Statnett

Annual Report 2011

This is Statnett

Statnett is responsible for developing and operating the Norwegian power grid to ensure that it meets society's expectations for the energy sector at all times.

Our role

As Transmission System Operator in the Norwegian energy system, Statnett has a clear and distinct role:

- To ensure a stable and secure electricity supply by coordinating production and consumption
- To ensure long-term quality by developing the Norwegian main grid
- To offer all market participants access to the main grid on equal terms
- To ensure accessible transmission routes by means of good maintenance practices

The Group is organised into: Grid Operations Division, Projects Division, Commercial Development, ICT Division, Strategy and Public Affairs and Corporate Staff. Statnett has about 950 employees and the company's headquarter is in Oslo.

Our main objectives

Statnetts' main objectives are to develop the next generation main grid, to maintain security of supply, contribute to value creation and facilitate better climate solutions.

The main focus is the core activities which are to maintain security of supply, ensure efficient system operations and necessary development and maintenance of the main grid. Health, safety and the environment are at the core of all our activities.

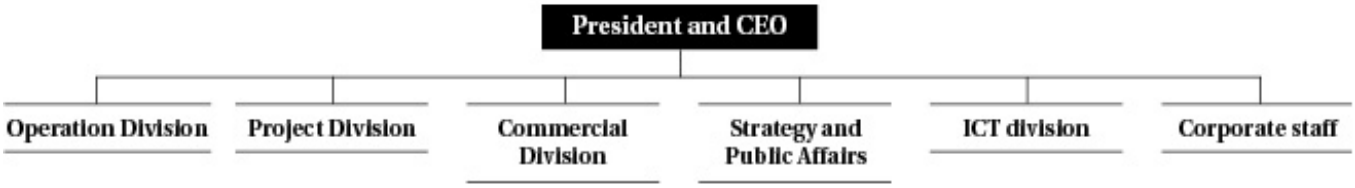
Our main strategy

Statnetts main strategy for the next 3 – 5 years is based on the following five pillars:

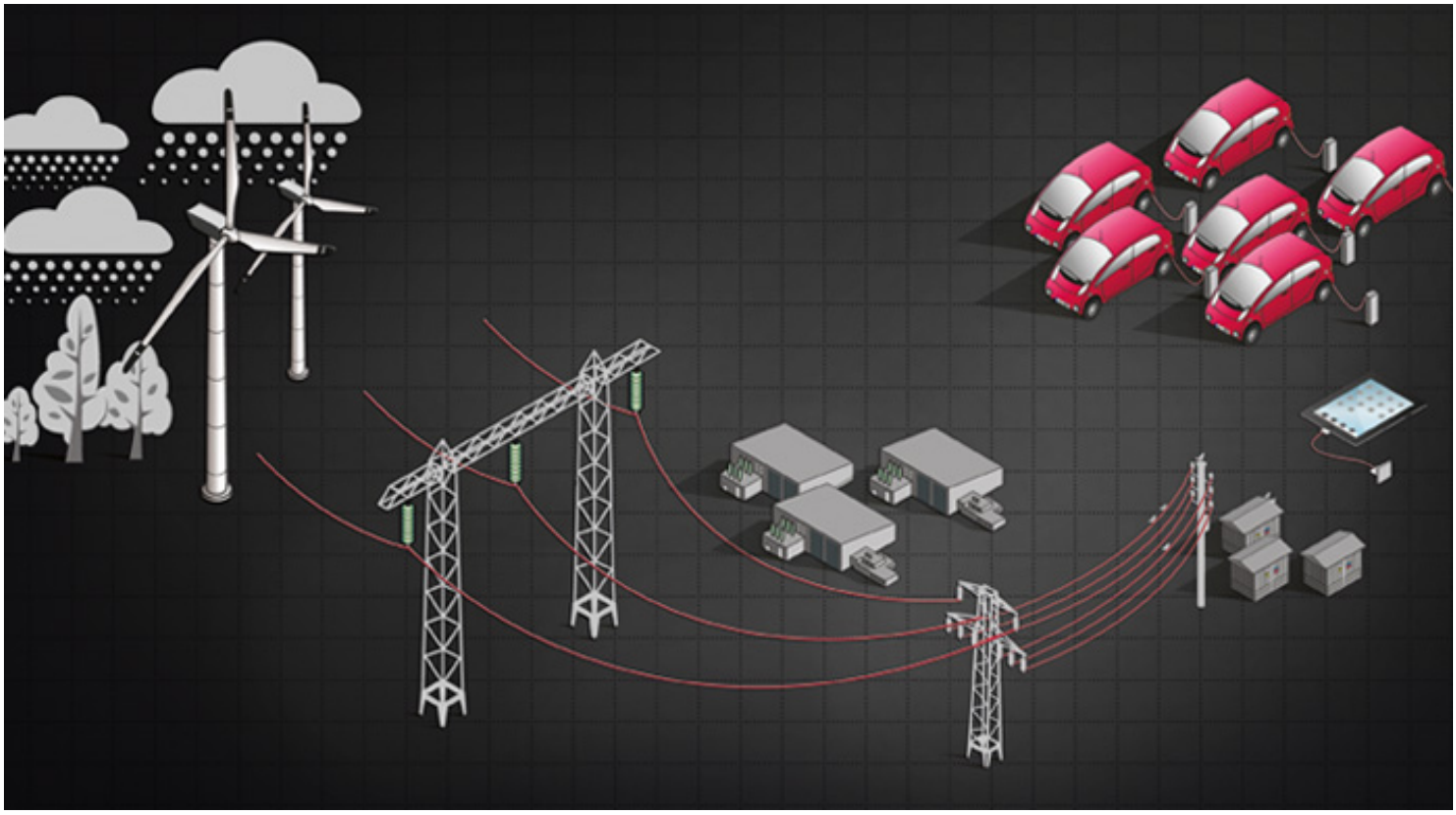
- Ensure safe and efficient operations
- Construct a robust main grid adapted to the environment
- Ensure security of supply and value creation in cooperation with other Nordic and European countries
- Develop the next generation Statnett
- Secure acceptance and understanding for Statnett's mandate

Statnett's values are a long-term perspective, respect and community. These values describe the basic attitudes which are necessary to succeed, and set the standard for the daily conduct of employees and the management.

Our organisation



Read more about our units (http://2011.statnett.com/var-virksomhet/)



From production to consumption

Statnett does not produce the electricity, but facilitates transport from producers to consumers. Electricity is generated the same instant it is consumed. This means that when we consume electricity, the same amount of electricity must be generated elsewhere.

Power generation

Water is the main raw material of Norwegian hydropower generation. 97 percent of the electricity generated in Norway comes from hydropower. Norway has about 750 power stations and close to 300 companies producing, transporting and selling electricity. Rogaland County has the largest power production, closely followed by Hordaland and Sogn og Fjordane counties. The grid of the future will facilitate increased production of renewable energy, provided first and foremost by small-scale power, wind power and bioenergy. Norway and Sweden have a joint target of developing 26.4 TWh of renewable power in the next decade.

The main grid

Statnett is responsible for the main grid; the transmission grid which makes up the «highways» of Norwegian electricity supply. The main grid is made up of 10-11 000 kilometres of high-voltage power lines, interconnectors and 140 sub stations throughout the country. The operations are monitored by one national and three regional dispatch centres. In the period leading up to 2021, Statnett’s development and remodelling plans cover 60 stations, 3–4 000 kilometres of domestic power lines and four new international interconnectors; to Denmark, Sweden, Germany and the UK. Total investment is estimated at between NOK 40 and 50 billion.

Regional and distibution grids

The regional and distribution grid comprises 310 000 kilometres of power lines which extend throughout the country to the most remote villages in Norway. Before electricity is transported onwards from the main grid to the regional grids, the voltage must be reduced. This takes place in one of Statnett's step-down transformer facilities. Regional grids are owned by the regional grid companies. Local grids then transport it to the various local consumers. Before bringing the electricity to the final stage on its way to homes, companies, public buildings and facilities, the voltage must be reduced to 230 volts. Investment in regional and local grids is estimated at NOK 70 billion in the next decade.

Consumers

Electricity is the most important source of both heating and lighting in Norway. The largest customer groups are households, buildings and industry. In the future, an increasing proportion of our energy consumption is expected to come from electricity. This applies to households, business and industry, as well as to the transport sector. One future scenario shows that there may be 750 000 electric cars in the Oslo area by 2050.

How do the power markets work?

In deregulated power market there must be a well-functioning system for determining how much the electricity should cost and how it should be delivered.

The Nordic power market consists of many very different players: households, companies, large and small electricity suppliers, energy-intensive large-scale industry and everything from small local power plants to large electricity producers. Important prerequisites for a well-functioning electricity market are sound trading models and a sufficient number of buyers and sellers. Consequently, the power market comprises a number of sub-markets, a retail market, a physical wholesale market, a financial market and a regulating power market.

The end-user electricity market

We are all participants in the end-user 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, most of the electricity is traded on the power exchange Nord Pool Spot. Nord Pool Spot is currently the largest power exchange in Europe. About 350 companies from 20 different countries trade electricity on Nord Pool Spot for same-day or next-day delivery, and 316 TWh was traded on Nord Pool Spot in 2011. Nord Pool Spot operates two markets. One market, the Elbas market, is an intra-day market, whereas the other market sells and purchases electricity on a day-ahead basis.

74 percent of total consumption in the Nordic region is traded on the day-ahead market. The prices will fluctuate according to supply and demand throughout a 24-hour period. The high market share in the power exchange strengthens liquidity and the spot price as a reference price. Statnett has an ownership interest in Nord Pool Spot of 30 percent.

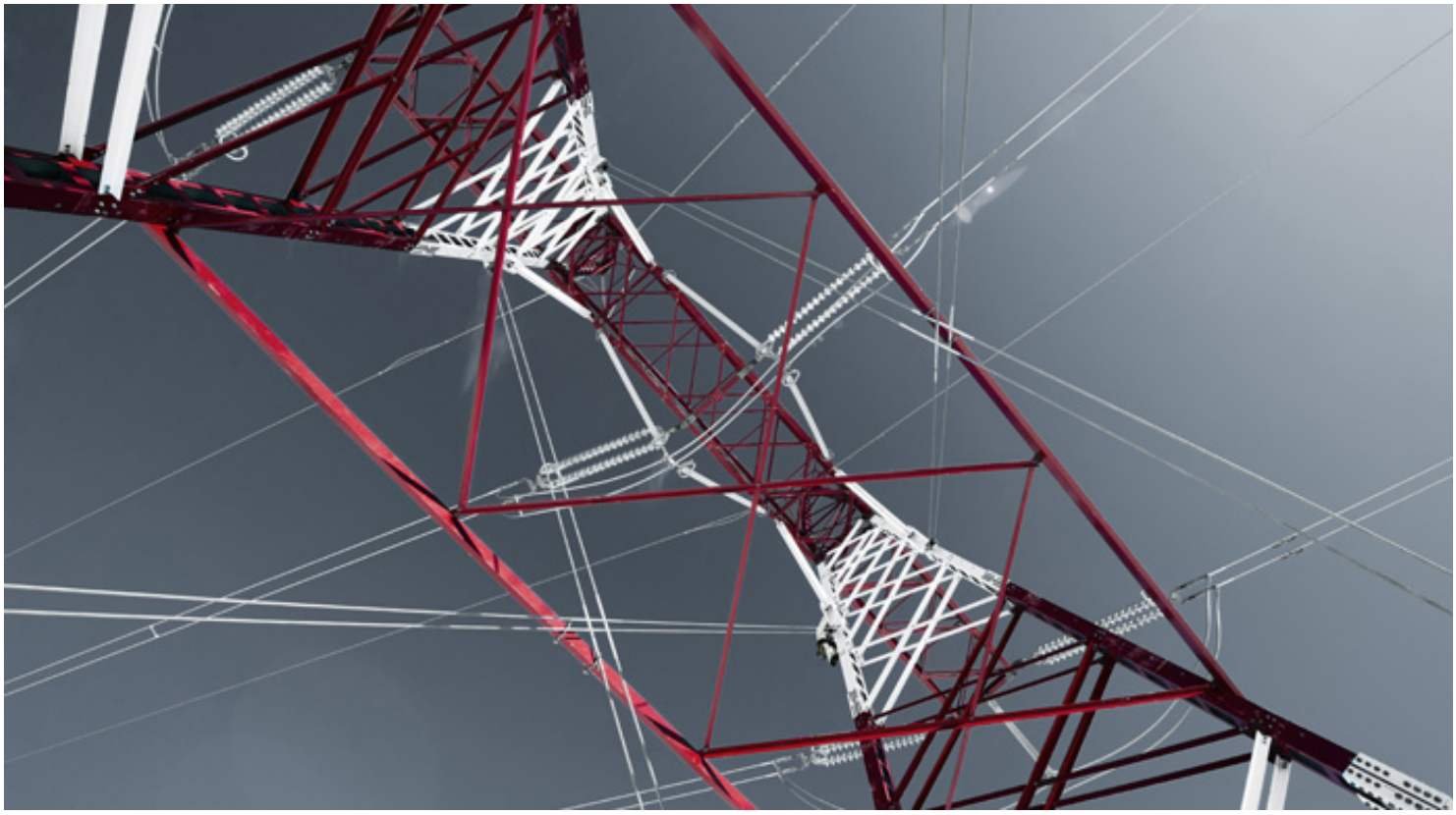
In addition to the Nordic market, Nord Pool Spot is represented in Estonia, Germany and the UK.

The financial market

The major players also trade in power derivatives on the financial market, which is operated 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 works as a common balancing market for the Nordic power market, by a combined utilization of the regulating resources. The players in the regulating power market nominates a price to change their physical production or consumption. The transmission system operators use these measures to obtain balance in the power system.



Statnett’s revenues

Because Statnett's operations are monopoly based, revenues are regulated and controlled by the authorities, by the Norwegian Water Resources and Energy Directorate (NVE).

Statnett’s operating revenues consist of fixed grid tariffs from the customers 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 region and between Norway and the Netherlands. The grid tariff is established in advance for each calendar year.

The revenues are regulated and controlled by the authorities by the Norwegian Water Resources and Energy Directorate (NVE), and it is annually established a permitted revenue. The permitted revenue will cover the costs of development and maintenance of the grid, as well as generate a reasonable return on investments in the grid. The requirement is that the transmission grid is operated, utilized and developed efficiently.

If the operating revenues diverge from the permitted revenue a higher or lower income will occur. According to NVE’s regulations the higher or lower income will level out over time through adjustments of future grid tariffs.

Working on the grid of the future

“We are talking about a change of pace. To all intents and purposes, we are developing the grid of the future now. Everyone in the organisation is on the starting line. The need has been recognised, we have the licences and we have the expertise."

"Now it’s time to get going", says President and CEO of Statnett Auke Lont in reply to the question about how Statnett is progressing with the development of the next generation main grid. However, Lont is prepared for challenges along the way. "For instance, our vision is to have zero health, safety and environment incidents. This means we have to put HSE at the top of our agenda, in the same way as we do at Group management meetings.”

A can-do and will-do organisation

“How will you manage the major transition from operations to construction?”
“By having an organisation that is fit for fight. We have about 950 employees who come to work with a positive attitude and who think it is great to work towards this important target. We have hired 500 new employees in the last five years. We have a can-do and will-do organisation,” says Lont emphasising that the company is also dependent on external support.

“I believe we have come far and that the vision of the next generation main grid has left a real imprint. Wherever we go, in communication with the public and the media, I find that people agree that we need a more modern and stronger grid. The need has been accepted. That is almost our most important job; to gain

acceptance for the fact that there is a real need. On our way, we also need acceptance from local authorities where any disruptions will take place. We are dependent on broad acceptance, and we are dependent on a supplier industry."

"There is much to do, after a previous period at slow pace," Lont continues. "However, I think we already have made good progress. We have started on a number of projects. We are building the Sima-Samnanger power line, the Skagerrak 4 interconnector between Norway and Denmark, the Ørskog-Sogndal (Fardal) interconnector and we are planning the Ofoten-Hammerfest power line. We are also facilitating the construction of wind turbine farms in Fosen."

Facilitating an energy revolution

"What type of society is Statnett preparing for?"

"We will help ensure that everyone in society has electricity at all times. We believe the future will be electric. If we believe the UN's climate objective of reducing carbon emissions from 12 to two tonnes per person by 2050, electricity will be about the only possible source of energy. In Norway there is already a good supply of renewable energy, but we will also prepare for an increase in consumption. Together with Sweden we are focussing on renewable energy by introducing green certificates from the beginning of next year. If we look at Europe, you'll see an energy revolution taking place. Germany has already more installed wind power capacity than coal, lignite and nuclear power, in addition to extensive solar energy projects."

"What do you think the future energy supply will be like?"

"I think that in 2050, 80 percent of the energy consumption will come from renewable sources, compared to 20 percent today. That means there won't be much else we can use other than electricity. There will be wind power, solar power as well as gas power. I also think that nuclear power will make a comeback. Moreover, we will have changed our consumption. I think that the transport sector will be more or less electric. Our contribution is to make sure that we have a grid capable of dealing with two tonnes of carbon emissions per persons. That in itself is a major task."

Security of supply is a priority

Auke Lont emphasises that the most important target is security of supply.

"It is essential that we have a society where electricity is available to everyone at all times. The fact that the issue of security of supply in Bergen remains unsolved means that this will take first priority. But to us climate, value creation and security of supply are like Siamese triplets. If we are going to use even more electricity than at present, we must be even more certain that electricity is available. Similarly, we need security of supply if we are going to use more electricity for value-creating industry, such as electrification of the shelf."

"What do you think about Norway as the green battery of Europe?"

"Our field is to construct grids. We already have ambitious plans to establish interconnectors to the UK and Germany. To become a green battery on a large scale we need more pump capacity, grids and cables. This might be possible in the next phase, but first Statnett needs to build the foundation, i.e. a national 420 kV grid with new interconnectors to Sweden, Denmark, the UK and Germany to be able to handle the need for security of supply and phasing in of new renewable power production."

"If we calculate how much this will cost, also in terms of reservoir capacity, this is probably not the right way of doing it. Statnett is only a facilitator. However, it also seems as some sort of reality check has taken place in the power industry, and we are taking this into consideration."

Extended Group management

"Statnett currently has four divisions and units: Grid Operations, Projects, Commercial and Strategy, as well as Public Affairs. Now Corporate Staff and the ICT division are also represented in the Group management. Why?"

“It is a signal. We want streamlined staff functions. That we have brought the staffs, including finance and HR, under a common denominator, is an expression of our wish to streamline the organisation and make things simpler and faster. The ICT division with its 120 employees, one eighth of the company, plays a key role, and is now heavily involved in our strategic projects, such as the development of a new central operations system,” says Lont, adding that the organisational changes also ensure a dynamic organisation. “Traditionally, Statnett has not been a very dynamic organisation, and we still have some way to go.”

Next generation Statnett

“We use our new offices, in Trondheim in 2012 and in Oslo in 2013, as an image to explain that not only do we need a new main grid, but also a new Statnett organisation,” says Lont. He explains: “This is an organisation where we are pulling down some walls and establishing a new organisation and new ways of working. This has symbolic value, but it also makes us more efficient, through increased cooperation and better communication. The task to develop the next generation main grid is simply so big that we need to find new ways of working.”

“We will become even more of a project-oriented organisation. This entails that we will work in different ways. We must sit down together and make a landscape work. We must also introduce new ways of working. Let’s say that we managed to develop a new type of pylon, which was lighter than the ones we use today. This would probably mean we would save material costs and transport costs during installation, at the same time as it would benefit the environment and safety. We must be willing to think outside the box and challenge the concept of doing things “like we always have.”

Proud of the Dagmar response

“With the current systems there is hardly any room for errors. This requires confidence and experience from experienced people. You don’t have much time to think. The entire organisation did a fantastic job handling the Dagmar storm, maintaining the electricity supply” says Lont who is very much aware of the challenges of combining safe operation with future-oriented development projects.”

“We are about to embark on a major development project. This means we cannot keep doing things the same way as before. At the same time, it is important to take operations into consideration, also during the development and construction stage. We must keep the balance between development and operations and between renewal and experience. These considerations must come together in one company. ”

Will deliver electricity and projects

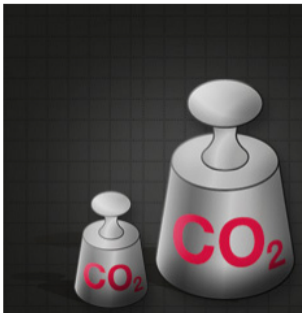
Historically, Statnett has had an investment level of about NOK 500 million. This will be increased to NOK 5-6 billion a year.

“We had a few wake-up calls in 2011. Resource limitations are greater than we thought, also in the supplier industry. There is a certain lag, which I encounter more often than I thought, both inside and outside the organisation. But now it is actually society that asks us to construct grids, not the other way round. This means that we have reached an important milestone. Our professional advice has been heard and understood.”

“The organisation is alpha and omega. We have adapted, we have recruited, we have restructured and we have clear objectives. Now we need to put some pressure on the organisation. We have to deliver electricity and projects at the same time, without injury to personnel or damage to the environment. That will be extremely important.”

1890-1920 Electricity arrives in Norway - from private to coordinated grids

When electricity first arrived in Norway towards the end of the 1870s, it was for internal use in companies. Power had to be transmitted in step with street lighting, steam power stations or trams. In Hammerfest the first power line, which was 1.8 kilometres long, was established in 1891. In 1897, Hafslund power company established a power line, which was 15 kilometres long. In 1894, an act was introduced which gave the Norwegian state the right to enforce regulations on the power producers.



2050 A global target is reached - and we do our share

According to the UN's Intergovernmental Panel on Climate Change, greenhouse gas emissions must be reduced from 12 to two tonnes per person by 2050. Norway has adopted this target. To be able to meet the target, our share of renewable energy must improve significantly. We are on the brink of an energy revolution, where much of our society, including the transport sector, turns to electricity. Statnett will contribute by paving the way for more renewable energy, in Norway as well as in our neighbouring countries.

1920-1945 Electricity in Norwegian homes - coordination in Eastern Norway

As Norwegian society developed, it was necessary to transmit power over increasingly longer distances. Electricity was installed in private homes in the most populated areas, but energy sources were located further away. The first district transmission was established in 1922. In the 1920s, the Norwegian state built Nore Power Station in Numedal to supply more electricity to Eastern Norway. In 1932, the government coordination association Samkjøringen was established.

1945-1986 We are building Norway - Norwegian power supply is integrated

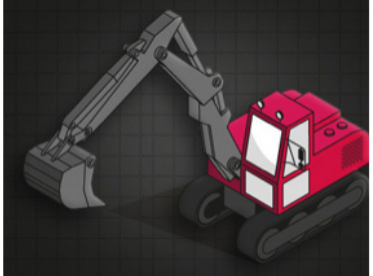
After the Second World War, several coordinating initiatives emerged both in Northern and Western Norway. The Norwegian state played an increasingly important role in operation and development. The Main Grid Commercial Agreement was established in 1959 and the coordination of power production (Samkjøringen) in 1970. Norway got its first connectors to Sweden in 1960. Several major power developments also took place, such as the hydropower development of the Aurland watercourse in the 1970s. Consumption increased.

1986-2009 Time to modernise

As consumption increased, it became important to establish a better balance between consumption. In 1986, the state-owned power stations Statskraftverkene were separated from the Norwegian Water Resources and Energy Directorate, and in 1992 Statkraftverkene were divided into Statkraft (production) and Statnett (grid). In the 1990s, the power market was furthered developed. First, Statnett Market was established in 1993, then a Swedish-Norwegian power market was established in 1996, followed by a Nordic market in 2000, which served as a model for Europe in the 2000s.

2010-2011 Our vision is formed - the next generation main grid

From 2009, plans were developed for the next generation main grid. This entailed a major expansion of the power grid and extensive updates. There were many drivers, such as aging facilities and higher expected consumption due to population growth and industrial growth. Furthermore, production of renewable energy must be facilitated, partly stimulated by the introduction of green certificates in 2012. Climate change and a changing weather pattern also highlight the need for a more robust grid in Norway, and between Norway and our neighbouring countries.

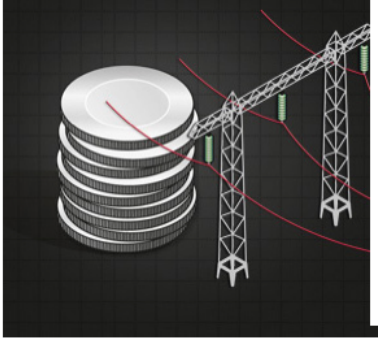


2012-2016 Building has started

There is a change of pace. The plans for the next generation main grid are now being realised. The length of power lines that have been approved for development has increased from 10 to 400 kilometres in one year. This includes Sima-Samnanger in Western Norway and Ørskog-Sogndal in Central Norway. Construction is also ongoing on the Skagerrak 4 interconnector to Denmark. In parallel with this, Statnett of the future is being developed with new offices in Trondheim in 2012 and new headquarters in Nydalen in 2013, combined with the required organisational updates.

2020 Some green objectives are realised - a boost for renewable energy

On 1 January 2012, the green certificate scheme was introduced in Norway and Sweden. The scheme will stimulate the development of more renewable energy, predominantly wind power and small-scale power. Norway and Sweden aim to trigger 26.4 TWh of renewable energy production by 2020. 2020 also represents an important milestone for EU's objective of achieving a 20 per cent reduction in carbon emissions, a 20 per cent share of energy consumption from renewable sources and 20 per cent improved energy efficiency.



2021 The specific plan - investments totalling NOK 40-50 billion

The annual Grid Development Plan is Statnett's management tool. It provides more specific details about the development plans and the timing of them. Statnett is planning to invest between NOK 40 and 50 billion in the next decade. This includes building and remodelling 60 transformer stations and constructing 3 – 4 000 kilometres of power lines. The plan also involves strengthening the energy supply in Northern Norway by 2021. In the same period, four new interconnectors will be established; to Denmark, Sweden, Germany and the UK.

2030 Grid of the future - a robust and upgraded grid

2030 is a long way off. However, Statnett aims to make as accurate prognoses as possible about population, consumption and production developments, and to use these in the company's energy supply planning. One example of such prognoses is the 2011 Grid Plan for the Greater Oslo area. Our aim for 2030 is that all regions will have a robust grid which facilitates sound climate solutions and nationwide value creation and, not least, maintains a reliable supply of electricity.

Next generation main grid

The next generation main grid is a plan to upgrade and invest in new grid capacity to meet society's future energy needs. Statnett will update the grid and construct new power lines to strengthen the grid infrastructure in Norway and secure the backbone of the Norwegian power system.

The grid of the future is necessary to improve security of supply, to achieve better climate solutions and to create value. We have started to build the next generation main grid because security of supply is strained in many parts of the country, and because Norway has a great potential for increased value creation if we build a stronger main grid and because a new main grid will facilitate better climate solutions.

The Grid Development Plan

In our annual Grid Development Plan, we establish our ambitions and what investments we will make to secure the supply of electricity to Norwegian consumers, facilitate Norwegian climate policies and promote value creation. In the coming decade, Statnett is planning to invest NOK 40-50 billion in grid updates and development.

This includes construction of new international interconnectors. This is positive as greater variations in precipitation, inflow and temperatures mean that Norway and the other Nordic countries will have an even larger surplus in a normal year. Price differences also make trading with Europe profitable for Norway. Moreover, new international interconnectors will help reduce carbon emissions on the Continent.

The grid of the future

The grid of the future will be able to handle fluctuations in power supply and consumption and different development scenarios. A solid infrastructure means we will be able to handle more unforeseen events and new development trends.

An upgraded main grid will improve security of supply and provide a more stable power market. Furthermore, the grid of the future will facilitate more renewable power generation from Lindesnes to the North Cape, including small-scale hydro power and wind power, as well as electrification of the petroleum industry and new industrial growth along the coast.

Facts

INVESTMENTS

Investments in the future grid have increased gradually from 2009. Last year, investments amounted to more than NOK 2.3 billion. In a few years, the annual investment level will be between NOK 5 and 6 billion.

2,3

The investments amounted to more than NOK 2.3 billion

Increased security of supply

Statnett supplies power to all parts of Norway through a national operating organisation and round the clock preparedness. We will increase security of supply by reinvesting in existing facilities and developing the main grid of the future.

Security of supply is our number one priority. We will reinforce the existing grid and build new power lines which will ensure that all households and companies have electricity when they need it.

Efficient main grid

The Norwegian main grid is one of the most efficient grids in Europe. However, there is little spare capacity in the main grid and the margins are narrow. Extensive measures and investments will be necessary in the time ahead to meet the society's demand. Consumption has increased significantly during the last two decades, without corresponding investments in the main grid or production to make up for this. The result is that security of supply is at risk in many regions such as in the Bergen area, Central Norway and Northern Norway.

Statnett operates the main grid on the principle that should we experience an outage in one power line, we will still have enough capacity in the rest of the main grid to prevent blackouts. Increasingly often this is no longer the case. Grid reinforcements are in the pipeline, but until these reinforcements have been completed, system operations will continue to be vulnerable in parts of Norway.

Focus on preparedness

High utilization of the main grid gives little space capacity for new consumption and production. Building new power lines takes longer time than e.g. establishing new consumption within industry. To maintain security of supply until new grid is established, Statnett has increased focus on preparedness and, in some cases, implemented special short-term preparedness measures in some areas. Examples of such measures include introduction of new price areas, mobile power plants and increased fault repair preparedness. Statnett prioritises the measures on the basis of a general risk assessment.

Increased capacity between Norway and neighbouring countries is an integrated and significant part of a main grid that provides reliable supply of electricity.

Facts

SECURITY

Security of supply remains high despite increasing vulnerability. In 2011, there were 2 820 hours with unsatisfactory security of supply at one or several locations in the main grid, compared with 4 368 in 2010.

36%

Fewer periods with unsatisfactory security of supply in 2011.

Facilitate value creation

Statnett will facilitate value creation in Norway by ensuring that we have sufficient transmission capacity, by supplying power to new profitable business activities and by facilitating increased power exchange with our neighbouring countries.

If industrial and commercial activities are hindered by insufficient grid capacity the result may be a significant economic loss for society. There are currently many plans for new consumption in connection with new industrial activities and the petroleum industry. Several oil discoveries were made last year and exploration activities in the Barents Sea are expected to increase after Norway and Russia's agreement on the Barents Sea demarcation line. Power intensive industry has signalled increased optimism for growth in Norway in the future.

Pure renewable energy

In the period 2008 – 2010, the power industry contributed more than NOK 145 billion to the Norwegian state and to local authorities. This is a value creation based on pure renewable energy. The current Norwegian government aims to develop a total of 26.4 TWh of energy in Sweden and Norway by 2020. Our grid developments will make sure that half of this can be developed in Norway in a profitable manner. We build and upgrade the grid in areas where it is least expensive to exploit renewable resources.

We unite Norway

The next generation main grid will provide stronger connections between all regions in Norway, and help even out electricity prices throughout the country in normal situations. This will result in increased predictability for producers and consumers alike and will pave the way for value creation in the whole country.

Statnett is also planning new interconnectors to the Continent. These will contribute to increasing the value of Norwegian hydropower's regulating ability, which is in increasing demand and value in Northern Europe.

Facts

HEAVY INVESTMENTS

There are plans for heavy investments in the energy sector in the next decade; NOK 50-60 billion in renewable energy, NOK 70 billion in the regional and local grid and NOK 40-50 billion in the main grid.

180

The investment plans total NOK 160-180 billion.

Statnett's role as TSO

Statnett is the Transmission System Operator (TSO) in the Norwegian energy system. As System Operator, Statnett is responsible for coordinating the entire Norwegian energy system and for its daily operation.

The role as system operator entails that Statnett maintains a reliable supply of electricity by ensuring: a balance at all times between production and consumption, correct voltage, sufficient reserves, preparedness in the event of faults and well-dimensioned and well-maintained facilities. At the same time, Statnett coordinates the flow of electricity to and from our neighbouring countries.

Statnett is responsible for ensuring efficient operations in a socio-economic perspective and for developing the main power grid. Statnett will, alone or in partnership with others, plan and design, build, own and operate transmission facilities.

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 in Norway and between Norway and our neighbouring countries to secure a reliable and sufficient supply of electricity covering future needs for the whole country.

The Main Grid Commercial Agreement
Statnett is the operator of The Main Grid Commercial Agreement. This means e.g. that Statnett is responsible

for establishing the tariff structure and the annual tariff rates. The Main Grid Commercial Agreement has approximately 70 customers comprising electricity producers, industrial companies and regional grid companies. The Main Grid Commercial Agreement also receives congestion revenues (price differences between areas in the Nordic region and towards the Netherlands). Profit/loss inThe Main Grid Commercial Agreement will level out over time through adjustment of future grid tariffs.

