system provides a more rapid updating of revenue linked to investment, and is therefore better suited to the need for increased investments in the grid. Another reason for the improved result is a reduction in the depreciation charge as a consequence of a change in measurement of the economic life of assets.

The electricity situation through the year has been characterised by high precipitation and well-filled reservoirs, which have given a marked boost to electricity generation and net electricity exports.

The Statnett Group had six lost-time injuries in 2007.

QUALITY AND SECURITY OF SUPPLY

Aggregate power consumption in 2007 was approximately 127 TWh, which is four per cent up on the previous year. Aggregate power generation rose by almost 13 per cent to approximately 137 TWh, resulting in a net export of approximately 10 TWh. The supply situation was good for the country as a whole.

The resource situation caused some congestion, particularly out of South Norway. As a result, the spot price in South Norway was eight per cent below the average system price in 2007, which was NOK224/MWh.

Quality

Statnett's target is to ensure that no end-user is without electricity for more than two hours at a time, or disconnected for more than 1000 MW, owing to a fault in Statnett's transmission

facilities. This target was achieved for the year, with the exception of an incident in June when an industrial customer was without power for two hours and twenty minutes due to a fault in Statnett's grid.

Total KILE costs for 2007 were NOK 16.0 million, a decrease of NOK 1.8 million compared with 2006. KILE is the quality-adjusted revenue ceiling for the amount of undelivered energy (outages) in MWh multiplied by the socio-economic cost of outages.

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 clarifying and developing the necessary measures to manage periods when there is a tight or very tight power situation. With the approval of the authorities, Statnett has therefore invested in two mobile gas power plants, each producing 150 MW. The plants will be on standby for contingency use and will only be employed in very tight power situations, i.e. if there is a more than 50 per cent likelihood of power rationing.

INVESTMENTS

Operations during the year were dominated by a number of substantial investment projects, at both the planning and implementation stage. These investments have been necessary partly in response to the high increase in consumption in some parts of the country where generation capacity is insufficient to meet the increased demand. There are also a large number of plans for investment in wind farms and other new electricity generation that will require increased transmission capacity.

Investment projects under construction

NorNed

The North Sea cable between Norway and The Netherlands (NorNed) is 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 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 2.5 billion, including onshore facilities. NorNed was expected to be completed by the end of 2007, but during testing in December a fault was discovered on the cable. The cable is currently being repaired and is expected to become operational in spring 2008.

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 dates from 1969. The new preparedness vessel was planned for completion in 2007, but is delayed. Delivery is now expected in spring 2008. The building costs of the vessel are estimated at about NOK 200 million.

Trøndelag – Sweden

The new 420 kV power line between Nea in the county of Trøndelag and the border with Sweden is 25 km long and will 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 entire project is scheduled for completion in 2009.

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. It has been decided in that connection to invest in two reserve power generation plants to assure the power supply in Central Norway. The reserve power plants will remain on standby for contingency purposes and will only be used in very tight power situations. The plants will be located at Tjeldbergodden and Nyhamna and have a capacity of 150 MW each.

The plants are now scheduled for completion during the first half of 2008. Both plants are delayed, and a considerable increase in costs is expected compared with the original plan. This is because the work required locally to prepare the site has been substantially more complex than expected, particularly as regards bringing the gas pipeline from the Ormen Lange facility to the reserve plant site at Nyhamna.

Both plants will be run on natural gas. In line with the licensing conditions, Statnett will also consider the future possibilities of running them on biodiesel fuel. Statnett has been awarded licences to build and operate both the reserve generation plants, as well as CO_2 emission permits for both.

Skåreheia – Holen in Setesdal

The new 420 kV power line running through the valley of Setesdal from Skåreheia in Birkenes municipality to Holen power station in Bykle municipality will be 100 km long and is estimated to cost approximately NOK 900 million. This project is important in order to maintain security of the electricity supply in South Norway. In addition to accommodating increased needs arising from regional energy

development plans, the new interconnector will contribute to the transmission of electricity to and from the subsea cables linking Norway and the Continent. The project is expected to be completed during autumn 2008.

Projects for which licence applications are pending

Eidfjord – Samnanger in Hordaland
Statnett has applied for a licence to build a new 420 kV power line between Eidfjord and Samnanger in the county of Hordaland, as well as the necessary connection in the Sima power plant and expansion of Samnanger transformer station. A new line can help assure a continued reliable supply of electricity to the area between Sunnhordland and Sogn. The new interconnector will be approximately 90 km long and is estimated to cost around NOK 500 million.

Ørskog in Møre og Romsdal – Fardal in Sogn og Fjordane
Statnett has applied for a licence to build a new 420 kV power line between Ørskog municipality in Sunnmøre and Fardal in Sogn. The interconnector with the requisite transformer stations will be about 300 km long and cost approximately NOK 2.5 billion. The licence is being sought owing to a growing electricity shortfall in Central Norway and plans for new power generation in the county of Sogn og Fjordane. The new line is expected to help improve security of supply to industry and households in the counties of Møre og Romsdal and Sogn og Fjordane, while also facilitating the development of planned wind power and small-scale hydropower plants in Sogn og Fjordane.

Namsos – Roan in Trøndelag
Statnett has applied for a licence to build a new 420 kV power line between Namsos and Roan in the county of Trøndelag. The power line with the requisite transformer stations will be about 82 km long and cost approximately NOK 500 million. The line may be needed in the event of a substantial increase in wind power development.

Projects for which planning proposals have been submitted

Balsfjord – Hammerfest
Statnett has submitted a planning proposal to the authorities describing plans to construct a new 420 kV power line between Balsfjord in the county of Troms and Hammerfest in the county of Finnmark. A new power line between Balsfjord and Hammerfest, if built, will provide greater capacity in the power grid and a more reliable electricity supply. The line may be needed in the event that the power requirement following the expansion of the Snøhvit natural gas extraction facility at Melkøya ("Phase 2") has to be met by power supplied from outside. It may also help facilitate the possible development of more wind power in the region. The entire project is estimated to cost approximately NOK 2.3 billion.

FINANCIAL RESULTS

New accounting policies

Statnett's annual financial statements are based on International Financial Reporting Standards (IFRS) as of 2007. The comparative figures for 2006 have been restated correspondingly. The effect of the transition from Norwegian accounting standards to IFRS is described in a transitional report and in the notes to the financial statements.

Operating revenues

The Statnett Group recorded operating revenues for 2007 totalling NOK 3 415 million, which is NOK 210 million up on 2006.

Of operating revenues, power transmission accounted for NOK 3 263 million. Power transmission revenues consist of Statnett's revenue ceiling, which is regulated by the Norwegian Water Resources and Energy Directorate (NVE), and the lower or higher revenue for the year.

The year produced higher revenue relative to the revenue ceiling totalling NOK 20 million. Accumulated lower revenue at year-end 2007 totalled NOK 293 million. The accumulated lower revenue will be added to the tariffs in coming years. In accordance with the current accounting policies, accumulated lower or higher revenue will not be carried in the balance sheet.

Other operating revenues for 2007 amounted to NOK 152 million. Other operating revenues for 2006 were NOK 191 million higher, chiefly as a result of revenues earned from the construction of the Fræna-Nyhamna transmission line on behalf of Hydro ASA.

Operating costs

The Statnett Group recorded operating costs for full-year 2007 totalling NOK 2 390 million, which is NOK 507 million down on 2006. The most important reasons for the decrease in costs from last year are lower electricity prices for transmission losses and lower depreciation owing to the remeasurement of the economic life of assets. Furthermore, the accounts for 2006 were charged with operating costs linked to the construction of the Fræna-Nyhamna power line on behalf of Hydro ASA. Wage costs rose during the year, among other things as a result of a revaluation of future pension costs. The write-down charge for the year was NOK 20 million, compared to NOK -7 million for 2006.

Results

The Statnett Group's operating profit for full-year 2007 ended at NOK 1 025 million, compared with NOK 308 million for 2006.

Net financial costs for the Group for 2007 totalled NOK 307 million, as against NOK 242 million the year before. The rise in net financial costs is owing to a higher level of interest rates and an increase in interest-bearing debt.

The Group recorded a net profit after tax of NOK 651 million for 2007, compared with NOK 163 million for 2006.

Investments

Statnett SF invested a total of NOK 2 982 million in the business in 2007, compared with NOK 2 180 million in 2006. NOK 1 460 million was invested in new power lines, cables and transformer stations. Reinvestment in the existing Main Grid totalled NOK 316 million and other investments, relating chiefly to the reserve generation plants, came to NOK 1 206 million.

Cash flow and balance sheet

Operating activities in the Statnett Group produced a cash flow for 2007 amounting to NOK 1 856 million. The Group carried out investments during the year totalling NOK 2 988 million. Loan repayments amounted to NOK 2 814 million, and new borrowings totalled NOK 4 377 million. In 2007, Statnett came to an agreement with the European Investment Bank to borrow EUR 140 million. The loan will be drawn during the first half of 2008.

At 31 December 2007, the Group's liquid assets and securities totalled NOK 1 038 million, which is NOK 248 million up on the year before. At the end of the year, the Group's total assets amounted to NOK 16 439 million, compared with NOK 13 938 million on 31 December 2006.

The Group's equity totalled NOK 5 562 million at year-end 2007, compared with NOK 4 907 million at year-end 2006. The parent company's non-restricted equity is NOK 2 281 million. The Group's equity ratio at year-end was 33.8 per cent, compared with 35.2 per cent at year-end 2006.

Financial risk

Statnett has established a finance policy and a framework for financial management, including limits for credit risk, settlement risk and counterparty risk. Control procedures have been established which are carried out independently.

Statnett aims to be able to fund 12 months' operations, investment and refinancing without incurring any new debt. The company has a credit facility totalling NOK 2.0 billion which runs until 2012 and which 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 2007.

Statnett's revenues are in Norwegian kroner (NOK). Revenues from grid operations are exposed to changes in interest rates because the regulated return on the grid capital is directly dependent on the interest rate on Norwegian government bonds. The return on grid capital is 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 credit ratings of AA- and Aa3 from Standard & Poor's and Moody's Investor Service respectively. All loans raised before 2003, which had a balance of NOK 1 087 million at year-end 2007, 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 2.8 million for 2007.

New transit agreement

In 2007, a new transit agreement was negotiated between 34 countries in Europe. The agreement is for the years 2008 and 2009, and will subsequently be replaced with a more long-term solution. The agreement will cost Norway approximately EUR 17 million annually, and for Statnett will mean less uncertainty linked to financial results than in previous agreements.

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 2007 totalled

NOK 49 million, as against NOK 45 million the year before. The company had a net profit after tax of NOK 5 million, the same as for 2006.

The Nordic power exchange, Nord Pool

The Nord Pool Group contributed a net profit after tax of NOK 58 million to Statnett's earnings for 2007, compared with NOK 44 million the year before.

Nord Pool ASA, which is 50 per cent owned by Statnett SF, has entered into an agreement with OMX for the sale of the larger portion of its operations for approximately NOK 2.3 billion. Further, Nord Pool ASA has entered into an agreement with Eurex in 2008 for the sale of its 17.39 per cent stake in the EEX power exchange for the sum of EUR 46 million. Both transactions are expected to be completed in mid-2008, and will affect results at the date of implementation. The shares in EEX have however been carried at fair value (transaction value) in the Group's balance sheet for 2007.

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. As a direct consequence of Statnett's environmental policy, changes have been made to the plans for the new power line between Ørskog and Fardal. These changes will provide increased capacity for new renewable energy, and also enable old regional interconnectors to be pulled down without having to build new ones to replace them.

During the year, Statnett entered into partnership with ABB and Siemens to develop new, competitive, high-voltage direct-current cable technology, known as HVDC VSC technology. The advantage of this technology is that it will be cheaper and require less space than other cable technology.

Statnett is certified in accordance with ISO 14001:2004 Environmental Management Systems. Hazardous materials are handled in accordance with the authorities' requirements and guidelines. Statnett takes seriously the question concerning the possible health effects of power lines, and pursues a 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.

Research and Development

Statnett aims to spend 1.2 per cent of its annual revenue ceiling on Research and Development (R&D). The R&D activity is divided into five areas of concentration which together consist of a large number of sub-projects. Several programmes were started up in 2006 and will be completed in 2008. Among other things, we are working on a prototype installation of a new type of pylon with a completely new design and environmental properties, the first testing out of maintenance work on live transmission lines (AUS), and testing out of a monitoring system designed to provide increased quality of delivery in the Norwegian and Nordic electricity system (PMU).

Employees

At the turn of the year 2007/2008, the parent company Statnett SF had 664 full- and part-time employees, as against 613 the year before. The total number of full-time equivalents (FTEs) was 647, compared with 596 in 2006. The increase in staff is chiefly owing to the reversal of previously contracted personnel, strengthening of the contingency function in the Maintenance Division, and an increased workload in connection with planning and executing investment projects.

During the year, Statnett increased its focus on follow-up of its responsibilities as owner, and tightened up HSE requirements with suppliers and sub-contractors, including the reporting of near-accidents.

Sickness absence in the parent company in 2007 was 3.7 per cent, compared with 3.9 per cent in 2006. Overall sickness absence in the Group was 3.8 per cent.

In 2007 Statnett SF had four lost-time injuries and Statnett Transport had two lost-time injuries, while Statnett's subcontractors had four lost-time injuries. There were no fatalities. The "H value" (lost-time injury frequency rate) for 2007 was 3.6 for Statnett SF and 4.3 for the Group as a whole.

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 2007 show that 21.5 per cent of Statnett's employees are women. Women filled 25 per cent of all managerial positions (including substation managers and transmission line masters) in 2007, up by five percentage points on 2006. Women worked on average 92 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 (Oslo Stock Exchange) and the London Stock Exchange. The Board has resolved that Statnett shall comply with 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 continued to maintain the post of Ethics Ombudsman, which was established in 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 continue to be dominated by the high level of investment.

The Group's results for 2008 are expected to be higher than for 2007, chiefly owing to the sale of the operations in NordPool ASA. Operating costs are expected to increase as a result of large-scale investment projects becoming commercially operational.

The new revenue regulation model, which came into force in 2007, is well adapted to a higher level of investment at Statnett. Statnett's revenue ceiling is set partly on the basis of efficiency measurements. The regulator will carry out a new efficiency measurement of Statnett in 2008. To enable Statnett to achieve a reasonable return on its invested capital in the future, the company must endeavour to maintain and develop further its position as one of the most cost-effective transmission system operators in Europe.

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

Pursuant to the deliberations on Parliamentary Bill No. 1 (2006-2007), the established long-term dividend policy of 50 per cent of the Group's net profit after tax was extended up until 2010 inclusive.

In the deliberations on Parliamentary Bill No. 1 (2007-2008), the basis for the 2007 dividend was changed to the Group's net profit after tax adjusted for changes in higher/lower revenue after tax.

