

Statnett

Quarterly and half year report **2015**

Q2



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In short

Highlights

The Statnett Group's underlying profit after tax in the second quarter of 2015 amounted to NOK 534 million (NOK 333 million in the corresponding period in 2014). The underlying profit for the first half of 2015 amounted to NOK 823 million (NOK 687 million). The increase is mainly due to reduced pension costs included as a one-off effect in the second quarter, as the Group has changed from a defined benefit pension plan to a defined contribution pension plan. Costs related to system services have also been reduced. The effect is somewhat offset by lower interest rates which reduces the growth in permitted revenue.

The underlying profit or loss is based on the regulated permitted revenue, whereas the recorded profit or loss will depend on stipulated tariffs and congestion revenues. The difference, caused by higher or lower revenue, will level out over time through adjustments in tariffs, ensuring that Statnett's revenues over time correspond with the regulated permitted revenue.

The Group reported a profit after tax of NOK 410 million in the second quarter of 2015 (NOK 328 million), and NOK 607 million in the first half of 2015. In the first half of 2015, Statnett's higher revenue balance was reduced by NOK 296 million, including interest.

Important events in the first half of 2015

- The joint operation agreements for the international interconnectors between Norway and Germany (NordLink), and between Norway and the UK (NSN Link) were signed on 10 February and 26 March, respectively. Statnett has entered into agreements with suppliers of cables and rectifier stations for both projects.
- In May, the Board of Directors approved the commencement of work on parts of the Western Corridor. Statnett has also received final licenses for the routes Lyse-Duge and Ertsmyra-Solhom. The project is an important prerequisite for the realisation of interconnectors.
- In June, Statkraft, TrønderEnergi, NTE, Agder Energi and Statnett agreed to make a new assessment of the opportunities to develop wind power projects totaling 1,000 MW in Central Norway. Statnett has applied for extended license for the construction of the lines that will facilitate wind power on Fosen and in Snillfjord.
- As of 1 January 2015, parts of the power supply lines in Lofotrøingen became part of the main grid and Statnett assumed operating responsibility. This includes the power line from Hinnøy to Sortland and Melbu in Vesterålen and onwards to Kvitfossen in Lofoten.
- In the Ørskog-Sogndal project, the Sykkylven-Ørsta subsection entered operation in January. The objective of the project is commissioning in 2016, but it lacks necessary permissions to access the Sjørdalen nature reserve. The case is in ongoing legal proceedings in the District Court. The work continues in those areas where Statnett has access.
- In April, the Royal Norwegian Ministry of Petroleum and Energy (OED) gave final approval for a new power line on the route from Balsfjord to Skaidi.
- In April, Statnett's 2015 Grid Development Plan was submitted for hearing, and response was received in June. Statnett is planning significant investments over the next decade, driven by the society's need for a stronger grid, which will secure a reliable power supply, facilitate renewable energy projects and industrial and commercial development throughout the country.
- The 2016 Regional European Grid Development Plans was submitted for public hearing in June. The plans show that there is need for extensive investments in the power system, in order to achieve climate objectives and security of supply. The underlying analyses conclude that the new Norwegian interconnectors will yield positive benefits.
- On 23 June, Per Hjorth was appointed as the new chairman of the Board. Synne Homble was elected as deputy chair, and Einar Strømsvåg was elected as a new board member.

Director's report

Security of supply

The power situation was good in the first half of 2015. There has been more precipitation than normal. The first quarter of 2015 was mild, with higher average temperature than normal, whereas May and June had lower average temperature. As a result the amount of snow in the mountains at the end of the quarter was above average.

At the beginning of the second quarter, reservoir water levels were 37.8 percent, 1.3 percentage points below the median (from the 1990-2014 measuring period). At the end of the quarter, reservoir water levels were 50.6 percent, 17.8 percentage points below the median.

The hydrological balance improved by approximately 2 TWh throughout the second quarter, resulting in a surplus of approximately 7 TWh at the end of the second quarter of 2015.

