

Statnett

Annual report 2010



20:10
We unite
Norway

140 9 800

Transformer stations

kilometers power lines

4

International cables

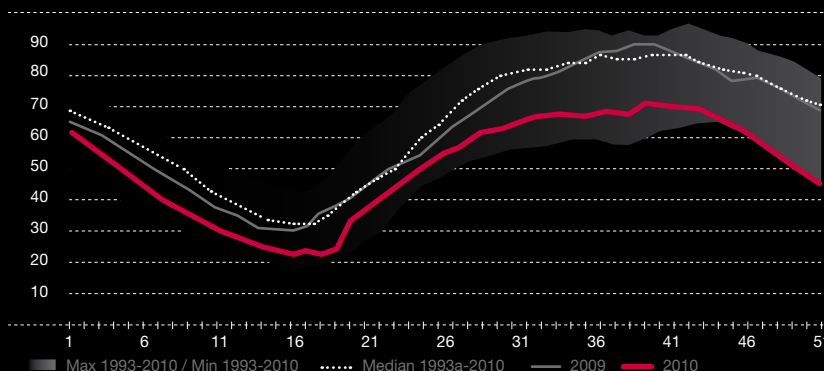
HIGHLIGHTS (NOK mill)	2010	2009	2008	2007
Operating revenues	7 247	2 862	4 256	3 415
Operating profit/loss	3 279	-403	1 194	1 025
Profit/loss before tax	3 058	-668	1 742	880
Profit/loss for the year	2 198	-480	1 517	651
Total assets	22 070	19 342	20 919	16 439

KEY FIGURES (NOK mill)	2010	2009	2008	2007
Return on capital employed before tax adjusted for higher/lower revenue	6,4 %	3,9 %	3,2 %	7,9 %
Return on capital employed	14,0 %	-0,3 %	12,5 %	7,6 %
Return on total assets	16,8 %	-1,2 %	12,5 %	8,4 %
Return on equity	33,1 %	-7,9 %	25,0 %	12,4 %
Equity share	34,7 %	29,0 %	31,5 %	33,8 %

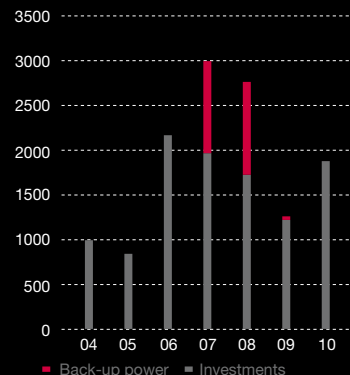
Our organisation



Reservoir levels Norway



Development investment (mmok)



In brief

This is Statnett

Statnett is Norway's transmission system operator. This involves operating approx. 10 000 kilometres of high voltage power lines and 140 transformer stations across the country. The operations are monitored by one national dispatch centre and three regional dispatch centres. Statnett is also responsible for the connections to Sweden, Denmark and the Netherlands. The Group is organised in four divisions: Operations, Projects and Development, Commercial and Strategy and Public Relations. Statnett has 897 employees and the Head office is located in Oslo.

Our mission

Statnett will develop the next generation main grid to ensure power supplies, contribute to value creation and facilitate better climate solutions.

Our main objectives

Security of supply

Statnett will maintain security of supply, with a grid with satisfactory capacity and quality.

Value creation

Statnett's services will create value for our customers and society in general.

Climate

Statnett will facilitate the realisation of Norway's climate objectives.

Our values

To succeed our organisation must be based on sound values. Statnett's values are long-term perspective, respect and community. These values describe the core attitudes necessary to succeed and set the standard for the daily conduct of employees and the management.

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We unite Norway

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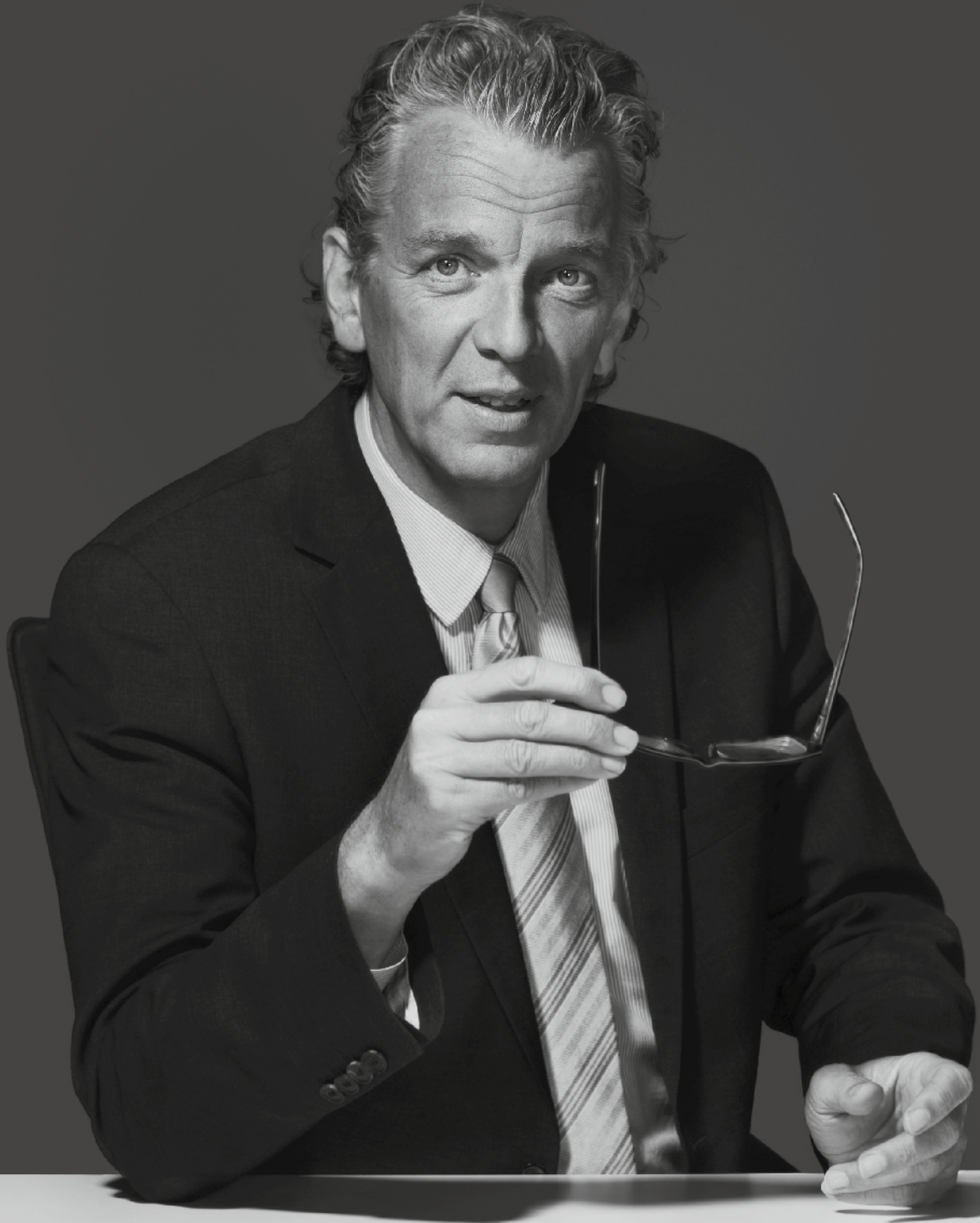
897





Some people
must be more
punctual than
others.

The moment. The timing.
The second. It's all about
precision. Instantaneous
precision.



**“We will be the engineer,
the architect and the developer.”**

Auke Lont / President and CEO, Statnett

Name: Auke Lont

Responsibility: Management

Objective: Enough electricity at all times – today and tomorrow

Background

“We have a very clear role and mandate: To ensure that everyone has enough electricity at all times,” says President and CEO Auke Lont, whose goal is to build the next generation main grid.

According to Lont, the next generation main grid will contribute to realising three main objectives: maintaining security of supply, facilitating value creation and promoting good climate solutions. “What makes electricity supply so special, in contrast to, for instance, the oil industry, is that you cannot store electricity. Therefore, we must have an immediate balance between generation and consumption. We must also keep both a short and long term perspective. Moreover, we must ensure efficient grid operations today at the same time as we develop a grid that enables us to maintain the immediate balance in the future,” Lont says.

The current main grid

One of the first and greatest challenges Auke Lont took on when he became President and CEO of Statnett in February 2009, was to look at the future electricity supply, with the past and current situation as a backdrop. Until 1992, significant investments were made in Norwegian power generation, but consumption did not increase accordingly. When the energy markets were liberalised in the 1990s, significant reserves in the production system were realised.

“What happened back then was absolutely right. We had the liberalisation, the market worked and there was no need for further generation. The zeitgeist was to reap and this eventually became the mindset of producers, grid companies, consumers and politicians alike. However, this was probably taken a step or two too far,” says Auke, who emphasises that consumption has now increased, at the same time as the grid has started to deteriorate due to age.

“We have reached a point where if we don’t do something, capacity will decrease. What we see in the short term is that the system is put to the test,” says Lont, who illustrates the situation by comparing it with a patient with high blood pressure. “The person might not show any obvious symptoms, but the patient will need both blood-thinning medication and bypass surgery. It is the same with the main grid. The time has come for sound, long term and sustainable solutions,” Lont says.

Next generation main grid

This is why Statnett has rallied behind the mission “to build the next generation main grid by 2030”. In the next ten years alone, Statnett plans to invest as much as NOK 40 billion in grid developments, transformer stations and cables.

“We will be the engineer, the architect and the developer. In many ways, the next generation main grid is the manifestation of all of Statnett’s three main objectives: ensuring security of supply, facilitating value creation and promoting sound climate solutions.”

Lont understands that many people have not realised the severity of the supply situation, but emphasises the reality of the challenges:

“In first quarter of 2010, we had 1 300 hours of reduced operational reliability in the Bergen area, and in northern Norway the grid is far too vulnerable. But if we have failed to make the public understand just how strained the situation is, we must do a better job at getting the point across ourselves.”

The climate perspective

Lont also points to the climate perspective as a decisive motivating factor for the development plans in Norway and Statnett.

“Our role is that of a facilitator, but our ambition is that Statnett will do its part when it comes to climate adaptation. Norway is one of the richest countries in the world. We already have a lot of renewable energy, as well as plenty of renewable resources that can be developed. Norway should therefore have every opportunity to achieve the UN climate objectives,” Lont says. The UN climate objective is to reduce CO₂ emissions to two tonnes per person by 2050. Norwegian emissions are currently 12 tonnes per person.

“If we are to achieve this goal by 2050, we need to be well on our way by 2030, in order for both Norwegian society and the energy system to adapt. This is why our vision is that the next generation main grid should be ready by 2030,” says Lont.

The Nordic region and Europe

According to Statnett, a sustainable society will be characterised by more electricity. The introduction of green certificates in Norway and Sweden will trigger a new willingness to invest, with a potential of 26.4 terawatt hours (TWh) in new generation by 2020. But this new production capacity must also be connected to the grid. There is also a need for upgrades in Sweden. Lont therefore stresses the importance of cross-border cooperation.

“Our plans include a fairly extensive upgrade of our cables abroad, both to the Nordic region and between Norway and Europe. On the Continent, there is much focus on renewable energy, predominantly wind energy, which is an energy source with significant fluctuations. Norwegian flexible hydropower can play a vital role in this. This is a business opportunity for Norway, and both a direct and indirect contribution to the creation of value,” says Lont, who emphasises that this must take place on commercial terms.

“If we are to offer Europe the flexibility of the Norwegian reservoirs, we need increased cable capacity. Of course, in order for us to construct the international interconnectors, there must be a high enough return on the investments,” says Lont.

Statnett is at the ready

According to Lont, the short and long term perspective, security of supply, value creation and climate all give the same answer: More extensive development of the main grid and the international interconnectors. Lont also emphasises that this is something the company cannot handle by itself.

“We wish to cooperate closely with regional and local grid companies, local authorities and the supply industry. We can have the best plans in the world, but they don't amount to much unless everybody sees the need and agrees with our solutions, as clearly illustrated by the Hardanger issue. We therefore have to increase people's understanding of the need, and invite stakeholders to cooperate and discuss good solutions,” Lont says, adding that Statnett is ready to do its part:

“We have developed the organisation significantly; by recruitment, in-house training and a new project model. We are well underway on a new journey, which also includes new head offices at Nydalsshøyden in 2013. So yes, we're ready to 'build the land'”, says Auke Lont.

Highlights 2010

#2

Hardanger development approved

On 1 March 2011, Minister of Petroleum and Energy, Terje Riis-Johansen, presented the decision that Statnett could continue the construction of the power line between Sima and Samnanger in Hardanger, in line with the licence granted on 2 July 2010. This line will provide the main grid in the region with a satisfactory security of supply, at the same time as it will provide opportunities for further creation of value and initiatives for renewable energy in Hordaland County.

The decision came after four independent committees had assessed all aspects of a subsea cable alternative. The committees were appointed by the Minister of Petroleum and Energy in August after the issue received much attention following the granting of the licence in July 2010. Construction start for the Sima – Samnanger project was in the autumn of 2010. The entire line is scheduled for completion in 2012.

#1

Ripple effects after Japan earthquake

The major damage to the Fukushima nuclear power plant following the earthquake and tsunami in Japan may have major repercussions. The damage to the plant has brought attention to the safety of such plants, and again sparked a debate on nuclear energy as an energy source.

Germany's chancellor, Angela Merkel, decided to postpone the decision to extend the life-span of the nation's 17 nuclear energy plants, as well as temporarily shut down seven of the oldest plants, following the events in Japan. The decision has received mixed response in the EU, but demonstrates the severity of the consequences of the earthquake.

For Norway this means increased focus on security of supply. The events in Japan came as the power situation in Southern Norway was characterised as strained. In such situations, Norway is dependent on power imports. Nuclear power accounts for about 20% of total power generation in the Nordic region. For this reason, Statnett will be monitoring the situation closely.

#3

Statnett sponsors the speed skating national team

In 2010, Statnett became a general sponsor of the Norwegian Skating Association (NSA). The three-year agreement will be used actively to market Statnett externally and to motivate employees internally.

This sponsorship will contribute to promoting understanding and knowledge of Statnett's role and activities among the general public, and not least, market Statnett as a well-known and attractive employer.

The partnership also helps the Norwegian Skating Association develop the next generation of skaters, just as Statnett will develop the next generation main grid. The cooperation with some of the best speed skaters in the world will also be utilised internally to promote motivation and pride among Statnett's employees. An internal exercise campaign has been launched to help more employees become physically active.

We are uniting
Norway – every
year, every day
and every second.

Our role in society

As System Operator, Statnett plays a distinct and important role in the Norwegian power system:

- To ensure a stable and secure electricity supply by coordinating generation and consumption in a well-maintained power system
- To ensure long-term quality by developing the Norwegian main grid, international connections and sound market solutions
- To offer all market participants access to the transmission grid on equal terms



Society's need for electricity

As a society we are faced with challenges and choices in relation to the power system, both in the long and short term:

- Our society is becoming ever more dependent on electricity. Consequently, we are becoming more vulnerable with regard to security of supply
- Local communities and companies depend on electricity to develop and create values
- Europe and the Nordic countries have chosen to meet the climate challenge by investing in more renewable energy
- In Norway there is a backlog need for upgrades of an ageing grid
- We must find development concepts which protect our natural landscape and are deeply rooted in our local communities



Our objectives

Statnett has therefore formulated the following clear main objectives:

- To maintain security of supply through our operations, monitoring and preparedness
- To facilitate value creation for our customers and Norwegian society in general
- To facilitate the realisation of Norway's climate objectives

Statnett has therefore agreed to focus on the following task:

To build the next generation main grid.

From production to consumers

Electricity must be generated the same instant it is consumed. This means that every time turn on the coffee maker the same amount of electricity must be generated elsewhere.

Power generation

Water is the raw material of Norwegian hydropower generation. 97 per cent of the electricity generated in Norway comes from hydropower. Norway has a total of 750 power stations.

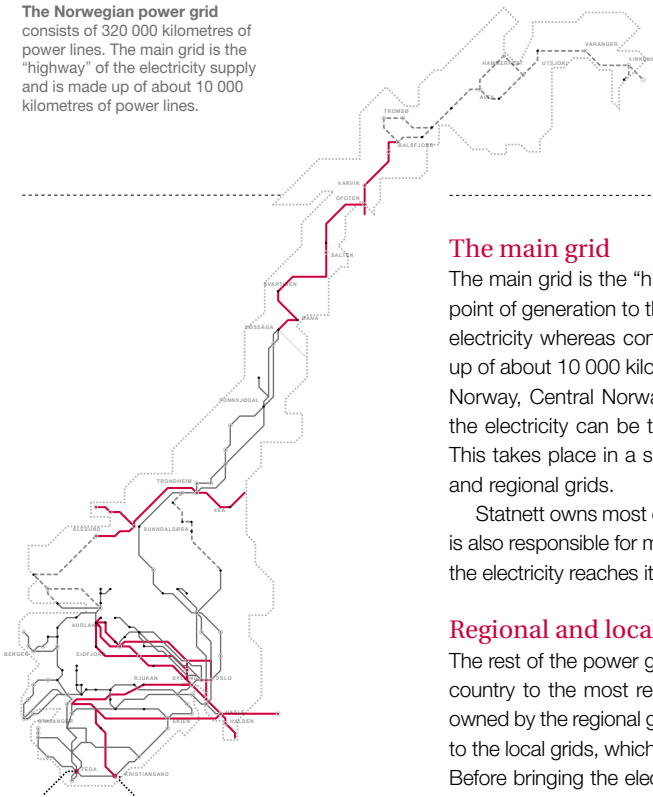
The electricity producers generate power from various energy sources, such as water and wind. The producers then sell the power on the Nordic power exchange Nord Pool Spot and deliver it to the transmission grid. The electricity producers comprise all producers from Statkraft, responsible for one third of Norwegian power production, to small municipal and private facilities.

The Norwegian power grid consists of 320 000 kilometres of power lines. The main grid is the "highway" of the electricity supply and is made up of about 10 000 kilometres of power lines.

The main grid

- 380-750 kV line
- 300-330 kV
- DC-line
- 220 kV line
- 132-150 kV line

140
Transformer stations



The main grid

The main grid is the "highway" of the electricity supply and transports the electricity from the point of generation to the regions where it is consumed. Western Norway generates the most electricity whereas consumption is highest in Eastern Norway. Statnett's main grid is made up of about 10 000 kilometres of the highest-voltage power lines centrally located in Northern Norway, Central Norway, Western Norway, Southern Norway and Eastern Norway. Before the electricity can be transmitted to regional and local grids, the voltage must be reduced. This takes place in a step-down transformer facility, which is the link between the main grid and regional grids.

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.

Regional and local grids

The rest of the power grid comprises 310 000 kilometres of lines which extend throughout the country to the most remote villages in Norway. Regional grids often cover a county and are owned by the regional grid companies. Electricity is transported onwards from the regional grids to the local grids, which then transport it to the various local communities and residential areas. Before bringing the electricity to the final stage on its way to your house, the voltage must be reduced to 230 volts.

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.

Consumers

In Norway electricity is the most important source of both heating and lighting. The largest customer groups are consumers, offices and industry.

From market to market

Electricity has no shelf life. This makes the sales process more complicated than in the case of commercial commodities that can be stored in a warehouse, supplied over the counter and used whenever the customer wants.

To be able to handle the power situation, Statnett continually assesses the need for dividing the country into market areas. At year-end, Norway was divided into five market areas: South-eastern Norway, south-western Norway, parts of western Norway, central Norway and northern Norway.

Electricity has to be used the moment it is produced. Therefore, in order to supply electricity there must be a well-functioning system for determining how much the electricity should cost and how it should be delivered.

The Nordic electricity market consists of many very different players: households, companies, large and small electricity suppliers, energy-intensive industry, and everything from small local power plants to large electricity producers. Important prerequisites for a well-functioning electricity market are good trading models and sufficiently numerous and large market participants.

The power market therefore comprises a number of sub-markets, a retail market, a physical wholesale market, a financial market and a regulating power market.

The spot market

Nord Pool Spot, of which Statnett owns 30%, is currently the largest power market in the world. 340 companies from 18 different countries trade electricity daily on the exchange for delivery on the same or next day. In 2010, 307 TWh was traded on Nord Pool Spot. Consumption traded on the spot market was 74%.

74%
of total consumption
traded via the spot market

The retail electricity market

We are all participants in the retail electricity market when we select our electricity suppliers. The retail electricity market is deregulated in all the Nordic countries, but not harmonised. Although the end-users can freely choose their electricity supplier, they can for the time being only choose among domestic suppliers.

The physical wholesale market

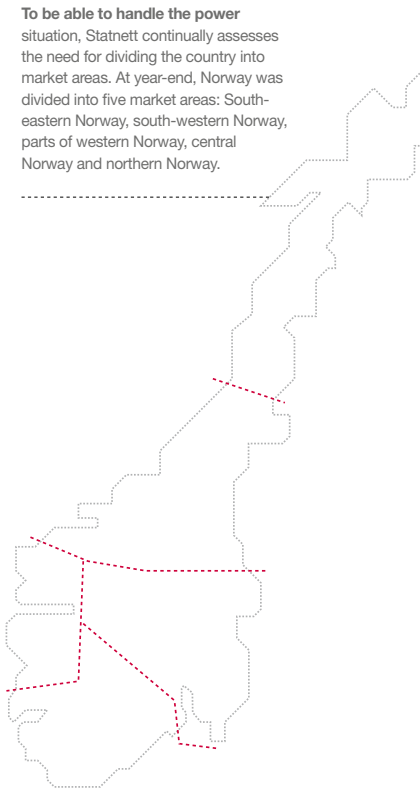
In the Nordic countries, electricity is sold on the power exchange Nord Pool Spot, or directly from the seller (producer) to the buyer (consumer). In 2010, 74 per cent of total consumption in the Nordic region was traded via the spot market on Nord Pool Spot. Electricity is traded on Nord Pool Spot for next-day delivery. The prices will fluctuate according to supply and demand throughout the period. The high market share in the power exchange strengthens liquidity and the spot price as a reference price.

The financial market

The major players also trade in power derivatives on the financial market, which is regulated by Nasdaq OMX Commodities. This is where trading in forward contracts takes place, that is to say in futures, forward contracts and 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 regulating power market

The regulating power market is used to balance the power system and to equalise imbalances between electricity consumption and generation. Statnett monitors and analyses trading in the regulating power market with a view to identifying imbalances between planned production and expected consumption. Players are notified of issues of particular importance and these issues are reported to the Norwegian Water Resources and Energy Directorate (NVE). The NVE will then implement measures to further increase the efficiency of the electricity market.



From cities to rural districts

Our society depends on a reliable supply of electricity to all regions, around the clock. Consequently, it is important to maintain a careful balance between generation and consumption, at all times.



Temperature fluctuations

The last few winters have been unusually cold in Norway, setting records both in terms of low temperatures and high consumption of electricity.



Major strain

Norway's power system is 100 per cent weather-dependent, both as a source of power and in terms of exposure.



Fault identification

When faults occur it is important to identify and correct the fault as soon as possible without compromising safety.

Defining the need for electricity

The amount of electricity that will be generated today is determined on the basis of yesterday's trading on the Nordic power exchange Nord Pool Spot. However, it is still common for imbalances to occur between electricity generation and consumption. In Norway, consumption is greatly influenced by outdoor temperatures. Fluctuations in temperature are therefore the most important source of uncertainty.

Statnett and the Swedish national grid company, Svenska Kraftnät, are responsible for correcting the total imbalance throughout the Nordic region. To do so, 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 at all times of the day

The electricity system operates within physical limits which determine how much electricity a power line can take. Statnett operates one national dispatch centre and three regional dispatch centres to monitor and regulate the flow of electricity in the power lines. Moreover, the centres assess the risk and ensure that the electricity reaches the consumers during planned outages, faults or if a bottleneck occurs due to particularly high electricity consumption.

Statnett operates on the principle that there should as a rule be at least two paths into an area. This provides an alternative path if problems arise on a power line. Statnett's power line grid has been built to withstand great strains. The most exposed power lines and pylons are dimensioned to withstand wind speeds of up to 50 metres per second or more – i.e. hurricane force winds.

When faults occur

In the event that a power line or pylon should break down, safety mechanisms will ensure that these are disconnected to prevent personal injury or damage to equipment. Should such an incident occur, the regional dispatch centres and the national dispatch centre need to use alternative paths for the electricity.

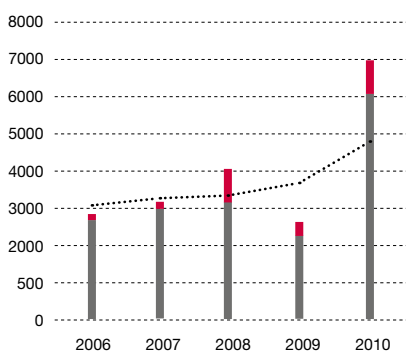
At the same time, Statnett's field personnel will locate the fault, examine the location where the fault arose and determine what has to be done to get the line up and running again. It usually takes one to three days to repair a fault.

From company to communities

Statnett is Norway's Transmission System Operator and as such has the 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 the consumers.

Operating revenue

Operating revenue development from regulated operations and congestion revenues versus permitted revenue



Statnett's mission

Statnett SF is the Transmission System Operator in the Norwegian energy system". As System Operator, Statnett is responsible for ensuring that there is an instantaneous balance at all times between production and consumption of electric power in Norway.

Statnett is responsible for ensuring efficient operations in a social economy perspective and for developing the main power grid. Statnett SF shall, alone or in partnership with others, plan and design, build, own and operate transmission facilities.

We have defined our mission as follows

Statnett will build the next-generation main grid to maintain security of supply, contribute to value creation and pave the way for better environmental solutions.

Energy authorities

Statnett SF is owned by the Norwegian State represented by the Ministry of Petroleum and Energy (MPE). The MPE is responsible for facilitating a co-ordinated and integrated energy policy. The Norwegian Water Resources and Energy Directorate (NVE) is the directorate responsible for managing Norway's water resources and hydro energy, and is the licensing authority for Statnett.

Statnett's revenues

Statnett's operating revenues mainly derive from grid tariffs and congestion revenues. Congestion revenues arise when electricity is transmitted from areas with low electricity prices to areas with high electricity prices in the Nordic countries and between Norway and the Netherlands.

Each year the NVE sets an upper limit, or cap, for Statnett's permitted revenue. This item corresponds to Statnett's revenue ceiling as well as revenue ceiling supplements in the year in question. Statnett is responsible for setting the annual tariffs which, together with congestion revenues, will equal Statnett's permitted revenue over time. This means that when congestion revenues are high, Statnett will stipulate lower grid tariffs.

A discrepancy arises annually between Statnett's actual operating revenues from the regulated operations and Statnett's permitted revenue. The discrepancy is often caused by variations in the congestion revenues, and is referred to as higher or lower revenue. Pursuant to NVE's regulations, any surplus in revenues must be returned to the customers in the form of lower prices in subsequent years. Correspondingly, lower revenues can be recouped by charging higher prices in subsequent years.

Grid operations:

Statnett's core responsibility is to coordinate and ensure that there is an instantaneous balance between generation and consumption. Furthermore, Statnett will maintain and develop the Norwegian national power grid. This entails major development projects to ensure a stable and secure electricity supply covering future needs for the whole country. Statnett is also building connections to electricity grids in other countries.

Main Grid Commercial Agreement:

Statnett is the owner and operator of the Norwegian main grid. The Main

Grid Commercial Agreement had approximately 65 customers in 2010 comprising electricity producers, industrial companies and regional power companies. Statnett is responsible for establishing the grid tariffs (tariff structure) and the annual tariffs (tariff rates). The Main Grid Commercial Agreement also receives trading revenues from its international grid connections. The Main Grid Commercial Agreement is separate from Statnett's other activities.

Balance accounting:

Statnett is responsible for ensuring that imbalances between planned and actual electricity generation

and consumption are equalised and balanced for each player in the electricity market. Discrepancies are calculated on an hourly basis according to the prices in the spot and regulating power market.

Other duties:

Acting on behalf of the Norwegian authorities, Statnett is responsible for Ediel, an international standard for electronic exchange of trading information in the power industry. Moreover, Statnett is responsible for issuing guarantees of origin to Norwegian electricity producers, and from 2011, the enterprise is responsible for issuing green certificates.



Some people
must be on
the starting
line every day.

Our operations

New distances. New
races. But the same task.
Balancing power and
energy consumption.



**“When undesirable incidents do occur,
it is important to take the appropriate
steps and have a can-do attitude.”**

Øivind Rue / Executive Vice President, Operation Division

Name: Øivind Rue

Responsibility: Operations

Objective: Stable electricity supply - 24/7

Background

The Norwegian power supply situation has been the tightest on record in recent years due to record-low reservoir levels, record-breaking consumption and extreme weather conditions. But due to sound operations, monitoring and high-level preparedness, continuous power supply is secured for the country.

“The Norwegian power system has never before been so strained. At the same time, there is an increased risk that faults will cause power outages for the consumers. So far we have managed to handle this. But we’re long overdue for a significant strengthening of the Norwegian national grid,” says Øivind Rue, Executive Vice President, Operation Division.

Nationwide

The Operation Division has two main tasks. One is system operations, or the continuous coordination of the entire energy system, balancing supply and demand every single second of every day. Statnett is the regulatory authority and acts on behalf of the Norwegian state in handling the system operations. The second task is related to the continuous operation and maintenance of all of Statnett’s facilities. This responsibility also includes correcting any faults if necessary. This means the division is responsible for the overall preparedness responsibility for the company. The Operation Division is the largest unit in Statnett by far, with 450 full-time equivalents all over Norway.

Weather dependent

The Operation Division has faced many great challenges in recent years. “Our power system is completely weather dependent. This has characterised the power situation in the past 18 months. We’ve had two very cold winters in a row, with very high consumption. We’ve broken all consumption records, hourly, daily and monthly. The 2010/2011 winter season has been characterised by record-low reservoir levels across the country. In a number of places the system is running with very narrow margins. In terms of exposure, we’ve never experienced this sort of situation,” Rue says. Energy imports have also reached record levels. “In this situation it is very good to see that the flow of electricity through the system, including cross-border flow, functions as intended. We’ve been able to handle the consumption records during the 2010/2011 winter season,” Rue says.