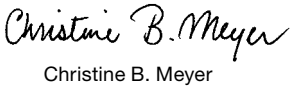
The Board therefore recommends on the basis of the above that the net profit from Statnett SF be allocated as follows:

Amounts in NOK million:	
Dividend	318
Transfer to other equity	280
Total:	**598**

Oslo, 31 March 2008
The Board of Directors

Svein Rennemo
Chair of the Board of Directors

Kjell Olav Kristiansen
Vice Chair of the Board of Directors

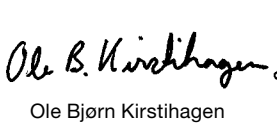


Christine B. Meyer

Grethe Høiland

Thor Håkstad

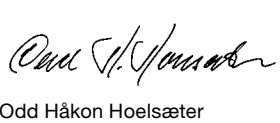
Heidi Ekrem



Ole Bjørn Kirstihagen

Steinar Jøråndstad

Kirsten Faugstad



Odd Håkon Hoelsæter
President and CEO

Income statement

PARENT COMPANY				GROUP	
31.12.06	31.12.07	(Amounts in NOK million)	Note	31.12.07	31.12.06
		OPERATING REVENUES			
3 122	3 243	Power transmission	2	3 243	3 122
-260	20	Higher/lower revenue for the period	2	20	-260
318	124	Other operating revenues	2	152	343
3 180	**3 387**	**Total operating revenues**		**3 415**	**3 205**
		OPERATING COSTS			
391	413	System services	3	413	391
810	525	Transmission losses		525	810
322	399	Wage costs	4,5,6	413	336
697	509	Depreciation & write-downs tangible fixed assets	7,8	510	698
670	541	Other operating costs	9	529	662
2 890	**2 387**	**Total operating costs**		**2 390**	**2 897**
290	**1 000**	**Operating profit/loss**		**1 025**	**308**
-	-	Income from joint ventures and associated companies	12	58	44
93	123	Financial income	10	104	94
242	305	Financial costs	10	307	242
141	**818**	**Profit before tax**		**880**	**204**
36	220	Tax	11	229	41
105	**598**	**Net profit for the period**		**651**	**163**
		Disclosure of dispositions:			
152	318	Provisions for dividends		318	152

Balance sheet

PARENT COMPANY				GROUP	
31.12.06	31.12.07	(Amounts in NOK million)	Note	31.12.07	31.12.06
		ASSETS			
		FIXED ASSETS			
156	43	Deferred tax assets	11	6	121
9 662	9 827	Tangible fixed assets	7	9 833	9 667
2 115	4 442	Plants under construction	8	4 442	2 115
49	49	Investment in subsidiaries	12	-	-
102	102	Investment in other group companies	12	520	334
149	144	Fixed asset investments	10	144	149
12 233	**14 607**	**Total fixed assets**		**14 945**	**12 386**
		CURRENT ASSETS			
758 453		Trade account & other short-term receivables	10, 13	456	762
374	325	Investment in market-based securities	10	562	605
160	440	Liquid assets	10	476	185
1 292	**1 218**	**Total current assets**		**1 494**	**1 552**
13 525	**15 825**	**Total assets**		**16 439**	**13 938**
		EQUITY AND LIABILITIES			
		EQUITY			
2 700	2 700	Contributed capital		2 700	2 700
1 827	2 281	Other equity		2 862	2 207
4 527	**4 981**	**Total equity**		**5 562**	**4 907**
		LONG-TERM LIABILITIES			
312	331	Pension liabilities	6	334	314
-	-	Other liabilities		23	21
7 077	6 732	Long-term interest-bearing debt	10, 15	6 732	7 077
7 389	**7 063**	**Total long-term liabilities**		**7 089**	**7 412**
		CURRENT LIABILITIES			
675	2 577	Short-term interest-bearing debt	10	2 577	675
862	1 093	Trade accounts payable & other short-term debt	10	1 093	867
72	111	Tax payable	11	118	77
1 609	**3 781**	**Total current liabilities**		**3 788**	**1 619**
13 525	**15 825**	**Total equity and liabilities**		**16 439**	**13 938**

Oslo, 31 March 2008
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

Statement of changes in equity

PARENT COMPANY			GROUP	
31.12.06	**31.12.07**	(Amounts in NOK million)	**31.12.07**	**31.12.06**
2 700	2 700	Contributed capital	2 700	2 700
1 782	1 827	Other equity	2 207	2 104
4 482	**4 527**	**Equity opening balance**	**4 907**	**4 804**
105	**598**	**Net profit/loss for the period**	**651**	**163**
27	8	Change in value, cash flow hedges	8	27
-	-	Change in value, assets held for sale	148	-
-87	-152	Dividends paid	-152	-87
-60	**-144**	**Total adjustments directly against equity**	**4**	**-60**
4 527	**4 981**	**Equity closing balance**	**5 562**	**4 907**
152	318	Provisions for dividend	318	152

Cash flow statement

PARENT COMPANY			GROUP	
31.12.06	**31.12.07**	(Amounts in NOK million)	**31.12.07**	**31.12.06**
		CASH FLOWS FROM OPERATING ACTIVITIES		
141	818	Profit before tax	880	204
-6	-9	Loss/ gain(-) on sale of fixed assets	-9	-6
697	509	Ordinary depreciation and write-downs	510	698
273	363	Interest for the period recognised on income statement	361	273
31	26	Interest received for the period	28	31
-315	-369	Interest paid for the period	-369	-315
-1	417	Change in trade accounts receivable/ payable	405	1
220	36	Change in other accruals	50	200
1 040	**1 791**	**Net cash flow from operating activities**	**1 856**	**1 086**
		CASH FLOW FROM INVESTING ACTIVITIES		
23	10	Receipts on sale of tangible fixed assets	10	23
-861	-655	Payments on purchase of tangible fixed assets and intangible assets	-661	-863
-1 319	-2 327	Change in plants under construction	-2 327	-1 319
9	-	Change in short-term loan receivables	-	9
-	-	Change in investments, equity method	-41	-11
-2 148	**-2 972**	**Net cash flow from investing activities**	**-3 019**	**-2 161**
		CASH FLOWS FROM FINANCING ACTIVITIES		
3 163	4 377	Receipts on new interest-bearing debt	4 377	3 164
-2 400	-2 814	Repayments of interest-bearing debt	-2 814	-2 400
482	128	Receipts on sale of marked-based securities	260	636
-90	-78	Payments on purchase of marked-based securities	-217	-267
-87	-152	Dividends paid	-152	-87
1 068	**1 461**	**Net cash flows from financing activities**	**1 454**	**677**
-40	**280**	**Net cash flow for the period**	**291**	**-398**
200	160	Cash and cash equivalents at start of period	185	214
160	440	Cash and cash equivalents at close of period	476	185

Restricted tax deductions payable amounting to NOK 34 million for the Parent Company and NOK 35 million for the Group are included in cash and cash equivalents at 31 December 2007.

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

Notes

Note 1 – IFRS Accounting Principles

GENERAL

Statnett SF (the Parent Company) is a Norwegian state-owned enterprise that was formed on 20 December 1991. The sole owner of the enterprise is the Norwegian State through the agency of the Royal Ministry of Petroleum and Energy (OED). Statnett issues listed bonds. Statnett's registered head office is at Husebybakken 28B, 0379 Oslo.

BASIS FOR PREPARATION OF THE FINANCIAL STATEMENTS

The consolidated financial statements for the Group and the separate company financial statements for the Parent Company have been prepared in compliance with the current International Financial Reporting Standards (IFRS), as approved by the EU.

This is the first-time adoption of IFRS for the consolidated and company financial statements under IFRS and in compliance with IFRS 1. All references hereinafter to "IFRS" mean references to IFRS as approved by the EU.

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

- All derivatives, and all financial assets and obligations classified as "fair value carried through profit or loss" or "available for sale", are carried at fair value.
- The book value of assets and liabilities that are hedged is adjusted in order to register changes in fair value as a result of the hedge.
- Assets are measured at each reporting date with a view to impairment. If the recoverable amount of the asset is less than the book value, the asset is written down to the recoverable amount.

BASIS FOR TRANSITION TO IFRS

Statnett SF has decided to report both the consolidated financial statements and the company financial statements from 2007 inclusive. Statnett prepared an opening IFRS balance sheet on the date of transition to IFRS, which was 1 January 2006. In addition, the income statements and balance sheets for 2006 have been restated in compliance with IFRS.

Statnett has employed voluntary exemption from IFRS 1 as regards pensions. All cumulative unrealised actuarial gains and losses (i.e. "corridors") on defined-benefit pension schemes have been carried in the opening balance at the transition date (no retrospective application of IAS 19 with regard to employee benefits).

The most important differences between the accounting policies used previously by Statnett (NGAAP) and IFRS are described in greater detail in a separate note.

NEW ACCOUNTING STANDARDS

There are a number of new standards, and changes to existing standards and interpretations, that had not come into effect at 31 December 2007 and which the Statnett Group has not yet implemented.

The following standards had been approved and adopted by the EU but had not yet come into effect at 31 December 2007:

- IFRS 8 "Operating Segments"
- IFRIC 11 "Group and Treasury Share Transactions"

The following standards, amendments and interpretations had been issued but had not yet been approved by the EU or come into effect at the date of adoption of the annual financial statements:

- IFRS 2 (revised) "Share-based Payments"
- IFRS 3 (revised) "Business Combinations"
- IAS 1 (revised) "Presentation of Financial Statements"
- IAS 23 (revised) "Borrowing Costs"
- IAS 27 (revised) "Consolidated and Separate Financial Statements"
- IFRIC 12 "Service Concession Arrangements"
- IFRIC 13 "Customer Loyalty Programmes"
- IFRIC 14 IAS 19 "The Limit on a Defined Benefit Asset, Minimum Funding"

The Group Management have established that all the compulsory and relevant interpretations and standards adopted by the EU will be implemented in the consolidated financial statements from the date they become effective, unless decided otherwise.

Below is a review of the implications these standards are expected to have for the Statnett Group:

- IFRS 2 and IFRIC 11 relate to Group and Treasury Share Transactions. The standard is not expected to have any effect on the Statnett Group's consolidated financial statements.
- IFRS 3 (revised) Business Combinations (to be applied in the case of business combinations where the acquisition date is on or after the beginning of the first accounting period which begins on or after 1 July 2009. Earlier adoption is permissible, but not before the standard is adopted by the EU). In the short term, the standard is not expected to have any material impact on the Statnett Group's consolidated financial statements.
- IFRS 8 Operating Segments (to be applied to annual financial statements beginning 1 January 2009 or later). Operating segments require the official financial statements to provide segment information based on internal reporting to the management. In Statnett, only one segment is followed up internally, and the standard is expected to have little or no effect in the short term on the Statnett Group's consolidated financial statements.
- Revised IAS 1 Presentation of Financial Statements (to be applied to financial statements beginning 1 January 2009 or later. Earlier adoption is permissible, but not before the standard is adopted by the EU). The standard is not expected to have any material impact on the Statnett Group's consolidated financial statements.
- IAS 23 (revised) Borrowing Costs. The standard removes the possibility of charging borrowing costs directly as an expense, and requires the company's capitalised borrowing costs to be referred directly to acquisition cost of plant under construction or other qualified assets. This principle has already been implemented by the Statnett Group.
- IAS 27 (revised) Consolidated and Separate Financial Statements. Both the separate financial statements of the parent company Statnett SF and the consolidated financial statements are prepared in accordance with IFRS. Revised IAS 27 is not therefore expected to have any effect on the financial statements of Statnett SF or the Statnett Group.

Notes

- IFRIC 12 Service Concession Arrangements. This standard is not expected to have any material impact on the Statnett Group's consolidated financial statements.
- IFRIC 13 Customer Loyalty Programmes. This standard is not expected to have any material impact on the Statnett Group's consolidated financial statements.
- IFRIC 14 IAS 19 –"The Limit on a Defined Benefit Asset, Minimum Funding". This standard is not expected to have any material impact on the Statnett Group's consolidated financial statements.

In total, the implementation of new standards, and amendments to existing standards and interpretations, are not expected to have any material impact on the Statnett Group's consolidated financial statements.

This is the first set of annual financial statements for Statnett SF and the Group prepared under IFRS and upon adoption the following new amended standards and interpretations have been applied:

- IFRS 7 Financial Instruments: Disclosures
- IAS 1 Presentation of Financial Statements Capital Disclosures

IMPORTANT ACCOUNTING ESTIMATES AND ASSUMPTIONS

The preparation of the financial statements in accordance with IFRS requires that the management make assessments, estimates and assumptions that affect the application of accounting policies and the carrying amounts for assets and liabilities on the balance sheet date, as well as the reported revenues and expenses for the period.

Accounting estimates are used to determine the reported amounts, expected life of tangible assets and taxes. Even though these estimates are based on the management's assessments and prior experience, current events and actions, the actual results may deviate from these estimates. The estimates and the underlying assumptions will be reviewed regularly. Changes in estimates will be recognised when the new estimates can be determined with certainty.

The main sources of uncertainty associated with the use of estimates for Statnett are related to:

Depreciation

Depreciation is based on the management's assessment of the useful life of tangible fixed assets. The assessments may change due, for example, to technological developments and historical experience. This may entail changes in the useful life and thus the depreciation. It is difficult to predict technological developments, and Statnett's view of how quickly the changes will come may change over time. If the expectations change significantly, the depreciation periods will be adjusted with effect for future periods. As of 1 January 2007 Statnett has changed the estimates for the useful life of a major portion of the grid installations. Reference is made to a more detailed discussion under "Tangible fixed assets" below.

Write-downs

Statnett has made significant investments in tangible fixed assets. The value of these assets is assessed when there is indication of an impairment in value. Tangible fixed assets in the parent company are regarded as a cash-generating unit and are assessed collectively since Statnett SF has a collective revenue ceiling. In subsidiaries each fixed asset is assessed individually.

Substantial investments will be made in the future. This will largely take place by means of projects under the company's own direction and be recorded on the balance sheet as plant under construction until the fixed asset is put into operation. Projects under execution are valued individually on indications of impairment in value.

Estimates for recoverable amounts for assets must be based in part on the management's assessments, including calculation of the assets' revenue generating capacity and probability of licences for development projects. Changes in the circumstances and the management's assumptions may result in write-downs for the relevant periods.

Pension costs, pension liabilities and pension assets

The calculation of pension costs and net pension liabilities (the difference between pension liabilities and pension assets) is performed on the basis of a number of estimates and assumptions. Changes in and variances from estimates and assumptions (actuarial gains or losses) affect the fair value of the net pension liabilities, but are not recognised in the income statement before the cumulative estimate variance exceeds 10 per cent of the higher of the pension liabilities or pension assets at the start of the financial year. In connection with the adoption of IFRS on 1 January 2006 the estimate variances not recognised on the income statement were carried directly against equity in accordance with the option in IFRS 1.

CONSOLIDATION POLICIES

Consolidated companies

The consolidated financial statements comprise Statnett SF and subsidiaries in which Statnett SF has a controlling influence. Normally these will be companies where Statnett SF owns more than 50 per cent of the voting shares, either directly or indirectly through subsidiaries.

The consolidated financial statements have been prepared using uniform accounting policies for equivalent transactions and other events under otherwise equivalent circumstances. The classification of items in the income statement and balance sheet has been performed in accordance with uniform definitions. The consolidated financial statements are prepared in accordance with the purchase method of accounting and illustrate the group as if it was a single unit. Balances and internal transactions between companies within the group are eliminated in the consolidated financial statements. The cost price of shares in subsidiaries is offset against equity at the time of acquisition. Any excess value beyond the underlying equity of the subsidiaries is allocated to the asset and liability items that the excess value can be attributed to. The portion of the cost price that cannot be attributed to specific assets represents goodwill.

Statnett SF's Group Pension Fund is not part of the group. Contributed equity in the pension fund is measured at fair value and classified as fixed asset investments.

Investments in joint ventures

Joint ventures are defined as companies in which there are cooperation agreements that give joint control together with one or more parties. Earnings, assets and liabilities in joint ventures are recorded in the financial statements in accordance with the equity method. This means that the group's share of the earnings for the year after tax and

Notes

amortisation of any excess value is reported on a separate line in the income statement between the operating profit and financial items. The accounts in joint ventures have been restated in accordance with IFRS. In the consolidated balance sheet ownership interests in joint ventures are recorded as fixed asset investments at original cost with the addition of accumulated profit shares and deductions for dividends.

Investments in associated companies
Associated companies are units where the group has a significant, but not a controlling influence over the financial and operational management. Normally these will be companies where the group owns between 20 and 50 per cent. Earnings, assets and liabilities in associated companies are recorded in the financial statements in accordance with the equity method. This means that the group's share of the earnings for the year after tax and amortisation of any excess value is reported on a separate line in the income statement between the operating profit and financial items. The accounts in associated companies have been restated in accordance with IFRS. In the consolidated balance sheet ownership interests in associated companies are recorded as financial fixed assets at original cost with the addition of accumulated profit shares and deductions for dividends.

Purchase/sale of subsidiaries, joint ventures and associated companies
In the case of acquisition and sale of subsidiaries, joint ventures and associated companies, they are included in the consolidated financial statements for the portion of the year they have been a part of or affiliated with the group.

Investments in other companies
Investments in companies in which the group owns less than 20 per cent of the voting capital are classified as "available for sale" and are recorded on the balance sheet at fair value unless they can be measured reliably. Value changes are carried directly against equity.

Investments in subsidiaries, joint ventures and associated companies in Statnett SF (parent company accounts)
Investments in subsidiaries, joint ventures and associated companies are accounted for in accordance with the cost method in the parent company accounts. The group contribution paid (net after tax) is added to the cost price of investments in subsidiaries. Group contributions and dividends received are recorded in the profit and loss account as financial income as long as the dividends and group contributions are within the earnings accrued during the period of ownership. Dividends in excess of earnings during the ownership period are accounted for as a reduction in the share investment.

SEGMENT REPORTING
The company has identified its reporting segment based on the risk and rate of return that affects the operations. According to IFRS the only business segment that the company is engaged in in Norway is that of transmission system operator. The business is followed up as a single geographical segment. Subsidiaries do not qualify as special business segments subject to reporting based on IFRS criteria. The company and group are reported as a single business segment.

CASH FLOW STATEMENT
The cash flow statement has been prepared based on the indirect method. Cash includes cash in hand and bank deposits. Cash equivalents are short-term liquid investments that can be converted immediately to a known amount of cash with a maximum term of three months.

REVENUE RECOGNITION PRINCIPLES
Operating revenues are measured at fair value and recognised when they are accrued on a net basis after government taxes. Operating revenues are reported on a gross basis except in cases where Statnett acts primarily as a settlement function in connection with shared grids and power trading.

