

Annual report 2008

**Statnett**

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Statnett is responsible for the secure delivery of electricity and for creating the conditions for a well-functioning electricity market. Statnett brings power to your everyday life.



# Highlights and key ratios

PARENT COMPANY				GROUP		
2006	2007	2008	(Amounts in NOK million)	2008	2007	2006
<b>HIGHLIGHTS</b>						
3 180	3 387	4 248	Operating revenues	4 256	3 415	3 205
290	1 000	1 199	Operating profit	1 194	1 025	308
141	818	857	Profit before tax	1 742	880	204
105	598	630	Net profit for the period	1 517	651	163
13 525	15 825	19 557	Total assets	20 919	16 439	13 938

<b>KEY RATIOS</b>						
2.7%	8.2%	8.6%	Return on capital employed	7.3%	8.4%	2.9%
2.9%	7.7%	7.7%	Return on total assets	12.2%	7.8%	3.3%
2.3%	12.6%	12.3%	Return on equity	25.0%	12.4%	3.4%
33.5%	31.5%	26.9%	Equity share	31.5%	33.8%	35.2%

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

Return on equity: 
$$\frac{\text{Profit for the period}}{\text{Average equity}}$$

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

## 2008 in brief

- The power situation was very good throughout 2008, with high hydroelectric power generation and substantial export of electricity.
- NordNed, the new HVDC subsea cable between Norway and the Netherlands, came into operation in May and generated excellent revenues already in its first year of operations.
- Faults on the Oslofjord cables and the Skagerrak 3 interconnector to Denmark reduced transmission capacity abroad and resulted in lower electricity prices in South Norway through much of the year.
- In November, Central Norway and North Norway were again merged to form a single Elspot area.
- After six months' delay, Statnett took delivery in May of MS Elektron, a new, specialised vessel for transporting heavy equipment.
- Much progress in the work of framing international standards for power trading information and guarantees of origin at Nordic and European level.
- The Nordic power exchange, Nord Pool, increased its market share to 70 per cent of all power consumption in the Nordic region.
- Large parts of the business of Nord Pool ASA were sold to OMX.
- In the autumn of 2008, Statnett set up a new trainee scheme aimed at recruiting highly qualified candidates from universities and university colleges to build careers with the company.
- Auke Lont was appointed as Statnett's new President and CEO to succeed Odd Håkon Hoelsæter, who announced his intended retirement at the start of 2009.



«Climate change and international renewable energy requirements offer Norway new opportunities for value creation, but also demand significant development and enhancement of the electricity grid in the years ahead.»

# Driving force for security of supply, value creation and protection of the environment

Statnett's mission now and for the future is to be a driving force for better security of electricity supply, greater value creation and enhanced environmental solutions. At the same time, new renewable energy production, closer ties with Europe and more highly developed market solutions in the Nordic region and internationally are making new demands of the Norwegian electricity system.

As a result of milder climatic conditions and higher precipitation, the overall power balance is now better than previously estimated. A lower rate of growth in consumption and increased inflow to reservoirs have strengthened the overall power balance and made electricity supplies more secure, producing a surplus that can be drawn on. For 2008 this surplus was 13.6 TWh, more than a whole year's consumption for the entire city of Oslo.

However, for this increased electricity production to reach the market, the transmission lines to the consumer must have the same capacity. The main grid is in many places already being utilised to maximum capacity, owing to a steady rate of growth in supply and demand over many years but without corresponding development of the grid. Statnett's analyses show that supply and demand will continue to grow and change in the years ahead, with big regional variations. Some of this is due to plans for new wind power in Trøndelag, higher industrial consumption in the county of Møre og Romsdal, and potential further expansion of the petroleum activity in North Norway.

In the coming years, Statnett's prime focus will continue to be on maintaining high security of supply. This will involve large-scale enhancements of the main grid in Norway and at connection points to the continental grids, as well as inter-connectors to other countries. In total, Statnett plans to invest over NOK 20 billion in the main grid over the next ten years.

## Exploiting the added value of Norwegian hydropower

With virtually one hundred per cent renewable electricity production, Norway is in many ways the odd one out in Europe. Norwegian electricity production is a particularly valuable resource because it is based on hydropower which, unlike other renewables, can be regulated. In a Europe required to comply with the EU Renewables Directive, the regulatory capacity of hydropower is a "good" much in demand, for its ability to supplement other renewable but less flexible electricity production. This is the concept behind the

planning for Skagerrak 4, the fourth subsea cable between Norway and Denmark.

There are also many plans in Norway for new renewable energy production, which will provide good opportunities for greater value creation in the power sector. Statnett will help bring about these benefits by developing efficient solutions for the transmission and trading of energy. We believe it will make sense to allow the electricity producers to refine hydropower further and to exploit its regulatory capacity in order to sell power regulating services. We are also developing solutions to connect new renewable energy, such as wind power, to the main grid.

## Protecting nature and the environment

The EU has set ambitious targets to prevent dramatic climate change. Electricity production based on fossil energy sources like coal and oil must be replaced with more environmentally friendly electricity. Greater investment in renewable energy will mean greater incursions into the landscape, both in terms of production facilities and new and better electricity grids. Small power plants and wind power, for example, cannot be regulated as easily as hydropower and cannot follow consumption, thus making higher demands of transmission capacity.

Hydropower and other renewable energy development encounters considerable opposition in Norway, owing to its impact on the environment. At Statnett, we face these challenges when we seek to develop the grid to transmit this energy. To avoid building unnecessarily many power lines and with a view to adapting the current grid, the location of new production facilities must be well thought through.

Climate change presents Statnett and Norway with opportunities and challenges in equal measure. Warmer, wetter weather means a better overall power balance, but increased electricity production, growing consumption and a lot of hydropower also require development of the grid to maintain security of supply. The need to tackle climate change also offers opportunities for Norwegian energy to contribute to value creation in Norway, and to meet national and international goals for climate change policy and energy supply.



**Auke Lont**  
President and CEO





# This is Statnett

**Statnett is Norway's Transmission System Operator (TSO) and as such has overall responsibility for managing the operation of the national electricity system.**

Statnett is not responsible for the generation of electricity, but for ensuring that the electricity reaches consumers.

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

Statnett owns approximately 90 per cent of Norway's main power grid. 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.

Statnett's mandate is to safeguard the interests of the wider community by managing the main grid on the basis of sound socio-economic criteria. This means providing Norwegian consumers with a reliable supply of electricity with sufficient capacity and at the lowest possible overall cost.

Statnett's vision is to be Europe's most innovative and environmentally responsible TSO. Our business idea is to facilitate a well-functioning electricity market with high quality of delivery. We are responsible for Norway's main power grid and have a statutory duty to ensure that it is open to all participants in the electricity market.

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.

Statnett's revenues are regulated by means of a revenue cap 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. Most of Statnett's revenues are earned from leasing transmission facilities to the Main Grid Commercial

Agreement. The Main Grid Commercial Agreement is intended to cover the costs incurred by the owners of the national grid for developing and maintaining the grid.

## **Statnett's mission is to**

- ensure quality of supply in the short term by co-ordinating electricity supply and demand;
- ensure quality of supply in the long term by developing the Norwegian national grid;
- 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.

## **Operations**

Most of Statnett's operations are linked to co-ordinating, maintaining and developing the Norwegian national power grid. In addition, Statnett is responsible for organising the Main Grid Commercial Agreement, the Regulating Power Market and the Balance Settlement. Statnett also owns 50 per cent of the Nordic power exchange, Nord Pool ASA, and 100 per cent of the wholly owned transport subsidiary Statnett Transport and the captive insurance subsidiary Statnett Forsikring AS.

## **Grid Operations**

- Big portfolio of transmission line projects
- Low electricity prices in South Norway owing to faults on interconnectors
- Preparedness and monitoring strengthened
- Enhanced power grid gives more renewable energy

The electricity situation in 2008 was very good throughout the entire year. Electricity generation was high, with major electricity exports to our neighbouring Nordic countries and the Netherlands. Faults on interconnectors to neighbouring countries did however reduce our export capacity and for large parts of the year resulted in lower electricity prices in



South Norway than in the rest of Norway and the Nordic region. In addition to ordinary operations, Statnett worked throughout 2008 on a large number of new transmission lines. The activity in this area is now the most extensive in Statnett's history.

The biggest event in Grid Operations in 2008 was the new NorNed subsea HVDC interconnector, which provides 700 MW of transmission capacity between Norway and the Netherlands. The cable was officially opened on 11 September, but had been available to the electricity market since 6 May. The construction project was completed to budget. Overall, NorNed revenues in 2008 were excellent.

Central Norway and North Norway were in November joined to form a single Elspot area, having been two separate areas since the autumn of 2006. The merger came as a result of the electricity situation in Central Norway prior to winter 2008-2009 having been deemed satisfactory, after the successful completion of grid enhancements, two reserve power generation plants in operation, and high hydropower reservoir levels. Norway now has only two Elspot areas remaining.

#### **Faults on Oslo fjord cables gave rise to challenges**

Transmission capacity to Sweden at Halden on the Norwegian side of the border was greatly reduced when in March and April faults occurred with only brief intervals in between on both of Statnett's subsea cables across the Oslo fjord. This gave rise to an extraordinary operational situation, but without any threat posed to security of delivery and without consumers losing their electricity supply.

Repairs on one of the Oslo fjord cables were completed in October with the cable becoming fully operational once more, while the other cable's transmission capacity was cut by half from November. Full capacity to Sweden is expected to resume in spring 2009. Prior to the problems affecting the Oslo fjord cables, capacity to Denmark had for a prolonged period been reduced by 500 MW, owing to the disconnection of the Skagerrak 3 subsea cable following the breakdown of a main transformer on the Danish side in the autumn of 2007. Skagerrak 3, which

is one of three cables between Denmark and Norway, was reconnected in July.

Reduced export capacity and a big electricity surplus in South Norway resulted in significantly lower electricity prices in South Norway than in the rest of the country and among our Nordic neighbours. The problems with the Oslo fjord cables also gave rise to considerable challenges for system operations, including many complex problems of establishing export capacity to Sweden from South Norway.

In December the possibility was opened up for reduced export capacity on the Skagerrak cables and the NorNed cable, by up to 250 MW and 150 MW respectively. The need for reduced capacity occurs when consumption in South Norway is high, while demand from abroad dictates that the cables' export capacity should be utilised to the full. In periods like this, South Norway does not have sufficient regulating capability.

#### **Heightened preparedness and better monitoring**

In 2008, Statnett invested in a new vessel to replace the old MS Elektron. The new vessel has been specially designed to transport heavy equipment and is important for the secure delivery of electricity in Norway. Supplementary contingency pylons were also purchased and an overhead power line span group was set up to tackle the challenges associated with long fjord power line crossings. As a result of the damage to the Oslo fjord cables, it has been decided to buy in supplementary transformers and reserve cable lengths. One cable length is already in place.

A pilot project for video monitoring of four transformer stations was established in 2008. The aim is to gain experience of using a number of different systems and to establish procedures relating to the systems. Future monitoring is likely to be specified on the basis of different sets of criteria.

Apart from relatively small oil discharges resulting from the Oslo fjord cable faults, Statnett had no environmental incidents in 2008.



### Major projects throughout the country

In both West and Central Norway, development of the grid is being driven by the need to maintain security of supply and to facilitate new renewable electricity generation. Statnett has been awarded a licence by NVE to build a 90 km power line between Sima and Samnanger. This will provide greater capacity in the grid and facilitate a more secure electricity supply between Sognefjorden and Boknafjorden in the county of Hordaland. An appeal against the licence is currently being considered by the Ministry of Petroleum and Energy.

Statnett's application for a licence to build a new 300 km power line further north in West Norway, between Fardal in Sogn and Ørskog in Sunnmøre, is currently being considered by NVE. The new power line will enable a lower voltage 110 km power line to be demolished. In South Trøndelag, Statnett, together with the Swedish grid operator, Svenska Kraftnät, is in the process of replacing an old 300 kV power line from Nea in Norway to Järpströmmen in Sweden with a new 420 kV high-voltage line. 25 km of this line is on the Norwegian side and 75 km on the Swedish side of the border.

Nea-Järpströmmen and Ørskog-Fardal will, together, bring the electricity supply to Central Norway onto a par with the rest of the country. The new power lines will also facilitate new renewable electricity generation in both Central and West Norway. As a result of plans for wind power expansion, Statnett has applied for a licence to build an 80 km power line between Namsos and Roan in North Trøndelag. Statnett has also submitted planning proposals for a 170 km power line between Roan in South Trøndelag and Trollheim in Nordmøre.

In North Norway, too, Statnett has major plans for grid development. In 2007, Statnett submitted planning proposals for a new power line of approximately 360 km between Balsfjord and Hammerfest, and will apply for a licence to build it in 2009. In December 2008, Statnett submitted planning proposals to build a new 150 km power line between Ofoten and Balsfjord. To secure the supply for East Finnmark, Statnett has decided to build a new 132 kV power line between Varangerbotn and Skogfoss.

In South Norway, new international interconnectors, which require reinforcement of the domestic grid, are the driving force behind the development of the Norwegian national grid. In December, Statnett submitted planning proposals for a project to establish a fourth subsea cable between Kristiansand in Norway and Jylland in Denmark (Skagerrak 4). At the same time, a 100 km power line is under construction in Norway between Skåreheia and Holen in the Setesdal valley, scheduled for completion in the autumn of 2009. Statnett has also begun planning to upgrade the voltage from 300 kV to 420 kV on a large number of power lines in South Norway, including between Kristiansand and the Grenland area.

Other new interconnectors on which Statnett is actively working include a subsea cable between South Norway and Germany, and a power line between East Norway and Sweden. Statnett is also working on plans for a possible offshore electricity grid and among other things is playing a central role in the work done by the Norwegian authorities and the EU to develop concepts for a grid of this kind.

### The Main Grid Commercial Agreement

- The NorNed cable generated high revenues in 2008.
- This will reduce customers' main costs in 2009.

The Norwegian power grid consists of 10 000 km of high-voltage power lines and 125 sub stations. The three Skagerrak subsea cables to Denmark and the NorNed cable to the Netherlands are also part of this network. The infrastructure in the grid is owned by Statnett and 22 other Norwegian companies. Statnett's ownership interest is approx. 90 per cent.

All participants connected to infrastructure in the grid are customers in the Main Grid Commercial Agreement, be they electricity producers, industrial consumers or regional power companies selling on power to the end-user. As the operator of the Main Grid Commercial Agreement, Statnett is responsible for setting the annual tariffs, and for measuring and settling the volume of power used by customers in accordance with the tariffs. It is also Statnett's responsibility to draw up and update connection contracts with customers and to lease in all the infrastructure included in the Agreement.

Statnett owns about 90 per cent of the main national grid in Norway. These are the power lines with the highest voltage, which are important for large areas.

#### **Where does the revenue come from?**

The Main Grid Commercial Agreement derives most of its revenue from the tariffs paid by customers. In addition to this, what is termed “congestion revenue” arises in the main grid when the price of electricity differs where it is generated from where it is used. The electricity producers are paid the price that applies in their own area, while the consumer pays the price that applies in his area. The price differential falls to the operators on either side of the congestion.

In 2008, the price of electricity was periodically very low in South Norway (Elspot area NO1) compared with the rest of the Nordic region and the Netherlands. Consequently, all export of electricity from this price area to, for example, Sweden and the Netherlands gave rise to large congestion revenues. In Norway, these revenues go directly into the Main Grid Commercial Agreement and, as a result, the tariffs can be reduced.

#### **Which costs are covered?**

The costs in the Main Grid Commercial Agreement are the costs of leasing power lines and substations from infrastructure proprietors, physical transmission losses in the grid, and system operation costs. System operation costs are the costs related to the balancing of electricity generation and consumption, supply and demand, at all times.

All costs included in the Main Grid Commercial Agreement are regulated by the Norwegian Water Resources and Energy Directorate (NVE) by means of the NVE setting an annual revenue cap for each grid proprietor and operator. The revenue cap determines the maximum that the proprietor/operator can invoice its customers.

#### **High accumulated higher revenue in 2008 resulted in lower grid rent**

The Main Grid Commercial Agreement is basically intended to break even, producing neither a surplus nor a deficit. In setting the annual tariffs, Statnett ensures that revenues match the budgeted costs. Nevertheless, in some instances there may be a discrepancy through the year, giving rise to a surplus or “higher revenue” in the form of higher revenue than costs, or a deficit or “lower revenue” if the tariff revenue is lower than the costs.

In 2008, costs totalled NOK 3.5 billion, while revenues totalled NOK 4.2 billion. The main cause of the higher revenue of NOK 721 million is higher congestion revenues, which are attributable to higher revenues than expected between different price areas in Norway and from the NorNed cable between Norway and the Netherlands. Account has been taken of this higher revenue in the tariffs for 2009. The tariffs in 2009 will accordingly be very low.

#### **Statnett's responsibility for the balance settlement system**

- Progress on international standards for trading information and guarantees

As Norway's TSO, Statnett has a responsibility to ensure that imbalances between consumption and generation, supply and demand, are equalised and to calculate and balance the discrepancies. Acting on behalf of the Norwegian authorities, Statnett is also responsible for Ediel, the international standard for electronic exchange of trading information, and for issuing guarantees of origin.

Imbalances arise when participants in the electricity market supply or consume more or less than planned. As the entity responsible for the balance settlement system, Statnett settles imbalances weekly by comparing actual and planned volumes for each participant. The settlements are based on the prices in the regulating power market.

In 2008, there were about 145 buyers and sellers of electricity on the physical delivery markets who received financial settlement from Statnett's balance settlement system. This is more than in 2007, largely owing to the fact that new foreign participants have been trading electricity for transmission on the NorNed interconnector. Turnover in the regulating power market has stabilised at around 8 TWh per year, which is a gross turnover of NOK 2.5 billion. In 2008, this generated fee revenues of NOK 12.5 million, which financed Statnett's costs related to the balance settlement system. In response to an initiative from the Nordic Council and the Nordic regulators, in 2008 a common Nordic balance settlement model was drawn up. Behind this model are Statnett and the other Nordic TSOs responsible for their respective balance settlement systems. The object is to



harmonise the Nordic electricity market, making it easier for the participants to act across national borders and enabling the development of a common electricity retail market. The model has been submitted for approval to NVE and is expected to be introduced during 2009.

#### **Statnett's Ediel activity**

Ediel is the name of the electricity 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 power companies exchange Ediel messages. Statnett, through System Support for Ediel (SSE), has been charged with maintaining the standard in Norway and for enabling the use of the current standard by all participants. All participants are obliged under their licensing conditions to be approved by SSE in order to exchange Ediel messages. To discharge its task, Statnett offers a comprehensive automated test solution through the Ediel portal ([www.ediel.no](http://www.ediel.no)).

Statnett's Ediel activity is working actively in partnership with the electricity industry to develop the Ediel scheme further and to harmonise the Norwegian standard at Nordic and European level. A collaboration with Sweden (Svenska Kraftnät) continued in 2008. Some 440 Swedish participants use Statnett's Ediel portal. In 2008, Statnett entered into an agreement with Denmark (Energinet.dk) for use of the Ediel portal by Danish participants.

2008 was the first year of operation for NUBIX, an online service developed and operated by Statnett. The service is intended to make it easier for electricity suppliers to access information when consumers are changing supplier. The solution is integrated into all the grid companies' databases. Through NUBIX, the supplier has access to the necessary customer information, no matter where the customer's geographic location is. In 2008 approximately 1.5 million communications went through NUBIX.

#### **Guarantees of origin**

A guarantee of origin gives electricity customers the opportunity to choose electricity according to its origin

(hydropower or wind), thus encouraging increased generation from that energy source. The actual guarantee is an electronic document that proves when, where and from which energy source a given amount of electricity has been generated. This permits a guarantee of origin used in Europe to be traced back to a specific generation entity.

Under European Directive 2003/54/EC, each State is obligated to issue guarantees of origin to those electricity producers who request them. Statnett is responsible for the register of guarantees of origin in Norway and each week issues guarantees of origin to the individual producers, based on the measured amount of electricity generated the previous week.

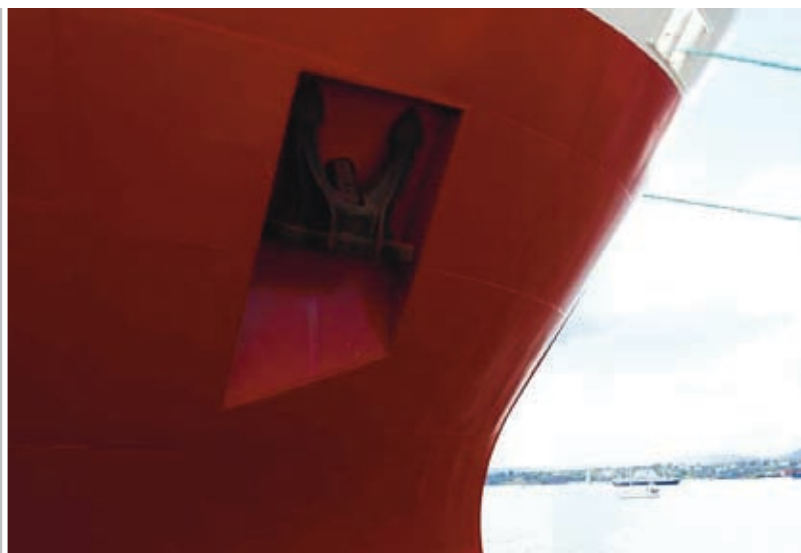
Statnett has in 2008 issued guarantees of origin for 111 TWh. There are 480 power stations and wind turbines approved for issue of guarantees of origin. This figure amounts to approx. 90 per cent of the total renewable electricity generation in Norway. 60 per cent of all guarantees of origin from renewable electricity issued in Europe came from Norwegian electricity generation.

#### **Nord Pool**

- 70 per cent market share in the Nordic region for Nord Pool Spot
- 32.7 per cent rise in turnover for Nord Pool ASA

The Nordic power exchange, Nord Pool, is the most important market place for trading electricity in the Nordic countries (Finland, Sweden, Denmark and Norway). In 2008, Nord Pool Spot achieved a market share of 70 per cent of the total value of all Nordic power consumption. Contracts traded in the electricity spot market in 2008 totalled 299.4 TWh, compared with 292.2 TWh in 2007. Contracts were valued at EUR 15 billion. Elspot is the market for the purchase and sale of electricity between the market members who supply electricity in the Nordic region. Electricity is bought and sold on the Elspot market the day before it is physically delivered to the consumer. There is also a market for adjusting the volume of electricity generated relative to consumption on the same day the electricity is delivered to the consumer. This market is known as Elbas and comprises trading in Sweden, Finland, Denmark and Germany. From March 2009,

Statnett's mandate is to provide the Norwegian Society with a reliable electricity supply, with sufficient capacity and at the lowest possible total cost.



Norway will also be a member of Elbas. Hour-long contracts are traded continuously on Elbas up to one hour prior to delivery. The Elbas market had a turnover in 2008 of 1.8 TWh, compared with 1.6 TWh in 2007.