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. Statnett is also responsible for issuing guarantees of origin to Norwegian electricity producers. Moreover, the enterprise is responsible for keeping the green certificate register.

Energy authorities

Statnett is owned by the Norwegian State represented by the Ministry of Petroleum and Energy (OED). The OED 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.

Roar Flåthen, LO Norway

Our energy resources create value

«Value creation is about making the most of our national resources. For us, employment is most important. The energy supply situation in Norway is rather unique when it comes to value creation," says President of LO Norway Roar Flåthen.

"Our ample energy resources generate employment and value creation for the whole country and across all industries. It is important that conditions for Norwegian industry are favourable enough to provide energy at competitive prices. Competitive and power-intensive industry requires conditions that will allow it to develop further. However, the industries must know when to strike and implement their investment plans in Norway. At the same time, there must be a balance which ensures that the energy industry is given conditions that allow the power plant owners to receive a reasonable rate of return. Public ownership ensures that the revenues benefit the general public.
«Finding a development solution which is efficient, environmentally friendly and which protects the natural landscape from unnecessary disruptions, is a challenging task. Green certificates and the introduction of a renewables directive will encourage production of substantial amounts of new renewable energy. We must make sure we use our energy surplus in the best possible way. Large-scale export is not a good solution. However, we need a sensible exchange of power to ensure a reliable supply of electricity in both dry and wet years."

«We must have a secure and reliable supply of energy in the grid of the future without major price differences. All energy developments cause disruptions to the landscape, and grid developments are expensive. We should therefore restrict developments to what is appropriate and necessary. The use of reservoirs must be improved to prevent them from running dry in dry years. We must make sensible use of natural gas in the Norwegian energy system. This will relieve the grid and provide flexibility and back-up supply for dry years."

Oluf Ulseth, Energy Norway

Our ample energy resources create value

”The costs of investing too late in a new grid are significantly higher than the costs of investing early. This is because an insufficient supply of energy will impact the whole society,” says CEO of Energy Norway Oluf Ulseth i Energy Norway.

”The electricity grid keeps society running, both at home and at work. Energy supply is a vital national infrastructure which creates value both in the power sector per se and through value creation in other sectors that are dependent on electricity”.

”We need a stronger grid to develop more renewable energy. In our current situation, and with the introduction of green certificates, we are risking that investment in renewable energy will not take place in Norway unless we have sufficient grid capacity. This would result in a loss of value for companies, regions, employment, tax revenues and for society at large”.

”Strengthening the main grid is more important than ever. However, it seems to take longer and cost more. That’s worrying. It is essential that we do this in a cost-efficient manner. This means that we need efficient government processes. Both Statnett and our contractors must do their best, and we must establish a good dialogue with local communities. To make rapid progress it is important that everyone works together.”

”We are impatient when it comes to the Norwegian main grid. We are also impatient to establish cables from abroad and we would like to see a more rapid progress. We have to strengthen the grid connections between Norway and our neighbours. This is important in order to improve security of supply, for value creation in Norway and, not least, because it will pave the way for a climate-friendly energy system in the future. This means we need a stronger grid in Norway and between Norway and other countries.”

Thor Otto Lohne, Gassco

Gas infrastructure needs robust energy supply

«We supplied more gas in the first two months of 2012 than ever before. In such a situation our facilities are totally dependent on a reliable supply of energy,» says Executive Vice President of Gassco Thor Otto Lohne.

«We have a clear and simple objective for our company; to provide safe and efficient transport of Norwegian natural gas to the markets, and to do so at high regularity and low costs. Just like Statnett, we transport energy. It's important to us that buyers of Norwegian gas in Europe have predictability. This means Statnett has to deliver.»

«It is not just about a sufficient supply of energy, but also about high regularity of supply and as few disruptions and voltage fluctuations as possible. Last year half of the failed supplies to the UK and the Continent were caused by voltage outages. Looking at the previous outages, we think it is very important that more security and quality of supply is provided to the grid.»

«Previously, all facilities had their own energy supply from self-produced gas. Now an increasing number of facilities depend on electricity from the power grid. The objective to electrify the shelf also entails that we must have a power production and power line capacity of sufficiently high quality.»

«Norway is a major gas supplier and will remain so for a long time. However, the main location for the resources that will fill up our gas plants will move north. We will most certainly need power for our facilities at Kollsnes and Kårstø in Western Norway and at Nyhamna in Central Norway. In Finnmark County the Snøhvit facilities on Melkøya are likely to be developed as are other discoveries and reserves in the area. This means that a reliable supply of power will be necessary in many parts of the country to ensure that the petroleum industry can continue to develop.

Merethe Storødegård, NHO

Our ample energy resources create value

«No matter what industry you are in energy supply is essential for value creation,» says Merethe Storødegård, Regional Director of NHO Trøndelag.

«The main challenge for the Trøndelag region has been a lack of certainty as to whether we have sufficient power. This is about having sufficient transmission capacity as well as enough production to ensure predictability for business and industry.»

«We have seen extensive periods with an unpredictable energy situation; unpredictable in terms of having sufficient power, but also in terms of electricity prices. There are plans to increase the transmission capacity to Central Norway. However, if we in some periods have to pay comparatively more than other areas, business and industry in Central Norway will have a competitive disadvantage. To solve this we need both sufficient transmission capacity and higher production in the region.
«We know that there are special capacity challenges in dry years. At the moment I don't feel too confident, and there are also some power intensive companies in the region that feel uncertain as to whether they will have enough power in the near future. The grid of the future, i.e. the main grid, regional grids and local grids, must have sufficient capacity to cover the emerging need for energy. But we must also produce enough energy ourselves.

«As regards our own production, it is evident that investments should be made in wind power. Green certificates are important in this respect. According to the current recommendations from the central authorities, the solution in Central Norway is renewable energy and increased transmission capacity. Small-scale power production is marginal in this region. The most obvious choice for Central Norway is wind power, combined with increased transmission capacity.

Stein Lier-Hansen, of the Federation of Norwegian Industries

The energy should be processed in Norway

«Both with regard to disruptions in the landscape and greenhouse gas emission, it makes sense to process Norwegian power close to the energy source» says Director General of the Federation of Norwegian Industries Stein Lier-Hansen.

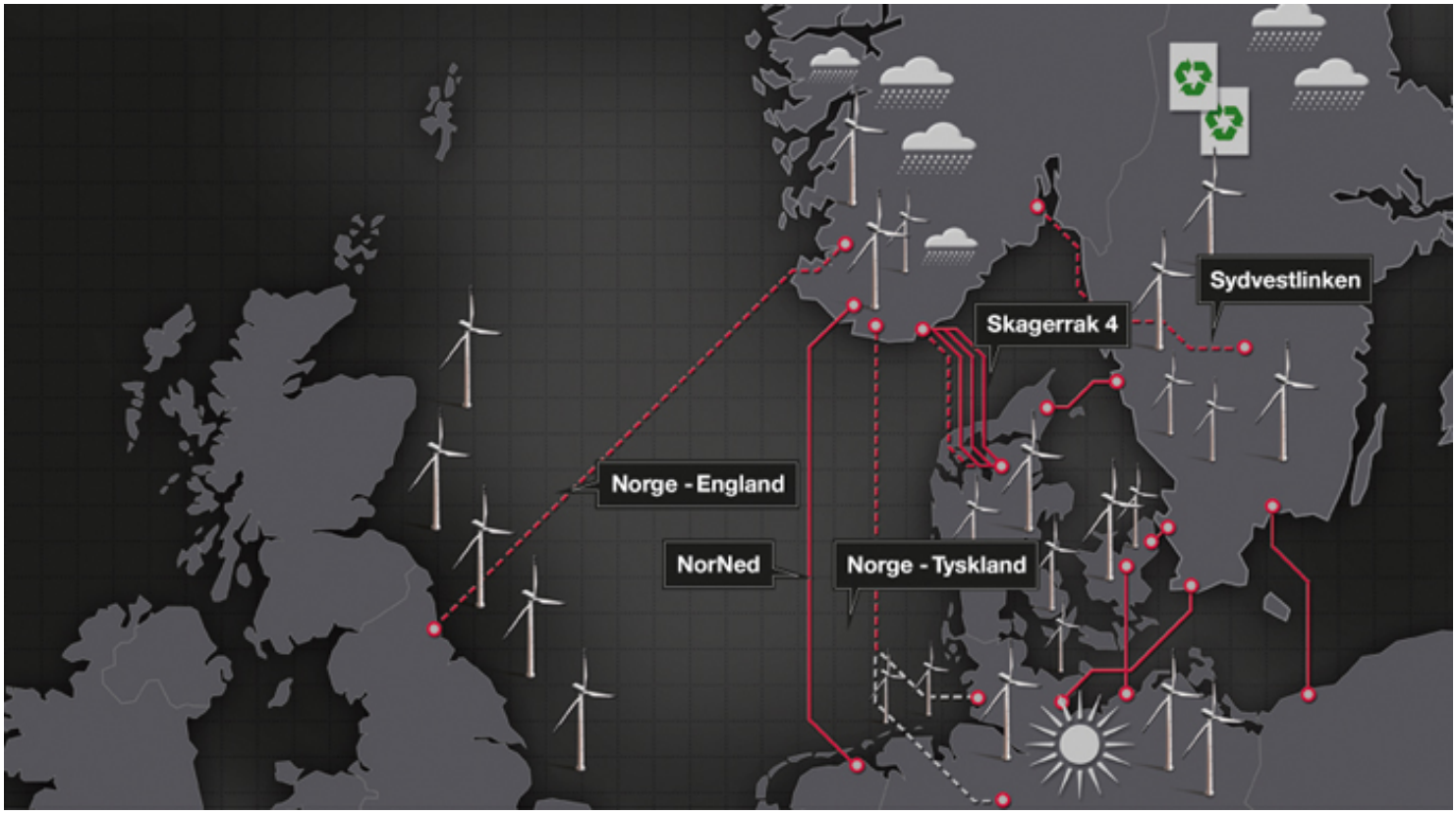
«It is sensible to produce energy intensive products using carbon neutral power. If such production does not take place in Norway, it often takes place outside of Europe with the use of energy sources that contribute to increased emissions of greenhouse gases and carbon leakage. In Norway power intensive industry is located all along the coast. This affects both growth and employment and has major ripple effects.

We need a well-functioning grid design with sufficient capacity, built in an area that makes socio-economic sense. Building more grids is not always the best solution, however. It is therefore necessary to also look at other options, such as new power production or new industrial production in areas with surplus energy. The current energy management is too fragmented. This is a problem if we are to achieve a uniform policy where climate, energy and value creation are seen as part of a greater whole.

Norwegian industry is concerned about the bill that Statnett will run up as a result of its massive investment plans. It is essential that the developments are as cost-efficient as possible. The grid prices must be predictable and at a level that does not generate carbon leakage. To ensure legitimacy it is absolutely vital to maintain a dialogue with the users, who will foot the bill. We must establish a tariffing regime that takes into account the global competitive situation of Norwegian industry, and the system services it contributes. We have advocated increased use of facility contributions in connection with the grid developments. Those who generate the costs and who benefit from the investments, be they cables to the Continent, renewable energy production or other industrial activities, should also be the ones who pick up the bill for the necessary grid investments, Stein Lier-Hansen concludes.

FACTS ABOUT THE FEDERATION OF NORWEGIAN INDUSTRIES

The Federation of Norwegian Industries is a trade association with approximately 2300 member companies and around 125 000 employees all over Norway. The Federation of Norwegian Industries is actively involved in key political issues relating to business and industry. The Federation is a member of the Main Grid User Council.



Facilitate good climate solutions

The next generation main grid will be constructed to pave the way for the realisation of Norway's political objective to build a climate-friendly energy system leading up to 2050. To achieve this, we need more production of renewable energy in Norway, and we need to facilitate lower emissions on the Continent.

The next generation main grid will enable Norway to electrify more of the consumption in the petroleum and transport sectors and as a replacement for fossil fuel for heating of buildings. This means we can be able to reach the UN's target of reducing carbon emissions to two tonnes per person by 2050, compared with the current emissions of 12 tonnes.

Renewable energy

Statnett will facilitate the realisation of Norway's production targets for renewable energy in a cost-efficient manner. In connection with the introduction of the electricity certificate market, Statnett wants to contribute to the connection of 13.2 TWh of new renewable energy production to the Norwegian grid by 2020.

Small-scale hydro power and wind power

Statnett will give priority to facilitating renewable energy production in areas where this will be most efficient in a socio-economic perspective. The greatest potential for small-scale hydro power production is in Western Norway and in the county of Nordland. Statnett will prioritise significant wind power developments in Central

Norway, as this is a deficit area which will benefit from new power production.

Our interconnectors from Southern Norway will also help develop more wind power on the Continent. We can turn off the hydropower production on windy days when wind turbines are generating electricity on the Continent, and on less windful days on the Continent Norway can export power from its water reservoirs. This will provide more net renewable energy.

Facts

RESERVOIR LEVELS

The climate also affects the water reservoir levels. At the end of 2011, the water level in the reservoirs was at 80 percent, compared with 45 percent at the beginning of the year.

80%

Water level in the reservoirs

Five questions for Øivind Rue, Executive Vice President, Grid Operations Division

1. How important is security of supply to Statnett?
2. What are the Grid Operations Division's main areas of responsibility?
3. What does Statnett's system-wide responsibility entail in practice?
4. In what way has the weather been a challenge recently?
5. How did you handle the extreme weather and the storm Dagmar?

1: How important is security of supply to Statnett?

Security of supply is our main objective. It is also what the Grid Operations Division will be measured against by the President and CEO.

We have noticed an increasing awareness in society concerning the importance of a reliable supply of electricity. It is easy to take it for granted, but it has a great impact for the individual when it is no longer there. Each time the supply situation is strained there is a lot of attention from customers, politicians and the general public. Power outages are not generally accepted, though we have experienced that people have some understanding that extreme weather can result in outages that are difficult to prevent.

All things considered, it was good that the discussion concerning the Sima-Samnanger line was raised to a level where the need for and knowledge about security of supply became so visible. In some regions, such as in Central Norway, security of supply has been uncertain in periods. This means that the potential for public acceptance of grid reinforcements is high in this region.

The solution, which is to upgrade the main grid, has been put on the political agenda and we experience broad support for Statnett's perspective. That's good for the security of supply.

2: What are the Grid Operations Division's main areas of responsibility?

The Grid Operations Division is responsible for four main areas: managing long-term ownership of our facilities, providing security of supply preparedness, maintaining a balance between production and consumption, and long-term power system analyses

Facility operations cover about 150 stations and 10 -11 000 kilometres of power lines and cables. This includes an operative organisation with responsibility for long-term facility management, operation and maintenance, first-line preparedness and fault repair.

Our preparedness organisation makes sure that we are able to handle very demanding situations, if, for instance, adverse weather presents a challenge to our operations. However, we handle these types of situations very well thanks to an experienced and highly skilled organisation.

At our regional dispatch centres we control our stations and make sure that we can deliver a secure power supply at all times, whilst conducting our facility operations in a safe manner. For system operations we have a

national dispatch centre which maintains a continuous power balance in the system.

The Grid Operations Division is also responsible for power system analyses. We have now linked this closer to system operations and our studies are now based more on our experiences from operations than previously. Comprehensive and relevant analyses of a high quality are key words for this work.

3: What does Statnett's system-wide responsibility entail in practice?

What we do is to balance operations in the short term. We have a national dispatch centre which is responsible for exercising the operative system responsibility, following up the power system second by second. Furthermore, we authorise everyone who will carry out planned and unplanned repairs on the facility. We also set requirements for and approve all facilities that will be connected to the power system. In this way, we ensure sensible quality throughout the system.

Two hours before what we refer to as the hour of operation, we have planned a balance between production and consumption. During the hour of operation minor and major deviations in the balance are corrected using automatic reserves which we keep available at all times.

For system regulations and special congestion regulations, we use what is called the Regulating Power Market (RPM). This is a manual regulation process. We have a regulating power list of price-dependent bids. We will, for instance, contact a producer to request an increase in production of a certain quantity of MW in a particular area. The producer must then supply this in 15 minutes.

In principle, the system coordinator has all authority and controls all production in the power system should incidents occur where this is considered necessary. Having such a function naturally entails a great responsibility and it is vital that the role is conducted in a highly professional manner.

4: In what way has the weather been a challenge recently?

In terms of the weather, 2011 was the most extreme year imaginable. We first had the driest year ever and then the wettest.

During the 2010/2011 winter we saw record-low temperatures in November and December, and January and February were also very cold months. Water levels in the reservoirs were record-low and in February we had to declare a strained power situation, which was a very unpleasant situation.

This was followed by the earliest spring thaw on record, four weeks before normal, and what we thought would be a hard summer turned into a rainy one with high water inflow.

To top it all we saw production records, export records and import records. In January 2012, we set an export record which was close to what is technically feasible. The weather was cold in all the Nordic countries, water levels in Norwegian reservoirs were very high, nuclear power production was low and temperatures were low also on the Continent.

The system was stretched to its limits throughout the whole of 2011. If an outage occurs and there are not enough reserves, it can have serious consequences for an area. Consequently, we always make sure that we have sufficient available reserves.

The system has become increasingly strained, and we look forward to the upgrades that are now being implemented.

5: How did you handle the extreme weather and the storm Dagmar?

The storm Dagmar which hit Norway on Christmas Day 2011 was definitely the most challenging situation we have experienced. The Grid Operations Division is expected to handle such situations, and we must have the

expertise to repair faults and make carefully considered assessments on the way. I'm proud of the way we handled it.

We had to handle 40 000 alarms. For brief periods 32 of our power lines were down, but then reconnected. Whilst this was going on, we had to operate Norway from 14 separate areas. One of our teams was also blocked in by snow masses after they had repaired faults.

That's when Statnett is at its best. We have experienced and competent people who know what is going on. You have to remain calm, make carefully considered assessments and take decisions all the time. Moreover, you have to make sure that no one is exposed to danger.

We did our job and have received positive feedback from the media and our partners. We managed, as we are expected to. Nevertheless, we ask ourselves whether we are properly prepared for extreme situations. Do we need to reinforce our communications system, our first-line preparedness or dispatch centres? These are questions that we will consider carefully.

Facts

GRID OPERATIONS DIVISION

The Grid Operations Division is responsible for maintaining security of supply at all times, i.e. a continuous supply of electricity to all users. The division's responsibility covers four main areas: long-term ownership management of our facilities through sound operations and maintenance, providing security of supply preparedness, maintaining the company's system-wide responsibility in Norway, continuously maintaining a balance between production and consumption, and being responsible for long-term power system analyses. Our facility operations cover approximately 140 stations and 10-11 000 kilometres of power lines and cables. The Grid Operations Division have three regional control centres and one national control centre which is staffed 24 hours a day, seven days a week.

Five questions for Bente Hagem, Executive Vice President, Commercial Development

1. How would you describe the division's areas of responsibility?
2. What are the most important market milestones?
3. What challenges and possibilities will you be facing in the time ahead?
4. What does the market mean for a state enterprise such as Statnett?
5. How will Statnett facilitate renewable energy initiatives in Northern Europe?

1: How would you describe the division's areas of responsibility?

The Commercial Development division is responsible for customer relations and commercial issues relating to the energy markets in Norway and Europe. Our daily work involves strengthening our customer relations and ensuring rapid progress in our international projects, as well as further developing efficient market solutions for the present and for the future. The focus of our national and international work is to facilitate a well-functioning power market and develop a market design which promotes the most efficient socio-economic solutions. As operator of the Main Grid Commercial Agreement we also make sure that all owners of facilities that are part of the Norwegian main grid have their costs covered for operation and further development of the facilities.

Furthermore, Commercial Development is responsible for Statnett's customer relations with power producers, industrial companies and regional grid companies.

2: What are the most important market milestones?

We reached an important milestone in January when our project to establish an interconnector between Norway and Germany and between Norway and the UK passed Statnett's first decision stage. This is a key internal milestone. The project realisation schedule is 2018-2021.

On 12 January 2011, we took an important step towards European market integration by connecting the power markets in Norway and the Netherlands closer together through implicit auction, also referred to as market coupling. From this date forward, power market participants no longer need to purchase capacity first and then trade on the power exchange. Now everything takes place in one operation. The result of the solution was that power now flows in the correct direction between the markets; from low-price areas to high-price areas. Prior to the market integration power flowed in the opposite direction for about 10 per cent of the time. This entailed less efficient use of the cable.

The solution implemented for NorNed is part of a greater effort to further integrate the European power markets. Work is now ongoing to develop the solution further and the aim is to establish even more efficient coupling, a price coupling, by the end of 2012. By implementing a price coupling it will be possible to calculate the price and the power flow in one single calculating operation for the whole of north-western Europe. In practice we will establish a virtual European power exchange. This will ensure proficient use of the European infrastructure and contribute to the realisation of EU's ambitious climate objectives. Statnett is in charge of this work and once the work is completed Norway will be a part of the largest multinational market in the world, with

an underlying consumption of 3200 TWh.

In 2011, the power exchange Nord Pool Spot entered into a joint venture with the French-German power exchange EPEX to establish a common ICT platform and joint operations. This will create synergies and in the long term facilitate a common European power market. Another significant step towards a common European power market was taken when intraday trading was launched on the interconnector between Norway and the Netherlands (NorNed) on 14 March 2012.

In 2011, the Norwegian authorities decided to make Statnett responsible for keeping the register for the Swedish-Norwegian green certificate scheme. Under the scheme, Norway and Sweden have committed to facilitating the aim of 26.4 TWh of new renewable energy production by 2020. The first certificate was issued on 8 February 2012.

3: What challenges and possibilities will you be facing in the time ahead?

From a market perspective, the main challenges are related to Europe and the EU. Much of what is happening in the EU following the introduction of the EU's third electricity market package, will impact Norway. In the period leading up to 2014, the EU will issue regulations for planning, operations and electricity markets which will, to a great extent, govern developments in the Norwegian power sector.

Our power system is based on hydropower which has a flexibility that distinguishes us from other European countries. It will be important to safeguard Norwegian interests in this respect.

As regards the EU, a key task will be to develop a common market design for the Nordic countries and Europe. The power system is facing major challenges and changes through massive investments in grids and renewable production. In practice, all renewable production in Europe will come from resources where generation will vary depending on wind and solar conditions. If such a system is to work, it will be necessary to further develop the systems for power spot trading, intraday trading and regulating power markets. Statnett is heavily involved in the key processes to ensure that developments proceed in the right direction.

4: What does the market mean for a state enterprise such as Statnett?

Statnett's objective is to achieve a customer satisfaction level of 75 per cent. In 2011, customer satisfaction increased to 71 per cent, up from 64 per cent in 2010. This is a positive trend which we are very pleased with. Concurrently, there are great variations in the feedback we receive and we still have some way to go before we reach our goal. We are dependent on good customer collaboration to gain acceptance for our plans and operations. Our customers are innovative and provide us with valuable advice.

Another challenge will be to communicate the new tariff structure which will be introduced as a result of investments increasing from NOK 2 billion to NOK 5-6 billion annually. A new price strategy will be established in the period 2014 – 2018. We must maintain good cost management and at the same time promote understanding for the new prices and for why we all have to shoulder the burden.

Statnett will also have more new and challenging responsibilities. Statnett has, in the course of a short time, been granted responsibility for two new key areas. Statnett was already responsible for main grid tariffing, but will from 2014 also be responsible for the regional grid.

The other task involves responsibility for the development of a common ICT solution for the whole energy industry as a result of automatic metering. The solution will pave the way for an efficient end user market for electricity.

5: How will Statnett facilitate renewable energy initiatives in Northern Europe?

Norway's power production is based almost exclusively on hydropower. This means that Norway has a significant resource to reduce carbon emissions. By developing good market solutions, extending the grid in

Norway and linking Norway closer to our neighbours, Statnett is contributing to making such a reduction possible. In 2011, Statnett was assigned responsibility for keeping the register for the renewable energy certificate, or green certificate, scheme.

The green certificate scheme is a common Swedish-Norwegian market-based subsidy scheme which will last until 2035. The aim of the scheme is to make it more profitable to invest in power production based on renewable energy sources, such as hydropower, wind power, solar power and bioenergy. Power stations covered by the scheme will be issued with a green certificate according to how much electricity they produce, whereas power suppliers and consumers are required to purchase green certificates for a specified share of the electricity.

The green certificate scheme represents a major step forwards towards increased renewable energy production. At the same time, it is essential to have a well-developed main grid and establish connections to our neighbouring countries to achieve the objectives of the scheme.

Facts

Commercial development

Commercial development is responsible for Statnett's customer relations, maintaining the company's central settling role, monitoring and development of an efficient market design, as well as coordinating the company's European ventures. The division handles monitoring, price setting, billing and agreements in the main grid, as well as parts of the regional grid. The division is also responsible for settling balances.
Commercial development is also responsible for developing market solutions for trading of various power products in Norway, the Nordic region and Europe.

Five questions for Gunnar Løvås, Executive Vice President, Strategy and Public Affairs

1. What do the responsibilities of Strategy and Public Affairs involve?
2. What are the drivers behind the main grid of the future?
3. Why has acceptance for grid developments increased?
4. What adjustments have been made to the Grid Development Plan?
5. What are the biggest challenges related to the grid of the future

1: What do the responsibilities of Strategy and Public Affairs involve?

The Strategy and Public Affairs division develops the company's strategies and plans, and ensures that they are integrated in the rest of the organisation, with regard to society, other players in the industry and other environments, to make sure our strategies are successful.

Our strategies are based on what society needs. This means that for our part, social strategy and company strategy are more or less the same thing. Our job is to express what is expected of the power sector, both in terms of society's need for a reliable supply of electricity and the opportunities for renewable energy initiatives and for creating new industrial activities.

The picture we present is tested in the public debate and in dialogues with our customers. On the basis of this testing we present our annual plan; the Grid Development Plan. We have received much support for our main plans, and understanding for the need to extend the grid and for our other plans. Compared with the situation a few years ago, this represents a major shift. We now see that the power industry, politicians and other members of society are much more willing to accept the need for a stronger grid. The debate is now more focused on which solution to choose for each project, which means that many pros and cons will have to be considered.

2: What are the drivers behind the main grid of the future?

Security of supply, climate and value creation. We have seen a development in all three drivers in 2011, and this has reinforced the need to update the main grid.

When we defined new security of supply requirements in December 2010, we did not do so in a vacuum. We did it in response to society's expectations and demands. Moreover, in the last year, national emergency preparedness has been put on the agenda much more forcefully than before. Norwegian society both wants and expects a more reliable supply of electricity.

At the same time, we have introduced a system of renewnable energy certificates, green certificates, as of 1 January 2012 together with Sweden to realise a strong ambition for renewable energy in Sweden and Norway. This is not feasible without a strong main grid, combined with stronger connections between Norway and our neighbouring countries.

The third driver is value creation, where we now see renewed optimism regarding the petroleum industry. The oil industry is a major consumer of electricity along the Norwegian coast and the industry is planning to expand its activities after several discoveries in recent years. The aluminium industry too has increased faith in investing in Norway, spurred on by the prospect of a power surplus and lower prices.

3: Why has acceptance for grid developments increased?

The public debate on the Hardanger power line has promoted a greater understanding for the need to reinforce the grid. We have also learnt a lot about how to conduct our dialogue with society, not least by having more interaction with local communities in the early phases of a project. We have learnt a lot, but, as we see it, other players in society have learnt just as much. All in all, this will improve our chance of succeeding with our community mandate.
We have strengthened our collaboration with the regional grid companies. We are trying to work as partners to a greater extent, and we use each others' contact network of customers and authorities. Generally speaking, we first try to create a dialogue about what is needed and then about what may be feasible measures. The Greater Oslo assessment is an example of this. We took a broad approach in the early phase, involving other conceivable interest groups to identify needs as well as potential conflict areas. It is important to generate a common picture well before solutions are discussed. This works very well.

Public interest in energy policy has increased considerably. Several events have highlighted the need and drawn increased attention to the vulnerability of modern society. In addition, we have been through extreme weather situations which have highlighted the need for a grid that can withstand storms and function well even if an outage should occur in some sections. It is very important to have sufficient back-up in the main structure. We find that not only is this expected, it is absolutely necessary.

4: What adjustments have been made to the Grid Development Plan?

The phrase next generation main grid was perhaps a bit of a catch phrase in earlier days, whereas now it is gradually becoming a reality. The annual Grid Development Plan was also in many ways an ambition, whereas we now see it as an operative plan.

The main adjustment to the latest Grid Development Plan is a much higher focus on implementation planning. How are we actually going to carry out everything we've planned? It means we have to do a certain reality check as to how long, for instance, the licensing process will take.

We also see that we will not be able to realise as many projects going into our neighbouring countries as previously assumed. Instead we will have to concentrate fully on realising the interconnectors between Norway and England and Norway and Germany in the coming decade, in addition to a new power cable to Sweden and completion of the Skagerrak 4 development to Denmark. The main reason for this is that we need to upgrade the national grid first, and this will take longer than expected.

As we work we come across many challenges relating to the current system operations, our own implementation capacity and capacity in the supplier industry. This puts a limit on how many projects we can implement at the same time. The net effect is that our schedules will be adjusted somewhat and that the projects will be extended over a longer period. However, our long-term ambition for the future main grid remains unchanged.

5: What are the biggest challenges related to the grid of the future

One of the main challenges is the long licensing processes. We are talking about major projects that affect a great number of people and many local communities. It is therefore important to have a good social process that includes everyone and ensures that we choose the best solutions. We believe it is possible to improve and speed up this process.

We have a lot of projects that will be implemented before 2020. Our own capacity and that of our contractors will be stretched to the limit. This means we will be forced to make some tough priorities. For instance, the cost of small-scale hydroelectric power stations is significantly lower than for wind power. This means we will focus on small-scale power. At the same time, some wind power projects will be developed to meet national objectives. We will then facilitate wind power projects in areas with a power deficit and good wind conditions.

Setting priorities is extremely complicated. It has major ripple effects and often determines where in Norway value creation will take place. Our long-term ambition is that all regions in Norway will take part in local value creation and have opportunities for growth through an optimum energy supply. We have a plan, and we must communicate our priorities clearly. We will help the country reach its objectives in the most cost-efficient manner possible.

Facts

STRATEGY AND PUBLIC AFFAIRS

Strategy and Public Affairs manages strategy development in Statnett, both within the company and to ensure that we fulfil the mandate given us by the government which is to operate and develop the main grid. This is reflected in the Grid Development Plan and in the management of a continuously updated project portfolio. At project level, the division is responsible for developing projects until a concept decision is made. Furthermore, the division is responsible for communicating with the outside world and with the company’s stakeholders.

Five questions for Håkon Borgen, Executive Vice President, Projects Division

1. When will Statnett begin constructing the grid of the future?
2. What are the major development plans and projects?
3. How are the major development projects organised and managed?
4. What role do you want the contractor industry to play?
5. What HSE challenges are involved?

1: When will Statnett begin constructing the grid of the future?

We are well on our way. We have been talking of the need and the plans for the next generation main grid for many years, but now we have actually begun the construction work. The pace is changing, and this impacts the entire organisation. We are well prepared, however, and have built up the Projects Division from 2007 and until today.

In 2011, we progressed from awaiting final licences for several major projects into a realisation phase which has a very different scope from what we have known so far. One year ago we were allowed to build no more than a few dozen kilometres a year, but now we have licences for 400 kilometres. Over the last five years we have been building about 50 kilometres a year, whereas we for the next five years will have a pace of 300 kilometres a year, or bout one kilometre a day.

In recent years we have built up a project division in Statnett which will assist the projects in delivering best practice in project work. Statnett's project office belongs here. We have already been able to build up strong engineering expertise on power lines, station and cable technology. Licensing work is delivered from the Project and Licencing Division.

Much of what is happening now is about changes and mobilisation for a faster development pace. We are recruiting, but we also want to build up our contractors by outsourcing more work to them in the shape of new types of contracts. This requires adaptations in every part of the chain. We are doing a lot of work to make sure the entire value chain delivers in terms of quality, costs and time, and not least in terms of health, safety and the environment (HSE), which is most important of all. HSE is a challenge that we are working on every single day to ensure a top focus both in Statnett and among all our contractors. Statnett has a zero vision with regard to HSE.

2: What are the major development plans and projects?

In total, our plans for the coming ten years include the building and rebuilding of 3-4 000 km of power lines. We will also upgrade more than 60 stations and increase the voltage from 300 to 420 kV in major sections of the grid. All in all, this is about improved security of supply as well as value creation facilitation and sound climate solutions.

Our investment level is rising fast. We are now making investments worth around NOK 2 billion a year, and this

will rise to NOK 5-6 billion a year.

The major onshore development projects that are taking place just now are Sima - Samnanger and Ørskog - Fardal. We are also constructing new cables across the Oslo fjord plus a new subsea cable, Skagerrak 4, between Norway and Denmark. A number of small and medium-sized station projects and power line projects are being realised at the same time.