Interest income is recognised over time as it is accrued. Dividends from investments are recorded as income when they are approved.

REVENUE CEILING, TARIFFS AND HIGHER/LOWER REVENUE
General
Statnett's primary activity is as the owner and operator of transmission facilities for electrical energy. The Norwegian Water Resources and Energy Directorate (NVE) sets an annual limit, or revenue ceiling, for the amount of revenue Statnett may earn from this activity.

Statnett is the operator of the main grid and three regional shared grids. As the operator, Statnett is responsible for, among other things, setting the annual tariffs (price of services) in each shared grid. The main grid is a shared grid. When setting tariffs, Statnett seeks to find a level that will make the total tariff receipts from customers equal to the total revenue ceiling from the various owners in the shared grid.

In a financial year, a discrepancy will arise between total tariff receipts and the revenue ceiling. If the invoiced revenues are higher than the revenue ceiling, then a higher revenue will arise (the opposite will be a lower revenue). Higher/lower revenue will be corrected when future tariffs are set.

REVENUE CEILING – GRID RENTAL – MONOPOLY OPERATIONS
A new regulation period for Statnett SF started from 2007. The basis for calculating the revenue ceiling is expenditure (including capital expenditure) two years back in time. The revenue ceiling is set partly on the basis of the results from the efficiency measurement performed of Statnett. In addition, property tax and transit costs are covered in accordance with the actual costs.

There can be uncertainty attached to measuring the individual amounts included in the revenue ceiling. Increased revenues as a result of conditions that require an application for adjustment of the revenue ceilings or for clarification of an interpretation of the regulations to be sought from the Norwegian Water Resources and Energy Directorate (NVE), are only included in the accounts if it is considered as good as certain that the revenue will be realised.

The revenue ceiling is recognised monthly by a 1/12th amount in the accounts. The revenue ceiling for Statnett is included on a gross basis as part of the operating revenue "Power transmission".

Notes

RENTAL OF FOREIGN CABLES – OUTSIDE THE MONOPOLY OPERATIONS

Revenues from foreign cables where Statnett has an ownership stake outside the Norwegian sector are based on contracts and are not included in Statnett's revenue ceiling. Revenue is recognised monthly by 1/12th of the annual contract amount. The revenue is reported together with the revenue ceiling as part of the operating revenue "Power transmission".

REVENUE CEILING – TRANSMISSION LOSSES

Revenues

Statnett has a separate revenue ceiling for transmission losses in the main grid. The reported revenue ceiling for transmission losses during the financial year is calculated by taking the actual measured loss (in MWh) two years prior to the financial year multiplied by the actual electricity spot price in the financial year plus 11 NOK/MWh. The revenue ceiling relating to transmission losses for Statnett is included on a gross basis as part of the operating revenue "Power transmission".

Transmission losses (power purchases)

Expenses are recognised in accordance with the measured discrepancies between the input and outtake of power in the main grid. The size of the loss per hour will vary, for example, depending on the temperature, load in the grid and electricity price. Losses during the transmission of power in the main grid and the shared regional grids are covered by the grid's operator and are accounted for as ordinary operating expenses.

SHARED GRIDS – TARIFF-SETTING AND HIGHER/LOWER REVENUE FOR THE YEAR

Tariff revenues

As the operator of the main grid and three regional shared grids, Statnett is responsible for invoicing the users for the services they receive. The invoicing is done on the basis of a fixed price system (tariff model), in accordance with guidelines provided by NVE. The price system consists of a fixed element and a variable element (energy element). Fixed elements are invoiced evenly throughout the year, while the energy element is invoiced according to the input into or outtake of power from the grid.

Higher/lower revenue

The tariff for the year is set with a view to ensuring that the higher/lower revenue is zero at the end of the year. The tariff is set ahead of the current year. The electricity price and other parameters included in calculating the revenue ceiling must then be estimated. Through the year and at the end of the year, discrepancies will therefore arise between invoiced tariffs and the calculated revenue ceiling. The discrepancy is called higher/lower revenue and is shown as a separate line under operating revenues in Statnett's financial statements. Higher/lower revenue at year-end is taken into account when setting the tariffs for the following year.

POWER SALES AND PURCHASES

Statnett is the Transmission System Operator (TSO) and is responsible for the regulating power system and balance settlement system. Responsibility for the balance settlement system means that Statnett subsequently compares the measured and agreed energy volumes, calculates any discrepancies, and performs financial settlement between the market participants. Settlement is based on the prices in the regulating power market. Net settlement in the regulating power market shall add up to zero. Statnett receives a fee per MWh that is settled. If the settlement is across national borders in the Nordic region, a marginal price difference will arise based on the average for the Norwegian and foreign regulating power price, which passes or is charged to Statnett as the TSO.

The function of responsibility for the balance settlement system is not regarded as a commercial activity and the net power sales are included in the accounting line for system services as one of several cost elements.

Power sales/purchases are recorded in the income statement when they are accrued/incurred, i.e. at the time of delivery.

CUSTOMER PROJECTS

Project revenue is recognised on a current basis based on measurement of the estimated fair value. This means that revenue is recorded as the work is performed based on the degree of completion. The degree of completion is determined on the basis of the production carried out. Revenue is included in other operating revenues. Invoiced and accrued project revenues are included under trade accounts receivable. For projects where a loss is expected, the entire expected loss is recognised as an expense.

TAXES

Tax in the income statement encompasses both the tax payable for the period and changes in the deferred tax liabilities/assets. The tax payable is calculated based on the taxable profit for the year. Net deferred tax assets/liabilities are calculated on the basis of temporary differences between the accounting and tax values, and the tax loss carryforward.

Tax increasing or reducing temporary differences that reverse or may reverse are offset. Deferred tax assets are recorded when it is probable that the company will have a sufficient taxable profit to benefit from the tax asset. Deferred tax liabilities/assets that can be recorded on the balance sheet are recorded at their nominal value on a net basis on the balance sheet. Deferred tax liabilities/assets are recorded directly against equity if the tax is related to transactions that are carried directly against equity.

Property taxes are recorded in the income statement and paid during the tax year. They are classified under other operating expenses.

CLASSIFICATION OF ITEMS ON THE BALANCE SHEET

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

Notes

OWN INVESTMENT PROJECTS
Own investment projects are recorded on the balance sheet at cost.

PILOT PROJECTS
The expenses for preliminary work (engineering) associated with investments is recorded on the balance sheet under plant under construction after an investment decision is made. Ongoing assessments are made of whether licensing conditions or other causes necessitate a full or partial write-down of the project expenses incurred. Write-downs are reversed when there is no longer any basis for the write-down.

INTEREST DURING THE CONSTRUCTION PERIOD
Construction loan interest related to the company's own plant under construction will be capitalised on the balance sheet. The interest will be calculated based on the average borrowing rate and scope of the investment, since the financing is not identified specifically for the individual project.

TANGIBLE FIXED ASSETS
Tangible fixed assets are carried on the balance sheet at cost less accumulated depreciation and write-downs. The depreciation reduces the carrying value of tangible fixed assets, excluding building lots, to the estimated residual value at the end of the expected useful life. Ordinary straight-line depreciation is performed from the point in time when the asset is placed in ordinary operation, and it is calculated based on the expected useful life. This applies correspondingly to fixed assets acquired from other grid owners. The cost price is decomposed when the fixed asset consists of components with a different useful life.

The estimated useful life, depreciation method and residual value are assessed once a year. The value is assessed when there is indication of an impairment in value. Tangible fixed assets in the parent company are regarded as a cash-generating unit and are assessed collectively since Statnett SF has a collective revenue ceiling. In subsidiaries each fixed asset is assessed individually. Useful lives were based earlier on a recommendation from EBL's publication "Depreciation in power generation and distribution" and guidelines from the Norwegian Water Resources and Energy Directorate (NVE) concerning the determination of transmission tariffs. The useful lives have been changed from 2007 based on an extensive review of the installations. The change in estimates entails increased useful lives for most of the station-related fixed assets and power lines. The increased useful life is largely based on experience that certain fixed assets are used for a longer period than previously expected. This entails that the annual depreciation for 2007 (for recorded tangible fixed assets at the end of 2006) will be approximately 37 per cent lower as a result of the increase in useful lives. The residual value is estimated at zero at the end of the useful life for most assets.

Plant under construction is not depreciated, but regularly assessed for write-downs.

Gains or losses on the disposal or scrapping of tangible fixed assets will be calculated as the difference between the sales proceeds and the fixed assets' carrying value. Gains/losses on disposal will be recorded in the income statement as other operating revenues/expenses. Losses on scrapping are recognised in the income statement as depreciation/write-downs.

COMPENSATION
Lump sum payments in connection with the acquisition of land etc. are included in the cost price of the fixed asset. Ongoing payments are recognised in the income statement in the year in which the liability is incurred.

MAINTENANCE/UPGRADES
Maintenance expenses are recognised in the income statement when they are incurred. No provisions are made for the periodic maintenance of the grid (transformer stations or power lines). Even though the maintenance is periodic for the individual transformer station or power line, it is not considered to be periodic for the entire grid since the entire grid is regarded as a cash-generating unit. If the fixed asset is replaced any residual financial value will be recorded in the income statement as a loss on disposal.

Expenses that significantly extend the life of the fixed asset and/or increase its capacity are capitalised as an investment.

WRITE-DOWN OF TANGIBLE FIXED ASSETS
If there are indications of an impairment in value of tangible fixed assets, the recoverable amount will be estimated for the fixed assets in order to calculate a possible write-down.

The recoverable amount is the higher of the net sales value and utility value. In assessing the utility value, the estimated future cash flows are discounted to the present value by means of a discount rate before tax that reflects the current market assessments of the time value of money and risk that is specific to the asset.

If the recoverable amount for a fixed asset (or cash-generating unit) is estimated to be lower than the carrying value, the carrying value of the fixed asset (or cash-generating unit) will be reduced to the recoverable amount. If an impairment in value subsequently reverses, the carrying value of the fixed asset (cash-generating unit) will be increased to the revised estimate of the recoverable amount, but limited to the value that would be the carrying value if the fixed asset (or cash-generating unit) had not been written down in an earlier year.

FINANCIAL LEASING
Group as the lessor
Financial lease agreements
The group presents leased assets as receivables equal to the net investment in the lease agreements. The group's financial income is determined so that a cash return is achieved on the outstanding receivables over the term of the agreement. Direct expenses incurred in connection with the creation of the lease agreement are included in the receivable.

Operating leases
The group presents leased assets as fixed assets on the balance sheet. The lease revenue is recognised linearly over the term of the lease.

Notes

Direct expenses incurred to establish the operating leases are added to the leased asset's carrying value and recognised as expenses during the term of the lease on the same basis as the lease revenue.

Group as the lessee:
Financial lease agreements
Financial lease agreements are lease agreements where the group takes over the major part of the risk and return that are associated with ownership of the asset. At the beginning of the lease term, financial lease agreements are capitalised at an amount corresponding to the lower of fair value and the present value of the minimum rent, less accumulated depreciation and write-downs. When calculating the lease agreement's present value, the implicit interest charge in the lease agreement is used if it is possible to estimate this, otherwise the company's marginal borrowing rate is used. Direct expenses related to establishing the lease agreement are included in the asset's cost price.

The same depreciation period is used for the company's other depreciable assets. If it is not reasonably certain that the company will acquire ownership at the end of the lease period, the asset will be depreciated over the shorter of the lease agreement's term and the asset's economic useful life.

Operating leases
Lease agreements where the major part of the risk and return that is associated with ownership of the asset is discussed are classified as operating leases. The rent payments are classified as operating expenses and are recorded linearly in the income statement over the term of the agreement.

RESEARCH AND DEVELOPMENT EXPENSES
Research expenses are recognised on a current basis. Research is an internal process that does not give rise to independent intangible assets that generate future economic benefits.

Expenses related to development activities will be recorded on the balance sheet if the product or process is technically and commercially feasible and the group has adequate resources to complete the development. Expenses that are recorded on the balance sheet include material expenses, direct wage costs and a percentage of directly attributable overhead expenses. Capitalised development expenses are recorded on the balance sheet at historical cost, less any accumulated depreciation and write-downs.

Capitalised development expenses are depreciated by the straight line method over the estimated useful life of the asset.

TRADE ACCOUNTS RECEIVABLE
Trade accounts receivable are recorded in the accounts at historical cost less any losses from impairment in value.

CONTINGENT ASSETS AND LIABILITIES
Contingent liabilities are not recorded in the annual financial statements. Significant contingent liabilities are disclosed unless the probability of the liability is low.

A contingent asset is not recorded in the annual financial statements, but it will be disclosed if there is a certain probability that it will benefit the group. Higher/lower revenues are contingent liabilities/assets in accordance with IFRS and are not recorded on the balance sheet.

DIVIDENDS (FROM THE PARENT COMPANY)
Dividends paid are recorded in the group's accounts during the period when they are approved by the general meeting. If the approval and payment occur in different periods the amount will be allocated to current liabilities until the payment is made.

PENSION COSTS AND PENSION LIABILITIES
The parent company and subsidiaries operate pension schemes entitling the employees to future pension benefits (defined benefit plans). The group's pension schemes meet the requirements in the Mandatory Occupational Pension Act.

The pension benefits are based on the number of contributing years and final salary level at retirement age. The full retirement pension is 70 per cent of pensionable income reduced by the state old-age pension payments from the Norwegian national insurance scheme. The pensionable income is limited upwardly to 12 times the basic amount (G) under the national insurance scheme. The full contributory period is 30 years and the normal retirement age is 67 years. The scheme also includes disability pensions, spouses' pensions and children's pensions.

The group management have a separate additional agreement according to which the normal retirement age is 65 years, but with the possibility of retirement after age 62. The retirement pension is 66 per cent of pensionable income. The pensionable income also includes a base that exceeds 12 times the basic amount (G) under the national insurance scheme. For more information, see Note 5 concerning group management pensions.

The group has a contractual early retirement scheme (AFP), which under given assumptions permits employees to choose early retirement between age 62 and age 67. The AFP payments will as a rule be equal to the state old-age pension paid under the national insurance scheme at age 67.

Accrued pension rights are secured chiefly through pension schemes in Statnett SF's Group Pension Fund and the Norwegian Public Service Pension Fund. In addition, the parent company has early retirement pensions that are funded through operations.

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

Pension liabilities are calculated in accordance with IAS 19 "Employee Benefits". In connection with the implementation of IFRS, the estimate variances not recorded on the income statement were set at zero when carried against equity. For more information, see the "IFRS Transition Report".

Notes

Pension funds are measured at fair value on the balance sheet date. Pension liabilities are measured at the present value of the future pension liabilities accrued on the balance sheet date and which shall be covered by the company's own pension fund or funded through operations. The net pension liabilities on the balance sheet are determined after adjustment for deferred recognition in the income statement of the effect of changes in estimates and pension plans, as well as discrepancies between the actual and expected return on pension assets that have not yet been recognised in the income statement. The net pension liabilities are reported as provisions for liabilities. Overfunded schemes where the assets cannot be transferred to underfunded schemes are reported as pension assets (fixed asset investments).

Changes in the liabilities and pension assets that are due to changes and variances in the calculation assumptions (estimate changes) are distributed over the estimated average remaining contribution period if the variances exceed 10 per cent of the higher of the gross pension liabilities or pension assets at the start of the year. Only the portion of the variance that exceeds 10 per cent is amortised.

The pension liability is calculated by an independent actuary in December in the financial year as an estimate of the situation at 31 December. The management considers that changes in assumptions and base data up until the balance sheet date will not have any material effect on the figures.

When calculating the pension liabilities, the National Insurance contributions that the enterprise must pay on the payment of direct pensions or the payment of premiums for fund-based schemes are taken into account. The National Insurance contribution is a component of the enterprise's benefit and is recorded as part of the pension liabilities.

The net pension costs for the year are included in wage costs in the income statement. Premiums paid are accounted for as investment in pension assets.

In 2007, an updated version of the mortality risk table was implemented, known as K2005. There was a slight positive effect from the change, which is included in actuarial gains and losses (corridor). The mortality risk table is based on the best estimates for the populations in Norway.

LOANS

Interest-bearing loans are recorded in the income statement as the proceeds that are received, net of any transaction costs. Loans are subsequently accounted for at amortised cost by means of the effective interest rate method, where the difference between the net proceeds and redemption value is recognised in the income statement over the term of the loan.

FINANCIAL INSTRUMENTS

In accordance with IAS 39 (Financial Instruments – Recognition and Measurement) financial instruments are classified in the following categories: fair value through profit or loss, available for sale, and loans and receivables.

The initial measurement of financial instruments is at fair value on the settlement date, normally at the transaction price. Financial instruments are classified in the following categories: fair value through profit or loss, available for sale, and loans and receivables.