#### **New trading record in the financial market**

Nord Pool ASA also offers trading in futures and forward contracts and power options contracts in its financial market. The financial market comprises the purchase and sale of financial power contracts and clearing of contracts (where the clearing house is a contractual third-party assuming liability for covering the future financial settlement of contracts between buyers and sellers). Members employ financial contracts to ensure that the forward electricity price stays at a specific level, thus reducing the risk in power trading. Some members also wish to use this market as an investment opportunity.

Nord Pool ASA set a new trading record in the financial market in 2008 with a total of 1 407 TWh, which is a market share of 55.5 per cent. The figure of 1 407 TWh represents a 32.7 per cent increase in exchange-traded contracts compared with 2007, when traded volumes ended at 1 060 TWh. In addition, German contracts totalling 40 TWh were traded and cleared during the year. In total, contracts for 2 577 TWh were traded and cleared in the financial market in 2008, which is 8.7 per cent up on the previous year. Financial contracts worth EUR 119.4 billion were traded and cleared on the power exchange in 2008, compared with EUR 81.6 billion in 2007.

#### **About Nord Pool**

Nord Pool is Europe's leading commodities exchange for trading in power contracts and carbon emission allowances. Nord Pool offers trading in and clearing of physical and financial power contracts in the Nordic countries, Germany and the Netherlands.

As of 31 December 2008, Nord Pool's physical delivery market had 336 members and the financial market and carbon market had 391 members.

Nord Pool ASA owns the Nordic derivative products and is responsible for operating the power exchange and for the trading activity in the financial market. Nord Pool ASA is owned 50:50 by Statnett and the Swedish transmission system operator, Svenska Kraftnät. In 2008, Nord Pool's clearing and consulting operations, and the international contracts, were sold to NASDAQ OMX. These operations are now being run by NASDAQ OMX Commodities, whose ambition is to become the leading exchange in energy derivatives and carbon contracts.

Nord Pool Spot AS is owned jointly by the Nordic Transmission Systems Operators (TSOs). Nord Pool Spot AS has operated the physical delivery power market since 1991, and is currently responsible for organising the Nordic Elspot day-ahead market, the Elbas intraday market, and the Danish wholesale gas market.

#### **Statnett Transport AS**

- Best year ever for land transport
- Loss attributable to delayed delivery of Elektron

Statnett Transport AS was established to ensure that Statnett implements its statutory duty to provide transport preparedness for the Norwegian power supply. The company, a wholly owned subsidiary of Statnett SF, operates efficiently and competitively. Statnett Transport carries out commissions primarily for the Norwegian power supply, but also has a number of customers abroad.

Statnett Transport 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 two transport vessels, the MV Elektron and Elektron II, 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.



# How are Statnett's revenues determined?

Statnett's revenues derive principally from two sources, from the users of the Norwegian electricity grid and from Statnett's power transmission lines and subsea cables between areas inside Norway and to other countries. Because Statnett is in a monopoly situation, its revenues are regulated and controlled by government authorities, that is by the Norwegian Water Resources and Energy Directorate (NVE).

Each year, NVE sets an upper limit, or cap, on the amount of revenue Statnett can earn. This cap then forms the basis for setting the level of tariffs that the users of the electricity grid have to pay.

The basic principle for NVE is that the revenues earned should cover costs over time, as well as providing a reasonable return on investment in the electricity grid. The return is based on the assumption that Statnett's costs are no higher than necessary.

## Costs and return

NVE checks and controls Statnett's costs by comparing them with the level of costs in other similar undertakings. The result of these checks and controls forms the basis for fixing the permissible amount of revenue that can be earned annually. The revenue cap set by NVE is thus based both on Statnett's own actual costs and NVE's control of the company's cost levels. Too high a level of costs can result in a lower return.

Statnett's revenues are furthermore adjusted for performance with respect to quality of delivery. Big disruptions of the electricity supply will lower Statnett's revenues. Good quality of delivery will, on the other hand, sometimes result in increased revenues.

The basis for calculating the return is a risk-free interest rate (5-year Norwegian government bonds) plus a risk premium of about 3 %, and the book value of the company's transmission assets.

## Higher revenue

The tariffs make up a significant part of Statnett's revenues, and are set annually in advance. In 2008, total revenues were considerably higher than expected and higher than the cap set by the authorities, producing what is known as higher revenue. Most of this revenue was derived from the high trading revenues between different price areas in Norway and on the NorNed cable to the Netherlands.

At 31 December 2008, the higher revenue balance was NOK 428 million. Statnett is obliged to take this higher revenue into account when setting the level of tariffs for the coming years. The higher revenue will therefore cause the tariffs to be set lower than they would otherwise have been.

Over time, Statnett's revenues should correspond with the permissible level set by the authorities. Under the current accounting policies, higher revenue is not capitalised as a liability in Statnett's balance sheet.

Turnover for 2008 totalled NOK 77 million, compared with NOK 49 million for 2007. The company recorded a loss after tax for the year amounting to NOK -1 million, as against a profit of NOK 5 million for 2007. The negative result for 2008 is largely due to the fact that delivery of the new vessel, Elektron, was six months delayed from the yard, which had the effect of delaying earnings in the summer season. At the same time, the economic crisis led to a general drying up of orders for marine transport for the last few months of 2008. However, land-based transport had its best year ever in 2008, with more than 15 major transport commissions.

## Outlook

Given the continuing need for major 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 improve its financial results, while maintaining its effort to ensure safe, secure and efficient implementation of its preparedness obligations. This will be done by means of, among other things, new investment and reinvestment in rolling stock.

Statnett Transport AS's registered address and head office is at Holmen in Drammen. The company has 44 employees.



### THE RAW MATERIAL

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



### THE POWER STATIONS

Norway has a total of approx. 750 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.

## The energy flow

**When Norwegians turn on their vacuum cleaner to clean their living room, they expect the electricity supply to be there and for the vacuum cleaner to start. Few are aware that, at the very same moment they plug in and turn on, they are connected to the Norwegian power grid, with more than 320 000 km of power lines criss-crossing the entire country.**

In many cases, it is a long way from the electricity generator to the consumer, and electricity can travel a considerable distance before it gets to whoever wants to use it. Statnett's main grid consists of 10 000 km of power lines at the highest level of voltage. These are the motorways of the Norwegian electricity supply system, which enable electricity to be transmitted all the way from a Norwegian electricity generator to the consumer. Statnett's job is to make sure

#### GENERATION IS PLANNED A DAY AHEAD

Electricity has the physical property of having to be produced, or generated, at the same moment as it is used. When you turn on your reading lamp in the evening, an equivalent amount of power has to be generated somewhere else.

Planning for the volume of electricity generation required is based on the trade in electricity that takes place on the Nordic power exchange, Nord Pool. Trading occurs the day before the electricity is generated. When the electricity generators produce the power that a Norwegian consumes in a moment, they do it on the basis of calculations made the day before.

It is common for imbalances to occur between electricity generation (supply) and consumption (demand) on the day the electricity is to be transmitted. The imbalance usually arises because the estimated volume does not match consumption. In Norway, consumption is greatly influenced by the outdoor temperature. Fluctuations in temperature are therefore the most important source of uncertainty in the system.

Statnett and the Swedish national grid company, Svenska Kraftnät, are responsible for correcting the total imbalance throughout the Nordic region. To do this, they use the common Nordic regulating power market. This is where generators and some major consumers put in bids to adjust up or down a given number of megawatts at a given price. The bids are collected in advance and sorted by price. When needed, the cheapest power is used first.

#### THE FLOW OF ELECTRICITY IS MONITORED 24 HOURS A DAY

The entire electricity system and the electricity grid operate within physical limits which determine how much electricity a power line can take before the volume of traffic becomes too great for it to handle. To monitor and regulate the flow of electricity on the power lines, Statnett operates one national control centre and three regional control centres.





### REGIONAL GRID

This is a network of powerlines 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

The national control centre and regional control centres also continually monitor and assess the day-to-day operations, and risk assessments are made in order to ensure that the electricity reaches the consumer even if a fault should occur somewhere.

Excessive traffic in one area can cause a power line to become overloaded and heat up. A single vacuum cleaner will only affect the flow of electricity in Statnett's transmission facilities to a small extent, but a power line going into an area with little power generation and high consumption can be exposed to a high volume of traffic. In cases where the traffic volume becomes too great and the capacity in the grid is too small, "bottlenecks" occur, which Statnett has to deal with. When Statnett carries out planned outages, computer simulation tools are used to analyse the situation prior to disconnection. Statnett also operates on the principle that there should as a rule be at least two paths into an area. This provides a safety margin in the electricity system and an alternative path if problems arise on a power line.

#### WHEN FAULTS OCCUR

Statnett's network of power lines has been built to withstand great strains. They are, for example, dimensioned to withstand wind speeds of 35 metres per second and up to 50 metres per second or more, depending on the degree of exposure to wind and weather of the power lines and masts. This means that the power lines are able to withstand at least hurricane force winds.

Nevertheless, from time to time power lines and masts experience breakdowns. When such incidents occur, safety mechanisms disconnect units and power lines, and help facilitate safe, stable electricity transmission. This ensures that neither the vacuum cleaner in the home nor the equipment in the power station are damaged, nor is anyone injured.

At the same time, an incident like this triggers a great deal of activity. Not only in regional control centres and the national control centre, which need to regulate alternative paths for the electricity, but also among those responsible for the power lines out in the field. When a breakdown occurs, Statnett's engineers locate the fault in the grid and in a short space of time examine the site of the fault. They then decide what to do, which may include transporting a reserve mast to the area. It normally takes from one to three days to rectify a fault when a mast has suffered a breakdown.

What most of us simply take for granted, that our vacuum cleaner at home has enough power to remove the traces of yesterday's visit, or that an electric toothbrush has enough power to prevent caries from forming in our child's teeth, should perhaps not be taken quite so much for granted after all.





# Corporate Social Responsibility

## Environment

The need to protect our common environment has become an ever more pressing and vital issue for society. Statnett knows that its actions can have environmental consequences, and our aim is to make all our decisions having a clear regard for climate change and other environmental factors.

In order to ensure that we deal responsibly with climate change and other environmental issues, we have developed our own environmental strategy with a number of areas of focus. The objective of our strategy is to limit the adverse environmental impact of Statnett's plant and installations, and to create the conditions for a robust and climate-friendly electricity system and credible and sound internal environmental practices.

### Showing environmental responsibility in projects

Environmental factors are particularly important to take into account when it comes to building new power lines. Statnett's environmental policy has among other things led to an adjustment of the plans for the new power line between Ørskog and Fardal, to enable more renewable energy to be received. At the same time preparations are being made to demolish old power lines and to avoid building new regional power lines. The new 420 kV power line between Ofoten and Balsfjord, for which planning proposals have been submitted, will also enable us to demolish regional lines. Here, the new line is being planned alongside an existing 420 kV line. The new line will be 157 km long, while 100 km of old, 132 kV power line in the area can be demolished.

In connection with our R&D project entitled "Environmentally friendly power lines", Statnett is now trying out electricity pylon of a new and smaller type for use close to densely populated areas. The new pylon require less land, dominate the landscape less, and surround themselves

with a lower magnetic field than conventional masts for this level of voltage. The first pylon of this type were put into operation on the 300 kV power line between Røykås and Tegneby at Rasta in Lørenskog in November 2008.

In 2007, Statnett began a collaborative project with ABB and Siemens to develop competitive HVDC VSC (Voltage Source Converter) technology. The technology may be cheaper and require less space than the existing cable technology, and may in future prove suitable for long point-to-point transmission links.

### ISO certified

Statnett is certified to the ISO 14001:2004 Environmental Management Systems standard. Office and real estate operations at our head office in Oslo are in addition certified as part of the Eco-Lighthouse Programme and we are planning to extend this certification to apply to all office and real estate operations throughout the company.

2008 saw the introduction by Statnett of a scheme for purchasing CO<sub>2</sub> quotas in connection with employees' air travel. Statnett's contribution is helping to finance wind power projects in areas of India where electricity generation is currently based on fossil fuel. Statnett has also had an agreement since 2008 with LOS AS for the purchase of guarantees of origin for all own consumption of electricity.

### Research and Development are producing results

Statnett's aim is to work in an innovative and future-oriented manner. Accordingly, we are investing in Research and Development (R&D) aimed at developing new products, methods, solutions, competence and expertise



in key areas. Our ambition is to spend 1.2 per cent of our annual revenue cap on R&D.

In 2006, Statnett changed the direction of its R&D focus, determining to concentrate R&D activities on a limited number of areas, anchored in Statnett's overall group strategy. The objectives we wanted to achieve included greater openness regarding R&D priorities and more attention being given to ensuring that the results of the R&D work benefited the company over time. At the same time, we made some organisational changes to strengthen our involvement and engagement in the R&D activities. The change in the R&D focus has given rise to greater engagement within the organisation and good results from the five selected areas of concentration.

The results from the initial three-year period of the strategic R&D programme will be summarised and evaluated in the first part of 2009. In March 2009, Statnett organised its first own R&D conference, at which the results from the initial three-year-period under the new scheme were presented.

#### **Innovative masts at Rasta**

One of the visible results of our R&D effort is the previously mentioned power-line route at Rasta in Lørenskog, where for the first time ever composite materials are being used in three prototype electricity pylons. The project will provide valuable experience and insight into new possibilities as regards the appearance of pylons and power-line route, land use and electromagnetic fields. Statnett's R&D investment has also produced good results in terms of upgrading and maintaining power lines without disconnecting them, or "live line work" as it is known. Both these projects were begun in 1997/1998 and illustrate the need for long-term thinking in our R&D investment.

Statnett has also developed new knowledge and expertise as to how we can integrate new, renewable energy (wind power) in the electricity system. This expertise is crucially important for the endeavour to facilitate the major wind power expansion that is planned for the next 10-15 years. Research and Development have also enabled us to calculate more accurately the lifetime of key technology

in plant, making it possible to plan maintenance and reinvestment more rationally and efficiently.

#### **International co-operation**

Statnett's R&D efforts are carried out in close partnership with external expertise environments, such as other Transmission System Operators (TSOs), the supplier industry and the electricity industry in general, both in the Nordic countries and in Europe, as part of the EU's R&D Framework Programme. We also collaborate with teaching environments and research institutions, including NTNU (Norwegian University of Science and Technology in Trondheim), the energy research company SINTEF Energiforskning and STRI (Swedish Transmission Research Institute) in Sweden, which is co-owned by Statnett.

#### **Recruitment and employee development**

Statnett is faced with major investments and development projects in the years ahead. In order to realise these plans, the company will need to be staffed with sufficient competence and expertise of the right kind. We are therefore investing in development and learning which accord with Statnett's strategies and core values, and which will help meet our future needs.

Statnett also stresses the importance of promoting a good working environment with motivated and engaged employees. We are particularly concerned that our management should have the ability to inspire their fellow workers. Statnett's managers are judged among other things on whether they hold regular staff performance assessment interviews, develop talented employees and carry out competence development plans. Managers are offered support for staff and team development. To maintain the focus on good management practices, we also organise regular internal management seminars.

Statnett carries out regular surveys aimed at measuring staff motivation and staff perception of compliance with the requirements Statnett's management need to abide by. The management follow up the surveys themselves,

Statnett uses culture as an energetic disseminator of values. Through agreements with Norwegian cultural institutions, we support bringing cultural events and experiences to the entire country.



reviewing results and taking action aimed at improvement. Our 2008 staff survey showed a high satisfaction score of 82.7 per cent.

#### **Internal mobility and recruitment**

Statnett is investing broadly in the development and spread of competence across the entire company. In 2008, 50 employees changed jobs internally within the Statnett Group. Interviews conducted with employees who left Statnett in 2008 show that the opportunities for new and challenging tasks and for internal career paths are important in order to retain skilled and talented employees. Statnett will therefore work to facilitate even better opportunities for internal mobility in the coming year.

Although the labour market is less tight than it was a year ago, it is still a challenge for Statnett to recruit staff with the right kind of competence and expertise, particularly graduates with a technical background. Statnett had an overall staff turnover in 2008, excluding those retiring, of 5.5 per cent, which is slightly up on 2007. The number of applicants for some posts is still low.

A targeted human resources policy, which includes taking action in a number of areas, is a prerequisite for being perceived as an attractive employer. From the autumn of 2008, Statnett introduced a new trainee scheme aimed at attracting talented young graduates from universities and university colleges. During the course of the 18 months the programme lasts, trainees receive work practice in different parts of Statnett's activity.

Statnett's collaboration with universities and university colleges will be even more important in the coming years. Our activities are aimed particularly at the technical departments of NTNU (Norwegian University of Science and Technology in Trondheim) and the colleges of advanced engineering, especially those offering electrical subjects, as well as other college and university departments offering energy and environmental sciences. Our collaborative trainee programme with SINTEF (Foundation for Scientific and Industrial Research at the University of Trondheim), EBL (Norwegian Electricity

Industry Association), NVE (Norwegian Water Resources and Energy Directorate) and a number of grid companies in the industry is continuing. To make prospective candidates better acquainted with the company, Statnett participates in a number of job fairs organised by students.

Statnett also provides opportunities for students to work in summer jobs, and to write project papers and master's theses. We are also considering recruiting more staff from other countries.

#### **Equality and diversity**

Statnett has for many years worked systematically to get more women into management and technical positions. Women and men in comparable positions receive equal pay, while staff surveys show that both sexes believe that women and men have equal opportunities at Statnett.

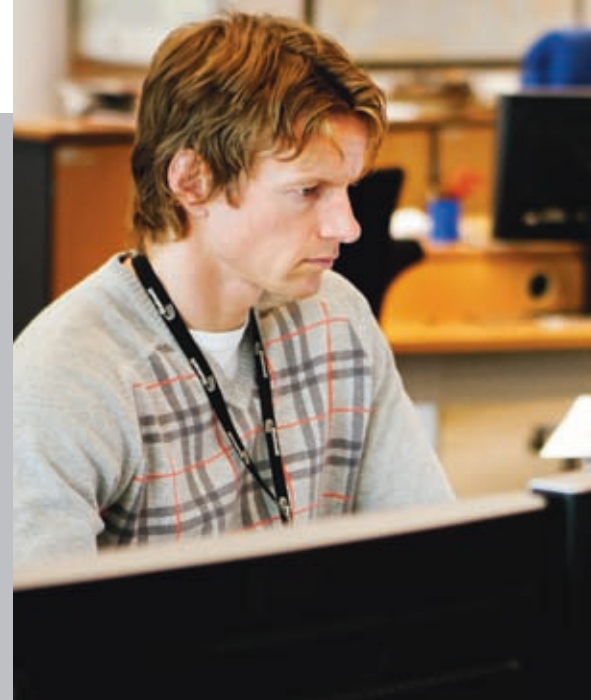
We have set up practical schemes designed to allow women and men to combine work and family life successfully. Statnett runs its own nursery facilities, a scheme of extended parental leave for employees with young children, and practises flexible working hours. It is evident that male employees at all levels are using more of their parental leave than previously, and that the mothers and fathers of young children spend equally as much time at home looking after sick children.

Statnett will continue the effort to recruit more women to management and technical positions. We wish to promote the participation of women in the boardroom across the entire Statnett Group, and take a positive view of female employees being elected to directorships of other companies.

#### **Culture as a bringer of energy!**

Bringing energy – to the entire country – is Statnett's core activity. We have chosen to use culture as an energetic disseminator of cultural values within our own business and also as an arena for pursuing a dialogue with important

Statnett's vision is to be Europe's most innovative and environmentally responsible grid operator.



groups outside Statnett. Through the agreements Statnett has signed with cultural institutions in Norway, the company supports the effort to bring and disseminate culture of various kinds to the entire country.

#### **Norwegian Concert Institute and the Northern Lights Festival**

In the spring and autumn of 2008, the Norwegian Concert Institute and Statnett presented nationwide tours of the groups Superfamily and The Disciplines. Statnett wishes to be an attractive employer, and our partnership with the Norwegian Concert Institute provides us with meeting places that bring us more closely into contact with important groups of students and thus potential future employees.

The Northern Lights Festival in Tromsø is another important arena for Statnett. This classical music festival, which is one of the most important annual cultural events in Northern Norway, gives Statnett the opportunity to meet with authorities and other important interest groups to pursue a dialogue on energy-related topics of importance for this part of the country.

#### **Local contributions through our own employees**

Statnett wants to make a positive contribution to local communities. We encourage our employees to get involved locally, in sports organisations and other cultural activities. As an extra incentive, Statnett awards grants for local children's and young people's activities. All of Statnett's employees throughout Norway are eligible to apply for support of this kind. To be awarded funding, a Statnett employee must hold a position of trust or fulfil some other active role in the event or organisation concerned. The activity must be organised through a local voluntary club, association or similar, and must have a clear, non-profit-making objective.

### **The Ethics Ombudsman Scheme**

The role Statnett plays both in Norwegian society and in the electricity system dictates that we must demand

absolute integrity of ourselves and not deviate from our ethical principles. As one of the first companies in Norway to do so, in 2006 Statnett appointed its own Ethics Ombudsman. The Ethics Ombudsman is an officer of the company whose duty is to strengthen the legal protection of employees and to help uncover censurable conditions and shortcomings within the company.

#### **The role of Ethics Ombudsman**

The job of the Ethics Ombudsman is to ensure that undesirable work cultures and attitudes do not develop and proliferate. The Ombudsman also has a duty to comply with the amendments to the Working Environment Act with regard to notification or "whistle-blowing". The Act states that any employee has the right to issue a warning or "blow the whistle" on any censurable conditions in the workplace. One of the main reasons for the change in the law is to send out a signal that notification is both lawful and desirable. "Censurable conditions" means, among other things, any matters that are unlawful, or which violate the company's ethical rules, or which create a bad working environment, a poor work culture in general or damaging activity. Statnett has a duty to enable staff to notify censurable conditions internally within the business, and the Ethics Ombudsman scheme is aimed precisely at this. At Statnett, the office of Ethics Ombudsman is held by a lawyer in our Legal Department.

The Ethics Ombudsman is charged with undertaking investigations in response to issues raised by employees or employees' unions, to provide guidance for employees on ethical matters, and to take up matters on the Ethics Ombudsman's own initiative. Although ethical problems should be dealt with initially within the line organisation, the Ethics Ombudsman can also be contacted directly. A very important principle that the Ombudsman observes is the requirement for anonymity, whereby the "whistle-blower" need not give his or her name. This principle encourages staff to notify matters that would not otherwise have been addressed.

#### **Greater awareness, increased engagement**

The Ethics Ombudsman scheme has without doubt helped



to put ethics higher on Statnett's agenda than before and to make staff far more aware of ethical issues than before. Statnett continues to note considerable engagement and interest among staff in the Ombudsman scheme and in ethical matters in general. The Ethics Ombudsman reports annually to the Group management and to the Board concerning the number of notifications and the number of matters dealt with. The Ombudsman dealt with about 15 notification cases in 2008 and also handled a larger number of more minor matters in addition. The anonymity principle otherwise sets clear limits for the degree of detail that can go into the report.