Our biggest milestones in 2011 must have been the licences we received for Sima - Samnanger and Ørskog-Fardal. For Statnett this also meant that we made an investment decision concerning Ørskog - Fardal that amounted to about NOK 5 billion. This project is important for security of supply in Central Norway and comprises almost 300 kilometres of power lines in 15 municipalities as well as seven new transformer stations.

A major project facing us now is Ofoten - Balsfjord - Hammerfest in Northern Norway, where 500 kilometres of new 420 kV power lines and a number of stations will be constructed. This entire region suffers from inadequate security of supply, but we will also be contributing to increased value creation, not least in the petroleum industry in Northern Norway.

3: How are the major development projects organised and managed?

Once the concept has been formally set and a policy has been established for project owner management, which extends as far up as the board, ownership of a project is located in the Projects Division. We want to be among the best on running projects, and we organise our construction projects in separate project organisations. The Projects Divisions assists in standardising the company's project routines. We want to compare ourselves with the best.

Projects are implemented as a matrix where we draw on resources from the entire Statnett organisation, not just from our own division. This includes ICT, Grid Operations and Corporate Staff as well as the procurement, legal, information departments and Commercial division.

Good interaction between the line and the project is vital. The project becomes an arena which is common for the whole of Statnett. To achieve really good interaction, we must be clear about roles and responsibilities. Our projects are also planning for the best possible interaction with municipalities, stakeholders and other grid companies. This requires us to be open and active in communicating information while construction work is underway. For some projects we also bring people from outside the company into our steering groups in order to achieve the good interaction we are aiming for.

4: What role do you want the contractor industry to play?

Statnett is now looking at several thousand kilometres of grid development, and we would like Norwegian contractors to handle a major part of this. We need to recruit, and so do our contractors. We are therefore spending a lot of time on our contractors, encouraging them to build up expertise and capacity in time.

In Northern Norway, for example, a special development project has been set up, Leverandørutvikling for Energisatsing i Nord (LUEN – Contractor development for energy investment in the North). For this region we expect licensing questions to be sorted out in 2013, which means that 2012 must be spent preparing the contractor industry.

The other Nordic countries and Europe will also begin the work of renewing their grids, and so we might easily see a battle for resources, installers and engineers. It is therefore important for us to think long-term and raise this topic in debates on education.

We are also planning new contract strategies, depending on the type of assignment. The goal is to outsource more work to our contractors. For instance, we are now also looking at outsourcing engineering for the large substation volume (EPC).

We also want to bring expertise from regional and local grid companies into our projects, e.g. on construction management. The better our relationship with the regional energy companies is, the better the project becomes – that is our experience.

5: What HSE challenges are involved?

We will face safety challenges both in the project phase and the construction phase, not least when building projects take place alongside grid operation. However, we have zero tolerance in all our operations with regard to health, safety and the environment (HSE).

HSE is always the first item on the agenda in group management meetings. Our reports on undesirable incidents are forwarded to the group management, and reports on the most serious ones to the board also.

Very sadly, a fatal accident occurred in one of our subcontractor companies in 2011. This does something to us. We do everything we can to learn from such incidents in order to prevent a recurrence.

We have standardised routines on reviewing risks, both in our own company and in our contractors, as well as regular emergency preparedness drills. Safety must be the case everywhere, and this is something we focus on.

In all safety work it is important to bring out all the facts, so that we can learn. We have never received as many HSE deviation reports as we do now. That is great, since it is so important to know about all deviations. We are now using the new information to do more strategic analyses of focus areas where we can do more to reach our zero vision.

We want a reporting culture where we pat each other on the back for speaking up.

Facts

THE PROJECTS DIVISION

The Projects Division is in charge of the planning and implementation of development projects in Statnett. Responsibility for implementation includes project development, from choice of main concept and decision to invest, to implementation in the development phase, and until the facilities are handed over to Grid Operations. The projects are organised in a matrix where resources are obtained from the entire Statnett. The development projects encompasse both power lines and transformer stations in Norway and interconnectors to the Continent. The Projects Division also carry out major reinvestment projects.

Five questions for Peer O. Østli, Executive Vice President, ICT Division

1. To what extent is ICT integrated in Statnett's core activities?
2. Will Statnett's renewal process also involve ICT?
3. What will ICT be like in the next generation main grid?
4. To what extent will the administrative systems be updated?
5. How vulnerable is the current grid in terms of ICT?

1: To what extent is ICT integrated in Statnett's core activities?

ICT is an integral part of Statnett's core activities. We are responsible for operating the main grid and the power system in Norway and it is a long time since you could do that without highly advanced IT systems. The power sector started using advanced control systems at a very early stage.

We have our own national data communication network which enables us to operate the main grid by monitoring and controlling Statnett's many stations throughout Norway by remote control. The network is mainly fibre-based and is designed with two separate lines to Statnett's stations to ensure high uptime rates.

Moreover, all companies also use ICT in its business operations. For us this is mainly related to providing support for maintenance of the main grid, but also efficient solutions for project management, finance and administrative processes. Our challenge is to integrate the production technology with the administrative technology. It must all work together.

The ICT division plays a key role in Statnett's current renewal process. The modernisation of our ICT platform attracts highly skilled employees. The division has a good mix of people with ICT experience and people with experience from the electric power industry. It is important to not only have a sound knowledge of ICT, but to understand what it should be used for.

2: Will Statnett's renewal process also involve ICT?

We are already well on our way. In 2011, most of our stations adopted a modern communication solution, and we are modernising most of our key ICT solutions in the power system. In the period leading up to 2014 we will implement several major projects which will lay the foundation for the solutions that will support Statnett's system operations in the next 10-20 years.

Norway is a long and narrow country where grid construction is expensive. This means that it is important to make the most of the grid. We do this by adopting advanced solutions for our system control centres, and Statnett is a world leader in this field. The control systems at our regional and national control centres are the corner stones of the continuous main grid operations, and we are now working on a project to upgrade them.

We are also renewing our market systems. A main challenge in this respect is to make the right adjustments, to ensure that the systems are adapted to Statnett's operations. In particular, this applies to how we involve other

parties in the power system, such as power producers, grid companies and, above all, our partners abroad. Furthermore, it is very important that the solutions make it easy to establish new services when new tools are required for system operations, or if there is a change in framework conditions. These are major investments and we expect to benefit from them for a long time.

Statnett will extend the grid significantly and build many new substations, and ICT solutions are an integrated and important part of each single station, line or cable project. This means that we have to increase our ICT capacity in step with Statnett's general development capacity.

3: What will ICT be like in the next generation main grid?

The next generation main grid is not only bigger and more robust in terms of size and voltage. It is also smarter. This entails that the use of ICT is extended to ensure better monitoring, flow and operation of the power system. This will result in higher security combined with high main grid utilisation. Statnett's research programme Smart Grid aims to do just that.

The Smart Grid programme is also about improving efficiency and flexibility in the whole Norwegian power system. This is only possible if we have ICT solutions implemented across the industry. One way of looking at it is that the distribution networks will adopt some of the same technology currently used in the main grid. Automatic meter reading and real-time data communication, which have been used in the main grid for quite some time, will be introduced for the distribution networks in the period leading up to 2017, and thus in all households in the country.

4: To what extent will the administrative systems be updated?

We are developing the next generation Statnett. Modern communication and coordination solutions play a key role in this respect, particularly since we have employees working all over the country. The technology facilitates decentralisation of tasks, reduces travel and brings people and units closer together.

We have also introduced operation solutions which will assure the quality of administrative operations and make them more efficient. In 2011, we made a decision to digitalise all documents. This is a programme which will be implemented in preparation for moving the head offices to Nydalen in 2013. By then we will have implemented fully digital document management, and we will have digitalised several hundred shelf metres of paper documents. During this work it is important to establish standards for quality assurance and documentation.

It is important for Statnett to maintain a good and systematic communication with all parties affected by our development projects. We are therefore establishing solutions which will automate and assure the quality of our correspondence with landowners and other parties.

Operations help us do that in the form of sensors and a lot of information has been gathered by data streams that we can make use of in our analyses. As we are facing major investment decisions in the time ahead, it will be worthwhile to invest more in data warehouses and analysis software to ensure that we make the best possible decisions.

5: How vulnerable is the current grid in terms of ICT?

There is currently increasing awareness about society's dependence on a reliable supply of electricity and ICT solutions that are always available. In Statnett these two challenges merge: We are dependent on available ICT systems to ensure a stable supply of electricity.

The storm Dagmar which hit Norway on 25 and 26 December 2011 was an important reminder. In addition to the direct consequences for the main grid, the fibre-optic connection was broken in nine locations, which made operation of stations more complicated. We are currently discussing what lessons we should draw on to make

the communication solutions even more robust. It is important to always have alternatives. Consequently, we use parallel technologies such as radio technology and, to a certain extent, satellite communication in addition to the national fibre-optic network.

One area which we are strengthening in 2012 is information security. This is a significant focus area for Statnett, affecting all parts of the company. We must make sure that our systems are protected against hacking and viruses.

We are becoming increasingly dependent on an omnipresent infrastructure in society. Energy supply is the last vital barrier. In practice, we have no other choice but to jump on the bandwagon of technological progress whilst ensuring that our solutions are as robust as possible. Good back-up solutions and keeping a keen eye on all possible scenarios are key building blocks in this regard.

Facts

ICT DIVISION

Statnett's ICT division is responsible for systems for monitoring and controlling the power grid, ensuring balance in the electricity system, calculating grid power transmissions, as well as operations and maintenance systems for Statnett's facilities. A national computer network provides safe communication between stations, system control centres and other components in the power system. The unit has approximately 120 employees. About 80 percent of these provide support for the primary tasks, energy supply ICT services, whereas the remaining 20 percent are responsible for administrative ICT systems.

Five questions for Knut Hundhamar, CFO and Executive Vice President

1. How important are the corporate staffs for Statnett's strategy?
2. How well equipped is Statnett on an organisational level?
3. How does the Group safeguard HSE considerations?
4. How important is procurement and legal expertise?
5. How will the growth affect Statnett financially?

1: How important are the corporate staffs for Statnett's strategy?

Statnett's role as Transmission System Operator for Norway is fixed. Our objective, which is to build and operate the next generation main grid, means that Statnett will face a formidable growth and development – a highly inspiring starting point for our activities for many years ahead. This provides our departments and each individual employee with the best basis for a long-term perspective on their own development and contribution. Perhaps the most exiting role a corporate staff division can have is to make sure that other people succeed by exercising our professional and functional responsibility. We will achieve this by providing the best service we possibly can for the Group's divisions and projects, and by striving to deliver high quality. By doing so we can contribute to a good interdisciplinary collaboration and ensure that Statnett performs its tasks in an efficient manner.

As corporate staff we have an overview of the Group's activities. We are therefore also a strategic resource and an important part of the Group's overall management. At the same time, we maintain vital control functions which are important for a rapidly developing enterprise such as Statnett.

The Group's staff functions have now been brought together under one management to ensure uniform work methods, a strengthened management capability and efficient deliveries to the rest of the Group. It is important to us to have clear roles, to employ our resources at the front line and be responsible for our deliveries, which benefits our employees who will have a more motivating work situation. Furthermore, it will help the organisation maintain efficiency through a challenging growth period.

2: How well equipped is Statnett on an organisational level?

Statnett's organisational foundation has been built on a high number of employees who have been with the company for a long time and thus acquired extensive professional expertise and experience. Statnett has a clear structure and well-established routines and procedures. This gives the organisation a sound basis for meeting the many new challenges ahead of us.

It has also been necessary to recruit extensively in order to replace an increasing number of employees who are about to retire and to meet the resource requirements comprised by our mission. We have hired approximately 500 new employees in the last five years. This means that more than half of our 950 employees have worked for the company for less than five years. We are proud that we, through our systematic recruitment effort, have managed to attract so many highly qualified new employees in a challenging

Norwegian job market.

Fortunately, it seems that our new employees stay with us, are happy in the company and have exciting and challenging tasks. Absence due to illness remains at approximately 3.5 percent and we score high in surveys such as “A Great Place to Work”.

In a world dominated by financial crises, unrest and restructuring, we emphasise that Statnett has an important task which is vital to society. It is definitely challenging, but it also has a long-term perspective, as well as being clear and very versatile. This is one of the company’s strengths and we have much to offer employees at all levels who want to develop, from our apprentices and trainees to our important senior employees. I believe that organisations that manage to facilitate a flexible and opportunity-oriented senior policy will secure an important competitive advantage in a job market characterised by increasingly fierce competition.

We recognise that the organisation and working methods that we are developing in the period 2012-2013 will have a long expiry date, as our work to develop the next generation main grid will continue until 2030. We are now working actively to develop our organisation. Visible proof of this is that we are moving into new offices and adopting new IT solutions. We have just opened a new office building in Trondheim and in 2013 we will move our head offices to Nydalen in Oslo. We are also introducing the paperless office.

Statnett is facing extensive development projects in the years ahead, but once these have been implemented Statnett will be very well equipped to accomplish its mission.

3: How does the Group safeguard HSE considerations?

Health, safety and the environment are very important focus areas for us, as we have so many people performing work under potentially dangerous conditions. HSE is the foundation for all our operations and projects. We perform work in the external environment all the time. Furthermore, we work in a vulnerable landscape and with the highest voltages in the country at our stations and power lines. It is therefore vital to have managers and employees who are constantly on the alert and focus on safety at all times, and who stop and ask themselves whether it is safe to perform the work and if we have followed our procedures and risk analyses.

We don’t just have many people working on one project; we have many people working on many projects at the same time all over Norway. This means we must always consider potential risks and maintain a strong, national HSE organisation. Furthermore, we must have a systematic approach governed by our procedures. Our national HSE network is an invaluable professional resource in this respect. It ensures that Statnett can mobilise efficiently when improvements and learning are needed. We have upgraded a number of our HSE routines and have provided extensive training for our new employees. We also work to implement common attitudes and values.

HSE is a management responsibility. Consequently, the first item on the agenda of our board and management meetings is health, safety and the environment, with a focus on status and learning.

The fact that we have changed our contract forms and that many of our operations are performed by others also represents a challenge. We have contractors who come from abroad to perform work for Statnett and they bring with them their culture and their way of working. They encounter Norwegian nature and mountains and the Norwegian climate, and must comply with Norwegian HSE requirements and Statnett’s requirements. This means we have to be very clear in our role as principal.

4: How important is procurement and legal expertise?

We will invest NOK 40-50 billion in the next decade. If we add up all reinvestments, new construction and upgrades, annual investments will amount to NOK 6-7 billion. We will become one of the largest purchasers in Norway. Procurement is therefore very important indeed. There are also strict requirements relating to our tender processes, as Statnett is governed by the Act relating to public procurement in the supply sector. Our

procurement contracts must comply with sector legislation, licensing conditions and special legislation relating to salary and working conditions. In 2011, we adopted new enterprise models which we applied for the Ørskog-Sogndal project and others, and which mean that the contractor is responsible for Engineering, Procurement and Construction (EPC). This improves our implementation capacity, but it also requires greater efforts on our part both in terms of procurement and legal work. With more of the work being performed by subcontractors, such as transactions, a greater degree of clarity and formality in all aspects becomes required.

In addition to contractors, we have regulatory requirements, licensing processes and contracts with other grid companies, and we have many land and rights acquisitions. We are also the transmission system operator for the Norwegian electricity grid. In parallel with this important change processes are taking place in European energy management which will involve new regulatory requirements and regulations. Consequently, the company places great emphasis on legal aspects.

5: How will the growth affect Statnett financially?

Financial expertise is important and will become even more important in the future. Statnett's activities and need for financing are increasing and Statnett's balance sheet is expected to double over the next five years, from approximately NOK 23 billion to NOK 40 billion. In addition to the need for more equity, this will entail that we will increase our borrowing significantly and that the debt that we must service will increase.

Our investments have a long life with a regulated economy. This means that we need corresponding predictability for our borrowings. By combining a distributed maturity structure with long-term loans, we avoid frequent refinancing at uncertain terms and conditions. We have recently been out in the loan market and took out a 15-year loan at good terms and conditions.

In finance it is impotant to have good risk, liquidity and asset-liability management, with all the simultaneous projects we are now engaged in.

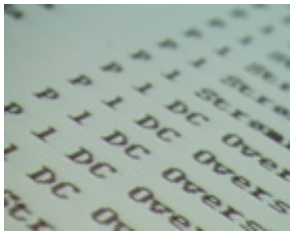
Sound financial management is important to maintain efficient control of our investment projects and a good cost management process. As a regulated monopoly we are subject to efficiency measurements performed by our regulator the Norwegian Water Resources and Energy Directorate (NVE) and it is thus very important that we use our resources and assets in the most cost-efficient manner possible.

As the transmission system operator we have a clear strategy, with a focus on operating and developing the main grid. We have a competent organisation with secure and stable operations, good project management ability and a highly-skilled finance organisation, as well as a predictable owner structure. In a turbulent loan market we are first and foremost a reliable borrower. We also have a strong position in the recruitment market where a long-term perspective, exciting tasks and implementation ability are in great demand.

Facts

CORPORATE STAFF

Corporate Staff comprises the following departments: Human Relations (HR), HSE and Organisation Development, Legal, Procurement and Finance. Most of the staff functions are organised in a matrix. HR, Finance, Legal and Procurement all work in a decentralised manner in the divisions and in the major projects.



Norwegian-Dutch market coupling

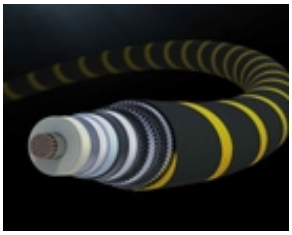
On 12 January 2011, another major step was taken towards a common European electricity market as the Norwegian and Dutch power markets were connected. This means that it will no longer be necessary to purchase capacity explicitly on the NorNed power exchange to trade between Norway and the Netherlands. The solution will ensure the correct flow of power, from low-price areas to high-price areas. The NorNed trading solution is part of a wider initiative to further integrate the European power markets. The next step in this direction was taken on 14 March 2012 when intra-day trading was launched on NorNed.

Hardanger committees presented their reports

On 1 February 2011, four independent committees presented their reports relating to the various aspects of installing a sub-sea cable on some parts of the Sima - Samnanger section. Following the presentation of the committees' reports and the subsequent consultation round, Statnett received confirmation of the licence decision made by the Ministry of Petroleum and Energy in the summer of 2010, and a licence to start construction of the entire power line. Construction work continued throughout the summer of 2011 and the project is scheduled for completion in 2013.

The power situation winter of 2010/2011

On 16 March 2011, after a very cold and dry winter, Statnett reported that the power situation in Southern Norway was considered strained and that the power situation in Northern Norway and Central Norway was alerted. The reservoirs were drained to historically low levels, despite high import. However, the energy situation improved significantly as a result of mild weather, early snow-melting, precipitation and inflow towards the end of March, and by 20 April the power situation was normal again. The power system functioned generally well in a season characterised by historically low reservoir levels, low temperatures and high consumption. However, Statnett had more operational interruptions than normal during the winter of 2010/2011.



Construction started on interconnector between Norway and Denmark

In the autumn of 2011, construction started on the fourth interconnector between Norway and Denmark, Skagerrak 4. The project is a collaboration between Statnett and the Danish system operator Energinet.dk and is scheduled for completion in 2014. Skagerrak 4 will be profitable due to the combination of Norwegian hydropower and Danish thermal power and wind power and because of the different price structures in the two countries. A new cable between Denmark and Norway will secure a more reliable supply of electricity in Norway, particularly in years with low water levels, whereas the Norwegian regulating ability makes it possible for Denmark to develop more wind power and thus reduce carbon emissions. The interconnector will also facilitate more renewable energy production in Norway.

Grid Plan for the Greater Oslo Area

The main grid in Oslo and the surrounding county of Akershus is old and needs to be updated and reinforced to meet future demands for security of supply, urban development and environmental solutions. The Greater Oslo Grid Plan will ensure that the main grid in Oslo and Akershus is upgraded to provide the Oslo region with a reliable supply of electricity for many years to come. The project was launched on 23 November 2011 at a seminar where work started on identifying energy needs and society's expectations for the main grid in the Oslo region in the period leading up to 2050. The main grid and the development needs for the Greater Oslo area will be discussed with several organisations, residents' associations, politicians, businesses, etc. in the entire Oslo region.

Grid for a future-oriented society

On 29 November 2011, Statnett launched its Grid Development Plan which includes investments of between NOK 40 and 50 billion in the next decade. Important factors for the investments are to ensure security of supply in Hordaland and the North of Norway and to help even out price differences between Central Norway and Southern Norway by ensuring sufficient grid capacity. The grid of the future will also facilitate development of renewable energy from Lindesnes to the North Cape, both small-scale hydro power and wind power, and electrification of the petroleum activities and new industrial growth along the coast.

Final decision on Ørskog - Sogndal

On 21 December 2011, Statnett received a final licence from the Ministry of Petroleum and Energy for the construction of a new 420 kV power line from Ørskog in Møre og Romsdal to Sogndal in Sogn og Fjordane. Statnett previously received a licence for construction on parts of this section.A new power line between Ørskog and Sogndal is essential for security of supply to North-Western Norway and Central Norway. The line will also facilitate the realisation of several renewable energy projects currently on hold in Sogn og Fjordane and at Sunnmøre. Furthermore, it will facilitate new business and industrial growth in the region.

The storm Dagmar

On 25 and 26 December 2011, the storm Dagmar caused power outages in large areas of Western and Eastern Norway. Interruptions for end-users were mainly caused by faults in the regional and distribution grid, with the exception of the power line to Nyhamna (Aukra). A power system with substantial distributed production and systematic utilisation of it, helped prevent more numerous and extensive outages. The storm was challenging for Statnett, but was handled in a satisfactory manner. The evaluation work following the Dagmar storm will be included in Statnett's continuous evaluation work following incidents and drills.

The first of several hundred million green certificates issued

On 8 February 2012, Statnett issued the first of approximately 200 million renewable energy certificates, or green certificates. The first certificate went to Kvassteinåga power station in Vefsn in Nordland County. Green certificates are part of a common Swedish-Norwegian technology-neutral, market-based support scheme which support new renewable power production the first 15 years of production. The aim of the scheme is to make it more profitable to invest in power production based on renewable energy sources, such as hydropower, wind power, solar power and bioenergy. The Norwegian-Swedish green certificate market

aims to trigger 26.4 TWh of renewable energy production in Norway and Sweden by 2020.

Building Norway - Grid report presented

On 2 March 2012, Minister of Petroleum and Energy Ola Borten Moe presented the grid report ”Building Norway – about grid developments”. In this report the Norwegian government presents proposals for grid developments and investments. The report emphasised that after many years of efficiency improvements and moderate investments in the national transmission gird, it is now very important to increase capacity and rebuild some sections of the grid. Grid developments must be one step ahead, as the critical importance of electricity means that the consequences of not building enough grid are higher than the consequences of overinvestment. The report also stressed the need for a more efficient licensing process.

Key figures

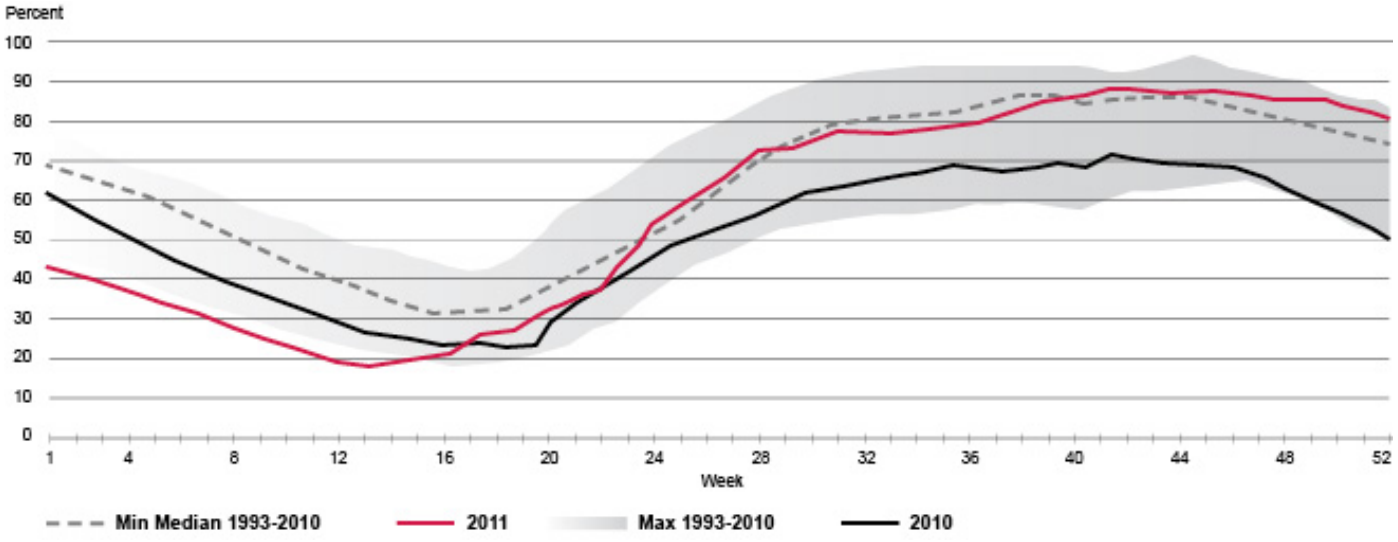
Highlights (Amounts in NOK million)	2011	2010	2009	2008	2007
Operating revenues	5 497	7 247	2 862	4 256	3 415
Operating profit/loss	1 628	3 279	-403	1 194	1 025
Profit/loss before tax	1 357	3 058	-668	1 742	880
Profit/loss for the year	1 000	2 198	-480	1 517	651
Total assets	23 881	22 070	19 342	20 919	16 439

Key figures					
Return on capital employed before tax, adjusted for higher/lower revenue	3.2%	6.4%	3.9%	3.2%	7.9%
Return on equity after tax	12.6%	33.2%	-7.9%	25.0%	12.4%
Equity share	34.7%	34.6%	29.0%	31.5%	33.8%
Equity share, adjusted for higher/lower revenue	30.4%	24.7%	34.4%	28.0%	33.7%

Key figures operations					
Employees, total	928	913	839		
Km overhead cable	9 842	9 808	Not available		
Km buried cable and subsea cable	705	705	Not available		
Absence due to illness %	3.8%	3.8%	4.2%		
Injuries, own employees	18	12	9		
Greenhouse gas emissions (CO_2 equivalents)	9 831	10 981	25 382		
Hours with insufficient security of supply	2 820	4 368	Not measured		
Customer satisfaction (score)	71	64	59		

See all key figures under Financial Reporting and Corporate Social Responsibility

RESERVOIR LEVELS NORWAY


Percent
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Corporate social responsibility

Corporate social responsibility (CSR) in Statnett entails integration of social and environmental considerations in the company's daily operations and vis-à-vis our stakeholders. As a result of its operations, the company has a considerable corporate social responsibility, and CSR is defined as part of the company’s value base. CSR is integrated in the company's corporate governance and embedded in the enterprise's management and organisation.

STATNETT'S CORPORATE SOCIAL RESPONSIBILITY REPORTING

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. Statnett's main objectives are described in more detail in Corporate Governance.

CSR is an integrated part of our value base. The value base forms the core of our management system and helps us to conduct our activities in the right way. This provides the foundation for building a positive, responsible, and sound corporate culture of confidence and cooperation at all levels.

The Norwegian government stipulates that state-owned companies should integrate social and environmental considerations in their daily operations. Statnett reports according to the globally recognised reporting framework, Global Reporting Initiative (GRI).

By following these guidelines Statnett will be able to give a general and balanced overview of how we exercise our corporate social responsibility in the enterprise's key areas. Statnett will report annually in accordance with GRI. This was first implemented in connection with the 2010 annual report. The GRI table, which is available on our web site, provides information about the location of the individual indicators and to what extent these have been complied with.

The CSR reporting covers all Statnett activities, including wholly-owned subsidiaries unless otherwise specified. Data is generally collected and collated with the aim of making the presentation as relevant and uniform 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 external environment and the internal and external dialogue with the 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 dialogue 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 and during consultation processes relating to grid developments and specific development projects. Through early involvement and an open dialogue with local authorities, local businesses, landowners and special interest groups, Statnett will continue to promote an exchange of ideas, constructive discussions and forward-looking solutions for energy supply and social development. Positive interaction with customers, suppliers and partners on issues relating to safety and the environment is important to promote safety and environmentally friendly solutions in a short-term and long-term perspective. Reputation surveys are also conducted.

Corporate social responsibility organisation

State-owned companies should be at the forefront of CSR. Statnett’s fundamental governing principles help us meet the requirements and expectations laid down by 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. For more details about Statnett's management system, see Corporate Governance.

The top level of the management system consists of governing management policies adopted by the Board of Directors. These serve as guidelines for the entire enterprise. Statnett has established management policies for internal ethical guidelines, as well as ethical guidelines for the suppliers. CSR is also incorporated in the policy relating to Statnett's value base.

Level two of Statnett's management system consists of function policies which establish Statnett's objectives, as well as roles and responsibilities relating to Statnett's function areas. A separate function policy has been established for CSR. The objective of this policy is to specify which principles Statnett will apply as a basis for safeguarding the company's CSR within the framework established for Statnett by the owner, legislator and society in general.

Level three of the management system provides more details about the various requirements in the form of

procedures, instructions and guidelines. Statnett has prepared a set of 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 the 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

Statnett is responsible for ensuring a stable and secure supply of electricity. Through proper maintenance, optimal 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 value creation for customers and society in general and to the realisation of Norway's climate objectives.

Security of supply

In 2011, Statnett invested a total of NOK 2 384 million in grid developments. Statnett's main grid and station investments are described in more detail in the Board of Directors' report and on Statnett's web site.

Statnett operates on the principle that there should normally 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 main grid. The measurements show which areas are vulnerable and therefore which areas should be prioritised in future grid developments.

Security of supply	Unit	2011	2010	2009
Outages Statnett plants*	Number	3	1	0

Frequency deviation**	Minutes	12 216	11 286	8 231
Periods of unsatisfactory security of supply (N-0)***	Hours	2 820	4 368	Not measured

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

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

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

Preparedness

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

Statnett will ensure that potential incidents are handled in the best possible manner, both in terms of operation and projects. To meet this objective, three important measures have been implemented. A safety and preparedness policy has been established which stipulates responsibilities and guidelines on how to establish efficient preparedness. The company has established a preparedness section which has the technical responsibility for the company's preparedness operations and ensures efficient preparedness routines and guidelines in Statnett. Furthermore, Statnett has strengthened the operative preparedness in the individual units by hiring more employees and entering into supplier contracts.

Statnett 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 competitive implementation of this duty.

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.

Valule creation distribution	**Unit**	**2011**	**2010**	**2009**
Employees - wages and social benefits*	NOK million	555	461	492
National and municipal taxes and fees**	NOK million	592	1079	21
Lenders - interest	NOK million	374	343	407
Owner - dividend***	NOK million	130	315	132
Company - Retained equity	NOK million	649	2010	-967

* Net wage costs excluding employer's contribution

** Tax charge, property tax and employer's contribution

*** Proposed dividend 2011

Indirectly, value creation is ensured through, for instance, the activities Statnett generates in other companies in the form of investments in infrastructure and purchase of goods and services. In 2011, investments of NOK 2 384 million were made and goods and services were purchased totalling NOK 814 million to support the company's operations.

Procurement

Statnett sets requirements for safeguarding of CSR in our procurement activities. These requirements are laid down in process descriptions and procurement policy, as well as in the contracts. Furthermore, Statnett has established separate ethical guidelines for procurement both for Statnetts organisation and the company’s suppliers.

All company purchases must comply with the procurement 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 CSR is fulfilled. In addition, a step 2 qualification system has been adopted for selected products.

To promote healthy competition with regard to our acquisitions, Statnett works actively to ensure that international, national and local suppliers gain a competitive position. As part of this effort, Statnett participated in a cooperation forum in the north of Norway in 2011 to promote exchange of information with local business and industry.

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

Reputation, reputation-building 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 market communication and sponsor marketing as a measure to raise awareness of and impart knowledge about Statnett amongst the general public. Given Statnett's important role in the power supply, and the enterprise's upcoming heavy investments in the main grid, general knowledge of Statnett is imperative. This is particularly important for recruitment purposes.

Statnett's general sponsorship of the Norwegian Skating Association (NSF) is an important part of the efforts to raise awareness and knowledge about the company across the country. Statnett will initially sponsor the NSF until the end of the 2012/2013 skating season.