Strong culture

The strained power situation has also increased the criticality of plant malfunctions significantly. “We now depend on the power system working and that we don’t experience any major faults. But when we do have an undesirable incident, it’s all about our own ability to quickly handle the situation, repair malfunctions and get the facilities up and running again as quick as we can. There’s a massive can-do attitude throughout the organisation. We’ve had employees doing repairs in 15 to 20 degrees below zero and in near gale conditions. There’s a strong culture in first line operation, to step up to the plate when needed,” Rue says.

Monitoring

The Operation Division also comprises a national dispatch centre and three regional dispatches, with round the clock staffing and monitoring of the power system. The dispatches carry out balancing of demand and supply and connections when necessary.

“Statnett is at its finest when the power system presents us with major challenges. The Operation Department sees clearly where the grid is at its most vulnerable, while Facility Operations work actively to maintain and repair lines and transformer stations. The integration of system monitoring and facility operations helps us focus on the regions and facilities that are the most demanding,” Rue says.

The national dispatch centres in Norway and Sweden are responsible for, and handle, the balancing of supply and demand in the Nordic energy system. Close and good interaction between Statnett and Sweden's Svenska Kraftnät is therefore vital for the Nordic system.

Wake up call

Rue believes the two past winters should be a wake up call for us all. "Our vulnerability in connection with the electricity supply is both very real and a mental one. We've had consumption outages both in the north and south due to extensive faults. The consumers in the regions believe that outages of one to two hours are unacceptable. Many people perhaps take the energy supply for granted. But we can't. Necessary investments must be made if we are to maintain the quality of supply that we're used to. However, we do see that those who are responsible for civil protection in the municipalities and counties are getting more involved, for instance by preparing risk and vulnerability analyses. This is necessary and very good," Rue says.

Alternative measures

The operational responsibility also entails influencing consumption in the short-term and having sound replacement measures on the supply side which can be implemented immediately.

The country is now divided into five market and pricing areas for spot trading, which will stimulate the most efficient use of the resources and safe operations. This division has been defined in part by physical limitations to the grid, as well as the energy situation in each region.

"With the current grid and energy situation, it is simply not possible to have one market area, as many people have called for. We want fewer spot areas than we have now, and we will achieve this by reinforcing the grid. But given the current energy situation, we need these five market areas to ensure safe operations."

Statnett has developed a number of measures to handle highly strained power situations with a high risk of rationing. One example is so-called energy operations. This means that Statnett buys out of a supply obligation, at an agreed price. However, this requires approval from the Norwegian Water Resources and Energy Directorate (NVE). The scheme contributes to reducing consumption during a possible critical power situation with a high risk of rationing.

The back-up power plants in central Norway are also part of the preparedness scheme. The idea is that these plants will be used during years with extremely strained power situations. One of the natural gas power plants can then be put into operation at four hours' notice, and the other within 72 hours. So far it has not been necessary to put the power plants into operation.

Long term solution: Renovation and reinforcement

These measures slightly improve Statnett's ability to handle a possible supply crisis.

"In the long-term, the solution is a significant renovation and reinforcement of the Norwegian national grid. The Operation Division will continue to focus on safe and efficient operations and maintenance, continuous monitoring and high level preparedness. Furthermore, we will maintain and further develop our strong organisational culture," Rue says.

Highlights

#2

Low reservoir levels – high imports in 2010

On 16 March 2011, Statnett reported that the power situation in all of Southern Norway was considered strained. This came after Statnett in December had warned of a deteriorating situation.

At the end of 2010, water levels in the reservoirs were 24 per cent below those in the same period of an average year. Water levels in Norwegian reservoirs were already low at the onset of winter as a result of a year with little precipitation, high consumption and a shortage of Swedish nuclear power. A prolonged period of unusually low inflow combined with high consumption, contributed to further deterioration of the situation in 2010. This made the Nordic region in general, and large parts of Norway in particular, dependent on power imports.

To handle the situation, Norway was divided into five price areas in 2010; South western Norway and parts of Western Norway were added to the three market areas, South eastern Norway, Central Norway and Northern Norway.

#1

New consumption record

On 6 January 2010, a new Norwegian consumption record was set with 23 969 MW, or 24 million kilowatts, almost 1 000 MW more than the previous record from 2001.

The high consumption was mainly caused by an increased need for heating during the cold weather. But other factors also contributed. In early winter 2009/2010, consumer electricity prices were fairly low. Although the wholesale electricity market, NordPool Spot, registered high prices for some hours of the day, this was a pricing signal that reached only a small part of consumption. At the same time, it appeared as if people were shaking off the economic worries of the financial crisis, which contributed to an increase in consumption.

This also applied to consumption in power intensive industry. In the period from August 2009 to January 2010, this sector's consumption increased by 500 MW. The sector's consumption remained fairly stable throughout 2010.

#3

Statnett repaired fault on the NordNed cable

On Friday 29 January 2010, a fault occurred in the NordNed cable between Norway and the Netherlands. The fault was located 70 kilometres off the Dutch coast.

The extensive repairs were headed by Statnett on commission from the Dutch system operator TenneT, who owns the section of the cable where the error occurred. Statnett's work took five weeks and shows that the company has unique expertise in handling and repairing such connections.

The operation included locating the fault, digging up the section, lifting and removing the faulty section and replacing the cable. The cable was then returned to the seabed, covered and tested before being reconnected.

The NordNed cable was down until 27 April.



“One important lesson we have learned is to take an open and broad approach before making any conceptual choices.”

Gunnar Løvås / Executive Vice President of Strategy and Public Affairs

Name: Gunnar Løvås

Responsibility: Strategy and Public Affairs

Objective: Future-oriented energy solutions – through an open dialogue

Background

The most important driving forces for developing the next generation main grid are security of supply and climate considerations. Through an open dialogue, we will arrive at the best solutions.

Gunnar G. Løvås is Executive Vice President of Strategy and Public Affairs at Statnett. Among other responsibilities, Løvås manages the company's long-term perspectives. His division is responsible for both describing what the next generation main grid should look like, and ensuring that it is implemented. How the company should act in relation to the public and interested parties affected by Statnett's activities, is also an integrated part of our responsibility.

"We don't just have a responsibility for predicting the future. We shape it too. In the time ahead we will probably place even more emphasis on how we can shape the energy supply of the future, bring forth knowledge and policy terms for other players' behaviour and for investment decisions," says Løvås, underlining that Statnett will take a broad approach.

"In Statnett we will also consider energy economising, district heating, electric cars, etc. which are significant for our energy development. Through our role as leader of the National Smart Grid Centre, we are also looking into new and smarter management systems. The answer doesn't necessarily have to be new power lines in all contexts. We will do our best on behalf of AS Norway to make sure the best projects are realised."

Driving forces

In order to be able to plan for the future, insight into driving forces behind energy development is necessary.

"We are facing great challenges in the Nordic power system in connection with focus on renewable energy. Another important driving force is increased expectations in Norwegian society as regards security of supply. We see a dependency, where most of society would grind to a halt if power was cut. A third driving force is that Norwegian infrastructure is old; many of our cables and plants were built in the 1950s and 60s. As and when upgrades are necessary, it will also be sensible to build in an innovative and future-oriented way," says Løvås, underlining that the cold winters and consumption records of the last couple of years have made investment needs even more visible.

Security of supply

In December of 2010, Statnett adopted specific plans to ensure security of supply in the main grid. In principle, there will now be an alternative supply route into/out of a region in the main grid. If problems occur on one power line, Statnett will still be able to deliver power via another connection.

The principle has been established not least because a number of community functions such as the police, safety, radio, payment systems, etc. are very vulnerable should the main grid fail.

"With a clear principle such as this, it will be easier to communicate the needs and make the driving forces behind a development project clear," says Løvås.

The development projects in Central Norway, Bergen and North Norway will all be clearly founded on the principle of alternative supply routes.

Focus on climate

"In addition to security of supply, our priority is to facilitate development of renewables in the most efficient and sensible way possible. Facilitating increased capacity abroad is also a natural consequence of our focus on renewables," says Løvås.

This is both about focussing on wind power and small hydro-electric power stations in Norway and Sweden in the aftermath of the green certificate scheme. And it's about Europe.

"In Europe, there are ambitions of a complete revamp of the energy system. This rubs off on us in the Nordic countries, both with regard to prices and power flow. At the same time, much of the renewable power in Europe, such as wind and solar power, is difficult to regulate. This means the regulating ability of Norwegian hydropower is even more valuable and sought after," says Løvås, underlining that power trading is socially profitable.

"Power trading, like other forms of trade, creates value by letting us buy things cheaper or sell at higher prices than we would be able to do otherwise. Moreover, it is beneficial for our own security. Power trading is expected to be highly profitable for Norway. All revenue goes into the community and will contribute to reducing grid tariffs in future."

Project management

Statnett must plan for both the short and long term, and will need various management tools along the way. The Grid Development Plan, published annually, describes our vision for the future. Through the Project Portfolio Plan, Statnett keeps an overview of all specific projects for the next few years. The strategy department manages the portfolio, and ensures that projects are implemented in the correct order.

Statnett has also made a decision to apply a methodology for choice of concept.

"It will be clearer when a case goes from being a sketch to a choice of concept. We will look into all aspects before making our final choice of concept. Recent discussions about projects such as Hardanger have also shown this to be sensible. This will help us understand the broader aspects of any problems and help us find alternative solutions," says Løvås, also telling us that the company to a greater degree is developing a comprehensive plan for a region early on.

As an example we have started work on a master plan for the Oslo and Akershus region. The plan will look at energy needs in the Oslo region, based on different scenarios of population and industry growth towards 2050.

Open dialogue

In general, dialogue with local communities has presented Statnett with many challenges over the past few years.

"We have learned a lot, for better or worse. An important lesson is that before starting a project, we need to improve local foundations through close cooperation with regional grid companies and local authorities. This is already well underway several places in Norway. We want to place more emphasis on an early-phase dialogue, before we adopt concrete solutions. A dialogue based on mutual trust can give us valuable contributions. An open and early dialogue with affected parties will contribute to the next generation main grid being realised both better and faster," Løvås says.

Highlights

#2

The Grid Development Plan: NOK 40 billion investment need

The Grid Development Plan is Statnett's most important planning tool for how the main grid will develop in coming years.

The 2010 Grid Development Plan identifies a NOK 40 billion investment need to develop and upgrade the Norwegian grid leading up to 2020. The plans include extensive investment across the country. Statnett's analyses and assessments show that investments on this scale are vital to maintain the security of supply at the level required by a modern society, secure future creation of value in all of Norway, facilitate new renewable energy initiatives and reduce variations in electricity prices.

In order to meet an increasing need for grid capacity, the Grid Development Plan points to a major need for greenfields or upgrade the current grid from 300 kV to 420 kV.

#1

New project model implemented

As a result of the company's extensive development plans, Statnett has implemented a new project model. The project model includes establishing a model with a defined decision-making process and common terms, requirements for organising project ownership and requirements for quality assurance of the basis for decisions.

The project model provides clear definitions of the project in phases and decision milestones that must be reached. In the initial phases of a project, the model will be a tool to ensure the continuation of the project. In later phases, the model will ensure that the project is implemented correctly. The model entails a clear requirement for the decision-making basis and quality assurance activities for each decision milestone. In addition, it provides the foundation to adjust both focus and competence/resources to the challenges and risks of the specific project.

The decision gates of the model are: initiation of project, main concept selection, principal investment decision and confirmed investment decision.

#3

Security of supply demands more specific

In 2010, Statnett's Board of Directors decided to specify the demands for security of supply further. According to the new requirements, as a main principle, the entire power system has to be operated and planned based on the N-1 criterion. The maximum permitted consumption outage due to a single fault is now 200 MW, with duration of maximum one hour. The transformer capacity must be dimensioned so that there is an immediate reserve should the supply for consumption be above 200 MW.

These new guidelines also establish requirements for available redundant transformers in the system. Transformers identified as critical to the power supply must be replaced no later than four weeks after a breakdown.



“Statnett will develop the next generation main grid without injuries to personnel and with respect for the environment.”

Håkon Borgen / Executive Vice President Projects Division

Name: Håkon Borgen

Responsibility: Projects Division

Objective: Targeted development – focused on health, safety and the environment.

Background

Statnett is facing the largest grid development on record in coming years, with activities increasing significantly. The development will take place without compromising considerations for health, safety and the environment.

About NOK 40 billion will be invested in the Norwegian main grid and international transmission cables in the coming decade. While Statnett for the past decade has primarily been in an operations phase, the company is now on the verge of a major grid development with a scope of up to 200 to 300 kilometres of new power lines with associated transformer stations annually. This development will take place as the main grid is operated without any undesirable interruptions for the company's customers.

"This equals a significant increase of our development activities, and will require great organisation, resources and will be challenging in terms of expertise," says Håkon Borgen, Executive Vice President of the Projects Division. "Our objective is to carry out the major investment projects and to develop the next generation main grid safely and efficiently. It is vital that we maintain high HSE standards, and that we execute our projects with great respect for our surroundings," Borgen says.

The responsibility of the Projects Division

While the Operations Division is responsible for the daily operations and monitoring of tasks, and Statnett's Strategy Division handles long-term plans, it is the task of the Projects Division to ensure that the prioritised projects are developed and realised. In short, this implementation responsibility involves ensuring that the project delivers on HSE, budget, deadlines and quality both before and after a decision to invest has been made. This includes engineering, contract signing, follow-up of HSE, project management and follow-up of suppliers all that way until the project is handed over to the Operations Division.

Activity-level increased fivefold

The main grid now comprises some 10 000 kilometres of power lines and about 140 transformer stations. The development plans include the construction and redevelopment of between 3 000 and 4 000 kilometres of lines and about 60 transformer stations. At the same time, the plans include upgrading the grid from 300 kV to 420 kV. The running annual project portfolio has exceeded NOK 2 billion, and will increase to NOK 3 billion in 2011. And then to NOK 5 billion annually.

Major projects

One of the projects in the portfolio is the development of the 90-kilometre Sima-Samnanger line. The work on the line will now continue and is scheduled for completion in 2012. Ørskog-Fardal is another major project which includes six stations and 285 kilometres of power lines across two counties and 15 municipalities. The goal is completion in 2015. In Northern Norway, Ofoten-Balsfjord-Hammerfest is a major project, stretching more than 500 kilometres. Southern Norway will also see a lot of construction activity, including from Kristiansand to Porsgrunn.

The Projects Division is also responsible for implementing cable projects once commercial agreements have been reached. The division is now busy building a fourth subsea cable to Denmark, which, is scheduled to become operational in 2014.

Organisation

"The project portfolio has grown so much that good systems must be in place. It's about people, expertise and about organisation" Borgen says.

In order to achieve this, Statnett has found it necessary to increase both capacity and

flexibility, both in its own organisation and with the supplier. The most important measures have been standardisation of processes, establishing a new project model, a separate project academy and changes to the organisation of the company's contracts where more work is being outsourced to the suppliers.

Supplier development

The Projects Division has in recent years increased its staff from 100 to 150 employees, but the tasks have grown even more.

"It's not that Statnett will do everything. We will to a greater degree outsource tasks to suppliers as larger projects, and at the same time facilitate the development of a regional supplier industry in Norway. We also want a close cooperation with the regional grid companies," Borgen says.

The standardisation of work processes is another aspect suppliers need to take into consideration. Statnett wants to establish turn key (EPC) contracts where this is practical.

"This requires some changes, not just with us, but also within the supplier companies. This makes it very important that we provide proper follow-up, through good dialogue, sharing of expertise and efficient project management," says Borgen.

Strong core expertise

The Projects Division is, according to Borgen, well-equipped to take on the major development projects. The project aspect has strong expertise both within project and construction management. Statnett also has large professional environments within engineering and licensing, as well as strong technical competence in terms of power lines, transformer stations and cable technology. Statnett's specialists have many years' experience within engineering and construction under extreme weather conditions, where climate, wind and ice create extreme strain on both equipment and personnel. Statnett's cable competence is also unique, after playing key roles in a number of major cable projects, including the development of the world's longest subsea cable between Norway and the Netherlands.

Safety

One point Håkon Borgen keeps emphasising is HSE.

"Our goal in everything we do is zero injuries to personnel. For instance, we use a lot of helicopters, which can be risky. Equally important is what goes on with our suppliers and sub-contractors. We report and assess all incidents. It makes no difference whether the incident is with us or one of our sub-contractors. High ethical standards and respect for our surroundings is what will characterise our projects. Unconditionally," Borgen says.

Highlights

#2

Upgraded line between Central Norway and Sweden

On 29 March 2010, the joint venture between Svenska Kraftnätt and Statnett to upgrade the cross-border connection between Nea and Järpstrømmen was completed.

On 27 January 2010, it was 50 years to the day since power was first transmitted between Norway and Sweden. The 3rd of June 2010, Statnett held another official opening in Tydal to mark that the cross-border connection between Nea and Järpstrømmen had been upgraded from 300 kV to 420 kV.

The power deficit in Central Norway is 8 TWh in a normal year. For this reason, the Nea – Järpstrømmen line is very important to Central Norway. The completion of the line means that Statnett now has an import capacity of between 800 and 1 200 MW on this line. The increased import capacity has linked Central Norway even closer to the Swedish market and improved the supply situation for the area.

#1

New Skagerrak connection between Norway and Denmark

In 2010, Statnett and Energinet.dk decided to invest in a new direct current interconnector, Skagerrak 4, between Norway and Denmark. The cable will improve security of supply, facilitate more renewable energy and create value in Norway and Denmark. The connection is scheduled for completion in 2014.

The Skagerrak 4 connection will be beneficial for Norway due to the combination of Norwegian hydropower and Danish wind and thermal power. In Denmark's case, a new cable to Norway is important in order to fulfil ambitious plans for the development of wind power. This development can only be realised with a good connection to neighbouring countries.

The Skagerrak 4 cable will be the fourth cable between Norway and Denmark, with a capacity of 700 MW. Skagerrak 4 also includes two substations; one in Kristiansand, Norway and one in Tjele, Denmark. Existing facilities on site will be expanded.

The connection will total 240 kilometres, of which 140 will be on the seabed. The total investment in the project will be NOK 3.5 billion.

#3

New project academy

Statnett has established a separate project academy to meet the challenges by further developing a professional and comprehensive project work method and project ownership.

The project academy covers the most important areas that project managers and employees must master, from procurement to contract management, as well as HSE management in the project and practical project management. It also covers the project owners' responsibility and authority, as well as professionalism of work in project management. Each module of the study will provide increased insight into a consistent and efficient framework for project management and professional expertise which will be used in a professional setting. Both managers and less experienced project resources participate and contribute with useful transfer of experience.

The modules will provide a total of 30 study credits and it will be possible to continue to do a Master's degree.



**“The value of flexible Norwegian hydro-
power for Europe must be safeguarded.”**

Bente Hagem / Executive Vice President, Commercial Division

Name: Bente Hagem

Responsibility: Commercial Division

Objective: Efficient markets – in Norway and internationally

Background

The European energy markets are constantly brought closer together. This increases Norwegian value creation, and for European main grid companies it may mean major savings in infrastructure.

Bente Hagem is Statnett's Executive Vice President in charge of the Commercial Division. This division is responsible for customer relations and commercial issues related to the energy markets in Norway and Europe. The division is also responsible for negotiations concerning cable connections to other countries, and it looks after Norway's and Statnett's interests in organising the European energy markets. Statnett's cable project to Germany and England is under commercial development. The division is also responsible for efficient settlements in the wholesale market and invoicing of our grid customers.

Major gains through the right use of resources

The European agenda is a busy one these days. European decision-making processes are complicated, not least when in the field of energy. During the negotiations to link up the energy markets in northwestern Europe, 10 authorities, 10 regulators, 14 main grid companies and four power exchanges were involved.

"There will be many different opinions in this area, so reaching common standpoints is demanding. However, the Nordic model still serves as an example in the development of a European market design," says Bente Hagem. "What is good is that on the Continent they think they created the models themselves. That means we have succeeded in our work."

The power markets in the Nordic countries and northwestern Europe were linked up in January 2011, creating the world's biggest multinational power market of 1 800 TWh. It currently comprises all power exchange between the Nordic countries, Germany, France, Belgium, the Netherlands, and Estonia, and will shortly include Great Britain and the other Baltic countries.

The right price signals and reduced investments

One major advantage of a multinational power market is that market participants receive the right price signals and can use their resources better in power generation, while their need to invest in infrastructure will be reduced. An even higher quality price coupling will be put in place in 2012, which can be exported and used throughout Europe. A price coupling means that a server located somewhere in Europe calculates prices and exchanges between different countries in one simultaneous calculation.

"As well as reduced investment needs and a better flow of electricity, less resources will be used for power generation. Cheapest production will be given priority, and there will be less pollution and CO₂ emission," says Hagem. The power exchanges play an important part in a common power market, and Hagem believes the power exchanges' market share will rise steeply. Nord Pool Spot currently has a market share of 74 per cent of the trade.

In many ways, the Nordic power market and now also the northwestern European market, serve as examples and pilots for the development in the EU. EU developments are taking place in stages, most recently with a new electricity market package in March 2011. And Statnett follows up, not least through its new office in Brussels.

"Many countries would like a connection to Norway and thereby gain access to Norwegian flexible hydropower. We want a sensible evaluation, and this will in the final analysis be a matter for negotiations. It is important, though, that someone is keeping an eye on what is happening and makes sure the European energy regulations are prepared in a way that safeguards the

value of Norwegian hydropower. Even though we are outside the EU, we are closely involved in the processes and take an active part in ENTSO-E, the common network for main grid companies in Europe," Hagem says.

Satisfied customers

In the Norwegian energy market, the commercial division is responsible for customer settlements, including approximately NOK 8 billion in annual grid tariffs and weekly settlements in the wholesale power market. The division is also responsible for customer relations in Statnett, including 65 main grid customers, power producers, energy-intensive industries and regular grid companies.

"Even though Statnett has a monopoly, it's important that customers are satisfied. It strengthens our reputation and people's faith in what we do," says Hagem, adding that a new CRM system enables Statnett to deliver better services to the company's customers.

The latest customer survey showed customer satisfaction to be at 64 per cent in 2010, while the target is 75 per cent by 2015.

The Norwegian market

Hagem's division has the overall responsibility for market design of the Norwegian energy market, i.e. how spot markets, intraday markets and reserve power markets should be organised. Hagem is also Chair of the board of Nord Pool Spot, of which Statnett holds a 30 per cent ownership share.

"A spot market is a very important tool for a main grid company. Through an open and transparent spot market, we ensure right prices in the market. We will continue to be active owners in Nord Pool Spot, which is developing into a northern European energy exchange, in line with other market developments," says Hagem.

There is also continuous focus on energy prices in Norway, and on what significance the organisation of markets has for price trends. A public investigation committee, the Bye Committee, has recommended that the market should be organised using node pricing, which will entail 200 nodes or market areas compared with the five used today. Statnett is of the opinion that a limited number of market areas is the correct option. "The challenges of node pricing would be great just in terms of the market, both internally in Norway and in relation to the fact that we now have a European market," says Hagem.

Paying for connection

An area Statnett is still working on, is establishing investment contributions throughout the grid. This entails that large wind farms, international cables to the Norwegian mainland or the petroleum industry, which is to be electrified, must pay to connect to the Norwegian power grid.

"We have a significant focus on renewables and electrification in the North ahead of us, associated with the Snøhvit 2 and Goliat developments. We need clarification of regulations. The players need predictable framework conditions," Hagem says.

The recurring theme in Bente Hagem's tasks is in other words clear: Contributing to efficient energy markets and correct use of resources, both in Norway and Europe.

Highlights

#2

Market coupling in Northwest Europe

On 12 January 2011, another major step towards a common European power market was taken as the Norwegian and Dutch power markets were connected. This connects the Nordic countries, Germany, France, Belgium, the Netherlands as well as the Baltic countries (1 800 TWh).

Establishing this solution has been time-consuming and difficult to achieve, and demonstrates that the complexity of international projects in the sector must not be underestimated.

The solution will ensure the correct flow of power, from low-price areas to high-price areas and will provide better utilisation of the infrastructure. The solution will promote more optimal use of resources in European energy generation. The cheapest generation will be prioritised, which will result in less pollution and CO₂ emissions.

#1

More connections to the Continent planned

Statnett is planning to launch several cable projects to continental Europe by 2010. The cables will give Norway access to power in situations with low reservoir levels contribute to more renewable energy in the Nordic region as well as create value for Norwegian society in general.

In 2010, Statnett decided to invest in a fourth connection between Norway and Denmark. The project is scheduled for completion in 2014 and will increase transmission capacity to 1 700 MW. In addition, Statnett is planning a new connection to Sweden. According to the plan, the 1 400 MW connection will be completed in 2017, and is vital for the facilitation of more renewable power generation in the Nordic region.

From the Continent there are plans for two projects to Germany (NORD.LINK and NorGer), both with 1 400 MW. NORD.LINK will be a regulated cable, while NorGer also will have commercial partners as owners. Statnett owns 50 per cent of NorGer. The licence application for the projects to Germany was submitted to the Norwegian Water Resources and Energy Directorate (NVE) in 2010. There are also plans for an additional cable to the Netherlands, as well as a 1 400 MW connection to the UK (North Sea Network), carried out in partnership with the UK's National Grid.

#3

Acquisition of main grid facility from Hafslund

In 2010, Statnett entered into an agreement with Hafslund to acquire a main grid facility with affiliated property in Oslo. The framework of the agreement is NOK 331 million.

The agreement includes the acquisition of main grid in the Smestad, Sogn, Ulven and Furuset station – with affiliated property. These facilities are hubs in the electricity supply for Oslo.

As Transmission System Operator, Statnett has conducted analyses of the supply situation in Eastern Norway. The analysis shows that in the long-term there will be a need for investments in the main grid in the region. Statnett's acquisition of all main grid stations in the Oslo area from Hafslund will improve Statnett's position to carry out investments in the area.

Statnett now owns almost 100 per cent of the main grid.



Some people –
no, everybody,
must think
in terms of
sustainability.

Corporate Social Responsibility

Hard, milky white ice provides good support for major efforts. The natural water cycle supports ambitious climate objectives.

Corporate Social Responsibility

Background

Corporate social responsibility (CSR) in Statnett entails integration of social and environmental considerations in the company's day-to-day operations and vis-à-vis our stakeholders. As a result of its operations, the company has considerable corporate social responsibility and therefore also considers CSR as an integral part of the company's fundamental values. CSR is embedded in the company's continuous corporate governance and anchored in the enterprise's management and organisation.

Statnett's corporate social responsibility reporting

What is corporate social responsibility in Statnett?

Corporate social responsibility in Statnett is all about understanding the expectations of the community, and handling these expectations in a manner which generates mutual respect.

By doing so, CSR in Statnett will deliver performance excellence and capacity which will ensure that we meet our main objectives.

Corporate social responsibility is also an integrated part of our fundamental values. Our fundamental values form the very core of our management system and contain the tools we need to help us conduct our activities in the right way. The fundamental values lay the foundation for promoting a positive, responsible, and sound corporate culture of trust and cooperation at all levels.

The Norwegian government stipulates¹ that state-owned companies should integrate social and environmental considerations in their daily operations. In 2010, Statnett's Board of Directors decided to strengthen its focus on CSR. This is reflected in Statnett's strategy and main objectives and also in the enterprise's decision to report in accordance with the internationally recognised reporting framework Global Reporting Initiative (GRI).

By implementing these guidelines, we will be able to provide a general and balanced overview of how we exercise our corporate social responsibility in the enterprise's key areas. In the GRI table available on our website you will find information about the location of the individual indicators and to what extent these have been complied with.

If not otherwise specified, the CSR reporting covers all Statnett activities, including wholly-owned subsidiaries. Data is generally collected and collated with the aim of achieving as uniform and relevant a presentation

as possible. Although great emphasis is being placed on ensuring completeness and correctness, there may be uncertainties in relation to some of the data.

As a long-term objective, Statnett will ensure that the CSR reporting is verified by an independent third party and thus that the company is upgraded from GRI B to B+.

Dialogue with stakeholders

The company's relations with the outside world and the internal and external dialogue with our stakeholders are key elements of Statnett's perception of CSR. This is equally important with respect to employees, customers and suppliers; the authorities, trade associations and unions, special interest groups and the general public.

Statnett engages in dialogues with the company's stakeholders, both as part of our daily operations and in connection with specific activities and projects. Dialogues are comprehensive and take place at, for instance, regular meetings, during consultation processes relating to development projects and as reputation surveys. Overall, these dialogues provide important input.

However, Statnett has found that our dialogue with local communities could be strengthened in some areas. Consequently, we have already taken steps to improve this, both at a project and process level. Through early involvement and an open dialogue with local authorities, local businesses, property owners and special interest organisations, we will facilitate a better exchange of ideas, constructive discussions and forward-looking solutions for energy supply and social development. Through interaction with our customers, suppliers and partners on issues relating to safety and the environment, we will promote safety and the most environmentally friendly solutions possible in both a short-term and long-term perspective.

Security of supply

	Unit	2010	2009
Outages Statnett plant ¹	Number	1	0
Frequency deviation ²	Minutes	11 286	8231
Periods of unsatisfactory security of supply (N-0) ³	Hours	4368	not measured

1 Incidents of Energy Not Supplied (ENS) more than 2 hours or > 1000 MWh as a result of a fault in Statnett's facilities.

2 Standardised measuring conducted by Svenska Kraftnät, measured by sampling frequency per minute.

3 registered number of N-0 hours (period where there is only one barrier against power outages)

Corporate social responsibility organisation

State-owned companies should be at the forefront of corporate social responsibility! For Statnett, ensuring corporate social responsibility is a precondition for achieving high-impact initiatives, ability to deliver and sustainable value creation over time. The enterprise's fundamental governing principles help us meet the requirements and expectations of our owner, employees, customers, suppliers and others stakeholders. All employees are responsible for familiarising themselves with Statnett's management system and complying with the relevant requirements in their daily work.