- Financial assets and liabilities that are held for the purpose of profiting from short-term price fluctuations (held for trading purposes) or are accounted for based on the fair value option are classified at fair value through profit or loss.
- All other financial assets with the exception of loans and receivables issued by the company are classified as available for sale.
- All other financial liabilities are classified as other liabilities and accounted for at amortised cost.

Gains or losses attributed to changes in the fair value of financial instruments classified as available for sale are recorded directly against equity until the disposal of the investment. The cumulative gain or loss on the financial instrument previously recorded against equity will be reversed, and the gain or loss will be recognised in the income statement.

Changes in the fair value of financial instruments classified at fair value through profit or loss (held for trading purposes or fair value option) will be recognised in the income statement and presented under financial income/expenses.

Financial instruments are included in the balance sheet when the group becomes a party to the instrument's contractual terms. Financial instruments are eliminated from the balance sheet when the contractual rights or obligations have been fulfilled, cancelled, or transferred, or they have expired. Financial instruments are classified as long-term when they are expected to be realised more than 12 months after the balance sheet date. Other financial instruments are classified as short-term.

DERIVATIVES AND HEDGING INSTRUMENTS

The group utilises derivatives such as future interest rate swaps and currency swaps to hedge its interest rate and currency risks. Such derivatives are recorded initially at fair value at the date when the contract is entered into and then measured at fair value on an ongoing basis. Derivatives are accounted for as assets when the fair value is positive and as liabilities when the fair value is negative, as long as Statnett is not entitled to and does not have the intention to settle the contracts on a net basis. Gains and losses resulting from changes in the fair value of derivatives that do not meet the conditions for hedge accounting are recorded in the income statement.

Derivatives that are embedded in other financial instruments or non-financial contracts are treated as separate derivatives when their risk and properties are not closely related to the contracts, and the contracts are not recorded at fair value with the change in value carried through profit or loss.

When entering into a hedging contract, the group will formally identify and document the hedging contract that the group will account for with hedge accounting, as well as the risk that is hedged and the strategy for the hedging. Documentation includes identification of the

Notes

hedging instrument, item or transaction that is hedged, the type of risk that is hedged, and how the group will assess the effectiveness of the hedging instrument to counteract the exposure to changes in the hedged item's fair value or cash flows that can be attributed to the hedged risk. Such hedges are expected to be highly effective in counteracting changes in fair value or cash flows, and are assessed on an ongoing basis to determine whether they actually have been highly effective throughout the entire accounting period they are to cover. Hedges that fulfil the strict conditions for hedge accounting are accounted for as follows:

FAIR VALUE HEDGING
Fair value hedging of the group's exposure to changes in the fair value of a recorded asset or liability or an unrecognised liability, or an identified portion of such, that can be attributed to a specific risk and can affect earnings. For fair value hedging the carrying value of the hedged item is adjusted for gains or losses from the risk that is hedged, derivatives are remeasured at fair value, and gains or losses from both are recorded in the income statement.

For fair value hedging of items that are accounted for at amortised cost, the change in value is amortised in the income statement over the remaining period until maturity.

The group will discontinue fair value hedging if the hedging instrument expires or is sold, is terminated or exercised, and the hedging no longer fulfils the conditions for hedge accounting or the group cancels the hedging.

The group uses fair value hedging primarily to hedge the interest rate risk for fixed interest rate loans and the currency risk for interest-bearing liabilities. Hedging is also performed for specific acquisitions in foreign currencies for investment projects. Unrealised hedging gains/losses (currency futures) reduce/increase the cost price of the investments on disposal.

CASH FLOW HEDGING
Cash flow hedging is hedging of the exposure to fluctuations in cash flows that are attributed to a specific risk associated with a recorded asset or liability or a highly probable future transaction that can affect the earnings. The effective portion of the gain or loss on the hedging instrument is recorded against equity, while the ineffective portion is recorded in the income statement.

Amounts that are carried against equity are recorded in the income statement when the hedged transaction affects the earnings, such as when hedged financial income or expenses are accounted for.

If execution of the expected future transaction is no longer expected, amounts recorded earlier against equity will be recognised in the income statement. If the hedging instrument expires, or is sold, terminated or used, without being replaced or continued, or when the hedging is cancelled, the amount recorded previously against equity is retained until the future transaction is executed. If it is not expected that the related transaction will be executed, the amount will be recorded in the income statement.

The group uses cash flow hedging primarily to hedge the interest rate risk in respect of loans with floating interest rates.

FINANCIAL RISK MANAGEMENT
Risk management is performed by the central finance department in accordance with guidelines approved by the Board of Directors. The Board of Directors lays down principles for general financial risk management, in addition to guidelines that cover specific financial risks.

FOREIGN CURRENCY
The consolidated financial statements are presented in Norwegian kroner (NOK), which is also Statnett SF's functional currency. All the group companies have the Norwegian krone (NOK) as their functional currency.

Since all the companies in the group have the same functional currency, no translation differences arise upon consolidation of the group companies.

Transactions in foreign currencies are translated at the rate in effect on the date of the transaction. Monetary items in foreign currencies are translated into Norwegian kroner (NOK) at the exchange rate in effect on the balance sheet date. Non-monetary items that are measured at historical cost expressed in foreign currency are translated into Norwegian kroner using the exchange rate in effect on the date of the transaction. Non-monetary items that are measured at fair value expressed in foreign currency are translated at the exchange rate in effect on the balance sheet date. Changes in exchange rates are recorded on a current basis in the income statement during the accounting period.

Long-term interest-bearing debts in foreign currency are linked with interest rate swaps and treated as borrowings in Norwegian kroner.

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

GOVERNMENT SUBSIDIES
Government subsidies are not recorded in the accounts until it is reasonably certain that the group will meet the conditions stipulated for receipt of the subsidies and that the subsidies will be received. Subsidies are recorded in the accounts as a deduction in the expenses that they are meant to cover. Subsidies that are received for investment projects are recorded on the balance sheet as a reduction of the cost price.

EVENTS AFTER THE BALANCE SHEET DATE
New information on the company's positions on the balance sheet date is incorporated into the annual financial statements. Events after the balance sheet date that do not affect the company's position on the balance sheet date, but will affect the company's position in the future are disclosed if they are material.

Notes

Note 2 – Operating revenues

Power transmission

Statnett's revenues from input and outtake of power from the Main Grid and shared regional grids, and from leasing regional grid facilities, is regulated through the revenue ceiling adopted by NVE.

The price (tariff) for input and outtake of power from the Main Grid and shared regional grids, and from leasing of regional grid facilities, is charged to the user according to a set price system. Where there is a difference between Statnett's revenue ceiling and invoiced costs, a higher or lower revenue will arise. Higher or lower revenue requires a subsequent correction of the tariff-setting in order to make Statnett's revenue over time equal to Statnett's revenue ceiling.

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

SPECIFICATION CHANGE IN HIGHER/LOWER REVENUE, INCOME STATEMENT

(Amounts in NOK million)	Main	Regional Grid	Total grids
Tariff revenues	3 445	246	3 691
Revenue ceiling, Statnett	-2 532	-125	-2 657
Revenue ceiling, others	-343	-3	-346
Costs, overlying grid	-	-84	-84
Grid losses	-544	-27	-571
Interest on higher/lower revenue	-13	-	-13
Higher/lower revenue for the year	**13**	**7**	**20**

SPECIFICATION OF HIGHER/LOWER REVENUE NOT ON BALANCE SHEET

(Amounts in NOK million)	Main	Regional Grid	Total grids
Higher/lower revenue at 31.12.06	-92	-8	-100
Effect upon implementation of IFRS*	-200	-13	-213
Higher-/lower revenue at 01.01.07	-292	-21	-313
Higher/lower revenue for the year	13	7	20
Higher/lower revenue at 31.12.07	**-279**	**-14**	**-293**

* Statnett SF has in connection with the transition to IFRS implemented IAS 19 for the accounting treatment of pensions. The implementation effect of MNOK 213 is carried directly against equity and at no time will come into the cost base included in the calculation of the revenue ceiling. NVE has therefore determined that Statnett can adjust the higher/lower revenue balance for this implementation effect.

Other operating revenues

Statnett SF has fee revenues relating to the regulating power market, which totalled MNOK 17 for 2007. External assignments consist chiefly of revenue from constructing the Frænа-Nyhavna transmission line on behalf of Norsk Hydro ASA. External assignments within the Group are carried out by Statnett Transport AS.

Regulating power settlement system

Statnett SF holds a separate licence to manage the regulating power settlement system in Norway. This involves settling financially the difference the market members have between planned electricity consumption and actually measured values. This is known as the regulating power market. Market members must have:

1. A trading licence from NVE
2. A Balance Agreement between the customer and Statnett (or be part of another regulating power member)
3. Have access to power, either generation, bilaterally or at Nord Pool Spot. Most regulating power members are also members of Nord Pool Spot, and then the member agreement is used (between Nord Pool Spot and the customer).

Regulating power was bought and sold for a total of MNOK 2 120 in 2007, shown as a net sum in the financial statements. The fee revenues for this service totalled MNOK 17 for 2007. Outstanding trade accounts relating to the balance accounting totalled MNOK 35 at 31.12.2007 and are shown under the item Trade accounts and other short-term receivables.

Notes

Note 2 – Operating revenues (continued)

Approved members (regulating power members) undertake by accepting the Balance Agreement to post satisfactory security for financial settlement of power trading in the regulating power market. The security posting requirement is calculated weekly under the rules in the Balance Agreement. The calculation is based on trading volume and market prices, and reflects the regulating power generators' settlement risk. Statnett also assesses the security requirement on an ongoing basis and may demand more security at any time if necessary. The minimum security required for trading is NOK 200 000, which 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. As of 31 December 2007, the amount of security posted totalled NOK 882 million. The security posting requirement for regulating power generators at the same date was NOK 567 million. At year-end, all the regulating power members had posted satisfactory security under the Balance Agreement.

Note 3 – System operating costs

PARENT COMPANY			GROUP	
2006	**2007**	(Amounts in NOK million)	**2007**	**2006**
-8	9	Regulation of the Nordic power system	9	-8
23	22	Other system services	22	23
-	26	Energy options	26	-
49	31	Power reserves	31	49
53	50	Frequency response	50	53
138	115	Special adjustments	115	138
136	160	Transit costs	160	136
391	**413**	**Total system operating costs**	**413**	**391**

System operating costs are costs relating to the exercise of Statnett's responsibility as the Transmission System Operator, as defined in the Regulations relating to the system responsibility in the power system (FoS).

Note 4 – Wage costs and remunerations

PARENT COMPANY			GROUP	
2006	**2007**	(Amounts in NOK million)	**2007**	**2006**
333	354	Wages	367	346
51	62	Employer's NICs	64	51
56	104	Pension costs	106	58
27	28	Other benefits	25	25
467	**548**	**Total wage costs**	**562**	**481**
-145	-149	Of which, own investment projects	-149	-145
322	**399**	**Net wage costs**	**413**	**336**
606	636	Number of full-time equivalents (FTEs)	664	631

Loans to employees

Employees had loans in the company totalling MNOK 0.5 at 31.12.2007. The loans are interest-free and are repaid by deductions from wages over a period of up to two years. The interest-rate advantage of loans exceeding 3/5 of the national insurance base amount is taxed according to the standard rate of interest set by the authorities at any time.

Notes

AUDITORS' FEES

PARENT COMPANY 2006	PARENT COMPANY 2007	(Amounts in NOK million)	GROUP 2007	GROUP 2006
445 000	650 000	Fees for auditing 2007 accounts	771 050	525 833
327 900	167 925	Other attestation services	183 525	348 525
223 188	48 275	Tax-related assistance	48 275	223 188
649 030	345 633	Other assistance*	345 633	665 065
1 645 118	**1 211 833**	**Total fees (ex. VAT)**	**1 348 483**	**1 762 611**

* Other assistance is chiefly related to IFRS implementation.
Auditors' fees do not include VAT.

Note 5 – Benefits to Group Management

BENEFITS TO SENIOR EXECUTIVES/BOARD MEMBERS 2007

(Amounts in NOK)	Board fees	Salary	Other remun.	Pension cost	Total remun.
Group Management					
Odd Håkon Hoelsæter, President and CEO		1 510 904	167 596	1 795 778	3 474 278
Håkon Borgen, Executive Vice President		1 042 706	143 713	579 379	1 765 798
Anne Breive, Executive Vice President		1 171 328	140 613	790 168	2 102 109
Bente Hagem, Executive Vice President		1 074 511	153 520	885 891	2 113 922
Audun Severin Hustoft, Executive Vice President		1 047 527	172 132	898 211	2 117 870
Gun Bente Johansen, Executive Vice President *a)		366 668	38 511	405 883	811 062
Gunnar G. Løvås, Executive Vice President *a)		504 170	40 285	317 429	861 884
Øivind Kristian Rue, Executive Vice President		1 169 845	124 158	986 662	2 280 665
Peer Olav Østli, Executive Vice President *a)		320 834	36 623	0	357 457
Kåre Schjetne, retired Deputy CEO *b)		715 732	83 979	567 945	1 367 656
Board of Directors					
Svein Rennemo, Chair of the Board of Directors	300 000				300 000
Kjell Olav Kristiansen, Vice Chair of the Board of Directors	200 000				200 000
Heidi Ekrem, Board member	145 000				145 000
Kirsten Faugstad, Board member *c)	145 000				145 000
Thor Håkstad, Board member	145 000				145 000
Grethe Høiland, Board member	145 000				145 000
Steinar Jøråndstad, Board member *c)	145 000				145 000
Ole Bjørn Kirstihagen, Board member *c)	145 000				145 000
Christine B. Meyer, Board member	145 000				145 000
Total remunerations	**1 515 000**	**8 924 225**	**1 101 130**	**7 227 346**	**18 767 701**

All figures are exclusive of employer's NIC's.
Deputy board members and observers do not receive fees.

a) Gun Bente Johansen and Peer Olav Østli entered their positions on 1 and 17 September 2007 respectively.
Per Olav Østli has owing to an error not been included in the year's pension calculation.
Gunnar Løvås has several years' experience from Statnett and joined the Group Management on 1 August 2007.
Disclosures of wages and remunerations are limited to the period during which he was part of Group Management.

b) Kåre Schetne retired as Deputy CEO on 31 August 2007.
Disclosures of wages and remunerations are limited to the period during which he was part of Group Management.

c) In the case of employee representatives, only board members' fees are stated.

Notes

Note 5 – Benefits to Group Management (continued)

BENEFITS TO SENIOR EXECUTIVES/BOARD MEMBERS 2006

(Amounts in NOK)	Board fees	Salary	Other remun.	Pension cost	Total remun.
Group Management					
Odd Håkon Hoelsæter, President and 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, Executive Vice President		957 827	123 097	382 963	1 463 887
Anne Breive, Executive Vice President		1 017 539	136 587	551 756	1 705 882
Bente Hagem, Executive Vice President		997 318	119 917	643 907	1 761 142
Audun Severin Hustoft, Executive Vice President		1 006 571	121 657	585 752	1 713 980
Øivind Kristian Rue, Executive Vice President		1 090 928	112 060	724 770	1 927 758
Board of Directors					
Svein Rennemo, Chair of the Board of Directors	300 000				300 000
Kjell Olav Kristiansen, Vice Chair of the Board of Directors	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
Total remunerations	**1 515 000**	**7 545 168**	**905 879**	**5 138 198**	**15 104 245**

All figures are exclusive of employer's NICs. Deputy board members and observers do not receive fees.

* In the case of employee representatives, only board members' fees are stated.

	Notice period, months basic pay	Termination payment, months basic pay
Group Management		
Odd Håkon Hoelsæter, President and CEO	6 months	None
Håkon Borgen, Executive Vice President	6 months	None
Anne Breive, Executive Vice President	6 months	None
Bente Hagem, Executive Vice President	6 months	None
Audun Severin Hustoft, Executive Vice President	6 months	None
Gun Bente Johansen, Executive Vice President	3 months	None
Gunnar G. Løvås, Executive Vice President	6 months	None
Øivind Kristian Rue, Executive Vice President	6 months	None
Peer Olav Østli, Executive Vice President	3 months	None

No senior executives have termination pay agreements in the event of employment termination or change in employment conditions. Where the employee resigns the normal period of notice is three months, while if the company terminates the employment the period of notice is six months after two years' employment.

The Group has no commitment to reward the Group Management or Board of Directors in the form of profit-sharing, bonus or options-based pay. No loans were made to or security provided for members of the Group Management or Board of Directors during the year.