#### **Action and rules**

The Ethics Ombudsman is presented to all new employees at Statnett. The Ombudsman also holds presentations for staff who have worked for the company for a while. In 2008, the Ethics Ombudsman held presentations in total for 20 per cent of the employees. An anonymous internal questionnaire on staff knowledge of and attitudes to ethics, ethical questions and the actual Ethics Ombudsman scheme was circulated within the company in the spring of 2008. There was an extremely good response to the questionnaire, which uncovered no specific needs for any major action. Ethics have nevertheless been given a larger and more visible place on Statnett's website and intranet.

Statnett's employees are expected to conduct themselves with honesty and decency, and with openness and transparency and in compliance with the rules within the organisation. We shall not behave in a manner likely to compromise Statnett's 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 guidelines require, among other things, that anyone receiving a benefit or a gift (such as a dinner, tickets to a concert or sports event, and Christmas gifts) of a value of more than NOK 500 must clarify this with his or her manager. Having an overview of gifts of this

ENnature is primarily the responsibility of management, but will also be followed up personally by the Ombudsman.

#### **Procurement at Statnett**

Statnett is involved in a phase of substantial investment. Over a ten-year period, investments are planned in the order of NOK 20 billion, largely for upgrading, strengthening and enhancement of the electricity grid.

Statnett is dependent on a well-functioning market of high-quality professional suppliers and seeks to co-operate with competitive suppliers who are willing to keep costs down.

There has recently been an intense spotlight trained on companies' responsibility for safety and welfare – not only among our contractors, but also their subcontractors. This will be even more important in the years ahead, at a pace with increasing activity and a growing awareness of responsibility and liability. We expect our suppliers to comply with our ethical requirements and our health, safety and environmental (HSE) requirements, and to deal seriously with environmental concerns.

Statnett makes high demands of quality, cost-effectiveness and delivery reliability within ethically acceptable limits. Our procurement principles are based on openness, fairness, transparency, predictability and equal treatment.

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. As part of our process of continuous improvement, we frequently offer detailed feedback to suppliers whose tenders are not accepted, so that they have the opportunity to be more competitive next time.

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





# Introduction to 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 principally from monopoly-based activities and are regulated by a revenue cap 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 Enterprise 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 members of the Board of Directors and of the User Council. The Enterprise 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's Group Management Team 2008

## Håkon Borgen

Executive Vice President Technology & Project (T&P)

Borgen is a Graduate Engineer in Electrical Power, holds a Diploma from Technische Hochschule Darmstadt (THD), and has a Master's Degree module in Project Management from BI Norwegian School of Management. Positions at BKK and has held several senior executive posts at Statnett. He currently chairs the board of Statnett Transport, and is a member of several boards.

## Audun Severin Hustoft

Executive Vice President Grid Owner

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 Grid Owner Division, which is responsible for maintenance and reinvestment in Statnett's facilities, ensuring that the Norwegian national grid is always accessible.



## Auke Lont

President and CEO

Lont comes from the position of CEO with the consulting company Econ Pöyry. He was previously Senior Vice President Nordic Energy at Statoil and CEO of Naturkraft. He studied Mathematics and Economics at the University of Amsterdam and holds a Master's Degree in Economics. Lont is a member of the Board of Directors of Gasunie in the Netherlands.

## Bente Hagem

Executive Vice President Commercial Division

Hagem has a Master's Degree in Industrial Economy from the Norwegian University of Life Sciences (UMB). She was formerly Vice President at Gilde Norsk Kjøtt, before being appointed Vice President of Gas Sales and Gas Processing at Statoil ASA. Since 2001 Hagem has been Vice President Commercial Division at Statnett with responsibility for markets and market design. She is also member of several boards.

## Gun Bente Johansen

Executive Vice President Corporate Staff

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.

**Gunnar G. Løvås**

Executive Vice President Grid Development and Investment

Løvås is a Graduate Engineer from the Norwegian Institute of Technology, University of Trondheim (NTH) and has a PhD in Mathematics from the University of Oslo. He has been with Statnett since 1994. He has varied experience from planning, development and operation of the power system.

**Øivind Kristian Rue**

Executive Vice President Grid Operations

Rue holds a 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.



**Marie Jore Ritterberg**

Executive Vice President Finance

Ritterberg has an MSc in Business and Economics and is a state-authorized public accountant. She has previous experience from Norsk Tipping, Norske Skog, A-pressen and Arthur Andersen. Ritterberg is a member of the board of Argentum Fondsinvesteringer AS and Oslo Vei AS, and a member of the corporate assembly and election committee at Telenor.

**Peer Olav Østli**

Executive Vice President Information and Telecommunication Technologies (ICT)

Østli holds a Cand.Scient. (Master of Science) Degree in Informatics and also has post-graduate management training from Henley Management College. He has over 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.

**USER COUNCIL  
2008–2010**

**MEMBERS**

**EBL**  
Øivind Torkildsen (BKK Nett)  
Bente Monica Haaland (Statkraft)

**NI**  
Helge Stanghelle (Fesil)

**The Consumer Council  
of Norway**  
Linette Heiberg

**FSN**  
Hanne Torkelsen (KS)

**HSH**  
Leif Olsen

**DEPUTY MEMBERS**

**EBL**  
Hans Olav Ween (EBL)  
Kari Thørud (Hafslund Strom)

**NI**  
Kristin Karlstad (Elkem)

**The Consumer Council  
of Norway**  
Olav Nyhus

**FSN**  
Knut Lockert (FSN)

**HSH**  
Kirsten Haug

# Statnett's Board of Directors 2008

## **Thor Håkstad**

Vice Chair of the Board of Directors

Håkstad holds a Degree in Mechanical Engineering. 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 of Directors since 2004.

## **Kirsten Faugstad**

Faugstad holds a Master of Science in Electrical Engineering. 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 departmental head in Statnett's Technology & Project Division and has served as an employee representative on Statnett's Board of Directors since 2004.



## **Bjarne Aamodt**

Chair of the Board of Directors

Aamodt is a Graduate Engineer. He has been Deputy CEO of Det Norske Veritas and CEO of Alcatel STK ASA. Since 2001 he has headed the Other Business unit of Telenor ASA. Aamodt has served and continues to serve on a number of boards, both nationally and internationally, and is Chair of the Supervisory Board of Nordea Bank Norge ASA. He has been Chair of Statnett's Board of Directors since the spring of 2008.

## **Heidi Ekrem**

Ekrem is a partner at the law firm Advokatfirmaet Mageli ANS and practises as a lawyer at their Hamar office. Most of her work involves dealing with corporate law issues for large companies, including those in the energy sector. Ekrem was elected to the Statnett's Board of Directors in 2006.

### Per Hjort

Hjorth holds an MSc in Business and Economics. He has held a number of senior executive posts in industry, finance and the energy sector, where he was Deputy CEO of Nordpool ASA until 2000. Hjorth is presently Managing Director of Newsec AS, the leading Nordic commercial real estate consultancy, and serves on a number of boards, including Europower AS, a company in the NHST media group. He has been a member of Statnett's Board of Directors since 2008.

### Christine B. Meyer

Meyer holds a PhD in economics and business administration. She 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 (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. She became a member of the Board of Statnett in 2005.



### Grethe Høiland

Høiland is a Graduate Engineer in Electrical Power Engineering. She has completed a Foundation Program in Business Administration at BI Norwegian School of Management. Høiland has been a member of the Statnett's Board of Directors since 2002. She 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.

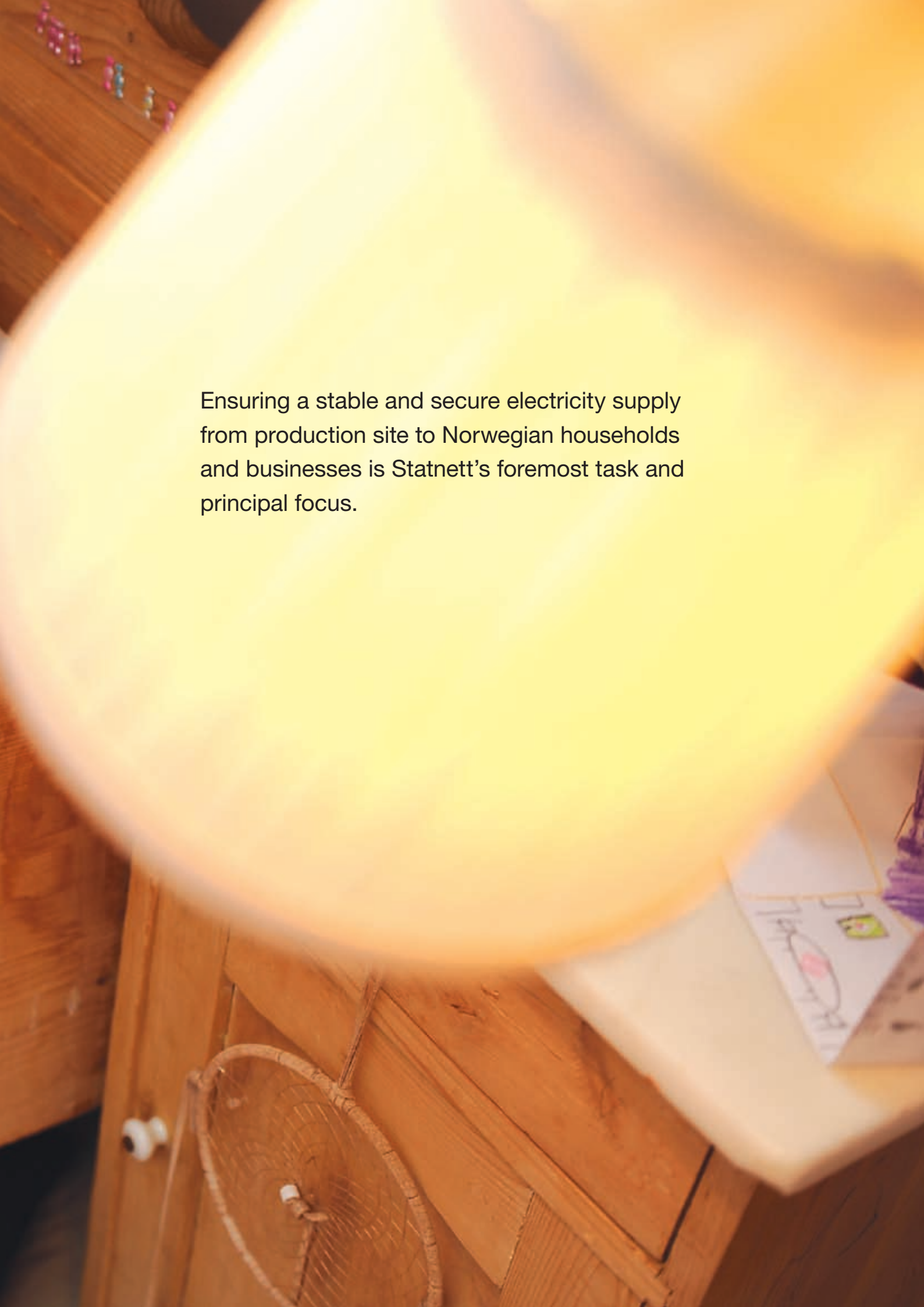
### Steinar Jørånstad

Jørånstad is an Energy Technician with Statnett and is leader of the Norwegian Electrician and IT Workers Union (EL&IT) branch 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.

### Bjørn Solberg

Solberg is an Electronics Engineer. He has been employed by Statkraft/The Norwegian Power Pool/Statnett since 1978, and is currently employed in Statnett's ICT Division in Trondheim as Team Leader and head of the ICT operational duty unit. He has served on the board of the Statnett branch of the Norwegian Society of Engineers and Technologists (NITO) since 1993, and is now leader of NITO's company branch at Statnett.





Ensuring a stable and secure electricity supply from production site to Norwegian households and businesses is Statnett's foremost task and principal focus.

# Directors' Report for 2008

**Statnett's high investment activity continued in 2008, with the Group investing NOK 2.6 billion during the year. A number of new investment projects are being planned to maintain security of supply, facilitate value creation, and transmit new renewable energy.**

The Statnett Group posted a net profit after tax for 2008 totalling NOK 1 517 million, compared with NOK 651 million for 2007. The large increase is mostly attributable to higher revenue and the sale of operations in Nord Pool ASA.

Higher revenue for 2008 totalled 721 million. The sale of operations in Nord Pool ASA helped bring income in joint ventures and associates up to NOK 962 million.

Statnett's revenues are regulated by the Norwegian Water Resources and Energy Directorate (NVE), which sets an annual revenue cap. Higher revenue arises when the actual income earned exceeds the permissible income in accordance with the revenue cap. The accumulated higher revenue will be deducted from subsequent years' tariffs. At 31 December 2008, accumulated higher revenue totalled NOK 428 million. Under the current accounting rules, higher or lower revenue is not capitalised in the balance sheet.

The large amount of higher revenue in 2008 arose largely owing to the big differences in electricity prices which occurred during the year in the various price areas in the Nordic region and between South Norway and the Netherlands. The price differentials resulted in high congestion revenue and trading income on the NorNed cable.

The NorNed subsea cable link between Norway and the Netherlands opened on 6 May 2008. Aggregate income in 2008 from the NorNed cable amounted

to NOK 936 million. Statnett's share of this income is a good NOK 468 million, which is 19 % of the total investment in the project. The income will benefit customers through reduced tariffs, while the costs will be tarified in the usual way in accordance with the revenue cap set by NVE.

## QUALITY AND SECURITY OF SUPPLY

Aggregate power consumption for 2008 was approximately 128.6 TWh, which is 1 per cent up on the previous year. Aggregate power generation rose by 3.6 per cent to approximately 142.4 TWh, resulting in a net export of approximately 13.8 TWh. The supply situation was good for the country as a whole.

Statnett's target is to ensure that no end-user is without electricity for more than two hours at a time owing to a fault in Statnett's transmission facilities. This target was not achieved owing to an incident in January, when the 420 kV power line between Viklandet and Fræna failed because of a fault and short-circuit.

KILE costs for 2008 totalled NOK 68 million, compared with only NOK 16 million for 2007. KILE is the amount of undelivered energy (outages) in MWh multiplied by a KILE rate, which corresponds to the socio-economic cost of an outage.

There are periodically bottlenecks in the grid into Sørlandet and limited generation capacity south of these

bottlenecks. To maintain system operations, Statnett found it necessary to slightly limit exports over the cables to Denmark and Netherlands during certain periods between December 2008 and 1 April 2009.

In the summer of 2008, faults arose on the two 420 kV interconnectors over the Oslofjord. There were faults on four of the six cables that cross the Oslofjord between Teigen in Vestfold and Evje in Østfold via Bastøy. In addition there was a fault on one of the six cables that cross the fjord at Drøbak.

The cable link at Drøbak became operational again on 24 October 2008 after a replacement cable was laid. The work of repairing the faults on the cables that run via Bastøy has been delayed for several reasons, including bad weather and a limited supply of engineers qualified to do this type of repair. The repair work will continue in the spring of 2009 as the entire interconnector has to be disconnected while the work proceeds. To ensure that security of supply is maintained, disconnection should not take place in the winter. The interconnector has in the meantime been operating at half capacity.

The hydrological resource situation and faults on the two 420 kV interconnectors over the Oslofjord caused some congestion during the year, particularly out of South Norway. As a result, the spot price in South Norway was 12 per cent below the average system price in 2008, which was 36.9 øre per kWh.



Statnett has completed the construction of the gas-fuelled reserve power generation plants at Tjeldbergodden and Nyhamna. The plants are now on contingency standby, and can be employed in very tight power situations. They have a capacity of 150 MW each.

On 17 November 2008, Statnett introduced a common price area for Central Norway and North Norway after completing a two-year investment programme in compensator facilities in Central Norway. The import capacity into the region had hitherto been limited owing to the danger of voltage collapse and low voltage.

## INVESTMENT

Statnett has a number of major capital investment projects, both planned and ongoing. These are partly in response to the sharp 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 renewable electricity generation that will require increased transmission capacity. Statnett is consequently investing in transmission capacity both inside and into the regions concerned.

### INVESTMENT PROJECTS IN PROGRESS

#### Trøndelag – Sweden

The new 420 kV power line between Nea in Trøndelag and the border with

Sweden is 25 km long and will replace the existing 300 kV power line, which will be demolished. The investment, which includes two substations, will cost slightly above NOK 350 million. Svenska Kraftnät will be responsible for extending the power line 75 km from the Swedish border to Järpstrømmen transformer station. The Norwegian part of the project is expected to be completed in summer 2009, while the Swedish part of the project is expected to be completed in autumn 2009.

#### Skåreheia – Holen in Setesdal

The building of a new 420 kV power line running through the valley of Setesdal from Skåreheia in Birkenes municipality to Holen hydropower station in Bykle municipality will cost approximately NOK 900 million. The interconnector will be 100 km long. This project is important in order to maintain security of supply in South Norway. As well as accommodating increased needs arising from regional energy development plans, the new interconnector will contribute to transmitting electricity to and from the subsea cables linking Norway and the Continent. The project is expected to be completed during autumn 2009.

#### Major investment in transformer stations

Statnett is currently carrying out voltage upgrades and necessary reinvestment in Hasle transformer station in the county of Østfold. These measures will improve security of supply and capacity relative to consumption in the region, and will also facilitate an increase in

transmission capacity and better security of supply between Norway and Sweden. Both at Hasle and a number of other places in South Norway, capacitor banks and reactors are being installed to regulate the voltage within defined limits. At Flesaker transformer station in the county of Buskerud, Statnett is investing in transformer capacity to improve security of supply in the underlying grid and to increase transmission capacity. The budget for these projects is about NOK 750 million, and completion is expected during the period 2009 to 2011.

#### Varangerbotn – Skogfoss

Statnett has decided to invest over NOK 400 million to secure the electricity supply in East Finnmark, and will also take over some of Varanger KraftNett's facilities in the area. The investment comprises a new, 130 km 132 kV power line between Varangerbotn and Skogfoss, as well as the necessary modifications of the existing facilities. The licence for both the new power line and the modification work is held by Varanger KraftNett. The investment is conditional upon Statnett taking over the necessary permits, and the parties are in contact with the authorities to that effect. Construction is planned to start in 2010, and the new line is scheduled for completion in 2013.

#### Increased preparedness

Statnett has decided to purchase six extra reserve transformers in order to reduce vulnerability in the electricity system. A contingency cable has been

To meet a sharp increase in consumption in some parts of the country, Statnett has a number of major investment programmes planned or ongoing.

acquired for the Oslofjord link at Drøbak. It has also been decided to invest in a new contingency cable for the Oslofjord link at Bastøy to strengthen security of supply in East Norway and to ensure sufficient capacity in the transmission grid. These actions are in response to the fault incidents that took place in the summer of 2008. When these facilities will become operational depends on the delivery capacity of the cable manufacturers.

#### **PROJECTS FOR WHICH LICENCE APPLICATIONS ARE PENDING OR LICENCES APPEALED**

##### **Sima – Samnanger**

In May 2008, NVE awarded Statnett a licence to build a new 420 kV power line and related facilities between Sima hydropower plant and Samnanger transformer station in the county of Hordaland. The original licence application was made in May 2006. The power line will run via Ulvik, Granvin and Kvam and provide better security of supply in West Norway in the area around the Boknafjord and the Sognefjord. The new interconnector, which will be 90 km long, is estimated to cost about NOK 550 million. The decision to grant the licence has been appealed to the Ministry of Petroleum and Energy.

##### **Ørskog – Fardal**

In February 2007, Statnett applied for a licence to build a new 420 kV power line between Ørskog municipality in Sunnmøre and Fardal in Sogn. The interconnector will be about 300 km long and, including the requisite

transformer stations, will cost approximately NOK 2.5 billion. There is a pressing need for the new line, 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 at the same time facilitating the development of planned wind power and small-scale hydropower plants in Sogn og Fjordane. NVE has announced that the decision on the licence application can be expected during the first half of 2009.

##### **Namsos – Roan**

In November 2007, Statnett applied for a licence to build a new 420 kV power line between Namsos and Roan in the county of Trøndelag. The power line will be about 82 km long and, with the requisite transformer stations, will cost approximately NOK 500 million. It has also been decided to apply for a licence to extend the power line south to Storeheia at Fosen. The current network of lines on the Fosen peninsula is too weak to take the power from the planned wind farms.

#### **PROJECTS FOR WHICH PLANNING PROPOSALS HAVE BEEN SUBMITTED**

##### **Balsfjord – Hammerfest**

In June 2007, Statnett submitted a proposal to the authorities for plans to construct a new 420 kV power line between Balsfjord in the county of Troms and Hammerfest in the county of Finnmark. NVE has defined a

required impact assessment programme, and the plans are for Statnett to apply in the spring of 2009 for a licence to build the power line. If it is realised, a new line between Balsfjord and Hammerfest will boost capacity in the grid and provide a more reliable electricity supply. The line will also be needed if the power requirement following an expansion of the Snøhvit natural gas extraction facility at Melkøya ("Phase 2") has to be met by power supplied from outside. At the same time, the project will help facilitate the possible development of more wind power in the region. The entire project to build the 350 km power line is estimated to cost approximately NOK 2.3 billion.

##### **Ofoten – Balsfjord**

Statnett submitted planning proposals in December 2008 for a new 420 kV power line between Ofoten and Balsfjord. The power line will be about 157 km long and involve the expansion of two or three existing transformer stations. The line will provide a better and more secure electricity supply in the areas north of Ofoten, and permit more effective utilisation of the entire Ofoten – Balsfjord – Hammerfest stretch. The project is estimated to cost approximately NOK 1 billion.

##### **Roan – Trollheim**

In February 2008, Statnett submitted planning proposals to build a new 420 kV power line between Roan in Sør-Trøndelag and Surnadal in Møre og Romsdal. The power line will be 165 km long with the addition of an 8 km subsea cable crossing the



Trondheims-fjord, as well as three new transformer stations and the expansion of two existing ones. The project is estimated to cost approximately NOK 1.7 billion. The project may be necessary in the event of extensive new wind power development along the coast of Trøndelag and south of the Trondheimsfjord. Statnett has decided to apply for a licence for parts of the project as early as spring 2009.

This will be the stretch from Roan to Storheia, which is required because of the need to connect wind power plants in the Åfjord area to the grid.

#### **New cable between Norway and Denmark (Skagerrak 4)**

Statnett and Energinet.dk have decided to apply to the respective authorities in Norway and Denmark for a licence to expand the transmission capacity for electricity between the two countries by building a fourth subsea cable with a capacity of 600 MW. The investment decision will be made after the authorities award the licences. The cable will be about 130 km long and is estimated to cost NOK 3 billion, of which Statnett's share will be about NOK 1.5 billion. The cable will improve the efficiency of the Nordic electricity market and make Norway less vulnerable in dry years. It will also provide useful back-up for Danish wind power. Statnett submitted planning proposals for the project to the Norwegian authorities in December 2008.

#### **FINANCIAL RESULTS**

The annual financial statements of the parent enterprise, Statnett SF, and the

consolidated financial statements of the Statnett Group are prepared in compliance with International Financial Reporting Standards (IFRS) and interpretations established by the International Accounting Standards Board (IASB) which are EU-approved.