At the very top of the management system are governing management policies adopted by the Board of Directors. These serve as guidelines for the entire enterprise. CSR constitutes an important part of Statnett's management policies. Statnett has established management policies for internal ethical guidelines, as well as ethical guidelines for our suppliers. CSR is also incorporated in our policy relating to Statnett's value base.

Function policies constitute level two of Statnett's management system. These are policies which establish Statnett's objectives, as well as roles and responsibilities relating to Statnett's function areas. In 2010, a separate function policy was adopted for CSR. The object of this policy is to specify which principles Statnett will apply as a basis for safeguarding the company's corporate social responsibility within the framework established for Statnett by the owner, legislator and society.

Level three of the management system provides more details about the various requirements in the form of procedures, instructions and guidelines. Statnett has prepared separate instructions for data acquisition for CSR reporting. The instructions provide definitions of various indicators and associated

data sources, as well as calculation methods.

The fourth level consists of a quality system. This provides a description of the requirements and cooperation between employees through work processes and associated supporting documentation. The quality system forms the basis for the certification of Statnett according to ISO 9001 (quality management) and ISO 14001 (environmental management).

Statnett and society

Security of supply

Statnett is responsible for ensuring a stable and secure supply of electricity. Through good maintenance, optimal repair contingency and significant investments in sufficient grid capacity, Statnett secures a stable supply of electricity and enables the development of renewable energy. In this way, Statnett contributes to the realisation of Norway's climate objectives.

In 2010, Statnett invested a total of NOK 1 892 million in grid developments. More details about major grid and power station investments are available on our website.

Statnett operates on the principle that there should be two alternatives for power supply into an area. This is referred to as N-1. Statnett measures unsatisfactory security of supply by registering periods with only one barrier against power outages in the national grid. The measurements show which areas are vulnerable and therefore which areas should be prioritised in future grid developments.

Preparedness

A key element of securing a stable supply of electricity is to have sound preparedness measures. This mainly involves preventing and handling extraordinary incidents. Stormy weather represents a particular challenge, but accident situations, technical faults and deliberate damage to property will also affect security of supply.

Global Reporting Initiative

The Global Reporting Initiative is a globally recognised reporting framework. The GRI vision is to make reporting of environmental and social performance as widespread as financial reporting.

Eco-Lighthouse

Eco-Lighthouse is a programme for environmental certification. The programme helps private and public businesses operate in a profitable yet environmentally friendly manner.

We have invested in resources to enable us to deal with various incidents which may arise, within operations as well as projects,

Three important measures have helped us achieve our goal of becoming as robust an organisation as possible: Firstly, we have formulated a special safety and preparedness policy which stipulates responsibilities and guidelines on how to establish efficient preparedness. Secondly, we have established a separate preparedness section which has technical responsibility for the company's preparedness operations. This section is responsible for ensuring efficient preparedness routines and guidelines in Statnett. Lastly, we have strengthened the operative preparedness in the individual units by hiring new employees and entering into supplier contracts.

Distribution of value created

Statnett's operations generate value creation both directly and indirectly. The direct value creation is presented in the company's accounts and is allocated to the owner, authorities, employees and lenders.

Indirectly, value creation is ensured through, for instance, the activities Statnett generates in other companies in the form of investments in infrastructure and purchasing of goods and services. In 2010, investments of NOK 1 892 million were made and goods and services were purchased totalling NOK 918 million to support the company's operative activities.

Procurement

Statnett sets requirements for safeguarding of corporate social responsibility in our procurement activities. These requirements are laid down in our process descriptions and procurement policy, as well as in our contracts. Furthermore, Statnett has established separate ethical guidelines for procurement both for our own organisation and our suppliers.

All purchases must comply with our pro-

urement policy. The central procurement unit is responsible for major purchases. In order to ensure an optimal procurement practice, Statnett employs Sellicha as part of its step 1 qualification system. This also ensures that the company's corporate social responsibility is fulfilled. In addition, a step 2 qualification system has been adopted for selected products.

The company's responsibilities inherent in its role as a Norwegian Eco-Lighthouse are reflected in the company's own procurement processes, as well as in our purchasing agreements. We expect our suppliers to comply with our ethical requirements and our health, safety and environment (HSE) requirements, and to address environmental concerns seriously.

Reputation, sponsorships and visibility

An important objective of Statnett's communication strategy is to become better known. One step in this connection is to make use of paid communication, including sponsoring as a measure to raise awareness of and impart knowledge about Statnett amongst the general public. Given Statnett's important role in power supply, and the enterprise's heavy investments in the national grid in the years to come, it is imperative that people know who we are and what we do. This is particularly important for recruitment purposes.

In 2010, Statnett invested NOK 2.6 million in direct contributions related to sponsoring activities. The largest share of the contributions went to the Norwegian Skating Association. Statnett will be their general sponsor until 2013.

Moreover, Statnett wants to make a positive contribution to local communities where we operate. We therefore encourage our employees to get involved in local sports and cultural activities. As an extra incentive, Statnett awards grants for local children's and young people's activities. All Statnett employees throughout Norway can apply for support of this kind. To be awarded funding, the

Value creation distribution

	Unit	2010	2009
Employees - wages and social benefits ¹	NOK mill	461	492
National and municipal taxes and fees ²	NOK mill	1 079	21
Lenders - interests	NOK mill	343	407
Owner - dividend ³	NOK mill	315	132
Company - Retained equity	NOK mill	2 010	-967

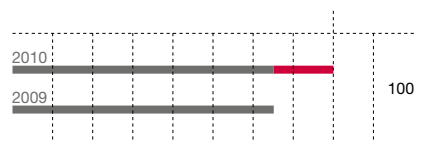
¹ Net wage costs excluding employer's contribution

² Tax charge, property tax and employer's contribution

³ Proposed dividend

Reputation and customer satisfaction

Reputation - Share of the Norwegian population who have confidence in Statnett providing a secure supply of electricity



65%
confidence in 2010



Toini Løvseth
policy manager at Finnjord
smelting plant.

From a user's point of view: More openness and dialogue

"It's important that Statnett recognises the industry as an ally. As large consumers we are positive to more market-based systems to benefit from the flexibility in the energy system," says Toini Løvseth, policy manager at Finnjord smelting plant.

Løvseth is also a representative of the Federation of Norwegian Industries' User Council, a consultative body where a number of user groups are represented. All cases to do with Statnett's role as policy manager are submitted to the User Council before being presented to the Board for discussion.

Security of supply

"Power is an intermediate good for energy-intensive industry, and a good, reliable, power supply is important. For this reason we support Statnett's perspectives on security of supply. At the same time, the industry must have grid tariffs we can live with. We advise against developing the grid more than necessary, as the industry risks having to foot the bill themselves," says Løvseth. There is an upper limit to how much the industry can pay for power and grid development.

Area pricing and tariff models are therefore common topics for discussion between Statnett and the industry.

"The industry welcomes more market-based systems for making use of the flexibility in the energy system. It's important that Statnett recognises the industry as an ally who can provide significant contributions to the flexibility in the power system, by adjusting consumption.

Openness and dialogue

On the whole, Løvseth believes Statnett is doing a good job.

"But they are facing quite a lot of challenges, which they are now doing something about. There have been tendencies to 'engineer thinking'; that what's right technically, is also right in a general sense. It seems as though they are gaining a better understanding of the importance of dialogues with consumers and the community around them. We're seeing a very positive change there, and I hope they continue in this direction. Openness, transparency and dialogue are therefore my most important advice to Statnett," Løvseth says.

employee must hold office or fulfil some other active role in the event or organisation concerned. Furthermore, the work must be organised in a team, an association or similar. The activity must have a clear, non-profit purpose.

A company's reputation is partly determined by how the outside world evaluates the company's quality on the basis of its products and services, and partly by an emotional dimension, i.e. to what extent one likes and has confidence in the company. Statnett is responsible for projects that have inspired intense public debate in recent years. This presents challenges with regard to the company's reputation. At the same time, it is important to evaluate the company's reputation in relation to the company's assignment. Taking these challenges into account, Statnett is pleased that two-thirds of the Norwegian population is confident that Statnett will provide a secure supply of electricity. Nevertheless, our objective is somewhat higher; 80 per cent. Customer satisfaction has in fact increased from 2009 to 2010. With regard to reputation and company profile, we also emphasise that Statnett has a very high employee satisfaction rate and is regarded as one of the best companies to work for in Norway (see Recruitment and Employee Development).

Innovation and R&D

Statnett is working in an innovative and future-oriented manner, extensively using research and development (R&D) as a tool for value-creation and innovation.

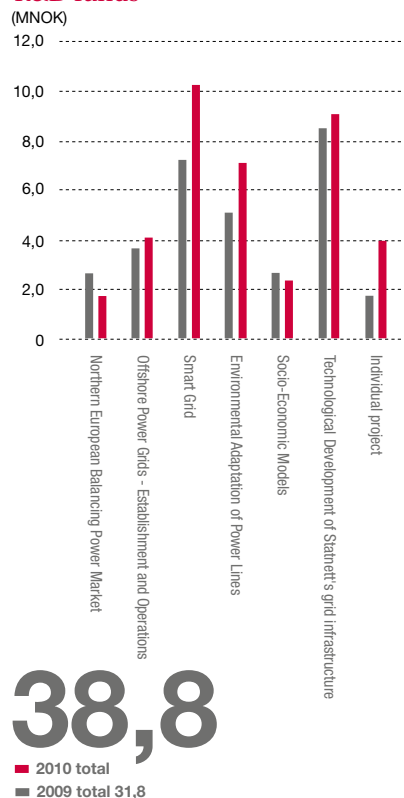
Four R&D programmes have been defined for the period 2009 – 2011:

- Northern European Market for Balancing Power
- Offshore Power Grids – Establishment and Operations
- Smart Grid
- Environmental Adaptation of Power Lines

In addition, Statnett has established two focus areas: Socio-economic models and technological development of Statnett's grid infrastructure. The R&D programmes and focus areas are important priority areas which will promote new knowledge and solutions and facilitate the integration of renewable energy. They will also help promote greater value creation and security of supply.

Statnett cooperates closely with external centres of expertise both in Norway and in other countries. Examples of such environments are other Transmission System Operators (TSOs), the supplier industry, ENTSO-E

R&D funds



“Applying Statnett's expertise to develop the energy sector constitutes a goal-oriented method of foreign aid.”

(European Network of Transmission System Operators for Electricity), the IEA's committees and the EU's R&D Framework Programme.

We also collaborate closely with teaching and research communities, both in Norway and internationally, including the Norwegian University of Science and Technology (NTNU), Imperial College in London, Alto University in Finland, the energy research company Sintef and the Swedish Transmission Research Institute (STRI). Universities and university colleges are important collaboration partners in terms of recruitment, access to expertise, research and development implementation. Moreover, it will contribute to Statnett's profiling and help make Statnett more visible to potential employees.

Statnett has contributed actively to the development of ENTSO-E's R&D plan. The plan will become an important R&D tool for transmission system operators in Europe. Statnett has also played a major role in the national strategy, Energi21, established in 2008. The results from Energi21 will form the basis of the national strategy for research, development, demonstration and commercialisation of energy solutions for the future. A number of task groups are now working to specify and draw up action plans for the strategy and adapt the recommendations in the various priority areas to the current market, technology, industry and expertise. Statnett is heading the efforts of the task group Energy Systems of the Future and will through this be able to impact the direction and content of Norwegian R&D energy solutions relating to future energy solutions.

Development aid

Statnett helps develop the expertise of system operator companies in countries such as Tanzania, Uganda and Nepal through long-term institutional cooperation. The projects extend over a period of up to five years.

The main objective of the projects is to increase expertise within the system operator

companies' core areas in the respective countries. Statnett applies its expertise to help improve the energy sector in developing countries. This constitutes a goal-oriented method of foreign aid which introduces specific improvement measures within areas such as planning, development and construction of the national grids in these countries. Furthermore, separate projects have been initiated (such as the Twinning project) which focus on promoting regional cooperation between Tanzania, Uganda and Kenya. The objective of this project is to pave the way for future power exchange collaboration.

Statnett believes that it is important to help improve the power supply in countries and areas we collaborate with, as experience has shown that securing a more stable power supply in developing countries is important for combating poverty, promoting industrial development and strengthening the role of women in particular.

Such projects also provide our own technical experts with exciting challenges and opportunities.

The projects are financed by the Norwegian Agency for Development Cooperation (Norad) and the Norwegian embassies in the respective, cooperating countries.

Electromagnetic fields

Statnett keeps continuously updated on research into any adverse health effects caused by electromagnetic fields from high-voltage power lines. Furthermore, the enterprise wishes to make its own contribution to increase our knowledge in this area.

In 2005, a work group appointed by the Norwegian Radiation Protection Authority published the report “Forvaltningsstrategi om magnetfelt og helse ved høyspentanlegg” (Management strategy on magnetic fields and health near high-voltage facilities). The report concluded the following:



Steinar Bygdås

Statnett's project manager for the Sima-Samnanger line

From the point of view of the project: Early dialogue is important

"We have an important task; that of safeguarding society's need for power. At the same time, it's important to have an understanding of the need for electricity and an earlier dialogue about good solutions," says Steinar Bygdås, project manager for Sima-Samnanger.

As project manager for a large construction project, Bygdås deals with many different people, from company management and project workers internally, to municipalities and counties, property owners and other stakeholders. In connection with the Hardanger case, Bygdås has also had to learn to live with the conflict surrounding the project. "This project has been much disputed. But it's also a privilege to be given the opportunity to work on such demanding and challenging tasks. When a project affects so many people, and there are so many strong opinions, it's important to find the right balance so that it all turns out well in the end. Of course, we don't always see eye to eye, but we've always managed to maintain an amicable atmosphere," says Bygdås.

Important lessons

Opposition to power lines is nothing new. But this time we had not anticipated the extent of the opposition. We have followed normal processes and regulations for such projects. We've also learned a lot. Having the support of our surroundings and those affected is extremely important," says Bygdås, who tells us that Statnett is already changing.

"We need to approach local communities at a much earlier stage of our planning, and communicate the needs clearly, but also ask for contributions. We would like broad involvement in an early phase. This makes the project better overall. It's important to ask local communities for suggestions, as they often see things more clearly." But the work on Sima-Samnanger is in no way over for Bygdås: "Now the case is finally decided, and the progress from here on is up to us alone."

"We have currently more knowledge about the situation than previously. The summary of extensive research has shown that there is a potential risk of developing leukaemia in children in cases where the magnetic field in the home is above 0.4 microtesla. However, the absolute risk is still considered to be very low."

The group recommends that a study is implemented when new houses or high-voltage facilities are constructed as a basis for assessing measures which may reduce magnetic fields. The assessment level has been set at 0.4 microtesla for potential measures and calculations to identify additional costs and other disadvantages. Please see the full report for more information about the group's work and conclusions.

The assessment requirements and guidelines comprise homes, schools and nursery schools where people spend much of their day. Holiday homes do not fall into this category.

If the average current intensity throughout the year results in a magnetic field of more than 0.4 microtesla in private homes, potential measures should be assessed to reduce the fields to levels below 0.4. However, this does not mean that measures must necessarily be implemented. Field levels, costs and potential health effects must be considered before

any compensatory measures are considered.

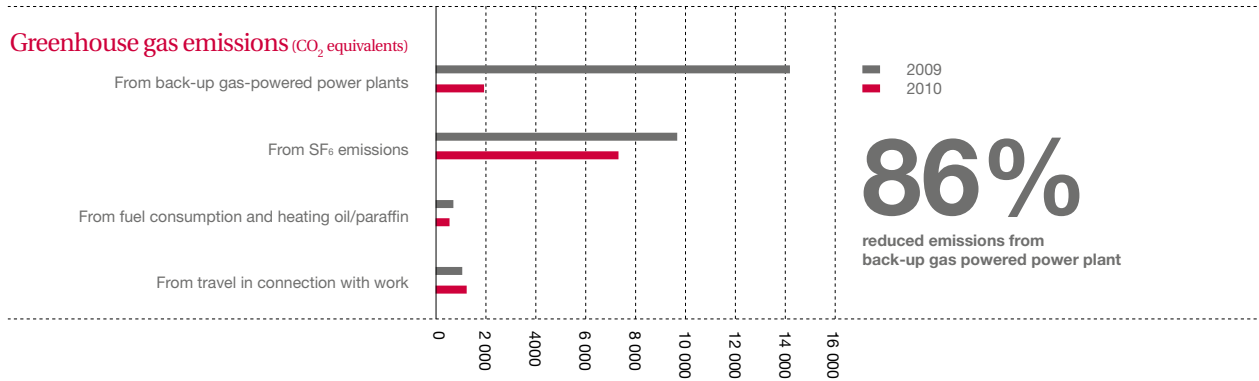
When planning new power lines, we aim to keep them at sufficient distance from residential housing to ensure that the average magnetic fields from the lines do not exceed 0.4 microtesla in residential buildings.

Stronger climate and environment focus

Climate and environmental considerations represent one of the three pillars of Statnett's strategy and an integral part of Statnett's Group strategy. Developing the main grid is an important tool for achieving the national climate goals by facilitating the phase-in of renewable energy. Respect for our natural environment is important during planning and operation of our facilities. Statnett operates in a way which ensures that the environmental impact of our operations is limited.

Environmental focus in R&D

Several of the R&D programmes launched by Statnett in 2009 focus on challenges relating to climate and the environment. The R&D programme "Environmental Adaptation of Power Lines" centres on the development



of new types of pylons that are adapted to the landscape and natural surroundings. The programme will also study what effects power lines have on flora and fauna. Two of the R&D programmes, Northern European Market for Balancing Power and Offshore Power Grids, also have a climate/environmental dimension, as has the R&D project related to Smart Grid.

The Smart Grid technology enables two-way communication between appliances and applications at, for instance, consumers' homes. The objective is to develop applications that will contribute to a cost-efficient and environmentally sound utilisation of the entire power system.

Environmental Management System

Statnett's Environmental Management System is certified in accordance with ISO 14001:2004. The Environmental Management System is part of the overall management system, and aims to identify the most important environmental aspects of our operations. Statnett is continually working to improve our environmental performance. Our head offices in Oslo and administrative offices in Alta and Sunndalsora have been certified as "Eco-Lighthouses". This means that activities conducted at these offices comply with defined requirements for environmental management and performance.

Statnett has established an HSE-policy which also comprises the external environment. The company has a zero tolerance policy. We conduct our operations in a manner which ensures that the health, safety and working environment of each individual employee is safeguarded.

Any environmental incidents that do occur are recorded and followed up in the Statnett deviation system. No serious environmental deviations were reported in 2010 relating to breach of environmental legislation or acute discharges.

In the spring of 2010, Statnett and the National Association of Norwegian Architects held a competition for designing the company's first sculpture pylon. The winner was announced in the autumn of 2010. Statnett is planning to construct the winning pylon ("the Wall of Mirrors") in Heia in Troms municipality as part of Statnett's scheduled 420 kV line between Ofoten and Balsfjord.

Work has started on the establishment of a substance index which will be published on the Internet. Safety data sheets for all chemicals used by Statnett will also be available on the Internet. The extent and use of chemicals will be identified. This will provide us with an overview of the risk scenario related to handling of chemicals in the company. Products that pose a risk to the environment and/or human health will be identified. Furthermore, we will assess whether such chemicals can be substituted by less harmful substances. This system will also help Statnett reduce the number of chemicals in use.

Energy optimisation and proximity to public transport were strong and decisive factors in the choice of new head offices in Nydalen. Both factors are important elements of the enterprise's own climate initiatives.

Statnett will also step up its preventive efforts to avoid environmental damage as a result of undesirable incidents related to traffic in the natural landscape. Such damage may be caused by construction machinery, snow scooters and other cross-country vehicles.

Climate

The most important contribution Statnett can make with regard to climate is to construct the next-generation main grid, enabling connection of new renewable energy, decommissioning of existing power grids and upgrading the voltage in existing power grids to maximise capacity and minimise environmental impact. In addition, Statnett is working on establishing new international interconnectors which will



Marte Bakken
Technical advisor, Zero

From Zero's point of view: Encouraging humility

Environmental foundation Zero is very clear about their number one priority where energy issues are concerned: the climate. For this reason, Zero supports plans for grid development, but is also encouraging Statnett to be more humble, and better at reading signals.

Technical advisor Marte Bakken communicates Zero's priorities in energy issues loud and clear: "Climate solutions are our top priority, and our second priority is biological diversity above more aesthetic environmental considerations. The great challenge is climate change, which must be responded to by stopping or reducing emissions," Bakken says. Zero's target is to reduce emissions by 90-100%, partly through renewable energy and new technology.

Part of the solution

Zero is of the opinion that Norway should take a leading role in the climate issue. "We are positive to more production of renewable energy in Norway. A strengthened power grid is a key part of the climate solution. There are renewables projects that aren't being constructed because there isn't

enough capacity in the grid. We are also positive to exporting renewable Norwegian power. Grid developments could contribute to phasing out fossil energy faster," says Bakken, underlining that these must be carried out with respect for biological diversity, flora and fauna.

Emphasis on dialogue

"Statnett must get better at reading the signals they receive. Many people in the energy industry were probably surprised by the strong reactions and involvement in connection with the Hardanger case. But the criticism has brought about positive change in the industry. Statnett has also become more open to dialogue," says Bakken, who believes Statnett has a lot to gain from cooperating with local authorities and environmental organisations such as Zero.

"We have expertise which could be useful to Statnett. We also know very well what could constitute potential conflicts. The most important advice we can give is to be more humble in their dealings with industry players, and to emphasise dialogue. But they have made some good choices and are on the right track," Bakken says.

help reduce CO₂ emissions on the Continent.

Statnett's own emissions of greenhouse gases are relatively modest. However, we are working continuously to reduce these. Emissions to air such as carbon emissions from operations of back-up gas-fired power plants, SF₆ gas installations, and travel in connection with work have been accounted for in Statnett's climate report. The company's climate contributions with regard to our own consumption (heating, cooling and operation of our office premises and buildings) are zero, as Statnett purchases electricity which is guaranteed to be produced from renewable energy sources.

Statnett's back-up gas-fired power plants at Nyhamna in Aukra and Tjelbergodden in Aure have not been granted climate quotas in the Norwegian system. However the facilities are subject to quota obligations. Statnett reports emissions to the Climate and Pollution Agency (Klif) every year, so that our emission quotas can be balanced. Klif has granted Statnett permission to operate the facilities for up to two days per year for inspection and maintenance purposes. The facilities are primarily intended for use in an emergency situation. In 2009, greenhouse gas emissions from our back-up gas fired power plants totalled 14 042 tonnes

of CO₂ equivalents. The corresponding figure for 2010 was 1 982 tonnes.

Emissions of SF₆ gas from Statnett's SF₆ facilities totalled 405 kg and 306 kg in 2009 and 2010, respectively. Converted into CO₂ equivalents, the emissions correspond to an environmental impact of 9 680 tonnes and 7 300 tonnes CO₂ in 2009 and 2010, respectively. (1 kg SF₆ = 23 900 kg CO₂). This entails a reduction of 24.5 per cent from 2009 to 2010.

Statnett is planning to expand the company's environmental reporting. This will entail implementing extra performance indicators and a more systematic reporting of the enterprise's environment and climate performance.

Climate change also affects Statnett's operations. In 2008, Statnett prepared a report in cooperation with the Norwegian Meteorological Institute (DNMI) and the Norwegian Geotechnical Institute (NGI) on the physical impact of climate change on Statnett's transmission facilities. The report evaluates the impact of climate change as changes in wind conditions, increased precipitation and flooding, icing, landslides, changes in the groundwater level, etc. The results from the report are used to monitor, maintain and improve Statnett's transmission facilities.

Inventory and emissions of SF₆

	Unit	2010	2009
Inventory as of 31.12	kg	107 447	106 703
SF ₆ emissions	kg	306	405

306

kg: SF₆ emissions

Energy consumption and grid losses

	Unit	2010	2009
Electricity (excluding energy losses in transformer stations and grid)	MWh	55	55
Natural gas for back-up gas-powered power stations	Sm ³	708	5 129
Fuel consumption	m ³	217	176
Grid losses	GWh	2241	2 232

“It is Statnett's primary objective to be recognised as an environmentally responsible grid developer.”

Biodiversity and disruptions to the landscape

It is Statnett's primary objective to be recognised as an environmentally responsible grid developer. This entails incorporating environmental concerns in the company's planning process, choice of solutions, construction and operations.

Statnett recognises that our facilities cause disruptions to the landscape which will have an impact on biodiversity. It is our responsibility to minimise the negative impact of such interventions and weigh them up against the demand for a reliable supply of electricity and socio-economic profitability.

New power lines and transformer stations have a long planning horizon. Statnett is subject to stringent requirements and has to submit a detailed report on the scope of interventions and their impact on biodiversity during the construction and operational phase.

When constructing new power lines, Statnett uses advanced techniques such as laser scanning and 3D terrain modelling in the early stages of the planning phase. This means we can see what the power lines will look like in the landscape. Furthermore, we can adapt our construction plans choosing alternatives that take into account the shape and character of the landscape.

In the planning stage, we conduct thorough studies of the impact on biodiversity, often running over several seasons. The studies comprise habitats and species, focusing on endangered and vulnerable species in particular. Whenever necessary, we will monitor or implement measures to protect endangered and vulnerable species.

Statnett funds independent research into the effect of power lines on biodiversity. This includes long-term research projects on birds, as well as wild and domesticated reindeer. We have launched a separate research programme on biodiversity in and near power lines mapping vegetation, insects, birds and mammals.

Our employees

Statnett aims to be an attractive and reliable employer offering its employees challenging tasks. To meet this objective, we need to have the right expertise at the right place and at the right time. We are committed to promoting a good and close community across the organisation and ensuring a safe and secure working environment.

A safe place to work

Statnett has a zero tolerance policy with regard to accidents and injuries. We maintain a constant focus on health, environment and safety (HSE) to reduce risks and prevent injuries and accidents. All Statnett units must comply with Statnett's HSE policy and associated procedures. Statnett is working systematically on internal HSE control to measure, control and achieve continuous improvements.

HSE plans are drawn up for every project, and Safe Job Analyses have been introduced for all risk-exposed work operations. Statnett sets the same HSE requirements for suppliers as for its own employees.

Every year, we organise safety courses and first aid courses for all employees who will carry out work on high-voltage facilities. In addition, we conduct HSE training of safety delegates, managers and HSE personnel in accordance with regulations.

We have entered into agreements with various approved occupational health service providers who together cover the company's total need for such services. All employees are entitled to make active use of the services comprised by the health scheme.

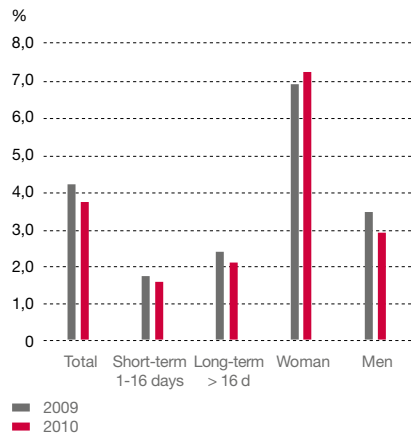
Internal and external HSE audits are conducted on a regular basis to verify compliance with applicable HSE requirements. Statnett is a major user of helicopter services, and in 2010 the company conducted audits of two helicopter operators where the main focus was on HSE.

Grid and cables

	Unit	2010
High voltage overhead section ¹	km	9808
Earth cable and subsea cable ¹	km	705
Overhead lines in protected area ¹	km	300

¹ Measured in km of transmission routes and cable routes

Absence due to sickness



Fatalities (number)

0 Own employees
Contractors
Third parties¹

¹ Registered fatalities among third-parties, occurred on or in connection with Statnett's facilities.

Reporting of undesirable HSE incidents and deviations has increased over the course of 2010, particularly in projects. Training and courses in reporting of undesirable incidents for own employees and suppliers have helped stimulate this positive trend. Statnett registers incidents occurring in its own organisation, as well as those registered with suppliers working on our projects. Three internal lost-time injuries were reported in 2010. None of these were considered serious. Furthermore, one instance of economic sanctioning of Statnett was reported in 2010 due to a breach of the HSE regulations related to the external environment. The incident concerned driving a snow scooter in a protected area.

Although the absence rate was generally low throughout 2010, we are continuously working to reduce absence due to illness. Various measures were implemented to reduce absence due to illness. However, we continue to identify new methods for reducing absence rates.

Recruitment and employee development

Statnett is facing major investments and development projects in the years ahead. In order to realise these projects, we will need to have sufficient expertise of the right kind. To cover our staffing needs, we are therefore investing in development and training and recruitment of employees in accordance with Statnett's strategies and values.

Statnett stresses the importance of promoting a good working environment with motivated and committed employees. A strategic expertise development process (SKUP) has been implemented which will contribute to a systematic and uniform follow-up of objectives, conduct, performance, strengthened development opportunities, as well as ensuring that Statnett retains and develops strategically important expertise. As a part of SKUP, perfor-

mance appraisals are conducted with all employees on an annual basis, and assessment meetings are held in all management groups. To maintain the focus on good management practices, we also organise regular in-house management seminars.

Statnett participates in Great Place To Work, a tool designed to evaluate employees' satisfaction with the workplace and the management's ability to establish structures, systems, guidelines and rules for a good working environment. In the Great Place To Work survey 2010, Statnett was voted the 8th best place to work among Norwegian companies with more than 250 employees. The results for 2011 show an improvement in most areas covered by the survey. As many as 88 per cent of Statnett's employees, agree that "all things considered, Statnett, is a great place to work." The management follows up the surveys themselves, reviewing results and improvement measures.

Internal mobility and recruitment

Statnett invests broadly in the development and dissemination of expertise across the entire company. In 2010, 63 employees changed jobs internally in Statnett, compared with 42 in 2009. In addition, 25 employees changed division during the February 2010 reorganisation. The SKUP process also helps us to further strengthen our focus on internal mobility.

Statnett recruited 140 new employees in 2010, compared with 135 in 2009. In 2010, Statnett had an overall staff turnover, retirement excluded, of 1.95 per cent, compared with 2.54 per cent last year. The increase in staff, combined with moderate retirement figures, means that the company has had a net growth of 200 full-time equivalents in the last two years.