Notes

PENSION CONDITIONS FOR GROUP MANAGEMENT

Title/name	Conditions relating to retirement age/early retirement pension/retirement pension
President and CEO Odd Håkon Hoelsæter	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 age 62 and 65, he will receive an annual payment of 66 per cent of the of pension base (pensionable income), 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) under the Norwegian national insurance scheme. If the President retires before his 65th birthday and receives an 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 per cent of the sum that exceeds final salary. From the 65th birthday the full annual retirement pension is 66 per cent 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) under the national insurance scheme. From the 67th birthday, the annual retirement pension of 66 per cent 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 per cent of the pension base (pensionable income) will be paid, i.e. of fixed normal annual salary at retirement. The pension base is adjusted annually by the same percentage-wise increase as in the basic amount (G) under the national insurance scheme. 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 per cent of the sum that exceeds final salary. From the 65th birthday the full annual retirement pension is 66 per cent 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) under the national insurance scheme. From the 67th birthday, the annual retirement pension of 66 per cent 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.
New Executive Vice Presidents Gunnar G Løvås Peer Olav Østli Gun Bente Johansen	No formal agreements for senior executive pensions had been prepared for the new executive vice presidents at 31 December 2007.

Notes

Note 6 – Pensions and pension liabilities

Pension scheme at 31 December 2007	Group	Parent
Members of the pension fund	1 055	1 040
Of which, pensioners	280	279
Number of persons in the pension scheme	**775**	**761**

Financial/actuarial assumptions, Parent and Group	2007	2006
Discount rate	5.0 %	4.5 %
Expected yield on pension assets	6.0 %	6.0 %
Expected pay adjustments	5.0 %	4.5 %
Expected pension adjustments	5.0 %	4.5 %
Expected adjustment of basic amount (G) under national insurance scheme	5.0 %	4.5 %
Remaining contributory period	15 yrs	15 yrs

Assumptions for contractual early retirement scheme (AFP) withdrawals in Parent and Group	2007	2006
62 years	25 %	25 %
63 years	5 %	5 %
64 years	5 %	5 %
65 years	35 %	35 %

Percentage-wise breakdown of pension assets into investment categories, Parent and Group at 31.12.	2007	2006
Property	10 %	11 %
Held-to-maturity bonds	28 %	16 %
Norwegian bonds	21 %	37 %
Foreign bonds	1 %	0 %
Certificates	24 %	20 %
Hedge funds and international equities funds	16 %	16 %
Total	**100 %**	**100 %**

PARENT COMPANY			GROUP	
2006	**2007**	(Amounts in NOK million)	**2007**	**2006**
		PENSION COST		
47	72	Present value of the year's pension contributions	73	48
33	49	Interest charge on pension liability	50	33
-24	-32	Expected yield on pension assets	-32	-24
0	15	Actuarial gains/losses on income statement	15	0
56	**104**	**Net pension cost**	**106**	**58**
8	15	Payroll tax of employer's contributions	15	8
63	**119**	**Net pension cost including employer's contributions**	**121**	**66**

The expected pension premium for 2008 is NOK 81 million for the Parent Company and NOK 82 million for the Group.

Notes

PARENT COMPANY 2006	PARENT COMPANY 2007	(Amounts in NOK million)	GROUP 2007	GROUP 2006
		SECURED PENSION LIABILITIES AND PENSION ASSETS		
		Change in gross pension liability:		
742	1 102	Gross pension liability at 01.01.	1 114	749
46	73	Present value of the year's pension contributions	75	47
33	49	Interest charge on pension liability	50	33
300	-13	Actuarial gains and losses	-15	305
-8	-10	Employer's contribution on premium paid	-11	-8
-12	-14	Pension/paid-up policies paid out	-13	-12
1 102	**1 187**	**Gross pension liability at 31.12.**	**1 200**	**1 114**
		Change in gross pension assets:		
520	583	Fair value of pension assets at 01.01.	589	525
27	36	Actual yield on pension assets	37	27
-10	-26	Actuarial gains and losses	-26	-11
58	74	Premiums paid	75	59
-12	-14	Pension/paid-up policies paid out	-14	-12
583	**653**	**Fair value of pension assets at 31.12. .**	**661**	**589**
518	**534**	**Net pension liability**	**539**	**526**
-310	-310	Estimate changes not recognised on income statement	-313	-316
208	**224**	**Net capitalised pension liability inc. employer's contribution 31.12.**	**226**	**210**
223	208	Net pension liability at 01.01.	210	223
52	100	Pension cost recognised on income statement	102	54
-67	-84	Premium payments (excluding administrative expenses)	-86	-68
208	**224**	**Net capitalised pension liability inc. employer's contribution 31.12.**	**226**	**209**
-	**-**	**Pension assets capitalised on balance sheet at 31.12.**	**-**	**-**
208	**224**	**Pension liabilities capitalised on balance sheet at 31.12.**	**226**	**209**

Notes

Note 6 – Pensions and pension liabilities (continued)

PARENT COMPANY 2006	PARENT COMPANY 2007	(Amounts in NOK million)	GROUP 2007	GROUP 2006
		UNSECURED PENSION LIABILITIES		
		Change in gross pension liability:		
107	156	Gross pension liability at 01.01.	158	108
7	9	Present value of the year's pension contributions	9	8
4	6	Interest charge on pension liability	6	4
53	13	Actuarial gains and losses	12	53
-15	-15	Pensions/paid-up policies paid out	-15	-15
156	**169**	**Gross pension liability at 31.12.**	**170**	**158**
-	**-**	**Fair value of pension assets at 31.12.**	**-**	**-**
156	**169**	**Net pension liability**	**170**	**158**
-52	-62	Estimate changes not recognised on income statement	-62	-53
104	**107**	**Net capitalised pension liability inc. employer's contribution 31.12.**	**108**	**105**
107	**104**	**Net pension liability at 01.01.**	**105**	**108**
11	19	Pension cost recognised on income statement	19	12
-15	-16	Pensions / paid-up policies paid out	-16	-15
104	**107**	**Net capitalised pension liability inc. employer's contribution 31.12.**	**108**	**105**
104	**107**	**Pension liability capitalised on balance sheet at 31.12.**	**108**	**105**

Sensitivity analysis

The figures below show an estimate of the potential effect of a change in certain assumptions for defined-benefit pension schemes in Norway for the Statnett Group.

The following estimates and estimated pension costs for 2008 are based on the facts and circumstances as of 31 December 2007. Actual results may differ substantially from these estimates.

	Discount-rate		Annual wage growth and change in basic amount		Annual adjustm. of pensions		Mortality	
Change in percentage points	-1 %	+1 %	-1 %	+1 %	-1 %	+1 %	K63	K2005
Change in pension:								
(Amounts in NOK million)								
Pension cost before correction for interest charge and yield on pension assets (SC)	107	65	73	94	73	94	87	83
Minimum pension liability (ABO)	1 098	776	916	916	815	1 039	952	916
Defined-benefit pension liabilities - present value of pension liability (PBO)	1 567	1 054	1 181	1 384	1 136	1 442	1 304	1 275

Notes

Risk tables for mortality and disability are based on tables in general use in Norway updated with historical data from the life companies' population. These data entail an adjustment of available tables in the form of increased life expectancy and increased disability probability. The average life expectancy for all age groups in the tables used is 80 years for men and 84 years for women. An extract from the tables used is shown below. The table shows the life expectancy and probability of disability and death within one year for different age groups.

Age	Disability probability Male	Disability probability Female	Death probability Male	Death probability Female	Life expectancy Male	Life expectancy Female
20	0.13 %	0.16 %	0.01 %	0.01 %	79	84
40	0.21 %	0.35 %	0.07 %	0.04 %	80	84
60	1.48 %	1.94 %	0.63 %	0.36 %	82	85
80	-	-	5.91 %	3.91 %	87	89

Note 7 – Tangible fixed assets

PARENT COMPANY

(Amounts in NOK million)	Electrotech. equipment	ICT equipment	Buildings and land	Other operating equipment	Total
Acquisition cost at 01.01.06	**13 915**	**658**	**1 015**	**361**	**15 949**
Additions, acquisition cost	635	94	128	10	867
Disposals, acquisition cost	44	93	6	3	146
Acquisition cost at 01.01.07	14 506	659	1 137	368	16 670
Additions, acquisition cost	439	103	85	27	654
Disposals, acquisition cost	88	7	7	5	107
Acquisition cost at 31.12.07	**14 857**	**755**	**1 215**	**390**	**17 217**
Ordinary depreciation at 01.01.06	**5 639**	**441**	**234**	**117**	**6 431**
Ordinary depreciation for year	547	119	23	15	704
Disposals, ordinary depreciation	32	89	3	3	127
Ordinary depreciation at 01.01.07	**6 154**	**471**	**254**	**129**	**7 008**
Ordinary depreciation for year	330	111	35	13	489
Disposals, ordinary depreciation	95	6	2	4	107
Ordinary depreciation at 31.12.07	**6 389**	**576**	**287**	**138**	**7 390**
Book value at 31.12.06	**8 352**	**188**	**883**	**239**	**9 662**
Book value at 31.12.07	**8 468**	**179**	**928**	**252**	**9 827**
Of which, financial leasing:					
31.12.06	0	28	0	0	28
31.12.07	0	52	0	0	52
Depreciation rate (straight-line) (%)	1.8 - 6.6	5.0 - 33	0 - 2	10 - 33	

Notes

Note 7 – Tangible fixed assets (continued)

GROUP

(Amounts in NOK million)	Electrotech. equipment	ICT equipment	Buildings and land	Other operating equipment	Total
Acquisition cost at 01.01.06	**13 915**	**658**	**1 016**	**380**	**15 969**
Additions, acquisition cost	635	94	128	11	868
Disposals, acquisition cost	44	93	7	3	147
Acquisition cost at 01.01.07	**14 506**	**659**	**1 137**	**388**	**16 690**
Additions, acquisition cost	439	103	85	30	657
Disposals, acquisition cost	88	7	7	5	107
Acquisition cost at 31.12.07	**14 857**	**755**	**1 215**	**413**	**17 240**
Ordinary depreciation at 01.01.06	**5 639**	**441**	**234**	**132**	**6 446**
Ordinary depreciation for year	547	119	23	16	705
Disposals, ordinary depreciation	32	89	3	3	128
Ordinary depreciation at 01.01.07	**6 154**	**471**	**254**	**144**	**7 023**
Ordinary depreciation for year	329	111	35	15	490
Disposals, ordinary depreciation	94	6	2	4	106
Ordinary depreciation at 31.12.07	**6 389**	**576**	**287**	**155**	**7 407**
Book value at 31.12.06	**8 352**	**188**	**883**	**244**	**9 667**
Book value at 31.12.07	**8 468**	**179**	**928**	**258**	**9 833**
Of which, financial leasing:					
31.12.06	0	28	0	0	28
31.12.07	0	52	0	0	52
Depreciation rate (straight-line) (%)	1.8 - 6.6	5.0 - 33	0 - 2	10 - 33	

Note 8 – Plant under construction

PARENT COMPANY 2006	PARENT COMPANY 2007	(Amounts in NOK million)	GROUP 2007	GROUP 2006
818	2123	Acquisition cost at 1 January	2 123	818
2 180	2982	Additions during the year	2 982	2 180
-861	-655	Transferred to tangible fixed assets	-655	-861
-14	-17	Write-offs	-17	-14
2 123	**4 433**	**Acquisition cost at 31 December**	**4 433**	**2 123**
-5	-8	Accumulated write-downs	-8	-5
-3	17	Effect of hedged forward exchange contracts	17	-3
2 115	**4 442**	**Balance sheet value at 31 December**	**4 442**	**2 115**
-16	-25	Potential and actual write-downs	-25	-16
23	5	Reversed latent write-downs	5	23
7	**-20**	**Write-downs(-)/reversals for the year**	**-20**	**7**

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.

Notes

PARENT COMPANY 2006	PARENT COMPANY 2007	(Amounts in NOK million)	GROUP 2007	GROUP 2006
		Additions during the year break down as follows:		
1 747	2 366	Materials and subcontractors	2 366	1 747
145	149	Wages, social security costs	149	145
215	326	Other operating costs	326	215
2 107	**2 841**	**Total operating costs**	**2 841**	**2 107**
73	141	Interest on construction loans	141	73
2 180	**2 982**	**Total**	**2 982**	**2 180**

The year's change in stocks is carried as a reduction of the respective items in the income statement.

Note 9 – Other operating costs

PARENT COMPANY 2006	PARENT COMPANY 2007	(Amounts in NOK million)	GROUP 2007	GROUP 2006
18	21	Lease rentals payable	23	19
76	79	Contracted personnel/consultants	79	76
33	34	Insurance	18	49
302	145	Materials and subcontractors	152	299
94	98	Property tax	98	94
42	46	ICT	46	42
105	118	Miscellaneous	113	83
670	**541**	**Total other operating costs**	**529**	**662**

PARENT COMPANY 2006	PARENT COMPANY 2007	(Amounts in NOK million)	GROUP 2007	GROUP 2006
		OPERATIONAL LEASE AGREEMENTS		
		Lease rentals payable		
10	10	Buildings	12	11
3	7	Contracted Communication	7	3
5	4	Other	4	5
18	**21**	**Total lease rentals payable**	**23**	**19**

Statnett has no major non-terminable operational lease agreements falling due after one year.

Note 10 – Financial items

Financial risk

The object of Statnett SF's financial policy is to ensure that the enterprise achieves the necessary financing of planned operational and investment programmes at the lowest possible cost. Statnett SF's financial policy also comprises aims for minimising the enterprise's credit risk, interest rate risk and foreign exchange risk. Statnett SF uses financial derivatives to control the financial risk.

Statnett SF's asset management is performed in accordance with defined limits. The funds shall be easily accessible and are therefore invested in easily tradable securities and assets with low credit risk, minimum rated BBB+.

Notes

Note 10 – Financial items (continued)

Fair value

The fair value of forward exchange contracts is determined by applying the forward exchange rate on the balance sheet date. The fair value of currency swaps and interest rate swaps is calculated as the present value of future cash flows. Fair value is in the main confirmed by the financial institution with which Statnett has entered into such contracts.

Under IFRS 7, there is a requirement to disclose the fair value of financial assets and long-term liabilities accounted for at amortised cost. Fair value is calculated by
- using quoted market prices,
- using interest rate terms for liabilities with a corresponding maturity and credit risk, or
- using the present value of estimated cash flows discounted by the rate of interest that applies to corresponding liabilities and assets on the balance sheet date.

In the case of financial instruments such as available-for-sale financial assets, trade account receivables and other short-term receivables, liquid assets and trade accounts payable and other current liabilities it is assumed because of the short-term nature of the items that the book value is a good estimate of fair value.

PARENT COMPANY

		2007		2006	
(Amounts in NOK million)	**Category**	**Book value**	**Fair value**	**Book value**	**Fair value**
ASSETS					
Fixed assets					
Long-term receivables	Amortised cost	50	56	50	58
Equity & subord. capital in pension fund	Fair value	15	15	15	15
Financial assets available for saleavailable for sale	Financial assets	3	3	2	2
Derivatives	Fair value	76	76	82	82
Total fixed asset investments		**144**	**150**	**149**	**157**
Current assets					
Trade accounts receivable	Loans and receivables	370	370	575	575
Derivatives	Fair value	4	4	3	3
Other short-term receivables	Loans and receivables	79	79	180	180
Total trade accounts and other short-term receivables		**453**	**453**	**758**	**758**
Investment in market-based securities	Fair value	325	325	374	374
Liquid assets	Fair value	440	440	160	160
DEBT					
Long-term interest-bearing debt	Amortised cost	6 302	6 309	6 929	6 946
Derivatives	Fair value	430	430	148	148
Total long-term interest-bearing debt		**6 732**	**6 739**	**7 077**	**7 094**
Short-term interest-bearing debt	Amortised cost	2 559	2 559	674	674
Derivatives	Fair value	18	18	1	1
Total short-term interest-bearing debt		**2 577**	**2 577**	**675**	**675**
Trade accounts payable and other short-term debt	Loans and receivables	**1 093**	**1 093**	**862**	**862**

Notes

GROUP

(Amounts in NOK million)	Category	2007 Book value	2007 Fair value	2006 Book value	2006 Fair value
ASSETS					
Fixed assets					
Long-term receivables	Amortised cost	50	56	50	58
Equity & subord. capital in pension fund	Fair value	15	15	15	15
Financial assets available for sale	Financial assets available for sale	3	3	2	2
Derivatives	Fair value	76	76	82	82
Total fixed asset investments		**144**	**150**	**149**	**157**
Current assets					
Trade accounts receivable	Loans and receivables	373	373	579	579
Derivatives	Fair value	4	4	3	3
Other short-term receivables	Loans and receivables	79	79	180	180
Total trade accounts and other short-term receivables		**456**	**456**	**762**	**762**
Investment in market-based securities	Fair value	**562**	**562**	**605**	**605**
Liquid assets	Fair value	**476**	**476**	**185**	**185**
DEBT					
Long-term interest-bearing debt	Amortised cost	6 302	6 309	6 929	6 946
Derivatives	Fair value	430	430	148	148
Total long-term interest-bearing debt		**6 732**	**6 739**	**7 077**	**7 094**
Short-term interest-bearing debt	Amortised cost	2 559	2 559	674	674
Derivatives	Fair value	18	18	1	1
Total short-term interest-bearing debt		**2 577**	**2 577**	**675**	**675**
Trade accounts payable and other short-term debt	Loans and receivables	**1 093**	**1 093**	**867**	**867**

FINANCIAL INCOME AND FINANCIAL COST

PARENT COMPANY 2006	PARENT COMPANY 2007	(Amounts in NOK million)	GROUP 2007	GROUP 2006
		Financial income		
-	12	Income from investment in subsidiaries	-	-
11	15	Income from investment in joint ventures	-	-
5	5	Income from investment in associated companies	-	-
33	51	Interest received	59	36
35	8	Change in value of derivatives	8	35
9	32	Other financial income	37	23
93	**123**	**Total financial income**	**104**	**94**
		Financial costs		
301	399	Interest paid	399	301
-73	-141	Capitalised construction loan interest	-141	-73
14	46	Other financial costs	48	14
242	**305**	**Total financial costs**	**307**	**242**

Notes

Note 10 – Financial items (continued)

Trade accounts receivable by age	Not due	1-30 days	31-60 days	61-90 days	Over 90 days	Total trade accts receivable
	360	7	2	0	1	370

No provision has been made for losses on claims.