#### **Operating revenues**

The Statnett Group recorded operating revenues for 2008 totalling NOK 4 248 million, compared with NOK 3 387 million for 2007. Operating revenues for the Group totalled NOK 4 256 million, which is NOK 841 million up on the year before. Of the increase in the Group, NOK 701 million is increased higher revenue, NOK 112 million is related to the increase in power transmission revenues, while NOK 28 million is an increase in other operating revenues. Power transmission revenues, which consist of Statnett's permissible income in accordance with the revenue cap regulated by NVE, amounted to NOK 3 355 million for 2008.

The financial statements show higher revenue for the year totalling NOK 721 million. Accumulated higher revenue including interest amounted to NOK 428 million at year-end 2008. The accumulated higher revenue will reduce the tariffs in subsequent years and, in accordance with the current accounting policies, is not capitalised in the balance sheet.

Other operating revenues for the Group totalled NOK 180 million for 2008, compared with NOK 152 million for 2007.

#### **Operating costs**

Statnett SF recorded operating costs for full-year 2008 totalling NOK 3 049 million, up from NOK 2 387 million the year before. The consolidated operating costs for the Group totalled NOK 3 062 million, which is NOK 672 million up on 2007. Of this, increased costs of transmission losses accounted for NOK 325 million and the repair of the Oslofjord cables NOK 155 million, before any insurance coverage. Wage costs rose by NOK 92 million, and depreciation, amortisation and write-downs increased by NOK 18 million. Some of the increase in wage costs is owing to increased pension costs and to previously contracted staff having become employees of Statnett. Costs of system services fell slightly during the year.

#### **Results**

Statnett SF made an operating profit for 2008 of NOK 1 199 million, compared with NOK 1 000 million for 2007. For the Statnett Group as a whole, operating profit for the year amounted to NOK 1 194 million, compared with NOK 1 025 million for 2007. Revenues from joint ventures and associates rose from NOK 58 million for 2007 to NOK 962 million for 2008, largely owing to the sale of operations in Nord Pool ASA.

Net financial costs for the Group for 2008 totalled NOK 546 million, as against NOK 307 million the year before. The rise is largely owing to a higher level of interest rates and an increase in interest-bearing debt. Statnett SF recorded a net profit after tax for the year totalling NOK 630 million, compared with NOK 598 million for 2007.



The Group's net profit after tax was NOK 1 517 million for 2008, compared with NOK 651 million for 2007.

#### **Investment**

Statnett SF invested a total of NOK 2 620 million in 2008, compared with NOK 2 982 million the previous year.

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

The Group's operating activities generated a cash flow for 2008 amounting to NOK 1 529 million. Net cash flow to investing activities totalled NOK 2 670 million.

Loan repayments totalled NOK 2 806 million, and new borrowings totalled NOK 4 256 million. At year-end interest-bearing debt totalled NOK 12 340 million. The market value of interest swap and currency swap agreements linked to interest-bearing debt was NOK 1 529 million, so that net interest-bearing debt, corrected for this, totalled NOK 10 811 million.

At 31 December 2008, the Group's liquid assets and securities totalled NOK 995 million, which is NOK 43 million down on the previous year. At the end of the year, the Group's total assets were NOK 20 919 million, compared with NOK 16 439 million at year-end 2007.

The Group's equity totalled NOK 6 585 million at year-end 2008, compared with NOK 5 562 million at year-end 2007. The Group's equity share at 31 December was 31.5 per cent, compared with 33.8 per cent at 31 December 2007.

The parent enterprise's non-restricted equity is NOK 2 566 million.

#### **Financial risk**

Statnett has established a financial policy and framework for financial management, including limits for credit risk, settlement risk and counterparty risk. Control procedures have been established which are carried out independently. As a result of Statnett's financial policy, which includes a spread maturity structure on existing loans, the enterprise has not been significantly affected by the financial crisis. It is also Statnett's policy to be able to fund 12 months' operations, investment and refinancing without incurring any new debt. The enterprise has a credit facility totalling NOK 2.0 billion, which runs until 2012 and is part of Statnett's policy for 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 2008. Currency risk is minimised by among other things 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.

A large proportion of the revenues from grid operations are calculated as

return on the enterprise's grid capital. The calculation of the return on grid capital is based on the interest rate on five-year Norwegian government bonds and, as a result, Statnett's revenues are affected by changes in interest rate levels. To reduce the enterprise's total interest rate risk, Statnett therefore seeks to achieve as good a match as possible between movements in interest rates on loans and the interest rate used to calculate return on the enterprise's grid capital. Statnett has a reasonably high credit rating, with long-term borrowing ratings of A+ and Aa3 from Standard & Poor's and Moody's Investor Service respectively.

All loans raised before 2003, which had a balance of NOK 86.7 million at year-end 2008, are guaranteed by the Norwegian government. Statnett pays a guarantee premium to the government for the guaranteed loans. The guarantee premium is included in financial costs and totalled NOK 2.7 million for 2008.

#### **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 the Statnett Transport Group for 2008 were NOK 77 million, as against NOK 49 million the year before. The increase is mostly owing to the delivery of a new preparedness vessel in the second quarter of 2008. The

Statnett has a clear policy of taking climate change and other environmental issues into account in its decision-making.

Group recorded a loss after tax of NOK 1 million, compared with a profit of NOK 5 million for 2007.

#### **The Nordic power exchange, Nord Pool**

Nord Pool ASA and Nord Pool Spot AS together contributed a total of NOK 962 million in profits to the Statnett Group for 2008, compared with NOK 58 million the year before. Their contributions to the profits of Statnett SF were NOK 41 million for 2008 and NOK 15 million for 2007. Nord Pool ASA, which is 50 per cent owned by Statnett SF, has sold its 17.39 per cent stake in the EEX power exchange to Eurex for EUR 46 million, and most of its other operations to OMX for over NOK 2 billion. The sale to Eurex was carried out in June 2008, while the sale to OMX was completed in October 2008. Statnett's 50 per cent capital gain on the disposals is included in the Group's profits for 2008 and will thus contribute to equity in the form of retained profits. These sales have had no impact on Statnett SF's results for 2008.

Nord Pool ASA owned a 20 per cent stake in Nord Pool Spot AS, which with effect from the start of the second quarter was distributed as dividend to the two owners of Nord Pool ASA, Statnett SF and Svenska Kraftnät. This has increased Statnett's direct stake in Nord Pool Spot AS from 20 per cent to 30 per cent.

#### **Environment**

Statnett has established an environmental strategy intended to ensure that the enterprise consistently has regard for environmental concerns

in line with the growing emphasis on the environment among society in general. The objective is for climate change and other environmental concerns to be clearly taken into account in all decisions made by Statnett. This is particularly important when building new power lines, but also in order to reduce the environmental impact of all our operations. As a consequence of Statnett's environmental policy, among other things the plans for the power line between Ørskog and Fardal have been adjusted so as to increase the capacity for new renewable energy, and enable us to pull down old lines and avoid building new regional lines. Also the 420 kV power line between Ofoten and Balsfjord, for which planning proposals have been submitted, will make it possible to demolish regional lines.

In connection with Statnett's R&D project "Environmentally-friendly power lines", new pylons were brought into operation at Rasta in Lørenskog in November 2008, on some of the 300 kV line between Røykås and Tegneby. The intention is to test a new and smaller type of pylons for use close to densely populated areas. The new pylons need less space, dominate the landscape less and have a lower magnetic field than conventional pylons for this level of voltage.

Statnett began a collaborative partnership in 2007 with ABB and Siemens to evaluate a new type of HVDC technology which permits conversion between direct current (DC) and alternating current (AC),

known as Voltage-Sourced Converter (VSC) technology. In the future, this technology may be able to replace conventional DC technology also for high outputs, and make it possible to build HVDC power grids, which could potentially be used offshore. The technology may be suitable for long point-to-point interconnectors.

Statnett is certified in accordance with ISO 14001:2004 Environmental Management Systems.

#### **Research and Development**

Statnett aims to spend 1.2 per cent of its annual revenue cap 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 which were started up in 2006 were completed in 2008.

The project to develop a new type of pylon, which is being tested out in the field at Rasta, is a result of R&D work at Statnett. Our R&D activities have also provided good results as regards upgrading and maintenance work on live transmission lines, without the need to take them out of operation. Research into how large amounts of wind power can be integrated into the system is another example of an R&D project that can be of great significance in the years to come.

#### **Employees**

At the turn of the year 2008/2009, the parent enterprise Statnett SF had 690 full- and part-time employees, as against 664 the year before. The total number of full-time equivalents

Statnett's activities in the next few years will continue to be dominated by a high level of capital investment.

(FTEs) was 673, compared with 647 in 2007. The increase in staff is partly owing to the employment of previously contracted personnel, and an increased workload in connection with planning and executing investment projects.

Statnett has many employees aged 60 or above, who will gradually be retiring. In that connection, a special recruitment strategy has been prepared and a number of measures designed to promote Statnett's image as an attractive employer. Statnett has also established a senior employee policy, which among other things contains measures to motivate employees to stay in their jobs for longer.

The sickness absence rate in the parent enterprise in 2008 was 3.7 per cent, the same as the year before. The overall sickness absence rate in the Group was 3.6 per cent. In 2008 Statnett SF had three lost-time injuries, while Statnett's subcontractors had 14 lost-time injuries. There were no fatalities.

The "H value" (lost-time injury frequency rate) for 2008 was 2.6 for Statnett SF and 2.5 for the Group as a whole. The equivalent figures for 2007 were 3.6 for Statnett SF and 4.3 for the Group. Statnett maintains a constant focus on health, environment and safety (HES) issues at work, as well as measures to reduce risk and prevent injuries and accidents. HES plans are drawn up for every project, and "Safe Job Analysis" procedures have been introduced for all risk-exposed work operations. An annual

safety course and first-aid course are held for all personnel engaged in work on high-voltage facilities, and training is provided for safety representatives, HES personnel, and others. Statnett cooperates with a number of local health services, which cover all members of staff throughout the Group.

#### **Gender equality**

Four of the nine members of Statnett's Board of Directors (45 per cent) are women. Three of the nine-member Group Management team are women. The gender equality accounts for 2008 show that 22.3 per cent of Statnett's employees are women. Women filled 24.5 per cent of all managerial positions, including substation managers and transmission line managers, in 2008, compared with 25 per cent in 2007. Women worked on average 93.5 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 positions receive equal pay. Statnett aims to increase the proportion of women in technical and managerial positions.

#### **Good Corporate Governance**

Statnett has bonds listed on Oslo Børs and the London Stock Exchange. The Board has determined that

corporate governance throughout the Statnett Group will be based on Oslo Børs' corporate governance recommendations to the extent they are appropriate for the enterprise's operations. Good governance principles shall facilitate constructive processes, thorough risk assessment, and high quality of decision-making, in order to create value over time. Statnett has its own Ethics Ombudsman scheme. The Ethics Ombudsman is an officer of the enterprise whose duty is to strengthen the legal protection of employees and to help uncover any censurable conditions and shortcomings in the systems practised at Statnett.

#### **New President and CEO**

Auke Lont became the new President and CEO of Statnett on 1 February 2009. Odd Håkon Hoelsæter, the former President and CEO, retired with a pension early in the year after heading Statnett for 17 years.

#### **Changes in the Board of Directors**

Bjarne Aamodt took over as Chairman of the Board after Svein Rennemo in April 2008. Thor Håkstad took over as Vice Chairman of the Board after Kjell Olav Kristiansen, who stepped down from the Board in April 2008. Per Hjorth and Bjørn Solberg were elected to the Board during the year, while Ole Bjørn Kirstihagen stepped down from the Board.

#### **OUTLOOK**

Statnett's activities in the immediate and near future will continue to be dominated by the high level of capital

investment. The sale of operations in NordPool ASA and a large amount of higher revenue contributed significantly to the high level of profits achieved by the Group in 2008. The higher revenue earned in 2008 will however reduce future tariff income, which will mean weaker results for the Group in 2009.

In December 2008, NVE adopted changes to the revenue regulation which mean that it will take less time than before between investments being put into operation and the corresponding increase in the revenue cap. While the revenue cap previously had a two-year time-lag, it will now increase in the same year

in which investments come into operation. The special supplement for investment will be removed from 2011. Overall, this will contribute to greater stability in Statnett's profit performance.

In accordance with the Norwegian Accounting Act, section 3.3.A, the Board confirms that the conditions exist for continued operation of the enterprise 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 that of 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 to owner	499
Transfer to other reserves	131
Total:	630

We confirm that the financial statements for the period 1 January to 31 December 2008 have, to the best of our belief, been prepared in compliance with IFRS and that the disclosures in the financial statements give a true and fair picture of the parent enterprise's and the Group's assets, liabilities, financial position and results as a whole, and that the disclosures in the Directors' Report give a true and fair overview of the performance, results and position of the parent enterprise and the Group, together with a description of the most significant risk and uncertainty factors faced by the enterprises.

Oslo, 26 March 2009  
The Board of Directors of Statnett SF



Bjarne Aamodt  
Chair of the Board



Thor Håkstad  
Vice Chair of the Board



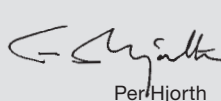
Christine B. Meyer



Grethe Høiland



Heidi Ekrem



Per Hjorth



Bjørn Solberg



Kirsten Faugstad



Steinar Jøråndstad



Auke Lont  
President and CEO





# Financial reporting


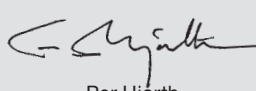
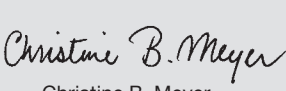
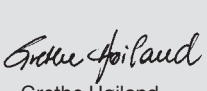
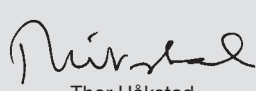
## Income statement




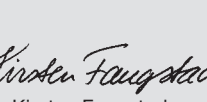

PARENT COMPANY			(Amounts in NOK million)	Note	GROUP		
2006	2007	2008			2008	2007	2006
<b>OPERATING REVENUE</b>							
3 122	3 243	3 355	Power transmission	2	3 355	3 243	3 122
-260	20	721	Higher/lower revenue for the period	2	721	20	-260
318	124	172	Other operating revenues	2	180	152	343
<b>3 180</b>	<b>3 387</b>	<b>4 248</b>	<b>Total operating revenues</b>		<b>4 256</b>	<b>3 415</b>	<b>3 205</b>
<b>OPERATING COSTS</b>							
391	413	376	System services	3	376	413	391
810	525	850	Transmission losses		850	525	810
322	399	483	Wage costs	4, 5, 6	505	413	336
697	509	524	Deprec. & write-downs tang. fixed assets	7, 8	528	510	698
670	541	816	Other operating costs	9	803	529	662
<b>2 890</b>	<b>2 387</b>	<b>3 049</b>	<b>Total operating costs</b>		<b>3 062</b>	<b>2 390</b>	<b>2 897</b>
<b>290</b>	<b>1 000</b>	<b>1 199</b>	<b>Operating profit</b>		<b>1 194</b>	<b>1 025</b>	<b>308</b>
-	-	-	Income from joint ventures and associates	12	962	58	44
93	123	169	Financial income	10	132	104	94
242	305	511	Financial costs	10	546	307	242
<b>141</b>	<b>818</b>	<b>857</b>	<b>Profit before tax</b>		<b>1 742</b>	<b>880</b>	<b>204</b>
36	220	227	Tax	11	225	229	41
<b>105</b>	<b>598</b>	<b>630</b>	<b>Net profit for the period</b>		<b>1 517</b>	<b>651</b>	<b>163</b>
<b>Disclosure of dispositions:</b>							
152	318	499	Provisions for dividends				

# Balance sheet

PARENT COMPANY				GROUP			
31 Dec 2006	31 Dec 2007	31 Dec 2008	(Amounts in NOK million)	Note	31 Dec 2008	31 Dec 2007	31 Dec 2006
<b>ASSETS</b>							
<b>FIXED ASSETS</b>							
156	43	-	Deferred tax assets	11	-	6	121
9 662	9 827	14 635	Tangible fixed assets	7	14 850	9 833	9 667
2 115	4 442	1 554	Plant under construction	8	1 554	4 442	2 115
49	49	109	Investment in subsidiaries	12	-	-	-
102	102	138	Investment in other group companies	12	1 311	520	334
149	144	1 776	Fixed asset investments	10	1 634	144	149
<b>12 233</b>	<b>14 607</b>	<b>18 212</b>	<b>Total fixed assets</b>		<b>19 349</b>	<b>14 945</b>	<b>12 386</b>
<b>CURRENT ASSETS</b>							
758	453	608	Trade acct & other short-term receivables	10, 13	575	456	762
374	325	225	Investment in market-based securities	10	439	562	605
160	440	512	Liquid assets	10	556	476	185
<b>1 292</b>	<b>1 218</b>	<b>1 345</b>	<b>Total current assets</b>		<b>1 570</b>	<b>1 494</b>	<b>1 552</b>
<b>13 525</b>	<b>15 825</b>	<b>19 557</b>	<b>Total assets</b>		<b>20 919</b>	<b>16 439</b>	<b>13 938</b>
<b>EQUITY AND LIABILITIES</b>							
<b>EQUITY</b>							
2 700	2 700	2 700	Contributed capital		2 700	2 700	2 700
1 827	2 281	2 566	Other equity		3 885	2 862	2 207
<b>4 527</b>	<b>4 981</b>	<b>5 266</b>	<b>Total equity</b>		<b>6 585</b>	<b>5 562</b>	<b>4 907</b>
<b>LONG-TERM LIABILITIES</b>							
-	-	173	Deferred tax	11	212	-	-
312	331	342	Pension liabilities	6	342	334	314
-	-	-	Other liabilities		-	23	21
7 077	6 732	11 690	Long-term interest-bearing debt	10, 15	11 690	6 732	7 077
<b>7 389</b>	<b>7 063</b>	<b>12 205</b>	<b>Total long-term liabilities</b>		<b>12 244</b>	<b>7 089</b>	<b>7 412</b>
<b>CURRENT LIABILITIES</b>							
675	2 577	650	Short-term interest-bearing debt	10	650	2 577	675
862	1 093	1 436	Trade accts payable & other short-term debt	10	1 438	1 093	867
72	111	-	Tax payable	11	2	118	77
<b>1 609</b>	<b>3 781</b>	<b>2 086</b>	<b>Total current liabilities</b>		<b>2 090</b>	<b>3 788</b>	<b>1 619</b>
<b>13 525</b>	<b>15 825</b>	<b>19 557</b>	<b>Total equity and liabilities</b>		<b>20 919</b>	<b>16 439</b>	<b>13 938</b>

Oslo, 26 March 2009  
The Board of Directors

 Bjarne Aamodt  
Chair of the Board
  Per Hjorth
  Christine B. Meyer
  Grethe Høiland
  Thor Håkestad  
Vice Chair of the Board

 Heidi Ekrem
  Bjørn Solberg
  Steinar Jøråndstad
  Kirsten Faugstad
  Auke Lont  
President and CEO

## Statement of changes in equity

PARENT COMPANY			(Amounts in NOK million)	GROUP		
Contributed capital	Other equity	Total equity		Total equity	Other equity	Contributed capital
<b>2 700</b>	<b>1 782</b>	<b>4 482</b>	<b>1 January 2006</b>	<b>4 804</b>	<b>2 104</b>	<b>2 700</b>
-	105	105	Net profit for the period	163	163	-
-	27	27	Change in value, cash flow hedges	27	27	-
-	-	-	Change in value, available-for-sale assets	-	-	-
-	-87	-87	Dividends paid	-87	-87	-
<b>2 700</b>	<b>1 827</b>	<b>4 527</b>	<b>31 December 2006</b>	<b>4 907</b>	<b>2 207</b>	<b>2 700</b>
<b>2 700</b>	<b>1 827</b>	<b>4 527</b>	<b>1 January 2007</b>	<b>4 907</b>	<b>2 207</b>	<b>2 700</b>
-	598	598	Net profit for the period	651	651	-
-	8	8	Change in value, cash flow hedges	8	8	-
-	-	-	Change in value, available-for-sale assets	148	148	-
-	-152	-152	Dividends paid	-152	-152	-
<b>2 700</b>	<b>2 281</b>	<b>4 981</b>	<b>31 December 2007</b>	<b>5 562</b>	<b>2 862</b>	<b>2 700</b>
<b>2 700</b>	<b>2 281</b>	<b>4 981</b>	<b>1 December 2008</b>	<b>5 562</b>	<b>2 862</b>	<b>2 700</b>
-	630	630	Net profit for the period	1 517	1 517	-
-	-28	-28	Change in value, cash flow hedges	-28	-28	-
-	1	1	Change in value, available-for-sale assets	-148	-148	-
-	-318	-318	Dividends paid	-318	-318	-
<b>2 700</b>	<b>2 566</b>	<b>5 266</b>	<b>31 December 2008</b>	<b>6 585</b>	<b>3 885</b>	<b>2 700</b>

# Cash flow statement

PARENT COMPANY			(Amounts in NOK million)	GROUP		
2006	2007	2008		2008	2007	2006
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>						
141	818	857	Profit before tax	1 742	880	204
-6	-9	-3	Loss/gain(-) on sale of fixed assets	-3	-9	-6
697	509	524	Ordinary depreciation and write-downs	528	510	698
273	363	531	Interest for the period recognised in income statement	541	361	273
31	26	55	Interest received for the period	56	28	31
-315	-369	-549	Interest paid for the period	-565	-369	-315
-1	417	358	Change in trade accounts receivable/payable	398	405	1
204	4	-287	Change in other accruals	-227	50	200
-	-	-	Result from companies consolidated using equity method	-950	-61	-27
<b>1 024</b>	<b>1 759</b>	<b>1 486</b>	<b>Net cash flow from operating activities</b>	<b>1 529</b>	<b>1 795</b>	<b>1 059</b>
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>						
23	10	94	Proceeds from sale of tangible fixed assets	94	10	23
-861	-655	-5 422	Purchase of tangible fixed assets and intangible assets	-5 636	-661	-863
-1 319	-2 327	2 802	Change in plant under construction	2 863	-2 327	-1 319
-	-	-142	Change in long-term loan receivables	-	-	-
9	-	-	Change in short-term loan receivables	-	-	9
16	32	13	Dividend received	9	20	16
<b>-2 132</b>	<b>-2 940</b>	<b>-2 655</b>	<b>Net cash flow from investing activities</b>	<b>-2 670</b>	<b>-2 958</b>	<b>-2 134</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>						
3 163	4 377	4 257	Receipts on new interest-bearing borrowings	4 256	4 377	3 164
-2 400	-2 814	-2 806	Repayments of interest-bearing debt	-2 806	-2 814	-2 400
482	128	132	Proceeds from sale of market-based securities	204	260	636
-90	-78	-24	Purchase of market-based securities	-115	-217	-267
-87	-152	-318	Dividends paid	-318	-152	-87
<b>1 068</b>	<b>1 461</b>	<b>1 241</b>	<b>Net cash flows from financing activities</b>	<b>1 221</b>	<b>1 454</b>	<b>1 046</b>
<b>-40</b>	<b>280</b>	<b>72</b>	<b>Net cash flow for the period</b>	<b>80</b>	<b>291</b>	<b>-29</b>
200	160	440	Cash and cash equivalents at start of period	476	185	214
160	440	512	Cash and cash equivalents at close of period	556	476	185

Restricted tax deductions payable amounting to NOK 37 million for the Parent Company and NOK 38 million for the Group are included in cash and cash equivalents at 31 December 2008.