Statnett also wants to make a positive contribution to local communities where operating. Employees are encouraged to get involved in local sporting 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 such support. To be awarded funding, the employee must hold office or fulfil some other active role in the 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 trusts 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 and confidence with the Norwegian population. Today approximately half of the Norwegian population is confident that Statnett will provide a secure supply of electricity. Statnett’s objective is 80 percent by 2016.

Customer satisfaction amongst main grid customers, which are the companies directly linked to the main grid, has increased from 64 points in 2010 to 71 points in 2011. Good collaboration with the customers helps us to carry out core tasks more efficiently, and we are aiming to improve main grid customer satisfaction even more.

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 for more details).

Reputation and customer satisfaction	Unit	2011	2010	2009
Reputation - Share of the Norwegian population who have confidence in Statnett providing a secure supply of electricity*	Percent	47	65	65
Prompted knowledge of who is responsible for the main grid**	Percent	56	53	51
Unprompted knowledge of who is responsible for the main grid**	Percent	37	38	35

Customer satisfaction***	Score	71	64	59

* Source: Synovate market research

** Source: YouGov against their internet panel. Commissioned by Statnett through Mindshare media network

*** Source: TNS Gallup AS

Innovation and R&D

Statnett is working in an innovative and forward-looking manner, extensively using research and development (R&D) as a strategic tool for value-creation and innovation. Our R&D strategy is linked directly to the Group strategy.

For the period 2009 – 2011 four R&D programmes and two focus areas (in italics) have been implemented:

- Northern European Market for Balancing Power
- Offshore Power Grids – Establishment and Operation
- Smart Grid
- Environmental Adaptation of Power Lines
- *Socio-Economic Models*
- *Technological Development of Statnett's Grid Assets*

According to the strategy, Statnett will build the next-generation main grid and develop sound methods for efficient operation of the grid to strengthen security of supply and promote value creation. Important prerequisites for achieving this include targeted R&D activities, technological cooperation with other players in the company's own value chain, utilisation of technology and knowledge in the value chain and exchange of technology with other Transmission System Operators (TSO). The R&D programmes are also important priority areas to uncover new knowledge and solutions which facilitate the integration of renewable energy.

Statnett cooperates closely with external expertise environments both in Norway and in other countries. Examples of such environments are other transmission system operators (TSOs) in the Nordic countries and Europe, the supplier industry, ENTSO-E (European Network of Transmission System Operators for Electricity), the IEA's committees and the EU's R&D Framework Programme (FP7).

Statnett also collaborates closely with educational establishments and research communities, both in Norway and internationally, including the Norwegian University of Science and Technology (NTNU), Narvik University College, the Norwegian University of Life Sciences (UMB) in Ås, Imperial College in London, Alto University in Finland, the Royal Institute of Technology (KTH) in Sweden, the Technical University of Denmark (DTU), 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 and support for PhD studies. Moreover, it will contribute to Statnett's profiling and help make Statnett more visible. Statnett has a strategic ownership interest in STRI (12.5 percent). STRI is an independent technology consulting company with specialist electric power expertise which conducts a number of joint R&D projects for the Nordic TSOs.

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 and provide an important venue for Statnett in terms of networking, expertise development and implementation of jointly financed R&D projects. Through this work Statnett participates in R&D projects together with several other TSOs and European universities who receive financial support from the EU's seventh R&D framework programme (FP7).

Statnett has also played a role in Energi21, established in 2008. The results from Energi21 will form the basis for the national strategy for research, development, demonstration and commercialisation of energy solutions for the future. Statnett has headed the efforts of the task group Energy Systems of the Future and has consequently been able to impact the direction and content of Norwegian R&D relating to future energy solutions. The final Energi21 strategy was adopted in the spring of 2011.

Statnett's R&D programmes were concluded at the end of 2011. The main focus and overall results from the R&D programmes and focus areas are described in the following. Broad documentation of the results achieved will be published on Statnett's web site.

Many of the R&D projects have shown positive results and initiated significant cost-reducing measures for Statnett's operations and developments.

NORTHERN EUROPEAN MARKET FOR BALANCING POWER

The EU aims to be "decarbonised" by 2050. This requires large-scale phasing-in of production characterised by low regulating capacity. The regulating capacity of Norwegian hydropower can meet some of the increase in demand and is consequently of high value to the EU. Our flexibility is currently only sold through exchanges in the spot market. Trading in system and regulating power services will further promote Norwegian value creation, and the R&D programme has developed an increased understanding of the interaction between physics and the market.

The results of the project have documented and explained complex correlations, discussed by the EU Commission, by the regulatory authorities in Germany and the Netherlands, as well as by the EU Agency for the Cooperation of Energy Regulators ACER. These discussions are an important part of the efforts to ensure that future regulations will permit the exchange of system and regulating power services for cables.

A key part of the final phase of the programme has been to establish ramping rules for high-voltage direct current cables to increase capacity in the spot market and, at the same time, tackle operating challenges. Plans for how changes to the regulations can realise increased value creation were presented to the Nordic TSOs and were very well received.

OFFSHORE POWER GRIDS – ESTABLISHMENT AND OPERATION

The purpose of the programme was to establish essential knowledge in Statnett for the planning, construction and operation of an offshore grid. The development and operation of such an offshore grid is a formidable task. Through targeted research and development Statnett is ready to play a leading role as system operator of a possible future offshore grid. The deliveries are divided into technological solutions, concept study results, publications and communication.

SMART GRID

Smart Grid is an electricity grid which can handle and automate the flow of electricity through the system, so that we can integrate new renewable energy sources and facilitate safe and efficient energy consumption. Through this programme, Statnett is developing the next generation power grid, with new technology and solutions that will ensure improved utilisation, monitoring and operation of the Norwegian power system.

Statnett has chosen to focus its R&D initiatives on power system operations. The main focus has been on the following areas:

- Risk handling in power system operations
- Application of the Wide Area technology
- Automatic power system diagnosis

The research is conducted at a national level in close cooperation with local technology suppliers, local grid companies and research institutes. The R&D programme is also involved internationally through projects at a Nordic and European level. The results that have been achieved show that Statnett is a world leader in this field.

ENVIRONMENTAL ADAPTATION OF POWER LINES

The programme Environmental Adaptation of Power Lines increases our factual knowledge of power lines' impact on biodiversity, birds, reindeer, the landscape and general traffic. This knowledge is developed and

actively applied in new solutions and in the continuous dialogue with the general public, local authorities, landowners and other stakeholders.

The programme has conducted extensive work relating to a new pylon design including commissioning of a Compact pylon at Lørenskog and the staging of an international architecture competition for a sculpture pylon in Heia in Balsfjord municipality.

Furthermore, other types of pylon designs have been considered and one of these will be developed further and used on the Ørskog-Sogndal line, whereas other pylon designs will be considered in Finnmark County, if they qualify technically.

SOCIO-ECONOMIC MODELS

The purpose has been to improve the market analysis and power system models and increase general competence in SINTEF and Statnett. SINTEF is the owner and developer of many of the models currently used for power system analysis and has several decades of experience with this type of models. The collaboration between Statnett and SINTEF is of key importance. However, Statnett also cooperates with other players on several of the projects. The other Nordic systems operators are particularly important, as we face many of the same challenges and have much in common in the work we perform.
A major project has also been conducted relating to reliability of deliveries, aimed at developing a methodology for conducting such analyses in much more detail and much quicker than is currently the case, as well as adapting the existing methodology for practical use in Statnett.

TECHNOLOGICAL DEVELOPMENT OF STATNETT'S GRID INFRASTRUCTURE

The objective of the R&D programme Technological Development is to conduct research into challenges that are closely linked to our ordinary main tasks in Statnett, meet these quickly and implement the solutions as value-adding improvements, reaping the benefits of the utility value of the improved solutions, technologies and processes.

The results from the R&D projects have a high utility value, for our core technologies as well as for Statnett's strategic voltage upgrade programme.

In 2011, Statnett established a technology management policy which supports the introduction of R&D technology developments in Statnett’s development projects.

R&D funds	Unit	2011	2010	2009
Total R&D funds	NOK million	38.8	38.8	31.8
Acc. to programme area/focus area:				
Northern European Market for Balancing Power	NOK million	2.1	1.7	2.7
Offshore Power Grids- Establishment and Operations	NOK million	3.8	4.2	3.7
Smart Grid	NOK million	11.0	10.2	7.3
Environmental Adaptation of Power Lines	NOK million	7.3	7.2	5.1
Socio-Economic Models	NOK million	3.1	2.4	2.7
Technological Development of Statnett's grid infrastructure	NOK million	7.8	9.1	8.5
Individual projects	NOK million	3.7	4.0	1.8

NEW R&D PROGRAMMES FROM 2012

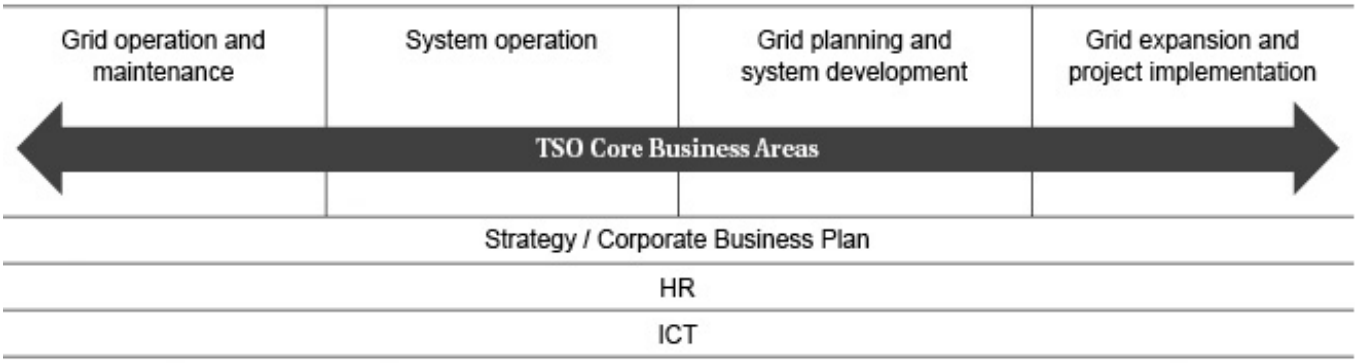
Statnett is now developing new R&D programmes for the next three years. As before, the new R&D strategy and R&D programmes will be linked to the Group strategy. The final R&D strategy will be published in the spring of 2012.

Development aid

LONG-TERM INSTITUTIONAL COOPERATION WITH TRANSMISSION SYSTEM OPERATORS IN EAST AFRICA AND ASIA

Statnett helps develop long-term expertise in transmission operator companies (TSOs) in Uganda, Tanzania, Kenya and Nepal. The institutional cooperation, also referred to as twinning projects, is part of the Norwegian authorities' programme for clean energy (Ren Energi). The main objective of the programme is to increase access to clean energy at a reasonable price, based on long-term management of natural resources and efficient energy consumption. Twinning is a well established project form defined by the EU and the World Bank as a "process that pairs an organizational entity in a developing country with a similar but more mature entity in another country".

The principal objective of Statnett's twinning projects is to help increase expertise and efficiency in core areas for our twinning partners, both at an individual and institutional level. The figure below illustrates the disciplines where we operate.



For Statnett it is important to help develop the power supply in the countries where we operate. By doing so, Statnett supports the Norwegian government's initiative to develop the energy sector in selected partner countries. By contributing our own experience and knowledge of how to develop and operate a transmission system operator company, we have seen that we contribute to securing a more stable power supply in our partner countries. This 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) or the Norwegian embassies in the respective, partner 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 contribution to increase the knowledge in this area.

In 2005, a work group appointed by the Norwegian Radiation Protection Authority published a report on management strategy for magnetic fields and health near high-voltage facilities. The report concluded the following:

“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 with 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 be 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 working 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 remedial 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 the buildings.

Climate and environment focus

Climate and environmental considerations represent one of our three strategic focus areas and are an integrated part of the 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 R&D focus

Several of Statnett's R&D programmes focus on challenges relating to climate and the environment. The R&D programme "Environmental Adaptation of Power Lines" has a special focus 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 in, 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 the operations. Statnett is continually working to improve our environmental performance. Our head offices in Oslo and administrative offices in Alta and Sunndalsøra 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. In 2011, three incidents occurred relating to Statnett's own operations. The most serious of these was a diesel drip leak at the radio link station Vealøs where it is assumed that between 50 and 80 litres of diesel seeped into the ground. In addition, our contractors reported 12 incidents during work on Statnett's development projects. Two of these were serious: Foundering of the tugboat Alvhilde in the Oslofjord in April which contained approx. 2 000 litres of diesel, as well as the destruction of the biotope of the protected species Sea Holly in Rygge Municipality in September.

Energy optimisation and proximity to public transport were important and decisive factors in the choice of new head offices in Nydalen. Both factors are important elements of the enterprise's own climate initiatives. Like Statnett's new administration offices in Trondheim, the new head offices will be an energy class A office building.

Climate

The most important contribution by Statnett with regards to climate entails constructing the next-generation main grid, facilitating connection of new renewable energy, reconstructing existing power grids and upgrading the voltage in existing power grids to maximise capacity and minimise environmental impact. In addition, Statnett is working to establish new interconnectors which will help reduce carbon emissions on the Continent.

Statnett's own emissions of greenhouse gases are relatively modest. However, we are working continuously to reduce them. Emissions to air such as carbon emissions from operation of back-up gas-fired power plants, SF_6 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 purchases climate quotas for all company air travel.

Statnett's back-up gas-fired power plants at Nyhamna at 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 2010, greenhouse gas emissions from our back-up gas fired power plants totalled 1 982 tonnes of CO_2 equivalents. The corresponding figure for 2011 was 2 898 tonnes of CO_2 equivalents.

Emissions of SF_6 gas from Statnett's SF_6 facilities totalled 306 kg and 210 kg in 2010 and 2011 respectively. Converted into CO_2 equivalents, the emissions correspond to an environmental impact of 7 300 tonnes and 5 030 tonnes of CO_2 in 2010 and 2011, respectively. (1 kg SF_6 = 23 900 kg CO_2). This entails a reduction of 31 percent from 2010 to 2011.

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 and avalanches, changes in the groundwater level, etc. The results from the report are used to monitor, maintain and improve Statnett's transmission facilities.

Greenhouse gas emissions (CO_2 equivalents)	**Unit**	**2011**	**2010**	**2009**
From back-up gas-powered power plants	Tonnes	2 898	1 982	14 042
From emissions of SF_6	Tonnes	5 030	7 300	9 680
From fuel consumption and heating oil/paraffin	Tonnes	728	646	521
From travel in connection with work	Tonnes	1 175	1 053	1 139

Inventory and emissions of SF_6	**Unit**	**2011**	**2010**	**2009**
Inventory as of 31 Dec.	kg	111 239	107 447	106 703
Emissions of SF_6	kg	210	306	405

Energy consumption and grid losses	**Unit**	**2011**	**2010**	**2009**
Electricity (excluding energy losses in transformer stations and grid)	GWh	17	17	15
Natural gas for back-up gas-powered power stations	Tonnes	1 040	708	5 129
Fuel consumption	m3	245	217	176
Grid losses	GWh	2 322	2 241	2 232

Biodiversity and disruptions to the landscape

It is Statnett's primary objective to be 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 interventions in the landscape which will have an impact on biodiversity. It is our responsibility to minimise the negative impact of such interventions and weigh them 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 and choose 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 research programme on biodiversity in and near power lines mapping vegetation, insects, birds and mammals.

Grid and cables*	Unit	**2011**	**2010**
High voltage overhead section	km	9 842	9 808

Earth cable and subsea cable	km	705	705
Overhead lines in protected area	km	300	300

* Measured in km of transmission routes and cable routes

Safe and secure working environment

Statnett is an attractive employer offering its employees challenging tasks. To meet our objectives, 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.

Statnett has a zero tolerance policy with regard to accidents and injuries to our own personnel and others who work for us. Despite this, a tragic fatal accident occurred in the autumn of 2011 in connection with the Sauda-Liastølen project. One contractor employee lost his life whilst working on an overhead line. The accident is being investigated by the Police and the Norwegian Labour Inspection Authority. Statnett has also instigated its own independent investigation of the accident.

Statnett maintains a constant focus on health, safety and the environment (HSE) to reduce risks and prevent injuries and accidents. All Statnett units must comply with Statnett's HSE policy and associated procedures. Statnett works systematically to further develop our HSE efforts, and in 2011 a separate action plan was introduced for HSE. Consequently, new requirements were introduced relating to the use of helicopters, driving, visibility wear and management HSE inspections. HSE is always the first item on the agenda at all management meetings. The status of our HSE work and any incidents are reported to the Board of Directors on a regular basis.

Safety, health and working environment plans (SHA) are drawn up for every project and Safe Job Analyses (SJA) are prepared before all risk-exposed work operations. Statnett sets the same SHA requirements for

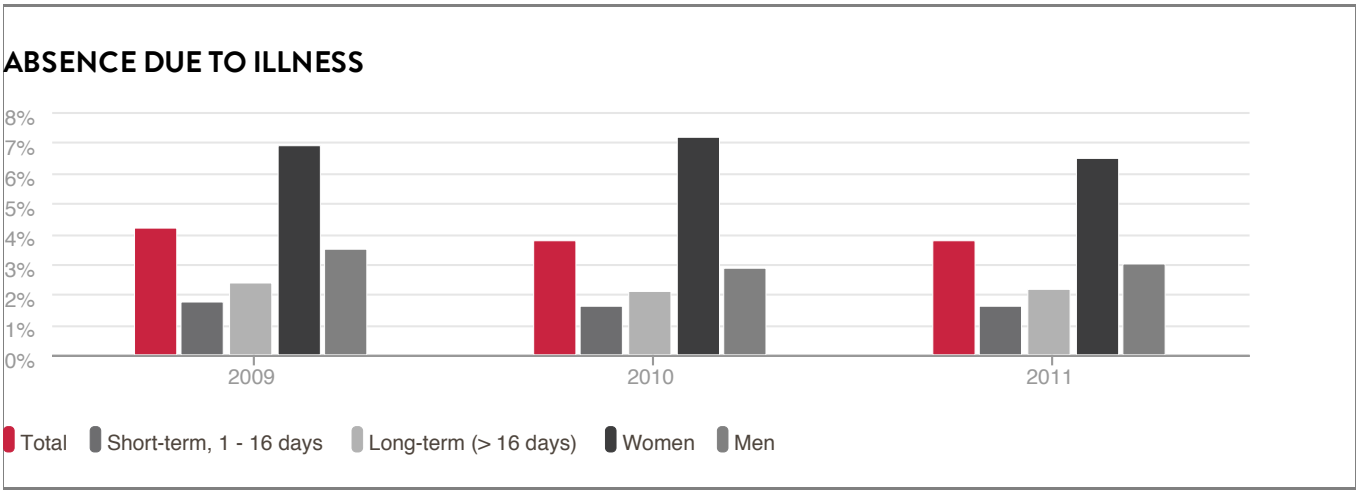
suppliers as for its own employees.

Every year, we organise safety courses and first aid courses for all employees who will carry out work on electrical installations. In addition, we conduct HSE-training of safety delegates, managers and HSE personnel in accordance with regulations. In 2011, Statnett conducted a full-scale emergency preparedness drill which involved local emergency response agencies, contractors working on the projects, as well as our own employees.

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.

Reporting of undesirable HSE incidents and nonconformities has increased over the course of 2011, 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 in its own organisation, as well as those registered with suppliers working on our projects. 11 internal lost-time injuries were reported in 2011. One of these, an accident involving a snow scooter, was serious and resulted in prolonged absence.

Although the sickness absence rate was generally low throughout 2011, we are continuously working to reduce absence due to illness. Various measures have been implemented to reduce absence due to illness, and Statnett continuously work to find new measures to prevent absence due til illness. A low-threshold exercise programme was introduced in 2011 and on average more than half of Statnett employees participated in the programme throughout the year.



Lost-time injuries*	Unit	2011	2010	2009
Lost-time injuries, own employees	Number	11	3	4
Injury frequency (H1 value)**, own employees	Frequency	6.4	2.0	3.0
Lost-time injuries, contractors	Number	12	5	4

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

** Number of lost-time injuries per million hours worked

Injuries*	Unit	2011	2010	2009
Injuries own employees	Number	18	12	9
Injury frequency (H2 value)**, own employees	Frequency	10.3	6.0	3.9

* Work-related injuries as a total

** Number of injuries per million hours worked

Fatalities	Unit	2011	2010	2009
Fatalities, own employees	Number	0	0	0
Fatalities, contractors	Number	1	0	0
Fatalities, third parties*	Number	0	0	0

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

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, learning and recruitment of employees in accordance with Statnett's strategies and values.

Statnett emphasises a good working environment with motivated and committed employees. A strategic competence 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, performance appraisals are conducted with all employees on an annual basis, and assessment meetings are held in all management groups. In 2011, a management programme was introduced. 20 managers participated in the programme over four sessions.

Statnett participates in the survey Great Place to Work. The survey evaluates employees' satisfaction with the workplace and the management's ability to establish structures, good systems, information sharing and ability to support a positive working environment. In the Great Place to Work survey conducted in 2011, Statnett was voted the tenth best place to work among Norwegian companies with more than 250 employees. The results for 2011 show a marginal total improvement from the preceding year. As many as 85 percent 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 2011, 49 employees changed jobs internally in Statnett, compared with 63 in 2010. The SKUP process helps us increase internal mobility.

Statnett recruited 74 new employees in 2011, compared with 140 in 2010. In 2011, Statnett had an overall staff turnover, excluding retirement, of 3.7 percent, compared with 2 percent in 2010. The increase in staff, combined with moderate retirement figures, means that the company has had a net growth of 235 full-time equivalents in the last three years.

In order to attract talented graduates from universities and university colleges, Statnett has established a permanent trainee scheme. In 2011, Statnett had ten trainees, in addition to one from the trainee collaboration with SINTEF, the NVE and other grid companies. Three Statnett trainees participated in an exchange programme working at Svenska Kraftnät (SvK), Energinet.dk and Statnett's Brussels office. 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 to increase its employer attractiveness among relevant students. Statnett also provides opportunities for students to work in summer jobs, and to write project papers and master's theses.

Employer attractiveness, graduates, rank in Universum*	Unit	2011	2010	2009
Graduates, technical education	Rank	39	49	55
Professionals, technical education	Rank	34	34	44

Graduates, financial education	Rank	76	-	-
Professionals, financial education	Rank	62	-	-
Graduates, ICT education	Rank	-	-	-
Professionals, ICT education	Rank	37	98	-

* Rank in Universum (The Norwegian Professional Survey) as preferred employer for graduates and employees with five years of work experience, respectively. Rank up to 100 (50 for ICT graduates)

Gender equality and diversity

Statnett wants a diverse and varied organisation. Our job advertisements explicitly encourage people to apply for a position in Statnett, regardless of gender, ethnicity or age. In 2011, 9.5 percent of new recruits were non-Norwegian. In total at the end of 2011, Statnett had 52 non-Norwegian employees, compared with 48 in 2010.

Statnett has for many years worked systematically to recruit more women into management and technical positions. During the period 2005 to 2011, the percentage of women in management positions increased from 20.2 percent to 25.2 percent. In the same period, the total percentage of women in the organisation has remained stable at approx. 23 percent. 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 the effort to recruit more women to management and technical positions. As part of this effort 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 2011, the percentage of women in the Group management was 14 percent. In the Board of Directors the percentage of women among representatives elected by our owners was 50 percent.

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.

Employees	**Unit**	**2011**	**2010**	**2009**
Total no. of employees	Number	928	913	839
Full time equivalents	Number	911	892	820
Percentage of full-time position, average, men	Percent	98.8	98.5	98.7
Percentage of full-time position, average, women	Percent	96.0	95.6	93.8
Temporary employees	Number	43	38	22
Trainees	Number	10	9	4
Apprentices	Number	23	24	15

Ethics Ombudsman

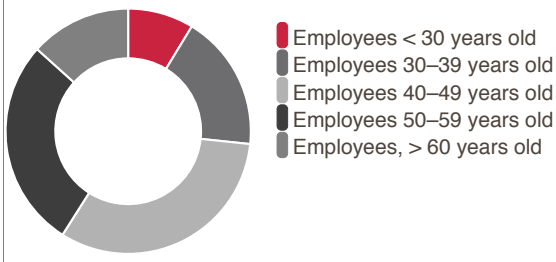
Statnett manages large communal natural resources. As a result and due to the role Statnett plays in the electricity system, we must demand absolute integrity of ourselves and never waver from our ethical principles. As one of the first companies in Norway to do so, Statnett appointed its own Ethics Ombudsman in 2006, 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. Furthermore, the Ethics Ombudsman has a duty to comply with the Working Environment Act with regard to reporting any censurable conditions in the workplace. The Ethics Ombudsman is charged with undertaking investigations in response to issues raised by employees or employees' unions, to provide guidance for employees on ethical matters, and to raise matters on the Ethics Ombudsman's own initiative. A very important principle observed by the Ombudsman 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 make 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 of Directors concerning the number of notifications and the number of matters cases dealt with. In 2011, the Ombudsman handled 40 cases, the same as for 2010. The Ombudsman also handled a number of minor matters. Although clearly unsettling to the persons involved, none of the reported matters have had serious consequences for Statnett as a company.

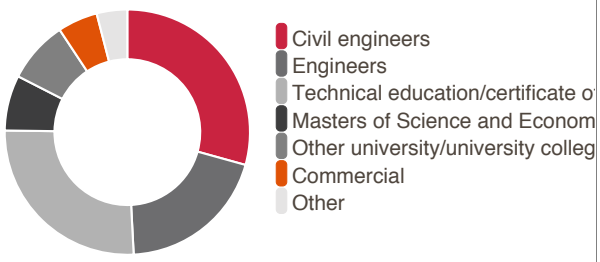
Other GRI indicators

AGE PROFILE



EDUCATION

Excl.Statnett Transport AS



Corporate governance

Corporate governance shall ensure that Statnett is able to fulfil its social mission by clearly defining the distribution of roles between the owner, Board of Directors and the management and set the framework for desired conduct in the company. Below follows the Board of Directors' annual report on compliance with the Norwegian Code of Practice for Corporate Governance (www.nues.no). Deviations from the Code of Practice are explained.

1. Corporate governance

Statnett is a state enterprise, established under the Act relating to state-owned enterprises and 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.

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 corporate governance principles, as well as articles of association and decisions adopted by the Enterprise General Meeting.

Along with the instructions to the Board of Directors, instructions to the President and CEO and the mandate for the main grid User Council, this framework constitutes the key governing documentation in Statnett. The Board of Directors and the President and CEO establish the framework for the enterprise's activities in order to meet the adopted objectives.

Statnett's corporate management framework consists of four levels of documented guidelines:

Level 1: Guidelines adopted by the Board of Directors, referred to as management policies. These relate to our value base, ethical guidelines for employees and suppliers, policy for asset management, and the enterprise's policy for management, governance and control.

Level 2: Guidelines adopted by the President and CEO within areas that are relevant for major parts of Statnett, or areas that are of major importance for Statnett. These are referred to as function policies.

Level 3: Procedures and manuals which expand on and specify the governing policies. These are adopted by the executive vice president for the relevant function.

Level 4: Process descriptions in the quality system and supporting documentation.

Statnett focuses on quality management and continuous improvement, and is certified according to ISO 9001 (quality management) and ISO 14001 (environmental management).

2. Statnett's activities

Statnett is subject to a sector policy objective. 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 between production and consumption of electric power in Norway. Our System Operator role is described in more detail in the Regulations relating to system operation responsibilities.

Furthermore, it is stipulated that ”the enterprise is responsible for ensuring efficient operations in a socio-economic perspective and for developing the main power grid. Statnett SF shall, alone or together with others, plan and design, build, own and operate transmission assets. Statnett SF will execute the tasks assigned to the company pursuant to applicable laws, regulations and licences. Moreover, Statnett SF will adhere to applicable commercial principles.” Statnett's articles of association are available on the enterprise’s web site.

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

Statnett's mission
Statnett will build the next generation main grid by 2030.

Statnett's values
Statnett’s values are a long-term perspective, respect and community. These values provide the basis for everything we do, and set the standard for the daily conduct of employees and the management.

Statnett's main objectives
Our main objectives describe what we wish to deliver:

- 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 customers and for Norwegian society at large.

- Climate

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

Statnett's objectives for how to perform:

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

Statnett's strategy proposes increased focus on core activities. To realise Statnett's objectives the following five target areas are important:

- Ensure safe and efficient operations
- Build a robust and environmentally-adapted main grid
- Secure a stable supply of electricity and promote value creation through interaction with the other Nordic countries and Europe
- Develop the next generation Statnett
- Secure acceptance and understanding for Statnett's social mission

3. Equity and dividend policy

At 31 December 2011, Statnett's equity was appropriately aligned with the company's current activities and risk profile. In order to realise Statnett's strategy, including significant investments as proposed in the Grid Development Plan (GDP), Statnett needs to raise more equity in the next five years. The Norwegian state as the owner has stated that Statnett should have a financial position which enables the enterprise to carry out all socio-economically profitable grid investments.

The Group's dividend policy is stipulated in the government budget. In Proposition to the Storting No.1 (2011-2012), the Norwegian government has established a long-term dividend policy of 50 percent of the defined dividend basis up to and including the fiscal year 2015. The basis for the dividend is defined as the Group's net profit after tax, adjusted for changes in the balance for higher/lower revenue for the year after tax.

The decision to increase capital can only be made by the Enterprise General Meeting.

4. Equal treatment of owners and transactions with closely related parties

Statnett SF is wholly-owned by the Norwegian State through the Ministry of Petroleum and Energy (MPE). 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 national regulatory requirements.
In Statnett’s ethical guidelines it is requires that employees should report any doubt regarding their impartiality.

5. Freely negotiable

Statnett is a state enterprise without transferable ownership interests.

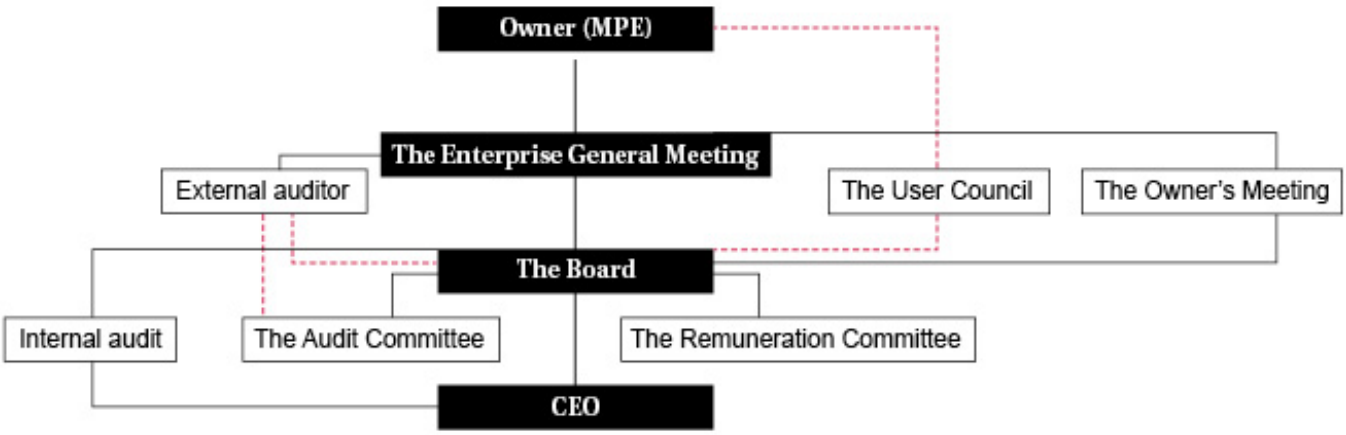


Figure: Overview of Statnett's management structure. The formal reporting lines are illustrated by solid lines.

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. In addition, any other matters are discussed 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 Board of Directors and the company's auditor attend the Enterprise General Meeting.

The Ministry's authority in the enterprise may not be exercised outside the Enterprise 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. An ordinary general meeting is held every year by the end of June.

7. Election committee

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

8. Corporate assembly and Board of Directors, composition and independence

Statnett has no corporate assembly. 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 representative from the users og the main grid. 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. Pursuant Section 21 of the Act relating to state-owned enterprises, board members are elected for a period of two years, but will remain in office until a new member has been elected even though his/her term of office has expired. 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 the annual report for more detailed information about each board member.
Pursuant to the Act relating to state-owned enterprises, the Board of Directors had an attendance record of 99 percent in 2011.

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 the owner.

9. The work of the Board of Directors

The Board of Directors has the overall responsibility for ensuring that Statnett's operations are prudently managed. Instructions to the Board of Directors have been established stipulating that the Board must prepare an annual plan for its work which establishes the distribution of roles and responsibilities between the Board of Directors and the President and CEO and ensures that there is sufficient competency to handle issues discussed by the Board. The Board of Directors shall determine Statnett's strategy and ensure that Statnett is organised in a 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 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. 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. See also Note 18 in the financial statement regarding Auditor's fees.