In order to attract talented graduates from universities and university colleges, Statnett has established a permanent trainee scheme.

Lost-time injuries¹

	Unit	2010	2009
Lost-time injuries, own employees	Number	3,0	4,0
Injury frequency (H1 value), own employees ²	Frequency	2,0	3,1
Lost-time injuries, contractors	Number	5,0	4,0

1 Work-related injury which resulted in absence beyond the day of the incident.

2 Number of lost-time injuries per million hours worked.

Injuries¹

	Unit	2010	2009
Injuries, own employees	Number	12,0	9,0
Injury frequency (H2 value), own employees ²	Frekvens	6,0	3,9

1 Work-related injuries as a total of injuries registered as lost-time injuries, reduction in working hours and alternative work.

2 Number of injuries per million hours worked.

Education (number)



263	Civil Engineer
176	Engineer
218	Technical education/certificate of apprenticeship
73	Master of Science and Economics/Economist
89	Other university/university college degree
38	Commercial
42	Other

(Excluding Statnett Transport AS)

“In order to attract talented graduates from universities and university colleges, Statnett has established a permanent trainee scheme.”

In 2010, Statnett had nine trainees, including one from the trainee collaboration with SINTEF, EBL, NVE and other grid companies in the industry. Statnett will continue its collaboration with universities and university colleges in the coming years and 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.

Equality and diversity

Statnett aims to have a diverse and varied organisation. Our job advertisements encourage people to apply for a position in Statnett, regardless of gender, ethnicity or age. In 2010, 7,9 per cent of new recruits were non-Norwegian. In total at the end of 2010, Statnett had 48 non-Norwegian employees, compared with 35 in 2009.

Statnett has worked systematically for years to get more women into management and technical positions. During the period 2005 to 2010, the percentage of women in management positions increased from 20.2 per cent to 25 per cent. In the same period, the total percentage of women in the organisation remained relatively stable at approx. 23 per cent. Although achieving a more equal gender distribution remains a significant challenge, the figures prove that we have succeeded in establishing a development towards a relatively higher share of women in managerial positions. Statnett will continue its efforts to recruit more women to management and technical positions. As part of this endeavour we have introduced a mentor programme. 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 the boards of other companies. In 2010, the percentage of women in Group management was 20 per cent, whereas the percentage in the extended cor-

porate management was 37.5 per cent. The percentage of women among representatives elected by our owners was 50 per cent.

Women and men in comparable positions receive equal pay, while staff surveys show that both genders believe that women and men have equal opportunities in Statnett.

We have set up practical schemes designed to allow women and men to combine work and family life successfully. Statnett runs its own day-care facilities in Oslo, has a scheme of extended parental leave for employees with young children, and practises flexible working hours.

Ethics Ombudsman

Statnett manages large communal natural resources. Because of this and because of the role Statnett plays in the electricity system, we must demand absolute integrity of ourselves and never waver from our ethical principles. As one of the first companies in Norway to do so, Statnett appointed its own Ethics Ombudsman in 2006. The Ethics Ombudsman is an officer of the company whose duty it is to strengthen the legal protection of employees and to help uncover censurable conditions and shortcomings within the company. In Statnett, the office of Ethics Ombudsman is held by a lawyer in our Legal Department.

The job of the Ethics Ombudsman is to ensure that undesirable work cultures and attitudes do not develop and proliferate. The Ethics Ombudsman is also responsible for ensuring compliance with the Norwegian Working Environment Act with respect to facilitating reporting of censurable conditions. The Ethics Ombudsman shall undertake investigations in response to issues raised by employees or employees' unions, to provide guidance for employees on ethical matters, and to raise matters on the Ethics Ombudsman's own initiative. A very important principle observed by the Ombudsman

Employer attractiveness

	Unit	2010	2009
Graduates, technical education ¹	Rank	49	55
Professionals, technical education ¹	Rank	34	44

¹ Rank in Universum (the Norwegian Professional Survey) as preferred employer for graduates from technical programmes and employees with 5 years of work experience, respectively.

Employees

	Unit	2010	2009
Total no. of employees	Number	897	793
Full-time equivalents	Number	877	774
Position, percentage of full-time position, men	Percent	98,5	98,7
Position, percentage of full-time position, women	Percent	95,6	93,8
Temporary employees	Number	38	22
Trainee	Number	8	4
Apprentices	Number	24	15

897
employees

25%
Women in leading positions



Geir Ove Bakken
(Norwegian Labour Party),
Mayor, Alta Municipality

The Alta perspective: Welcoming the monster pylons

Northern Norway has had a vulnerable grid for years. Alta is one of the municipalities that have been on the receiving end of this situation. "We welcome monster pylons here," says Mayor Geir Ove Bakken (Norwegian Labour Party).

Since 1970, the population in the municipality of Alta has increased from 10 500 to more than 19 000. In 2010, the population increased by two per cent. The municipality has a variety of businesses, from agriculture and minerals to public services, trade, tourism and fish farming.

Security of supply

"A sound infrastructure is vital for a community to grow and develop, be it roads or power grids. So there's no doubt that we're anticipating the 420 kV power grid from Balsfjord to Hammerfest and then further east to Varangerbotn. The region hasn't had a satisfactory security of supply. The new transmission line must be in place by 2016/17. Finnmark County welcomes these so-called monster pylons, not to say model pylons," Bakken says.

Good dialogue

Mayor Bakken characterises the dialogue with Statnett and other authorities as good. "In connection with the 420 kV line, we've had a fairly close dialogue with Statnett. I think we have achieved good processes. We aren't necessarily in agreement all the time, but our impression is that Statnett respects local considerations and are open to suggestions. Now we need to find a good route which takes into consideration the natural landscape and the environment," says Bakken, who also has a business perspective. "In connection with a development on this scale, we expect local job creation, both in the development and operation phases. We have a strong construction industry that wants to contribute. We also see that the 420 kV grid is a key part of a northern areas initiative. In our view, the Government should support the development plans in full and grant Statnett the necessary framework conditions to get started," Bakken says.

is the principle of anonymity. This principle encourages staff to report matters that would not otherwise have been addressed.

The Ethics Ombudsman scheme has helped put ethics higher on Statnett's agenda and made staff far more aware of ethical issues. Statnett continues to note considerable commitment 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 cases dealt with. In 2010, the Ombudsman handled 40 cases, compared with 25 in 2009. The Ombudsman also handled a number of minor matters. Although clearly unsettling to the persons involved, none of the reported matters have been of serious consequence to Statnett as a company.

Age profile



84	Employees < 30 years old
158	Employees 30 - 39 years old
309	Employees 40 - 49 years old
238	Employees 50 - 59 years old
110	Employees > 60 years old



Some people
must make
sure energy
is renewed.

Corporate Governance

Running. Working out.
Team. The audience. The
applause is soon history.
But friends make demands.
And give you energy.
Time and time again.

Corporate Governance

Background

To the extent permitted by the company's organisation and ownership, corporate governance in Statnett is organised according to the recommendation for corporate governance laid down by the Norwegian Corporate Governance Board (NUES). This will ensure that we fulfil our social responsibilities, meet our main objectives and strengthen trust in our company.

Statnett is an independent state enterprise established under the Act relating to state-owned enterprises and is owned by the Norwegian State through the Ministry of Petroleum and Energy (MPE). The Minister's administration of ownership is exercised under constitutional and parliamentary responsibility. The enterprise is independent, and is wholly responsible for its obligations.

Good corporate governance is a precondition for stable value creation over time. The enterprise's fundamental governing principles help us meet the requirements and expectations laid down by our owner, employees, customers, suppliers, lenders and others stakeholders.

Statnett works systematically to ensure that the Group's operations are conducted in a responsible manner at all levels of the organisation. This is a prerequisite for meeting our objective of long-term value creation. Statnett follows the recommendations laid down by the Norwegian Corporate Governance Board (NUES) to the extent permitted by the company's organisation and ownership. Below follows a description of how Statnett ensures compliance with the recommendations.

Corporate management

Statnett's governing bodies establish the framework for the enterprise's activities. These comprise constitutional principles related to the public ownership, the Norwegian State's own corporate governance principles, as well as articles of association and decisions adopted by the Enterprise General Meeting (*see next page for table*).

Statnett's activities

Statnett has a function in the Government's sector policy. Section 2 of Statnett's articles of association stipulates that "Statnett SF is the Transmission System Operator in the Norwegian power system." As System Operator, Statnett is responsible for ensuring that there is an instantaneous balance at all times bet-

ween production and consumption of electric power in Norway. The System Operator role is described in more detail in the Regulations relating to system operation.

Furthermore, Statnett's objects clause stipulates that "the enterprise is responsible for ensuring efficient operations in a social economy perspective and for developing the main power grid. Statnett SF shall, alone or together with others, plan and design, build, own and operate transmission facilities. Statnett SF will execute the tasks assigned to the company pursuant to applicable laws, regulations and licences. Moreover, Statnett SF will adhere to applicable business principles."

Statnett has established the company's tasks, values and primary objectives:

Our mission

Statnett will build the next-generation main grid to maintain security of supply, contribute to value creation and pave the way for better environmental solutions.

Our values

To succeed, our organisation must be based on sound values. Statnett's values are long-term perspective, respect and community. These values describe the basic attitudes we believe are necessary to succeed and set the standard for the daily conduct of employees and the management.

Equity and dividend policy

As at 31 December 2010, Statnett's equity conformed with the company's goals, strategy and risk profile. In light of Statnett's major investment plans for the coming years, the equity situation will be assessed continuously. The State, as the owner, has confirmed that Statnett shall have a financial position which enables the enterprise to carry out all socio-economically profitable grid investments.

Corporate management

The Board of Directors and the President and CEO establish the framework for the enterprise's activities in order to meet the adopted objectives. The framework consists of four levels of documentation:

<p>Level 1: Comprises management policies adopted by the Board of Directors. These relate to our value base, ethical guidelines for employees and suppliers, and the enterprise's policy for management, governance and control.</p>	<h1>1</h1>	<h2>Management policies</h2> <p>adopted by the Board of Directors.</p>
<p>Level 2: Consists of function policies adopted by the President and CEO in key Group areas. These will eventually include all key processes in the enterprise.</p>	<h1>2</h1>	<h2>Function policies</h2> <p>adopted by the President and CEO</p>
<p>Level 3: Consists of procedures which expand on and specify the governing policies. These are adopted by the executive vice president for the relevant function.</p>	<h1>3</h1>	<h2>Governing policies</h2> <p>adopted by the executive vice president</p>
<p>Level 4: Level 4: Comprises processes related to the quality system, including supporting documentation and templates. The quality system forms the basis for the certification of Statnett according to ISO 9001 (quality management) and ISO 14001 (environmental management).</p>	<h1>4</h1>	<h2>Processes</h2> <p>in the quality system</p>

Along with the instructions to the Board of Directors, instructions to the President and CEO and the mandate for the User Council, this framework constitutes the key governing documentation in Statnett.

Our main objectives

Our main objectives describe what we wish to achieve:



■ **Security of supply**

Statnett shall maintain security of supply through a grid with satisfactory quality and capacity.



■ **Value creation**

Statnett's services shall create value for our customers and for Norwegian society at large.



■ **Climate**

Statnett shall facilitate the realisation of Norway's climate objectives.

We have also formulated objectives for how we want to achieve our objectives:

- Statnett shall carry out its operations without personal injuries and with respect for our natural environment.
- Statnett shall be recognised as a customer-oriented organisation.
- The enterprise's deliveries shall bear the mark of our values.

The Group's dividend policy is laid down in the national budget. 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 through the 2010 fiscal year. An update of the dividend policy is expected during the course of 2011.

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

Equal treatment of owners and transactions with closely related parties

Statnett SF is 100 per cent owned by the Norwegian State through the Ministry of Petroleum and Energy. Consequently, the enterprise has no need for its own guidelines for equal treatment of owners.

For major transactions between the enterprise and related parties, Statnett performs value assessments presented by independent third parties in accordance with the national regulatory requirements.

Freely negotiable

Statnett is a state enterprise without transferable ownership interests.

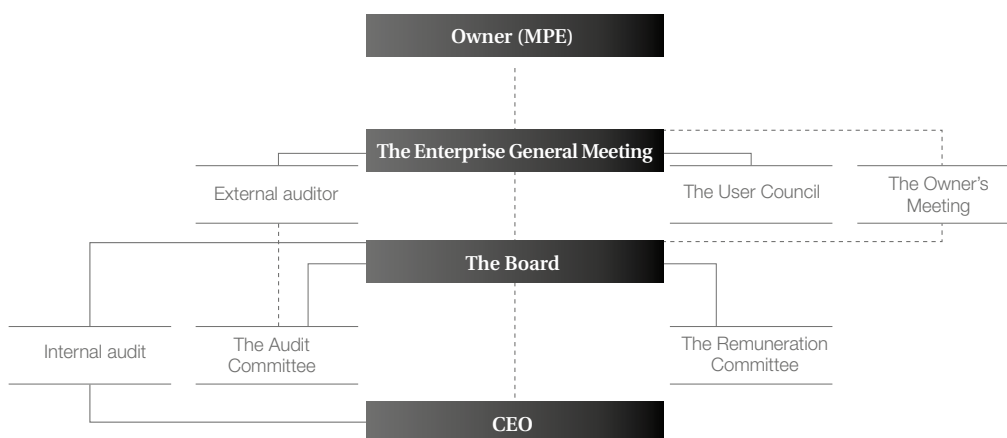
The Enterprise General Meeting

The Ministry of Petroleum and Energy is the enterprise's supreme decision-making body at the Enterprise General Meeting. The following issues are discussed and settled at the Enterprise General Meeting: Adoption of the enterprise's profit and loss account and balance sheet, including application of profit or coverage of loss for the year, adoption of the Group's consolidated profit and loss account and balance sheet, and any other matters pertaining to the General Meeting according to Norwegian laws and regulations, including election of the Statnett Board of Directors and stipulation of remuneration levels for board members and the board committee.

The Ministry's authority in the enterprise may not be exercised outside the General Meeting. The General Meeting adopts Statnett's articles of association, including Statnett's objects clause which provides the framework for the operations that Statnett may undertake. The regular General Meeting is held each year before the end of June.

Management structure

Overview of Statnett's management structure. The formal reporting lines are illustrated by solid lines.



Election Committee

Statnett has no election committee. The MPE designates the enterprise's board members at the Enterprise General Meeting.

Corporate Assembly and Board of Directors, composition and independence

Statnett has no corporate assembly. Pursuant to the articles of association, the enterprise's Board of Directors shall consist of seven to nine members, in addition to any deputy members. The Enterprise General Meeting also designates a user representative from the Board members. Two, or possibly three members, and their deputy members are appointed by and from the enterprise's employees according to the rules pertaining to this laid down in Section 20 of the Act relating to state-owned enterprises and associated regulations. Two representatives from the User Council attend as observers during the Board of Director's discussion of matters pertaining to Statnett's regulated monopoly and administrative tasks.

See page 62-63 in the annual report for information about each individual board member.

Pursuant to the Act relating to state-owned

enterprises, the President and CEO cannot be a member of the board. With the exception of employee representatives, members of the Board of Directors are independent of the enterprise and owner.

The work of the Board of Directors

The Board of Directors has overall responsibility for ensuring that Statnett's operations are prudently managed. The Board of Directors appoints and dismisses the President and CEO and oversees the President and CEO's management of the enterprise. The Board of Directors shall determine Statnett's strategy and ensure that Statnett is organised in an efficient and satisfactory manner. Furthermore, the Board of Directors adopts budgets and ensures satisfactory asset management, a good working environment and that Statnett complies with regulatory requirements, laws and regulations. The Board conducts an annual evaluation of its work and competence in order to ensure effective quality control of its work.

The Audit Committee

The Board of Directors has established an Audit Committee which will function as a preparatory body to the Board of Directors.

“Statnett works systematically to review all risks associated with our activities.”

The Board has approved instructions for the Audit Committee. The responsibilities of the Audit Committee include making preparations for the Board of Director's follow-up of the financial reporting process, monitoring the systems for internal control and risk management and the enterprise's internal audit process. Furthermore, the Audit Committee shall maintain continuous contact with the enterprise's appointed auditor with regard to the audit of the enterprise, and assess and monitor the auditor's independence according to the Audit and Auditors Act.

Remuneration Committee

The Board of Directors has appointed a Remuneration Committee to assist the Board of Directors with stipulating the President and CEO's terms and conditions of employment and help establish the main principles and framework for remuneration of the Statnett Group management. The Board has approved instructions for the Remuneration Committee.

The User Council

Statnett has a User Council consisting of six members appointed by the General Meeting and representing stakeholder organisations. The User Council discuss matters which pertain to Statnett's regulated monopoly and administrative tasks. Should the Board of Directors make a decision which conflicts with the recommendations of the User Council, the Council may, if the majority of the members so vote, submit the case to the owner for discussion at the General Meeting.

Risk management and internal control

Statnett works systematically to review all risks associated with our activities. The Board of Directors receives a complete overview of the enterprise's risk profile twice a year. All development projects approved by the Board of Direc-

tors are reported to the Board meetings. The reporting includes an updated risk profile for the individual project.

Internal control is an integrated part of the risk management process and quality assurance system. Statnett conducts quarterly business reviews covering all significant areas of operation. The reviews include reporting of strategic, operational and financial risks.

Statnett publishes quarterly financial reports. In addition, Statnett conducts quarterly internal financial and operational reporting. The external and internal reporting is reviewed by the Group management, the Audit Committee and the Board of Directors.

Internal control and financial reporting

Combined with the enterprise's organisation, management forums and reporting lines, Statnett's ethical guidelines and value base lay the foundation for a good internal control environment. A separate policy for accounting and financial reporting has been developed. Risk assessments of the most important processes related to financial reporting will be conducted as and when required. The Audit Committee, internal auditor and Board of Directors monitor the enterprise's internal control systems.

Statnett has implemented a continuous process for further developing the internal control system relating to the enterprise's most important processes.

Internal ethical guidelines

Through our operations, Statnett will demonstrate that good results can be achieved without compromising our ethical standard as reflected in our ethical guidelines. Our ethical guidelines cover areas that are important to ensure good business ethics in all aspects of our activities. The guidelines lay down specific and practical rules, and set standards for the conduct of all employees. Failure to comply with the ethical guidelines may result in sanc-

tions, depending on the nature and scope of the breach. The ethical guidelines apply to board members, managers, employees, contractor personnel and any other party who acts on behalf of the enterprise.

Ethical guidelines for contractors

Statnett puts particular emphasis on ensuring that our suppliers and partners comply with our ethical guidelines for suppliers. The suppliers' obligation to comply with the ethical requirements is stipulated in the contracts we enter into with our suppliers. Inspections and audits are conducted in order to make sure that the requirements are fulfilled during the execution of the contracts.

The ethical guidelines for employees and contractors are available in their entirety on Statnett's web site.

Board remuneration

See Note 13 in the annual accounts for a detailed overview of Board remunerations.

Remuneration of executive employees

Statnett follows the guidelines that apply for executive pay in state enterprises. See Note 13 in the annual accounts for a detailed overview of remuneration of executive employees.

Information and communication

Transparency

Statnett is governed by the Public Enterprises Act (with a few exemptions), regulations relating to dissemination of information to the power market and safety and preparedness legislation. Statnett distributes financial and operational information in accordance with the regulatory requirements and practises transparency and openness.

Financial and operational information is published on Statnett's web site.

Owner's Meeting

In addition to the dialogue with the owners which takes place at the Enterprise General Meeting, the owner also promotes communication between the Board of Directors and the owner outside the General Meeting. The purpose of the Owner's Meeting is to provide an informal forum where the Board of Directors and the owner can exchange opinions and discuss issues of great financial or strategic importance to Statnett. The views expressed by the owner at the Owner's Meeting provide input for Statnett's administration and Board of Directors. Issues requiring owner approval must be discussed at the Enterprise's General Meeting.

Company takeover

Statnett SF is a state enterprise. The sale of assets would entail a restructuring of the business organisation and a legal amendment which requires the consent of the Norwegian Parliament.

Auditor

External auditors are appointed by the General Meeting and are independent of Statnett. The enterprise's external auditor for 2010 was Ernst & Young. The external auditor attends meetings in the Audit Committee to discuss relevant issues. The external auditor must attend one annual Board meeting where the management is not present. The Audit Committee evaluates and proposes an external auditor and is responsible for monitoring the auditor's independence.

As an important part of the process of securing the auditor's independence, the Board of Directors has established guidelines relating to the enterprise's access to use the external auditor for assignments other than audits.

See Note 4 of the annual accounts for information about auditor's fees.



Some people
must make
more
adjustments
than others.

Directors' report

You can go far if you are on the right course. Thorough preparation is the key to reaching your target. Or: the extra little adjustment.

Directors' report 2010

Statnett's main objective is to ensure a stable supply of electricity and facilitate a well-functioning power market.

In general, the quality of supply in the grid was good in 2010. At the same time, the number of hours of reduced operational reliability continued to increase in 2010. The cold and dry winters of 2009/2010 and 2010/2011 resulted in higher consumption and lower inflow of water to the reservoirs. On 6 January, consumption peaked at 23 969 MW, setting a new record.

Statnett will continue to increase its grid investments in the years to come to improve security of supply and facilitate value creation and lower emissions of greenhouse gases. As part of this work, it will be important to find sound solutions in cooperation with local authorities and affected parties.

Statnett has been the focus of much attention in 2010 as a result of the development of the new power line between Sima in Hardanger and Samnanger outside Bergen. The Ministry of Petroleum and Energy adopted a resolution on the issue on 1 March 2011. The resolution was passed after four independent committees had looked into various aspects of the issue and no substantial elements were discovered other than those already provided.

Quality and security of supply

In general, the quality of supply in the grid was good in 2010. However, the hydrological resource situation did cause some congestion, particularly out of South-Western Norway. Despite good quality of supply, security of supply was put to the test on several occasions in 2010. This was the case in the Bergen area, Stavanger, Kristiansand, Lofoten and Vesterålen, as well as Finnmark where the number of hours of reduced operational reliability increased compared with previous years. In the first quarter of 2010, the Bergen area had 1 300 hours of reduced operatio-

nal reliability. This increase clearly signals that the power grid is about to reach maximum capacity.

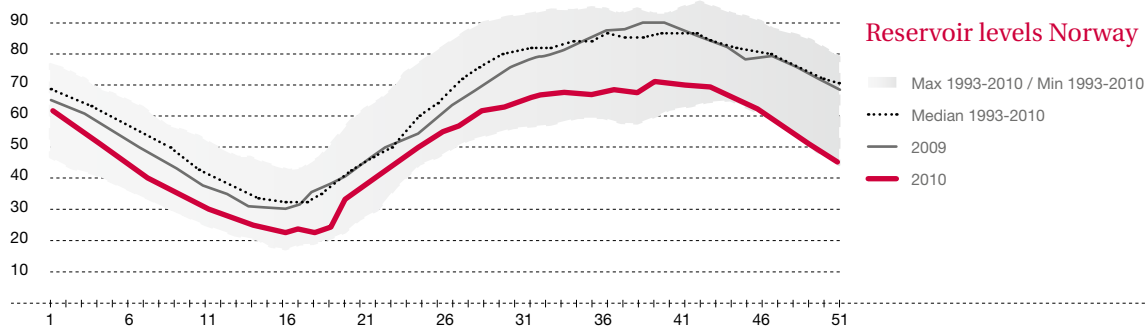
Too low transmission capacity between regions also results in congestion in the power grid. In the winter of 2009/10 two new spot areas (price areas) were established due to congestion between Southern and Eastern Norway, and between Eastern and Western Norway. This means that since the winter of 2010, Norway has had five price areas for trading on the Nordic power exchange. The fact that we have more price areas and extended periods of significant price differences between these areas indicates structural challenges in the power system and a need for investment in new transmission capacity.

Two dry and cold winters have resulted in higher consumption and lower inflow of water to the reservoirs. At year-end, reservoir levels were at 45 percent. This is 19 percentage points lower than at the same time in 2009, and 24 percentage points below the median for the period 1993-2010.

The overall power consumption in 2010 was approximately 132 TWh, up 6.5 per cent compared with the previous year. The overall energy production fell by 7 per cent to 124 TWh, resulting in net imports of approximately 8 TWh. The average temperature for 2010 was the lowest in more than 70 years. This was reflected in several new consumption records throughout the year. On 6 January, consumption peaked at 23 969 MW, setting a new record.

The most serious incident in 2010 resulted in a blackout in some areas of Østfold on 16 December 2010. About 200 MW of consumption and 150 MW of production in the Fredrikstad and Sarpsborg area were affected by the incident. Electricity supply was restored in less than one hour.

The interconnector between Norway and the Netherlands, the NorNed cable, was put



back into operation again on 27 April 2010 after having been out of commission since 29 January 2010. The fault was located on the DC interconnector itself, approximately 70 km off the Dutch coast.

In March 2008, faults occurred on two of the three interconnectors over the Oslofjord. It has not been possible to resume original transmission capacity on the southernmost cable. The connection operates at reduced capacity whilst awaiting a new set of cables. This has reduced the total transmission capacity between the western and eastern parts of Southern Norway. The prolonged bottleneck was a contributing factor in the decision to establish two market areas in Southern Norway.

Investments to secure the grid of the future

Statnett is responsible for ensuring a stable and secure supply of electricity in the long term by developing the main grid. Statnett invested NOK 1 892 million in 2010, up from NOK 1 278 million in 2009. This is in line with Statnett's plans to increase its grid investments in the years ahead to maintain security of supply, create value and facilitate lower emissions of greenhouse gases.

The most important projects are listed in the table below. Planning proposal submitted means that Statnett has notified the Norwegian Water Resources and Energy Directorate (NVE) of a licence application, but a licence application has not yet been submitted. Projects for which licence applications are pending or licences appealed are being considered by the Norwegian authorities.

Major investment projects - completed

- Statnett has completed several station investments in 2010. These included facilities at Dagali, Porsgrunn, Kvandal, Sima and Svartisen.

Ongoing major investment projects

- Construction work on the Sauda – Liastølen line started in 2010, and Statnett signed a contract with the Croatian company Dalekovod for supply of materials and construction of the power line.

- In December 2010, the NVE granted Statnett a licence for new cables across the Oslofjord. Work has started on the land facilities at Evje and Teigen.

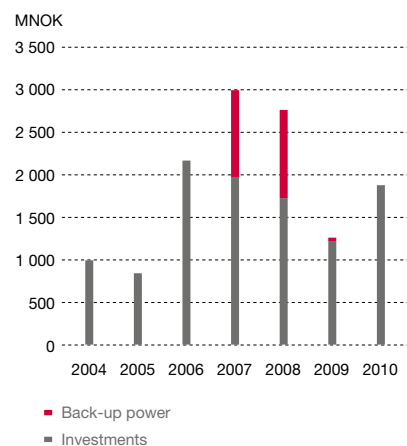
- In July 2010, Statnett was granted a licence for an overhead line from Sima to Samnanger (Hardanger) after the MPE made a decision on the appeal. In August, the Norwegian government appointed four independent committees to look into the issue of the choice between an overhead power line or a sub-sea cable in Hardanger. Their reports were published on 1 February 2011. On 1 March 2011, the MPE decided to uphold the licence issued to Statnett in July 2010.

In October 2010, construction work started on the transmission connection between Sima and Samnanger. Work also started on the section between Børdal in Samnanger and Mødal in Kvamskogen, as this section will be identical for both the overhead and sub-sea alternative. At the end of 2010, 30 foundations were completed.

- Construction work has started on the Varangerbotn – Skogfoss line.

- The NVE granted Statnett a licence for the Norwegian section of a fourth sub-sea cable between Norway and Denmark, Skagerrak 4. Statnett and Danish system operator Energinet.dk have decided to invest in a new DC interconnector which will be able to transfer 700 MW. The interconnector is scheduled to be operational in 2012 on the Norwegian side.

Development investment



Overview of major investment projects

Completed major investment projects	<i>Location</i>	<i>Cost</i>	<i>Completed</i>
Oslofjord preparedness cable	The Oslofjord	NOK 77 million	2010
Major investment in transformer stations		NOK 525 million	2010

Ongoing major investment projects		<i>Funds granted</i>	<i>Estimated completion</i>
Sauda - Ljastølen	Rogaland	NOK 190 million	2011
Major investment in transformer stations	Southern Norway	NOK 650 million	2011
Oslofjorden (Teigen – Evje)	The Oslofjord	NOK 1 100 million	2012
Sima - Samnanger	Hordaland	NOK 1 140 million	2012
Varangerbotn - Skogfoss	Finnmark	NOK 410 million	2013
Skagerrak 4	Norway/Denmark	Statnett share NOK 1 500 million	2014
Increased preparedness: New back-up transformers	Southern Norway	NOK 300 million	-

Licences pending or appealed		<i>Estimated cost</i>	<i>Earliest completion</i>
Voltage upgrade in Central Norway,			
Subsection Klæbu - Namsos	Sør-Trøndelag/ Nord- Trøndelag	NOK 430 million	2013
Hamang station	Asker/Bærum	NOK 350-500 million	2013
Namsos - Roan - Storheia	Trøndelag	NOK 850 million	2014
Voltage upgrade in southern Norway,			
Subsection Kristiansand - Bamble (eastern corridor)	Agder - Telemark	NOK 430 million	2014
Ofoten - Balsfjord	Northern Norway	NOK 1 400 million	2014
Ørskog - Fardal	Sunnmøre/Sogn	NOK 3 600 million	2015
Voltage upgrade in southern Norway,			
Subsection Feda - Tonstad (western corridor)	Agder	NOK 460 million	2016
Balsfjord - Hammerfest	Troms/Finnmark	NOK 3 300 million	2016-2018
NORD.LINK / Nor Ger	Norway/Germany		2016-2018
Storheia - Snillfjord - Trollheim/Orkdal	Sør-Trøndelag / Møre og Romsdal	NOK 1 900 million	2017-2020

Planning proposal submitted		<i>Estimated cost</i>	<i>Earliest completion</i>
Grid reinforcement Grenland region	Grenland	NOK 700 million	2014
"Arctic Circle" Skaidi - Varangerbotn	Northern Norway	NOK 2 300 million	2018-2020

ICT projects		<i>Funds granted</i>	<i>Estimated completion</i>
Modernisation of ICT infrastructure in Statnett stations		NOK 130 million	2011
Computer network for power system management		NOK 220 million	2014
Renewal of Statnett's central operations system		NOK 490 million	2014
New Regulation and Market System		NOK 240 million	2014

Research, development and competence building

Statnett invests in research and development (R&D) to promote value creation, innovation and environmentally sound solutions. Four R&D programmes have been launched for the period 2009 – 2011: Northern European Market for Balancing Power, Offshore Power Grids – Establishment and Operations, Smart Grid and Environmental Adaptation of Power Lines. In 2010, Statnett invested NOK 39 million in R&D, compared with NOK 32 million in 2009.