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

# Notes

## NOTE 1 – IFRS ACCOUNTING PRINCIPLES APPLICABLE FOR 2008

### 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 Statnett Group and the separate financial statements for the parent company, Statnett SF, have been prepared in compliance with the current International Financial Reporting Standards (IFRS), as approved by the EU.

All subsequent references to "IFRS" imply 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 decided to report both the consolidated financial statements and the separate financial statements according to IFRS starting with 2007. Statnett prepared an opening IFRS balance sheets on the date of transition to IFRS, which was 1 January 2006. In addition, the income statement and balance sheet for 2006 were restated in compliance with IFRS. Please refer to the IFRS Transition Report and the financial statements for 2007 for more information regarding the transition to IFRS and the transitional effects.

### NEW ACCOUNTING STANDARDS

There is a number of new standards, and interpretations of and amendments to existing standards, which had not come into effect at 31 December 2008 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 2008:

- Amendment to IFRS 2 Share-based Payments: Vesting Conditions and Cancellations
- IFRS 3 (Revised) Business Combinations
- IFRS 8 Operating Segments
- IAS 1 (Revised) Presentation of Financial Statements

- IAS 23 (Revised) Borrowing Costs
- IAS 27 (Revised) Consolidated and Separate Financial Statements
- Amendment to IAS 32 Financial Instruments: Recognition and Measurement – Eligible Hedged Items
- IFRIC 12 Service Concession Arrangements
- IFRIC 13 Customer Loyalty Programmes
- IFRIC 14 IAS 19 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction
- IFRIC 15 Agreements for the Construction of Real Estate
- IFRIC 16 Hedges of a Net Investment in a Foreign Operation
- IFRIC 17 Distributions of Non-cash Assets to Owners

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:

### AMENDMENT TO IFRS 2 SHARE-BASED PAYMENTS: VESTING CONDITIONS AND CANCELLATIONS

This amendment to IFRS 2 provides clearer guidance as to what are and are not vesting conditions. It also regulates the accounting treatment of lapsed rights in share option plans owing to the fact that conditions other than vesting conditions are not satisfied. The effective date for the amendment to IFRS 2 is 1 January 2009. The standard is not expected to have any material impact on the consolidated financial statements of the Statnett Group.

### IFRS 3 (REVISED) BUSINESS COMBINATIONS

In relation to the current IFRS 3, the revised standard introduces some amendments and precise definitions relating to the application of the acquisition method. Specific matters dealt with include treatment of goodwill in step acquisition, minority interests, contingent consideration and acquisition costs. The effective date for IFRS 3 (R) has been set at 1 July 2009, but IFRS 3 (R) has still not been approved by the EU. The standard is not expected to have any material impact on the consolidated financial statements of the Statnett Group.

### IFRS 8 OPERATING SEGMENTS

IFRS 8 supersedes IAS 14 Segment Reporting. The standard requires the Group to adopt a "management approach" to identifying of segments. Generally, financial information is required to be reported on the same basis as is used internally by management for evaluating operating segment performance and deciding how to allocate resources to operating segments. IFRS 8 requires disclosures of the basis on which the segment information is prepared, and of the types of products and services from which each segment derives income. The effective date for IFRS 8 is 1 January 2009. Statnett reports only one operating segment internally, and the standard is not expected to have

any material impact on the consolidated financial statements for the Statnett Group.

#### **IAS 1 (REVISED) PRESENTATION OF FINANCIAL STATEMENTS**

The revised standard entails changes to the presentation of the financial statements, especially the statement of changes in equity, and introduces a statement of non-owner transactions (Statement of Comprehensive Income). The effective date for IAS 1 (R) is 1 January 2009. The Statnett Group will apply IAS 1 (R) with effect from 1 January 2009.

#### **IAS 23 (REVISED) BORROWING COSTS**

The most significant change to IAS 23 (R) is that charging borrowing cost relating to a qualifying asset is now prohibited. Capitalisation of borrowing costs will thus be the only permitted method. The effective date for IAS 23 (R) is 1 January 2009. Since 2002 the Statnett Group has adopted the principle of capitalising borrowing costs relating to a qualifying asset.

#### **IAS 27 (REVISED) CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS**

In relation to the current IAS 27, the revised standard provides more guidance relating to the accounting for a changed stake in subsidiaries and for the disposal of subsidiaries. The current rules have also been amended relating to the allocation of losses between majority and minority in that the loss is now required to be charged to the minority even if this will be negative. The effective date for IAS 27 (R) is set at 1 July 2009, although IAS 27 (R) has still not been approved by the EU. The Statnett Group is planning to apply IAS 27 (R) with effect from 1 January 2010.

#### **AMENDMENT TO IAS 32 FINANCIAL INSTRUMENTS - PRESENTATION AND IAS 1 PRESENTATION OF FINANCIAL STATEMENTS - PUTTABLE FINANCIAL INSTRUMENTS**

The amendment to IAS 32 involves the classification of certain written options to sell as equity. The amendment to IAS 1 consists of a requirement to provide related note disclosures. The effective date for the amendments to IAS 32 and IAS 1 is 1 January 2009, although the amendments have still not been approved by the EU. The Statnett Group is planning to apply the amendments to IAS 32 and IAS 1 with effect from 1 January 2010.

#### **AMENDMENT TO IAS 39 FINANCIAL INSTRUMENTS: RECOGNITION AND MEASUREMENT - ELIGIBLE HEDGED ITEMS**

The amendments to IAS 39 provide a clarification of the rules whereby a financial instrument (hedge object) is hedged in respect of selected risks or components of cash flows. The adopted amendments provide primarily additional guidelines for hedging unilateral risk (hedging with options) and hedging of inflation risk, but also clarify the guidelines with respect to the requirement for the designated risks and cash flows to be identifiable and reliably measurable. The effective date for the amendment to IAS 39 is set at 1 July 2009, although the amendment has still not been approved by the EU. The Statnett Group is planning to apply the amendment to IAS 39 with effect from 1 January 2010.

#### **IFRIC 12 SERVICE CONCESSION ARRANGEMENTS**

IFRIC 12 applies to contracts granted to private operators by governments or public bodies for the supply of infrastructure-related public services, when the government or public body regulates or controls the services the operator provides, to whom the services are provided and at what price. The interpretation regulates the accounting for such arrangements. The interpretation had an effective date of 1 January 2008, but had at that time not been approved by the EU. The interpretation has still not been approved, but the EU has proposed setting the effective date to accounting periods beginning after 31 December 2008. The Statnett Group will apply the interpretation with effect from 1 January 2009.

#### **IFRIC 13 CUSTOMER LOYALTY PROGRAMMES**

The interpretation addresses how companies granting customers loyalty award credits to reward them for previous purchases and to provide incentives for future purchases, should recognise and measure these customer loyalty programmes in their accounting. The interpretation had an effective date of 1 July 2008, but had at that time not been approved by the EU. The interpretation has now been approved by the EU for accounting periods beginning after 31 December 2008. The standard is not expected to have any material impact on the consolidated financial statements of the Statnett Group.

#### **IFRIC 14 - IAS 19 THE LIMIT ON A DEFINED BENEFIT ASSET, MINIMUM FUNDING REQUIREMENTS AND THEIR INTERACTION**

The interpretation addresses limits on the capitalisation of pension assets when the statutory or contractual minimum funding paid in exceeds the obligation. The interpretation had an effective date of 1 January 2008, but at that time had not been approved by the EU. The interpretation now has EU approval for annual periods beginning after 31 December 2008. The Statnett Group will apply the interpretation with effect from 1 January 2009.

#### **IFRIC 15 AGREEMENTS FOR THE CONSTRUCTION OF REAL ESTATE**

The interpretation addresses the accounting treatment of real estate projects. The interpretation provides guidance as to which projects should be considered as agreements including construction activities under IAS 11 and which projects should be recognised under IAS 18. The interpretation has an effective date of 1 January 2009, but has still not been approved by the EU. The Statnett Group will apply IFRIC 15 with effect from 1 January 2010.

#### **IFRIC 16 HEDGES OF A NET INVESTMENT IN A FOREIGN OPERATION**

The interpretation addresses the accounting of an entity for the hedging of foreign currency risk arising from its net investments in foreign operations. The interpretation clarifies the types of hedges that may qualify for hedge accounting and the types of risks that may be hedged. The interpretation had an effective date of 1 October 2008, but has still not been approved by the EU. The standard is not expected to have any material impact on the consolidated financial statements of the Statnett Group.

#### **IFRIC 17 – DISTRIBUTIONS OF NON-CASH ASSETS TO OWNERS**

The interpretation addresses how an entity should measure and account for distributions of assets other than cash when it pays dividends to its owners. The interpretation has an effective date of 1 July 2009, but has still not been approved by the EU. The standard is not expected to have any material impact on the consolidated financial statements of the Statnett Group.

#### **IASB'S ANNUAL IMPROVEMENTS PROJECT**

Amendments have been adopted to a number of standards which have an effective date during 2009. The most important amendments that may have an impact on recognition, measurement and note disclosures are listed below:

##### *IFRS 5 Noncurrent Assets Held for Sale and Discontinued Operations:*

In the event of a planned sale of a controlling stake in a subsidiary, all assets and liabilities in the subsidiary shall be classified as held-for-sale even if it is the entity's intention to retain a non-controlling stake after the sale.

*IAS 1 Presentation of Financial Statements:* Assets and liabilities classified as held-for-sale, in compliance with IAS 39, will not be automatically classified as short-term in the balance sheet.

*IAS 16 Property, Plant and Equipment:* Operating assets held for use for rental to others, and which at the end of the rental period are sold as part of ordinary operations, shall be transferred to inventories.

*IAS 19 Employee Benefits:* Amendments to the definitions of the following terms: past service cost, return on plan assets, short-term employee benefits, and other long-term benefits. Amendments to pension plans which reduce the future benefits earned by employees are treated as a decrease in the enterprise's obligation. The reference to IAS 37 concerning contingent liabilities has been removed.

*IAS 20 Accounting for Government Grants and Disclosures of Government Assistance:* Future government loans at a below-market rate of interest are not exempt from the requirement to find an estimated interest rate. The difference between received loan amounts and present value shall be accounted for as government grants.

*IAS 28 Investments in Associates and IAS 31 Interests in Joint Ventures:* Amendment to certain required note disclosures if such investments are accounted for at fair value in accordance with IAS 39.

*IAS 36 Impairment of Assets:* Amendment requiring additional note disclosures in connection with impairment tests when discounted future cash flows are used to estimate fair value less costs to sell.

*IAS 38 Intangible Assets:* Expenditure for advertising and sales promotional measures shall be taken to expense at the date when the good is available for companies or when the service is received.

##### *IAS 39 Financial Instruments: Recognition and Measurement:*

The change in use of a derivative, when designating the derivative as a hedging instrument or upon cessation of hedging, shall not be considered a reclassification. Derivatives can therefore be taken into or out of the "at fair value through profit or loss" category after initial recognition. In re-calculating amortised cost according to IAS 39.AG8 for an instrument that is or has been the object of fair value hedging, the original effective interest rate shall not be used, but an effective interest rate (EIR) that takes account of the effect of the previous hedging. The reference to "segment" has been removed in relation to the designation and documentation of hedged items.

*IAS 40 Investment Property:* Amendment by which property under construction or development for future use as investment property has been brought within the scope of IAS 40.

None of the changes imply substantial changes in the Group's accounting principles or notes.

#### **IMPORTANT ACCOUNTING ESTIMATES AND ASSUMPTIONS**

The preparation of the financial statements in compliance with IFRS requires that 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 are reviewed regularly.

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

#### **DEPRECIATION**

Depreciation is based on management's assessment of the useful life of tangible fixed assets. The assessments may change owing, for example, to technological developments and historical experience. This may entail changes in the useful life of the asset and thus the depreciation. It is difficult to predict technological developments, and Statnett's view of how quickly changes will come may change over time. If 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. Please refer to the 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 an 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 cap. In subsidiaries each fixed asset is assessed individually.

Statnett expects substantial investments to be made in the future. These will largely take place in the form 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 of the recoverable amounts for assets must be based in part on management's assessments, including the calculation of the assets' revenue generating capacity and probability of licences being granted for development projects. Changes in circumstances and 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.

#### **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 equal 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 acquisition method of accounting (formerly termed the purchase method under IFRS) and illustrate the group as if it was a single entity. 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 to which the excess value can be attributed. 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 Statnett 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 entities in which there are cooperation agreements that give joint control together with one or more parties. Earnings, assets and liabilities of joint ventures are recorded in the financial statements in accordance with the equity method, entailing that the Group's share of the earnings for the year after tax and amor-

tisation of any excess value is reported on a separate line in the income statement between operating profit and financial items. The accounts of joint ventures are restated in accordance with IFRS. In the consolidated balance sheet interests in joint ventures are carried as fixed asset investments at original cost plus accumulated profit shares and less dividends.

##### *Investments in associates*

Associates are entities where the Group has a significant, but not 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 of associates 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 operating profit and financial items. The accounts of associates are restated in accordance with IFRS. In the consolidated balance sheet interests in associates are carried as financial fixed assets at original cost plus accumulated profit shares and less dividends.

##### *Purchase/sale of subsidiaries, joint ventures and associates*

In the case of acquisition and sale of subsidiaries, joint ventures and associates, they are included in the consolidated financial statements for the portion of the year they have been a part of or associated 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 carried at fair value in the balance sheet unless they can be measured reliably. Value changes are recognised directly in equity.

##### *Investments in subsidiaries, joint ventures and associates in Statnett SF (parent company accounts)*

Investments in subsidiaries, joint ventures and associates 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 income statement 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 in which the company is engaged in Norway is that of a 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 parent company, Statnett SF, and the 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 common 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 CAP, TARIFFS AND HIGHER/LOWER REVENUE

### General

Statnett is the operator of the main national grid and three common regional grids. As the operator, Statnett is responsible for setting the annual tariffs (price of services) in each common grid. The main national grid is a common grid. In a financial year, a discrepancy will arise between total tariff proceeds and the revenue cap. If the billed revenues are higher than the revenue cap, then a higher revenue will arise (the opposite will be a lower revenue). This higher (lower) revenue reduces/increases future tariffs and do therefore not qualify for capitalisation according to IFRS. Higher or lower revenue is shown on a separate line among operating revenues.

### Revenue cap – grid rental – monopoly operations

Statnett owns transmission grids. These are monopoly-regulated operations. This means that the Norwegian Water Resources and Energy Directorate (NVE) sets a limit – a revenue cap – for the maximum grid rent the grid owner can charge each year for its plant and installations.

A new regulation period for Statnett SF started from 2007. The basis for calculating the revenue cap is expenditure (including capital expenditure) for a retrospective period of two years. 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 cap. Increased revenue as a result of conditions that require an application for adjustment of the revenue caps or 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 cap is recognised monthly by a 1/12th amount in the accounts. The revenue cap for Statnett is included on a gross basis as part of the operating revenue termed “Power transmission”.

### 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 cap. Revenue is recognised monthly by 1/12th of the annual contract amount. The revenue is reported together with the revenue cap as part of the operating revenue termed “Power transmission”.

## REVENUE CAP – TRANSMISSION LOSSES

### Revenues

As an operator, Statnett has a separate revenue cap for transmission losses in the national power grid or main grid. The reported revenue cap 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 a reference price on electricity in the financial year. The revenue cap relating to transmission losses for Statnett is included on a gross basis as part of the operating revenue termed “Power transmission”.

Discrepancies between the revenue cap for transmission losses and actual costs of purchases of transmission losses in the financial year are in accordance with the guidelines apportioned among the plant owners in each common grid of which Statnett is the operator. In the accounts, the fact that other owners in the main national grid cover a share in accordance with their revenue cap, has been considered.

## TRANSMISSION LOSSES (POWER PURCHASES)

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

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

### Tariff revenues

As the operator of the main national grid and three common regional grids, Statnett is responsible for billing the users for the services they receive. The billing is done on the basis of a fixed price system (tariff model), in accordance with guidelines provided by NVE. The price system consists of fixed elements and variable elements (the energy element). Fixed elements are billed evenly throughout the year, while the energy element is billed concurrently with 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 cap must then be estimated. Through the year and at the end of the year, discrepancies will therefore arise between billed tariffs and the calculated revenue. The discrepancy is

(NOTE 1)

called higher or 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 the financial settlement between the market participants. The settlement is based on the prices in the regulating power market. Net settlement in the regulating power market is intended to 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 of the Norwegian and foreign regulating power price, which is passed on to 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 the measurement of the estimated fair value. This means that revenue is recognised 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. Billed and accrued project revenues are included in trade accounts receivable.

Where projects expect to make a loss, 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-adding or tax-deducting 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 in the balance sheet are carried at their nominal value on a net basis. Deferred tax liabilities/assets are recognised directly in equity if the tax is related to transactions that are recognised directly in equity.

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

**CLASSIFICATION OF ITEMS IN THE BALANCE SHEET**

An asset is classified as short-term (current asset) when it is related to the flow of goods, receivables 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 loans is made at one year before maturity. The first year's instalments on long-term loans are reclassified as current liabilities.

**OWN INVESTMENT PROJECTS**

Own investment projects are recognised in the balance sheet at cost.

**PILOT PROJECTS**

The expenses for preliminary work (engineering) associated with investments are recognised in the balance sheet as 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 is capitalised in the balance sheet. The interest is calculated based on the average borrowing interest rate and scope of the investment, since the funding is not identified specifically for individual projects.

**TANGIBLE FIXED ASSETS**

Tangible fixed assets are carried 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 is calculated based on the expected useful life of the asset. 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 an 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 cap. In subsidiaries, each fixed asset is measured individually. Useful lives were earlier based 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 of assets have been changed from 2007 based on an extensive review of the plants and installations. The change in estimates entails increased useful lives for most of the station-related fixed assets

## (NOTE 1)

and power lines. The increase in useful life is largely based on the experience that certain fixed assets are used for a longer period than previously expected. The annual depreciation for 2007 (for recorded tangible fixed assets at the end of 2006) was accordingly approximately 37 per cent lower as a result of the increase in useful life. The residual value is estimated at zero at the end of the useful life of most assets. The requirement for changing depreciation in line with changed useful lives is considered on a regular basis.

Plant under construction is not depreciated.

Gains or losses on the disposal or scrapping of tangible fixed assets are calculated as the difference between the sales proceeds and the fixed assets' carrying value. Gains/losses on disposal are 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 maintenance is periodic for the individual transformer station or power line, it is not considered to be periodic for the entire grid since the grid as a whole is regarded as a single 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 of the asset. To assess the utility value, estimated future cash flows are discounted to present value using a discount rate before tax that reflects the current market assessments of the time value of money and risk that are 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 a prior year.

### FINANCIAL LEASING

#### The Group as 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 in the balance sheet. The lease revenue is recognised linearly over the term of the lease. Direct expenses incurred to establish the operating lease agreement 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.

#### The Group as lessee:

##### *Financial lease agreements*

Financial lease agreements are lease agreements where the Group takes over the major part of the risk and return associated with the 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 as 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 useful life.

##### *Operating leases*

Operating leases where the major part of the risk and return associated with ownership of the asset are not transferred to the Group, 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 are capitalised in the balance sheet if the product or process is technically and

(NOTE 1)

commercially feasible and the Group has adequate resources to complete the development. Expenses capitalised in the balance sheet include material expenses, direct wage costs and a percentage of directly attributable overhead expenses. Capitalised development expenses are recorded 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 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 in 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 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 Norwegian Mandatory Occupational Pension Act.

The pension benefits are based on the number of service years and final salary at retirement age. The full retirement pension is 70 % of pensionable income reduced by the state old-age pension payments under the Norwegian national insurance scheme. The pensionable income is limited upward 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.

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 % 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 transition to IFRS, on 1 January 2006, estimate variances not recognised in the income statement were set by the Group at zero when recognised in equity.

Pension assets are measured at fair value on the balance sheet date. Pension liabilities are measured at the present value of the future pension liabilities accrued in the balance sheet date to 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 pension liabilities and pension assets due to changes and variances in the calculation assumptions (estimate changes) are distributed over the estimated average remaining service 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.

Employees who leave the company before retirement age receive a paid-up policy. The paid-up policies are administered by the life insurance company Storebrand Livsforsikring AS. From the date the paid-up policy is issued, Statnett is exempt from any obligation to employees to which the paid-up policies apply. Assets and liabilities are measured at the date of issue of the paid-up policies, and are separated from pension assets and liabilities. An independent

actuary calculated the pension liabilities in January 2009 as an estimate of the situation at 31 December.

When calculating the pension liabilities, the National Insurance contributions that the enterprise is required to 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 using 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 held for the purpose of profiting from short-term price fluctuations (held for trading purposes) or 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 recognised directly in equity until the disposal of the investment. The cumulative gain or loss on the financial instrument previously recognised in 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) are recognised in the income statement and presented as 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

The Group utilises derivatives such as future interest rate swaps and currency swaps to hedge its interest rate and currency risks. Such derivatives are recognised initially at fair value at the date when the contract is entered into and then measured at fair value on a current basis. Derivatives are accounted for as assets when the fair value is positive and as liabilities when the fair value is negative. 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 using hedge accounting, as well as the risk that is hedged and the strategy for the hedge. Documentation includes identification of the hedging instrument, or the 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 a current basis to determine whether they actually have been highly effective throughout the entire accounting period they are intended 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 discontinues fair value hedging if the hedging instrument expires or is sold, or 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**

A cash flow hedge is a hedge of the exposure to the variability of cash flow that is attributable to a particular risk associated with a recognised asset or liability, or a highly probable forecast transaction that could affect profit or loss. The effective portion of the gain or loss on the hedging instrument is recognised in equity, while the ineffective portion is recognised in the income statement.

Amounts that are recognised in equity are recognised in the income statement when the hedged transaction affects the profit or loss, such as when hedged financial income or expenses are accounted for.

If the expected forecast transaction is no longer expected to take place, amounts recognised earlier in 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 recognised previously in equity is retained until the forecast transaction is executed. If it is not expected that the related transaction will be executed, the amount will be recognised 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 related to interest rate swaps and treated as borrowings in Norwegian kroner.

#### **PROVISIONS**

Provisions for liabilities 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 GRANTS**

Government grants are not recorded in the accounts until it is reasonably certain that the Group will meet the conditions stipulated for receipt of the grants and that the grants will be received. Grants are recorded in the accounts as a deduction in the expenses that they are meant to cover. Grants that are received for investment projects are recorded in 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.