Total power generation and consumption was 32 TWh and 29 TWh, respectively, in the second quarter of 2015. This resulted in net export of 3 TWh, compared with 5 TWh in the corresponding period in 2014. The eight hour of 9 June the total export was 5 689 MWh/h, which is a new record.

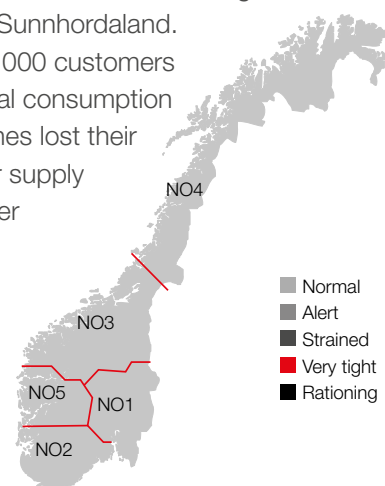
In order to perform grid maintenance and construction there were some significant outages during the first half of 2015, including:

- Outages in Southern Norway in connection with the upgrading of the Western Corridor and the annual audit of the Skagerrak interconnector have led to reduced trading capacity with Denmark.
- Outages related to voltage upgrade in Central Norway have resulted in reduced capacity in and out of the Central and Northern regions.
- The construction of Ørskog-Sogndal has caused outages and congestion in the existing 132 kV grid.
- The construction of the new 420 kV power line, Ofoten-Bardufoss-Balsfjord, has caused outages on the existing grid.

The season for regulating power options, which operates on a weekly basis (RCOM-week), is normally completed around week 16. The season was extended until week 25 due to low access to upward regulating resources in the Norwegian section of the regulation market in April and May.

Major faults and grid disturbances in the first half of 2015 were:

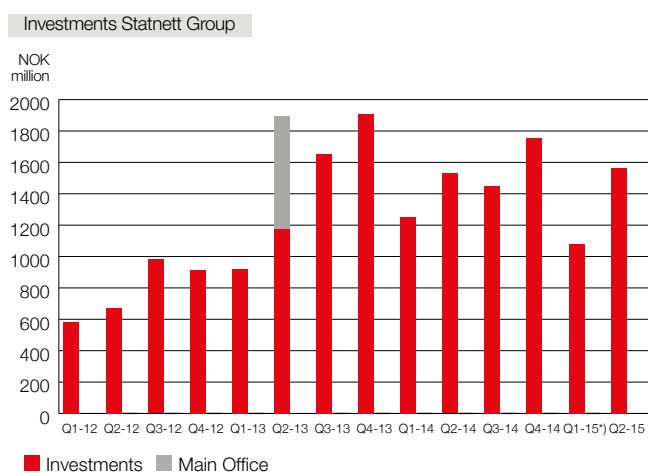
- On 29 January, storms caused a fault in one of Statnett's substations that resulted in power outages in the area north of Ofoten to Finnmark. For most consumers, the power was resumed after approximately one hour. Normal grid operations resumed after about four hours.
- The storm "Ole" hit Central and Northern Norway on 7 February, and caused several outages in the 420 kV and 132 kV grids.
- On 8 April, a fire broke out in the Hasle substation in Østfold County. No one was injured in the fire, and the power supply to consumers in the area was normal. The transmission capacity to Sweden was strongly reduced due to the risk of disconnection of the substation.
- A forest fire in Aust-Agder on 14 May resulted in a need for the disconnection of 420 kV Brokke-Kristiansand, 420 kV Arendal-Kristiansand and 132 kV Lund-Senumstad. This resulted in unilateral power supply into Arendal and Kristiansand, as well as sharply reduced transmission capacity on the Skagerrak interconnector. The lines were reconnected the next day.
- Lightning activity on 2 June led to outages of several lines in Sunnhordaland. Approximately 40,000 customers as well as industrial consumption at Håvik and Husnes lost their power. The power supply was reinstated after approximately 3 hours.



Investments

Statnett is planning and implementing major development projects. In April, Statnett's 2015 Grid Development Plan was submitted for hearing, and responses were received in June.