In addition to its own R&D activities, Statnett cooperates closely with external expertise environments both in Norway and in other countries. See Corporate Social Responsibility for more information about Statnett's R&D work.

Financial results

The annual financial statements for Statnett SF and the Statnett Group have been prepared in compliance with the International Financial Reporting Standards (IFRS) and interpretations established by the International Accounting Standards Board (IASB) which have been approved by the EU.

The financial result has changed from the Q4 interim report as the NVE issued Statnett with an administrative fine on 4 March 2010. This has been included in the 2010 financial statements.

Operating revenues

Statnett's operating revenues mainly derive from regulated grid operations. Operating revenues from regulated activities in Statnett's financial reporting consist mainly of fixed grid tariffs from the customers, as well as congestion revenues (price differences between areas in the Nordic region and the Netherlands). Statnett's grid operations are regulated by the NVE which stipulates a cap for Statnett's revenues (permitted revenue). If the total revenues from grid operations for

one year diverge from the permitted revenue, a so-called higher or lower revenue will occur. Higher/lower revenue will level out over time through adjustment of future grid tariffs.

Statnett's operating revenues for 2010 totalled NOK 7 247 million (NOK 2 862 million in 2009). The increase can be attributed to higher tariffs and congestion revenues between price areas.

In 2009, there was a lower revenue of NOK 1 061 million. Grid tariffs from the customers and revenues from price differences in the market were below the permitted income. To cover this, grid tariffs were increased in 2010 compared with 2009.

In 2010, the situation has been the opposite; high congestion revenues have resulted in substantial higher revenue. In 2010, the higher revenue amounted to NOK 2 187 million (lower revenue of NOK 1 061 million). The accumulated higher revenue at the end of 2010 amounted to NOK 1 554 million, which will be returned to the customers over time.

Operating costs

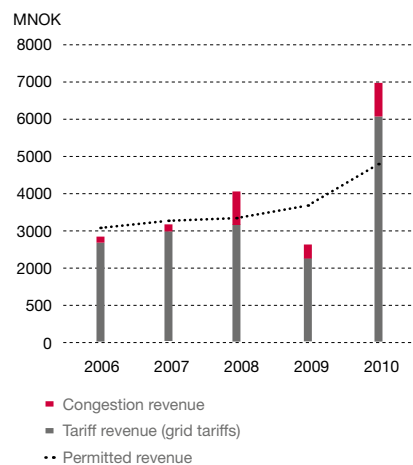
The Group's operating costs totalled NOK 3 968 million (NOK 3 265 million) in 2010.

Compared with 2009, system services costs increased by NOK 123 million in 2010. This was primarily due to an increased need for primary reserves to secure operation of the national grid. Transmission loss increased by NOK 350 million compared with 2009. The increase is due to higher energy prices in 2010 than in 2009.

Wage costs were reduced compared with 2009 by NOK 26 million for the year in total due to reversal of pension costs in connection with changes to the regulations. Other operating costs were NOK 252 million higher for the year compared with 2009. This increase is mainly due to repair costs for the NorNed cable after a fault on the Dutch side in January 2010. Statnett carried

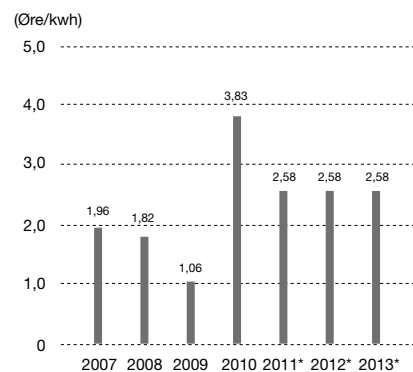
Operating revenue

Operating revenue development from regulated operations and congestion revenues versus permitted revenue



Tariff consumption main grid

Cost developments for general consumption during the period 2007-2013.



*estimate

“Statnett’s goal is to ensure that all end-users have reliable power supply.”

out work on behalf of the owners. Statnett invoiced Tennet for their share.

On 4 March 2011, the NVE decided to issue Statnett with an administrative fine of NOK 30 million for the fault on the Oslofjord cable in 2008 and 2009. This fine has been carried to expense in the 2010 financial statements. The administrative fine will not be included in the cost basis for calculation of Statnett's revenue cap.

Depreciation and write-downs of tangible fixed assets were on the same level as in 2009.

Operating profit

The Statnett Group recorded operating revenues for 2010 totalling NOK 3 279 million (loss of NOK 403 million).

Revenues from joint ventures and associates totalled NOK 11 million in 2010 (NOK 24 million).

The Group's net financial costs for 2010 amounted to NOK 232 million (NOK 289 million). Sale of shares in NordPool ASA increased financial income by NOK 28 million and lower interest rates on long-term loans have reduced financial costs compared with 2009.

The Group's profit after tax totalled NOK 2 198 million (loss of NOK 480 million). The increase is primarily due to higher tariffs and congestion revenues.

Cash flow and balance sheet

The Group's operating activities generated an accumulated cash flow of NOK 3 804 million in 2010. The net cash flow from investment activities totalled a loss of NOK 1 740 million.

In total, loans were paid down by NOK 2 364 million, and new loans of NOK 1 250 million were raised. At year-end, the Group's liquid assets and market-based securities amounted to NOK 1 722 million (NOK 896 million).

At the end of 2010, the Group's total assets were NOK 22 070 million (NOK 19 342 million) and interest-bearing liabili-

ties amounted to NOK 11 757 million (NOK 12 340 million). The market value of interest swap and currency swap agreements (fair value hedges) related to interest-bearing debt was NOK 1 128 million. Net interest-bearing debt, corrected for this, totalled NOK 10 629 million.

At year-end, the Group's equity totalled NOK 7 628 million (NOK 5 618 million). The Group's equity share at 31 December 2010 was 34.7 per cent, compared with 29.0 per cent the year before. At year-end the enterprise's distributable equity was NOK 4 788 million.

Transport operations and preparedness

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

Operating revenues for Statnett Transport AS for 2010 were NOK 88 million (NOK 97 million). The company recorded a loss of NOK 1 million for 2010 (profit of NOK 9 million).

The Nord Pool energy exchange

Statnett SF has sold its shares in Nord Pool ASA to Nasdaq OMX. The Group's gain from the sale of the shares was recorded in the second quarter as NOK 28 million under financial income. This profit comes in addition to the earlier dividend received from the sale of significant parts of the activities in Nord Pool ASA in 2008.

Statnett SF owns 30 per cent of Nord Pool Spot AS. Statnett's share of the result in Nord Pool ASA up to the sale of the shares and in the Nord Pool Spot Group was a Group profit contribution of NOK 11 million in total (NOK 24 million) in 2010.

International interconnectors

Development and construction of international interconnectors are extensive and time-consuming processes. Statnett therefore develops several projects in parallel in order to choose the projects that best suit Statnett's strategy, which is to increase security of supply, provide more stable electricity tariffs and more value creation for Norway.

In 2010, Statnett acquired a 50 per cent ownership interest in the NorGer project, which entails building a DC sub-sea interconnector between Norway and Germany.

Statnett has a shareholding of 100 per cent in NordLink, which is planning a DC subsea interconnector between Norway and Germany.

Risk

Statnett's activities expose the company to risks. Below follows a description of some of the risks that may influence the supply of electricity and Statnett's value creation.

Risks associated with power supply

Significant risks relating to the power supply are the risk of outages (faulty components in the power system), power supply risks (the balance between production and consumption) and risks related to energy access. Statnett manages power supply risks through daily grid operations combined with grid investments, preventive maintenance and purchase of power reserves. Statnett works continuously to improve the company's preparedness to minimise the negative impact of any outages. The Board of Directors decided in fall 2010 that Statnett mainly will construct the power grid according to the N-1 criterion. This means that power supply to the end-user will be maintained even after a fault occurs in the transmission system.

Statnett's goal is to ensure that all end-users have reliable power supply, and, if a fault occurs in Statnett's transmission facili-

ties, that no end-user is without electricity for more than two hours at a time. There were some minor incidents in 2010 which impacted end-users. Total outage costs for connected end-users (under the KILE scheme) have been estimated at NOK 28 million in 2010 (NOK 19 million).

Regulatory risk

Statnett's activities are subject to comprehensive regulatory requirements. Changes in the regulatory framework will affect Statnett's ability to maintain a stable security of supply in Norway. Changes in the processing time of licence applications, for instance, could lead to acceleration or postponement of planned reinforcements of the main grid.

Project risk

Statnett has a substantial investment portfolio consisting of planned and ongoing projects. Statnett conducts a thorough assessment of risk in connection with the projects. The Board is presented with risk assessments relating to all major investments. Statnett has implemented a uniform project management model focusing on risk follow-up.

Risk of serious health, safety and environment incidents (HSE incidents)

Statnett's activities entail a risk of incidents associated with health, safety and the environment. This risk is reduced by implementing documented work processes, safe job analyses, a strong management focus on HSE, as well as the reporting of incidents and near misses in a learning perspective.

Foreign currency risk

Statnett's revenues are mainly in Norwegian Kroner (NOK), whereas some of the Group's expenses are in foreign currencies. Currency risk is minimised through several measures, including using currency swap agreements to

“The risk of Statnett not being granted refinancing on the company's loans is low.”

hedge the risk in the currency obligations in investment projects. All Statnett loans in foreign currency are converted to NOK through currency swap agreements.

Interest rate risk

A large proportion of revenues from grid activities are calculated as return on the enterprise's grid capital. This calculation is based on the interest rate on five-year government bonds and a risk supplement. Statnett's revenues are therefore affected by fluctuating interest rates. In order to reduce the enterprise's total interest rate risk, Statnett seeks to achieve as good a match as possible between movements in interest rates on loans and the interest rate used to calculate return on the enterprise's capital.

Credit risk

Statnett assumes credit risk through placing surplus liquidity with securities issuers. Statnett has limits which set credit rating requirements for counterparties and maximum exposure limits for each individual investment. Statnett is also exposed to a limited credit risk related to the company's collection of main grid tariffs, and as responsible for balance settlement in the regulating power market. Routines have been established for provision of security relating to trade on the regulating power market.

Financial risk

The risk of Statnett not being granted refinancing on the company's loans is low. The risk is reduced by Statnett having a spread maturity structure on existing loans. The enterprise has a credit facility totalling NOK 3.5 billion with a five-year term to be able to fund up to 12 months' operation without incurring any new debt. Statnett has long-term borrowing ratings of A+ and A2 from Standard & Poor's and Moody's Investor Service, respectively.

Employees and organisation

Statnett's head offices are in Oslo. The company also has regional offices in Alta and Sunndalsøra. In addition, Statnett employees are employed at facilities all over Norway. In 2010 Statnett established an office in Brussels.

Employees

Statnett has an ambitious assignment. To succeed, Statnett must have the right expertise for the right tasks. The enterprise has enjoyed robust growth in 2010 with 140 new employees. Statnett has a low staff turnover. However, many of our employees will retire in the next few years. Consequently, Statnett makes a targeted effort to be an attractive employer in order to attract new employees, as well as retain and develop the expertise of existing employees. As part of this effort we have introduced summer job programmes, trainee programmes and employed 20 apprentices in electrical power engineering.

Project management skills are important for Statnett's ability to carry out the scheduled project portfolio. Consequently, we provide project management training internally at our own project academy. 263 employees have participated in one or more training modules, and 15 employees have been awarded a Master Certificate in Project Management.

At the turn of the year, Statnett SF had 897 employees, compared with 793 the year before. The increase in staff is mainly owing to an increasing number of tasks in connection with planning and implementation of investment projects, as well as increased preparedness.

As part of the Great Place to Work survey, Statnett conducted an employee opinion survey in both 2009 and 2010. The results for both years showed that Statnett was one of the top ten companies to work for in Norway.

Equality and diversity

Statnett has a zero tolerance policy regarding discrimination and harassment in the workplace. This is followed up through local safety delegates, appraisal interviews and opinion polls conducted within the organisation. Feedback from these polls has been very positive. It is important to ensure a diverse organisation in terms of gender, ethnicity and age. In 2010, 7.9 per cent of new employees came from a non-Norwegian background.

The percentage of female employees remained stable over the past year and was 23 per cent at the end of 2010. The percentage of female employees in the energy sector in general is 18 per cent. Statnett aims to increase the number of women in technical and managerial positions. Four of the nine members of Statnett's Board of Directors are women and one of the five members of the Group management is female. Women filled 25 per cent of all managerial positions. Four of our eight trainees in 2010 were women.

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. The average percentage of women working in full-time positions is increasing; 95.6 per cent in 2010 compared to 94 per cent in 2009, and stable for men at 98.5 per cent. See also Notes 4 and 14 for more information about wage costs and remuneration to the Group management.

Health, safety and the working environment

Statnett has a zero target policy with regard to accidents and injuries. The enterprise maintains a constant focus on health, safety and the environment (HSE) to reduce risks and prevent injuries and accidents.

Reporting of undesirable HSE incidents and nonconformities increased in 2010, which is desirable from a learning perspective. Statnett registers incidents occurring in its own organisation, as well as in contractor/supplier organisations. HSE plans are drawn up for every project, and Safe Job Analyses are conducted prior to all risk-exposed work operations. Statnett sets the same HSE requirements for suppliers as for its own employees.

The sickness absence rate in Statnett SF was 3.8 per cent in 2010, compared with 4.2 per cent in 2009. The Group had an overall absence due to illness of 3.8 per cent in 2010. We are continually working to reduce this even further. This involves adaptation of individual workplaces and various health-promoting and sickness-reducing measures, including active use of HWES inspections. Three internal lost-time injuries were reported in 2010. None of these were considered serious. The H value was reduced from 3.2 in 2009 to 2.0 in 2010.

Corporate social responsibility

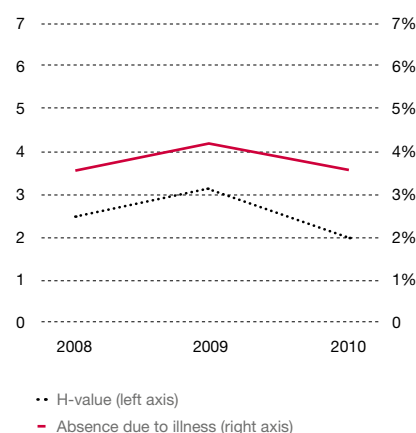
To meet the owner's expectations and requirements for more detailed corporate social responsibility reporting, the Board of Directors has decided that Statnett will report according to the globally recognised reporting framework, Global Reporting Initiative (GRI). The GRI vision is to make reporting of environmental and social performance as emphasised as financial reporting. GRI reporting helps provide an overall and balanced overview of how corporate social responsibility can be followed up in key areas of the enterprise, and lays the foundation for continuous improvement. For more information see Corporate Social Responsibility.

Environment and climate

Statnett's Environmental Management System is certified in accordance with ISO

Absence due to illness

and accumulated H value - Statnett Group



“We focus on minimising the environmental impact of our operations.”

14001:2004. Statnett is continually working to improve our environmental performance. Furthermore, we focus on minimising the environmental impact of our operations.

Statnett's own emissions of greenhouse gases are relatively modest. However, we are working continuously to reduce these. Emissions to air such as carbon emissions from operation of back-up gas-fired power plants, SF₆ gas installations, and travel in connection with work have been accounted for in Statnett's climate report. The company's climate contributions with regard to our own consumption (heating, cooling and operation of our office premises and buildings) are zero, as Statnett purchases electricity which is guaranteed to be produced from renewable energy sources (wind power/hydropower).

Emissions of SF₆ gas from Statnett's SF₆ facilities were reduced by 24.5 per cent in 2010, to 306 kg. This corresponds to an environmental impact of 7 222 tonnes of CO₂ in 2010.

Corporate governance

Statnett is a state-owned enterprise, owned by the Ministry of Petroleum and Energy (MPE).

Statnett's corporate governance principles clarify the distribution of roles among the owner, the Board of Directors and the general management. Statnett adheres to the Norwegian State's Principles for Good Corporate Governance and follows the recommendations laid down by the Norwegian Corporate Governance Board (NUES) to the extent permitted by the company's organisation. For more information about Statnett's compliance with NUES recommendations, please see the chapter on Corporate Governance.

Changes on the Board of Directors

In 2010, new employee representatives were elected to the Board of Directors. The follo-

wing were elected: Steinar Jøråndstad, Pål Erland Opgård and Kjerstin Bakke.

Outlook

Statnett will build the next-generation main grid to maintain security of supply, contribute to value creation and pave the way for better environmental solutions. To secure a stable security of supply for the future, Statnett will make substantial grid investments in the years to come. The investments are expected to increase gradually in the coming years. This implies an increase in Statnett's project activities.

There has been a lot of attention and very demanding processes related to the Sima-Samnanger project. Statnett has taken initiative to improved processes in the planning of new lines to ensure open dialogue with all stakeholders as early as possible.

The higher/lower revenue is as a main principle calculated into future tariffs. Statnett's tariff strategy entails equalisation of the tariffs. This means that the higher revenues from 2010 will be recovered over several years, not just in 2011.

The Board has registered that the power system has scarce margins in periods which have been documented with several outages lately. The Board is following the situation and developments in the energy situation carefully.

In accordance with Section 3-3a of the Norwegian Accounting Act, the Board confirms that conditions exist for continued operation of the enterprise on a going concern basis.

Allocation of profit

In the deliberations on Parliamentary Bill No. 1 (2006-2007), the established long-term dividend policy of 50 per cent of the Group's post-tax profit for the year was extended until the end of 2010.

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 annual profit from Statnett SF be allocated as follows:

Amounts in NOK million:

Dividend to owner	315
To other equity	1 958
Total:	2 273

Declaration from the Board of Directors and President and CEO

We confirm that the financial statements for the period 1 January to 31 December 2010 have, to the best of our knowledge, 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 annual 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.

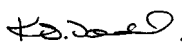
Oslo, 24 March 2011
The Board of Directors, Statnett SF



Bjarne Aamodt
 Chair of the Board



Thor Håkstad
 Vice Chair of the Board



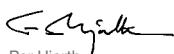
Kirsten Indgjerd Værdal



Grethe Hoiland



Heidi Ekrem




Per Hjorth



Pål Erlend Opgård



Kjerstin Bakke



Steinar Jøråndstad



Auke Lont
 President and CEO

Board of Directors

Steinar Jøråndstad
*Employee representative,
elected in 2004*

Jøråndstad is an Energy Technician with Statnett and is leader of the Norwegian Electrician and IT Workers' Union (EL&IT) and a member of the Working Environment Committee. Jøråndstad, who began his career as an apprentice in 1981, has also served as main safety delegate in Statnett. Jøråndstad is also a Municipal Councillor in Vågå and a member of Vågå Municipal Executive Board. Jøråndstad has been an employee representative on the Board of Statnett since 2004.

Heidi Ekrem
*Member of the Board of
Directors, elected in 2006*

Ekrem is a partner in the law firm Advokatfirmaet Mageli ANS where she is involved in corporate law issues for large companies, including companies in the energy sector. Ekrem was elected to the Statnett Board of Directors in 2006.

Bjarne Aamodt
Chair, elected in 2008

Bjarne Aamodt is a partner in the consulting company Rådgiverne LOS AS. He has been Deputy CEO of Det Norske Veritas, CEO of Alcatel STK ASA and Head of the Other Business unit of Telenor ASA. He serves on a number of boards, both nationally and internationally, and is Chair of the Supervisory Board of Nordea Bank Norge ASA. Aamodt is a graduate engineer from the Norwegian University of Science and Technology (NTNU). Bjarne Aamodt has been Chair of Statnett SF since the spring of 2008.

Thor Håkstad
Vice Chair, elected in 2004

Håkstad worked for Norsk Hydro for more than 30 years, where he held a number of senior executive posts and was a member of the Corporate Management Board for 10 years, until his retirement in 2004. Håkstad holds a Degree in Mechanical Engineering from the Norwegian University of Science and Technology (NTNU). He has been a member of Statnett's Board of Directors since 2004.



Kjerstin Bakke

*Employee representative,
elected in 2010*

Kjerstin Bakke has been employed by Statnett since 1994 and is currently Head of the department responsible for operation of substations in Southern Norway, a part of the Operations Divisions. Bakke has extensive experience from different areas in Statnett. She holds a Master of Science in Electrical Engineering from the Norwegian University of Science and Technology (NTNU).

Grethe Hoiland

*Member of the Board of
Directors, elected in 2002*

Hoiland is Managing Director of Lyse AS. She has broad experience from senior executive posts in the energy sector and has served on a number of boards. Hoiland is a Graduate Engineer in Electrical Power Engineering from the Norwegian University of Science and Technology (NTNU) and has completed a Program in Business Administration at BI Norwegian School of Management. Hoiland was elected to the Statnett Board of Directors in 2002.

Kirsten Ingjerd Værdal

*Member of the Board of
Directors, elected in 2009*

Værdal has been Director of Agriculture with the County Governor of Nord-Trøndelag since 2007. She has held several senior executive posts in the food and agriculture industry. Værdal has served on several boards in the private and public sector. She is an agronomist and also holds degrees in finance and corporate management.

Pål Erland Opgård

*Employee representative,
elected in 2010*

Pål Erland Opgård was employed by Statnett in 1995. Since then he has been employed in the Regional Central North in Alta. Opgård holds a degree in engineering from Narvik University College. In 2010, Opgård was elected leader of the Norwegian Society of Engineers and Technologists (NITO). He has been a member of the Group's Board of Directors since 1999. Opgård has been an employee representative on the Board since 2010.

Per Hjorth

*Member of the Board of
Directors, elected in 2008*

Hjorth is Managing Director of Newsec AS, a commercial real estate brokerage and consultancy firm. Hjorth also serves on a number of boards, and has held a number of senior executive posts in industry, finance and the energy sector. He was President and CEO of Nord Pool ASA until 2000. Hjorth holds a degree in Economics and Business Administration from BI Norwegian School of Management and has been a member of Statnett's Board of Directors since 2008.





Some people
have no time
to rest.

Financial reporting

The hour of reckoning. The competitors have crossed the finishing line. Their thoughts are already far away. Now is not the time to rest on your laurels.

Statement of comprehensive income

Parent company		<i>Amounts in NOK million</i>		Note	Group	
2009	2010				2010	2009
OPERATING REVENUE						
2 663	6 980	Operating revenue regulated operations		2	6 980	2 663
155	218	Other operating revenue		2	267	199
2 818	7 198	Total operating revenues			7 247	2 862
OPERATING COSTS						
470	592	System services		3	592	469
708	1 058	Transmission losses		3	1 058	708
545	544	Wage costs		4,5,14	550	576
653	656	Deprec. & write-downs tang. fixed assets		6,7	666	662
877	1 040	Other operating costs		19	1 102	850
3 253	3 890	Total operating costs			3 968	3 265
-435	3 308	Operating profit/loss			3 279	-403
-	-	Income from joint ventures and associates		12,13	11	24
1 210	152	Financial income		8	105	118
400	327	Financial costs		8	337	407
375	3 133	Profit/loss before tax			3 058	-668
-199	854	Tax		11	860	-188
574	2 279	Profit/loss for the year			2 198	-480
OTHER COMPREHENSIVE INCOME						
-	1	Changes in fair value, held-for-sale investments			1	-
8	-10	Changes in fair value for cash flow hedges		9	-10	8
-2	3	Tax related to other comprehensive income		9	3	-2
6	-6	Other comprehensive income			-6	6
580	2 273	Total comprehensive income			2 192	-474
Disclosure of dispositions						
132	315	Proposed dividends				

Balance sheet

Parent company		Amounts in NOK million		Note	Group	
31 Dec. 2009	31 Dec. 2010				31 Dec. 2010	31 Dec. 2009
ASSETS						
INTANGIBLE FIXED ASSETS						
-	-	Goodwill		18	53	-
-	-	Other intangible fixed assets		18	13	-
-	-	Total intangible fixed assets			66	
FIXED ASSETS						
18	-	Deferred tax assets		11	-	-
15 642	16 175	Tangible fixed assets		6	16 396	15 870
1 160	1 848	Plant under construction		7	1 848	1 159
109	206	Investment in subsidiaries		12	-	-
138	36	Investment in joint ventures and associates		12	51	206
776	1 283	Financial fixed assets		9,10	1 118	623
17 843	19 548	Total fixed assets			19 413	17 858
CURRENT ASSETS						
602	879	Trade accounts and other short-term receivables		9,10,13	869	588
307	310	Investment in market-based securities		9,10	593	554
276	1 020	Liquid assets		9	1 129	342
1 185	2 209	Total current assets			2 591	1 484
19 028	21 757	Total assets			22 070	19 342
EQUITY AND LIABILITY						
EQUITY						
2 700	2 700	Contributed capital			2 700	2 700
2 647	4 788	Other equity accrued			4 950	2 918
-	-	Non-controlling interest			-22	-
5 347	7 488	Total equity			7 628	5 618
LONG-TERM LIABILITIES						
-	274	Deferred tax		11	334	31
369	344	Pension liabilities		5	345	369
-	67	Other liabilities			163	7
10 644	10 456	Long-term interest-bearing debt		9,10,16	10 456	10 644
11 013	11 141	Total long-term liabilities			11 298	11 051
CURRENT LIABILITIES						
1 696	1 302	Short-term interest-bearing debt		9,10	1 301	1 696
972	1 260	Trade acc. payable and other short-term debt		9,10	1 277	977
-	566	Tax payable		11	566	-
2 668	3 128	Total current liabilities			3 144	2 673
19 028	21 757	Total equity and liabilities			22 070	19 342

Oslo, 24 March 2011
The Board of Directors


Bjarne Aamodt
Chair of the Board


Thor Håkstad
Vice Chair of the Board


Kirsten Indgjerd Værdal


Grethe Høiland


Heidi Ekrem


Per Hjorth


Pål Erlend Opgård


Kjerstin Bakke


Steinar Joråndstad


Auke Lont
President and CEO

Statement of changes in equity

Parent company					Group					
Contributed capital	Funds	Other equity accrued	Total	Amounts in NOK million	Total	Non-controlling interest	Total equity assigned to owner of Statnett SF	Other equity accrued	Funds	Contributed capital
2 700	-3	2 569	5 266	01 Jan. 2009	6 585	-	6 585	3 888	-3	2 700
-	-	574	574	Profit/loss for the year	-480	-	-480	-480	-	-
-	6	-	6	Other comprehensive income	6	-	6	-	6	-
-	-	-	-	Changes from previous year *	6	-	6	6	-	-
-	-	-499	-499	Dividends paid	-499	-	-499	-499	-	-
2 700	3	2 644	5 347	31 Dec. 2009	5 618	-	5 618	2 915	3	2 700
2 700	3	2 644	5 347	01 Jan. 2010	5 618	-	5 618	2 915	3	2 700
-	-	2 279	2 279	Profit/loss for the year	2 198	-25	2 223	2 223	-	-
-	-6	-	-6	Other comprehensive income	-6	-	-6	-	-6	-
-	-	-132	-132	Dividends paid	-132	-	-132	-132	-	-
-	-	-	-	Non-controlling interest	28	28	-	-	-	-
-	-	-	-	Non-controlling interest in the event of acquisition	-78	-25	-53	-53	-	-
2 700	-3	4 791	7 488	31 Dec. 2010	7 628	-22	7 650	4 953	-3	2 700

* Changes from previous year is related to deviation between reported figures and final presented financial statement for subsidiaries in 2008.

Cash flow statement

Parent company		Amounts in NOK million	Note	Group	
2009	2010			2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES					
375	3 133	Profit/loss before tax		3 058	-668
-3	-6	Loss/ gain (-) on sale of fixed assets	6	-6	-3
653	656	Ordinary depreciation and write-downs	6,7	666	662
-	-70	Loss/ gain (-) on sale of investment in subsidiary, joint ventures and associates	12	-28	-
-	6	Tax paid for the period	11	6	-
379	310	Interest for the period recognised in income statement	8	306	370
37	23	Interest received for the period	8	29	35
-476	-362	Interest paid for the period	8	-362	-470
-517	-329	Changes in trade accounts receivable/payable	9	-348	-525
-938	431	Changes in other accruals	9	494	137
-	-	Result from companies consolidated using equity method	12	-11	-
-490	3 792	Net cash flow from operating activities		3 804	-462
CASH FLOW FROM INVESTING ACTIVITIES					
9	13	Proceeds from sale of tangible fixed assets	6	13	9
-1 257	-1 888	Purchase of tangible fixed assets and plant under construction	6,7	-1 892	-1 278
-	-	Merger NorGer net for cash acquired	18	-32	-
-	15	Change in investments in subsidiaries, associates and joint ventures	12	93	-
-11	41	Change in long-term loan receivables	9	56	-
6	2	Change in short-term loan receivables	9	-	-
1 129	22	Dividend received	8,12	22	1 129
-124	-1 795	Net cash flow from investing activities		-1 740	-140
CASH FLOW FROM FINANCING ACTIVITIES					
2 202	1 250	Proceeds from new interest-bearing borrowings	9	1 250	2 202
-1 251	-2 364	Repayment of interest-bearing debt	9	-2 364	-1 251
150	151	Proceeds from sale of market-based securities	9	305	293
-224	-158	Purchase of market-based securities	9	-336	-357
-499	-132	Dividends paid		-132	-499
378	-1 253	Net cash flow from financing activities		-1 277	388
-236	744	Net cash flow for the period		787	-214
512	276	Cash and cash equivalents at the start of the period	9	342	556
276	1 020	Cash and cash equivalents at the close of the period	9	1 129	342

Restricted tax deductions payable amounting to NOK 41 million for the parent company and NOK 42 million for the Group are included in cash and cash equivalents as of 31 December 2010.