(NOTE 1)

## NOTE 2 – OPERATING REVENUE

### Power transmission

Statnett's revenue is derived mainly from monopoly-based operations regulated by NVE. The term "Power transmission" in the income statement refers to Statnett's regulated revenue in the year in question.

Statnett's annual operating revenue from power transmission come from customers' use of the national electricity transmission grid in Norway (the main grid). Customers pay for input and outtake of electricity. The prices for this use are determined annually according to a fixed price system. Statnett also owns parts of the regional transmission grid. The use of the regional grids generates revenue according to a similar principle as for the main grid. Statnett also earns revenue as a result of the price differences in electricity between areas of the Nordic region and between Norway and the Netherlands. When electricity is transmitted between these areas, "congestion revenue" arises.

A discrepancy arises annually between Statnett's actual operating revenue from power transmission and the level of revenue NVE sets as a cap or upper limit ("permitted revenue"). This discrepancy is known as higher revenue or lower revenue. Higher revenue means that Statnett has had higher operating revenue than the revenue cap set by NVE for a particular year. Lower revenue means that Statnett's actual operating revenue has been lower than the revenue cap. Higher revenue at the end of one year implies that the price paid by customers for the use of the transmission grid will have to be reduced in the following year. If the outcome is lower revenue, the price will have to be increased.

### SPECIFICATION OF INCOME ON REGIONAL AND MAIN GRIDS

OPERATING REVENUE	Regional Grids	Main Grid	Total 2006	Regional Grids	Main Grid	Total 2007	Regional Grids	Main Grid	Total 2008
Tariff revenue fixed element generation	36	567	603	42	642	684	27	657	684
Tariff revenue fixed element consumption	98	1 391	1 489	80	2 053	2 133	24	1 918	1 942
Other rental income	84	-	84	126	-	126	116	-	116
Energy element	-12	921	909	3	514	517	20	719	739
Congestion revenue	-	145	145	-	236	236	-	884	884
Income from other owners in the regional grids	-43	-330	-373	-88	-343	-431	-50	-242	-292
<b>Total operating revenue, regulated operations</b>	<b>163</b>	<b>2 694</b>	<b>2 857</b>	<b>163</b>	<b>3 102</b>	<b>3 265</b>	<b>137</b>	<b>3 936</b>	<b>4 073</b>

OPERATING REVENUE	Regional Grids	Main Grid	Total 2006	Regional Grids	Main Grid	Total 2007	Regional Grids	Main Grid	Total 2008
Revenue cap without grid losses	102	1 873	1 975	122	2 268	2 390	105	2 302	2 407
Revenue cap, grid losses	63	674	737	27	544	571	20	712	732
Supplement to revenue cap	8	271	279	6	264	270	5	211	216
Adjustments	-	116	116	-	-	-	-	-	-
<b>Total permitted revenue</b>	<b>173</b>	<b>2 934</b>	<b>3 107</b>	<b>155</b>	<b>3 076</b>	<b>3 231</b>	<b>130</b>	<b>3 225</b>	<b>3 355</b>
Foreign cable rental income* (presented as Other operating revenue in 2008)	-	15	15	-	12	12	-	-	-
<b>Power transmission</b>	<b>173</b>	<b>2 949</b>	<b>3 122</b>	<b>155</b>	<b>3 088</b>	<b>3 243</b>	<b>130</b>	<b>3 225</b>	<b>3 355</b>
<b>This year's provision for interest, lower revenue</b>	-	8	8	1	13	14	1	-4	-3
<b>Changed balance for lower revenue</b>	10	248	258	-7	-13	-20	-6	-715	-721
Balance lower revenue, including interest at 1 Jan.	2	156	158	-8	-92	-100	-14	-279	-293
Adjustment, lower revenue	-	-	-	-13	-200	-213	-	-	-
<b>Lower revenue for the year</b>	<b>-10</b>	<b>-248</b>	<b>-258</b>	<b>7</b>	<b>13</b>	<b>20</b>	<b>6</b>	<b>715</b>	<b>721</b>
<b>Balance lower revenue including interest at 31 Dec.</b>	<b>-8</b>	<b>-92</b>	<b>-100</b>	<b>-14</b>	<b>-279</b>	<b>-293</b>	<b>-8</b>	<b>436</b>	<b>428</b>

\* Statnett SF has in connection with the transition to IFRS implemented IAS 19 for the accounting treatment of pensions. The implementation effect of NOK 213 million is recognised directly in equity and will never be included in the cost base included in the calculation of the revenue cap. NVE has therefore determined that Statnett can adjust the higher/lower revenue balance to take account of this implementation effect, and this is reflected in the accounts as of 31 December 2007.

(NOTE 2)

### OTHER OPERATING REVENUE

Other operating revenue consists of external consultancy commissions totalling NOK 60 million and breakdown maintenance reimbursement recognised as income amounting to NOK 35 million. Statnett SF has fee revenue relating to the regulating power market, which totalled NOK 13 million for 2008. External assignments within the rest of the Group are carried out by Statnett Transport AS. Statnett Forsikring's own share of breakdown reimbursements have been eliminated in the Group.

### 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. 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).

The fees for this service totalled NOK 13 million for 2008. Outstanding trade accounts receivable relating to the balance accounting totalled NOK 21 million at 31 December 2008 and are disclosed as Trade accounts and other short-term receivables.

Approved members (regulating power members) undertake by accepting the Balance Agreement to furnish satisfactory security for financial settlement of power trading in the regulating power market. The security 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 members' 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. At 31 December 2008, the amount of security posted totalled NOK 1 109 million. The security posting requirement for regulating power members at the same date was NOK 709 million. At year-end, all the regulating power members had posted satisfactory security under the Balance Agreement.

## NOTE 3 – SYSTEM OPERATIONS

PARENT COMPANY				GROUP		
2006	2007	2008	(NOK million)	2008	2007	2006
-8	9	-	Regulation of the Nordic power system	-	9	-8
23	22	28	Other system services	28	22	23
-	26	15	Energy options	15	26	-
49	31	34	Power reserves	34	31	49
53	50	64	Frequency response	64	50	53
138	115	117	Special adjustments	117	115	138
136	160	118	Transit costs	118	160	136
<b>391</b>	<b>413</b>	<b>376</b>	<b>Total system services</b>	<b>376</b>	<b>413</b>	<b>391</b>

System services 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, EMPLOYEES

PARENT COMPANY				GROUP		
2006	2007	2008	(NOK million)	2008	2007	2006
333	354	394	Wages	416	367	346
51	62	70	Employer's NICs	74	64	51
56	104	119	Pension costs	121	106	58
27	28	37	Other benefits	31	25	25
<b>467</b>	<b>548</b>	<b>620</b>	<b>Total wage costs</b>	<b>642</b>	<b>562</b>	<b>481</b>
-145	-149	-137	Of which, own investment projects	-137	-149	-145
<b>322</b>	<b>399</b>	<b>483</b>	<b>Net wage costs</b>	<b>505</b>	<b>413</b>	<b>336</b>
606	636	675	Number of full-time equivalents (FTEs)	705	664	631

### Loans to employees

Employees had loans in the company totalling NOK 0.5 million at 31 Dec 2008. The loans are interest-free and repaid by deductions from wages over a period of up to two years. The interest advantage of loans exceeding 3/5 of the basic amount (G) under the national insurance scheme is taxed at the current standard interest rate set by the authorities.

### AUDITORS' FEES

PARENT COMPANY				GROUP		
2006	2007	2008	(Amounts in NOK)	2008	2007	2006
445 000	650 000	682 500	Fees for auditing the 2008 accounts	834 603	771 050	525 833
327 900	167 925	209 650	Other attestation services	252 100	183 525	348 525
223 188	48 275	59 975	Tax-related assistance	59 975	48 275	223 188
649 030	345 633	427 080	Other assistance*	427 080	345 633	665 065
<b>1 645 118</b>	<b>1 211 833</b>	<b>1 379 205</b>	<b>Total fees (ex VAT)</b>	<b>1 573 758</b>	<b>1 348 483</b>	<b>1 762 611</b>

\* Other assistance is chiefly related to IFRS implementation.

## NOTE 5 – BENEFITS TO GROUP MANAGEMENT/BOARD

### BENEFITS/REMUNERATION TO SENIOR EXECUTIVES/BOARD MEMBERS 2008

(Amounts in NOK)	Board fees	Salaries	Other remuneration	Pension cost	Total remun
<b>Group Management</b>					
Odd Håkon Hoelsæter, President and CEO <sup>*a)</sup>		1 678 036	165 841	1 532 711	3 376 588
Håkon Borgen, Exec. Vice President		1 185 414	138 017	612 655	1 936 086
Marie Jore Ritterberg, Exec. Vice President <sup>*b)</sup>		416 388	60 941	347 215	824 544
Bente Hagem, Exec. Vice President		1 209 733	146 366	1 094 096	2 450 195
Audun Severin Hustoft, Exec. Vice President		1 165 688	182 208	958 848	2 306 744
Gun Bente Johansen, Exec. Vice President		1 128 351	120 729	905 346	2 154 426
Gunnar G. Løvås, Exec. Vice President		1 168 650	123 228	644 425	1 936 303
Øivind Kristian Rue, Exec. Vice President		1 279 086	105 956	945 455	2 330 497
Peer Olav Østli, Exec. Vice President		1 192 383	121 765	826 645	2 140 793
Anne Breive, Exec. Vice President, stepped down <sup>*c)</sup>		334 802	23 727	-	358 529
<b>Board of Directors</b>					
Bjarne Aamodt, Chair <sup>*e)</sup>	224 000				224 000
Svein Rennemo, Chair <sup>*e)</sup>	96 000				96 000
Kjell Olav Kristiansen, Vice Chair <sup>*e)</sup>	63 000				63 000
Heidi Ekrem, Board member	160 000				160 000
Kirsten Faugstad, Board member <sup>*d)</sup>	160 000				160 000
Thor Håkstad, Vice Chair <sup>*e)</sup>	195 000				195 000
Grethe Høiland, Board member	160 000				160 000
Steinar Jøråndstad, Board member <sup>*d)</sup>	160 000				160 000
Ole Bjørn Kirstihagen, Board member <sup>*d)</sup>	80 000				80 000
Christine B. Meyer, Board member	160 000				160 000
Per Hjorth, Board member	112 000				112 000
Bjørn Solberg, Board member	80 000				80 000
<b>Total remuneration</b>	<b>1 650 000</b>	<b>10 758 531</b>	<b>1 188 778</b>	<b>7 867 396</b>	<b>21 464 705</b>

All figures are exclusive of employer's NICs.

Deputy board members and observers do not receive fees.

\* a) Odd Håkon Hoelsæter stepped down from his post and retired on 31 January 2009. Auke Lont became the new President and CEO on 1 February 2009.

\* b) Marie Jore Ritterberg took over her post on 1 September 2008.

\* c) Anne Breive resigned from her post on 29 February 2008.

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

\* e) Bjarne Aamodt took over as Chair after Svein Rennemo in April 2008.

Thor Håkstad took over as Vice Chair after Kjell Olav Kristiansen in April 2008.

(NOTE 5)

## BENEFITS/REMUNERATION TO SENIOR EXECUTIVES/BOARD MEMBERS 2007

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

All figures are exclusive of employer's NICs.

Deputy board members and observers do not receive fees.

\* a) Gun Bente Johansen and Peer Olav Østli took over their posts on 1 and 17 September 2007 respectively.

Peer 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 Schjetne 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.

(NOTE 5)

## BENEFITS/REMUNERATION TO SENIOR EXECUTIVES/BOARD MEMBERS 2006

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

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.

(NOTE 5)

	months of basic pay	months of basic pay
<b>Group Management</b>		
Odd Håkon Hoelsæter, President and CEO	6 months	None
Håkon Borgen, Exec. Vice President	6 months	None
Marie Jore Ritterberg, Exec. Vice President	3 months	None
Bente Hagem, Exec. Vice President	6 months	None
Audun Severin Hustoft, Exec. Vice President	6 months	None
Gun Bente Johansen, Exec. Vice President	3 months	None
Gunnar G. Løvås, Exec. Vice President	6 months	None
Øivind Kristian Rue, Exec. Vice President	6 months	None
Peer Olav Østli, Exec. Vice President	3 months	None

No senior executives have termination pay agreements in the event of employment termination or changed employment conditions. If employee resigns, the normal period of notice is 3 months; if the company terminates the employment, the period of notice is 6 months after 2 years' employment.

The Group has no commitment to reward the Group Management or Board of Directors in the form of profit-sharing, bonus or share options-based payments. No loans have been made to or security provided for members of the Group Management or Board of Directors.

#### PENSION CONDITIONS FOR GROUP MANAGEMENT

Title/name	Conditions relating to retirement age/early retirement pension/retirement pension
<b>President and CEO:</b> Odd Håkon Hoelsæter	<p>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.</p> <p>In the event of retirement between age 62 and 65, he will receive an annual payment of 66 % of the pension base (pensionable income), i.e. the agreed annual salary without any special supplements. The pension base is adjusted annually by the same percentual increase as the change in the basic amount (G) under the Norwegian national insurance scheme.</p> <p>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 % of the sum that exceeds final salary.</p> <p>From the 65th birthday the full annual retirement pension is 66 % of the pension base, i.e. of the fixed, normal annual salary at retirement. The pension base is adjusted annually by the same percentage-wise increase as in the basic amount (G) under the national insurance scheme. From the 67th birthday, the annual retirement pension of 66 % will be co-ordinated with the retirement pension paid from Statnett SF's Group Pension Fund and the Norwegian state old age pension.</p>

**Executive Vice Presidents:**

Håkon Borgen  
Bente Hagem  
Audun Severin Hustoft  
Øivind Kristian Rue

The retirement age is 65, but with the right to retire with an early retirement pension at any time after the 62nd birthday. In the event of retirement between 62 and 65, an annual payment of 66 % of the pension base (pensionable income) will be paid, i.e. of fixed, normal annual salary at retirement. The pension base is adjusted annually by the same percentual 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 will be reduced by 50 % of the sum that exceeds final salary.

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

At death, the member's surviving spouse and children under the age of 21 will receive a 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.

**Executive Vice Presidents:**

Gunnar G Lovås  
Peer Olav Østli  
Gun Bente Johansen  
Marie Jore Ritterberg

The retirement age is 65, but with the right to retire with an early retirement pension at any time after the 62nd birthday. The full contributory period is 30 years. In the event of retirement between 62 and 65, an annual payment of 66 % of the pension base (pensionable income) will be paid, less one percentage point for each year between 62 and 65. The pension base is the fixed, normal annual salary at retirement. The pension base is adjusted annually by the same percentual increase in the basic amount (G) under the national insurance scheme. Pension payments may be reduced if the member receives any pay, pension or fees from other companies in the Statnett Group.

From the 65th birthday the full annual retirement pension is 66 % of the pension base, i.e. of the fixed, normal annual salary at retirement. The pension base is adjusted annually by the same percentual increase as in the basic amount (G) under the national insurance scheme. From the 67th birthday, the annual retirement pension is covered through the national insurance scheme and Statnett's group pension scheme, plus 66 % of the part of the pension base that exceeds 12 times the basic amount (G), provided that there is a full contributory period (30 years).

At death, the member's surviving children under the age of 21 will receive a children's pension.

If the member leaves the company before retirement age, a pension rights certificate will be issued, which will secure retirement pension benefits from age 65. The pension rights certificate will be adjusted by 75 % of the increase in the basic amount (G) for each year until retirement age.

## NOTE 6 - PENSIONS AND PENSION LIABILITIES CONT

PARENT COMPANY			PENSION SCHEME MEMBERS	GROUP		
2006	2007	2008		2008	2007	2006
925	1 040	1023	Members of the pension fund	1 051	1 055	954
266	279	288	Of which, pensioners	291	280	270
<b>659</b>	<b>761</b>	<b>735</b>	<b>No. of active pension scheme members</b>	<b>760</b>	<b>775</b>	<b>684</b>

FINANCIAL/ACTUARIAL ASSUMPTIONS, PARENT COMPANY AND GROUP	2008	2007	2006
Discount rate	4.0%	5.0%	4.5%
Expected return on pension assets	6.0%	6.0%	6.0%
Expected pay adjustments	4.5%	5.0%	4.5%
Expected pension adjustments	3.8%	5.0%	4.5%
Expected adjustment of basic amount (G) under national insurance scheme	3.8%	5.0%	4.5%
Remaining service period	14 years	15 years	15 years

Assumptions for contractual early retirement (AFP) draw-down, Parent company & Group	2008	2007	2006
62 years	25%	25%	25%
63 years	5%	5%	5%
64 years	5%	5%	5%
65 years	35%	35%	35%

### Percentual breakdown of pension assets into investment categories, Parent and Group at 31 Dec.

	2008	2007	2006
Property	9%	10%	11%
Held-to-maturity bonds	30%	28%	16%
Norwegian bonds	23%	21%	37%
Foreign bonds	1%	1%	0%
Certificates	19%	24%	20%
Hedge funds and international equities funds	13%	16%	16%
Bank deposits	5%	0%	0%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

### Pension cost

PARENT COMPANY			DEFINED-BENEFIT SCHEMES (Amounts in NOK million)	GROUP		
2006	2007	2008		2008	2007	2006
47	72	82	Present value of this year's pension contributions	83	73	48
33	49	58	Interest cost of pension liability	58	50	33
-24	-32	-36	Expected return on pension assets	-36	-32	-24
-	15	15	Actuarial gains/losses in income statement	16	15	-
<b>56</b>	<b>104</b>	<b>119</b>	<b>Net pension cost</b>	<b>121</b>	<b>106</b>	<b>58</b>
8	15	17	Payroll tax of employer's contributions	17	15	8
<b>63</b>	<b>119</b>	<b>136</b>	<b>Net pension cost incl. employer's contrib.</b>	<b>137</b>	<b>121</b>	<b>66</b>

The expected pension premium for 2009 is NOK 93 million for the Parent Company and NOK 94 million for the Group.

(NOTE 6)

**Secured pension liabilities**

<b>PARENT COMPANY</b>			<b>DEFINED-BENEFIT SCHEMES</b>	<b>GROUP</b>		
<b>2006</b>	<b>2007</b>	<b>2008</b>	(Amounts in NOK million)	<b>2008</b>	<b>2007</b>	<b>2006</b>
Secured	Secured	Secured		Secured	Secured	Secured
			<b>Change in gross pension liability:</b>			
742	1 102	1 187	Gross pension liability at 1 Jan.	1 200	1 114	749
46	73	82	Present value of the year's pension contributions	84	75	47
33	49	58	Interest cost of pension liability	58	50	33
300	-13	121	Actuarial gains and losses	119	-15	305
-8	-10	-14	Employer's contribution on premium paid	-14	-11	-8
-12	-14	-15	Pension / paid-up policies paid out	-15	-13	-12
<b>1 102</b>	<b>1 187</b>	<b>1 419</b>	<b>Gross pension liability at 31 Dec.</b>	<b>1 432</b>	<b>1 200</b>	<b>1 114</b>
			<b>Change in gross pension assets:</b>			
520	583	653	Fair value of pension assets at 1 Jan.	661	589	525
27	36	41	Actual return on pension assets	41	37	27
-10	-26	-13	Actuarial gains and losses	-15	-26	-11
58	74	96	Premium paid	98	75	59
-12	-14	-15	Pension / paid-up policies paid out	-15	-14	-12
<b>583</b>	<b>653</b>	<b>762</b>	<b>Fair value of pension assets at 31 Dec.</b>	<b>770</b>	<b>661</b>	<b>589</b>
<b>518</b>	<b>534</b>	<b>657</b>	<b>Net pension liability</b>	<b>662</b>	<b>539</b>	<b>526</b>
-310	-310	-431	Estimate variances not recognised in income statement	-434	-313	-316
208	224	226	Net capitalised pension liability incl. employer's contrib. at 31 Dec.	228	226	210
<b>223</b>	<b>208</b>	<b>224</b>	<b>Net pension liabilities at 1 Jan.</b>	<b>226</b>	<b>210</b>	<b>223</b>
52	100	112	Pension cost recognised in income statement	114	102	54
-67	-84	-110	Premium payments (excl. administrative expenses)	-112	-86	-68
<b>208</b>	<b>224</b>	<b>226</b>	<b>Net capitalised pension liability incl. employer's contrib. at 31 Dec.</b>	<b>228</b>	<b>226</b>	<b>209</b>
-	-	-	<b>Capitalised pension assets at 31 December</b>	-	-	-
<b>208</b>	<b>224</b>	<b>226</b>	<b>Capitalised pension liabilities at 31 December</b>	<b>228</b>	<b>226</b>	<b>209</b>



(NOTE 6)

## Unsecured pension liabilities

PARENT COMPANY			DEFINED-BENEFIT SCHEMES (Amounts in NOK million)	GROUP		
2006	2007	2008		2008	2007	2006
Unsec.	Unsec.	Unsec.		Unsec.	Unsec.	Unsec.
			<b>Change in gross pension liability:</b>			
107	156	169	Gross pension liability at 1 Jan.	170	158	108
7	9	11	Present value of the year's pension contributions	11	9	8
4	6	8	Interest cost of pension liability	8	6	4
53	13	3	Actuarial gains and losses	5	12	53
-15	-15	-15	Pensions / paid-up policies paid out	-18	-15	-15
<b>156</b>	<b>169</b>	<b>176</b>	<b>Gross pension liability at 31 Dec.</b>	<b>176</b>	<b>170</b>	<b>158</b>
			Fair value of pension assets at 31 Dec.			
<b>156</b>	<b>169</b>	<b>176</b>	<b>Net pension liability</b>	<b>176</b>	<b>170</b>	<b>158</b>
-52	-62	-60	Estimate variances not recognised in inc. statement	-62	-62	-53
<b>104</b>	<b>107</b>	<b>116</b>	<b>Net capitalised pension liability incl. emp. contrib. at 31 Dec.</b>	<b>114</b>	<b>108</b>	<b>105</b>
<b>107</b>	<b>104</b>	<b>107</b>	<b>Net pension liability at 1 Jan.</b>	<b>108</b>	<b>105</b>	<b>108</b>
11	19	24	Pension cost recognised in income statement	24	19	12
-15	-16	-15	Pensions / paid-up policies paid out	-18	-16	-15
<b>104</b>	<b>107</b>	<b>116</b>	<b>Net capitalised pension liability incl. emp. contrib. at 31 Dec.</b>	<b>114</b>	<b>108</b>	<b>105</b>
<b>104</b>	<b>107</b>	<b>116</b>	<b>Capitalised pension liabilities at 31 December</b>	<b>114</b>	<b>108</b>	<b>105</b>

## Total liabilities, assets and estimate variances for the last three years

PARENT COMPANY				GROUP		
2006	2007	2008		2008	2007	2006
1 258	1 356	1 595	Gross defined-benefit pension liability at 31 Dec.	1 608	1 370	1 272
583	653	762	Fair value of pension assets at 31 Dec.	770	661	589
674	703	833	Net defined-benefit pension liability	838	709	683
-362	-372	-491	Estimate variances not recognised in inc. statement	-496	-375	-369
<b>312</b>	<b>331</b>	<b>342</b>	<b>Booked pension liability</b>	<b>342</b>	<b>334</b>	<b>314</b>

### Sensitivity analysis

The figures below give 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 2009 are based on the facts and circumstances at 31 December 2008. Actual results may differ significantly from these estimates.