In the first half of 2015, Statnett invested a total of NOK 2 644 million (NOK 2 862 million), including commissioned projects, projects under construction, ICT projects and other investments. Planned investments for 2015 total approximately NOK 7 billion.



*) The investment level in the first quarter of 2015 reflects a redirection of resources towards cable projects where investments will be made later in the year.

The next page shows an overview of the largest projects:

Overview of major investment projects

See www.statnett.no for more information about the projects.

Project	Location	Expected investments NOK million
COMPLETED PROJECTS		
Station investments (spare transformers, Frogner, Mestervik and other)		
UNDER IMPLEMENTATION		
Western Corridor, voltage upgrade ¹⁾	Vest-Agder/Rogaland	MNOK 8 000 - 10 000
Ørskog - Sogndal, new 420 kV power line	Møre og Romsdal/Sogn og Fjordane	MNOK 4 600 - 5 600
Ofoten - Balsfjord, new 420 kV power line	Nordland/Troms	MNOK 3 200 - 3 700
Station investments (transformer capacity Eastern Norway, reactors for power reduction)		MNOK 1 600 - 1 800
Inner Oslofjord, reinvestments interconnectors	Akershus/Buskerud	MNOK 1 050 - 1 200
Voltage upgrade Middle Norway, subsection Nedre Røssåga - Namsos	Norland/Trøndelag	MNOK 800 - 1 000
Voltage upgrade Central Norway, subsection Klæbu - Namsos	Trøndelag	MNOK 700 - 800
INTERCONNECTORS, UNDER IMPLEMENTATION		
Cable to England (NSN Link)		MEUR 750 - 1 000 2)
Cable to Germany (NordLink)		MEUR 750 - 1 000 2)
FINAL LICENCE GRANTED		
Balsfjord-Skaidi (-Hammerfest), new 420 kV power line	Troms/Finnmark	MNOK 4 000 - 6 000
Namsos - Åfjord (Storheia), new 420 kV power line	Trøndelag	MNOK 1 800 - 2 400
Snilledal (Snillfjord) - Surna (Trollheim), new 420 kV power line	Trøndelag/Møre og Romsdal	MNOK 1 600 - 2 300
Station investments (Vemorktoppen, Mauranger, Kobbelv and other)		MNOK 1 250 - 1 750
Voltage upgrade Central Norway, subsection Aura/Viklandet - Trollheim	Trøndelag/Møre og Romsdal	MNOK 500 - 700
PLANNED INVESTMENTS, LICENCES PENDING OR APPEALED		
Lyse - Stølaheia	Rogaland	MNOK 2 500 - 3 500
Station investments (Smestad, transformers Western Norway and other)		MNOK 1 600 - 2 100
Voltage upgrade Aurland - Sogndal	Sogn og Fjordane	MNOK 500 - 900
ICT PROJECTS		
Renewal of Statnett's central operations system		MNOK 500 - 600
Elhub		MNOK 400 - 600

¹⁾ Parts of the project are under planning and going through licensing procedure

²⁾ Statnett share. Exposure mainly in Euro which corresponds to a span of 7-9 billion NOK per project. Agreements with partners in Germany and England will be in Euro.

The amounts in the table show the anticipated range including all project costs. Projects under implementation are shown in current rates, other projects in 2015 rates.