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. In accordance with Section 9 of the articles of association, the Board of Directors prepares a statement concerning remuneration to the President and CEO and the Group management in accordance with the provisions in the Public Limited Liability Companies Act, the Norwegian Accounting Act, and the Guidelines relating to state-owned companies. See also Note 14 in the financial statement.

10. Main Grid User Council

The User Council for main grid users consists of six members appointed by the General Meeting and represents stakeholder organisations. The Main Grid User Council discusses 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.

11. Risk management and internal control

Statnett works systematically to review any 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 Directors are reported to the Board meetings and include 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 business reviews every six months covering all areas of operation. The reviews include HSE results, score cards, financial performance and risk exposure.

Statnett publishes quarterly financial reports. 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 has been developed for accounting and financial reporting. 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.

INTERNAL ETHICAL GUIDELINES

Statnett's 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. Statnett has appointed an Ethics Ombudsman who is responsible for ensuring compliance with the Norwegian Working Environment Act with respect to facilitating reporting of censurable conditions. Failure to comply with the ethical guidelines may result in sanctions, 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 Statnett.

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

12. Board remuneration

See Note 14 in the financial statement for a detailed overview of Board remunerations.

13. Remuneration of executive employees

Statnett follows the guidelines that apply for executive pay in state enterprises. See Note 14 in the annual accounts for a detailed overview of remuneration of executive employees.

14. 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.

15. Company takeover

Statnett SF is a state enterprise. The sale of assets would entail change of the company structure, requiring a legal amendment with consent of the Norwegian Parliament.

16. Auditor

External auditors are appointed by the General Meeting and are independent of Statnett. The enterprise's external auditor for 2011 was Ernst & Young. The external auditor presents an annual work schedule to the Audit Committee. 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. Each year, the external auditor reviews the company's internal control with the Audit Committee.

See Note 18 of the financial statement for information about the auditor's fees.

Directors’ report 2011

Directors' report 2011

Statnett’s main objective is to ensure a stable supply of electricity and facilitate a well-functioning power market. In 2011 the power system was seriously put to the test. The first quarter was characterised by historically low reservoir levels, severe cold, high consumption and several operating disturbances. The second quarter was characterised by mild weather, high inflow and low consumption. This, in combination with weather conditions, caused several faults in the grid. These experiences have shown that at times there are tight margins in the power system.

To maintain and improve security of supply and facilitate value creation and reduce emissions of greenhouse gasses, Statnett is in the initial phase of its mission which is to build the next generation main grid within 2030. The mission imposes substantial demand to Statnett as an organisation and interaction with stakeholders. This requires efficient licensing processes, strengthening of Statnett's implementation capacity and increased use of the supply industry and extended contract models. Investments in the national grid in the coming decade will be NOK 40 - 50 billion and will result in increased financing needs and requires additional equity. The increased activity will also affect the risks for Statnett. Statnett's plans, which are described in the 2011 Grid Development Plan, are consistent with the Norwegian government's Grid Report issued on 2 March 2012.

In 2011 there has been an increase in investment activities and extensive planning has been undertaken showing that the increase is expected to continue in the years ahead. Statnett currently has major power line projects under construction. The main projects are Ørskog - Sogndal (Fardal) and Sima - Samnanger. These are both important power lines to secure supply of electricity to Central Norway and the Bergen area. Other major projects under construction are the Skagerrak 4 interconnector to Denmark and the Ytre Oslofjord cable. The increased investment level also includes significant reinvestments in existing facilities.

On the basis of expected new renewable energy and Nordic power surplus, and to ensure security of supply in

dry years, there is a need to increase power exchange capacity outside the Nordic area. Statnett has conducted analyses (the Southern Norway study) which indicate a need for extensive grid upgrades to be able to receive renewable energy and before operation of additional interconnectors can take place. The needs are visualized through last years' operational experience showing that the operating margins are lower than what Statnett has previously assumed. Consequently, Statnett is planning to install two interconnectors in addition to Skagerrak 4 and the South-West Link. The interconnectors are scheduled for completion in the next decade.

Statnett is the transmission system operator in Norway. The power system is developing fast due to factors such as phase-in of new renewable production capacity and closer physical and market integration with the Northern European market. In the time ahead the EU will issue important guidelines, which will also cover the development of the Nordic power system. In February, the EU adopted its third energy market package. This will have an impact on Norway and Statnett as European regulations will be prepared relating to the market, operations and planning. Statnett takes an active part in this work in order to maintain Norwegian interests in the preparation of the regulations.

In 2011, a market coupling was established for the NorNed cable. This entails more efficient usage of the interconnector than before as the power flow from low-price areas to high-price areas and constitutes a milestone for the establishment of an integrated North-West European energy market.

On 1 January 2012, the Norwegian-Swedish electricity certificate market was launched. The market aims to generate 26.4 TWh of additional power production based on renewable energy sources by 2020. Statnett is responsible for keeping the electricity certificate register in Norway.

Statnett has a high focus on Health, Safety and the Environment (HSE) directed at both regular operations and the increasing development activities. Several measures were introduced in 2011 and Statnett is working to facilitate the zero tolerance philosophy for HSE. Despite this, there was a tragic accident in one of Statnett's development projects in 2011, where an employee of the general contractor died. The accident is being investigated by the police and the Norwegian Labour Inspection Authority. Statnett has also instigated its own investigation of the accident.

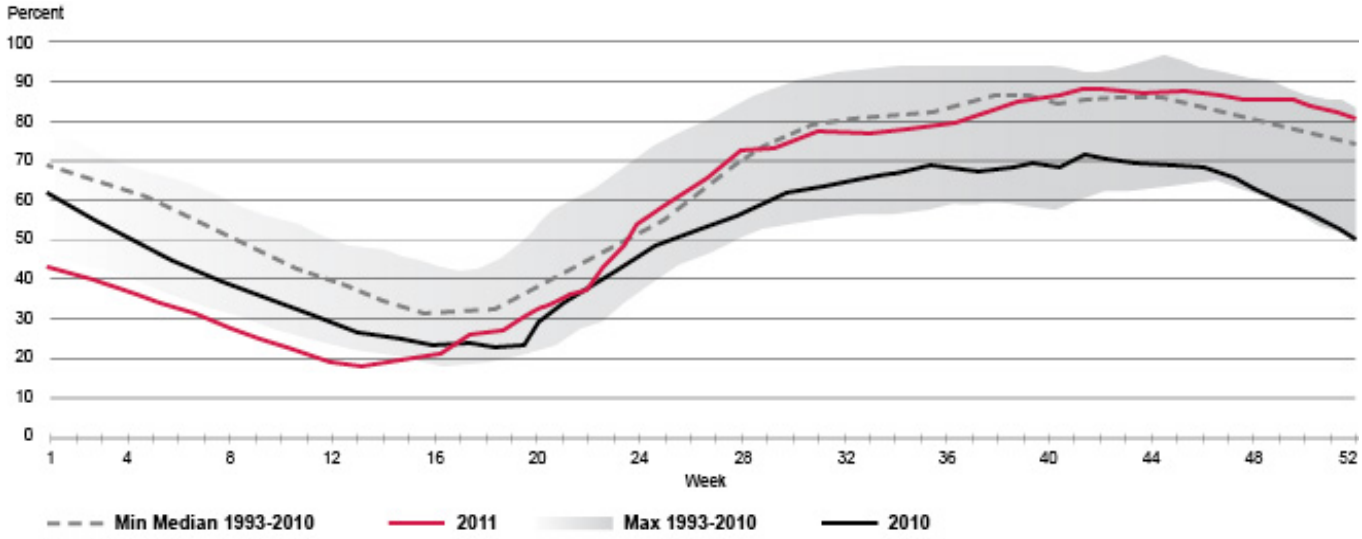
Security of supply

The power system was put to the test on several occasions in 2011, and many records were set for key measuring parameters. In the first quarter the energy situation was in focus. At the beginning of the year, reservoir levels were at 45 percent, 24 percentage points below the median for the period 1993 - 2010, and at the lowest level for the season in this measuring period. Dry and cold weather throughout the winter resulted in a period with a strained power situation in Southern Norway. At the time, the risk of rationing was estimated at more than 20 percent.

At the end of March, water levels in Norwegian reservoirs were at 18 percent, corresponding to the lowest level for the last 20 years. At that time, and approximately four weeks before normal, the spring culmination started. Due to significantly higher water levels, the power situation had changed to normal at the end of April.

High precipitation during summer resulted in an extraordinarily positive hydrological balance. From week 22 to 23 water levels increased by ten percent, and were above the median for the 1993 - 2010 period. High precipitation and low temperatures for the rest of the year resulted in water levels at 80 percent in Norwegian reservoirs at the end of 2011. This is 35 percent higher than the 2010 level, 10 percent above the median and equal to the maximum level for the measuring period. Inflow in 2011 was 149 TWh, corresponding to the highest level in the last 35 years.

RESERVOIR LEVELS NORWAY



The hydrological resource situation resulted in maximum utilisation of the grid capacity for much of the year. In the first quarter, Norwegian and Nordic power markets relied on full import capacity availability from the continent. The Skagerrak and NorNed interconnectors, as well as the connection to Sweden were vital in order to avoid rationing in Southern Norway. The water situation changed during spring and full export capacity was required to avoid overflow and flooding damage in river systems throughout the country. Such extraordinary deficit and surplus situations highlight the insufficient transmission capacity. The price areas were central in handling the structural challenges in the power system in 2011.

The overall power consumption in 2011 was 123 TWh, down 7 percent compared with the previous year. The overall energy production increased by 2.5 percent, to 127 TWh, resulting in net exports of 4 TWh. In contrast to 2010, when the average temperature was the lowest in more than 70 years, 2011 was the hottest and wettest year recorded nationwide. This resulted in record imports and exports in the power system in one single week.

Statnett experienced several major operating disturbances in the power system in 2011. The malfunctions were rectified promptly. The most significant incident occurred on 25 and 26 December when the storm Dagmar caused several power line outages in many parts of Western and Eastern Norway. Interruptions for end-users were mainly caused by faults in the regional and distribution grid, with the exception of the Nyhamna (Aukra) connection. A power system with distributed production and systematic utilisation of this, helped prevent more numerous and extensive outages.

Another major incident occurred on 25 January when a fault in the regional grid in Romerike resulted in a breakdown of two of the three transformers at Frogner station. This resulted in an outage of 200 MW of consumption for one hour and rolling controlled outages for six hours the following day.

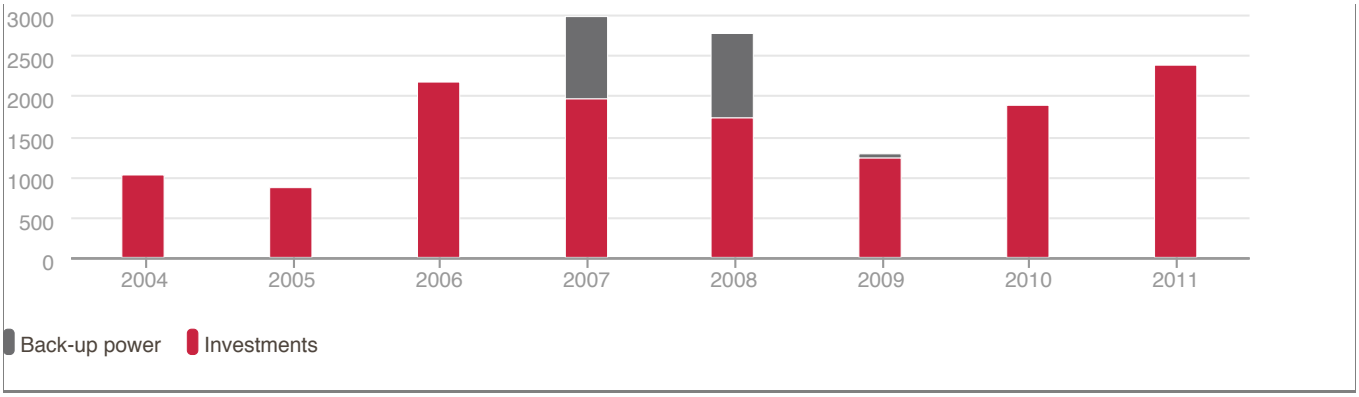
Investments

Statnett has major development projects under planning and implementation in order to maintain security of supply, create value for customers and the society, and facilitate lower greenhouse gas emissions.

DEVELOPMENT INVESTMENT

Investments in NorNed in 2005-2008 was NOK 2 446 million

MNOK



In total, Statnett invested NOK 2 384 million in 2011, which is the sum of commissioned and ongoing investment projects. This is an increase from NOK 1 892 million in 2010.

Implemented projects totalled NOK 1 533 million in 2011. In addition, facilities in operation were purchased from Hafslund for NOK 317 million.

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.

OVERVIEW OF MAJOR INVESTMENT PROJECTS

Project	Location	Deadline
Ongoing major investment projects		**Funds granted**
Ørskog - Sogndal (Fardal)	Møre og Romsdal/Sogn og Fjordane	NOK 5 500 million
Skagerrak 4	Norway/Denmark	NOK 1 700 million Statnett share
Ytre Oslofjord	Vestfold/Østfold	NOK 1 200 million
Sima - Samnanger	Hordaland	NOK 1 045 million
Major investment in transformer stations		NOK 700 million
Voltage upgrade in southern Norway. Subsection Kristiansand - Bamble (eastern corridor)	Vest-Agder/Telemark	NOK 650 million
Varangerbotn - Skogfoss	Finnmark	NOK 500 million
Increased preparedness: New back-up transformers		NOK 250 million
Sauda - Liastølen	Rogaland	NOK 200 million

Licences pending or appealed		**Estimated cost**
Voltage upgrade western corridor	Vest-Agder/Rogaland	NOK 5 000 - 7 000 million*
Balsfjord - Hammerfest	Troms/Finnmark	NOK 4 000 - 6 000 million
Ofoten - Balsfjord	Nordland/Troms	NOK 2 000 - 3 000 million
Storheia - Snillfjord - Trollheim/Orkdal	Sør-Trøndelag/ Møre og Romsdal	NOK 2 000 - 3 000 million
Namsos - Roan - Storheia	Trøndelag	NOK 800 - 1 200 million
Grid reinforcement Grenland region (eastern corridor)	Telemark	NOK 700 - 1 000 million
Voltage upgrade in Central Norway Subsection Klæbu - Namsos	Trøndelag	NOK 700 - 1 000 million
Hamang station	Akershus	NOK 400 - 600 million

Planning proposal submitted		Estimated cost
The South-West Link	Norway/Sweden	NOK 2 000 - 4 000 million
"Arctic Circle" Skaidi - Varangerbotn	Finnmark	NOK 2 000 - 4 000 million

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

* Sections are under licensing

See www.statnett.no and the 2011 Grid Development Plan for more information about the projects.

COMMISSIONED PROJECTS

- *Hasle Transformer Station:* The T6 transformer and capacitor bank are operative and full capacity has been established towards Sweden.
- *Other station projects:* A new station in Narvik and reactor in Vågåmo and Vang have been put into operation.
- *Nedre Røssåga - Tunnsjødal:* Upgrade of the suspension towers from 300 kV to 420 kV has been completed. Work has been conducted on live power lines (live working - LW).

ONGOING MAJOR INVESTMENT PROJECTS

- *Ørskog - Sogndal (Fardal):* Statnett has been granted a final licence for the entire section and construction work has started.
- *Skagerrak 4:* In September 2011, construction work started in Kristiansand and on the cable route in Norway.
- *Ytre Oslofjord:* The installation of cables was scheduled for completion in October 2012. Due to technical irregularities on the oil cables, these cables must be remanufactured. Negotiations with the supplier are completed and the oil cables will be delivered and the project completed by year-end 2013.
- *Sima - Samnanger:* The power line construction work has been challenging due to frequent adverse weather and demonstrations against the project. However, the work has proceeded according to plan and the power line is scheduled to be put into operation in 2013. The Ministry of the Environment has granted Statnett a dispensation from the Cultural Heritage Act for building along the licensed routes.
- *Voltage upgrade eastern corridor Kristiansand - Bamble/Kragerø:* The Norwegian Water Resources and Energy Directorate (NVE) granted a licence in the third quarter of 2011. The licence decision has been appealed to the Ministry of Petroleum and Energy.
- *Varangerbotn - Skogfoss:* Half of the pylons on the 132 kV power line are raised and construction work is ongoing on both stations.
- *Sauda - Liastølen:* Some work is still remaining and will be completed as soon as the weather permits. The power line is scheduled to be put into operation in June 2012.

Research, development and competence building

Statnett invests in research and development (R&D) to promote value creation, innovation and environmentally sound solutions. Statnett's R&D strategy is linked directly to the Group's strategy to build the next generation main grid and develop sound methods for efficient operation of the grid in order to strengthen security of supply and promote value creation. The following R&D programmes have been implemented 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. As in 2010, Statnett invested NOK 39 million in R&D in 2011.

Statnett is developing new R&D programmes for the next three years. As before, Statnett's R&D strategy and programmes will be linked to the Group strategy. The final R&D strategy including defined programmes will be published during spring 2012.

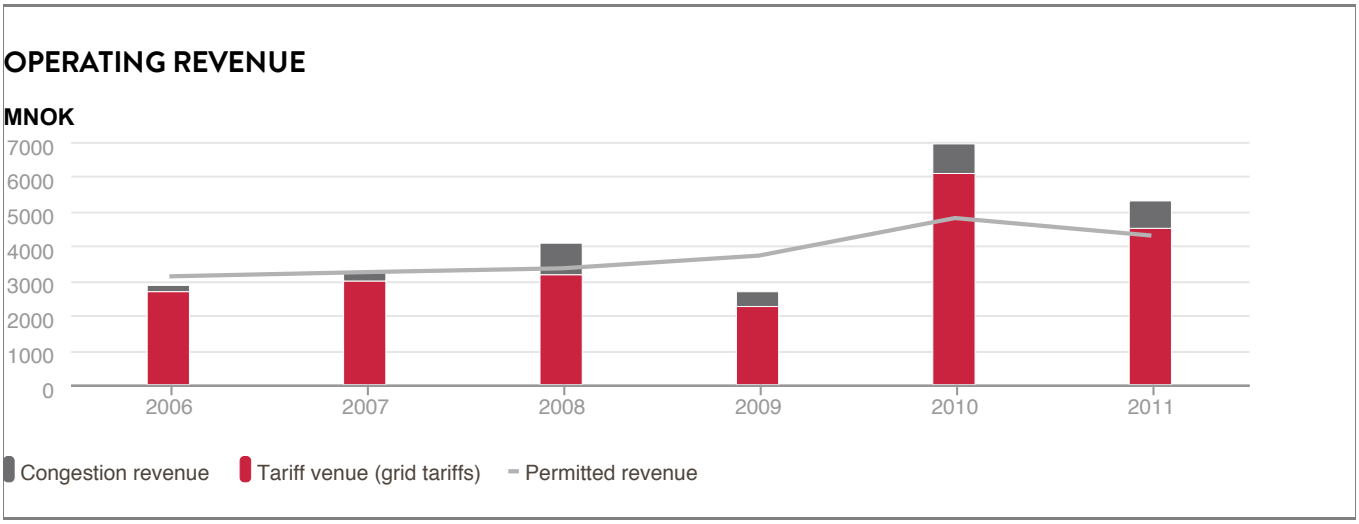
In addition to its own R&D activities, Statnett cooperates closely with external expertise environments both in Norway and in other countries. See Corporate Social Responsibility for more information about Statnett's R&D work.

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. Comments relating to the items in the accounts are based on the Group accounts. Developments described for the Group also apply to the parent company.

OPERATING REVENUES

Statnett's operating revenues for 2011 totalled NOK 5 497 million (NOK 7 247 million in 2010). The reduction in operating revenues was mainly due to lower tariff revenues as a consequence of lower stipulated tariffs for 2011 compared with 2010.



Statnett's operating revenues mainly derive from regulated grid operations. Operating revenues from regulated activities in Statnett's financial reporting consist primarily of fixed grid tariffs from the customers as well as congestion revenues (price differences between areas in the Nordic region and towards 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. In 2011, Statnett's higher revenue amounted to NOK 1 020 million (NOK 2 177 million). Accumulated higher revenue including interest was NOK 2 617 million at the end of 2011. The higher revenue increased by NOK 37 million compared with Q4 2011. This was due to a reduction in permitted revenue for 2011, as Statnett has been allocated a higher share of KILE (cost of energy not supplied) related to the Dagmar storm than assumed in the Q4 report.

OPERATING COSTS

The Group's operating costs totalled NOK 3 869 million in 2011 (NOK 3 968 million in 2010).

System services costs for 2011 remained at the same level as in 2010, but with increased special regulation costs offset by lower costs of tertiary reserve purchases. This reflects a year of multiple operating disturbances.

Transmission losses were NOK 204 million lower in 2011 than in 2010. This was due to lower energy prices.

Wage costs increased by NOK 110 million in 2011 compared with 2010. However, the real increase was NOK 43 million, as the costs in 2010 were reduced by NOK 67 million due to changes in the pension rules. Increased wage costs were due to an increase in staffing mainly related to Statnett's project and maintenance activities.

Depreciation increased by NOK 132 million in 2011, in line with increased investments and write-downs in connection with the disposal of reinvestments.

Other operating costs were NOK 120 million lower than in 2010. This was mainly due to repair costs for the NorNed cable and an accrual for an administrative fine from the NVE in the 2010 financial statement. This was partly offset by higher costs in connection with the company's increased activity level in 2011.

OPERATING PROFIT

The Group's operating profit for 2011 amounted to NOK 1 628 million (NOK 3 279 million).

Revenues from joint ventures and associates totalled NOK 5 million in 2011 (NOK 11 million).

The Group's net financial costs for 2011 amounted to NOK 276 million (NOK 232 million). Higher interest rates on long-term loans resulted in increased financial costs in 2011. Moreover, Statnett had a financial income of NOK 28 million in 2010 as a result of the sale of shares in Nord Pool ASA.

The Group's profit after tax totalled NOK 1 000 million in 2011 (NOK 2 198 million). The reduction in profit was primarily due to lower tariff revenues. The profit for the year adjusted for changes in the balance for higher/lower revenue after tax was NOK 234 million (NOK 624 million). The reduction is primarily due to lower permitted revenue in 2011. The permitted revenue was high in 2010 due to compensation for a time backlog relating to investment revenues from previous years. In addition, the permitted revenue was reduced in 2011 due to high KILE as a result of interruptions in 2011.

CASH FLOW AND BALANCE SHEET

The Group’s operating activities generated an accumulated cash flow of NOK 1 523 million in 2011. The net cash flow from investment activities totalled a loss of NOK 2 370 million.

In total, loans were paid down by NOK 1 738 million, and new loans of NOK 2 781 million were raised. At year-end, the Group's liquid assets and market-based securities amounted to 1 602 million (NOK 1 722 million).

At the end of 2011, the Group's total assets were NOK 23 881 million (NOK 22 070 million), and interest-bearing debt amounted to NOK 13 276 million. The market value of recognised interest swap and currency swap agreements (fair value hedges) related to interest-bearing debt was NOK 1 450 million. Net interest-bearing debt, corrected for this, totalled NOK 11 826 million.

At the end of 2011, the Group’s equity totalled NOK 8 277 million (NOK 7 628 million). The Group’s equity share at year-end was 34.7 percent, the same as the year before, and the distributable equity was NOK 5 289 million (NOK 4 788 million).

SUBSIDIARIES AND ASSOCIATED COMPANIES

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. In 2011 operating revenues for Statnett Transport amounted to NOK 104 million (NOK 88 million) and the profit before tax was NOK 1 million (loss of NOK 2 million).

Statnett SF owns 100 percent of NorGer. In 2011 the ownership interest increased from 50 percent as the project partners announced on 7 July 2011 that they wanted to make use of their option to sell their ownership

interests in the project to Statnett. The activity is related to early-phase development of a subsea cable connection to Germany. Statnett has integrated the project with Statnett's subsea cable project towards Germany, NORD.LINK. At the end of 2011, costs of NOK 48 million were accrued in NorGer (NOK 75 million), which is in line with the project's budget.

Statnett SF owns 30 percent of Nord Pool Spot AS. Statnett's share of the result in Nord Pool Spot AS contributed NOK 5 million (NOK 2011 million) to the Statnett Group's profit in 2011. In 2010 there were additional revenues of NOK 7 million relating to Statnett's shareholding in Nord Pool ASA, which was sold in 2010.

RISK

Statnett's activities expose the company to risks. Statnett's risk management strategy mainly focuses on risks which may have a potential impact on the electricity supply, health, safety and the environment (HSE), Statnett's value creation for society and Statnett's financial situation. Risk management is part of the operational management of the company and is reported to the Board of Directors on a six months' basis.

A significant part of Statnett's work relating to development, operations and maintenance, involves operations where there is a risk of serious personal injury. An increase in project volume increases the risk of serious incidents. Furthermore, an HSE risk will exist in connection with fault correction, often combined with arduous terrain and challenging weather conditions. 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.

The energy sector is regulated and the development trend points towards even more regulation to achieve political objectives. Furthermore, power lines historically represent controversial disruptions to the landscape and Statnett's facility upgrades will affect many of the country's municipalities in the coming decades. Statnett is dependent on society's acceptance of any disruptions to the landscape as a consequence of the activities. Any changes relating to regulation of the power sector are unlikely to affect Statnett's vision to construct the next generation power grid. However, execution may become more challenging without society's full acceptance of Statnett's activities.

Operating margins for the grid are becoming increasingly narrow and many of the facilities are approaching the end of their lifetime. Consequently, significant investment plans are in place and several major projects are under construction. There are risks associated with the realisation of these projects in accordance with the existing plans. Delays and deferrals lead to extended periods with higher electricity supply risks and reduced value creation. An important cause of delays is that the authorities' licensing process takes longer than expected. Statnett seeks to reduce the risk through good processes, including dialogue with local stakeholders, and high quality of licence applications. With significant investment plans, access and prioritisation of resources internally and a tight external labour market, particularly within electric power expertise, will constitute a risk factor. In order to increase the company's implementation ability, new contract models are introduced where a greater share of the work is performed by external contractors. Statnett will be dependent on the contractors establishing sufficient capacity.

Faults in components during N-0 operation is the risk which most often causes interruptions in the power supply. N-0 operation means that a fault in a single component will cause a power outage for end-users. In recent years, many consumption areas have been supplied by N-0 operation for the whole or parts of the year, and this is expected to continue until the investment plans have been realised. To reduce the risk during N-0 operations Statnett is implementing preventive maintenance measures and improving the company's emergency preparedness work.

There have been several incidents in 2011 which caused disruptions for end-users. Total outage costs for connected end users (under the KILE scheme) have been estimated at NOK 270 million in 2011, compared with NOK 28 million in 2010. The costs in 2011 are mainly related to grid outages during the fourth quarter of 2011.

FINANCIAL RISK

Statnett has established a financial policy and framework for financial management, including limits, in connection with credit risk, settlement risk and counterparty risk, as well as instructions for implementation of financial transactions. Control procedures have been established which are carried out independently.

A large proportion of Statnett's permitted revenues from grid activities are calculated as return on the enterprise's grid capital. The 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 grid capital. Developments in the financial markets in 2011 show low Norwegian government interest rates combined with increased borrowing rates. A continued situation with low government interest rates and high borrowing rates will represent a challenge for Statnett's financial result and cash flow. Statnett, other grid companies and industry bodies have entered into a dialogue with the NVE regarding a possible NVE interest rate adjustment to better match the grid companies' financing costs.

Statnett has access to multiple credit markets and has established a spread maturity structure on the debt portfolio. This reduces the risk of Statnett not being granted refinancing on the company's loans during periods with low capital availability. 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 and investments 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.

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 of surplus liquidity. Statnett is also exposed to 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.

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

Employees and organisation

Statnett's head office is in Oslo, with regional offices in Alta and Sunndalsøra. Statnett also has offices in Trondheim and Brussels, as well as employees at facilities all over Norway.

EMPLOYEES

Statnett has an ambitious assignment, and must ensure the right expertise for the right tasks. The enterprise has experienced significant growth in 2011 with 74 new employees. Statnett has a low staff turnover. However, many of the employees will retire in the next few years. Consequently, Statnett makes an 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 Statnett has introduced summer job programmes, trainee programmes and employed 23 apprentices in electrical power engineering. Furthermore, Statnett has a senior policy with flexible working arrangements to retain valuable employees and expertise up until retirement age. In the last three years, the average leaving age has increased by one year.

Project management skills are important for Statnett's ability to carry out the scheduled project portfolio. Consequently, Statnett provides training for project managers and project employees internally at a project academy developed for Statnett. 500 employees have participated in one or more training modules, and 20 employees have been awarded a Master Certificate in Project Management.

At the end of 2011, Statnett SF had 928 employees, compared with 897 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.

Statnett conducted an employee survey in 2009, 2010 and 2011 organized by Great Place to Work. Great Place to Work appoints the best employers. Statnett has been among the top ten each year and has thus established itself as one of the best employers in Norway in this study.

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. For Statnett it is important to ensure a diverse organisation in terms of gender, ethnicity and age. In 2011, 9.5 percent of new employees had a non-Norwegian background, up 1.6 percentage points from the previous year.

The percentage of female employees remained stable over the past year and was 23 percent at the end of 2011. The percentage of female employees in the energy sector in general was approximately 20 percent. In 2011 four of the nine members of Statnett's Board of Directors were women and one of the seven members of the Group management was female. In 2011 women filled 25 percent of all managerial positions in the Group and four of Statnett's ten trainees were female. Statnett aims to increase the number of women in technical and managerial positions.

Employment conditions for women and men are 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 personnel in full-time positions is increasing, with 96 percent for women in 2011, compared with 95.6 percent in 2010 and 98.8 percent for men in 2011, compared with 98.5 percent in 2010. See Notes 4 and 14 for more information about wage costs and remuneration to the Group management.

HEALTH, SAFETY AND THE WORKING ENVIRONMENT

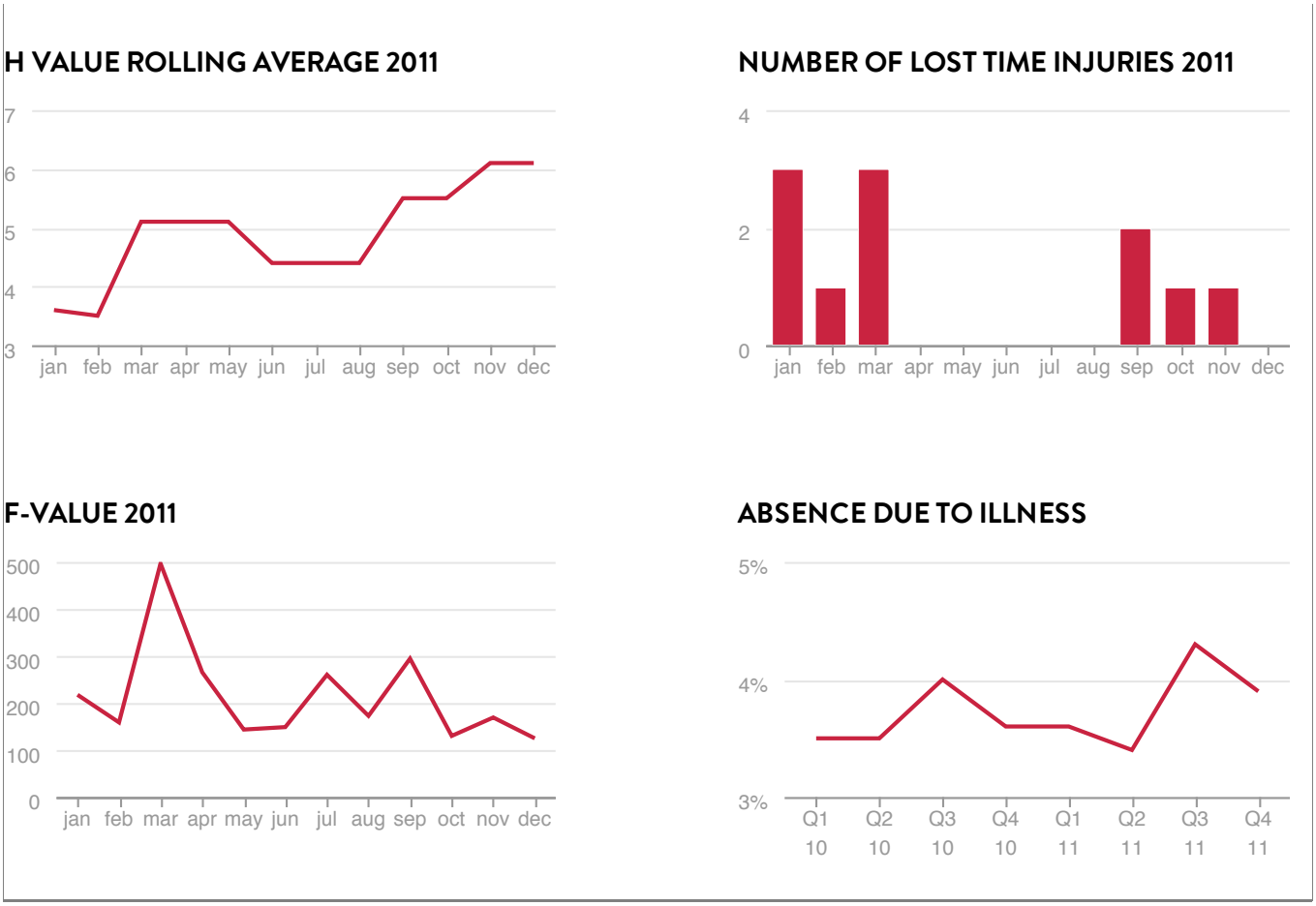
Statnett has a zero target policy with regard to accidents, injuries and unnecessary environmental impact. The Group has focus on health, safety and the environment (HSE) and implemented an HSE action plan in 2011. Reporting of undesirable HSE incidents and nonconformities increased in 2011, which is a continuation of the trend from 2010. However, reporting remains low. 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 had three serious accidents in 2011. On 4 November, there was an accident under the work of the Sauda - Liastølen project, where an employee of the general contractor died. The accident is being investigated by the Police and the Norwegian Labour Inspection Authority. Statnett has also instigated its own independent investigation of the accident.