Unused credit facilities of NOK 2 000 million are not included in cash and cash equivalents above.

Note 1

Note 1 IFRS accounting principles applicable for 2010

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, represented by the Royal Ministry of Petroleum and Energy (MPE). Statnett issues bond loans listed on the Oslo Stock Exchange. Statnett's registered head office is at Husebybakken 28B, 0379 Oslo, Norway.

Basis for preparation of the financial statements

The consolidated financial statements for the Statnett Group and the 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 liabilities 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.

New accounting standards

Below follows a list of new/revised/additional standards and interpretations that had come into effect as at 31 December 2010 for the fiscal year 1 January - 31 December 2010. Only matters assumed to be relevant for Statnett, have been included.

IFRS 3 (revised) Business Combinations

Several amendments, including measurement of goodwill related to non-controlling ownership interests and step acquisitions, contingent considerations and expensing of acquisition costs.

IAS 27 (revised) – Consolidated and Separate Financial Statements

Many amendments, including accounting of non-controlling ownership interests (the principle of uniformity), loss of control in subsidiaries where the reduced ownership interest is continued and distribution from subsidiaries/associates/joint ventures.

Below follows a list of new/revised/additional standards and interpretations that had been an-

nounced as at 31 December 2010, but that had not come into effect for the fiscal year 1 January - 31 December 2010. Only matters assumed to be relevant for Statnett have been included.

The Group management has 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:

Amendments to IFRS 7 Financial Instruments

– Information

The amendment concerns a note requirement related to the transfer of financial assets which the company continues to be involved in. The effective date for IFRS 9 has been set at 1 July 2011. However, the standard has not yet been approved by the EU. The Group expects to implement the standard as of 1 January 2012. The amendment to the standard is not expected to have any material impact on the financial statements of the Statnett Group.

IFRS 9 Financial Instruments

IFRS 9 will replace the recognition and measurement regulations in IAS 39 Financial Instruments – Recognition and Measurement for financial instruments. According to IFRS 9, financial assets that contain ordinary loan terms shall be carried at amortised cost, unless it is decided to carry them at fair value, while other financial assets shall be carried at fair value. The recognition and measurement rules relating to financial liabilities in IAS 39 will be continued, with the exception of financial liabilities designated at fair value with changes in value recognised through profit or loss (real value option), where changes in value associated with own credit risk are separated and recognised as other revenues and costs. The effective date for IFRS 9 has been set at 1 January 2013. However, the standard has not yet been approved by the EU. The Group expects to implement the standard as of 1 January 2013.

IAS 24 (revised) Related Party Disclosures

Compared with the applicable IAS 24, the revised standard clarifies and simplifies the definition of related parties. The effective date has been set at 1 January 2011. The Group expects to implement the revised IAS 24 standard as of January 1.

IASB's annual improvement project

Through its annual improvement project, the International Accounting Standards Board (IASB) has adopted amendments for a number of standards.

The amendments will be effective as of 1 July 2010. The amendments have still not been approved by the EU. The Group expects to apply the amendments as of 1 January 2011. The most important amendments that may have an impact on recognition, measurement and note information are listed below:

- IFRS 3 – Business combinations: A clarification has been included to the effect that the amendments to IFRS 7, IAS 32 and IAS 39 removing the exception for contingent considerations do not apply to business combinations where the acquisition date precedes the application of IFRS 3 (revised in 2008).

Furthermore, a restriction has been introduced limiting the scope of measurement alternatives for components relating to non-controlling ownership interests (minority interests).

- IFRS 7 – Financial instruments – information: Amendments have been adopted in the standard emphasising the interaction between quantitative and qualitative information and specifying the scope of risks relating to financial instruments. Amendments have also been adopted relating to note requirements in connection with quantitative information and information about credit risk.

- IAS 27 - Consolidated and separate financial statements: A clarification has been included to the effect that amendments to IAS 21, IAS 28, and IAS 31 following from the amendments to IAS 27, must be adopted prospectively for accounting periods starting on or after 1 July 2009, or sooner if IAS 27 has already been adopted.

- IAS 1 – Presentation of financial statements: A specification has been included to the effect that an analysis must be presented of each individual component relating to other revenues and costs for each individual component relating to the asset, either in the statement of amendments or in the notes to the financial statements.

- IAS 34 – Interim financial reporting: Guidelines have been included regarding the application of the information requirements in IAS 34. Further information requirements have also been specified relating to information which will affect the fair value of financial instruments and their classification, transfer between various categories of financial instruments in the fair value hierarchy, amendments relating to the recognition of financial assets and amendments relating to contingent liabilities and assets.

None of the above amendments 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 the management carries out assessments, estimates and assumptions that affect the application of accounting principles. This affects recognised amounts for assets and liabilities on the balance sheet date, reporting of contingent assets and liabilities, as well as the reported revenues and expenses for the period.

Accounting estimates are used to determine amounts that have an impact on Statnett's financial statements. This is performed on the basis of assumptions relating to values or uncertain conditions at the time of preparation. Central accounting estimates are estimates that are important to the Group's financial performance and results, requiring the management's subjective and complex assessment, often based on a need to prepare estimates on factors encumbered by uncertainty. Statnett assesses such estimates continuously on the basis of previous results and experiences, consultations with experts, trends, prognoses and other methods which Statnett deems appropriate in the individual case.

Provisions for liabilities relating to disputes and legal claims are recognised in the income statement when the Group has an existing liability, legal or self-imposed, as a result of an event that has taken place, and the amount can be measured reliably. It must also be demonstrated as probable that a financial settlement will take place. The provisions are measured to the best of the management's ability on the balance sheet date.

Insurance claims are considered a contingent asset and are not recognised as income until the income is all but certain. In connection with development projects where additional costs relating to the repair of damage constitute part of the facility's cost price, and there is no basis for write-down, insurance claims are recognised as a reduction of the project's acquisition costs. Such a reduction is contingent on the insurance company having acknowledged the damage and that the amount can be estimated reliably.

Significant items relating to Statnett's use of estimates:

Amounts in NOK mill			Group
Item	Note	Estimate/assumptions	Book value
Tangible fixed assets	6	Recoverable amount and estimate of correct remaining useful life.	16 396
Pension liabilities	5	Financial and demographic assumptions	345

Depreciation / Amortisation

Tangible fixed assets

Depreciation is based on the 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 estimated useful life of the asset and thus the depreciation. It is difficult to predict technological developments, and Statnett's view of how quickly any changes will come may change over time. If expectations change significantly, the depreciation periods will be adjusted with effect for future periods. Please refer to the more detailed discussion under "Tangible fixed assets" below.

Write-downs

Tangible fixed assets

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

Statnett expects to make substantial investments 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 plants under construction until the fixed asset is ready to be 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 the 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 the management's assumptions may result in write-downs for the relevant periods.

Goodwill

Cash-generating units allocated goodwill are evaluated for write-down annually, or more often if there are any indications of impairment in value. If the recoverable amount (the higher of the net sales and utility value) for the cash-generating unit is lower than the carrying value, the write-downs will first reduce the carrying value of any goodwill and then the carrying value of the unit's other assets, proportionally based on the carrying value of the individual assets in the unit. The carrying value of individual assets is not reduced below the recoverable amount or zero. Write-downs of goodwill cannot be reversed in a subsequent period if the fair value of the cash-generating unit increases. Impairment of value is included in the income statement as a part of write-downs.

Other intangible assets

At each reporting point, the Group considers whether there are any indications of impairment in value for intangible assets with a certain useful life. If there are any indications of impairment in value, the Group will estimate the recoverable amount for the assets and evaluate potential write-down. Intangible assets of undetermined useful life and intangible assets that have not been put into use are evaluated for write-down every year.

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 (estimate deviations) affect the fair value of the net pension liabilities, but are not recognised in the income statement until the cumulative estimated deviation exceeds 10 per cent of the higher of the pension liabilities or pension assets at the start of the fiscal year.

Consolidation policies

Consolidated companies

The consolidated financial statements comprise Statnett SF and subsidiaries in which Statnett SF has a controlling influence. These will normally 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 principles for equivalent transactions and other events under otherwise equal circumstances. The classification of items in the income statement and balance sheet has taken place in accordance with uniform definitions. The consolidated financial statements are prepared in accordance with the acquisition method of accounting and show 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 Pension Fund is not part of the Statnett Group. Contributed equity in the pension fund is measured at fair value and classified as fixed assets.

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Investments in joint ventures

Joint ventures are defined as entities in which there are contractual 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 amortisation of any excess value is reported on a separate line in the income statement between operating profit/loss and financial items. The accounts of joint ventures are restated in accordance with IFRS. Ownership interests in joint ventures are carried as fixed asset investments at original cost plus accumulated profit shares and less dividends in the consolidated balance sheet.

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 percent of the voting shares. 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. Ownership interests in associates are carried as financial fixed assets at original cost plus accumulated profit shares and less dividends in the consolidated balance sheet.

Purchase/sale of subsidiaries, joint ventures and associates

In the case of acquisition or 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 if they can be measured reliably. Value changes are recognised under other comprehensive income in the statement of comprehensive income.

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.

Business combinations

Business combinations are recognised according to the acquisition method. Acquisition costs are the total of the fair value on the acquisition date of assets acquired, liabilities incurred or taken over as compensation for control of the acquired enterprise, plus costs which can be directly attributed to business combinations.

The acquired enterprise's identifiable assets, liabilities and contingent liabilities which satisfy the conditions for accounting according to IFRS 3, are recognised at fair value at the time of acquisition, except for tangible fixed assets that are classified as held for sale and recognised at fair value less sales costs. Goodwill arising as a result of acquisitions is recognised as an asset measured as the excess of the total consideration transferred and the value of the minority interests in the acquired company beyond the net value of acquired identifiable assets and assumed liabilities. If the Group's share of the net fair value of the acquired enterprise's identifiable assets, liabilities and contingent liabilities exceeds the total consideration after re-assessment, the surplus amount is immediately recognised in the income statement.

Segment reporting

The company has identified its reporting segment based on the risk and rate of return that affect 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 separate business segments subject to reporting based on IFRS criteria. The parent company 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, and that have 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 taxes and fees. 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 the dividends are adopted.

Revenue cap, tariffs and higher/lower revenue

General

Statnett is the operator of the main national grids and three common regional grids. As the operator, Statnett is responsible for setting the annual tariffs (price of services) covering the regulated costs in each common grid. The main national grid is a common grid. In a fiscal year, a discrepancy will arise between the total revenues and the regulated revenues.

Revenue cap – grid leasing – monopoly operations

Statnett owns transmission grids (power lines and cables) leased to the market, either directly to the customer or via an operator. 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.

The basis for calculating the revenue cap is expenditures (including capital expenditures) for a retrospective period of two years. In addition, property tax and transit costs are covered in accordance with the actual costs. A supplement for investment is also granted.

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 interpretation of the regulations on the part of the Norwegian Water Resources and Energy Directorate (NVE), are only included in the accounts if it is considered all but certain that the revenue will be realised.

The revenue cap is recognised in the accounts at 1/12 per month. The revenue cap for Statnett is included on a gross basis as part of the operating revenue termed "Power Transmission".

Congestion revenues

Congestion revenues arise when the price of electricity differs between different price areas in the Nordic countries and between Norway and the Netherlands. When electricity is transmitted between different price areas a gain arises which is termed congestion revenues.

Rental of foreign cables

– outside the monopoly operations

Revenues from foreign cables where Statnett has an

ownership interest outside the Norwegian sector are based on contracts and are not included in Statnett's revenue cap. Revenue is recognised monthly at 1/12th of the annual contract amount. The revenue is reported together with the revenue cap as part of the operating revenue termed "Operating revenue regulated operations".

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 fiscal year is calculated by taking the actual measured loss (in MWh) two years prior to the fiscal year multiplied by a reference price on electricity in the fiscal year. The revenue cap relating to transmission losses for Statnett is included on a gross basis as part of the operating revenue termed "Operating revenues regulated operations."

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

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 depending on the temperature, the load in the grid and the electricity price. Losses arising during transmission of power in the main national grid and the common regional grids are covered by the grid's operator and are recognised 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 invoicing the users for the services they receive. The invoicing is done on the basis of a fixed price system (tariff model), in accordance with guidelines provided by the NVE. The price system consists of fixed elements and variable elements (the energy element). Fixed elements are invoiced evenly throughout the year, while the energy element is invoiced concurrently with the customers' 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 over time. The tariff is set ahead of the current year. The electricity price and other parameters included in the revenues and costs must then be estimated. Throughout the year and at the end of the year, discrepancies will therefore arise between invoiced tariffs and the accrued costs. This discrepancy is called higher or lower revenue.

Higher/lower revenue at year-end is taken into account when setting the tariffs for the following year.

Power sales/purchases

Statnett is the Transmission System Operator (TSO) and is responsible for the regulating power market 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 carries out 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 accrued costs of the executed work and estimated total project expenditure. Revenue is included in other operating revenues. Invoiced and accrued project revenues are included in trade accounts receivable.

Where projects are expected to result in a loss, the entire expected loss is recognised as an expense.

Taxes

Tax costs in the income statement encompass both the tax payable for the period and changes in the deferred tax liabilities/assets. Taxes payable are calculated on the basis of the taxable income 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 carried forward.

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

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 drawn one year before maturity. The first year's instalments on long-term loans are reclassified as current liabilities.

Plants under construction

Plants under construction are recognised in the balance sheet at acquisition cost less any accumulated losses from impairments. Plants under construction are not depreciated.

Pilot projects

The expenses for preliminary work (engineering) associated with investments are recognised in the balance sheet as plants under construction after an investment decision has been 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 plants under construction is capitalised in the balance sheet. The interest is calculated based on the average borrowing interest rate and scope of the investment, as 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

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in time when the asset was ready for 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 impairment in value. Tangible fixed assets in the parent company are regarded as one cash-generating unit and are assessed collectively since Statnett SF has a collective revenue cap. In subsidiaries each fixed asset is assessed individually. For most assets, the residual value is estimated at zero at the end of the useful life.

Gains or losses on the divestment or scrapping of tangible fixed assets are calculated as the difference between the sales proceeds and the fixed assets' carrying value. Gains/losses on divestment 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 as 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.

Intangible assets

Intangible assets bought separately are measured at acquisition cost on initial recognition. For intangible assets included in a business combination, acquisition cost is measured at fair value on the transaction date. In later periods, intangible assets are recognised at acquisition cost less accumulated amortisations and write-downs. Intangible assets with a fixed useful life are amortised over the asset's useful life which is assessed at least once a year. Intangible assets are amortised linearly as this best reflects the use of the asset.

Goodwill

Goodwill arising in a business combination is not amortised. Goodwill does not generate cash flows independently of other assets or groups of assets, and is allocated to the cash-generating units expected to benefit from the synergy effects of the business combination that generated the goodwill. Cash-generating units allocated goodwill are evaluated for write-down annually, or more often if there are any indications of impairment in value. If the recoverable amount (the higher of the net sales and utility value) for the cash-generating unit is lower than the carrying value, the write-downs will first reduce the carrying value of any goodwill and then the carrying value of the unit's other assets, proportionally based on the carrying value of the individual assets in the unit. The carrying value of individual assets is not reduced below the recoverable amount or zero. Write-downs of goodwill cannot be reversed in a subsequent period if the fair value of the cash-generating unit increases. Impairment of value is included in the income statement as a part of write-downs.

Write-down of tangible fixed assets and intangible assets other than goodwill

At each reporting point, the Group considers whether there are any indications of impairment in value for intangible assets with a specific useful life. If there are any indications of impairment in value, the Group will estimate the recoverable amount for the assets and evaluate potential write-down. Intangible assets of undetermined useful life and intangible assets that have not been put into use are evaluated for write-down every year.

The recoverable amount is the higher of the net sales and utility value. To assess the utility value, estimated future cash flows are discounted to present value using a pre-tax discount rate that reflects the current market assessments of the time value of money and risks 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 is subsequently reversed, 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 constant rate of return is achieved on the outstanding receivables over the term of the agreement. Direct expenses incurred in connection with the establishment 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 this can be estimated. 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 duration 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 is 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 duration 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 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

Trade accounts are recorded in the accounts at nominal value 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 degree of 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.

Dividend (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.

Pensions and pension liabilities

The parent company and subsidiaries operate pension schemes entitling the employees to future pension benefits (defined benefit schemes). 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 per cent of pensionable income less the State's pension payments under the Norwegian National Insurance Scheme. The pensionable income is limited upward to 12 times the basic amount under the National Insurance Scheme. The full qualifying period is 30 years and the normal retirement age is 67. The pension scheme also includes disability pensions, spouse pensions and children's pensions.

The Group management has a separate additional agreement under which the normal retirement age is 65 years, but with the possibility of retirement after reaching the age of 62. The retirement pension is 66 per cent of the pensionable income. The pensionable income also includes a base that exceeds 12 times the basic amount under the National Insurance Scheme. For more information, see Note 13 concerning Group management pensions.

The Group has a contractual early retirement scheme (AFP), which under given assumptions allows employees to choose early retirement between the ages of 62 and 67. The AFP payments will as a rule be equal to the State pension paid under the National Insurance Scheme at age 67. In connection with the discontinuance of the AFP scheme as of 31 December 2010, full provisions have been made for all pensioners born before 1 January 1948 who have accepted the offer of early retirement. A reduced provision has been recognised as a consequence of the change in the AFP scheme. For more information see Note 5. Spekter is the Group's contracting party under the old AFP-scheme.

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". The mortality risk table K2005, based on the best estimates for the populations in Norway, is applied.

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 at 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 schemes, 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 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 ten 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 2011 as an estimate of the situation at 31 December 2010.

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.

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 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, amortised cost and loans and receivables. The initial measurement of financial instruments is at fair value on the settlement date, normally at the transaction price.

- 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 fair value of financial instruments classified as available for sale are recognised as other comprehensive income until the disposal of the investment. The cumulative gain or loss on the financial instrument previously recognised in other comprehensive income 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

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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, provided that Statnett has no right or intention to settle the contracts net. 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 use hedge accounting for, 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 hedges

Fair value hedging is 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 re-measured 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 upon realisation.

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 as other comprehensive income, while the ineffective portion is recognised as financial income or cost.

Amounts that are recognised as other comprehensive income are recognised in the income statement as financial income or cost when the hedged transaction affects the profit or loss.

If the expected forecast transaction is no longer expected to take place, amounts recognised earlier as other comprehensive income will be recognised in the income statement as financial income or cost. 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 as other comprehensive income 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 as financial income or cost.

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

Financial risk management

Financial 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 Group companies use NOK as their functional currency.

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

Transactions in foreign currency are translated at the rate in effect on the date of transaction. Monetary items in foreign currencies are translated into 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 NOK 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 debt in foreign currency is related to interest rate and currency swaps and treated as borrowings in NOK.

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 liability. If there is a substantial time effect, the liability will be accounted for at the present value of future liabilities.

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 2

Note 2 Operating revenues

Operating revenues regulated operations

Statnett's revenues are derived mainly from activities regulated by the NVE. Statnett's actual operating revenues from the regulated operations come from fixed and variable tariff revenues in the main grid and the regional grid, as well as from congestion revenues.

Each year the NVE sets an upper limit, or cap, for Statnett's permitted revenue. This item corresponds to Statnett's revenue ceiling as well as revenue ceiling supplements in the year in question.

A discrepancy arises annually between Statnett's actual operating revenues from the regulated operations (the total of the tariff and congestion revenues) and the permitted revenue determined by the NVE. This discrepancy is known as higher revenue or lower revenue. Higher revenue means that Statnett has had higher operating revenues than the revenue cap set by the NVE for a particular year, whereas lower revenue means that Statnett's actual operating revenues have been lower than the permitted revenue cap.

Pursuant to the Norwegian Water Resources and Energy Directorate's regulations, any surplus in revenues must be returned to the customers in the form of lower prices in subsequent years. Correspondingly, lower revenues can be recouped by charging higher prices in subsequent years. The obligation to reduce future tariffs and the opportunity to collect increased tariffs does not qualify for capitalisation according to IFRS, consequently representing a latent obligation (in the event of accumulated higher revenue) and a latent receivable (in the event of accumulated lower revenue). Consequently, an annual change in these items will not be included in the income statement.

Statnett's actual operating revenues from the regulated operations equal the total of Statnett's permitted revenue set by the NVE and the higher/lower revenue the same year.

Specification of income on regional grid (R Grid) and main grid (M Grid)

OPERATING REVENUES	R Grid	M Grid	Total 2009	R Grid	M Grid	Total 2010
Tariff revenues fixed element generation	28	663	691	28	963	991
Tariff revenues fixed element consumption	47	1 123	1 170	37	4 112	4 149
Other rental income	117	5	122	77	74	151
Tariff revenues energy element	-6	648	642	3	1 154	1 157
Congestion revenues	-	384	384	-	893	893
Income from other owners in the regional grids	-24	-322	-346	-59	-302	-361
Total operating revenues regulated activities	162	2 501	2 663	86	6 894	6 980
PERMITTED REVENUE						
Revenue cap without grid losses	63	2 184	2 247	79	3 147	3 226
Revenue cap, grid losses	23	699	722	23	1 084	1 107
Supplement to revenue cap	20	733	753	12	458	470
Total permitted revenue / power transmission	106	3 616	3 722	114	4 689	4 803
This year's provision for interest higher/lower (-/+) revenue	-	2	2	-1	-9	-10
This year's changed balance for higher/lower (-/+) revenue, incl. interest	-56	1 117	1 061	27	-2 214	-2 187
Balance higher/lower (-/+) revenue incl. interest as at 1 Jan.	8	-436	-428	-48	681	633
Changed balance for higher/lower (-/+) revenue, incl. interest	-56	1 117	1 061	27	-2 214	-2 187
Balance higher/lower (-/+) revenue incl. interest as at 31 Dec.	-48	681	633	-21	-1 533	-1 554

Total operating revenues from regulated operations increased to NOK 4 291 million from 2009 to 2010. The increase was mainly due to higher tariff revenues as a result of a planned increase in fixed tariff components due to lower revenue in 2009, and an increase in the permitted revenue in 2010. The energy element has increased as a result of high electricity prices. Moreover, congestion revenues have increased as a result of significant price differences between different price areas.

Other operating revenues

Other operating revenues are revenues outside of the regulated activities and consist mainly of external consultancy commissions totalling NOK 55 million and rental income totalling NOK 42 million.

External assignments within the rest of the Group are carried out by Statnett Transport AS.

Note 2/3

Cont. note 2 Operating revenues

Balance settlement

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

1. A trading licence from the 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 players of Nord Pool Spot, in which case the member agreement is used (between Nord Pool Spot and the customer).

For 2010, the fees for this service totalled NOK 30 million. Outstanding trade accounts receivables relating to the balance accounting totalled NOK 68 million at 31 December 2010 and are disclosed as trade accounts and other short-term receivables.

By accepting the Balance Agreement, approved members (regulating power members) undertake 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 requirement 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 in accordance with the applicable rules. The rules for posting security can be amended at one week's notice. The amount of security posted totalled NOK 1 435 million at year-end 2010. The security posting requirement for regulating power members on the same date was NOK 1 102 million. All the regulating power members had posted satisfactory security under the Balance Agreement.

Note 3 System services and transmission losses

Parent company			Group	
2009	2010		2010	2009
<i>(Amounts in NOK million)</i>				
-	-4	Net regulating and peak power	-4	-
117	201	Primary reserves	201	117
50	79	Tertiary reserves	79	50
118	110	Transit costs	110	118
153	145	Special adjustments	145	153
32	61	Other system services	61	32
470	592	Total system services	592	470

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

Primary regulation

The frequency in the power grid must be 50Hz. Statnett, as Transmission System Operator, is responsible for ensuring that this frequency remains stable. The primary regulation is automatic and activated immediately if any changes occur in the power grid frequency. This is possible by using a pre-agreed reserve capacity. The requirement to maintain a reserve capacity for regulating purposes imposes limitations on the producers as they are unable to generate and sell the full generator capacity. Primary reserves are costs Statnett incurs by buying reserve capacity from the producers.

Tertiary regulation

In Norway there is an options market for regulating power. This is used to ensure that we have sufficient regulating resources in the Norwegian section of the regulating power market, also during periods of demand for increased output, such as in the winter months. In the winter, the Transmission System Operator sets up a market where they purchase a guarantee ensuring that market members submit bids for the RP list for the subsequent week. The guarantees can apply for both consumption and production.

Note 3/4

Transit costs

Transit costs are compensations for the use of grids abroad. The power system in Europe is connected through transmission lines/cables crossing international borders.

Special adjustments

In some cases there are restrictions in the transmission capacity (bottlenecks) which make it impossible to utilise the bids in the regulating power market in the "correct" price order. These adjustments are categorised as special adjustments and are compensated for by the associated price of the bid without this affecting the stipulation of the price of regulating power. Thus, Statnett will incur a cost equal to the difference between the price of activated bids used for special adjustments and the current hourly price mainly aimed at the regulating power market multiplied by the adjusted volume.

Transmission losses (power purchases)

Statnett buys transmission losses (quantity) from external supplies at spot price (market price) for the hour the transmission loss applies.

Parent company			Group	
2009	2010		2010	2009
2 263	2 289	Volume (GWh)	2 289	2 263
310	460	Price (NOK/MWh)	460	310
708	1 058	Transmission losses (mill NOK)	1 058	708

Note 4 Wage costs, employees

Parent company			Group	
2009	2010		2010	2009
<i>(Amounts in NOK million)</i>				
454	534	Wages	542	482
79	88	Employer's NICs	89	84
130	98	Pension costs	101	131
44	63	Total wage costs	57	41
707	783	Total wage costs	789	738
-162	-239	Of which own investment projects	-239	-162
545	544	Net wage costs	550	576
756	870	Number of full-time equivalents (FTEs)	900	794

Loans to employees

Employees had loans in the company totalling NOK 1 million as at 31 December 2010. 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 under the national insurance scheme is taxed at the current standard interest rate set by the authorities

Note 5

Note 5 Pensions and pension liabilities

The Group has secured pension rights through Statnett SFs Pensjonskasse

Parent company		Pension scheme members	Group	
2009	2010		2010	2009
1 144	1 292	Members of the pension fund	1 307	1 179
303	319	Of which pensioners	319	308
841	973	No. of active pension scheme members	988	871

Financial/actuarial assumptions, Parent company and Group	2010	2009
Discount rate	4,0 %	4,5 %
Expected return on pension assets	5,4 %	5,7 %
Expected pay adjustments	4,0 %	4,5 %
Expected pension adjustments	3,8 %	4,3 %
Expected adjustment of basic amount (G) under national insurance scheme	3,8 %	4,3 %
Remaining service period	20 years	14 years

Percentual breakdown of pension assets into investment categories, Parent company and Group as at 31 December	2010	2009
Property	0%	8%
Held-to-maturity bonds	32%	34%
Norwegian bonds	32%	20%
Foreign bonds	5%	5%
Norwegian money market	21%	22%
Hedge funds and international equities funds	0%	10%
Loans and receivables	1%	0%
Bank deposits	9%	1%
Total	100%	100%

Pension cost

Parent company		Defined benefit schemes	Group	
2009	2010		2010	2009
<i>(Amounts in NOK million)</i>				
98	107	Present value of this year's pension contributions	106	99
53	60	Interest cost of pension liability	60	54
-42	-46	Expected return on pension assets	-46	-43
21	-23	Actuarial gains/losses in income statement	-19	21
130	98	Net pension costs	101	131
18	14	Employer's contributions	14	19
148	112	Net pension cost incl. employer's contribution	115	150

The expected pension premium for 2011 is NOK 112 million for the parent company and NOK 114 million for the Group.

Secured pension liabilities and pension assets

Parent company		Defined-benefit schemes (Amounts in NOK million)	Group	
2009	2010		2010	2009
Secured	Secured		Secured	Secured
Change in gross pension liability				
1 419	1 465	Gross pension liability at 1 Jan.	1 478	1 432
98	109	Present value of the year's pension contributions	111	99
54	64	Interest cost of pension liability	64	54
-77	-30	Actuarial gains and losses	-30	-78
-13	-15	Employer's contribution on premium paid	-16	-13
-16	-20	Pension/paid-up policies paid out	-20	-16
1 465	1 573	Gross pension liabilities as at 31 Dec.	1 587	1 478
Change in gross pension assets				
762	877	Fair value of pension assets at 1 Jan.	886	770
47	52	Actual return on pension assets	52	48
-9	9	Actuarial gains and losses	9	-10
93	109	Premium paid	111	94
-16	-19	Pension/paid-up policies paid out	-20	-16
877	1 028	Actual value of pension assets as at 31 Dec.	1 038	886
588	545	Net pension liabilities as at 31 Dec.	549	592
-343	-289	Estimate variances not recognised in income statement	-292	-346
245	256	Net capitalised pension liability incl. employer's contribution at 31 Dec.	257	246
226	245	Net pension liabilities as at 1 Jan.	247	228
125	136	Pension cost recognised in income statement	137	126
-106	-125	Premium payments (excl. administrative expenses)	-127	-107
245	256	Net capitalised pension liability incl. employer's contr. at 31 Dec.	257	247
-	-	Capitalised pension assets at 31 Dec.	-	-
245	256	Capitalised pension liabilities at 31 Dec.	257	247

Note 5

Cont. note 5 Pensions and pension liabilities

Unsecured pension liabilities

Parent company		Defined-benefit schemes (Amounts in NOK million)	Group	
2009	2010		2010	2009
Unsecured	Unsecured		Unsecured	Unsecured
Change in gross pension liability				
176	192	Gross pension liability at 1 Jan.	192	176
13	11	Present value of the year's pension contributions	11	13
-	-105	Change in liability discontinuation of old AFP scheme	-105	-
7	4	Interest cost of pension liability	4	7
11	24	Actuarial gains and losses	24	11
-15	-14	Pensions/paid-up policies paid out	-14	-15
192	112	Gross pension liability at 31 Dec.	112	192
-	-	Fair value of pension assets at 31 Dec.	-	-
192	112	Net pension liability at 31 Dec.	112	192
-68	-24	Estimate variances not recognised in inc.statem.	-24	-69
124	88	Net capitalised pension liability incl. emp. contrib. at 31 Dec.	88	123
116	124	Net pension liability at 1 Jan.	123	114
23	-23	Pension cost recognised in income statement	-22	24
-15	-13	Pensions/paid-up policies paid out	-13	-15
124	88	Net capitalised pension liability incl. emp. contrib. at 31 Dec.	88	123
124	88	Capitalised pension liabilities at 31 Dec.	88	123

Total liabilities, assets and estimate variances for the last five years

PARENT COMPANY	2010	2009	2008	2007	2006
Gross defined-benefit pension liability at 31 Dec.	1 685	1 657	1 595	1 356	1 258
Fair value of pension assets at 31 Dec.	1 028	877	762	653	583
Net defined-benefit pension liability	657	780	833	703	674
Estimate variances not recognised in inc. Statement	-313	-411	-491	-372	-362
Book pension liability	344	369	342	331	312
GROUP					
Gross defined-benefit pension liability at 31 Dec.	1 699	1 670	1 608	1 370	1 272
Fair value of pension assets at 31 Dec.	1 038	886	770	661	589
Net defined-benefit pension liability	661	784	838	709	683
Estimate variances not recognised in inc. statement	-316	-415	-496	-375	-369
Book pension liability	345	369	342	334	314

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 2011 are based on the facts and circumstances at 31 December. Actual results may differ significantly from these estimates.