Important project events in the first half of 2015

- *Western Corridor*: A license application for Fjotland substation and for the Sauda-Lyse section was submitted to the Norwegian Water Resources and Energy Directorate (NVE) in April and May respectively. In May, the Board of Directors approved the commencement of work on a new power line Kvinesdal-Ertsmyra, new station facilities in Kvinesdal, Ertsmyra and Saudal, and expansion of the existing station facilities in Sauda. Statnett has received a final license from the Royal Norwegian Ministry of Petroleum and Energy (OED) on the routes Lyse-Duge and Ertsmyra-Solhom.
- *Ørskog-Sogndal*: The subsection from Sykkylven to Ørsta substation was commissioned in January. Approximately 85 percent of the Ørskog-Sogndal project is completed. The objective of the project is to commission in 2016, but it lacks necessary permissions to access the Sjørdalen nature reserve. The case is now in legal proceedings in the District Court.
- *Svartisen new transformation station*: The start-up decision was made in April.
- *Inner Oslofjord*: In May, Statnett received a final license from the Royal Norwegian Ministry of Petroleum and Energy (OED) for renewal of the interconnectors between Vestby and Hurum. The start-up decision was made in June.
- *UK Interconnector (NSN Link)*: On 26 March, Statnett's Board of Directors made the start-up decision and a joint operation agreement was signed the same day.
- *International interconnector Germany (NordLink)*: Statnett's Board of Directors made the start-up decision in January. A joint operation agreement was signed on 10 February.
- *Balsfjord-Hammerfest*: Statnett received a final license from the Royal Norwegian Ministry of Petroleum and Energy (OED) for Balsfjord-Skaidi. Additional applications for Skibotndalen and for a new solution in Skaidi have been submitted to the Norwegian Water Resources and Energy Directorate (NVE).
- *Vemorktoppen substation*: Statnett's Board of Directors reached an investment decision on 26 March.
- *Trollheim-Viklandet*: In April 2015, the Norwegian Water Resources and Energy Directorate (NVE) granted Statnett a construction license for upgrading the voltage on the section to 420 kV.
- *Nettplan Stor-Oslo*: A license application to renew Smestad station and the interconnectors between Smestad and Sogn was submitted the Norwegian Water Resources and Energy Directorate (NVE) in May.
- *Wind power Central Norway*: In June, Statkraft, TrønderEnergi, NTE, Agder Energi and Statnett agreed to make a new assessment of the opportunities to develop wind power projects totaling 1,000 MW in Central Norway. Statnett has applied for extended concession for the construction of the lines that will facilitate wind power on Fosen and in Snillfjord.
- *Lyse-Stølaheia*: Statnett's Board of Directors made the investment decision in June. The power line will strengthen security of supply in South Rogaland.
- *Elhub*: The start-up decision was made in March.

Financial performance

Operating revenues

The Group's operating revenues in the second quarter of 2015 totaled NOK 1 365 million (NOK 1 452 million). Operating revenues from regulated operations totaled NOK 1 340 million (NOK 1 422 million), whereas other operating revenues amounted to NOK 25 million (NOK 30 million). The reduction is mainly due to the decrease in congestion revenues in the Nordic region, which is a result of lower price differences and a decrease in tariff revenues from energy components due to lower electricity prices.

The Group's operating revenues in the first half of 2015 totaled NOK 2 874 million (NOK 2 776 million). Operating revenues from regulated operation totaled NOK 2 801 million (NOK 2 713 million), while other operating revenues amounted to NOK 73 million (NOK 63 million). The increase in operating revenues was mainly due to higher fixed tariff revenues as a result of increased tariff rates for consumption. The increase is somewhat offset by lower tariff revenues from energy components and a decrease in congestion revenues in the Nordic countries.

Statnett's operating revenues mainly derive from operations (including system operations), regulated by the NVE, which stipulates a cap (permitted revenue) for Statnett's regulated revenues. Permitted revenue was NOK 3 130 million in the first half of 2015 (NOK 2 994 million). The increase in permitted revenue is mainly due to an increase in the asset base of the company, somewhat offset by lower interest rates as a basis for return on invested grid capital. Operating revenue from regulated activities in Statnett consists primarily of fixed grid tariffs from the customers and congestion revenues (price differences between areas in the Nordic region and in relation to the Netherlands). If the total income from grid operations for one year diverges from the permitted revenue, so-called higher or lower revenue will occur. Higher/lower revenue will level out in the long run through adjustment of future grid tariffs. In the second quarter of 2015, Statnett's lower revenue amounted to NOK 196 million (NOK 20 million). In the first half of 2015, Statnett's lower revenue totaled NOK 329 million (NOK 281 million), whereas the accumulated higher revenue including interest was NOK 1 494 million.