The two other serious accidents were related to a helicopter crash in connection with upgrades of the Nedre Røssåga - Namskogan power line and a snow scooter accident which occurred during an inspection of the Viklandet - Fræna power line. Two persons sustained serious injuries in the helicopter crash and one person was seriously injured in the snow scooter accident.

11 internal lost-time injuries were reported in 2011, whereas Statnett contractors reported 12 lost-time injuries. The lost time injury frequency rate (H value) in Statnett was 6.3 in 2011, an increase from 2010 when the H value was 2.0.

Absence due to illness in the Statnett Group was 3.8 percent in 2011, at par with last year. Statnett is working to reduce absence due to illness. This involves adaptation of individual workplaces and various health-promoting and sickness-reducing measures, including use of safety inspections, physical therapy facilities and a low-threshold exercise programme for all employees.



Corporate social responsibility

As a result of the operations, Statnett has considerable corporate social responsibility (CSR). CSR is an integrated part of Statnett's value base, being the core of the management system and contains the tools needed to conduct the activities in the right way. CSR in Statnett is about understanding the expectations of the community, and handling these expectations in a manner which generates mutual respect. The key elements are embedded in Statnett's main objectives which stipulate that Statnett will maintain security of supply through a grid with sufficient capacity and high quality, that Statnett's services will generate value for the customers and society at large, and that Statnett will pave the way for realisation of Norway' s climate objectives. CSR in Statnett entails integration of social and environmental considerations in the company's daily operations and that CSR is embedded in the company's continuous corporate governance and anchored in the enterprise's management and organisation. See Corporate Social Responsibility for more information about CSR.

Environment and climate

Statnett's Environmental Management System is certified in accordance with ISO 14001:2004. Statnett is working to improve the environmental performance and focuses on minimising the environmental impact of the company's operations as much as possible.

Statnett is working to reduce its own emissions of greenhouse gases. The company's climate contributions with regard to own consumption (heating, cooling and operation of Statnett's office premises and buildings) are zero, as Statnett purchases electricity which is guaranteed to be produced from renewable energy sources. Like Statnett's new administration office in Trondheim, the new head office in Oslo will be an energy class A office building.

Emissions of SF_6 gas from Statnett's SF_6 facilities were reduced by 31 percent in 2011, to 210 kg. This corresponds to an environmental impact of 5 030 tonnes of CO_2 in 2011.

Corporate governance

Statnett is a state enterprise, owned by the Norwegian State through the Ministry of Petroleum and Energy.

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, see Corporate Governance.

CHANGES IN THE BOARD OF DIRECTORS

Kolbjørn Almlid was appointed new chairman of Statnett's Board at the general meeting on 29 June 2011. The new chairman replaced Bjarne Aamodt, who had been chairman of the Statnett Board since May 2008.

Outlook

To ensure a stable security of supply in the future, Statnett will make substantial grid investments in the years to come. Statnett presented the 2011 Grid Development Plan in November. The plan forms the foundation of the next generation main grid, which will be completed by 2030. In the next five-year period Statnett will develop a significantly larger project volume, and the period will to a large extent be a structuring and experience phase for the organisation, by, among other measures, adopting new contract models to increase Statnett's scalability. This will involve both new power lines and facilities, and upgrades of existing ones. There will be extensive building activities in this period, and the aging main grid with narrow margins will be subject to further pressure. It is an essential requirement that development activities take into account the constraints that this entails. At the same time, Statnett will strengthen the company's operational preparedness to increase its ability to handle unforeseen and critical incidents.

To be able to realise the planned development projects according to schedule, Statnett is dependent on an efficient licensing process and an external supplier market. Statnett is concerned to further improve collaboration with all involved parties to secure important input to the planning and realisation of new power lines. In this regard, several initiatives have been taken in relation to local and regional authorities as well as other stakeholders.

Statnett has several power lines under construction. There will be particular focus on progress in the projects Sima - Samnanger and Ørskog - Sogndal (Fardal), which are important power lines to secure supply of electricity to the Bergen area and Central Norway, respectively.

Due to the strong increase in the company's investment activities in new and existing grid facilities, Statnett's asset base will increase significantly. New facilities will be commisioned and some of the old facilities will be phased out. Statnett is concerned with managing the company's facilities in a uniform and prudent manner, and aims to become PAS 55 compliant in 2012. PAS 55 is a quality standard which represents best practice for optimal asset management in a lifetime perspective. This will be one of several measures to ensure that Statnett maintains high cost efficiency in its operations and during the development of the next generation main grid.

As transmission system operator in the Norwegian power market, the NVE has assigned Statnett with the task of introducing coordinated tariffs of the regional grid scheme as of 1 January 2014. Combined with assessing and having overall responsibility for the development of a common ICT solution for smart grid systems (AMS) by 2017, these tasks will require significant effort and changes in the years ahead.

In accordance with Section 3-3a of the Norwegian Accounting Act, the Board of Directors confirms that conditions exist for continued operation of the enterprise on a going concern basis and that the annual accounts have been prepared under this assumption.

ALLOCATION OF PROFIT

In the deliberations Parlamentary Bill No.1 (2011-2012), the fiscal budget for 2012, the Norwegian government established a long-term dividend policy of 50 percent of the defined dividend basis up to and including the fiscal year 2015. The basis for the dividend is defined as the Group's net profit after tax, adjusted for changes in the balance for higher/lower revenue after tax for the year.

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

Amounts in NOK million:

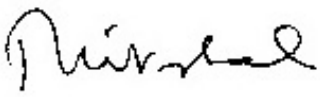
Dividend to owner	117
To other equity	699
Total:	816

Declaration from the Board of Directors and President and CEO

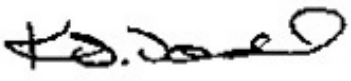
We confirm that the financial statements for the period 1 January to 31 December 2011 have, to the best of our knowledge, been prepared in compliance with IFRS and that the disclosures in the financial statements give a true and fair picture of the parent enterprise's and the Group's assets, liabilities, financial position and results as a whole, and that the disclosures in the Directors' report give a true and fair overview of the performance, results and position of the enterprise and the Group, together with a description of the most significant risk and uncertainty factors faced by the enterprises.

Oslo, 29 March 2012
The Board of Directors, Statnett SF

Kolbjørn Almlid
Chairman of the Board



Thor Håkstad
Deputy chairman



Kirsten Indgjerd Værdal
Board member

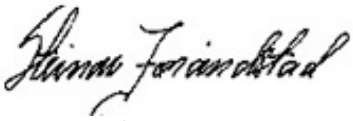
Grethe Høiland
Board member

Heidi Ekrem
Board member

Per Hjorth
Board member

Pål Erland Opgård
Employee representative

Kjerstin Bakke
Employee representative



Steinar Jøråndstad
Employee representative

Auke Lont
President and CEO

The Board of Directors

1. 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.

2. HEIDI EKREM
Board member
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.

3. KOLBJØRN ALMLID
Chairman of the Board
Elected in 2011

Kolbjørn Almlid is a qualified teacher. He ended his career in education as chief municipal education officer of Verran Municipality in 1991. During the period 1996-2005 he was a senior adviser in Innovation Norway and later on Division Director and Chief Executive Officer. Almlid was appointed state secretary of the Ministry of

Petroleum and Energy during the Syse government (1989–1990). He was deputy Member of Parliament for Nord-Trøndelag county during the period 1989–1993 and chairman of Nord-Trøndelag county council from 1991 to 1995. He has also been the leader of the Norwegian Centre party in Nord-Trøndelag and a member of the party's central board. Furthermore, he was a member of the municipal council and county council for 12 and 14 years, respectively.

In recent years, Almlid has also served on a number of boards such as Nord-Trøndelag electricity company, ENFO and Mid-Gas. He was elected Chair of the Board in Statnett in the spring of 2011.

4. THOR HÅKSTAD

Deputy Chairman
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.

5. 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).

6. GRETHE HØILAND

Board member
Elected in 2002

Høiland 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. Høiland 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. Høiland was elected to the Statnett Board of Directors in 2002.

7. KIRSTEN INGJERD VÆRDAL

Board member
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.

8. 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.

9. PER HJORTH

Board member
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.

Statement of comprehensive income

Parent company				Group	
2010	**2011**	*(Amounts in NOK million)*	Note	**2011**	**2010**
		Operating revenue			
6 980	5 316	Operating revenue regulated operations	2	5 316	6 980
218	173	Other operating revenue	2	181	267
7 198	**5 489**	**Total operating revenues**		**5 497**	**7 247**
		Operating costs			
592	575	System services	3	575	592
1 058	854	Transmission losses	3	854	1 058
544	659	Wage and personnel costs	4,5,14	660	550
656	786	Depreciation & write-downs tangible fixed assets	6,7	798	666
1 040	1 068	Other operating costs	18	982	1 102
3 890	**3 942**	**Total operating costs**		**3 869**	**3 968**
3 308	**1 547**	**Operating profit**		**1 628**	**3 279**
-	-	Income from joint ventures and associates	12,13	5	11
152	71	Financial income	8	80	105
327	412	Financial costs	8	356	337
3 133	**1 206**	**Profit before tax**		**1 357**	**3 058**
854	353	Tax	11	357	860
2 279	**853**	**Profit for the year**		**1 000**	**2 198**
		Other comprehensive income			
1	-	Changes in fair value, held-for-sale investments		-	1
-10	-51	Changes in fair value, cash flow hedges	9	-51	-10
3	14	Tax related to other comprehensive income	11	15	3
-6	**-37**	**Other comprehensive income**		**-36**	**-6**

2 273	**816**	**Total comprehensive income**	**964**	**2 192**

		Disclosure of dispositions
315	117	Proposed dividends

Balance sheet

Parent company				Group	
31 Dec. 2010	**31 Dec. 2011**	*(Amounts in NOK million)*	**Note**	**31 Dec. 2011**	**31 Dec. 2010**
		Assets			
		Intangible fixed assets			
-	-	Goodwill		53	53
-	-	Other intangible fixed assets		13	13
-	**-**	**Total intangible fixed assets**		**66**	**66**
		Fixed assets			
16 175	17 152	Tangible fixed assets	6	17 396	16 396
1 848	2 437	Plants under construction	7	2 437	1 848
206	267	Investment in subsidiaries	12	-	-
36	36	Investment in joint ventures and associates	12	54	51
1 283	1 390	Financial fixed assets	9,10	1 188	1 118
19 548	**21 282**	**Total fixed assets**		**21 075**	**19 413**
		Current assets			
879	1 186	Trade accounts and other short-term receivables	9,10,13	1 138	869
310	272	Market-based securities	9,10	600	593
1 020	917	Liquid assets	9	1 002	1 129
2 209	**2 375**	**Total current assets**		**2 740**	**2 591**
21 757	**23 657**	**Total assets**		**23 881**	**22 070**
		Equity and liability			
		Equity			
2 700	2 700	Contributed capital		2 700	2 700
4 788	5 289	Other equity accrued		5 577	4 950
-	-	Non-controlling interest		-	-22
7 488	**7 989**	**Total equity**		**8 277**	**7 628**

		Long-term liabilities			
274	343	Deferred tax	11	406	334
344	352	Pension liabilities	5	353	345
67	66	Other liabilities		66	163
10 456	11 110	Long-term interest-bearing debt	9,10,16	10 974	10 456
11 141	**11 871**	**Total long-term liabilities**		**11 799**	**11 298**
		Current liabilities			
1 302	2 302	Short-term interest-bearing debt	9,10	2 302	1 301
1 260	1 224	Trade accounts payable and other short-term debt	9,10	1 232	1 277
566	271	Tax payable	11	271	566
3 128	**3 797**	**Total current liabilities**		**3 805**	**3 144**
21 757	**23 657**	**Total equity and liabilities**		**23 881**	**22 070**

Oslo, 29 March 2012
The Board of Directors, Statnett SF

Kolbjørn Almlid
Chair of the Board

Thor Håkstad
Vice Chair of the Board

Kirsten Indgjerd Værdal
Member of the Board of Directors

Grethe Høiland
Member of the Board of Directors

Heidi Ekrem
Member of the Board of Directors

Per Hjorth
Member of the Board of Directors

Pål Erland Opgård
Employee representative

Kjerstin Bakke
Employee representative

Steinar Jøråndstad
Employee representative

Auke Lont
President and CEO

Statement of changes in equity

Parent company					Group					
Contributed capital	**Other items**	**Other equity accrued**	**Total equity**	*(Amounts in NOK million)*	**Total equity**	**Non-controlling interest**	**Total equity assigned to owner of Statnett SF**	**Other equity accrued**	**Other items**	**Contributed capital**
2 700	**3**	**2 644**	**5 347**	**1 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	Dividend declared	-132	-	-132	-132	-	-
-	-	-	-	Non-controlling interest	-50	3	-53	-53	-	-
2 700	**-3**	**4 791**	**7 488**	**31 Dec. 2010**	**7 628**	**-22**	**7 650**	**4 953**	**-3**	**2 700**
2 700	**-3**	**4 791**	**7 488**	**1 Jan. 2011**	**7 628**	**-22**	**7 650**	**4 953**	**-3**	**2 700**
-	-	853	853	Profit/loss for the year	1 000	-21	1 021	1 021	-	-
-	-37	-	-37	Other comprehensive income	-36	-	-36	-	-36	-
-	-	-315	-315	Dividend declared	-315	-	-315	-315	-	-
-	-	-	-	Acquisition subsidiary	-	43	-43	-43	-	-
2 700	**-40**	**5 329**	**7 989**	**31 Dec. 2011**	**8 277**	**-**	**8 277**	**5 616**	**-39**	**2 700**

Cash flow statement

Parent company				Group	
2010	**2011**	*(Amounts in NOK million)*	**Note**	**2011**	**2010**
		Cash flow from operating activities			
3 133	1 206	Profit before tax		1 357	3 058
-6	-3	Loss/ gain (-) on sale of fixed assets	6	-3	-6
656	786	Ordinary depreciation and write-downs	6,7	798	666
-70	-	Loss/ gain (-) on sale of investment in subsidiary,	12	-	-28
		joint ventures and associates			
6	-566	Tax paid for the period	11	-566	6
310	326	Interest for the period recognised in income statement	8	320	306
23	35	Interest received for the period	8	43	29
-362	-332	Interest paid for the period	8	-332	-362
-329	595	Changes in trade accounts receivable/payable	9	503	-348
431	-498	Changes in other accruals	9	-592	494
-	-	Result from companies consolidated using equity method	12	-5	-11
3 792	**1 549**	**Net cash flow from operating activities**		**1 523**	**3 804**
		Cash flow from investing activities			
13	12	Proceeds from sale of tangible fixed assets	6	12	13
-1 888	-2 348	Purchase of tangible fixed assets and plants under construction	6,7	-2 384	-1 892
-	-	Merger NorGer net for cash acquired		-	-32
15	-61	Change in investments in subsidiaries, associates and joint ventures	12	-	93
41	-30	Change in long-term loan receivables	9	-	56
2	-	Change in short-term loan receivables	9	-	-
22	8	Dividend received	8,12	2	22
-1 795	**-2 419**	**Net cash flow from investing activities**		**-2 370**	**-1 740**
		Cash flow from financing activities			
1 250	2 782	Proceeds from new interest-bearing borrowings	9	2 781	1 250
-2 364	-1 738	Repayment of interest-bearing debt	9	-1 738	-2 364
151	88	Proceeds from sale of market-based securities	9	367	305
-158	-50	Purchase of market-based securities	9	-375	-336
-132	-315	Dividends paid		-315	-132

-1 253	**767**	**Net cash flow from financing activities**		**720**	**-1 277**
744	**-103**	**Net cash flow for the period**		**-127**	**787**
276	1 020	Cash and cash equivalents at the start of the period	9	1 129	342
1 020	917	cash and cash equivalents at the close of the period	9	1 002	1 129

Restricted tax deductions payable amounting to NOK 48 million for the parent company and NOK 49 million for the Group are included in cash and cash equivalents as of 31 December 2011.

Unused credit facilities of NOK 3 500 million are not included in cash and cash equivalents above.

Notes

> Note 1 Accounting principles

GENERAL

Statnett SF (the parent company) is a Norwegian state-owned enterprise that was formed on 20 December 1991. The sole owner of Statnett SF is the Norwegian State, represented by the Ministry of Petroleum and Energy (MPE). Statnett has issued 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 hedged assets and liabilities is adjusted in order to register changes in fair value as a result of the hedging.
- 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 and additional standards and interpretations that had been announced as at 31.12.2011, but that had not come into effect for the fiscal year 1 January - 31 December 2011. 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 consolidated financial statements of the Statnett Group:

Amendments to IAS 19 Employee Benefits - Pensions

The amended IAS 19 eliminates the use of the corridor approach when accounting for estimate deviations. Estimate deviations will now be recognised in their entirety under other revenues and costs in the income statement and in the period they arise. The amendment further entails that pension costs will be split between the operating result before tax and other revenues and costs. Projected yield on pension fund assets is calculated using the discount rate calculated based on gross pension liability. Accrued pension rights and net interest charges for the period are presented under ordinary result before tax whereas remeasurements, such as estimate deviations, are presented under other revenues and costs in the statement of comprehensive income. Furthermore, the amendments to the information requirements relating to defined-benefit pension plans have been amended. The amendments will be effective for fiscal years starting on 1 January 2013 or later. However, the amendments have still not been approved by the EU. Earlier application is permitted, provided that the EU approves the amendments. The Group expects to implement the amended standard as at 1 January 2013.

Following implementation of the amended IAS 19 as of 1 January 2013, estimate deviations as at 31 December 2012 will be recognised directly in equity (72 per cent) and in deferred tax (28 per cent). Unrecognised estimate deviations as at 31 December 2011 total NOK 771 million, cf. Note 5.

For amendments that are not considered to have any significant impact on the Group's application of accounting principles or notes to the accounts, cf. Note 20.

IMPORTANT ACCOUNTING ESTIMATES AND ASSUMPTIONS

The preparation of the financial statements in compliance with IFRS requires that the management carries out assessments and prepares 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 costs for the period.

Accounting estimates are used to determine some amounts that have an impact on Statnett's financial statements. This requires that Statnett prepares assumptions relating to values or uncertain conditions at the time of preparation. Key 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. Furthermore, it must be possible to measure the amount reliably and it must be demonstrated as probable that the liability will be settled. 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 reliably estimated.

Significant items relating to Statnett's use of estimates:

(Amounts in NOK million) Group

Item	Note	Estimate/assumptions	Book value
Tangible fixed assets	6	Recoverable amount and estimate of correct remaining useful life	17 396
Pension liabilities	5	Financial and demographic assumptions	353

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 changes will come may change over time. If expectations change significantly, the depreciation will be adjusted with effect for future periods. Please refer to the more detailed discussion under “Tangible fixed assets” below.

Goodwill and other intangible assets

Goodwill arising in a business combination is not amortised. 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 in a straight line as this best reflects the use of the asset.

Write-downs

Tangible fixed assets

Statnett has made significant investments in tangible fixed assets. The value of these assets is assessed when there is ar 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 the 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

Goodwill is evaluated for write-down annually or more often if there are any indications of impairment in value, based on the cash-generating unit to which goodwill is allocated. If the recoverable amount (the higher of 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

On each reporting date, the Group considers whether there are any indications of impairment in value for intangible assets. If there are any indications of impairment in value, the Group will estimate the recoverable amount for the assets and consider potential write-down.

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 financial fixed assets.

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. Result, assets and liabilities of joint ventures are recorded in the financial statements in accordance with the equity method. This means that the Group's share of the result 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 presented 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 per cent 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/loss 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 reliably measured. 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 on the acquisition date,. 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. Based on IFRS' definition, there is, according to the company's assessment, only one segment. 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 one 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 government taxes. Operating revenues are reported on a gross basis except in cases where Statnett acts primarily as a settlement function in connection with common grids and power trading.

Interest income is recognised over time as it is accrued. Dividends from investments are recorded as income when the dividends are adopted.

Permitted revenue, tariffs and higher/lower revenue

General

Statnett is the operator of the main national grid and two common regional grids. As the operator, Statnett is responsible for setting the annual tariffs for each common grid. The main grid is a common grid. In a fiscal year, the actual revenues will deviate from the regulated revenues.

Revenue cap - monopoly-regulated activities

Statnett owns transmission grids, power lines and cables, which the users pay tariffs to access. These are monopoly-regulated operations. This means that the Norwegian Water Resources and Energy Directorate (NVE) sets an annual limit – a revenue cap – for the grid owner's maximum revenues.

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. A supplement for investment is also granted, which means that investments are reflected in the permitted revenue for the year the investment is put into operation.

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 as part of "Operating revenues regulated operations".

Revenue cap transmission losses

Revenues

Transmission losses in the regional and main grid are a part of Statnett's revenue cap. The reported revenue cap for transmission losses during the fiscal year consists of the actual measured loss in MWh for a retrospective period of two years valued at a regulated reference price based on the electricity spot market price in the fiscal year. The revenue cap has been included in the accounting line ”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 grid owners in each common grid where Statnett is the operator.

Transmission losses

Transmission losses occur as a result of measured discrepancies between the input and outtake of power in the grid. The size of the loss will vary with the temperature, the load in the grid and the electricity price. Actual loss in the fiscal year is purchased externally at spot market 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 reported under "transmission losses".

Tariff-setting and higher/lower revenue for the year

Tariff revenues

As the operator of the main national grid and two common regional grids, Statnett is responsible for invoicing the users for the services they receive. The invoicing takes place on the basis of a tariff model, in accordance with guidelines provided

by the NVE. The price system consists of fixed elements and variable elements; energy elements. Fixed elements are invoiced evenly throughout the year, while the energy element is invoiced concurrently with the customers' measured inpu 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 offset over time. Tariffs are set in September preceding the fiscal year. Statnett has established a strategy for adjustment of the tariff basis including offsetting of accumulated higher/lower revenue. Some quantities and parameters, including the price of energy, included in the calculation basis for the year's revenue cap, are based on estimates. Discrepancies will occur between tariff revenues and the revenue cap. This is indicated in Note 2.

Higher/lower revenue interest calculations
Interest is calculated on accumulated higher/lower revenue in accordance with the rules stipulated by the NVE, based on the site deposit rate set by the Central Bank of Norway. The amount of interest is included in the balance for higher/lower revenue and is expressed in the financial reporting through regulation of future tariffs. This is shown in Note 2.

Power purchases and sales
Statnett is the Transmission System Operator (TSO) and is responsible for the regulating power market system and balance settlement system. Responsibility for the balance settlement system means that Statnett subsequently compares the measured and agreed energy volumes, calculates any discrepancies, and carries out the financial settlement between the market participants. The settlement is based on the prices in the regulating power market. The purchase and sale of regulating power must be balanced. Statnett receives a fee covering Statnett's costs as responsible for the balance settlement. 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.

Statnett has a separate licence as responsible for the balance settlement system. This activity is recorded in the financial statements through fee revenues and costs relating to the execution of the balance settlement responsibility. Power purchases and sales are recognised net and are therefore not expressed in the statement of comprehensive income. .

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 make 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 are reversed or may be reversed 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 fiscal 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.

Development projects start off with a feasibility and alternative study. The project is recognised in the balance sheet when the conclusion from the study is available, and the main development concept has been selected. At this point, a licence has not been granted and no final investment decision has been made. Statnett’s experience is that once a main concept has been selected for the development, it is highly likely that the project will be implemented.

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 costs related to the company’s own plants under construction are 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 implemented from the point 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 differing useful lives.

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 minor amounts and are recognised in the income statement in the year in which the payment is disbursed.

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 scrapping.

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 amortise in a straight line as this best reflects the use of the asset.

GOODWILL

Goodwill is not amortised. Goodwill does not generate cash flows independently of other assets or groups of assets, and i 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) fo the cash-generating unit is lower than the carrying value, the write-downs will first reduce the carrying value of any goodw 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

On each reporting date, the Group considers whether there are any indications of impairment in value for tangible fixed assets and intangible assets. If there are any indications of impairment in value, the Group will estimate the recoverable amount for the assets and evaluate potential write-down.

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 tim 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 revise 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

Financial lease agreements are lease agreements where the lessee takes over the major part of the risk and return associated with the ownership of the asset. 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 in a straight line 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 in a straight line in the income statement over the duration of the agreement.

RESEARCH & DEVELOPMENT

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 acquisition cost, less any accumulated depreciation and write-downs.

Capitalised development expenses are depreciated in a straight line 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.

Contingent assets will not be 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 financial statements during the period in which 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 Group's liability relating to pension schemes, defined as defined-benefit pension schemes, is recognised at the present value of the future retirement benefits accrued at the end of the reporting period. Pension assets are evaluated at fair value. The accumulated effect of estimate changes and changes in financial and actuarial assumptions, actuarial gains and losses, less than 10 per cent of the higher of the defined pension liabilities and pension assets at the start of the year, is not included. When the accumulated effect exceeds 10 per cent, the excess is included in the income statement over the estimated average remaining service period for the employees covered by the scheme. Net pension costs for the period are presented as wage and staff costs.

The contributions to contribution-based pension plans are recognised as costs as they occur.

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 according to 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 a 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 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 on the date when the contract is entered into and ther 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 ir counteracting changes in fair value or cash flows, and are assessed on a current basis to determine whether they actually have been highly effective throughout the entire accounting period they are intended to cover.

Hedges that fulfil the strict conditions for hedge accounting are accounted for as follows:

Fair value hedging

Fair value hedging 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 ris for interest-bearing liabilities. Fair value 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
Cash flow hedging is hedging of the exposure to the variations in cash flow that is attributable to a particular risk associated with a recognised asset or liability, or a highly probable future 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 initially recognised as other comprehensive income are reclassified and recognised in the income statement as financial income or cost when the hedged transaction affects the profit or loss.

If the expected future 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 future 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 transaction date. 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 transaction date. 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 reporting 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 reliably measured. Provisions are reviewed on

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 as a deduction in the expense 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 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 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 NVE. This discrepancy is called higher or lower revenue. Higher revenue means that Statnett has had higher actual 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 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 do 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	S Grid	**Total 2010**	R Grid	M Grid	**Total 2011**
Tariff revenues fixed element generation	28	963	**991**	29	964	**993**
Tariff revenues fixed element consumption	37	4 112	**4 149**	33	2 852	**2 885**
Other rental income	77	74	**151**	78	75	**153**
Tariff revenues energy element	3	1 154	**1 157**	-7	784	**777**
Congestion revenues	-	893	**893**	-	768	**768**
Income from other owners in shared grids	-59	-302	**-361**	-38	-222	**-260**
Total operating revenues regulated activities	**86**	**6 894**	**6 980**	**95**	**5 221**	**5 316**
Permitted revenue						

Revenue cap without grid losses	79	3 147	**3 226**	88	2 604	**2 692**
Revenue cap, grid losses	23	1 084	**1 107**	21	867	**888**
Supplement to revenue cap	12	458	**470**	4	712	**716**
Total permitted revenue / power transmission	**114**	**4 689**	**4 803**	**113**	**4 183**	**4 296**
This year's provision for interest higher/lower (-/+) -revenue	-1	-8	-9	-	-44	-44
This year's changed balance for higher/lower (-/+) -revenue	**27**	**-2 213**	**-2 186**	**18**	**-1 082**	**-1 064**
Balance higher/lower (-/+) revenue, incl. interest as at 1 Jan.	-45	678	633	-18	-1 535	-1 553
Changed balance for higher/lower (-/+) revenue, incl. interest	27	-2 213	-2 186	18	-1 082	-1 064
Balance higher/lower (-/+) -revenue, incl. interest as at 31 Dec.	**-18**	**-1 535**	**-1 553**	**-**	**-2 617**	**-2 617**

Total operating revenues from regulated operations fell by NOK 1 664 million from 2010 to 2011. The reduction in operating revenues was mainly due to lower tariff revenues as a result of lower stipulated tariffs for 2011 compared with 2010.

Other operating revenues
Other operating revenues are revenues outside of the regulated activities and consist of mainly external consultancy commissions totalling NOK 37 million and rental income totalling NOK 44 million.

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

Balance settlement
Statnett SF holds a separate licence to manage the regulating power settlement system in Norway.
This involves effectuating a financial settlement of the difference the market players have between planned electricity consumption and actually measured values.
This market is referred to as the regulating power market. Players in 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 operator)
3. Access to power, either generation, bilaterally or at Nord Pool Spot. Most regulating power players are also players at Nord Pool Spot, in which case the member agreement is used (between Nord Pool Spot and the customer).

For 2011, the revenues for this service totalled NOK 80 million, including fee revenues of NOK 25 million. Outstanding trade accounts receivables relating to the balance settlement totalled a loss of NOK 4 million as at 31 December 2011 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 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 1 284 million at year-end. The security posting requirement for regulating power members on the same date was NOK 339 million. All the regulating power members had posted satisfactory security under the Balance Agreement.

> Note 3 System services and transmission losses

System services

Parent company			Group	
2010	**2011**	*(Amounts in NOK million)*	**2011**	**2010**
-4	5	Net regulating and peak power	5	-4
201	199	Primary reserves	199	201
79	31	Tertiary reserves	31	79
110	98	Transit costs	98	110
145	173	Special adjustments	173	145
61	69	Other system services	69	61
592	**575**	**Total system services**	**575**	**592**

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 regulating power list for the subsequent week. The guarantees can apply for both consumption and production.

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 regulating power price. 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 especially adjusted volume.

Transmission losses
Statnett buys transmission losses (volume) from external suppliers at spot price (market price) for the hour the transmission loss applies.

The main grid transmission loss result is distributed between the grid owners in accordance with their proportionate shareholding in the main grid. 7.2 per cent of the facilities are owned by other companies than Statnett SF.

Parent company		Group	

2010	2011	*(Amounts in NOK million)*	2011	2010
2 289	2 322	Volume (GWh)	2 322	2 289
460	367	Price (NOK/MWh)	367	460
		(Amounts in NOK million)		
1 053	852	Transmission losses	852	1 053
5	2	Transm. losses result other	2	5
1 058	**854**	**Total transmission losses**	**854**	**1 058**

> Note 4 Wage and personnel costs

Parent company			Group	
2010	**2011**	*(Amounts in NOK million)*	**2011**	**2010**
534	633	Wages	641	542
88	104	Employer's NICs	105	89
98	130	Pension costs (Note 5)	131	101
63	75	Other benefits	66	57
783	**942**	**Total wage costs**	**943**	**789**
-239	-283	Of which own investment projects	-283	-239
544	**659**	**Net wage costs**	**660**	**550**
870	**900**	Number of full-time equivalents (FTEs)	**913**	**900**

Loans to employees

Employees had loans in the company totalling NOK 1 million as at 31 December 2011. 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 in relation to the current standard interest rate set by the authorities.

> Note 5 Pensions and pension liabilities

The parent company and subsidiaries operate pension schemes entitling the employees to future pension benefits in the form of 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 calculated disbursements 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 contribution period is 30 years and the normal retirement age is 67. The pension scheme also includes disability pensions, spouse pensions and children's pensions.

Accrued pension rights are secured chiefly through pension schemes in Statnett SF's Group Pension Fund (Statnett SFs Pensjonskasse). In addition, the parent company has early retirement pension obligations that are funded through operations.