INTEREST-BEARING ASSETS AND LIABILITIES

Repayment profile for interest-bearing debt for Parent Company

The loans are measured at amortised cost with deductions for the effect of value hedging.

Maturity date (Amounts in NOK million)	2008	2009	2010	2011	2012	Sum
Fixed rate						
Certificate loans	1 000	-	-	-	-	1 000
Other interest-bearing debt	59	-	-	-	-	59
Bond loans	1 000	-	760	-	4 180	5 940
Total fixed rate	**2 059**	**-**	**760**	**-**	**4 180**	**6 999**
Variable rate						
Bond loans	500	-	-	-	569	1 069
Loans from financial institutions	-	-	-	-	793	793
Total variable rate	**500**	**-**	**-**	**-**	**1 362**	**1 862**
Total short-term debt	2 559	-	-	-	-	2 559
Total long-term debt	-	-	760	-	5 542	6 302
Total interest-bearing debt	**2 559**	**-**	**760**	**-**	**5 542**	**8 861**

Government-guaranteed loans

Loans raised by Statnett SF prior to 31 December 2002 are backed by Government guarantee and are guaranteed until the loans mature. Loans raised after 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 2007 was NOK 1 087 million.

Loans by currency at 31.12.07 (Amounts in NOK million)	Average int. rate [1]	Loan amount in currency	Loan amount in NOK
Currency			
NOK	5.32 %	6 354	6 354
JPY	5.59 %	10 000	489
CHF	5.41 %	400	1 849
SEK	5.37 %	200	169
Total			**8 861**

[1] All foreign currency loans are converted to Norwegian kroner (NOK) using currency swap and interest swap agreements. The average interest rate is the average interest rate on interest-bearing debt including currency swap and interest swap agreements at 31.12.2007.

Notes

Fixed-rate terms in the loan portfolio (Amounts in NOK million)	**2008**	**2009**	**2010**	**2011**	**2012**	**Total**
	6 214	-	760	-	1 887	8 861

The above table shows when the loans are subject to their next interest rate adjustment. All currency swap/interest swap agreements that relate to the loans are taken into account.

PARENT COMPANY			**GROUP**	
Acquisition cost	**Capitalised value**	(Amounts in NOK million)	**Acquisition cost**	**Capitalised value**
		MARKET-BASED SECURITIES		
21	21	Government	59	56
-	-	State enterprises	5	5
-	-	Municipalities/municipal enterprises	10	10
256	250	Financial institutions including banks	348	342
56	54	Private issuers/industry	80	78
333	**325**	**Total bonds**	**502**	**491**
-	-	Norwegian shares	24	46
-	-	Foreign shares	2	3
-	**-**	**Total shares**	**26**	**49**
-	-	Foreign equities funds	20	22
-	**-**	**Total funds**	**20**	**22**
333	**325**	**Total market-based securities**	**548**	**562**

All bonds are stated at nominal value in Norwegian kroner (NOK).

Liquidity risk
Statnett SF aims to be able to carry out 12 months of operations, investment and refinancing without raising any new debt. This will make Statnett less vulnerable during periods of low accessibility to capital in the financial markets and periods with less favourable borrowing conditions. Statnett has a credit facility of NOK 2.0 billion which runs until 2012, which will help Statnett obtain sufficient financial flexibility to execute the enterprise's investment programme in the next few years.

Statnett SF has a high credit rating. Standard & Poor's and Moody's Investor Service have given Statnett SF credit ratings for long-term borrowing of AA- and Aa3 respectively. The high credit ratings afford Statnett SF good borrowing opportunities.

Credit risk
Statnett SF is exposed to credit risk by investing surplus liquidity with issuers of securities and by the use of various interest-rate and currency derivatives. In order to limit this risk, Statnett has set limits based on the creditworthiness of counterparties, and maximum exposure for each counterparty. Creditworthiness is assessed at least once a year, and the counterparty risk is continually monitored to ensure that Statnett's exposure does not exceed the set credit limits and is in compliance with internal rules.

Foreign exchange risk
Foreign exchange risk is the risk that fluctuations in exchange rates will lead to changes in Statnett's income statement and balance sheet. To minimise foreign exchange risk, all foreign currency loans are converted to Norwegian kroner (NOK) using currency swaps. The liabilities undertaken by Statnett in foreign currencies in connection with investment projects are hedged using currency swaps. At 31 December 2007, the only currency exposures not hedged or set aside as provisions for future payments, were bank deposits in foreign currencies equivalent to NOK 34 million and foreign equities funds equivalent to NOK 23 million.

Notes

Note 10 – Financial items (continued)

EXCHANGE RATE SENSITIVITY

PARENT COMPANY 2006	PARENT COMPANY 2007	EFFECT ON RESULT OF CHANGE IN RATE OF NOK (Amounts in NOK million)	GROUP 2007	GROUP 2006
-3	-2	+5 %	-3	-4
3	2	-5 %	3	4

The table shows Statnett's sensitivity to potential changes in the rate of the Norwegian krone, if other factors remain constant. The calculation is based on an identical change in relation to all currencies. The effect on the result is owing to a change in value of monetary items that are not fully hedged. Other monetary items and all foreign currency debts are hedged, and the change in value is matched by a change in value of the derivative.

Interest rate risk

The Statnett Group is exposed to interest rate risk through its loan portfolio, liquid assets and financial hedges. The parent company Statnett SF is exposed to interest rate levels on which the revenue ceiling for the grid operations is based (the NVE interest rate).

In order to reduce the interest rate risk and minimise fluctuations in results, the interest rate on Statnett's debt must correlate as much as possible with the NVE interest rate. The NVE interest rate is calculated on the basis of daily averages of the effective interest rate on 5-year Norwegian government bonds. To achieve the desired fixed-interest period on the enterprise's debt, interest swap agreements are used that are linked to the underlying debt.

Interest rate sensitivity

The following table shows the sensitivity of the parent company and the group to potential changes in interest rate levels. The calculation takes account of all interest-bearing instruments and associated interest rate derivatives. It shows the effect on results of a change in interest rates at 31.12.2006 and 31.12.2007.

PARENT COMPANY 2006	PARENT COMPANY 2007	(Amounts in NOK million)	GROUP 2007	GROUP 2006
		Effect on result of change in interest rates		
-5	-5	+1 %	-6	-7
5	5	-1 %	6	7

Average effective interest rate

The table below shows the average effective interest rate for the individual financial instruments for the full-years 2006 and 2007.

PARENT COMPANY 2006	PARENT COMPANY 2007	(Figures in percentage)	GROUP 2007	GROUP 2006
2.55 %	-	Certificates	4.65 %	2.69 %
2.38 %	4.03 %	Bonds	4.00 %	2.32 %
2.90 %	4.78 %	Deposits	4.78 %	2.89 %
-	-	Shares and equities funds	5.56 %	26.77 %
4.27 %	4.76 %	Loans	4.76 %	4.27 %

Notes

DERIVATIVES

Interest rate and currency swaps:

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

In Statnett, All interest rate and currency swaps are related to underlying loans. Any loss/(gain) on the swap will therefore be equal to the gain/(loss) on the loan.

Maturity (NOK million)	Principal Lending	Principal Borrowing	Market value*	Int rate terms Statnett receives	Int rate terms	Statnett pays
Free standing						
2008	NOK 200	NOK 200	-	Fixed rate	Nibor 6 mnths	Short
2008	NOK 200	NOK 200	-1	Nibor 6 mnths	Fixed rate	Short
2008	NOK 300	NOK 300	-2	Nibor 6 mnths	Fixed rate	Short
2008	NOK 800	NOK 800	1	Fixed rate	Nibor 6 mnths	Short
2010	NOK 250	NOK 250	4	Nibor 6 mnths	Fixed rate	Long
2010	NOK 282	NOK 282	13	Nibor 6 mnths	Fixed rate	Long
2010	NOK 250	NOK 250	8	Nibor 6 mnths	Fixed rate	Long
2010	NOK 87	NOK 87	4	Nibor 6 mnths	Fixed rate	Long
2015	NOK 200	NOK 200	-5	Fixed rate	Nibor 6 mnths	Long
2015	NOK 200	NOK 200	17	Nibor 6 mnths	Fixed rate	Long
Total			**39**			
Cash flow						
2008	NOK 250	NOK 250	-	Nibor 3 mnths	Fixed rate	Short
2008	NOK 250	NOK 250	1	Nibor 3 mnths	Fixed rate	Short
2014	NOK 200	NOK 200	14	Nibor 6 mnths	Fixed rate	Long
2014	NOK 200	NOK 200	16	Nibor 6 mnths	Fixed rate	Long
Total			**31**			
Value hedging						
2008	NOK 571	NOK 500	1	Fixed rate	Nibor 6 mnths	Short
2023	NOK 600	NOK 600	-40	Fixed rate	Nibor 6 mnths	Long
2025	NOK 600	NOK 600	-42	Fixed rate	Nibor 6 mnths	Long
2010	CHF 150	NOK 782	-68	Fixed rate CHF	Nibor 6 mnths	Long
2010	JPY 1000	NOK 87	-37	Fixed rate JPY	Nibor 6 mnths	Long
2014	JPY 5000	NOK 296	-55	Fixed rate JPY	Nibor 6 mnths	Long
2017	CHF 250	NOK 1290	-166	Fixed rate CHF	Nibor 6 mnths	Long
2019	JPY 4000	NOK 201	-4	Fixed rate JPY	Nibor 6 mnths	Long
2021	SEK 200	NOK 180	-11	Stibor 3 mnths	Nibor 6 mnths	Long
Total			**-422**			

* Market value is not inclusive of accrued interest. In the case of combined interest rate and currency swaps, the unrealised currency effect is included in the market value.

As of 31 December 2007 Statnett had no interest rate swaps with start in the future.

Interest rate options:

Statnett had no interest rate options at 31 December 2007.

Forward exchange contracts:

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

Notes

10 – Financial items (continued)

Currency (NOK million)	Nominal in currency	Nominal in NOK	Average hedge rate	Market rate**	Market value	Of which assets
CHF	3	14	5.02	4.88	-	-
EUR	15	122	8.13	8.04	-2	-
SEK	362	324	89.50	85.52	-15	-
USD	40	217	5.43	5.43	-	1
Total forw. exch. contracts		**677**			**-17**	**1**

**The market rate is the average forward rate.

All contracts are linked to capital expenditure on plant in foreign currency. Unrealised gains/losses on forward exchange contracts reduce/ increase the cost price of the investments upon disposal.

Value adjustments carried directly against equity

Value changes on cash flow hedges carried directly against equity:

PARENT COMPANY			GROUP	
2006	**2007**	(Amounts in NOK million)	**2007**	**2006**
-17	21	Fair value of cash flow hedges OB	21	-17
38	10	Value changes through the year	10	38
-	-	Gains recognised on income statement	-	-
-	-	Ineffectivity	-	-
21	31	Fair value of cash flow hedges CB	31	21

Notes

Note 11 – Taxation

PARENT COMPANY 2006	PARENT COMPANY 2007	(Amounts in NOK million)	GROUP 2007	GROUP 2006
		Tax on results		
73	110	Tax payable	117	77
-37	110	Change in deferred tax assets	112	-36
36	**220**	**Tax charge**	**229**	**41**
72	111	Tax payable for the year	118	77
1	-1	Excess/insufficient provision for tax payable in previous years	-1	-
73	**110**	**Tax payable**	**117**	**77**
-37	**110**	**Deferred tax assets as a result of changes in temporary differences**	**112**	**-36**
26 %	**27 %**	**Effective tax rate**		
		Reconciliation of effective tax rate against Norwegian tax rate		
141	818	Profit before tax charge	880	204
39	229	28 % tax	246	57
1	1	Other non-deductible expenses 28 %	1	1
-5	-9	Non-taxable income 28 %	-1	-5
0	0	Other 28 %	0	0
-	-	Share of profit in joint ventures and associated companies	-16	-12
1	-1	Excess/insufficient provision for tax payable in previous years	-1	-
36	**220**	**Tax charge**	**229**	**41**
		Deferred tax assets on the balance sheet		
49	-62	Fixed assets	-61	51
18	26	Profit and loss account	25	16
24	-	Higher/lower revenue*	-	24
-8	-	Prepaid rents (higher revenue)*	-	-8
-	-	Technical provisions (insurance)	-38	-36
87	93	Pensions	94	88
2	2	Securities	2	2
-11	-8	Financial instruments (ex. cash flow hedging)	-8	-11
-6	-9	Cash flow hedging	-9	-6
1	1	Provision according to good accounting practice	1	1
156	**43**	**Deferred tax assets (net) accounted for**	**6**	**121**
		Deferred tax assets carried directly against equity		
-57	-57	Implementation IFRS Framework (higher/lower revenue) *	-57	-57
77	77	Implementation IAS 19 (Pensions)	77	77
1	1	Implementation IAS 39 (Financial Instruments)	1	1
-6	-9	Cash flow hedging	-9	-6
15	**12**	**Total**	**12**	**15**

* Higher/lower revenue does not qualify for capitalisation on the balance sheet according to IFRS Framework

In 2007, the Central Tax Office for Large Enterprises issued a temporary interpretation according to which higher/lower revenue is to be taxed in accordance with the principle of ordinary disposal. This has been taken into account by reversing the temporary difference which arose upon implementation of IFRS in 2007.

Notes

PARENT COMPANY

Changes in temporary differences (Amounts in NOK million)	**31.12.06**	**Recognised**	**Carried against EQ**	**31.12.07**
Fixed assets	-174	397		223
Profit and loss account	-63	-30		-93
Higher/lower revenue	-85	85		0
Prepaid rents (higher revenue)	27	-27		0
Pensions	-312	-19		-331
Securities	-8	-		-8
Financial instruments (ex. cash flow hedges)	41	-14		27
Cash flow hedges	21	-	11	32
Provision according to good accounting practice	-3	1		-2
Total	**-556**	**393**	**11**	**-152**

GROUP

Changes in temporary differences (Amounts in NOK million)	**31.12.06**	**Recognised**	**Carried against EQ**	**31.12.07**
Fixed assets	-181	398		217
Profit and loss account	-57	-31		-88
Higher/lower revenue	-85	85		0
Prepaid rents (higher revenue)	27	-27		0
Technical provisions (insurance)	127	8		135
Pensions	-314	-20		-334
Securities	-7	-1		-8
Financial instruments (ex. cash flow hedges)	41	-14		27
Cash flow hedges	21	-	11	32
Provision according to good accounting practice	-3	1		-2
Total	**-431**	**399**	**11**	**-21**

Note 12 – Investments in subsidiaries, joint ventures and associated companies

Statnett SF had the following investments at 31.12.2007:

Company (Amounts in NOK 1 000)	**Type**	**Year of acquisition**	**Registered office**	**Share-holding**	**Voting rights**	**Acquisition cost**	**Book value**
Datterselskaper							
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
Total subsidiaries						**36 980**	**48 621**
Joint ventures							
Nord Pool ASA	Jointly-controlled	1992	Bærum	50.0 %	50.0 %	102 190	102 190
Associated companies							
Nord Pool Spot AS*	Associated companies	2002	Bærum	20.0 %	20.0 %	320	320
Total shareholdings in subsidiaries, joint ventures an associated companies						**139 490**	**151 131**

* The Group's direct and indirect shareholdings are 30%

Notes

Summary of financial information on associated companies, based on 100 per cent

Group (Amounts in NOK 1 000)	Assets	Liabilities	Equity	Overating revenues	Profit after tax
Nord Pool Spot Group	3 506 194	3 356 382	149 812	98 111	32 458

Financial information on assets, liabilities, revenues and costs of joint ventures

Nord Pool ASA Group, based on 100% (Amounts in NOK 1 000)	2007	2006
Assets		
Current assets	11 253 424	11 179 351
Fixed assets	191 848	130 864
Liabilities		
Short-term liabilities	-10 617 662	-10 576 415
Long-term liabilities	-132 826	-123 689
Net assets	**694 784**	**610 111**
Operating revenues	368 501	327 089
Operating costs	-256 708	-257 780
Net financial items	30 218	18 014
Profit before tax	142 011	87 323
Tax	-38 545	-23 548
Profit after tax	**103 466**	**63 775**

Investments in joint ventures and associated companies are carried in the consolidated accounts using the equity method.