New pension liability and cost

	Current assumption	Discount-rate		Annual wage growth and change in basic amount (G)		Annual adjustment of pensions	
		-1%	+1%	-1%	+1%	-1%	+1%
Change in percentage points		-1%	+1%	-1%	+1%	-1%	+1%

(Amounts in NOK million)

PARENT COMPANY

Pension cost before adjustment for interest cost and return on pension assets (SC)	140	185	107	122	160	121	162
Defined-benefit pension liabilities - minimum pension liability (ABO)	1 241	1 488	1 050	1 237	1 244	1 102	1 407
Defined-benefit pension liabilities - presentvalue of pension liability (PBO)	1 601	1 967	1 325	1 488	1 731	1 422	1 815

GROUP

Pension cost before adjustment for interest cost and return on pension assets (SC)	141	186	109	123	162	123	164
Defined-benefit pension liabilities - minimum pension liability (ABO)	1 250	1 499	1 058	1 246	1 253	1 111	1 417
Defined-benefit pension liabilities - presentvalue of pension liability (PBO)	1 612	1 980	1 334	1 499	1 744	1 432	1 828

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.

Life expectancy and probability of disability and death within one year for different age groups

Age	Probability of disability		Probability of death		Life expectancy	
	Men	Women	Men	Women	Men	Women
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 5

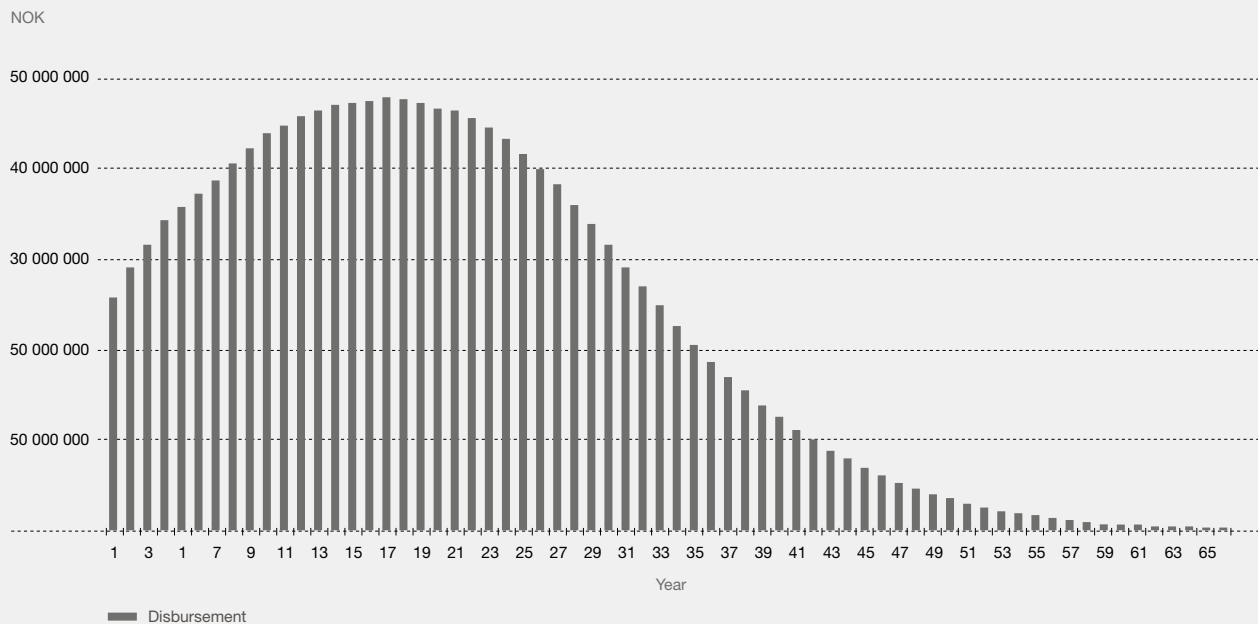
Cont. note 5 Pensions and pension liabilities

Pension disbursement flow Statnett SF

The average weighted maturity for pension liabilities, related to the main scheme in Statnett SF, is estimated at 20 years based on the pension assumptions at 31 December 2010. The choice of discount rate is based on average weighted maturity.

Statnett SF PBO presented as disbursement flow

Current value of future disbursements at 31 Dec. 2010



Note 6

Note 6 Tangible fixed assets

PARENT COMPANY	Electrotechnical equipment	ICT equip.	Buildings and land	Other operating equipment	Total
<i>(Amounts in NOK million)</i>					
Acquisition cost at 1 Jan. 2009	19 394	819	1 797	410	22 420
Correction previous year	-30	223	32	-225	-
Additions, acquisition cost	1 288	121	213	32	1 654
Disposals, acquisition cost	51	59	3	7	120
Acquisition cost at 1 Jan. 2010	20 601	1 104	2 039	210	23 954
Additions, acquisition costs	846	142	164	43	1 195
Disposals, acquisition cost	12	3	12	5	32
Acquisition cost at 31 Dec. 2010	21 435	1 243	2 191	248	25 117
Ord. Depreciation at 1 Jan. 2009	6 634	680	321	150	7 785
Correction previous year	-	41	1	-42	-
Ordinary depreciation for the year	444	97	58	19	618
Disposals, ordinary depreciation	30	56	-	5	91
Ordinary depreciation at 1 Jan. 2010	7 048	762	380	122	8 312
Ordinary depreciation for the year	473	93	63	22	651
Disposals, ordinary depreciation	9	2	5	5	21
Ordinary depreciation at 31 Dec. 2010	7 512	853	438	139	8 942
Book value at 31 Dec. 2009	13 553	342	1 659	88	15 642
Book value at 31 Dec. 2010	13 923	390	1 753	109	16 175
Of which financial leasing:					
31 Dec. 2009	242	52	234	-	528
31 Dec. 2010	233	60	219	-	512
Depreciation rate (straight-line) in %	1,8 - 6,6	5,0 - 33	0 - 2	10 - 33	

Note 6

Cont. note 6 Tangible fixed assets

GROUP	Electrotechnical equipment	ICT equip.	Buildings and land	Other operating equipment	Total
<i>(Amounts in NOK million)</i>					
Acquisition cost at 1 Jan. 2009	19 394	819	1 797	646	22 656
Correction previous year	-30	223	32	-225	-
Additions, acquisition cost	1 288	121	213	54	1 676
Disposals, acquisition cost	51	59	3	7	120
Acquisition cost at 1 Jan. 2010	20 601	1 104	2 039	468	24 212
Additions, acquisition costs	846	142	164	47	1 199
Disposals, acquisition cost	12	3	12	7	34
Acquisition cost at 31 Dec. 2010	21 435	1 243	2 191	508	25 377
Ord. Depreciation at 1 Jan. 2009	6 634	680	321	171	7 806
Correction previous year	-	41	1	-42	-
Ordinary depreciation for the year	444	97	58	28	627
Disposals, ordinary depreciation	30	56	-	5	91
Ordinary depreciation at 1 Jan. 2010	7 048	762	380	152	8 342
Ordinary depreciation for the year	473	93	63	32	661
Disposals, ordinary depreciation	9	2	5	6	22
Ordinary depreciation at 31 Dec. 2010	7 512	853	438	178	8 981
Book value at 31 Dec. 2009	13 553	342	1 659	316	15 870
Book value at 31 Dec. 2010	13 923	390	1 753	330	16 396
Of which financial leasing					
31 Dec. 2009	242	52	234	-	528
31 Dec. 2010	233	60	219	-	512
Depreciation rate (straight-line) in %	1,8 - 6,6	5,0 - 33	0 - 2	10 - 33	

The group electro-technical equipment mainly comprises installations in transformer and switching stations, overhead lines and earth and subsea cables.

Installations in transformer and switching stations have varying depreciation periods. (Transformers and other main components have a depreciation period of 30 - 50 years. Control systems normally have a depreciation period of 15 years.)

Overhead lines have a depreciation period of 55 years. Earth /subsea cables have a 40 to 55-year depreciation period.

Financial leasing is paid for in full in advance. This means that there are no future lease obligations related to financial leasing.

Note 7

Note 7 Plant under construction

Parent company			Group	
2009	2010		2010	2009
<i>(Amounts in NOK million)</i>				
1 570	1 164	Acquisition cost at 1 January	1 163	1 570
1 305	1 752	Additions during the year	1 752	1 305
-1 699	-1 059	Transferred to tangible fixed assets	-1 058	-1 700
-12	-	Write-offs	-	-12
1 164	1 857	Acquisition cost at 31 December	1 857	1 163
-11	-11	Accumulated write-downs	-11	-11
7	2	Effect, hedged forward exch. contracts	2	7
1 160	1 848	Balance sheet value at 31 December	1 848	1 159
-15	-	Write-downs(-)/reversals for the year	-	-15

Write-downs

Write-downs relate to cable projects to the Continent and associated grid updates 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.

Specification of additions during the year

Parent company			Group	
2009	2010		2010	2009
<i>(Amounts in NOK million)</i>				
828	1 149	Materials and subcontractors	1 149	828
160	235	Wages, social security costs	235	160
266	325	Other operating costs	325	266
1 254	1 709	Total operating costs	1 709	1 254
51	43	Interest on construction loans	43	51
1 305	1 752	Total	1 752	1 305

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

	2010	2009
	3,23 %	3,96 %

Overview of major projects in progress included in plant under construction as at 31 Dec. 2010

	Accrued costs	Future contractual obligations
<i>(Amounts in NOK million)</i>		
Ytre Oslofjord	312	611
Ørskog-Fardal	143	-
Sima - Samnanger	119	270
Varangerbotn - Skogfoss	114	177
Sauda-Liastølen	107	56
Reactive compensation Eastern Norway	98	39
Narvik transformer station	57	45
Renewal of Statnett's central operations system	55	130
Other	843	
Total plant under construction	1848	

Note 8/9

Note 8 Financial items - profit/loss

Financial income and financial costs

Parent company			Group	
2009	2010		2010	2009
<i>(Amounts in NOK million)</i>				
Financial income				
-	2	Income from investment in subsidiary	-	-
-	92	Income from investment in joint ventures	28	-
1129	-	Income from investment in associates	-	-
49	32	Interest income	37	52
9	5	Change in value of derivatives	5	9
23	21	Other financial income	35	57
1210	152	Total financial income	105	118
Financial costs				
427	342	Interest costs	343	427
-51	-43	Capitalised construction loan interest	-43	-51
24	28	Other financial costs	37	31
400	327	Total financial costs	337	407

Note 9 Financial items - balance sheet

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.

The fair value of financial assets and long-term liabilities accounted for at amortised cost has been calculated:

- 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 interest rate that applies to corresponding liabilities and assets on the balance sheet date.

In the case of financial instruments such as available for sale financial assets, trade account receivables and other short-term receivables, liquid assets, 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	Category	31 Dec. 2010		31 Dec. 2009	
		Book value	Fair value	Book value	Fair value
<i>(Amounts in NOK million)</i>					
ASSETS					
Fixed assets					
Long-term receivables	Amortised cost	161	161	203	206
Subord. capital in Statnett SFs Pensjonskasse	Fair value	75	75	15	15
Financial assets available for sale	Financial assets available for sale	5	5	4	4
Derivatives	Fair value	1 042	1 042	554	554
Total fixed asset investment		1 283	1 283	776	779
Current assets					
Trade accounts receivable	Loans and receivables	443	443	250	250
Derivatives	Fair value	114	114	65	65
Other short-term receivables	Loans and receivables	322	322	287	287
Total trade accounts and other short-term receivables		879	879	602	602
Investment in market-based securities	Fair value	310	310	307	307
Liquid assets	Fair value	1 020	1 020	276	276
LIABILITIES					
Long-term interest-bearing debt	Amortised cost	10 427	10 469	10 614	10 621
Derivatives	Fair value	29	29	30	30
Total long-term interest-bearing debt		10 456	10 498	10 644	10 651
Short-term interest-bearing debt	Amortised cost	1 301	1 301	1 660	1 660
Derivatives	Fair value	1	1	36	36
Total short-term interest-bearing debt		1 302	1 302	1 696	1 696
Trade accounts payable and other short-term debt	Loans and receivables	1 260	1 260	972	972

Note 9

Cont. note 9 Financial items - balance sheet

GROUP	Category	31 Dec. 2010		31 Dec. 2009	
		Book value	Fair value	Book value	Fair value
<i>(Amounts in NOK million)</i>					
ASSETS					
Fixed assets					
Long-term receivables	Amortised cost	-	-	50	53
Subord. capital in Statnett SFs Pensjonskasse	Fair value	75	75	15	15
Financial assets available for sale	Financial assets available for sale	5	5	4	4
Derivatives	Fair value	1 038	1 038	554	554
Total fixed asset investments		1 118	1 118	623	626
Current assets					
Trade accounts receivable	Loans and receivables	461	461	272	272
Derivatives	Fair value	114	114	65	65
Other short-term receivables	Loans and receivables	294	294	251	251
Total trade accounts and other short-term receivables		869	869	588	588
Investment in market-based securities	Fair value	593	593	554	554
Liquid assets	Fair value	1 129	1 129	342	342
LIABILITIES					
Long-term interest-bearing debt	Amortised cost	10 427	10 469	10 614	10 621
Derivatives	Fair value	29	29	30	30
Total long-term interest-bearing debt		10 456	10 498	10 644	10 651
Short-term interest-bearing debt	Amortised cost	1 300	1 300	1 660	1 660
Derivatives	Fair value	1	1	36	36
Total short-term interest-bearing debt.		1 301	1 301	1696	1 696
Total trade accounts and other short-term receivables	Amortised cost	1 277	1 277	977	977

Financial instruments recognised at fair value according to the valuation method

As at 31 Dec. 2010

PARENT COMPANY	Level 1	Level 2	Level 3	Total
<i>(Amounts in NOK million)</i>				
Assets				
Subord. capital in Statnett SFs Pensjonskasse	-	-	75	75
Financial assets available for sale	-	-	5	5
Derivatives	-	1 156	-	1 156
Investment in market-based securities	310	-	-	310
Liquid assets	1 020	-	-	1 020
Total assets	1 330	1 156	80	2 566
LIABILITIES				
Derivatives	-	30	-	30
Total liabilities	-	30	-	30

GROUP*(Amounts in NOK million)*

Assets				
Subord. capital in Statnett SFs Pensjonskasse	-	-	75	75
Financial assets available for sale	-	-	5	5
Derivatives	-	1 156	-	1 156
Investment in market-based securities	593	-	-	593
Liquid assets	1 129	-	-	1 128
Total assets	1 722	1 156	79	2 957
LIABILITIES				
Derivatives	-	30	-	30
Total liabilities	-	30	-	30

Reconciliation of level 3 in fair value measurements.

Parent company			Group	
2009	2010		2010	2009
15	75	Subord. capital in Statnett SFs Pensjonskasse	75	15
4	5	Financial assets available for sale	5	4
19	80	Total market level 3	80	19

In 2010, NOK 60 million of subordinated capital was deposited to the Statnett SFs Pensjonskasse. There have been no changes in value during the period.

Level 1: Fair value is used for quoted prices from active markets for identical financial instruments. No adjustments are made with regard to these prices.

Level 2: Fair value is measured using other observable input than for Level 1, either direct (prices) or indirect (derived from prices).

Level 3: Fair value is measured using input not based on observable market data.

Note 9

Cont. note 9 Financial items - balance sheet

Interest-bearing assets and liabilities

Repayment profile for interest-bearing debt for the parent company

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

Maturity date	2011	2012	2013	2014	2015-	Sum
<i>(Amounts in NOK million)</i>						
Fixed-rate loans						
Bond loans	801	1 617	-	684	5 168	8 270
Total fixed-rate loans	801	1 617	-	684	5 168	8 270
Floating rate loans						
Certificate loans	500					500
Bond loans	-	499	-	400	168	1 067
Loans from financial institutions		91	91	91	1 618	1 891
Total floating rate loans	500	590	91	491	1 786	3 458
Total short term debt	1 301					1 301
Total long term debt	-	2 207	91	1 175	6 954	10 427
Total interest-bearing debt	1 301	2 207	91	1 175	6 954	11 728

Loans by currency as at 31 Dec. 2010 Information about interest-bearing debt

Currency (Amounts in NOK million)

Currency	Average interest rate ¹⁾	Loans in currency	Loans in currency
NOK	3,31%	6 761	6 761
JPY	2,72%	9 000	692
CHF	2,81%	625	4 107
SEK	2,87%	200	168
Total			11 728

¹⁾ All foreign currency loans are converted to NOK using currency and interest swap agreements. The average interest rate for the loans includes interest swap agreements. The interest is the average interest rate as at 31 Dec. 2010

Fixed-rate terms in the loan portfolio	2011	2012	2013	2014	2015-	Sum
<i>(Amounts in NOK million)</i>						
	9 823			400	1505	11 728

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.

Market-based securities as at 31 Dec. 2010

Parent company			Group	
Acquisition cost	Book value		Acquisition cost	Book value
<i>(Amounts in NOK million)</i>				
-	-	Time deposit	20	20
79	79	Government	90	90
44	44	Municipals/municipal operations	90	89
98	101	Financial institutions, incl. Banks	165	170
84	86	Private/industry	171	173
305	310	Total bonds	516	522
-	-	Norwegian eq. funds	21	25
-	-	Foreign eq. funds	23	26
-	-	Total equities funds	44	51
305	310	Total market-based securities	580	593

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

Unrealised higher/lower value decreased during the period from NOK 7 mill to NOK 5 mill.

This resulted in a loss of NOK 2 mill in 2010 and has been recognised against financial income.

Age distribution trade accounts

	Not due	1-30 days	31-60 days	61-90 days	Over 90 days	Total trad acct rcvb
PARENT COMPANY	406	32	4	-	1	443
GROUP	407	32	4	-	18	461

No provisions have been made for losses on claims.

Note 9

Cont. note 9 Financial items - balance sheet

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	Principal Lending	Principal Borrowing	Market value*	Change in value***	Interest rate terms Statnett receives	Interest rate terms Statnett pays
<i>(Amounts in NOK million)</i>						
Free-standing **						
2015	NOK 200	NOK 200	11	9	Fixed rate	Nibor 6 months
2015	NOK 200	NOK 200	-3	-9	Nibor 6 months	Fixed rate
Total			8	-		
Cash flow hedging						
2014	NOK 200	NOK 200	-5	-8	Nibor 6 mnd.	Fast
2014	NOK 200	NOK 200	-3	-7	Nibor 6 mnd.	Fast
Sum			-8	-15		
Fair value hedging***						
2011	CHF 125	NOK 688	111	77	Fixed rate CHF	Nibor 6 months
2012	CHF 250	NOK 1245	372	170	Fixed rate CHF	Nibor 6 months
2014	NOK 300	NOK 300	3	11	Fixed rate	Nibor 6 months
2014	JPY 5000	NOK 296	85	50	Fixed rate JPY	Nibor 6 months
2015	NOK 50	NOK 50	2	2	Fixed rate	Nibor 6 months
2017	CHF 250	NOK 1290	401	228	Fixed rate CHF	Nibor 6 months
2019	JPY 4000	NOK 201	109	47	Fixed rate JPY	Nibor 6 months
2020	NOK 300	NOK 300	24	17	Fixed rate	Nibor 6 months
2020	NOK 60	NOK 60	-2	3	Fixed rate	Nibor 6 months
2021	SEK 200	NOK 180	-12	3	SEK Stibor 3 months	Nibor 6 months
2023	NOK 600	NOK 600	19	32	Fixed rate	Nibor 6 months
2025	NOK 600	NOK 600	16	31	Fixed rate	Nibor 6 months
Sum			1128	671		

* 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 free-standing derivatives are related to underlying loans, but hedge accounting is not used.

*** Changes in value in fair value hedges have no effect on the result.

At 31 December 2010, Statnett had no interest rate swaps with start in the future.

Forward exchange options

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

Currency	Nominal amount in currency	Nominal amount in NOK	Average hedge rate	Market rate*	Market value
<i>(Amounts in NOK million)</i>					
SEK	131	111	0,85	0,87	3
EUR	18	150	8,34	8,06	-5
Total forward exchange contracts		261			-2

*The market rate is the average forward rate.

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

Commodity contracts

Statnett had no commodity contracts at 31 December 2010.

Changes in the value of cash flow hedges

Parent company			Group	
2009	2010		2010	2009
<i>(in NOK million)</i>				
-7	1	Fair value of cash flow hedges OB	1	-7
8	-10	Value change through the year*	-10	8
1	-9	Fair value of cash flow hedges CB	-9	1

* The value changes are pre-tax and recognised in the Statement of comprehensive income under Other comprehensive income.

Note 10

Note 10 Financial risk management

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.

Capital management

The enterprise has liabilities and equity as specified in the balance sheet. The loan agreements do not impose any capital requirements on the enterprise which are expected to restrict the capital structure of the enterprise. Nor are there any explicit equity requirements other than those stipulated in applicable laws and regulations. However, the State, as the owner, has confirmed that Statnett shall have a financial position which enables the enterprise to carry out all socio-economically profitable grid investments. Specific target figures for the enterprise's financial position have not been determined.

If necessary, Statnett may request more equity from the owner.

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 access to capital in the financial markets and periods with less favourable borrowing conditions.

Statnett reduces liquidity risk related to maturity of financial liabilities by having a spread maturity structure, access to several sources of financing in Norway and abroad, as well as sufficient liquidity to cover scheduled operations, investment and financing needs without incurring any new debt within a time horizon of 12 months. Liquidity comprises existing cash and cash equivalents (bank/time deposits, certificates and bonds) and credit facility. In January 2011, Statnett entered into a new agreement for a credit facility of NOK 3.5 billion to allow for the enterprise's increase in liabilities. The former agreement had a credit facility of NOK 2 billion. Liquidity is followed up continuously with weekly reporting.

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 A2 respectively. The high credit ratings afford Statnett SF good borrowing opportunities.

The table below shows all gross cash flows related to financial liabilities.

The cash flows have not been discounted and are based on interest rates and exchange rates as at 31 Dec.2010.

PARENT COMPANY	Under 1 year	1 to 5 years	5 years +	Total
<i>(Amounts in NOK million)</i>				
At 31 Dec. 2010				
Interest-bearing debt and interest rate payments	1 646	5 149	6 416	13 211
Other liabilities	-	-	67	67
Trade accounts payable and other short-term debt	1 260	-	-	1 260
Derivatives	1 028	2 218	2 315	5 561
Total	3 934	7 367	8 798	20 099

Derivatives	Under 1 year	1 to 5 years	5 years +	Total
Received	1 165	2 740	2 782	6 687
Disbursed	-1 028	-2 218	-2 315	-5 561
Net derivatives	137	522	467	1 126

GROUP	Under 1 year	1 to 5 years	5 years +	Total
<i>(Amounts in NOK million)</i>				
At 31 Dec. 2010				
Interest-bearing debt and interest rate payments	1 646	5 149	6 416	13 211
Other liabilities	-	-	163	163
Trade accounts payable and other short-term debt	1 277	-	-	1 277
Derivatives	1 028	2 218	2 315	5 561
Total	3 951	7 367	8 894	20 212

Derivatives	Under 1 year	1 to 5 years	5 years +	Total
Received	1 165	2 740	2 782	6 687
Disbursed	-1 028	-2 218	-2 315	-5 561
Net derivatives	137	522	467	1 126

Credit risk

Statnett SF is exposed to credit risk through the investment of surplus liquidity with issuers of securities and through 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 least once a year, and the counterparty risk is continually monitored to ensure that Statnett's exposure does not exceed the set credit limits and is in compliance with internal rules.

Maximum credit exposure

Parent company			Group	
2009	2010		2010	2009
<i>(Amounts in NOK million)</i>				
276	1 020	Liquid assets	1 128	342
-	-	Time deposit	20	10
307	310	Bonds and certificates	522	458
617	1 156	Derivatives	1 156	617
203	161	Long-term receivables	-	50
529	765	Trade accounts and other short-term receivables	755	511
1 932	3 412	Total maximum credit exposure	3 581	1 988

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 swap agreements. The liabilities undertaken by Statnett in foreign currencies in connection with investment projects are hedged using currency swaps. At 31 Dec. 2010, the only currency exposure that has not been swapped or transferred to future payments or bank deposits in foreign currency totalled NOK 28 million for the parent company and foreign equity funds and equities totalled NOK 19 million for the Group.

Exchange rate sensitivity

Parent company		Change in NOK exch. Rate in %	Group	
2009	2010		2010	2009
<i>(Amounts in NOK million)</i>				
-3	-1	+5	-2	-5
3	1	-5	2	5

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/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 the value of the derivative.

Note 10/11

Cont. note 10 Financial risk management

Interest rate risk

The Statnett Group is exposed to interest rate risk through its loan portfolio, liquid assets and financial hedges. Statnett SF is also 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.

Exchange rate sensitivity

The following table shows the sensitivity of the parent company and the Group to potential changes in interest rate levels. The calculation takes account of all interest-bearing instruments and associated interest rate derivatives. It shows the effect on the result as a result of change in the interest rate levels at 31 December 2010

Effect on result Parent company		Change in interest rate level	Effect on result Group	
2009	2010		2010	2009
<i>(Amounts in NOK million)</i>				
-6	-7	+1%-point	-11	-9
6	7	-1%-point	11	9

Average effective interest rate

The table below shows the average effective interest rate for the individual financial instruments for the full years 2009 and 2010.

Parent company			Group	
2009	2010		2010	2009
5,78%	4,16%	Bonds and certificates	4,01%	5,98%
2,47%	2,22%	Deposits	2,24%	2,46%
-	-	Shares and equities funds	11,23%	43,63%
3,69%	3,11%	Loans	3,11%	3,69%

Note 11 Taxation

Parent company			Group	
2009	2010		2010	2009
<i>(Amounts in NOK million)</i>				
TAX ON RESULT				
-	566	Tax payable	566	-
-6	-6	Tax payable received as result of Government stimulus package	-6	-11
6	6	Change in deferred tax benefit as a result of Government stimulus package	6	11
-199	288	Change in deferred tax/tax benefit	294	-188
-199	854	Tax charge	860	-188
-	566	Tax payable for the year	566	-
-	566	Tax payable	566	-
-199	288	Deferred tax/tax benefit as a result of changes in temporary differences	294	-188
-53%	27%	Effective tax rate	28%	28%

Parent company			Group	
2009	2010		2010	2009
Reconciliation of effective tax rate with Norwegian tax rate				
-	-	Profit/loss before tax	3058	-668
375	3 133	28% tax	856	-187
105	877	Permanent differences 28%	14	6
-304	-17	Share of profit/loss in joint resultat i KS, joint ventures and associates	-10	-7
-	-6	Tax charge	860	-188
-199	854			
DEFERRED TAX (-)/TAX ASSETS IN THE BALANCE SHEET				
-	-	Other intangible assets	-4	-
-315	-434	Fixed assets	-452	-327
32	27	Profit and loss account	26	31
-12	-	Receivables	6	-1
-	-	Technical provisions (insurance)	-54	-53
103	96	Pensions	97	103
-2	-4	Securities and financial instruments (excl. cash flow hedges)	-3	-1
-	2	Cash flow hedges	2	-
18	39	Other tax-related provisions	39	18
194	-	Tax loss carry-forward	9	199
18	-274	Total deferred tax(-)/tax assets (net)	-334	-31

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 previous years. The tax loss for the income years 2009 and 2008 could thus be carried back and deducted from the income years 2006 and 2007.

Undertakings with a loss in 2008 and/or 2009 would be paid the tax value of the loss (28%) at the tax settlement in the autumn of 2009 and 2010. The deduction was granted automatically, without any claim from the undertakings. For each of the income years, there was a limit on NOK 20 million for losses that could be carried back. This meant that every company with a tax loss carry-forward could be paid up to NOK 5.6 million for the years 2008 and 2009.

Under IAS 12 Income Taxes and IAS 10 Events after the Balance Sheet Date, changes in tax laws after the balance sheet date cannot effect the accounting. IAS 12.47 states that assets and liabilities at deferred tax should be measured at the tax rates which are expected to apply to the period when the asset is realised or the liability settled, based on the tax rates (and tax rules) that have been enacted or substantively enacted on the balance sheet date.

Statnett SF and Statnett Transport AS both had a tax loss carry-forward in 2008 exceeding NOK 20 million. This meant that both companies were paid NOK 5.6 million at the tax settlement in the autumn of 2009. The payments caused the tax loss carry-forward in the parent company and the Group to decrease by NOK 20 and 40 million respectively at the disbursement in the autumn of 2009. For 2009, Statnett SF had a tax loss exceeding NOK 20 million, whereas Statnett Transport AS in 2009 had a tax loss of NOK 1.8 million. This meant that both companies were paid 5.6 and 0.5 million respectively at the tax disbursement in the autumn of 2010.