Contributions to the pension fund are made in accordance with actuarial calculations. The pension assets in the pension fund are invested primarily in securities. See the table relating to percentage distribution of pension assets in investment categories.

The Group management has separate additional agreements under which the normal retirement age is 65, 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 basis that exceeds 12 times the basic amount under the National Insurance Scheme.
For personnel employed after 1 March 2011, additional agreements will be entered into exceeding 12 times the Norwegian national insurance scheme's basic amount within the framework of the Guidelines relating to terms of employment for senior executives in state-owned enterprises and companies, stipulated on 31 March 2011. For more information, cf. Note 14 Remunerations/benefits to the Group management. Annual premium payments will be limited to 30 per cent of the salary exceeding 12 G.

The Group is a member of the private contractual early retirement scheme (AFP scheme) that came into force in 2011. The scheme entails that employees will receive a lifelong supplement to the national insurance retirement pension. The pension can be taken out from age 62, also if the employee decides to keep working. The AFP scheme is a defined-benefit multi-company scheme organised through a general office and financed through premiums stipulated as a percentage of the salaries. There is no reliable way to measure and allocate liabilities and assets under the scheme. Consequently, the scheme is treated as a defined contribution scheme, according to the accounting rules, and premium payments are recognised on a current basis, and no provisions are made in the accounts. The premium for 2012 is stipulated at 1.75 per cent of overall wage payments between 1G and 7,1G to the company's employees, estimated at NOK 8 million. There is currently no accumulation of funds under the scheme, and premiums are therefore expected to increase in the time ahead.

The old AFP scheme will be discontinued from 1 January 2011. Spekter will remain the Group's contracting party under the scheme which now only applies to for personnel born before 1 December 1948 who applied for an exemption from the scheme on 1 December 2010 at the latest.

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.

The net pension liabilities in 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.

Employees who leave the enterprise before retirement age receive a paid-up policy. The paid-up policies are managed 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 2012 as an estimate of the situation at 31 December 2011.

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 component of the enterprise's benefit and is recorded as part of the pension liabilities.

Parent company			Group	
2010	**2011**	**Pension scheme members**	**2011**	**2010**
1 292	1 328	Members of the pension fund	1 347	1 307
319	338	Of which pensioners	341	319
973	**990**	**No. of active pension scheme members**	**1 006**	**988**

Financial/actuarial assumptions, Parent Company and Group	**2011**	**2010**
Discount rate	2,60%	4,00%
Expected return on pension assets	4,10%	5,40%
Expected pay adjustments	3,50%	4,00%

Expected pension adjustments	3,25%	3,75%
Expected adjustment of basic amount (G) under national insurance scheme	3,25%	3,75%
Remaining service period	16 år	15 år

Percentual breakdown of pension assets into investment categories, Parent Company and Group as at 31 December	**2011**	**2010**
Property	4%	0%
Held-to-maturity bonds	32%	32%
Norwegian bonds	26%	32%
Foreign bonds	4%	5%
Norwegian money market	13%	21%
Foreign shares	15%	0%
Norwegian shares	4%	0%
Loans and receivables	0%	1%
Bank deposits	2%	9%
Total	**100%**	**100%**

Pension costs

Parent company		**Defined benefit schemes**	**Group**	
2010	**2011**	*(Amounts in NOK million)*	**2011**	**2010**
107	125	Present value of this year's pension contributions	126	106
60	56	Interest cost of pension liability	57	60
-46	-51	Expected return on pension assets	-51	-46
-23	-	Actuarial gains/losses in income statement	-1	-19
98	**130**	**Net pension costs**	**131**	**101**
14	18	Employer's contributions	18	14
112	**148**	**Net pension costs, incl. employer's contribution**	**149**	**115**

The expected pension premium for 2012 is NOK 139 million for the parent company and NOK 140 million for the Group.

Secured and unsecured pension liabilities and pension assets

Parent company			**Group**	
2010	**2011**	**Defined-benefit schemes**	**2011**	**2010**
Secured	Secured	*(Amounts in NOK million)*	Secured	Secured
		Change in gross pension liability		
1 657	1 685	Gross pension liability at 1 Jan.	1 699	1 670
120	139	Present value of the year's pension contributions	140	122
-105	-	Change in liability discontinuation of old AFP scheme	-	-105

68	64	Interest cost of pension liability	65	68
-6	447	Actuarial gains and losses	450	-6
-15	-16	Employer's contribution on premium paid	-17	-16
-34	-26	Disbursed pension/paid-up policies	-27	-34
1 685	**2 293**	**Gross pension liabilities as at 31 Dec. *)**	**2 310**	**1 699**
		Change in gross pension assets		
877	1 028	Fair value of pension assets at 1 Jan.	1 038	886
52	58	Actual return on pension assets	58	52
9	-4	Actuarial gains and losses	-4	9
109	116	Premium paid	117	111
-19	-21	Pension/paid-up policies paid out	-22	-20
1 028	**1 177**	**Actual value of pension assets as at 31 Dec.**	**1 187**	**1 038**
657	**1 116**	**Net pension liabilities as at 31 Dec.**	**1 123**	**661**
-313	-765	Estimate variances not rec. in income statement	-771	-316
344	**351**	**Net capitalised pension liability incl. employer's contribution at 31 Dec.**	**352**	**345**
369	**344**	**Net pension liabilities as at 1 Jan.**	**345**	**370**
113	145	Pension costs recognised in income statement	147	115
-138	-138	Premium payments (excl. administrative expenses)	-140	-140
344	**351**	**Net capitalised pension liabilities incl. employer's contr. at 31 Dec.**	**352**	**345**
-	**-**	**Capitalised pension assets at 31 Dec.**	**-**	**-**
344	**351**	**Capitalised pension liabilities at 31 Dec.**	**352**	**345**
1 573	**2 149**	***) Gross secured pension liabilities at 31 Dec.**	**2 166**	**1 587**
112	**144**	***) Gross unsecured pension liabilities at 31 Dec.**	**144**	**112**

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

Parent company	**2011**	**2010**	**2009**	**2008**	**2007**
Gross defined-benefit pension liabilities at 31 Dec.	2 294	1 685	1 657	1 595	1 356
Fair value of pension assets at 31 Dec.	1 177	1 028	877	762	653
Net defined-benefit pension liabilities	1 117	657	780	833	703
Estimate variances not recognised in income statement	-765	-313	-411	-491	-372

Book pension liabilities	**352**	**344**	**369**	**342**	**331**

Changes in estimate variances for the year	
Discount rate	530
Rate of return assets	4
Wage growth	-82
Adjustments to G	22
Pension adjustments	-105
Member movements	83
Total changes in estimate variances for the year	**452**

Group	**2011**	**2010**	**2009**	**2008**	**2007**
Gross defined-benefit pension liability at 31 Dec.	2 311	1 699	1 670	1 608	1 370
Fair value of pension assets at 31 Dec.	1 187	1 038	886	770	661
Net defined-benefit pension liabilities	1 124	661	784	838	709
Estimate variances not recognised in income statement	-771	-316	-415	-496	-375
Book pension liability	**353**	**345**	**369**	**342**	**334**

Changes in estimate variances for the year	
Discount rate	533
Rate of return assets	4
Wage growth	-82
Adjustments to G	22
Pension adjustments	-106
Member movements	84
Total changes in estimate variances for the year	**455**

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.

The following estimates and estimated pension costs for 2012 are based on the facts and circumstances at 31 December 2011. Actual results may differ significantly from these estimates.

Pension liabilities and costs	**Current assumptions**	**Discount rate**		**Annual wage growth and change in basic amount (G)**		**Annual adjustment of pensions**	
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)	196	263	149	171	227	169	230
Defined-benefit pension liabilities - minimum pension liability (ABO)	1 676	2 048	1 395	1 675	1 678	1 475	1 921
Defined-benefit pension liabilities - present value of pension liability (PBO)	2 152	2 690	1 753	1 991	2 341	1 894	2 465

Group

Pension cost before adjustment for interest cost and return on pension assets (SC)	198	266	150	173	229	171	232
Defined-benefit pension liabilities - minimum pension liability (ABO)	1 689	2 064	1 406	1 687	1 691	1 486	1 936
Defined-benefit pension liabilities - present value of pension liability (PBO)	2 168	2 710	1 766	2 006	2 358	1 908	2 483

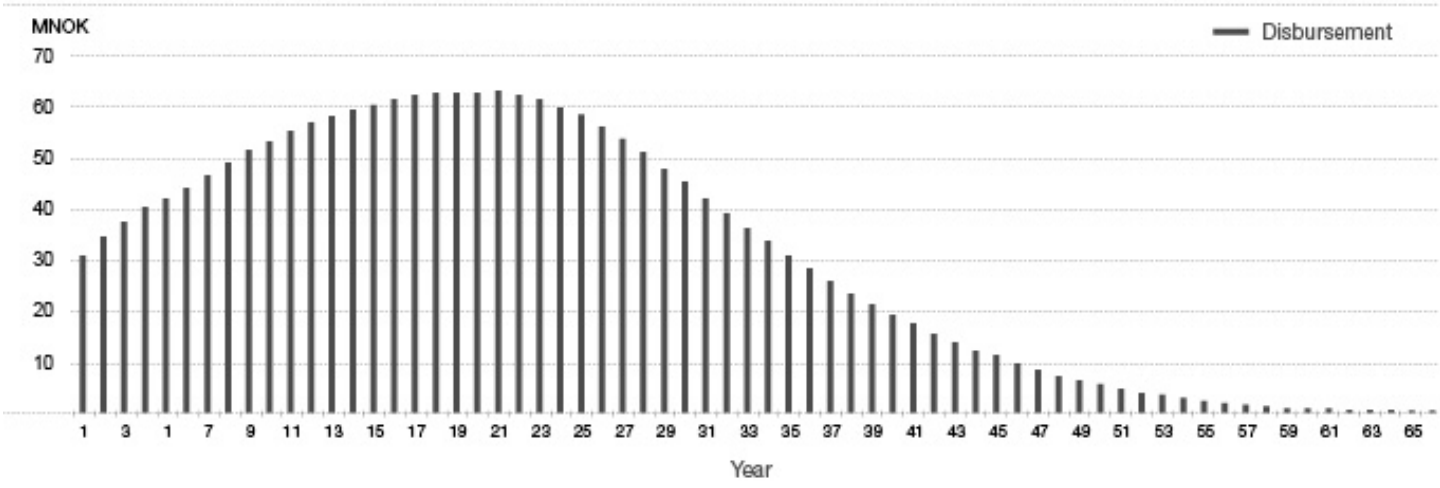
Risk tables for mortality and disability are based on tables in general use in Norway updated with historical data from the life companies' population. These data entail an adjustment of available tables in the form of increased life expectancy and increased disability probability. The average life expectancy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

	Probability of disability		Probability of death		Life expectancy	
Age	**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

Pension disbursement flow Statnett SF

The average weighted maturity for pension liabilities, related to the main scheme in Statnett SF is estimated at 21 years based on the pension assumptions at 31 Dec. 2011. Average weighted maturity has been taken into account when choosing discount rate.

Current value of future disbursements at 31 Dec. 2011



> Note 6 Tangible fixed assets

Parent company

Other

(Amounts in NOK million)	Electrotechnical equipment	ICT equipment	Buildings and land	operating equipment	Total
Acquisition cost at 1 Jan. 2010	**20 601**	**1 104**	**2 039**	**210**	**23 954**
Additions, acquisition cost	846	142	164	43	**1 195**
Disposals, acquisition cost	12	3	12	5	**32**
Acquisition cost at 1 Jan 2011	**21 435**	**1 243**	**2 191**	**248**	**25 117**
Additions, acquisition cost	1 193	217	307	58	**1 775**
Disposals, acquisition cost	158	132	9	11	**310**
Acquisition cost at 31 Dec. 2011	**22 470**	**1 328**	**2 489**	**295**	**26 582**
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 1 Jan. 2011	**7 512**	**853**	**438**	**139**	**8 942**
Ordinary depreciation for the year	583	103	73	27	**786**
Disposals, ordinary depreciation	158	129	3	8	**298**
Ordinary depreciation at 31 Dec. 2011	**7 937**	**827**	**508**	**158**	**9 430**
Book value at 31 Dec. 2010	**13 923**	**390**	**1 753**	**109**	**16 175**
Book value at 31 Dec. 2011	**14 533**	**501**	**1 981**	**137**	**17 152**
Of which financial leasing:					
31 Dec. 2010	233	60	219	-	**512**
31 Dec. 2011	225	99	204	-	**528**
Acquisition cost for tangible fixed assets fully depreciated, but still in use	857	547	47	74	**1 525**
Depreciation rate (straight-line) in %	2 - 7	5 - 33	0 - 2	10 - 33	

Group

(Amounts in NOK million)	Electrotechnical equipment	ICT equipment	Buildings and land	Other operating equipment	Total
Acquisition cost at 1 Jan. 2010	**20 601**	**1 104**	**2 039**	**468**	**24 212**
Additions, acquisition cost	846	142	164	47	**1 199**
Disposals, acquisition cost	12	3	12	7	**34**
Acquisition cost at 1 Jan 2011	**21 435**	**1 243**	**2 191**	**508**	**25 377**
Additions, acquisition cost	1 193	217	307	91	**1 808**
Disposals, acquisition cost	158	132	9	12	**311**

Acquisition cost at 31 Dec. 2011	**22 470**	**1 328**	**2 489**	**587**	**26 874**
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 1 Jan. 2011	**7 512**	**853**	**438**	**178**	**8 981**
Ordinary depreciation for the year	583	103	73	37	**796**
Disposals, ordinary depreciation	158	129	3	9	**299**
Ordinary depreciation at 31 Dec. 2011	**7 937**	**827**	**508**	**206**	**9 478**
Book value at 31 Dec. 2010	**13 923**	**390**	**1 753**	**330**	**16 396**
Book value at 31 Dec. 2011	**14 533**	**501**	**1 981**	**381**	**17 396**
Of which financial leasing:					
31 Dec. 2010	233	60	219	-	**512**
31 Dec. 2011	225	99	204	-	**528**
Acquisition cost for tangible fixed assets fully depreciated, but still in use	857	547	47	74	**1 525**
Depreciation rate (straight-line) in %	2 - 7	5 - 33	0 - 2	10 - 33	

The category 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 hav 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 Plants under construction

Parent company			Group	
2010	**2011**	*(Amounts in NOK million)*	**2011**	**2010**
1 164	1 857	Acquisition cost at 1 January	1 857	1 164
1 752	2 108	Additions during the year	2 108	1 752
-1 059	-1 533	Transferred to tangible fixed assets	-1 533	-1 059
-	-3	Write-offs	-3	-
1 857	**2 429**	**Acquisition cost at 31 December**	**2 429**	**1 857**
-11	-8	Accumulated write-downs	-8	-11
2	16	Effect, hedged forward exch. contracts	16	2

1 848	2 437	**Balance sheet value at 31 December**	2 437	1 848

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	
2010	**2011**	*(Amounts in NOK million)*	**2011**	**2010**
1 149	1 297	Materials and subcontractors	1 297	1 149
235	283	Wages, social security costs	283	235
325	459	Other operating costs	459	325
1 709	**2 039**	**Total operating costs**	**2 039**	**1 709**
43	69	Construction Interest	69	43
1 752	**2 108**	**Total**	**2 108**	**1 752**

Annual capitalisation rate used to determine the loan expense amount that can be capitalised	**2011**	**2010**
	3,41%	3,23%

Overview of future contractual obligations as at 31 December 2011:

(The selection only includes future contractual obligations exceeding NOK 50 million)

(Amounts in NOK million)	**Future contractual obligations**	**Accrued costs**
Project		
Ørskog-Sogndal	1 457	222
Skagerrak 4	848	293
Ytre Oslofjord	510	280
Sima - Samnanger	170	486
Varangerbotn - Skogfoss	161	220
Renewal of Statnett's central operations system	118	120
Voltage reduction reactors	104	22
National Control Centre regulation and market system	71	43
Total	**3 439**	**1 686**
Other		751
Total plants under construction		**2 437**

> Note 8 Financial items - profit/loss

Parent company			Group	
2010	**2011**	(Amounts in NOK million)	**2011**	**2010**
		Financial income		
2	6	Income from investment in subsidiary	-	-
92	-	Income from investment in joint ventures	-	28
-	2	Income from investment in associates	5	-
32	43	Interest income	55	37
5	-2	Change in value of derivatives	-2	5
21	22	Other financial income	22	35
152	**71**	**Total financial income**	**80**	**105**
		Financial costs		
342	374	Interest costs	374	343
-43	-69	Capitalized construction interest	-69	-43
28	107	Other financial costs	51	37
327	**412**	**Total financial costs**	**356**	**337**

> Note 9 Financial items - balance sheet

Financial assets and liabilities
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 financial assets available for sales, 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 o fair value, due to the short-term nature of the items.

(Amounts in NOK million)

		2011		2010	
Parent company	**Category**	**Book value**	**Fair value**	**Book value**	**Fair value**
Assets					
Fixed assets					
Long-term receivables	Loans and receivables	199	199	161	161
Subord. capital in Statnett SFs Pensjonskasse	Fair value through profit/loss	75	75	75	75
Financial assets available for sale	Available for sale	5	5	5	5
Derivatives	Fair value through profit/loss	1 111	1 111	1 042	1 042
Total fixed asset investments		**1 390**	**1 390**	**1 283**	**1 283**

Current assets					
Trade accounts receivable	Loans and receivables	137	137	443	443
Derivatives	Fair value through profit/loss	364	364	114	114
Other short-term receivables	Loans and receivables	685	685	322	322
Total trade accounts and other short-term receivables		**1 186**	**1 186**	**879**	**879**
Investment in market-based securities	Fair value through profit/loss	**272**	**272**	**310**	**310**
Liquid assets	Fair value through profit/loss	**917**	**917**	**1 020**	**1 020**
Liabilities					
Long-term interest-bearing debt	Other liabilities	11 018	11 125	10 427	10 469
Derivatives	Fair value through profit/loss	92	92	29	29
Total long-term interest-bearing debt		**11 110**	**11 217**	**10 456**	**10 498**
Short-term interest-bearing debt	Other liabilities	2 298	2 305	1 301	1 301
Derivatives	Fair value through profit/loss	4	4	1	1
Total short-term interest-bearing debt		**2 302**	**2 309**	**1 302**	**1 302**
Trade accounts payable and other short-term debt	Other liabilities	**1 224**	**1 224**	**1 260**	**1 260**

(Amounts in NOK million)

		2011		2010	
Group	**Category**	**Book value**	**Fair value**	**Book value**	**Fair value**
Assets					
Fixed assets					
Long-term receivables	Loans and receivables	-	-	-	-
Subord. capital in Statnett SFs Pensjonskasse	Fair value through profit/loss	75	75	75	75
Financial assets available for sale	Available for sale	5	5	5	5
Derivatives	Fair value through profit/loss	1 108	1 108	1 038	1 038
Total fixed asset investments		**1 188**	**1 188**	**1 118**	**1 118**
Current assets					
Trade accounts receivable	Loans and receivables	137	137	461	461
Derivatives	Fair value through profit/loss	364	364	114	114
Other short-term receivables	Loans and receivables	637	637	294	294
Total trade accounts and other short-term receivables		**1 138**	**1 138**	**869**	**869**

~~**Investment in market based securities**~~	~~Fair value through profit/loss~~	~~**600**~~	~~**600**~~	~~**593**~~	~~**593**~~
Liquid assets	Fair value through profit/loss	**1 002**	**1 002**	**1 129**	**1 129**
Liabilities					
Long-term interest-bearing debt	Other liabilities	10 882	10 989	10 427	10 469
Derivatives	Fair value through profit/loss	92	92	29	29
Total long-term interest-bearing debt		**10 974**	**11 081**	**10 456**	**10 498**
Short-term interest-bearing debt	Other liabilities	2 298	2 305	1 300	1 300
Derivatives	Fair value through profit/loss	4	4	1	1
Total short-term interest-bearing debt		**2 302**	**2 309**	**1 301**	**1 301**
Trade accounts and other short-term debt receivables	Other liabilities	**1 232**	**1 232**	**1 277**	**1 277**

Financial instruments recognised at fair value according to the valuation method

(Amounts in NOK million)

As at 31 Dec. 2011

Morselskap	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets				
Subord. capital in Statnett SFs Pensjonskasse	-	-	75	**75**
Financial assets available for sale	-	-	5	**5**
Derivatives	-	1 475	-	**1 475**
Investment in market-based securities	272	-	-	**272**
Liquid assets	917	-	-	**917**
Total assets	**1 189**	**1 475**	**80**	**2 744**
Liabilities				
Derivatives	-	96	-	**96**
Total liabilities	**-**	**96**	**-**	**96**

Group

(Amounts in NOK million)

Assets				
Subord. capital in Statnett SFs Pensjonskasse	-	-	75	**75**
Financial assets available for sale	-	-	5	**5**
Derivatives	-	1 473	-	**1 473**
Investment in market-based securities	600	-	-	**600**

Liquid assets	1 002	-	-	**1 002**
Total assets	**1 602**	**1 473**	**80**	**3 155**
Liabilities				
Derivatives	-	96	-	**96**
Total liabilities	**-**	**96**	**-**	**96**

Reconciliation of level 3 in fair value measurements

Parent company			Group	
2010	**2011**		**2011**	**2010**
75	75	Subord. capital in Statnett SFs Pensjonskasse	75	75
5	5	Financial assets available for sale	5	5
80	**80**	**Total market level 3**	**80**	**80**

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.

Interest-bearing assets and liabilities

Repayment profile for interest-bearing debt for the parent company
The loans are measured at amortised cost adjusted for the effect of fair value hedging

(Amounts in NOK million)

Maturity date	2012	2013	2014	2015	2016-	Upon demand*	Sum
Fixed rate loans							
Bond loans	1 609	-	713	564	5 937	-	8 823
Total fixed rate loans	1 609	-	713	564	5 937	-	8 823
Floating rate loans							
Other interest-bearing debt	101	3	22	10	57	136	329
Bond loans	500	-	400	-	169	-	1 069
Loans from financial institutions	92	92	92	92	2 823	-	3 191
Total floating rate loans	693	95	514	102	3 049	136	4 589
Total short-term debt	**2 302**	-	-	-	-	-	**2 302**
Total long-term debt	-	**95**	**1 227**	**666**	**8 986**	**136**	**11 110**

Total interest-bearing debt	**2 302**	**95**	**1 227**	**666**	**8 986**	**136**	**13 412**

* Statnett SF has an intra-group loan of NOK 136 million payable on demand.

Loans by currency as at 31 Dec. 2011

(Amounts in million)

Information about interest-bearing debt	**Average interest rate 1)**	**Loans in currency**	**Loans in NOK**
Currency			
NOK	3,77%	7 933	7 933
JPY	3,36%	9 000	746
CHF	3.40%	650	4 466
SEK	3,19%	200	169
EUR*	**	13	98
Total			**13 412**

* Amounts in EUR are linked to collateral under CSA (Credit Support Annex) agreements, which reflect higher/lower value of derivatives

** EONIA overnight - daily interest rates announced by the European Banking Federation (EBF)

1) All foreign currency loans are converted into NOK using currency and interest swap agreements.

The average interest rate for the loans includes interest swaps agreements. The interest is the average interest rate as at 31 Dec. 2011.

Fixed rate terms in the loan portfolio	**2012**	**2013**	**2014**	**2015**	**2016-**	**Total**
(Amounts in NOK million)	10 716	-	400	510	1786	**13 412**

Market-based securities

Parent company			**Group**	
Acquisition cost	**Book value**	*(Amounts in NOK million)*	**Acquisition cost**	**Book value**
64	65	Government	64	65
44	45	Municipality/municipal operations	49	50
55	55	Financial institutions, incl. banks	261	267
105	107	Private/industry	168	171
268	**272**	**Total bonds**	**542**	**553**
-	-	Norwegian equity funds	25	22
-	-	Foreign equity funds	27	25
-	**-**	**Total equity funds**	**52**	**47**
268	**272**	**Total market based securities**	**594**	**600**

All bonds are stated at nominal value in Norwegian Kroner (NOK)
Unrealised higher/lower value amounted to NOK 5 million and is unchanged for the period

Age distribution trade accounts

	Not due	1-30 days	31-60 days	61-90 days	Over 90 days	Total trade acc. rcvb.
Parent company	121	15	1	-	1	**138**
Group	121	14	1	-	1	**137**

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 correspond to the gain/loss on the loan.

(Amounts in NOK million)

Maturity	Principal lending	Principal borrowing	Market value* 2010	Cash flow 2011	Market value* 2011	Change in value	Intr. rate terms Statnett receives	Intr. rate terms Statnett pays
Free-standing**								
2015	NOK 200	NOK 200	11	5	14	8	Fixed	Nibor 6 months
2015	NOK 200	NOK 200	-3	-2	-8	-7	Nibor 6 months	Fixed
Sum			**8**	**3**	**6**	**1**		
Cash flow hedging								
2014	NOK 200	NOK 200	-5	-2	-7	-4	Nibor 6 months	Fixed
2014	NOK 200	NOK 200	-3	-2	-6	-5	Nibor 6 months	Fixed
2022	NOK 393	NOK 393	-	-3	-34	-37	Nibor 6 months	Fixed
2016	NOK 400	NOK 400	-	7	-12	-5	Nibor 6 months	Fixed
Sum			**-8**	**-**	**-59**	**-51**		

(Amounts in NOK million)

Fair value hedging*** Maturity:	Principal lending	Principal borrowing	Market value* 2010	Change in value	Intr. rate terms Statnett receives	Intr. rate terms Statnett pays
2012	CHF 250	NOK 1 245	363	-3	Fixed CHF	Nibor 6 months
2014	NOK 300	NOK 300	6	6	Fixed	Nibor 6 months
2014	JPY 5 000	NOK 296	111	23	Fixed JPY	Nibor 6 months

2015	NOK	50	NOK	50	3	2	Fixed	Nibor 6 months
2017	CHF	250	NOK	1 290	506	110	Fixed CHF	Nibor 6 months
2019	JPY	4 000	NOK	201	138	28	Fixed JPY	Nibor 6 months
2020	NOK	300	NOK	300	41	24	Fixed	Nibor 6 months
2020	NOK	60	NOK	60	2	5	Fixed	Nibor 6 months
2021	SEK	200	NOK	180	-11	-	SEK Stibor 3 months	Nibor 6 months
2023	NOK	600	NOK	600	72	65	Fixed	Nibor 6 months
2025	NOK	600	NOK	600	80	76	Fixed	Nibor 6 months
2021	CHF	150	NOK	923	138	133	Fixed CHF	Nibor 6 months
Total					**1 449**	**469**		

* Accrued interest is not included in the market value. In the case of combined interest rate and currency swaps, the unrealised currency effect is included in the market value.
** All free-standing derivates 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 2011, Statnett had no interest rate swaps with start in the future.

Interest rate options
Statnett had no interest rate options as at 31 December 2011.

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

Currency

(Amounts in NOK million)	**Nominal amount in currency**	**Nominal amount in NOK**	**Average hedge rate**	**Market rate***	**Market value**
SEK	405	361	0,89	0,86	-8
EUR	27	222	8,31	7,93	-9
Total forward exchange contracts		**583**			**-17**

**The market rate is the average forward rate.*
All contracts are related 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 2011.

> 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, risk included. Statnett SF's financial policy also comprises aims and

frameworks 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. There are no explicit equity requirements other than those stipulated in applicable laws and regulations. The main objective of Statnett's capital management is to ensure that the company has a financial position which enables the enterprise to carry out all socio-economically profitable grid investments. This is in line with statements from the owner. Specific target figures for the enterprise's financial position have not bee determined. If necessary, Statnett may request more equity from the owner. The need for more equity is assessed continuously on the basis of Statnett's objectives. The owner has established a long-term dividends policy of 50 per cent of the group's annual profit after tax adjusted for the changed balance for higher/lower revenues after tax up to and including the fiscal year 2015. Moreover, the capital structure is managed by raising and paying off short-term and long-term debt, as well as through changes in liquid assets. There have been no changes to capital management objectives or guidelines in 2011.

Overview over capital included in capital structure management:

Parent company			Group	
2010	**2011**	*(Amounts in NOK million)*	**2011**	**2010**
10 456	11 110	Long term interest-bearing liabilites	10 974	10 456
1 302	2 302	Short-term interest-bearing liabilites	2 302	1 301
1 330	1 189	Liquid assets and investment in market-based securities	1 602	1 722
10 428	**12 223**	**Net liabilities**	**11 674**	**10 035**

Liquidity risk

Statnett SF aims to be able to carry out 12 months of operations, investments and refinancing without raising any new debt. This wil 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 distributed 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 credit facility agreement was limited to NOK 2 billion. In December 2011, a new long-term loan agreement was entered into with the European Investment Bank (EIB) for a maximum borrowing of Euro 200 million. The loan can be drawn in several tranches. As of 29 March 2012, the loan from EIB remained fully undrawn and the credit facility had not been utilised. Liquidity is followed up continuously with weekly reporting.

Statnett SF has a good 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 at 31 Dec. 2011.

(Amounts in NOK million)

Parent company

At 31 Dec. 2011	Under 1 year	1 to 5 years	5 years +	Total
Interest-bearing debt and interest rate payments	2 682	5 891	7 217	**15 790**
Other liabilities	-	-	66	**66**
Trade accounts payable and other short-term debt	1 224	-	-	**1 224**

Derivatives	1 761	4 054	903	**6 718**
Total	**5 667**	**9 945**	**8 186**	**23 798**

Derivatives	Under 1 år	1 til 5 år	5 år og utover	Totalt
Received	2 105	4 472	1 142	**7 719**
Disbursed	-1 761	-4 054	-903	**-6 718**
Net derivatives	**343**	**418**	**240**	**1 001**

(Amounts in NOK million)

Group

At 31 Dec. 2011	Under 1 year	1 to 5 years	5 years +	Total
Interest-bearing debt and interest rate payments	2 682	5 891	7 217	**15 790**
Other liabilities	-	-	66	**66**
Trade accounts payable and other short-term debt	1 232	-	-	**1 232**
Derivatives	1 761	4 054	903	**6 718**
Total	**5 675**	**9 945**	**8 185**	**23 806**

Derivatives	Under 1 år	1 til 5 år	5 år og utover	Totalt
Received	2 105	4 472	1 142	**7 719**
Disbursed	-1 761	-4 054	-903	**-6 718**
Net derivatives	**343**	**418**	**240**	**1 001**

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 credit limits based on the creditworthiness of counterparties and the maximum exposure for each counterparty. Creditworthiness is assessed at least once a year, and the counterpary risk is continuously 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**	
2010	**2011**	*(Amounts in NOK million)*	**2011**	**2010**
1 020	867	Liquid assets, excl. time deposits	952	1 128
-	50	Time deposits	50	20
310	272	Bonds and certificates	553	522
1 156	1 475	Derivatives	1 473	1 156
161	198	Long-term receivables, excl. derivatives	-	-
765	821	Trade accounts and other short-term receivables, excl. derivatives	774	755

3 412	3 683	Total maximum credit exposure	3 802	3 581

Foreign exchange risk

Foregin exchange risk is fluctuations in exchange rates that 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 December 2011, the only currency exposure that had not been swapped or transferred to future payments or bank deposits in foreign currency totalled NOK 152 million for the parent company and foreign equity funds and shares totalled NOK 25 million for the Group.

Exchange rate sensitivity

Parent company		Change in NOK exchange rate	Group	
2010	2011	*(Amounts in NOK million)*	2011	2010
-1	-3	+5 %	-4	-2
1	3	-5 %	4	2

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 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.

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 the result, 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 rate swap agreements 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 of change in the interest rate levels at 31 December 2011.