EXPECTED CHANGES IN THE STATNETT GROUP FOR THE 2008 FINANCIAL YEAR

Nord Pool ASA sells itself out of European Energy Exchange AG (EEX)

Nord Pool ASA has entered into an agreement to sell its 17.39 per cent stake in European Energy Exchange AG (EEX) to Eurex, which already has a large shareholding in the Leipzig-based EEX. The agreement between Nord Pool ASA and Eurex has been signed and will give Nord Pool EUR 6.60 per share, that is to say a total sales value of EUR 46 million.

According to the syndicate agreement that applies to EEX, the other shareholders in EEX have a pre-emptive right to purchase the shares when one party sells out. The pre-emptive right is expected to expire in the second half of 2008.

The sales transaction will be carried out as soon as the matter of the pre-emptive right of purchase has been settled.

Nord Pool ASA sells its clearing and consultancy division to OMX Nordic Exchange

A letter of intent has been signed for the sale of the clearing and consultancy division, as well as the international derivative products in Nord Pool ASA, to OMX Nordic Exchange (OMX). The purchaser must be granted a licence before the contract is final. Nord Pool expects the price to amount to about NOK 2.3 billion.

The acquisition comes after a long period of good working relations between OMX and Nord Pool, in which OMX has supplied and operated Nord Pool's trading and clearing platforms. The transaction will lay the foundation for geographical expansion within Nord Pool's core area of electricity, and strengthen the existing product offerings.

The transaction will involve OMX purchasing 100 per cent of the shares in Nord Pool ASA's subsidiaries Nord Pool Clearing ASA and Nord Pool Consulting AS, in addition to a new subsidiary that will cover Nord Pool's international product portfolio as CO_2 products (EUA and CER) and international power contracts.

Nord Pool Spot AS, which is responsible for the physical power market in the Nordic region, is not included in this transaction. This means that the Nordic grid companies will still remain responsible for the physical market where the daily Nordic electricity price is set. The shares in EEX do not form part of the transaction.

Notes

Note 12 – Investments in subsidiaries, joint ventures and associated companies (continued)

OMX will pay the sum of NOK 2 150 million when the final contract is signed, with NOK 1 700 million in the form of cash and NOK 450 million in the form of a bill of exchange payable to the present owners of Nord Pool ASA, which falls due within 18 months of the signing of the contract. OMX also undertakes potentially to pay further compensation based on traded volume over a five-year period.

The transaction is expected to be completed in the second half of 2008.

Purchase and sale options
OMX has the right to purchase the remaining commercial operations or the shares in Nord Pool ASA for NOK 80 million, adjusted for inflation after December 2007. The option does not include Nord Pool Spot AS or the shares in EEX. The option will lapse if OMX or Nord Pool International AS sells the shares in Nord Pool Clearing ASA, Nord Pool Consulting AS or Nord Pool International AS to other owners.

Similarly, Nord Pool has the right to sell the remaining commercial operations or the shares in Nord Pool ASA for NOK 80 million, adjusted for inflation after December 2007. The sales price shall be adjusted for any dividend, with certain exceptions. The exercise of the option is conditional upon the approval of the respective authorities.

Note 13 – Related parties

At 31 December 2007, Statnett SF was wholly owned by the Norwegian State through the agency of the Royal Ministry of Petroleum and Energy (OED). Statnett has the following relations with OED:

Regulatory authority
The Norwegian Parliament (Storting) is the legislative authority that passes legislation based on bills put forward by the Government. Regulations are passed by the King in Council. OED administers its part of this, and delegates, for example, the administration of the greater part of the Energy Act to the Norwegian Water Resources and Energy Directorate (NVE). Pursuant to the Norwegian Public Administration Act, any administrative decision made by NVE can be appealed to the superior authority, OED.

Loans
OED is the guarantor for loans raised prior to 1 January 2003. See Note 10.

Other related parties:

Parent Company	Subsidiaries	Associated companies	Joint ventures
Statnett SF	Statnett Transport AS	Nord Pool Spot AS	Nord Pool ASA Konsern
	Statnett Forsikring AS		
	Statnett Skagerrak AS		

The subsidiaries are all wholly owned by Statnett SF.

Nord Pool ASA is owned 50:50 by Statnett SF and Affärsverket Svenska Kraftnät of Sweden.
Statnett has a direct stake in Nord Pool Spot AS of 20 per cent, while other Nord Pool companies are owned through the stake in Nord Pool ASA.

Transactions with controlling companies
The Statnett Group has carried out a number of different transactions with controlling companies. All transactions were made as part of the normal commercial operations and at current market prices. The most important transactions were as follows:

The insurance company Statnett Forsikring AS is licensed to provide cover for risks associated with companies in the Statnett Group, and operates both as a direct underwriter and as a reinsurer of Statnett's risks covered by other insurers. For 2007, Statnett SF paid premium totalling NOK 36 million, while the amount for the Group was NOK 37 million. The corresponding figures for the Parent Company and the Group for 2006 were, respectively, NOK 33 million and NOK 34 million.

Statnett Transport AS operates a heavy transport business on land and sea, and in 2007 sold transport services to Statnett SF for NOK 20 million. The corresponding figure for 2006 was NOK 19 million.

Notes

Statnett SF has provided a long-term loan of NOK 50 million to Nord Pool ASA. The loan to Nord Pool ASA was made in the sum of NOK 50 million from each of the company's two owners, and takes priority after all other debt. The loan was disbursed in February 2002 and runs as an interest-only loan until it matures in its entirety after 10 years. The borrower can redeem the loan or part of the loan plus accrued interest by giving one month's written notice, subject to the written consent of the Financial Supervisory Authority of Norway. The loan has a fixed interest rate of 6.25 per cent per annum and interest paid amounts to NOK 3.1 million per annum. The lending terms were based on market terms at the date the loan agreement was renegotiated, as of 20 February 2007.

Statnett SF purchases transmission losses at Nord Pool Spot on a daily basis. The purchase and sale of energy at Nord Pool Spot is settled at the power exchange's market prices, and is executed in accordance with the arm's length principle.

In 2007, Statnett SF received dividends totalling NOK 11.9 million from Statnett Forsikring AS, NOK 15 million from Nord Pool ASA and NOK 5 million from Nord Pool Spot AS.

Statnett SF carries out certain administrative tasks for Statnett Transport and Statnett Forsikring. The salary of the general manager of Statnett Forsikring is paid by Statnett SF but then charged to the subsidiary. For 2007, Statnett SF has charged Statnett Transport AS in the amount of NOK 1 million and Statnett Forsikring AS in the amount of NOK 2 million. The corresponding figures for 2006 were NOK 1 million charged to Statnett Transport and NOK 2 million to Statnett Forsikring.

Joint venture partners
The Dutch TSO, TenneT TSO BV, and Statnett SF have laid a subsea cable to transport energy between Norway and The Netherlands, known as the NorNed cable. Each party owns its physical half-share of the cable, with Statnett owning the northern part and TenneT owning the southern part. The NorNed cable is expected to become operational May 2008. Costs and revenues connected with the operation of the NorNed cable will be shared equally between TenneT and Statnett.

OED has given its approval for Statnett and TenneT to perform explicit auction as a temporary trading solution for power exchange between Norway and The Netherlands up until 31 December 2008.

For information on benefits to Group Management, see Note 5.

(Amounts in NOK milllion)	Trade accounts receivable 2006	2007	Long-term lending 2006	2007	Trade accounts payable 2006	2007
Subsidiaries	20	8	-	-	1	2
Joint ventures	4	5	50	50	1	0
Total	**24**	**13**	**50**	**50**	**2**	**2**

Note 14 – Events after the balance sheet date

Statnett is in the process of building a new ship, the Elektron (build 188), at Flekkefjord Mekaniske Verksted. The shipyard is having financial problems, as a result of which the delivery of the vessel is delayed. New date of delivery is 26 April 2008. Statnett has bank guarantees for the sums paid, which fall due ultimo August 2008.

Nord Pool ASA entered into an agreement on 27 February 2008 to sell its 17.39 per cent stake in European Energy Exchange AG (EEX) to Eurex. See Note 12.

Note 15 – Secured debts, guarantees

Neither the Parent Company, nor any subsidiaries or joint ventures 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.

Notes

Note 16 – Explanation of transition to IFRS

EFFECTS OF TRANSITION TO IFRS ON STATNETT'S ACCOUNTING POLICIES

This note should be read in conjunction with Note 1 IFRS Accounting Principles. Below is a summary of the IFRS Transition Report dated 31 March 2007. For a complete overview of the transition to IFRS, please refer to the IFRS Transition Report.

Basis for transition to IFRS (IFRS 1)

The International Accounting Standards Board (IASB) published its first International Financial Reporting Standard (IFRS 1) in June 2003 and has amended this standard after this date up until 31 December 2006.

IFRS 1 requires that enterprises must perform the following:

- Identify what accounts are the first IFRS accounts
- Adopt accounting policies that are in accordance with IFRS and apply these with certain exceptions retrospectively for all the periods that are included in the first IFRS accounts
- Select what optional exceptions from retrospective application of accounting policies shall be used
- Follow the mandatory exceptions from retrospective application of accounting policies
- Prepare an IFRS opening balance sheet for the date of transition to IFRS
- Prepare additional information that is required to explain the transition to IFRS.

IFRS 1 has been applied to the preparation of Statnett's opening balance sheet (group and parent company) as of 1 January 2006. The opening balance sheet is the point of departure for all subsequent reporting under IFRS. The accounting effects resulting from the first-time adoption of IFRS are summarised in the tables below.

The basic principle of IFRS 1 is full retrospective application of all IFRSs that are in force on the first reporting date of 31 December 2007. The first report published by Statnett in accordance with IFRS was for the first quarter of 2007.

Exceptions have been applied to the retrospective restatement obligation stated in IFRS 1 concerning pension liabilities that were not recognised in the accounts as of 1 January 2006. All estimate variances as of this date are recognised in the balance sheet.

Presentation

The annual financial statements for the parent company and group will include the following components in accordance with IFRS:

- Income statement
- Balance sheet
- Statement of changes in equity
- Cash flow statement
- Notes to the financial statements, including accounting policies

IFRS requires only comparison figures for the previous period. For the year 2007 Statnett will only present comparison figures for one year.

Statnett will present its income statement by category as before.

DESCRIPTION OF CHANGES IN THE ACCOUNTING POLICIES

Changes in the accounting policies upon transition to IFRS affect the following areas:

Financial instruments

Hedges and derivatives are included in the balance sheet at fair value in accordance with IFRS. They were kept off the balance sheet in accordance with NGAAP (Generally Accepted Accounting Principles in Norway). The group's hedging contracts are documented and tested for their effectiveness in accordance with the rules under IFRS. Derivatives are classified and valued in accordance with the rules under IFRS.

Pensions

In accordance with NGAAP, unrecognised estimate variances were not recorded on the balance sheet (but were added to the corridor instead). The introduction of IFRS entails that unrecognised estimate variances are carried against equity on the date of the transition. In the future we will utilise the opportunity in IAS 19 to build up a new corridor. In the future any elimination of the corridor will be recognised through the income statement.

Higher/lower revenue

The basic rule in accordance with IAS 18 (Revenue) is that revenue shall be measured as the invoiced tariff. Recognition of a future right to collect lower revenue or an obligation to reimburse higher revenue in the subsequent years' tariffs as an adjustment of the revenue for the year is not permitted in accordance with IFRS.

IAS 37 (Provisions, Contingent Liabilities and Contingent Assets) does not permit regulatory items such as higher/lower revenue to be recognised in the balance sheet as liabilities or receivables.

Statnett is subject to monopoly control by the Norwegian Water Resources and Energy Directorate (NVE). NVE stipulates a revenue ceiling that represents the revenue level permitted for the collection of the grid leasing tariff. Statnett SF must set the grid rent that will apply for the coming year based on the allotted revenue ceiling and the expected transmission volume. The tariff shall be calculated so that the actual revenue from grid operations over time does not exceed the revenue permitted.

The volume that is transmitted in the power grid may fluctuate greatly based, for example, on climatic conditions and demand. Therefore a discrepancy arises between the allotted revenue ceiling and the invoiced tariff revenue. If the invoiced revenue is less than the revenue

Notes

ceiling for the period (lower revenue), this amount can be added to the tariff for a subsequent period in accordance with the regulations issued by NVE relating to financial and technical reporting. In the opposite case, settled revenue that is greater than the revenue ceiling (higher revenue) shall reduce the future tariff.

Earlier, higher/lower revenue was accrued in the accounts as trade accounts payable and receivable, respectively. This method of accounting was in accordance with NGAAP and in accordance with NVE's regulations.

The method of accounting for higher/lower revenue in accordance with IFRS is expected to result in a greater degree of volatility in Statnett's earnings than before since it must be recognised in the income statement.

The previous capitalised higher/lower revenue was carried against equity upon IFRS adoption.

Other long-term liabilities
In accordance with NGAAP, Statnett SF recognised prepaid revenue in the balance sheet as long-term liabilities. This liability item does not qualify for recognition in the balance sheet in accordance with IAS 37 (Provisions, Contingent Liabilities and Contingent Assets) and has therefore been carried against equity.

The payment referred to a main grid installation that only one customer benefited from when it was purchased. The installation has subsequently been released for general use in the main grid. Under NGAAP a share of the prepayment, including an interest component, was recognised as revenue annually as part of Statnett's revenue ceiling.

Dividends from subsidiaries
In accordance with NGAAP, proposed dividends from wholly owned subsidiaries have been recognised as revenue in Statnett SF as of 31 December 2006. In accordance with IAS 18, dividends received shall be recognised as income when they have been approved by the subsidiary's general meeting. In accordance with IFRS, dividends recognised as revenue have been reversed in the parent company accounts as of 31 December 2006.

Provisions for periodic maintenance
Accounting provisions for the periodic maintenance of vessels in subsidiaries does not qualify for recognition in the balance sheet in accordance with IAS 37 and were reversed upon IFRS adoption.

Deferred tax
No discrepancies have been identified in connection with the accounting for deferred tax in accordance with NGAAP. The implementation of IFRS changes temporary differences and thus affects the deferred tax assets.

Equity
Under NGAAP, proposed dividends were allocated as a current liability. In accordance with IAS 1, proposed dividends shall be classified as part of the equity until they are approved at the general meeting of the following year. Dividend provisions were reclassified as equity in the opening balance sheet.

RESTATEMENT OF PRESENTATION OF THE FINANCIAL STATEMENTS FOR STATNETT SF AND THE STATNETT GROUP
Independently of the transition to IFRS, Statnett has changed the form of presentation for the income statement with respect to power trading and the rental of grids from other owners, as well as the presentation of joint ventures.

Power trading – net versus gross entry in the accounts
Statnett is the Transmission System Operator (TSO) and is responsible for the regulating power system and balance settlement system. System-wide responsibility means that Statnett is responsible for regulating the power system so that there is always balance between consumption and generation.

Regulating power market
Responsibility for the balance settlement system means that Statnett subsequently compares the measured and agreed energy volumes, calculates any discrepancies, and performs financial settlement between the market participants. Settlement is based on the prices in the regulating power market.

Net settlement in the regulating power market in Norway shall add up to zero. Statnett receives a fee per MWh that is settled.

If settlement is performed across national borders in the Nordic region, then it will be performed by Statnett buying/selling in the Norwegian regulating power market with a foreign TSO as the other contracting party. This entails a marginal price difference based on the average for the Norwegian regulating power price and the price in the corresponding foreign market, which passes to or is charged to Statnett as the TSO.

Reasons for net presentation of power trading
In accordance with the licence from the Norwegian Water Resources and Energy Directorate, Statnett has been assigned the role of being responsible for the balance settlement system and for this receives a fixed fee per MWh. The reasons for net entry include:

- Primary trading parties are the power generators and the consumers, not Statnett.
- Margin in the regulating power trading in Norway is zero.
- Credit risk is reduced by the required provision of security.