(NOTE 6)

	Discount rate		Annual wage growth and change in basic amount (G)		Annual adjustment of pensions		Mortality K2005
	-1%	+1%	-1%	+1%	-1%	+1%	

**Change in percentage points**

**New pension liability and cost - Parent Company**

Pension cost before adjustment for interest cost and return on pension assets (SC)	127	76	86	111	85	113	97
Defined-benefit pension liabilities							
- minimum pension liability (ABO)	1 331	932	1 104	1 107	977	1 261	1 105
Defined-benefit pension liabilities							
- present value of pension liability (PBO)	1 839	1 226	1 385	1 610	1 316	1 698	1 489

**New pension liability and cost - Group**

Pension cost before adjustment for interest cost and return on pension assets (SC)	128	77	87	112	86	114	98
Defined-benefit pension liabilities							
- minimum pension liability (ABO)	1 340	939	1 112	1 115	984	1 270	1 113
Defined-benefit pension liabilities							
- present value of pension liability (PBO)	1 851	1 234	1 394	1 620	1 325	1 709	1 499

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 these tables is shown below. The table shows life expectancy and probability of disability and death within one year for different age groups.

Age	Disability probability		Death probability		Life expectancy	
	Male	Female	Male	Female	Male	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
<b>Acquisition cost at 1 Jan 06</b>	<b>13 915</b>	<b>658</b>	<b>1 015</b>	<b>361</b>	<b>15 949</b>
Additions, acquisition cost	635	94	128	10	867
Disposals, acquisition cost	44	93	6	3	146
<b>Acquisition cost at 1 Jan 07</b>	<b>14 506</b>	<b>659</b>	<b>1 137</b>	<b>368</b>	<b>16 670</b>
Additions, acquisition cost	439	103	85	27	654
Disposals, acquisition cost	88	7	7	5	107
<b>Acquisition cost at 1 Jan 08</b>	<b>14 857</b>	<b>755</b>	<b>1 215</b>	<b>390</b>	<b>17 217</b>
Additions, acquisition cost	4 739	68	590	26	5 423
Disposals, acquisition cost	202	4	8	6	220
<b>Acquisition cost at 31 Dec 08</b>	<b>19 394</b>	<b>819</b>	<b>1 797</b>	<b>410</b>	<b>22 420</b>
<b>Ordinary depreciation at 1 Jan 06</b>	<b>5 639</b>	<b>441</b>	<b>234</b>	<b>117</b>	<b>6 431</b>
Ordinary depreciation for the year	547	119	23	15	704
Disposals, ordinary depreciation	32	89	3	3	127
<b>Ordinary depreciation at 1 Jan 07</b>	<b>6 154</b>	<b>471</b>	<b>254</b>	<b>129</b>	<b>7 008</b>
Ordinary depreciation for the year	330	111	35	13	489
Disposals, ordinary depreciation	95	6	2	4	107
<b>Ordinary depreciation at 1 Jan 08</b>	<b>6 389</b>	<b>576</b>	<b>287</b>	<b>138</b>	<b>7 390</b>
Ordinary depreciation for the year	363	108	37	16	524
Disposals, ordinary depreciation	118	4	3	4	129
<b>Ordinary depreciation at 31 Dec 08</b>	<b>6 634</b>	<b>680</b>	<b>321</b>	<b>150</b>	<b>7 785</b>
<b>Book value at 31 Dec 06</b>	<b>8 352</b>	<b>188</b>	<b>883</b>	<b>239</b>	<b>9 662</b>
<b>Book value at 31 Dec 07</b>	<b>8 468</b>	<b>179</b>	<b>928</b>	<b>252</b>	<b>9 827</b>
<b>Book value at 31 Dec 08</b>	<b>12 760</b>	<b>139</b>	<b>1 476</b>	<b>260</b>	<b>14 635</b>
<b>Financial leasing included in the above:</b>					
<b>31 Dec 06</b>	-	28	-	-	<b>28</b>
<b>31 Dec 07</b>	-	52	-	-	<b>52</b>
<b>31 Dec 08*</b>	248	55	249	-	<b>552</b>
Depreciation rate (straight-line) (%)	1.8 - 6.6	5.0 - 33	0 - 2	10 - 33	

\* In 2008, NOK 497 million were activated in connection with agreement concerning the reserve power generation plants.

(NOTE 7)

**GROUP**

(Amounts in NOK million)	Electrotech. equipment	ICT equipment	Buildings and land	Other operating equipment	Total
<b>Acquisition cost at 1 Jan 06</b>	<b>13 915</b>	<b>658</b>	<b>1 016</b>	<b>380</b>	<b>15 969</b>
Additions, acquisition cost	635	94	128	11	868
Disposals, acquisition cost	44	93	7	3	147
<b>Acquisition cost at 1 Jan 07</b>	<b>14 506</b>	<b>659</b>	<b>1 137</b>	<b>388</b>	<b>16 690</b>
Additions, acquisition cost	439	103	85	30	657
Disposals, acquisition cost	88	7	7	5	107
<b>Acquisition cost at 1 Jan 08</b>	<b>14 857</b>	<b>755</b>	<b>1 215</b>	<b>413</b>	<b>17 240</b>
Additions, acquisition cost	4 739	68	590	239	5 636
Disposals, acquisition cost	202	4	8	6	220
<b>Acquisition cost at 31 Dec 08</b>	<b>19 394</b>	<b>819</b>	<b>1 797</b>	<b>646</b>	<b>22 656</b>
<b>Ordinary depreciation at 1 Jan 06</b>	<b>5 639</b>	<b>441</b>	<b>234</b>	<b>132</b>	<b>6 446</b>
Ordinary depreciation for the year	547	119	23	16	705
Disposals, ordinary depreciation	32	89	3	3	128
<b>Ordinary depreciation at 1 Jan 07</b>	<b>6 154</b>	<b>471</b>	<b>254</b>	<b>144</b>	<b>7 023</b>
Ordinary depreciation for the year	329	111	35	15	490
Disposals, ordinary depreciation	94	6	2	4	106
<b>Ordinary depreciation at 1 Jan 08</b>	<b>6 389</b>	<b>576</b>	<b>287</b>	<b>155</b>	<b>7 407</b>
Ordinary depreciation for the year	363	108	37	20	528
Disposals, ordinary depreciation	118	4	3	4	129
<b>Ordinary depreciation at 31 Dec 08</b>	<b>6 634</b>	<b>680</b>	<b>321</b>	<b>171</b>	<b>7 806</b>
<b>Book value at 31 Dec 06</b>	<b>8 352</b>	<b>188</b>	<b>883</b>	<b>244</b>	<b>9 667</b>
<b>Book value at 31 Dec 07</b>	<b>8 468</b>	<b>179</b>	<b>928</b>	<b>258</b>	<b>9 833</b>
<b>Book value at 31 Dec 08</b>	<b>12 760</b>	<b>139</b>	<b>1 476</b>	<b>475</b>	<b>14 850</b>
<b>Financial leasing included in the above:</b>					
<b>31 Dec 06</b>	-	28	-	-	<b>28</b>
<b>31 Dec 07</b>	-	52	-	-	<b>52</b>
<b>31 Dec 08</b>	248	55	249	-	<b>552</b>
Depreciation rate (straight-line) (%)	1.8 - 6.6	5.0 - 33	0 - 2	10 - 33	

\* In 2008, NOK 497 million were activated in connection with agreement concerning the reserve power generation plants.

## NOTE 8 – PLANT UNDER CONSTRUCTION

PARENT COMPANY			(Amounts in NOK million)	GROUP		
2006	2007	2008		2008	2007	2006
818	2 123	4 433	Acquisition cost at 1 January	4 433	2 123	818
2 180	2 982	2 761	Additions during the year	2 761	2 982	2 180
-861	-655	-5 422	Transferred to tangible fixed assets	-5 624	-655	-861
-14	-17	-	Write-offs	-	-17	-14
-	-	-202	Sales of plant under construction	-	-	-
<b>2 123</b>	<b>4 433</b>	<b>1 570</b>	<b>Acquisition cost at 31 December</b>	<b>1 570</b>	<b>4 433</b>	<b>2 123</b>
-5	-8	-8	Accumulated write-downs	-8	-8	-5
-3	17	-8	Effect, hedged forward exch. contracts	-8	17	-3
<b>2 115</b>	<b>4 442</b>	<b>1 554</b>	<b>Balance sheet value at 31 December</b>	<b>1 554</b>	<b>4 442</b>	<b>2 115</b>
-16	-25	-	Potential and actual write-downs	-	-25	-16
23	5	-	Reversed latent write-downs	-	5	23
<b>7</b>	<b>-20</b>	<b>-</b>	<b>Write-downs(-)/reversals for the year</b>	<b>-</b>	<b>-20</b>	<b>7</b>

### Write-downs

Write-downs relate to subsea 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 may cause plant under construction to be written down in value.

PARENT COMPANY			SPECIFICATION OF ADDITIONS DURING THE YEAR (Amounts in NOK million)	GROUP		
2006	2007	2008		2008	2007	2006
1 747	2 366	2 213	Materials and subcontractors	2 213	2 366	1 747
145	149	137	Wages, social security costs	137	149	145
215	326	238	Other operating costs	238	326	215
<b>2 107</b>	<b>2 841</b>	<b>2 588</b>	<b>Total operating costs</b>	<b>2 588</b>	<b>2 841</b>	<b>2 107</b>
73	141	173	Interest on construction loans	173	141	73
<b>2 180</b>	<b>2 982</b>	<b>2 761</b>	<b>Total</b>	<b>2 761</b>	<b>2 982</b>	<b>2 180</b>

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			(Amounts in NOK million)	GROUP		
2006	2007	2008		2008	2007	2006
18	21	25	Lease rentals payable	26	23	19
76	79	112	Contracted staff/consultants	115	79	76
33	34	36	Insurance	19	18	49
302	145	322	Materials and subcontractors	319	152	299
94	98	109	Property tax	109	98	94
42	46	53	IT costs	53	46	42
105	118	159	Miscellaneous	162	113	83
<b>670</b>	<b>541</b>	<b>816</b>	<b>Total other operating costs</b>	<b>803</b>	<b>529</b>	<b>662</b>

PARENT COMPANY			OPERATING LEASE AGREEMENTS	GROUP		
2006	2007	2008	(Amounts in NOK million)	2008	2007	2006
			<b>Lease rentals payable</b>			
			(Amounts in NOK million)			
10	10	11	Buildings	12	12	11
3	7	10	Contracted Communication	10	7	3
5	4	4	Other	4	4	5
<b>18</b>	<b>21</b>	<b>25</b>	<b>Total lease rentals payable</b>	<b>26</b>	<b>23</b>	<b>19</b>

Statnett has no major non-terminable operating 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 and framework 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 parameters. The funds shall be easily accessible and are therefore invested in easily tradable securities and assets with low credit risk, minimum rated BBB+.

### 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 mainly 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.

(NOTE 10)

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

## PARENT COMPANY

(Amounts in NOK million)	Category	2008		2007		2006	
		Book value	Fair value	Book value	Fair value	Book value	Fair value
<b>ASSETS</b>							
<b>Fixed assets</b>							
Long-term receivables	Amortised cost	192	196	50	56	50	58
Subord. capital in Pension Fund	Fair value	15	15	15	15	15	15
Financial assets available for sale	Financial assets available for sale	4	4	3	3	2	2
Derivatives	Fair value	1 565	1 565	76	76	82	82
<b>Total fixed asset investments</b>		<b>1 776</b>	<b>1 780</b>	<b>144</b>	<b>150</b>	<b>149</b>	<b>157</b>
<b>Current assets</b>							
Trade accounts receivable	Loans and receivables	289	289	370	370	575	575
Derivatives	Fair value	8	8	4	4	3	3
Other short-term receivables	Loans and receivables	311	311	79	79	180	180
<b>Total trade accounts and other short-term receivables</b>		<b>608</b>	<b>608</b>	<b>453</b>	<b>453</b>	<b>758</b>	<b>758</b>
<b>Investment in market-based securities</b>	Fair value	<b>225</b>	<b>225</b>	<b>325</b>	<b>325</b>	<b>374</b>	<b>374</b>
<b>Liquid assets</b>	Fair value	<b>512</b>	<b>512</b>	<b>440</b>	<b>440</b>	<b>160</b>	<b>160</b>
<b>LIABILITIES</b>							
Long-term interest-bearing debt	Amortised cost	11 648	11 695	6 302	6 309	6 929	6 946
Derivatives	Fair value	42	42	430	430	148	148
<b>Total long-term interest-bearing debt</b>		<b>11 690</b>	<b>11 737</b>	<b>6 732</b>	<b>6 739</b>	<b>7 077</b>	<b>7 094</b>
Short-term interest-bearing debt	Amortised cost	650	653	2 559	2 559	674	674
Derivatives	Fair value	-	-	18	18	1	1
<b>Total short-term interest-bearing debt</b>		<b>650</b>	<b>653</b>	<b>2 577</b>	<b>2 577</b>	<b>675</b>	<b>675</b>
<b>Trade accounts payable and other short-term debt</b>	Loans and receivables	<b>1 436</b>	<b>1 436</b>	<b>1 093</b>	<b>1 093</b>	<b>862</b>	<b>862</b>

(NOTE 10)

**GROUP**

(Amounts in NOK million)	Category	2008		2007		2006	
		Book value	Fair value	Book value	Fair value	Book value	Fair value
<b>ASSETS</b>							
<b>Fixed assets</b>							
Long-term receivables	Amortised cost	50	55	50	56	50	58
Subord. capital in Pension Fund	Fair value	15	15	15	15	15	15
Financial assets available for sale	Financial assets available for sale	4	4	3	3	2	2
Derivatives	Fair value	1 565	1 565	76	76	82	82
<b>Total fixed asset investments</b>		<b>1 634</b>	<b>1 639</b>	<b>144</b>	<b>150</b>	<b>149</b>	<b>157</b>
<b>Current assets</b>							
Trade accounts receivable	Loans and receivables	252	252	373	373	579	579
Derivatives	Fair value	8	8	4	4	3	3
Other short-term receivables	Loans and receivables	315	315	79	79	180	180
<b>Total trade accounts and other short-term receivables</b>		<b>575</b>	<b>575</b>	<b>456</b>	<b>456</b>	<b>762</b>	<b>762</b>
<b>Investment in market-based securities</b>	Fair value	<b>439</b>	<b>439</b>	<b>562</b>	<b>562</b>	<b>605</b>	<b>605</b>
<b>Liquid assets</b>	Fair value	<b>556</b>	<b>556</b>	<b>476</b>	<b>476</b>	<b>185</b>	<b>185</b>
<b>LIABILITIES</b>							
Long-term interest-bearing debt	Amortised cost	11 648	11 695	6 302	6 309	6 929	6 946
Derivatives	Fair value	42	42	430	430	148	148
<b>Total long-term interest-bearing debt</b>		<b>11 690</b>	<b>11 737</b>	<b>6 732</b>	<b>6 739</b>	<b>7 077</b>	<b>7 094</b>
Short-term interest-bearing debt	Amortised cost	650	650	2 559	2 559	674	674
Derivatives	Fair value	-	-	18	18	1	1
<b>Total short-term interest-bearing debt</b>		<b>650</b>	<b>653</b>	<b>2 577</b>	<b>2 577</b>	<b>675</b>	<b>675</b>
<b>Trade accounts payable and other short-term debt</b>	Amortised cost	<b>1 438</b>	<b>1 438</b>	<b>1 093</b>	<b>1 093</b>	<b>867</b>	<b>867</b>



(NOTE 10)

## FINANCIAL INCOME AND FINANCIAL COSTS

PARENT COMPANY				GROUP		
2006	2007	2008	(Amounts in NOK million)	2008	2007	2006
<b>Financial income</b>						
-	12	8	Income from investment in subsidiaries	-	-	-
11	15	-	Income from investment in joint ventures	-	-	-
5	5	41	Income from investment in associates	-	-	-
33	51	67	Interest received	72	59	36
35	8	-	Change in value of derivatives	-	8	35
9	32	53	Other financial income	60	37	23
<b>93</b>	<b>123</b>	<b>169</b>	<b>Total financial income</b>	<b>132</b>	<b>104</b>	<b>94</b>
<b>Financial costs</b>						
301	399	598	Interest paid	600	399	301
-	-	45	Change in value of derivatives	45	-	-
-73	-141	-173	Capitalised construction loan interest	-173	-141	-73
14	46	41	Other financial costs	74	48	14
<b>242</b>	<b>305</b>	<b>511</b>	<b>Total financial costs</b>	<b>546</b>	<b>307</b>	<b>242</b>

Trade accounts receivable by age, Parent Company	Not due	1-30 days	31-60 days	61-90 days	Over 90 days	Total trade accts rcvble
	235	48	5	1	-	289

No provision has been made for losses on claims. Statnett's customers are mainly other grid companies and large manufacturing enterprises. Security for the claims has been furnished in the regulating power market. Statnett has established routines for following-up trade accounts receivable and has historically had no losses on receivables.

## INTEREST-BEARING ASSETS AND LIABILITIES

### Repayment profile for interest-bearing debt for Parent Company

The loans are measured at amortised cost less the effect of fair value hedging.

Maturity date (Amounts in NOK million)	2009	2010	2011	2012	2013-	Total
<b>Fixed rate loans</b>						
Bond loans	-	1 104	819	1 735	5 518	9 176
<b>Total fixed rate loans</b>	<b>-</b>	<b>1 104</b>	<b>819</b>	<b>1 735</b>	<b>5 518</b>	<b>9 176</b>
<b>Floating rate loans</b>						
Certificate loans	650	-	-	-	-	650
Bond loans	-	-	-	-	579	579
Loans from financial institutions	-	-	-	92	1 891	1 893
<b>Total floating rate loans</b>	<b>650</b>	<b>-</b>	<b>-</b>	<b>92</b>	<b>2 380</b>	<b>3 122</b>
<b>Total short-term debt</b>	<b>650</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>650</b>
<b>Total long-term debt</b>	<b>-</b>	<b>1 104</b>	<b>819</b>	<b>1 827</b>	<b>7 898</b>	<b>11 648</b>
<b>Total interest-bearing debt</b>	<b>650</b>	<b>1 104</b>	<b>819</b>	<b>1 827</b>	<b>7 898</b>	<b>12 298</b>

(NOTE 10)

### Government-guaranteed loans

Loans raised by Statnett SF prior to 31 December 2002 are backed by Norwegian government guarantee and are guaranteed until the loans mature. Loans raised after 1 January 2003 are not government-guaranteed. Statnett SF pays a guarantee premium to the government for guaranteed loans. The guarantee premium is calculated individually for each loan. The balance of government-guaranteed loans at 31 December 2008 was NOK 87 million.

Loans by currency at 31 December 2008	Average interest rate <sup>1)</sup>	Loan amounts in currency	Loan amounts in NOK
<b>Currency</b> (Amounts in NOK million)			
NOK	5.25%	6 015	6 015
JPY	5.84%	10 000	798
CHF	5.30%	775	5 305
SEK	6.79%	200	180
<b>Total</b>			<b>12 298</b>

<sup>1)</sup> All foreign currency loans are converted to Norwegian kroner (NOK) using currency swap and interest swap agreements. The average interest rate is the average rate on interest-bearing debt including currency swap and interest swap agreements at 31 December 2008

Fixed-rate terms in the loan portfolio (Amounts in NOK million)	2009	2010	2011	2012	2013-	Total
	9 309	1 104	-	-	1 885	12 298

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

PARENT COMPANY		(Amounts in NOK million)	GROUP	
Acquisition cost	Book value		Acquisition cost	Book value
<b>MARKET-BASED SECURITIES</b>				
21	21	Government	59	57
-	-	State enterprises	5	5
148	149	Financial institutions including banks	248	253
55	55	Private issuers/industry	76	75
<b>224</b>	<b>225</b>	<b>Total bonds</b>	<b>388</b>	<b>390</b>
-	-	Norwegian shares	23	21
-	-	Foreign shares	2	1
-	-	<b>Total shares</b>	<b>25</b>	<b>22</b>
-	-	Foreign equities funds	30	27
-	-	<b>Total funds</b>	<b>30</b>	<b>27</b>
<b>224</b>	<b>225</b>	<b>Total market-based securities at 31 December</b>	<b>443</b>	<b>439</b>

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, investments 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. This help Statnett to obtain sufficient financial flexibility to execute the enterprise's investment programme over 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 borrowings of A+ and Aa3 respectively. The high credit ratings afford Statnett SF good borrowing opportunities.

**Credit risk**

Statnett SF is exposed to credit risk by the investment of 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 parameters based on the creditworthiness of counterparties and the maximum exposure for each counterparty. Creditworthiness is assessed at regular intervals, 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 result in 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 2008, the only currency exposures were unsecured bank deposits in foreign currencies equivalent to NOK 38 million for the parent company and the Group, and foreign equities funds equivalent to NOK 27 million for the Group.

**Exchange rate sensitivity**

PARENT COMPANY		Effect on result of change in NOK exch rate		GROUP		
2006	2007	2008	(Amounts in NOK million)	2008	2007	2006
-3	-2	-2	+5%	-3	-3	-4
3	2	2	-5%	3	3	4

The table shows Statnett's sensitivity to potential changes in the exchange rate of the Norwegian krone, if all other factors remain constant. The calculation is based on an identical change in relation to all relevant currencies. The effect on the result (profit and loss) is due to a change in the value of monetary items that are not fully hedged. Other monetary items and all foreign currency debt 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 cap for the grid operations is based (the NVE interest rate).

In order to reduce the interest rate risk and minimise fluctuations in profit and loss, 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 that are linked to the underlying debt are used.

(NOTE 10)

### 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.

PARENT COMPANY			Effect on result of change in NOK exch rate (Amounts in NOK million)	GROUP		
2006	2007	2008		2008	2007	2006
-5	-5	5	+1%	3	-6	-7
5	5	-5	-1%	-3	6	7

### Average effective interest rate/return

The table below shows the average effective interest rate for the individual financial instruments for the full-years 2006, 2007 and 2008.