On 28 June 2010, Statnett SF became the owner of 50 per cent of the shares in NorGer AS. This limited company owns only 10 per cent of NorGer KS. In the consolidation period NorGer AS made a loss of 4.9 million. Due to uncertainty with regard to future application of the tax loss carry-forward the deferred tax benefit in this company has not been recorded in the balance sheet.

Note 11

Cont. note 11 Taxation

Changes in temporary differences

Parent company	31 Dec. 2009	Recognised	Other comprehensive income	Carried against EQ	31 Dec. 2010
Fixed assets	1 125	426			1 551
Profit and loss account	-115	18			-97
Receivables	42	-43			-1
Pensions	-369	25			-344
Securities and financial instruments (excl. cash flow hedges)	7	7			14
Cash flow hedges	1		-9		-8
Other provisions	-63	-74			-137
Tax loss carry-forward	-692	692			-
Total	-64	1 051	-9	-	978

Group	31 Dec. 2009	Recognised	Other comprehensive income	Carried against EQ	31 Dec. 2010
Other intangible assets				14	14
Fixed assets	1 169	443			1 612
Profit and loss account	-112	17			-95
Receivables	4	-26			-22
Technical provisions (insurance)	189	4			193
Pensions	-369	24			-345
Securities and financial instruments (excl. cash flow hedges)	2	10			12
Cash flow hedges	1		-9		-8
Other provisions	-63	-75			-138
Tax loss carry-forward	-710	678			-32
Total	111	1 075	-9	14	1 191

Note 12

Note 12 Investments in subsidiaries, joint ventures and associates

Statnett SF had the following investments at 31 December 2010:

Company	Type	Year of acquisition	Registered office	Ownership interest	Voting rights	Book value
<i>(amounts in NOK thousand)</i>						
Subsidiaries						
Statnett Transport AS	Subsidiary	1996	Oslo	100,0 %	100,0 %	79 221
Statnett Forsikring AS	Subsidiary	1998	Oslo	100,0 %	100,0 %	30 200
Nord.Link AS	Subsidiary	2010	Oslo	100,0 %	100,0 %	500
Noreveien 26 AS	Subsidiary	2010	Oslo	100,0 %	100,0 %	100
NorGer AS	Subsidiary	2010	Kristiansand	50,0 %	50,0 %	9 790
NorGer KS	Subsidiary	2010	Kristiansand	45,0 %	50,0 %	86 382
Total subsidiaries						206 193
Associates						
Nord Pool Spot AS	Associate	2002/2008	Bærum	30,0 %	30,0 %	36 320
Total interests in subsidiaries, joint ventures and associates						242 513

Group value of companies recorded according to the equity method

	Group value at 1 Jan.	Result for the year	Dividend	Group value 31 Dec.
<i>(amounts in NOK thousand)</i>				
2010				
Nord Pool ASA, 50 % 1)	159 301			
Nord Pool Spot AS, 30 %	46 660	4 420		51 080
Total joint ventures and associates	205 961	4 420	-	51 080
1)The company was sold on 30 April 2010.				
2009				
Nord Pool ASA, 50 %	1 267 500	20 801	-1 129 000	159 301
Nord Pool Spot AS, 30 %	43 595	3 065		46 660
Total joint ventures and associates	1 311 095	23 866	-1 129 000	205 961

There is no change in investments in 2009.

Changes in investments in subsidiaries, joint ventures and associates

Statnett established the company Nord.Link AS on 10 February 2010. There have been no activities in the company in 2010.

Statnett sold its 50 per cent ownership interest in Nord Pool ASA to NASDAQ OMX in April. The Group's gain from the transaction is included in financial income.

In June 2010, Statnett purchased ownership interests of 50 per cent in NorGer AS and 45 per cent in NorGer KS. NorGer AS has a direct interest of 10 per cent in NorGer KS. Directly and indirectly, Statnett SF owns 50 per cent of NorGer KS. Both NorGer AS and NorGer KS are accounted for as subsidiaries.

In July, the subsidiary Statnett Transport AS sold 100 per cent of its shares in Statnett Transport Bemanning AS to Møkster AS.

Statnett purchased all shares in Noreveien 26 AS in the autumn of 2010. The Company holds the right of ownership to the property Noreveien 26.

There have been no transactions relating to investments in subsidiaries, joint ventures or associates in 2009.

Note 13

Note 13 Related parties

At 31 December 2010, Statnett SF was wholly-owned by the Norwegian State through the Ministry of Petroleum and Energy (MPE). Statnett has the following relations with the MPE:

Regulatory authority

The Norwegian parliament (Stortinget) is the legislative authority that passes legislation based on bills put forward by the government. Regulations are adopted by the King in Council. The MPE 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 the NVE can be appealed to the superior authority, the MPE.

Loans

The MPE is the guarantor for loans raised prior to 1 January 2003. See note 9.

Other related parties:

Parent	Subsidiary	Associate
Statnett SF	Statnett Transport AS	Nord Pool Spot AS
	Statnett Forsikring AS	
	Noreveien 26 AS	
	Nord.Link AS	
	NorGer KS	
	NorGer AS	

Related party transactions

The Group has carried out a number of 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:

Statnett Forsikring AS is licensed to provide cover for risks associated with companies in the Statnett Group, and operates both as a direct personal insurance company and a non-life insurance company. The company is also a reinsurer of Statnett's risks covered by other insurers. Statnett SF has carried to expense premiums totalling NOK 51 million for 2010 (NOK 44 million in 2009). For 2010, the recognised premium and reinsurance premium in Statnett Forsikring AS of NOK 33 million (NOK 27 million in 2009) have been eliminated in the consolidated financial statements.

Statnett Transport AS operates a heavy transport business on land and sea, and sold transport services to Statnett SF for NOK 48 million in 2010 (NOK 40 million in 2009), including preparedness services for NOK 31 million (NOK 27 million in 2009).

Statnett SF has a long-term receivable of NOK 161 million on Statnett Transport AS at 31 December 2010. The receivable arose in connection with the transfer of the vessel Elektron. Under the sales agreement, the interest rate on the claim is calculated at NIBOR + 1 per cent. Interest falls due on demand. Statnett Transport AS paid no interest in 2008, 2009 and 2010. Accrued interest at 31 December 2010 totalled NOK 19 million.

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

In 2010, Statnett SF received dividends totalling NOK 24.2 million. Statnett SF received NOK 22 million from Nord Pool ASA, and NOK 2.2 million from Statnett Forsikring AS. In 2009, Statnett SF received a dividend of NOK 1 129 million from Nord Pool ASA.

Statnett SF carries out certain administrative tasks for Statnett Transport AS and Statnett Forsikring AS. The salary to the employees of Statnett Forsikring is paid by Statnett SF but then charged to the subsidiary. For 2010, Statnett SF has charged Statnett Transport AS NOK 1.7 million and Statnett Forsikring AS NOK 2 million. The comparative figures for 2009 were NOK 1.5 million charged to Statnett Transport and NOK 2 million to Statnett Forsikring.

Joint venture partners

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 of the cable, with Statnett owning the northern part and TenneT the southern part. The NorNed cable became operational in May 2008. Costs and revenues from the operation of the NorNed cable are shared equally between TenneT and Statnett.

The MPE has given its approval for Statnett and TenneT to perform explicit auction as a temporary trading solution for power exchange between Norway and the Netherlands up until 31 December 2010. On 14 January 2011, the auctioning changed to implicit auction.

The Danish system operator Energinet.dk and Statnett have been granted a licence to install a cable for transmission of energy between Norway and Denmark, called Skagerak 4. Each party will own its physical half of the cable, with Statnett owning the northern part and Energinet.dk the southern part. The cable is scheduled to be put into operation in 2014.

Note 13/14

Inter-company accounts

	Trade accounts		Long-term lending		Trade accounts	
	2010	2009	2010	2009	2010	2009
<i>(Amounts in NOK million)</i>						
Subsidiaries	7	3	161	156	7	4
Joint ventures	-	3	-	50	-	-
Total	7	6	161	206	7	4

Note 14 Remuneration/benefits to the Group management

Remuneration/benefits to group management/board 2010

	Board remuneration	Salary	Other remuneration	Pension cost	Total remuneration	
						<i>(Amounts in NOK)</i>
President and CEO						
Auke Lont		2 150 200	155 379	2 132 009	4 437 588	
Executive Vice Presidents						
Gunnar G. Lovås	Development Division	1 370 404	137 689	658 254	2 166 347	
Håkon Borgen	Projects Division	1 432 915	123 672	622 580	2 179 167	
Øivind Kristian Rue	Grid Operations	1 604 261	125 248	1 071 522	2 801 031	
Bente Hagem	Commercial Division	1 403 137	139 670	1 124 189	2 666 996	
Gun Bente Johansen, resigned 1 Sept. 10	Corporate Staff	940 947	92 975	862 469	1 896 391	
Marie Jore Ritterberg	Finance	1 372 812	171 024	981 454	2 525 290	
Peer Olav Østli	ICT	1 336 836	139 715	795 611	2 272 162	
Kirsten Berg	Corporate Staff	1 078 513	109 495	603 817	1 791 825	
Board of Directors						
Bjarne Aamodt	Chair	336 000			336 000	
Thor Håkstad	Vice Chair	231 000			231 000	
Kirsten Indgjerd Værdal	Board member	178 000			178 000	
Grethe Høiland	Board member	218 000			218 000	
Heidi Ekrem	Board member	183 000			183 000	
Per Hjorth	Board member	238 000			238 000	
Kirsten Faugstad	Board member *a) b)	89 000			89 000	
Steinar Joråndstad	Board member *a)	218 000			218 000	
Bjørn Solberg	Board member *a) b)	91 500			91 500	
Per Erland Opgård	Board member *a) c)	89 000			89 000	
Kjerstin Bakke	Board member *a) c)	89 000			89 000	
Total remuneration		1 960 500	12 690 025	1 194 867	8 851 905	24 697 297

All figures are exclusive of employer's NICs.

Deputy board members and observers do not receive fees.

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

* b) Board member until June

* c) Board member from June

Note 14

Cont. note 14 Remuneration/benefits to the Group management

Remuneration/benefits to group management/board 2009

	Board remuneration	Salary	Other remuneration	Pension cost	Total remuneration
<i>(Amounts in NOK)</i>					
President and CEO					
Auke Lont * a)		1 724 388	144 713	2 132 009	4 001 110
Odd Håkon Hoelsæter, resigned * a)		372 661	18 380	127 726	518 767
Executive Vice Presidents					
Gunnar G. Løvås	Development Division	1 245 384	143 222	744 328	2 132 934
Håkon Borgen	Projects Division	1 246 149	153 236	612 655	2 012 040
Øivind Kristian Rue	Grid Operations	1 350 671	139 683	1 057 159	2 547 513
Bente Hagem	Commercial Division	1 279 147	177 495	1 217 758	2 674 400
Gun Bente Johansen	Corporate Staff	1 265 622	141 728	926 245	2 333 595
Marie Jore Ritterberg	Finance	1 230 663	179 326	1 048 340	2 458 329
Peer Olav Østli	ICT	1 283 012	146 037	845 229	2 274 278
Audun Severin Hustoft *b)		1 255 872	215 518	1 188 325	2 659 715
Board of Directors					
Bjarne Aamodt	Chair	320 000			320 000
Thor Håkstad	Vice Chair	210 000			210 000
Kirsten Indgjerd Værdal	Board member *d)	80 000			80 000
Grethe Høiland	Board member	160 000			160 000
Heidi Ekrem	Board member	160 000			160 000
Per Hjorth	Board member	160 000			160 000
Christine B. Meyer	Board member *d)	80 000			80 000
Kirsten Faugstad	Board member *c)	160 000			160 000
Steinar Jøråndstad	Board member *c)	160 000			160 000
Bjørn Solberg	Board member *c)	160 000			160 000
Total remuneration		1 650 000	1 253 569	9 899 774	25 262 681

All figures are exclusive of employer's NICs.

Deputy board members and observers do not receive fees.

* a) Auke Lont became the new President and CEO on 1 February 2009.

Odd Håkon Hoelsæter resigned from his position and retired on 31 January 2009.

* b) Audun Severin Hustoft was executive vice president until December 2009.

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

* d) Kirsten Indgerd Værdal was elected to the Board after Christine B. Meyer in June 2009.

There was a change in Statnett's Group Management as of 1 December 2009 due to reorganisation of the company. After the reorganisation the Group Management will consist of Exec. VPs for Grid Development, Projects, Grid Operations and Commercial division. As of the same time, a management group for Group development was established which in addition to the Group Management includes the Exec. VPs of Corporate Staff, Finance and ICT.

	Periods of notice, months, basic pay	Termination pay, months of basic pay
Auke Lont, President and CEO	6 months	12 months
Gunnar G. Lovås, Exec. Vice President	6 months	None
Håkon Borgen, Exec. Vice President	6 months	None
Øivind Kristian Rue, Exec. Vice President	6 months	None
Bente Hagem, Exec. Vice President	6 months	None
Gun Bente Johansen, Exec. Vice President	6 months	None
Marie Jore Ritterberg, Exec. Vice President	6 months	None
Peer Olav Østli, Exec. Vice President	6 months	None
Kirsten Berg, acting Exec. Vice President	3 months	None

The President and CEO has a termination pay agreement of 12 months in the event the company terminates the employment. The pay after termination will be reduced by the amount equal to remuneration from new appointments or business activities of which he is an active owner.

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

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

Note 14

Cont. note 14 Remuneration/benefits to the Group management

Remuneration/benefits to senior executives

Title/name	Remuneration retirement age/early retirement pension/retirement pension
President and CEO Auke Lont	<p>From the age of 65, the full annual retirement pension is 66 per cent of the pension base, i.e. of the fixed, normal annual salary at retirement. The pension base is adjusted annually by the same percentage increase as in the basic amount (G) under the National Insurance Scheme. From the age of 67, the annual retirement pension of 66 per cent will be co-ordinated with the retirement pension disbursed from Statnett SFs Pensjonskasse and the Norwegian state retirement pension.</p> <p>Upon death, any surviving spouse and children under the age of 21 will receive a pension.</p> <p>Should the President become disabled before the age of 65, he or she will receive a disability pension. The full disability pension equals the retirement pension awarded at the age of 65. The disability pension disbursement will match the degree of disability.</p>
Executive Vice Presidents Håkon Borgen Bente Hagem Øivind Kristian Rue	<p>The retirement age is 65, but with the right to retire with an early retirement pension at any time after the age of 62. In the event of retirement between 62 and 65, an annual payment of 66 per cent of the pension base will be disbursed. The pension base is the fixed, normal annual salary at retirement. The pension base is adjusted annually by the same percentage increase as in the basic amount under the National Insurance Scheme. In the event that income is received from others and this, together with the early retirement pension disbursed by Statnett, exceeds the final salary, the early retirement pension will be reduced by 50 per cent of the amount that exceeds final salary.</p> <p>From the age of 65, the full annual retirement pension is 66 per cent of the pension base, i.e. of the fixed, normal annual salary at retirement. The pension base is adjusted annually by the same percentage increase as in the basic amount under the National Insurance Scheme. From the age of 67, the annual retirement pension of 66 per cent will be co-ordinated with the retirement pension disbursed from Statnett SFs Pensjonskasse and the Norwegian state retirement pension.</p> <p>Upon death, any surviving spouse and children under the age of 21 will receive a pension.</p> <p>The above persons' entitlements to pension benefits over and above paid-up policies from Statnett SFs Pensjonskasse from the age of 62 will lapse if they are no longer employed by Statnett SF on their 62nd birthday.</p> <p>Should any of the above persons become disabled before reaching the age of 65, he or she will receive a disability pension. The full disability pension equals the retirement pension awarded at the age of 65. The disability pension disbursement will match the degree of disability.</p>
Executive Vice Presidents Gunnar G Lovås Peer Olav Østli Gun Bente Johansen Marie Jore Ritterberg Kirsten Berg	<p>The retirement age is 65, with the right to retire with an early retirement pension at any time after the 62nd birthday. The full contribution period is 30 years. In the event of retirement between ages 62 and 65, an annual payment shall be disbursed of 66 per cent of the pension base, 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 percentage increase as in the basic amount under the National Insurance Scheme. Pension payments may be reduced if the member receives any pay, pension or remuneration from other companies in the Statnett Group.</p> <p>From the age of 65, the full annual retirement pension is 66 per cent of the pension base. The pension base is the fixed, normal annual salary at retirement. The pension base is adjusted annually by the same percentage increase as in the basic amount 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 per cent of the part of the pension base that exceeds 12 times the basic amount, provided that there is a full contribution period (30 years).</p> <p>Upon death, any surviving spouse and children under the age of 21 will receive a children's pension.</p> <p>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 per cent of the increase in the basic amount for each year until retirement.</p> <p>Should any of the above persons become disabled before reaching the age of 65, he or she will receive a disability pension. The full disability pension equals the retirement pension awarded at the age of 65. The disability pension will be reduced according to disability.</p>

Note 15/16/17/18

Note 15 Events after the balance sheet date

On 4 March 2011, NVE issued Statnett with a fine of NOK 30 million in connection with the breakdown of the Oslofjord cables in 2008. Statnett has decided to appeal NVE's decision to the Ministry of Petroleum and Energy which is the appellate authority for the decision.

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

Note 16 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.

Note 17 Disputes

From time to time, Statnett is involved in disputes with landowners, customers and others with regard to the interpretation of signed contracts, principles of public law, discretionary assessments and disagreement related to ordinary operations and building of power lines and cable connections. Disputes of this nature are regarded as part of regular operations.

Note 18 Business combinations

On 28 June 2010, Statnett SF purchased shares in NorGer AS and shares in NorGer KS for approx. NOK 78 million cash. The NorGer project is planning to construct a subsea DC interconnector between Norway and Germany. NorGer AS is a general partner in NorGer KS, where the actual operation of the activities is allocated.

Statnett SF has acquired 50 per cent of the voting shares in NorGer AS and 45 per cent of the voting shares in NorGer KS. NorGer AS owns 10 per cent of the shares in NorGer KS, meaning that Statnett SF, when including indirect ownership, also owns 50 per cent of the voting shares in NorGer KS.

Following this acquisition, Statnett SF is considered to have achieved control of the NorGer project, and the companies have therefore been included using the acquisition method in accordance with IFRS 3.

Note 18

Cont. note 18 Business combinations

On the acquisition date, the following identifiable assets and liabilities were included in the consolidated accounts (the allocation is final):

Accounting line	Fair value at acquisition
<i>(Amounts in NOK million)</i>	
Assets	
Other intangible assets	14
Other short-term receivables	1
Liquid assets	45
Total assets	60
Liabilities	
Deferred tax	-4
Other short-term liabilities	-6
Total liabilities	-10
Fair value of net identifiable assets	50
Non-controlling interest a)	-25
Goodwill b)	53
Purchase price	78
Purchase liability c)	-78
Non-controlling interest at acquisition d)	78

a) The proportional share of the non-controlling ownership interest in the NorGer project's identifiable net assets amounts to NOK 25 million, and has been entered into the accounts as non-controlling interest on the acquisition date.

b) Goodwill has been included for majority interest only. The values that make up the included goodwill mainly relate to the licensing processes, including analyses, official studies and reports, and communication with the public authorities. The company has submitted all applications necessary to own and build a DC interconnector between Norway and Germany. In Germany, the first part of the work on acquiring a licence to route the cable to the main grid connection point is well underway. No need for depreciation of goodwill has been identified in 2010.

c) The non-controlling ownership interest in the NorGer project has a sales option on its assets that runs from the takeover date. This option has been included in the accounting line for "Other liabilities" measured at its present value of the estimated price of the remaining shares/interests.

d) The counter item for the included purchase obligation has been distributed between non-controlling interest and other equity allocated to the owners of Statnett SF, cf. the equity statement.

Operating revenues and profit/loss in NorGer after the takeover date (the period 30 June to 31 December 2010) included in the consolidated financial statement's presentation of total profit/loss for the reporting period (in NOK million):

	NorGer KS	NorGer AS
Operating revenues	-	-
Profit/loss for the period	-49	-2
	NorGer KS	NorGer AS
Operating revenues	-	-
Profit/loss for the period	-74	-7

Note 19

Note 19 Other operating expenses

Parent company			Group	
2009	2010		2010	2009
<i>(Amounts in NOK million)</i>				
34	38	Lease rental payable	39	36
158	200	Contracted personnel/consultants	268	161
44	51	Insurance	19	17
219	325	Materials and subcontractors	332	218
125	130	Property tax	130	125
60	64	IC costs	64	60
237	232	Miscellaneous	250	233
877	1 040	Total other operating costs	1 102	850

Operating lease agreements (maturity not more than one year from balance sheet date)

Parent company			Group	
2009	2010		2010	2009
<i>(Amounts in NOK million)</i>				
19	17	Buildings	18	21
11	15	Contracted communication	15	11
4	6	Miscellaneous	6	4
34	38	Total lease rental payable	39	36

Operating lease agreements falling due later than one year from the balance sheet date

The Group has entered into several minor lease agreements for buildings, communication and other operating equipment in our long and narrow country relating to ordinary onsite operations and implementation of our projects. The leases vary from a few months to 15 years. Leases are paid and carried to expense in accordance with the terms of each contract. The Group's material future lease obligations include buildings and communication. These will increase from the current level by approx. NOK 40 million from 2013.

Auditor's fees

Parent company			Group	
2009	2010		2010	2009
<i>(Amounts in NOK thousand)</i>				
707	733	Auditing of annual accounts	867	897
319	441	Other attestation services	471	319
246	220	Tax-related assistance	220	261
266	142	Other assistance	142	272
1 538	1 536	Total fees (ex. VAT)	1 700	1 749

Note 20/21

Note 20 Compensatory measures

Statnett SF has been granted a licence for a 420 kV transmission line from Sima power station in Eidfjord municipality to Samnanger transformer station in Samnanger municipality in Hordaland. According to the licence conditions «Statnett will allocate NOK 100 million to compensatory measures. The amount will be made available to Hordaland county municipality.» The amount is not recorded in the accounts as at 31 December 2010.

Note 21 Comparative figures for the Statnett Group

All amounts in the income statement, balance sheet, cash flow and supplementary information are given showing two years comparative figures. Below, comparative figures for selected amounts have been cited for five years.

From the statement of comprehensive income (in NOK million)

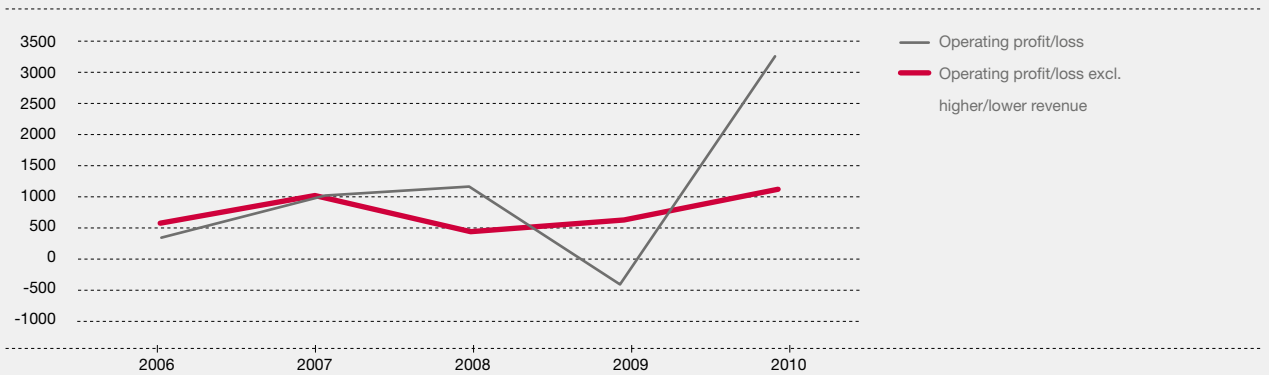
Statnett Group	2010	2009	2008	2007	2006
Power transmission	4 803	3 722	3 355	3 243	3 122
Higher/lower revenue for the period	2 177	-1 059	721	20	-260
Other operating revenue	267	199	180	152	343
Total operating revenue	7 247	2 862	4 256	3 415	3 205
Operating profit/loss	3 279	-403	1 194	1 025	308
Income from joint ventures and associates	11	24	962	58	44
Net financial items	-232	-289	-414	-203	-148
Profit/loss before tax	3 058	-668	1 742	880	204
Profit/loss for the year	2 198	-480	1 517	651	163

From the statement of comprehensive income less higher/lower revenue (in NOK million)

Statnett Group	2010	2009	2008	2007	2006
Power transmission	4 803	3 722	3 355	3 243	3 122
Other operating revenue	267	199	180	152	343
Total operating revenue	5 070	3 921	3 535	3 395	3 465
Operating profit/loss excl. higher/lower revenue	1 102	656	473	1 005	568
Income from joint ventures and associates	11	24	962	58	44
Net financial items	-232	-289	-414	-203	-148
Profit/loss before tax excl. higher/lower revenue	881	391	1 021	860	464

The effect of higher/lower revenue on the Group's profit/loss.

Operating profit/loss inclusive and exclusive higher/lower revenue



Profit/loss before tax inclusive and exclusive higher/lower revenue



Note 21

Cont. note 21 Comparative figures for the Statnett Group

From the balance sheet (in NOK million)

Statnett Group	2010	2009	2008	2007	2006
Intangible assets	66	-	-	-	-
Fixed assets	19 413	17 858	19 349	14 945	12 386
Current assets	2 591	1 484	1 570	1 494	1 552
Total assets	22 070	19 342	20 919	16 439	13 938
Equity	7 628	5 618	6 585	5 562	4 907
Interest-bearing liabilities	11 757	12 340	12 340	9 309	7 752
Other liability items	2 685	1 384	1 994	1 568	1 279
Total equity and liabilities	22 070	19 342	20 919	16 439	13 938

From cash flow (in NOK million)

Statnett Group	2010	2009	2008	2007	2006
Net cash flow from operating activities	3 804	-462	1 529	1 795	1 059
Net cash flow from investment activities	-1 740	-140	-2 670	-2 958	-2 134
Net cash flow from financing activities	-1 277	388	1 221	1 454	1 046
Net cash flow for the period	787	-214	80	291	-29
Liquid assets	1 129	342	556	476	185
Dividend for the year to owner	132	499	318	152	87



Statsautoriserte revisorer
Ernst & Young AS

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Medlemmer av Den norske Revisorforening

To the General Meeting of
Statnett SF

AUDITOR'S REPORT

Report on the financial statements

We have audited the accompanying financial statements of Statnett SF, comprising the financial statements for the Parent Company and the Group. The financial statements for the Parent Company and the Group comprise the statement of comprehensive income, the balance sheet as at 31 December 2010, cash flows and changes in equity for the year then ended as well as a summary of significant accounting policies and other explanatory information.

The Board of Directors' and President and CEO's responsibility for the financial statements

The Board of Directors and President and CEO are responsible for the preparation and fair presentation of these financial statements in accordance with the International Financial Reporting Standards as adopted by the EU, and for such internal control as the Board of Directors and President and CEO determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion on the financial statements for the Parent Company and the Group.

Opinion

In our opinion, the financial statements of Statnett SF have been prepared in accordance with laws and regulations and present fairly, in all material respects, the financial position of the Parent Company



and the Group as of 31 December 2010 and their financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standards as adopted by the EU.

Report on other legal and regulatory requirements

Opinion on the Board of Directors' report

Based on our audit of the financial statements as described above, it is our opinion that the information presented in the Directors' report concerning the financial statements, the going concern assumption and the proposal for the allocation of the result is consistent with the financial statements and complies with the law and regulations.

Opinion on registration and documentation

Based on our audit of the financial statements as described above, and control procedures we have considered necessary in accordance with the international standard on assurance engagements (ISAE) 3000, «Assurance Engagements Other than Audits or Reviews of Historical Financial Information», it is our opinion that the Board of Directors and President and CEO have fulfilled their duty to properly record and document the Company's accounting information as required by law and generally accepted bookkeeping practice in Norway.

Oslo, 24 March 2011
ERNST & YOUNG AS

Tommy Romskaug
State Authorised Public Accountant (Norway)

(This translation from Norwegian has been made for information purposes only.)

Statistics

Statistics for Norway 1975–2010

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
2009	132,8	125,4	123,7	5,8	14,9	9,1
2010	122,8	101,0	130,4	14,7	7,1	7,6

Source: NVE/Nord Pool Spot

Statistics Nordic countries 2000–2010

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
2009	372,4	203,0	381,2	20,3	11,5	8,8
2010	373,6	174,9	392,7	25,1	5,9	19,2

* Export +/-import -

** Inflow 2000 without Finland

Source: Nord Pool/ SKM Market predictor

Power terminology

Balance accounting

is a key comparison of planned consumption, generation and bilateral trading 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 provides buyers and sellers with access to all transmission grids and thus enables free electricity trading.

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

Electricity contracts entered into between two contractual parties.

Bottleneck

A bottleneck 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.

Distribution network

The distribution network is a network or grid for distributing electricity all the way to the consumers (high-voltage networks of up to 22 kV, low-voltage networks of 230 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 exceeding 1 000 volt (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.

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 electricity markets are responsible for their own 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 contracts entered into. Statnett's balance accounting (see above) uncovers this imbalance through its comparisons, while Statnett's national control centre secures the overall power balance by ensuring that operators increase or decrease generation and consumption (regulating power system, see below).

Power exchange

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 heater. Average energy consumption in a normal house is estimated at about 25 000 kilowatt hours a year. Average consumption in flats is lower.

GWh – One gigawatt hour is one million kilowatt hours. This is sufficient energy for 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, nine TWh of electrical energy is consumed each year, while Norway as a whole consumed a total of 132 TWh in 2010.

MW – One megawatt is 1 000 kilowatt. This is a measurement of output. The maximum output for Drammen is 260 MW, whereas in Oslo it is almost 2 000 MW. In the municipality of Vang in Valdres, the equivalent figure is eight MW. The highest figure measured for Norway in total is 23 969 MW (measured on 6 January 2010).

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 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 cap

The revenue cap 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 coordinating the planning and operation of the entire electricity grid. Statnett has system-wide responsibility in Norway.

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