Statnett has therefore decided to enter power trading in the income statement on a net basis. Power trading is settled primarily as the

Notes

Transmission System Operator (TSO), and the net effect on earnings will be included in the accounting line ”system services”. An effect of the solution selected is that we must also ”get rid of” eliminations from earlier years by changing the form of presentation.

Trade accounts receivable/payable will be presented gross in the balance sheet as before.

Grid operations – net versus gross entry of rental from other owners
Statnett has been assigned the duty of acting as the operator for the main grid in accordance with its trading licence. As the operator for the scheme, Statnett is responsible for preparing annual tariffs, renting installations and drawing up connection contracts with the customers. The main grid shall have a common tariff in accordance with the Norwegian Water Resources and Energy Directorate’s (NVE’s) regulations.

In earlier years Statnett entered the rental of installations from other main grid owners and the associated tariffs on a gross basis.

As the TSO Statnett has the right to manage the other owners’ main grid installations in order to exercise system-wide responsibility. We also have corresponding rights in connection with the operation of regional grids where we are not the operator. We do not have a physical right of use to the actual installations.

The revenue ceiling of other owners is matched exactly by the main grid’s tariff, and there is no profit on the rebilling of their revenue ceiling. This indicates that it is not a commercial rental contract where there would normally be a profit margin, but rather a practical way in which to tariff the overall main grid.

If higher/lower revenue arises, it is a matter only between Statnett as the operator and the customers. It does not involve the other main grid owners. Statnett does not feel that the accounting criteria for gross entry of the other owners’ revenue ceiling are present. The monetary flows to other owners are linked primarily to the settlement function as an operator.

Statnett’s primary revenue from grid operations is its own share of the overall invoiced tariffs.

Nord Pool ASA
In the joint venture company Nord Pool ASA there are cooperation agreements that give joint control together with the other owner. The company was integrated earlier with a proportionate share of assets, liabilities, revenue and expenses on the individual lines in the consolidated accounts (proportionate consolidation method). Under NGAAP it was optional whether the company was consolidated in accordance with the proportionate consolidation method or the equity method.

This option is still available in accordance with IAS 31 on joint ventures.

Nord Pool ASA has operations that differ from those of the parent company. As a result, it is not considered appropriate to merge controlled items with jointly controlled items in the financial accounts. Statnett has chosen therefore to consolidate the company in accordance with the equity method. The effect has been included in the opening balance sheet and the quarterly comparison figures for 2006. In the consolidated balance sheet the ownership interest is recorded at original cost with the addition of accumulated profit shares and deductions for dividends.

Cash flow statement
The cash flow statement has been prepared as before based on the indirect method. Cash includes cash in hand and bank deposits. Cash equivalents are short-term liquid investments that can be converted immediately to a known amount of cash and with a maximum term of three months.

Earlier cash equivalents also included investments in market-based securities. Statnett’s investments in market-based securities have a term that is longer than three months and are not included in cash equivalents in the new presentation. Cash flows from the purchase and sale of such securities are classified as investment activities. Cash equivalents in the new presentation will correspond to the accounting line ”liquid assets” and consist of bank deposits. The amount of liquid assets and investments in securities is evident from the reconciliation of the balance sheet for each quarter.

The implementation of IFRS has no effect on cash flow.

Notes

RECONCILIATION OF OPENING BALANCE SHEET AT 01.01.06

PARENT COMPANY				GROUP			
NGAAP 31.12.05	Effect of transition to IFRS	IFRS 01.01.06	(Amounts in NOK million)	NGAAP 31.12.05	Nord Pool equity methold	Effect of transition til IFRS	IFRS 01.01.06
			ASSETS				
			FIXED ASSETS				
-		-	Computerised trading systems	10	-10		-
104	25	129	Deferred tax assets	73	-3	25	95
9 518		9 518	Tangible fixed assets	9 528	-5		9 523
792		792	Plant under construction	792			792
46		46	Investment in subsidiaries	-			-
102		102	Investment in JVs and ACs**	35	257	14	306
108	54	162	Fixed asset investments*	77	31	54	162
10 670	**79**	**10 749**	**Total fixed assets**	**10 515**	**270**	**93**	**10 878**
			CURRENT ASSETS				
845	-21	824	Trade accounts & other short-term receivables*	855	-11	-21	823
762	6	768	Investment in market-based securities	966		6	972
200		200	Liquid assets	509	-295		214
1 807	**-15**	**1 792**	**Total current assets**	**2 330**	**-306**	**-15**	**2 009**
12 477	**64**	**12 541**	**Total assets**	**12 845**	**-36**	**78**	**12 887**
			EQUITY AND LIABILITIES				
			EQUITY				
2 700		2 700	Contributed capita	2 700			2 700
1 760	22	1 782	Other equity	2 067		37	2 104
4 460	**22**	**4 482**	**Total equity**	**4 767**	**0**	**37**	**4 804**
			LONG-TERM LIABILITIES				
94	236	330	Pension liabilities	102	-6	236	332
-		-	Other liabilities	21		-1	20
4 565	103	4 668	Long-term interest-bearing debt	4 565		103	4 668
29	-29	-	Other long-term liabilities	29		-29	-
4 688	**310**	**4 998**	**Total long-term debt and liabilities**	**4 717**	**-6**	**309**	**5 020**
			CURRENT LIABILITIES				
2 400	3	2 403	Short-term interest-bearing debt	2 400		3	2 403
890	-271	619	Trade accounts payable & other short-term debt*	912	-21	-271	620
39		39	Tax payable	49	-9		40
3 329	**-268**	**3 061**	**Sum kortsiktig gjeld**	**3 361**	**-30**	**-268**	**3 063**
12 477	**64**	**12 541**	**Total short-term liabilities**	**12 845**	**-36**	**78**	**12 887**

* Amounts are summarised in relation to earlier presentations in accordance with NGAAP (Generally Accepted Accounting Principles in Norway).

** JVs and ACs are joint ventures and associated companies that are consolidated using the equity method of accounting.

Notes

RECONCILIATION OF EQUITY

PARENT COMPANY Effect Equity	(Amounts in NOK million)	GROUP Effect Equity
4 460	**Equity 31.12.05 NGAAP**	**4 767**
	IFRS effects:	
-1	Financial instruments exclusive cash flow hedges	-1
-12	Cash flow hedges	-12
-199	Pension assets/liabilities	-199
126	Higher/lower revenue	126
21	Prepaid rents	21
	Other liabilities	1
	Shares in group companies using the equity method	14
87	Provision for dividend	87
22	**Total changes in equity 01.01.06**	**37**
4 482	**Total equity 01.01.06 IFRS**	**4 804**

RECONCILIATION OF INCOME STATEMENT 2006

PARENT COMPANY 2006 NGAAP	Reclass. from gross to net	Effect of transition to IFRS	2006 IFRS	(Amounts in NOK million)	GROUP 2006 NGAAP	Reclass. from gross to net	Effect of transition to IFRS	2006 IFRS
				OPERATING REVENUES				
3 466	-344		3 122	Power transmission	3 466	-344		3 122
		-260	-260	Higher(+)/lower(-) revenue for period			-260	-260
2 878	-2 878		0	Power sales	2 878	-2 878		0
317	3	-2	318	Other operating revenues	504	-159	-2	343
6 661	**-3 219**	**-262**	**3 180**	**Total operating revenues**	**6 848**	**-3 381**	**-262**	**3 205**
				OPERATING COSTS				
3 003	-3 003		-	Power purchases	3 003	-3 003		-
258	133		391	System services	258	133		391
831	-21		810	Transmission losses	831	-21		810
335	-335		0	Leasing of transmission facilities	335	-335		-
354		-32	322	Wage costs	408	-40	-32	336
697			697	Depreciation and write-downs of tangible fixed assets	705	-7		698
654	16		670	Other operating costs	728	-65	-1	662
6 132	**-3 210**	**-32**	**2 890**	**Total operating costs**	**6 268**	**-3 338**	**-33**	**2 897**
529	**-9**	**-230**	**290**	**Operating profit/loss**	**580**	**-43**	**-229**	**308**
				Income from joint ventures and associated companies	**14**	**27**	**3**	**44**
74	-1	20	93	Financial income	72	-10	32	94
250	-10	2	242	Financial costs	254	-14	2	242
176	**-9**	**-18**	**149**	**Total financial items**	**182**	**-4**	**-30**	**148**
353	0	-212	141	Profit before tax	412	-12	-196	204
92	0	-56	36	Tax	109	-12	-56	41
261	**0**	**-156**	**105**	**Net profit for the year**	**303**	**0**	**-140**	**163**

Notes

RECONCILIATION OF BALANCE SHEET AT 31.12.06

PARENT COMPANY				GROUP			
NGAAP 31.12.06	Effect of transition to IFRS	IFRS 31.12.06	(Amounts in NOK million)	NGAAP 31.12.05	Nord Pool equity method	Effect of transition to IFRS	IFRS 01.01.06
			ASSETS				
			FIXED ASSETS				
-	-	-	Computerised trading systems	7	-7		0
85	71	156	Deferred tax assets	54	-4	71	121
9 662		9 662	Tangible fixed assets	9 671	-4		9 667
2 118	-3	2 115	Plant under construction	2 118		-3	2 115
49		49	Investment in subsidiaries	-	-	-	-
102		102	Investment in JVs and ACs**	42	275	17	334
93	56	149	Fixed asset investments*	63	30	56	149
12 109	**124**	**12 233**	**Total fixed assets**	**11 955**	**290**	**141**	**12 386**
			CURRENT ASSETS				
896	-138	758	Trade accounts and other short-term receivables*	908	-20	-126	762
374		374	Investment in market-based securities	605			605
160		160	Liquid assets	510	-325		185
1 430	**-138**	**1 292**	**Total current assets**	**2 023**	**-345**	**-126**	**1 552**
13 539	**-14**	**13 525**	**Total assets**	**13 978**	**-55**	**15**	**13 938**
			EQUITY AND LIABILITIES				
			EQUITY				
2 700		2 700	Contributed capital	2 700			2 700
1 869	-42	1 827	Other equity	2 218		-11	2 207
4 569	**-42**	**4 527**	**Total equity**	**4 918**	**0**	**-11**	**4 907**
			LONG-TERM LIABILITIES				
95	217	312	Pension liabilities	108	-11	217	314
-	-	-	Other liabilities	23		-2	21
7 054	23	7 077	Long-term interest-bearing debt	7 054		23	7 077
27	-27	0	Other long-term liabilities	27		-27	0
7 176	**213**	**7 389**	**Total long-term debt and liabilities**	**7 212**	**-11**	**211**	**7 412**
			CURRENT LIABILITIES				
674	1	675	Short-term interest-bearing debt	674		1	675
1 048	-186	862	Trade accounts payable and other short-term debt*	1 084	-31	-186	867
72		72	Tax payable	90	-13		77
1 794	**-185**	**1 609**	**Total current liabilities**	**1 848**	**-44**	**-185**	**1 619**
13 539	**-14**	**13 525**	**Total equity and liabilities**	**13 978**	**-55**	**15**	**13 938**

* Amounts are summarised in relation to earlier presentations in accordance with NGAAP (Generally Accepted Accounting Principles in Norway).

** JVs and ACs are joint ventures and associated companies that are consolidated using the equity method of accounting.

Notes

RECONCILIATION OF EQUITY

PARENT COMPANY Effect Equity	(Amounts in NOK million)	GROUP Effect Equity
4 569	**Equity 31.12.06 NGAAP**	**4 918**
22	**Total changes in equity 01.01.06**	**37**
21	Financial instruments	21
23	Pension assets/liabilities	23
-188	Higher/lower revenue	-188
-12	Dividend from subsidiaries, not decided	
	Provision for periodic maintenance	1
	Shares in group companies using equity method	3
-156	Changes in equity carried through profit or loss	-140
27	Cash flow hedges carried directly against equity	27
-87	Dividend paid for 2005	-87
152	Provision for dividend 2006	152
-64	**Total changes in equity 2006**	**-48**
4 527	**Total equity 31.12.06 IFRS**	**4 907**

Noter

ERNST & YOUNG

Statsautoriserte revisorer
Ernst & Young AS

Christian Frederiks pl. 6, NO-0154 Oslo
Oslo Atrium, P.O.Box 20, NO-0051 Oslo

Foretaksregisteret: NO 976 389 387 MVA
Tlf.: +47 24 00 24 00
Fax: +47 24 00 24 01
www.ey.no

Medlemmer av Den norske Revisorforening

To the General Meeting of
Statnett SF

Auditor's report for 2007

We have audited the annual financial statements of Statnett SF as of 31 December 2007, showing a profit of NOK 598 000 000 for the Parent Company and a profit of NOK 651 000 000 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, the statement of changes in equity and the accompanying notes. The financial statements of the Group comprise the balance sheet, the statements of income and cash flows, the statement of changes in equity and the accompanying notes. IFRSs as adopted by the EU 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. These 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 2007, and the results of its operations and cash flows and the changes in equity for the year then ended, in accordance with IFRSs as adopted by the EU
- the Company's management has fulfilled its duty to properly record and document the Company's accounting information as required by law and bookkeeping practice generally accepted 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, 31 March 2008
ERNST & YOUNG AS
Jan Egil Haga
State Authorised Public Accountant (Norway)
(sign.)
Note: The translation to English has been prepared for information purposes only.

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 with 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 page 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.

Statistics Norway 1975–2007

Year	Total-generation (TWh)	Potential viable hydro electric energy (TWh)	Total-consumption (TWh)	Import (TWh)	Export (TWh)	Net exchange* (TWh)
1975	77.5	126.8	71.9	0.1	5.7	5.6
1976	82.1	109.5	75.5	0.2	6.9	6.6
1977	72.4	100.4	73.5	2.7	1.6	1.1
1978	81.0	107.7	77.6	0.8	4.3	3.4
1979	89.1	117.2	84.5	0.8	5.5	4.7
1980	84.1	95.8	83.6	2.0	2.5	0.5
1981	93.4	121.2	88.2	1.9	7.2	5.2
1982	93.2	113.2	87.1	0.6	6.7	6.1
1983	106.4	140.2	93.0	0.4	13.8	13.4
1984	106.7	122.2	98.4	0.9	9.1	8.3
1985	103.3	108.2	102.7	4.1	4.6	0.5
1986	97.3	111.8	99.3	4.2	2.2	-2.0
1987	104.3	106.7	103.9	3.0	3.3	0.3
1988	110.0	114.1	104.4	1.7	7.4	5.6
1989	119.2	145.7	104.3	0.3	15.2	14.9
1990	121.8	145.8	105.9	0.3	16.2	15.9
1991	111.0	108.9	108.2	3.3	6.0	2.8
1992	117.5	130.3	108.8	1.4	10.1	8.7
1993	120.1	119.2	112.2	0.6	8.5	7.9
1994	113.2	119.9	113.1	4.8	5.0	0.1
1995	123.0	132.1	116.3	2.3	9.0	6.7
1996	104.7	90.2	113.7	13.2	4.2	-9.0
1997	111.4	125.4	115.2	8.7	4.9	-3.8
1998	116.8	119.1	120.4	8.0	4.4	-3.6
1999	122.4	127.2	120.5	6.9	8.8	1.9
2000	142.8	141.0	123.8	1.5	20.5	19.1
2001	121.6	114.3	125.2	10.8	7.2	-3.6
2002	130.5	111.0	120.8	5.3	15.0	9.7
2003	107.2	111.8	115.1	13.5	5.6	-7.9
2004	110.5	120.0	122.0	15.3	3.8	-11.5
2005	138.1	140.9	126.1	3.7	15.7	12.0
2006	121.7	110.1	122.5	9.8	8.9	-0.9
2007	137.3	141.8	126.9	5.2	15.6	10.4

Source: NVE

Statistics Nordic countries 2000–2007

Year	Total generation (TWh)	Potential viable hydro electric energy (TWh)	Total consumption (TWh)	Import (TWh)	Export (TWh)	Net exchange* (TWh)
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
2007	392.7	222.6	395.4	14.6	11.9	-2.7

* Export + / import -

Source: Nord Pool

** Inflow 2000 without Finland.

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 co ntracts
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 four 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 kilowatts. 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).

Regulating power
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.

Revenue ceiling
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.

Burson-Marsteller

Photo:
Front cover: iStockPhoto/Viorika Prikhodko
Page 13, Scanpix/Eva Ankarvall
Page 19, Luth&Co
Page 27, Scanpix/Chad Johnston
Page 36, Scanpix/Berit Roald
Other pictures: Erik Thallaug, Knut Kollanrud, Trond Isaksen and Statnett's archive

Statnett
Husebybakken 28 B
PB 5192 Majorstuen
NO-0302 Oslo
Tel: +47 22 52 70 00
Fax: +47 22 52 70 01
Web: statnett.no