Effect on result Parent company		Change in interest rate level	Effect on result Group	
2010	2011	*(In NOK million)*	2011	2010
-7	-5	+1%	-11	-11
7	5	-1%	11	11

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	
2010	2011		2011	2010
4,16%	4,33%	Bonds and certificates	4,69%	4,01%
2,22%	3,05%	Deposits	3,05%	2,24%

-	-	Shares and equities funds	-8.10%	11,23%
3,11%	3,38%	Loans	3,38%	3,11%

> Note 11 Taxes

Parent company			Group	
2010	**2011**	*(Amounts in NOK million)*	**2011**	**2010**
		Tax on result		
566	273	**Tax payable**	273	566
-6	-	Tax payable received as a result of government stimulus package	-	-6
6	-	Change in deferred tax benefit as a result of government stimulus package	-	6
288	80	Change in deferred tax/tax benefit	84	294
854	**353**	**Tax charge**	**357**	**860**
566	273	Tax payable for the year	273	566
-	-2	Tax payable in conn. with Group contribution	-2	-
566	**271**	**Tax payable balance sheet**	**271**	**566**
289	**80**	**Deferred tax/tax benefit as a result of changes in temporary differences**	**84**	**294**
27%	**29%**	**Effective tax rate**	**26%**	**28%**
		Reconciliation of effective tax rate with Norwegian tax rate		
3 133	1 206	Profit before tax	1 357	3 058
877	337	28 % tax	380	856
-17	18	Permanent differences 28 %	-21	14
-6	-2	Share of loss in KS, FKV and TS	-2	-10
854	**353**	**Tax charge**	**357**	**860**
		Deferred tax(-)/tax assets in the balance sheet		
-	-	Other intangible assets	-4	-4
-434	-515	Fixed assets	-537	-452
27	42	Profit and loss account	42	26
-	-	Receivables	10	6
-	-	Technical provisions (insurance)	-63	-54
96	99	Pensions	99	97
-4	-	Securities and financial instruments (excl. cash flow hedges)	-1	-3
2	16	Cash flow hedges	16	2
39	17	Other tax-related provisions	17	39

-	-2	Tax effect of Group contribution	-2	-
-	-	Tax loss carried forward	17	9
-274	**-343**	**Total deferred tax(-)/tax assets (net)**	**-406**	**-334**

Changes in temporary differences

Parent company	31 Dec. 2010	Recognised	Other comprehensive income	Group contribution	31 Dec. 2011
Fixed assets	1 551	289	-	-	1 840
Profit and loss account	-97	-52	-	-	-149
Receivables	-1	1	-	-	-
Pensions	-344	-8	-	-	-352
Securities and financial instruments (excl. cash flow hedges)	14	-14	-	-	-
Cash flow hedges	-8	-	-51	-	-59
Other provisions	-137	75	-	-	-62
Group contribution	-	-	-	6	6
Total	**978**	**291**	**-51**	**6**	**1 224**

Group	31 Dec. 2010	Recognised	Other comprehensive income	Group contribution	31 Dec. 2011
Other intangible assets	14	-1	-	-	13
Fixed assets	1 612	306	-	-	1 918
Profit and loss account	-95	-52	-	-	-147
Receivables	-22	-15	-	-	-37
Technical provisions (insurance)	193	33	-	-	226
Pensions	-345	-7	-	-	-352
Securities and financial instruments (excl. cash flow hedges)	12	-9	-	-	3
Cash flow hedges	-8	-	-51	-	-59
Other provisions	-138	75	-	-	-63
Group contribution	-	-	-	6	6
Tax loss carried forward	-32	-26	-	-	-58
Total	**1 191**	**304**	**-51**	**6**	**1 450**

On 28 June 2010, Statnett acquired 50 per cent of the shares in NorGer AS. This limited company owns only 10 per cent of NorGer KS. The deficit in NorGer AS amounted to NOK 4.9 million in the 2010 consolidation period. Due to uncertainty relating to future application of loss carried forward, deferred tax assets for this company were not recognised in the balance sheet in 2010.

On 26 August 2011, Statnett SF acquired the remaining 50 per cent of the shares in NorGer AS. The loss carried forward will form the basis for deferred tax assets in 2011. Concurrently, a group contribution of NOK 6.4 million was provided, which offsets tax loss carried forward in the limited company.

> Note 12 Investments in subsidiaries, joint ventures and associates

Statnett SF had the following investments at 31 December 2011:

(Amounts in NOK thousand)

Company	Type	Year of acquisition	Registered office	Ownership interest	Voting rights	Book value
Subsidiaries						
Statnett Transport AS	Subsidiary	1996	Oslo	100%	100%	79 221
Statnett Forsikring AS	Subsidiary	1998	Oslo	100%	100%	30 200
Nordlink AS	Subsidiary	2010	Oslo	100%	100%	500
Noreveien 26 AS	Subsidiary	2010	Oslo	100%	100%	100
NorGer AS	Subsidiary	2010/2011	Oslo	100%	100%	20 657
NorGer KS	Subsidiary	2010/2011	Oslo	100%	100%	136 617
Total subsidiaries						**267 295**
Associates						
Nord Pool Spot AS	Associate	2002/2008	Bærum	30%	30%	36 320
Total book value subsidiaries, joint ventures and associates						**303 615**

Group value of companies recorded according to the equity method

2011	Group value at 1 Jan.	Result for the year	Dividend	Group value at 31 Dec.
Nord Pool Spot AS, 30%	51 080	4 987	-2 400	53 667
Total associates	**51 080**	**4 987**	**-2 400**	**53 667**
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.

Changes in investments in subsidiaries, joint ventures and associates
There have been no activities in Nord.Link AS in 2011.

In August 2011, Statnett purchased another 50 per cent of NorGer AS and 45 per cent of NorGer KS. NorGer AS has a direct interest of 10 per cent in NorGer KS. Directly and indirectly, Statnett SF owns 100 per cent of NorGer KS. Both NorGer AS and NorGer KS are accounted for as subsidiaries.

There have been no activities in Noreveien 26 AS in 2011.

Transaksjoner i 2010
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 2010. The Group's gain from the transaction is included in financial income.

In June 2010, Statnett purchased 50 per cent of the shares in NorGer AS and 45 per cent of NorGer KS. NorGer AS had a direct interest of 10 per cent in NorGer KS. Directly and indirectly, Statnett SF owned 50 per cent of NorGer KS. Both NorGer AS and NorGer KS are accounted for as subsidiaries.

In July 2010, 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.

> Note 13 Related parties

At 31 December 2011, 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 both as owner and regulatory authority:

Regulatory authority
The Norwegian parliament (Storting) 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 areas of responsibilities and delegates the administration o 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 MPE as the superior authority.

Other related parties

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

The subsidiaries are wholly-owned by Statnett SF, though so that Statnett owns 100 per cent of the shares in NorGer AS and 90 per cent of the shares in NorGer KS. In addition, NorGer AS owns 10 per cent of the shares in NorGer KS. This entails that Statnett SF, including indirect ownership, also holds 100 per cent of the shares in NorGer KS.

Statnett SF has an ownership interest in Nord Pool Spot AS of 30 per cent.

Related party transactions
Statnett SF and its subsidiaries have entered into loan agreements and agreements relating to the purchase and sale of services. Al transactions are 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 b other insurers.
Statnett Transport AS operates a heavy transport business on land and sea and is a supplier of transport services to Statnett SF, including preparedness services relating to cables. These services are valued by an external party.

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.

In 2011, Statnett SF purchased all relevant activities relating to the interconnector to Germany from NorGer KS. The transaction was valued by an external party.

Statnett SF carries out certain administrative tasks for its subsidiaries. Agreements have been entered into which specify these services, and they are priced at market terms.

In 2011, Statnett SF received dividends totalling NOK 8.1 million from subsidiaries and associates.

Joint venture parties

TenneT TSO BV and Statnett SF have constructed a subsea cable to transport energy between Norway and the Netherlands, know 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.

From 14 January 2011, the MPE has given its approval for Statnett and TenneT to engage in explicit auction as a trading solution fo power exchange between Norway and the Netherlands. Until 31 December 2010, Statnett and TenneT held an approval to engage i explicit auction as a temporary trading solution.

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

Statnett SF inter-company accounts

	Trade accounts		Long-term lending		Long-term brw.		Trade accounts payable	
(Amounts in NOK million)	**2011**	**2010**	**2011**	**2010**	**2011**	**2010**	**2011**	**2010**
Subsidiaries	5	7	198	161	137	-	29	7

Interest rates

Interest rates on long-term borrowing and lending have been agreed at six months' NIBOR with a mark-up in the interval 1% - 1.75%

Statnett SF's intra-group trading

	Sales revenues		Operating costs		Financial revenues		Dividends received	
(Amounts in NOK million)	**2011**	**2010**	**2011**	**2010**	**2011**	**2010**	**2011**	**2010**
Subsidiaries	4	4	238	99	7	6	8	2

> Note 14 Remuneration/benefits to the Group management

The Board's declaration on determination of salary and other remuneration for the Group management.

The statement concerning remuneration to the President and CEO and the Group management has been prepared in accordance with the provisions in the Public Limited Liability Companies Act, the Norwegian Accounting Act, the Norwegian Code of Practice for Corporate Governance and the Guidelines relating to state-owned companies, which include an approach to executive pay, as well as the Norwegian Ministry of Petroleum and Energy's compliance expectations stipulated in its letter of 29 November 2011.

The Board of Directors has established a remuneration committee, consisting of two owner-appointed board members and one employee representative. Unless otherwise agreed, the HR Director will act as committee secretary. The remuneration committee is an advisory and preparatory body for the Board of Directors, and will put forward proposals for salary adjustments in accordance wit the guidelines specified below.

In addition to a fixed salary the Group management is entitled to a company car and pension benefits. There is no bonus scheme fo senior employees. The retirement age for the President and CEO and the Group senior management is 65. The President and CEO is entitled to 12 months' severance pay in the event of dismissal from the company. No other senior employees have agreements fo wages after the termination of employment.

The Group's guiding principle for 2010 and 2011 has been to keep remuneration and other benefits for the Group management at a competitive level to ensure that the Group attracts and retains high-quality senior executives. The fixed salary does not need to be a the top of the pay scale. However, it must be competitive for our industry and compared to other companies recruiting in the same market as Statnett SF. At the same time, the salary must reflect individual experience, area of responsibility and achieved results.

The Board of Directors approves the annual salary adjustment for the company's general manager, and adopts a framework which the general manager uses to adjust the salaries for the rest of the Group management team.

The same guidelines specified above will be used as a basis for the next fiscal year.

Group management remuneration/benefits in NOK)		Board remuneration	Other remuneration	Total remuneration	Board remuneration
Board of Directors		**2011**	**2011**	**2011**	**2010**
Kolbjørn Almlid (from June 2011)	Chair	174 000	-	174 000	-
Bjarne Aamodt (until June 2011)	Chair	177 800	3 800	181 600	336 000
Thor Håkstad	Vice Chair	239 000	-	239 000	231 000
Kirsten Indgjerd Værdal	Board member	185 000	-	185 000	178 000
Grethe Høiland	Board member	225 000	-	225 000	218 000
Heidi Ekrem	Board member	190 000	-	190 000	183 000
Per Hjorth	Board member	245 000	-	245 000	238 000
Kirsten Faugstad (until June 2010)	Board member *)	-	-	-	89 000
Steinar Jøråndstad	Board member *)	225 000	-	225 000	218 000
Bjørn Solberg (until June 2010)	Board member *)	-	-	-	91 500
Per Erland Opgård	Board member *)	190 000	-	190 000	89 000
Kjerstin Bakke (from June 2010)	Board member *)	185 000	-	185 000	89 000
Total remuneration		**2 035 800**	**3 800**	**2 039 600**	**1 960 500**

All figures are exclusive of employer's NICs.
Deputy board members and observers do not receive remuneration
Some board members receive compensation for their participation in the Audit Committee or Remuneration Committee and the Board of Directors.
*) In the case of employee representatives, only board members' fees are stated

Group management remuneration/benefits in NOK)		Salary	Other remuneration	Pension cost	Total re-muneration
Group management					
President and CEO					
Auke Lont		2 275 892	181 083	2 229 640	4 686 615
Executive Vice Presidents					
Gunnar G. Løvås	Strategy and Public Affairs	1 440 860	137 788	679 236	2 257 884
Håkon Borgen	Projects Division	1 555 835	102 949	694 968	2 353 752
Øivind Kristian Rue	Grid Operations Division	1 687 016	130 323	1 228 155	3 045 494
Bente Hagem	Commercial Development	1 471 466	140 515	1 053 644	2 665 625
Knut Hundhammer (from 23 May)	Corporate Staff CFO	1 108 515	91 764	531 636	1 731 915

Marie Jore Ritterberg until 23 May)	Finance	594 033	64 440	397 515	1 055 989
Peer Olav Østli	ICT Division	1 403 809	140 021	726 481	2 270 311
Kirsten Berg (until 23 May)	Corporate Staff	533 313	49 775	251 590	834 678
Total remuneration		**12 070 739**	**1 038 658**	**7 792 865**	**20 902 263**

All figures are exclusive of employer's NICs.

There was a change in Statnett's Group Management as of 23 May 2011 due to reorganisation of the company.
After the reorganisation the Group Management will consit of Executive VPs for Strategy and Public Affairs, Projects Division, Grid Operations Division, Commercial Development, ICT and Corporate Staff.
At the same time a management group for Group development was discontinued which in addition to the Group Management included
the Executive VPs of Corporate Staff, Finance and ICT.

Remuneration/benefits to the Group management/board 2010 (in NOK)		Salary	Other remuneration	Pension cost	Total re-muneration
Group management					
President and CEO					
Auke Lont		2 150 200	155 379	2 132 009	4 437 588
Executive Vice Presidents					
Gunnar G. Løvås	Strategy and Public Affairs	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 Division	1 604 261	125 248	1 071 522	2 801 031
Bente Hagem	Commercial Development	1 403 137	139 670	1 124 189	2 666 996
Gun Bente Johansen (left on 1 Sept. 2010)	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
Total remuneration		**12 690 025**	**1 194 867**	**8 851 905**	**22 736 797**

All figures are exclusive of employer's NICs.

Terms and conditions in connection with senior executives

Title/name	Remuneration/retirement age/early retirement pension/retirement pension
President and CEO: Auke Lont	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 SF's Group Pension Fund and the Norwegian National Insurance Scheme. Upon death, any surviving spouse and children under the age of 21 will receive a pension. 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 be reduced according to disability.

Executive vice presidents: Håkon Borgen Bente Hagem Øivind Kristian Rue	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 the final salary. 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 SF's Group Pension Fund and the Norwegian National Insurance Scheme Upon death, any surviving spouse and children under the age of 21 will receive a pension. The above persons' entitlements to pension benefits over and above paid-up policies from Statnett SF's Group Pension Fund from the age of 62 will lapse if they are no longer employed by Statnett SF on their 62nd birthday. 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 be reduced according to disability.
Executive vice presidents: Gunnar G Løvås Peer Olav Østli Gun Bente Johansen (until 1 Sept 2011) Marie J.Ritterberg (until 23 May 2011) Kirsten Berg (until 23 May 2011)	The retirement age is 65, with the right to retire with an early retirement pension at any time after 62. 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 disbursement may be reduced if the member receives any pay, pension or remuneration from other companies in the Statnett Group. 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 age of 67, 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). Upon death, any children under the age of 21 will receive a children's pension. If the member leaves the company before retirement age, a pension rights certificate will be issued, which will secure retirement pension benefits from age 65. The pension rights certificate will be adjusted by 75 per cent of the increase in the basic amount for each year until retirement. 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 67, based on the pension base at the time the disability occurred. The disability pension will be reduced according to disability.
Executive vice president: Knut Hundhammer	The retirement age for executive positions is 65. A pension agreement has been entered into in addition to the ordinary membership in the enterprise's group pension scheme. The pension is secured through the accrued savings balance, including interest, disbursed to Hundhammer as taxable income. Statnett holds the rights to the guarantee account up to the moment of disbursement. The guarantee account will be disbursed to Statnett SF at retirement at the latest. The guarantee account including interest is used to finance the benefits which will be disbursed to Hundhammer at retirement. The pension base is the permanent ordinary salary. Statnett will - each year until retirement, or resignation - pay up to 30 per cent of the difference between the ordinary salary and 12 times the Norwegian national insurance scheme's basic amount into the pension saving scheme. For 2011, payments of NOK 240 000 were made. For subsequent years, this amount will be adjusted with a corresponding salary percentage increase, with a minimum increase corresponding to the increase in G. Upon death the surviving spouse or spouse equivalent will receive an amount corresponding to the remaining savings balance including interest from Statnett SF. This amount will be taxable for the spouse/spouse equivalent.

The normal notice period for resignation is three months, whereas for dismissals the notice period is six months after an employmen period of two years.

No loans have been guaranteed or granted to members of the Group management or the Board of Directors.

> Note 15 Events after the balance sheet date

In connection with the power system incident on 19 September 2011 in Nordre Helgeland and Salten, the Norwegian Water Resources and Energy Directorate has notified Statett in their letter of 29 February 2012 that they are considering whether Statnett i guilty of three breaches of the Regulations relating to system operation.

We are not aware of any other circumstances occurring after the balance sheet date that may be of significance for the evaluation o 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, statutory obligations, 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 Other operating costs

Parent company			Group	
2010	**2011**	*(Amounts in NOK million)*	**2011**	**2010**
38	36	Lease rental payable	38	39
200	245	Contracted personnel/consultants	307	268
51	53	Insurance	57	19
325	359	Materials and subcontractors	255	332
130	130	Property tax	130	130
64	66	IT costs	66	64
232	179	Miscellaneous	129	250
1 040	**1 068**	**Total other operating costs**	**982**	**1102**

Operating lease agreements (maturity less than one year from balance sheet date)

Parent company			Group	
2010	**2011**	*(Amounts in NOK million)*	**2011**	**2010**
17	19	Buildings	22	18
15	11	Contracted communication	11	15
6	6	Miscellaneous	6	6
38	**36**	**Total lease rental payable**	**39**	**39**

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 lon

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	
2010	**2011**	*(Amounts in NOK million)*	**2011**	**2010**
963	680	Auditing of annual accounts	898	1 125
211	344	Other attestation services	373	213
220	246	Tax-related assistance	273	220
142	190	Other assistance	215	142
1 536	**1 460**	**Total fees (excl. VAT)**	**1 759**	**1 700**

Auditor's fees are exclusive of VAT.

> Note 19 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

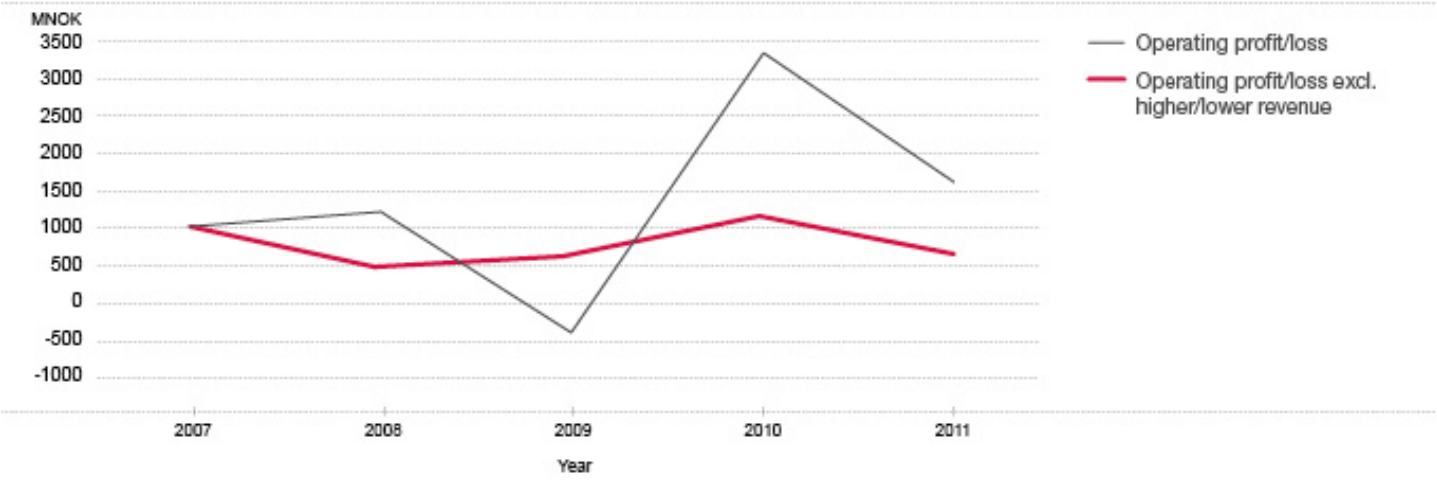
Statnett Group	**2011**	**2010**	**2009**	**2008**	**2007**
Permitted revenue	4 296	4 803	3 722	3 355	3 243
Higher/lower revenue for the period	1 020	2 177	-1 059	721	20
Other operating revenue	181	267	199	180	152
Total operating revenue	**5 497**	**7 247**	**2 862**	**4 256**	**3 415**
Operating costs	3 869	3 968	3 265	3 062	2 390
Operating profit/loss	**1 628**	**3 279**	**-403**	**1 194**	**1 025**
Income from joint ventures and associates	5	11	24	962	58
Net financial items	-276	-232	-289	-414	-203
Profit/loss before tax	**1 357**	**3 058**	**-668**	**1 742**	**880**
Profit/loss for the year	**1 000**	**2 198**	**-480**	**1 517**	**651**

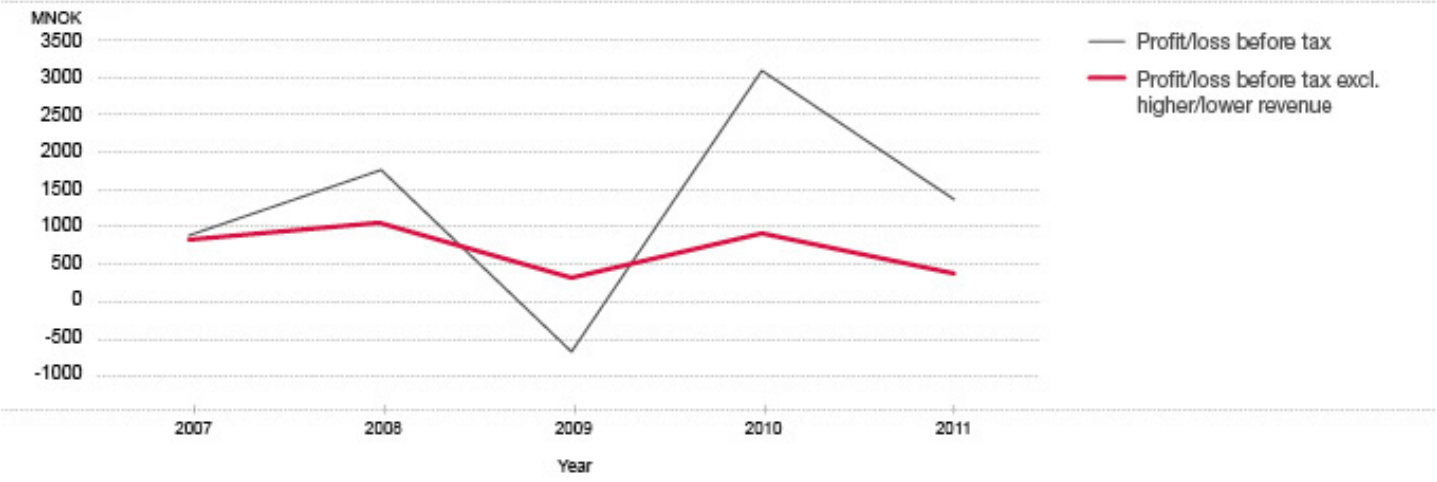
From the statement of comprehensive income, not including higher/lower revenue

Statnett Group	**2011**	**2010**	**2009**	**2008**	**2007**
Permitted revenue	4 296	4 803	3 722	3 355	3 243
Other operating revenue	181	267	199	180	152
Total operating revenue	**4 477**	**5 070**	**3 921**	**3 535**	**3 395**
Operating costs	3 869	3 968	3 265	3 062	2 390

Operating profit/loss excl. higher/lower revenue	608	1 102	656	473	1 005
Income from joint ventures and associates	5	11	24	962	58
Net financial items	-276	-232	-289	-414	-203
Profit/loss before tax excl. higher/lower revenue	**337**	**881**	**391**	**1 021**	**860**

Illustration showing the effect of higher/lower revenue on the Group's profit/loss





From the balance sheet

Statnett Group	2011	2010	2009	2008	2007
Intangible assets	66	66	-	-	-
Fixed assets	21 075	19 413	17 858	19 349	14 945
Current assets	2 740	2 591	1 484	1 570	1 494
Total assets	**23 881**	**22 070**	**19 342**	**20 919**	**16 439**
Equity	8 277	7 628	5 618	6 585	5 562
Interest-bearing liabilities	13 276	11 757	12 340	12 340	9 309
Other liability items	2 328	2 685	1 384	1 994	1 568

Total equity and liabilities	23 881	22 070	19 342	20 919	16 439

From cash flow

Statnett Group	2011	2010	2009	2008	2007
Net cash flow from operating activities	1 523	3 804	-466	1 529	1 795
Net cash flow from investing activities	-2 370	-1 740	-140	-2 670	-2 958
Net cash flow from financing activities	720	-1 277	388	1 221	1 454
Net cash flow for the period	**-127**	**787**	**-218**	**80**	**291**
Liquid assets	1 002	1 129	342	556	476
Dividend for the year to owner	315	132	499	318	152

> Note 20 New accounting standards

New accounting standards

Below follows a list of new/revised/additional standards and interpretations that had been announced as at 31 December 2011, but that had not come into effect for the fiscal year 1 January - 31 December 2011. Only matters assumed to be relevant for Statnett, have been included. However, none of the above amendments imply substantial changes in the Group's accounting principles or notes. For amendments that are considered to have an impact on the Group's application of accounting principles or notes to the accounts, cf. Note 1.

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.

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, and aims to provide the users with a more accurate picture of the exposure of the company transferring the financial assets. The amendments will be effective for fiscal years starting on 1 July 2011 or later. The Group adopted the amended standard as of 1 January 2012.

Amendment to IFRS 7 Financial instruments - information

The amendments entail that the enterprise has a duty to provide several quantitative details relating to set-off of financial assets and financial liabilities. The information requirements apply to all recognised financial instruments set off pursuant to IAS 32. The amendments will be effective for fiscal years starting on 1 January 2013 or later. However, the amendments have still not been approved by the EU. Earlier application is permitted, provided that the EU approves the standard. The Group expects to implement the amended standard as of 1 January 2013.

IFRS 9 - Financial Instruments

IFRS 9 will replace IAS 39. The project is divided into several phases. The International Accounting Standards Board (IASB) has completed the initial phase relating to classification and measuring rules. According to IFRS 9, financial assets that contain ordinary loan terms are to 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 classification and measurements 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 (fair value option), where changes in value associated with own credit risk are separated and recognised as other revenues and costs. IFRS 9 will be effective for fiscal years starting on 1 January 2015 or later. However, it has still not been approved by the EU. Earlier application is permitted, provided that the EU approves the standard. The Group expects to implement IFRS 9 as of 1 January 2015.

IFRS 10 Consolidated Financial Statements

IFRS 10 replaces the portion of IAS 27 Consolidated and Separate Financial Statements that addresses consolidated financial statements, and SIC-12 Consolidation - Special Purpose Entities. IFRS 10 establishes a single control model that applies to all entities. The definition of control differs somewhat from IAS 27. Whether companies should be consolidated according to IFRS 10 is

determined by whether there is control. Control exists when the investor has power over the investee; is exposed to or entitled to variable returns from the investee; and the ability to exercise power to govern activities of the investee that significantly affect the investee's return. IFRS 10 will be effective for fiscal years starting on 1 January 2013 or later. However, the standard has still not been approved by the EU. Earlier application is permitted, provided that the EU approves the standard. The Group expects to implement IFRS 10 as of 1 January 2013.

IFRS 11 Joint Arrangements

This standard replaces IAS 31 Interests in Joint Ventures, as well as SIC-13 Jointly Controlled Entities - Non-monetary Contributions by Venturers". IFRS 11 applies to joint arrangements and provides guidelines for reporting of two different types of joint arrangements - joint operations and joint ventures. IFRS 11 stipulates that joint ventures should be accounted for using the equity method. For joint operations the parties must recognise their share of assets and liabilities in which they have a common interest. Assets and liabilities which one party holds alone must be included in their entirety. The profit or loss from joint operations must be recognised with the parties corresponding to their share of operations. IFRS 11 will be effective for fiscal years starting on 1 January 2013 or later. However, it has still not been approved by the EU. Earlier application is permitted, provided that the EU approves the standard. The Group expects to implement IFRS 11 as of 1 January 2013.

IFRS 12 Disclosure of Interests in Other Entities

IFRS 12 applies to entities that have an interest in subsidiaries, joint arrangements, associates or unconsolidated structured entities. IFRS 12 replaces the disclosure requirements that used to be found in IAS 27 Consolidated and Separate Financial Statements, IAS 28 Investments in Associates and Joint Ventures and IAS 31 Interests in Joint Ventures. In addition, several new disclosure requirements have been introduced. IFRS 12 will be effective for fiscal years starting on 1 January 2013 or later. However, it has still not been approved by the EU. Earlier application is permitted, provided that the EU approves the standard. The Group expects to implement IFRS 12 as of 1 January 2013.

IFRS 13 Fair Value Measurement

The standard defines principles and guidelines for measuring the fair value of assets and liabilities which other standards require or permit to be measured at fair value. IFRS 13 will be effective for fiscal years starting on 1 January 2013 or later. However, it has still not been approved by the EU. Earlier application is permitted, provided that the EU approves the standard. The Group expects to implement IFRS 13 as of 1 January 2013.

Amendments to IAS 1 Presentation of Financial Statements

The amendment to IAS 1 was based on a requirement to group revenues and costs in the statement of revenues and costs based on their potential to be reclassified to profit or loss, or not. The amendments will be effective for fiscal years starting on 1 July 2012 or later. However, the amendments have still not been approved by the EU. Earlier application is permitted, provided that the EU approves the amendments. The Group expects to implement the amended standard as of 1 January 2013.

Amendments to IAS 12 Income Taxes

The amendment to IAS 12 entails that deferred tax on investment properties measured at fair value under IAS 40 Investment Property should generally be determined on the presumption that the asset will be recovered through its sale (and not through its use). Furthermore, the amendment involves incorporation of SIC 21 - Income Taxes - Recovery of Revalued Non Depreciable Asset which stipulates that deferred tax on non-depreciable assets measured according to the value regulation model in IAS 16 Property, Plant and Equipment always must be determined on the basis of a presumption that the asset will be recovered through its sale (and not through its use). The amendments in IAS 12 will be effective for fiscal years starting on 1 January 2012 or later. However, the amendments have still not been approved by the EU. Earlier application is permitted, provided that the EU approves the amendments. The Group expects to implement the amended standard as of 1 January 2012.

Amendments to IAS 27 (Revised) Separate Financial Statements

Following the introduction of IFRS 10 and IFRS 12, amendments were made to IAS 27 coordinating the standard with the new accounting standards. IFRS 10 Consolidated Financial Statements replaces the sections in IAS 27 relating to consolidated accounts. IAS 27 now only applies to company accounts, and will therefore not be relevant for the consolidated accounts after the amended IAS 27 becomes effective. The amendments will be effective for fiscal years starting on 1 January 2013 or later. However, the amendments have still not been approved by the EU. Earlier application is permitted, provided that the EU approves the amendments. The Group expects to implement the amended standard as of 1 January 2013.

Changes to IAS 28 (Revised) / Investment in Associates and Joint Ventures

The scope of IAS 28 has been expanded to include investments in joint ventures. The standard describes principles for accounting o investments in affiliated companies and joint ventures, and specifies how the equity method should be applied. The amendments wil be effective for fiscal years starting on 1 January 2013 or later. However, the amendments have still not been approved by the EU. Earlier application is permitted, provided that the EU approves the amendments. The Group expects to implement the amended standard as of 1 January 2013.

Amendments to IAS 32 Financial Instruments - Presentation

IAS 32 has been amended to clarify the phrase "currently has a legal enforceable right to set-off" and to clarify the application of IAS 32's set-off criteria for settlement systems. The amendments will be effective for fiscal years starting on 1 January 2014 or later. However, the amendments have still not been approved by the EU. Earlier application is permitted, provided that the EU approves the amendments and that the amendments in IFRS 7 requiring disclosure of set-off of financial instruments are met. The Group expects to implement the amended standard as of 1 January 2014.

Auditors report

ERNST & YOUNG

State Authorised Public Accountants
Ernst & Young AS

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Member of the Norwegian Institute of Public Accountants

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 of the Parent Company and the Group comprise the statement of financial position as at 31 December 2011, the statements of comprehensive income, 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 Chief Executive Officer's responsibility for the financial statements

The Board of Directors and Chief Executive Officer 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 Chief Executive Officer 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.

A member firm of Ernst & Young Global Limited

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 2011 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 and the statement on corporate governance

Based on our audit of the financial statements as described above, it is our opinion that the information presented in the Directors' report and the statement on corporate governance 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 Chief Executive Officer have fulfilled their duty to ensure that the Company's accounting information is properly recorded and documented as required by law and generally accepted bookkeeping practice in Norway.

Oslo, 30 March 2012
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 1975-2011

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	132,2	125,4	123,7	5,8	14,9	9,1
2010	122,8	101,0	130,4	14,7	7,1	7,6
2011	125,0	151,2	121,8	8,0	11,2	3,2

Source: NVE/Nord Pool Sp

Statistics Nordic countries 2000-2011

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
2011	370,5	243,0	375,7	17,6	12,4	-5,2

Source: Nord Pool/ SKM Market predict

* Export +/ import

** Inflow 2000 without Finland