PARENT COMPANY				GROUP		
2006	2007	2008		2008	2007	2006
2.55%	-	-	Certificates	6.28%	4.65%	2.69%
2.38%	4.03%	7.15%	Bonds	7.61%	4.00%	2.32%
2.90%	4.78%	5.76%	Deposits	5.78%	4.78%	2.89%
-	-	-	Shares and equities funds	-43.31%	5.56%	26.77%
4.27%	4.76%	6.00%	Loans	6.00%	4.76%	4.27%

(NOTE 10)

## 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.

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 (Amounts in NOK million)	Principal Lending	Principal Borrowing	Market value*	Interest rate terms Statnett receives	Interest rate terms Statnett pays
Free-standing**					
2010	NOK 250	NOK 250	-6	Nibor 6 months	Fixed rate
2010	NOK 250	NOK 250	-4	Nibor 6 months	Fixed rate
2010	NOK 282	NOK 282	-7	Nibor 6 months	Fixed rate
2010	NOK 87	NOK 87	-1	Nibor 6 months	Fixed rate
2015	NOK 200	NOK 200	9	Fixed rate	Nibor 6 months
2015	NOK 200	NOK 200	3	Nibor 6 months	Fixed rate
<b>Total</b>			<b>-6</b>		
Cash flow					
2014	NOK 200	NOK 200	-2	Nibor 6 months	Fixed rate
2014	NOK 200	NOK 200	1	Nibor 6 months	Fixed rate
<b>Total</b>			<b>-1</b>		
Fair value hedging					
2010	JPY 1 000	NOK 87	-18	Fixed rate JPY	Nibor 6 months
2010	CHF 150	NOK 782	254	Fixed rate CHF	Nibor 6 months
2011	CHF 125	NOK 688	126	Fixed rate CHF	Nibor 6 months
2012	CHF 250	NOK 1 245	487	Fixed rate CHF	Nibor 6 months
2014	JPY 5 000	NOK 296	103	Fixed rate JPY	Nibor 6 months
2017	CHF 250	NOK 1 290	414	Fixed rate CHF	Nibor 6 months
2019	JPY 4 000	NOK 201	129	Fixed rate JPY	Nibor 6 months
2020	NOK 300	NOK 300	18	Fixed rate	Nibor 6 months
2020	NOK 60	NOK 60	-4	Fixed rate	Nibor 6 months
2021	SEK 200	NOK 180	-	Stibor 3 months	Nibor 6 months
2023	NOK 600	NOK 600	9	Fixed rate	Nibor 6 months
2025	NOK 600	NOK 600	11	Fixed rate	Nibor 6 months
<b>Total</b>			<b>1 529</b>		

\* 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.

\*\* All the free-standing derivatives are related to underlying loans, but hedge accounting is not used. At 31 December 2008, Statnett had no interest rate swaps with start in the future.

(NOTE 10)

#### Interest rate options:

Statnett had no interest rate options at 31 December 2008.

#### Forward exchange contracts:

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

Currency (Amounts in NOK million)	Nominal amount in currency	Nominal amount in NOK	Average hedge rate	Market rate*	Market value
EUR	4	30	8.31	9.78	5
SEK	251	224	0.89	0.90	3
<b>Total forward exchange contracts</b>		<b>254</b>			<b>8</b>

\* The market rate is the average forward rate.  
All contracts relate 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 directly in equity

Changes in value of cash flow hedges recognised directly in equity:

PARENT COMPANY				GROUP		
2006	2007	2008	(Amounts in NOK million)	2008	2007	2006
-17	21	31	<b>Fair value of cash flow hedges OB</b>	31	21	-17
38	10	-28	Value changes through the year	-28	10	38
21	31	3	<b>Fair value of cash flow hedges CB</b>	3	31	21

## NOTE 11 – TAXATION

PARENT COMPANY				GROUP		
2006	2007	2008	(Amounts in NOK million)	2008	2007	2006
			<b>Tax on result</b>			
73	110	-	Tax payable	2	117	77
-37	110	227	Change in deferred tax/tax assets	223	112	-36
<b>36</b>	<b>220</b>	<b>227</b>	<b>Tax charge</b>	<b>225</b>	<b>229</b>	<b>41</b>
72	111	-	Tax payable for the year	2	118	77
1	-1	-	Excess/insufficient provision for tax payable in prior years	-	-1	-
<b>73</b>	<b>110</b>	<b>-</b>	<b>Tax payable</b>	<b>2</b>	<b>117</b>	<b>77</b>
<b>-37</b>	<b>110</b>	<b>227</b>	<b>Deferred tax/tax assets as a result of changes in temporary differences</b>	<b>223</b>	<b>112</b>	<b>-36</b>
<b>26%</b>	<b>27%</b>	<b>26%</b>	<b>Effective tax rate</b>			

(NOTE 11)

PARENT COMPANY			Reconciliation of effective tax rate with Norwegian tax rate	GROUP		
2006	2007	2008		2008	2007	2006
141	818	857	Profit before tax	1 742	880	204
39	229	240	28% tax	488	246	57
1	1	1	Other non-deductible costs 28%	7	1	1
-5	-9	-14	Non-taxable income 28%	-1	-1	-5
-	-	-	Share of profit in joint ventures and associates	269	-16	-12
1	-1	-	Excess/insufficient provision for tax in prior years	-	-1	-
<b>36</b>	<b>220</b>	<b>227</b>	<b>Tax charge</b>	<b>225</b>	<b>229</b>	<b>41</b>
<b>DEFERRED TAX(-)/TAX ASSETS IN THE BALANCE SHEET</b>						
49	-62	-214	Fixed assets	-220	-61	51
18	26	30	Profit and loss account	28	25	16
-	-	-	Receivables	8	-	-
24	-	-120	Higher/lower revenue *	-120	-	24
-8	-	-	Prepaid rents (higher revenue)*	-	-	-8
-	-	-	Technical provisions (insurance)	-49	-38	-36
87	93	96	Pensions	96	94	88
2	2	-	Securities	1	2	2
-11	-8	-2	Financial instruments (ex. cash flow hedges)	-2	-8	-11
-6	-9	2	Cash flow hedges	2	-9	-6
1	1	-	Provision according to generally accepted accounting practice	-	1	1
		35	Tax loss carry-forward	44	-	-
<b>156</b>	<b>43</b>	<b>-173</b>	<b>Total deferred tax(-)/tax assets (net) accounted for</b>	<b>-212</b>	<b>6</b>	<b>121</b>
<b>Deferred tax/tax assets carried directly in equity</b>						
-57	-57	-57	Implementation IFRS Framework (higher/lower revenue) *	-57	-57	-57
77	77	77	Implementation IAS 19 (Pensions)	77	77	77
1	1	1	Implementation IAS 39 (Financial instruments)	1	1	1
			Reclassification of National Fund for Natural Disaster Assistance to equity	-6	-	-
-6	-9	2	Cash flow hedging	2	-9	-6
<b>15</b>	<b>12</b>	<b>23</b>	<b>Total</b>	<b>17</b>	<b>12</b>	<b>15</b>

\*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 requiring higher/lower revenue to be taxed in accordance with the ordinary realisation principle. This has been taken into account by reversing the temporary difference which arose upon implementation of IFRS in 2007.

The Norwegian government has introduced a temporary scheme permitting limited companies and similar organisations to carry back a tax loss for the income years 2008 and 2009 against taxable income in the two prior years. The tax loss for the income year 2008 can thus be carried back and deducted from the income years 2006 and 2007.

Undertakings with a loss in 2008 and/or 2009 will be paid the tax value of the loss (28 %) at the tax settlement in the autumns of 2009 and 2010 respectively. The deduction is given automatically, without any claim from the undertakings.

For each of the income years, there is a limit of NOK 20 million for losses that can be carried back. This means that every company with a tax loss carry-forward can be paid up to NOK 5.6 million for the year 2008.

Under IAS 12 Income Taxes and IAS 10 Events After the Balance Sheet Date, changes in tax laws after the balance sheet date cannot affect the

(NOTE 11)

accounting. IAS 12.47 states that deferred taxes should be measured at the tax rates which are expected to apply to the period when the asset is realised or the liability is settled, based on the tax rates (and tax rules) that have been enacted or substantively enacted at the balance sheet date.

The authorities' scheme does not satisfy these requirements and the change in tax legislation is not reflected in the 2008 financial statements.

Statnett SF and Statnett Transport AS both have a tax loss carry-forward for 2008 exceeding NOK 20 million. This means that both will be paid NOK 5.6 million at the tax settlement in 2009. The payment will cause the tax loss carry-forward in the Parent Company and the Group to increase by, respectively, NOK 20 million and NOK 40 million at the payout in autumn 2009.

#### PARENT COMPANY

Changes in temporary differences (Amounts in NOK million)	31 Dec 2006	Recognised	Carried against EQ	31 Dec 07	Recognised	Carried against EQ	31 Dec 08
Fixed assets	-174	397		223	541		764
Profit and loss account	-63	-30		-93	-11		-104
Higher/lower revenue	-85	85		-	427		427
Prepaid rents (higher revenue)	27	-27		-	-		-
Pensions	-312	-19		-331	-11		-342
Securities	-8	-		-8	9		1
Financial instruments (ex. cash flow hedges)	41	-14		27	-21		6
Cash flow hedges	21	-	11	32	-	-39	-7
Provision acc. to gen. acceptable account. pract.	-3	1		-2	1		-1
Tax loss carry-forward	-	-		-	-125		-125
<b>Total</b>	<b>-556</b>	<b>393</b>	<b>11</b>	<b>-152</b>	<b>810</b>	<b>-39</b>	<b>619</b>

#### GROUP

Changes in temporary differences (Amounts in NOK million)	31 Dec 06	Recognised	Carried against EQ	31 Dec 07	Recognised	Carried against EQ	31 Dec 08
Fixed assets	-181	398		217	570		787
Profit and loss account	-57	-31		-88	-12		-100
Receivables	-85	85		-	-28		-28
Higher/lower revenue	-	-		-	427		427
Prepaid rents (higher revenue)	27	-27		-	-		-
Technical provisions (insurance)	127	8		135	20	22	177
Pensions	-314	-20		-334	-8		-342
Securities	-7	-1		-8	5		-3
Financial instruments (ex. cash flow hedges)	41	-14		27	-21		6
Cash flow hedges	21	-	11	32	-	-39	-7
Provision acc. to gen. acceptable account. pract.	-3	1		-2	1		-1
Tax loss carry-forward	-	-		-	-156		-156
<b>Total</b>	<b>-431</b>	<b>399</b>	<b>11</b>	<b>-21</b>	<b>798</b>	<b>-17</b>	<b>760</b>



## NOTE 12 – INVESTMENTS IN SUBSIDIARIES, JOINT VENTURES AND ASSOCIATES

Statnett SF had the following investments at 31 December 2008:

Company (Amounts in NOK thousand)	Type	Year of acquisition	Registered office	Interest	Voting rights	Acquisition cost	Book value
<b>Subsidiaries</b>							
Statnett Transport AS	Subsidiary	1996	Oslo	100.0%	100.0%	67 580	79 221
Statnett Forsikring AS	Subsidiary	1998	Oslo	100.0%	100.0%	30 200	30 200
<b>Total subsidiaries</b>						<b>97 780</b>	<b>109 421</b>
<b>Joint ventures</b>							
Nord Pool ASA	Jointly controlled	1992	Bærum	50.0%	50.0%	102 190	102 190
<b>Associates</b>							
Nord Pool Spot AS	Associate	2002/2008	Bærum	30.0%	30.0%	36 320	36 320
<b>Total interests in subsidiaries, joint ventures and associates</b>						<b>236 290</b>	<b>247 931</b>

### Summary of financial information on associates according to IFRS.

Company (Amounts in NOK thousand)		Assets	Liabilities	Equity	Operating revenue	Profit after tax
Nord Pool Spot Group	100%	3 115 313	2 965 265	150 048	102 598	20 243

### Financial information on joint ventures according to IFRS Nord Pool ASA Group 100%

(Amounts in NOK thousand)	2008	2007	2006
<b>Assets</b>			
Current assets	1 785 196	11 253 424	11 179 351
Fixed assets	939 976	191 848	130 864
<b>Liabilities</b>			
Short-term liabilities	-73 470	-10 617 662	-10 576 415
Long-term liabilities	-117 193	-132 826	-123 689
<b>Net assets</b>	<b>2 534 509</b>	<b>694 784</b>	<b>610 111</b>
Operating revenues	365 262	368 501	327 089
Operating costs	-270 041	-256 708	-257 780
Net financial items	1 945 473	30 218	18 014
Profit before tax	<b>2 040 694</b>	<b>142 011</b>	<b>87 323</b>
Tax	-59 850	-38 545	-23 548
<b>Profit after tax</b>	<b>1 980 844</b>	<b>103 466</b>	<b>63 775</b>

Investments in joint ventures and associates are accounted for in the consolidated financial statements using the equity method.

## **SALE OF SHARES AND OPERATIONS IN THE NORD POOL ASA GROUP**

### **Sale of shares in EEK to Eurex**

Nord Pool ASA, the joint venture in which Statnett SF has a 50 % interest, has sold its 17.39 % stake in the European Energy Exchange AG (EEX) to Eurex, for a total of EUR 46 million. The sales transaction was completed in June 2008.

### **Sale of operations to NASDAQ OMX**

Nord Pool ASA has sold its clearing and consultancy operations, and its operations connected to international derivative products, to NASDAQ OMX for a little over NOK 2 billion.

NASDAQ OMX purchased 100 % of the shares in Nord Pool ASA's subsidiaries Nord Pool Clearing ASA and Nord Pool Consulting AS, in addition to a new subsidiary which took over Nord Pool's international product portfolio as CO2 products (EUA and CER) and international power contracts. The transaction was carried out in October 2008.

Nord Pool Spot AS, being 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.

NASDAQ OMX is obligated to pay further compensation if the traded volume exceeds certain criteria over a five-year period.

### **Purchase and sale options relating to the NASDAQ OMX sale**

NASDAQ OMX has an option to purchase the remaining commercial operations or the shares in Nord Pool ASA for NOK 80 million. The option can only be exercised if Nord Pool ASA or its owners decide to sell the rest of the business. The option does not include Nord Pool Spot AS or the shares in EEX. The option will lapse if NASDAQ 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.

Nord Pool ASA has an option to sell the remaining commercial operations or the shares in Nord Pool ASA for NOK 80 million. The sales price shall be adjusted for any dividend, with certain exceptions.

The exercise of these options is conditional upon the approval of the respective authorities and, in accordance with IFRS, has not been taken into account in the financial statements as of 31 December 2008.

### **Allotment of shares in Nord Pool Spot AS**

Nord Pool ASA paid a dividend to its owners, Statnett SF and Svenska Kraftnät, in the form of its 20 % shareholding in Nord Pool Spot AS, with effect from the 2nd quarter of 2008. This increased Statnett's direct interest in Nord Pool Spot AS from 20 % to 30 %. The dividend was recognised as revenue at fair value at the date of the allotment, and amounts in total to NOK 36 million for Statnett SF. This has been eliminated in Statnett Group.

## NOTE 13 – RELATED PARTIES

At 31 December 2008, 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	Associates	Joint ventures
Statnett SF	Statnett Transport AS Statnett Forsikring AS	Nord Pool Spot AS	Nord Pool ASA Group

The subsidiaries are all wholly owned by Statnett SF.

Nord Pool ASA is owned 50:50 by Statnett and Affärsverket Svenska Kraftnät of Sweden. Statnett has a direct interest in Nord Pool Spot of 30 %, while other Nord Pool companies are owned through Statnett's interest in Nord Pool ASA.

Statnett Transport AS owns all the shares in Statnett Elektron AS and Statnett Transport Bemanning AS.

### Related party transactions

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

The captive 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 2008, Statnett SF paid premiums totalling NOK 37 million, while the amount for the Group was NOK 38 million. By comparison, the figures for the parent company and the Group for 2007 were, respectively, NOK 36 million and NOK 37 million.

Statnett Transport AS operates a heavy transport business on land and sea, and sold transport services to Statnett SF for NOK 40 million in 2008. The figure for 2007 was NOK 20 million.

Statnett SF has a long-term receivable of NOK 142 million on Statnett Transport AS at 31 December 2008. The receivable arose in connection with the transfer of the vessel Elektron to its own separate company. The vessel was sold by Statnett SF to Statnett Elektron for NOK 203 million and was paid for in shares and a convertible loan. To achieve the desired group structure, the shares and the convertible loan Statnett SF had in Statnett Elektron AS after the transaction were then sold to Statnett Transport AS for NOK 203 million. The transactions were executed on 26 June 2008.

On 30 October 2008, NOK 60.9 million of the debt of NOK 203 million was converted to equity in Statnett Transport AS. Following the conversion, the long-term receivable amounts to NOK 142 million. Under the sales agreement, the interest rate on the claim is calculated at NIBOR + 1 %. Interest falls due on demand. Statnett Transport AS paid no interest in 2008, and accrued interest at 31 December 2008 totalled NOK 7.5 million.

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 is an interest-only loan until it matures in its entirety after 10 years. The borrower has the right to extend the term of the loan by a further five years, after which the borrower, with the prior approval of the Financial Supervisory Authority of Norway, has the right to redeem the loan in part or in whole. The loan

(NOTE 13)

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 entered into.

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 2008, Statnett SF received dividends totalling NOK 7.6 million from Statnett Forsikring AS, NOK 36 million from Nord Pool ASA, and NOK 5 million from Nord Pool Spot AS. The dividend from Nord Pool ASA was in the form of an allotment of shares in Nord Pool Spot AS. For further details, see Note 12.

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 2008, Statnett SF has charged Statnett Transport AS NOK 1 million and Statnett Forsikring AS NOK 2 million. The comparative figures for 2007 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 the southern part. The NorNed cable became operational in May 2008. Costs and revenue connected with the operation of the NorNed cable are shared equally between TenneT and Statnett.

OED has given its approval for Statnett and TenneT to perform explicit auctions as a temporary trading solution for power exchange between Norway and the Netherlands up until 31 December 2009.

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

### **NOTE 14 – EVENTS AFTER THE BALANCE SHEET DATE**

We are not aware of any circumstances occurring after the balance sheet date that may be of significance for the evaluation of the financial statements.

### **NOTE 15 – SECURED DEBT, GUARANTEES**

The parent company may not pledge the enterprise's assets, apart from providing security to financial institutions in connection with day-to-day banking transactions, and providing the customary security as part of the day-to-day operations.

The parent company has provided a third-party guarantee of SEK 10 million on behalf of STRI AB.

### **NOTE 16 – DISPUTES**

#### **Eltel Networks AS**

Eltel Networks AS has issued a claim against Statnett SF in connection with the Skåreheie-Holen project. Eltel Networks AS is claiming that when it purchased the former Statnett Entreprenør AS, it acquired the right to build the power line. Statnett SF contests this, and the project has been built by another contractor. Eltel Networks AS is claiming damages for loss by non-performance of contract, for which, in Statnett's opinion, grounds do not exist. No provision related to the dispute with Eltel Networks AS have been made in the financial statements.

#### **The Oslo Fjord cable**

NVE passed a resolution on 3 March 2009 in connection with the breakdown of the Oslo Fjord cables, which concluded that Statnett has breached certain regulations. This breach permits Statnett to be charged a penalty fee, but NVE does not mention in its resolution whether such a penalty will be charged. NVE will return to the matter when it has a more complete overview of the facts of the case which may have significance for fixing the penalty fee. NVE has also resolved to impose an enforcement penalty in the same case if Statnett fails to comply by 1 June 2009 with NVE's order for rectification. The enforcement penalty is fixed at the sum of NOK 800,000 per day. The Ministry of Petroleum and Energy is the appellate authority in the further process. No provision related to the Oslo Fjord cable have been made in the financial statements.

# Auditor's report



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Medlemmer av Den norske Revisorforening

To the General Meeting of  
Statnett SF

## Auditor's report for 2008

We have audited the annual financial statements of Statnett SF as of 31 December 2008, showing a profit of MNOK 630 for the Parent Company and a profit of MNOK 1 517 for the Group. We have also audited the information in the Directors' report concerning the financial statements, the going concern assumption, and the proposal for the allocation of the profit. The financial statements comprise the financial statements for the Parent Company and the Group. The financial statements of the Parent Company and the Group comprise the balance sheet, the statements of income and cash flows, 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 2008, 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, 26 March 2009  
ERNST & YOUNG AS  
Jan Egil Haga  
State Authorised Public Accountant (Norway)  
(sign.)

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

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# The Norwegian electricity market

**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.**

## HOW THE ELECTRICITY MARKET IS STRUCTURED

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 electricity producers. The electricity market also comprises a number of sub-markets.

We are all participants in the retail electricity market when we choose from among suppliers who offer us electricity. The Nordic power exchange, Nord Pool, is where the big players meet. A considerable proportion of the power purchased on Nord Pool's spot market is supplied to the retail market. The big players are also found in the financial market, which is where power derivatives are traded in order to hedge against future movements in the spot price, or to speculate in an attempt to make a profit on the price.

Important prerequisites for a well-functioning electricity market are good trading models and sufficiently many and large market participants. Nord Pool, the joint Nordic power exchange, is the most important physical wholesale market and financial market for electricity in the Nordic region.

### THE VARIOUS MARKETS

#### **The physical wholesale electricity market**

Nord Pool Spot is Nord Pool's physical delivery power exchange and the most important Nordic marketplace for electric power. Here, 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 2008, market share in the Nordic countries was 70.1 %, compared with 68.9 % in 2007. In addition to strengthening 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 is divided up into a number of fixed areas. Norway and Denmark normally have two fixed areas each, while Finland and Sweden make up one fixed area each.

#### **The financial market**

Nord Pool's financial market is where the trade in financial power contracts is conducted, that is to say in futures and forward contracts and in 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 consumers a free choice of electricity supplier. Thus far, however, the possibilities of



choice are restricted to within one's own country. The retail market in the Nordic region is not harmonised and therefore does not function as a single Nordic market. Consumers participate in the Nordic electricity market through most of the suppliers purchasing electricity on the Nord Pool power exchange and then selling it on to domestic households.

**The regulating power market** is used to balance the power system and to equalise imbalances between electricity consumption and generation.

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 electricity market as a whole to function smoothly.

For more information about the electricity market, visit [www.nordpool.com](http://www.nordpool.com).

## NORWEGIAN ELECTRICITY MAP

### THE AUTHORITIES

**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. OED is the appellate authority for licences awarded by NVE and makes the final decision in such matters.

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

**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 PRODUCERS

**The electricity producers**, such as Statkraft, generate power from various energy sources, such as water and wind. The producers then sell the power on the Nordic power exchange, Nord Pool, and deliver it to the transmission grid.

### THE GRID COMPANIES

**Statnett** owns most of, and is responsible for, the Norwegian national electricity grid. Statnett is also responsible for monitoring, co-ordinating and balancing the entire power system, so that the electricity reaches its destination in every region of Norway.

**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.



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 1975–2008

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
2008	140.9	131.4	127.3	3.4	17.0	13.6

Source: NVE

## STATISTICS NORDIC COUNTRIES 2000–2008

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
2008	391.4	211.0	390.0	15.5	16.9	1.4

\* Export +/-import -

\*\* Inflow 2000 without Finland.

\*\*\* Based on Nord Pool's estimates.

Source: Nord Pool

# Power terminology

## Balance accounting

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

## Balance power

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

## Balancing service

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

## Bilateral contracts

are electricity contracts entered into between two contractual parties.

## Bottleneck

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

## The distribution network

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

## Higher and lower revenues

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

## High-voltage transmission lines

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

## Ice load

In the winter, snow and ice accumulate on power lines. This is called the ice load, and is normally measured in the number of kilograms (kg) per metre of power line. In the Norwegian Main Grid, most power lines are designed to sustain a load of at least 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 127.3 TWh in 2008. 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  
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