Operating costs

The Group's operating costs totaled NOK 702 million in the second quarter of 2015 (NOK 937 million). In the first half of 2015, the operating costs totaled NOK 1 864 million (NOK 1 968 million). The decrease is mainly due to reduced pension costs included as a one-off effect related to change in pension plan. Costs related to system services have also been reduced. The effect was somewhat offset by an increase in depreciation.

System services costs amounted to NOK 84 million in the second quarter of 2015, a reduction of NOK 47 million compared with the corresponding period in 2014. System services costs totaled NOK 221 million in the first half of 2015, a reduction of NOK 63 million compared with the corresponding period in 2014. The reduction was mainly due to the termination of the agreement to purchase transmission services from the Swedish grid company Svenska Kraftnät, and due to the cold weather during the period, combined with

high supply and demand, which has led to reduced costs related to primary reserves.

Transmission loss totaled NOK 94 million in the second quarter of 2015 (NOK 99 million). In the first half of 2015 the transmission loss totaled NOK 276 million (NOK 270 million). The increase was due to higher loss volume, somewhat offset by lower prices.

In June, Statnett's Board of Directors decided to change the Group's pension scheme from a defined benefit pension plan to a defined contribution pension plan. This has led to a reduction in costs of NOK 312 million, as a one-off effect, in the second quarter of 2015. This entails that wage- and staff costs appear as revenues of NOK 107 million in the second quarter of 2015 (cost of NOK 165 million). In the first half of 2015, wage and staff costs totaled NOK 117 million (NOK 350 million). After adjusting for the effect of the change of pension scheme, there is an increase in wage and staff costs of NOK 79 million compared with the corresponding period in 2014. The increase was driven by higher activity levels and an increased workforce and increased costs due to an altered scheme for differentiated social security tax.

Depreciation and impairment amounted to NOK 399 million in the second quarter of 2015 (NOK 267 million). By the end of the first half of 2015, depreciation and impairment totaled NOK 759 million (NOK 527 million). The increase was due to an increased asset base together with increased removal obligations.

Other operating costs totaled NOK 232 million in the second quarter of 2015 (NOK 275 million). In the first half of 2015, other operating costs totaled 491 million, a reduction of NOK 46 million despite the growth in the enterprise. The reduction is partly related to foreign exchange gains resulting from currency hedging of the NordLink project, which did not qualify for hedge accounting. Further, costs related to equipment/materials and consultancy services were reduced, as a result of Statnett's efficiency improvement program. This was somewhat offset by an increase in insurance costs as well as increased property tax, mainly explained by the

amended accounting principle pursuant to IFRS (IFRIC 21).

Operating profit

The Group's operating profit in the second quarter of 2015 was NOK 663 million (NOK 515 million), and the operating profit for the first half of 2015 was NOK 1 010 million (NOK 808 million).

Financial items

Net financial items amounted to a loss of NOK 96 million in the second quarter of 2015 (NOK -73 million). Net financial items for the first half of 2015 amounted to a loss of NOK 180 million (NOK -135 million). The increase in financial costs is a result of increased long term debt related to the realization of Statnett's development projects.

Net profit

The Group's profit after tax in the second quarter of 2015 was NOK 410 million (NOK 328 million). In the first half of 2015 the profit after tax was NOK 607 million (NOK 499 million). The underlying profit after tax, corrected for changes in the higher revenue balance, amounted to NOK 823 million in the first half of 2015 (NOK 687 million).

Cash flow and balance sheet

The Group's operating activities generated a cash flow of NOK 1 122 million in the first half of 2015, compared with NOK 1 465 million in the corresponding period in 2014. Cash flow from investment activities totaled NOK -2 647 million, compared with NOK -2 837 million in the corresponding period in 2014. The total redeemed debt amounted to NOK 642 million, and it was raised new loans of NOK 500 million in the second quarter of 2015. At the end of the second quarter of 2015, the Group's liquid assets and market-based securities amounted to NOK 2 764 million (NOK 2 862 million).

At the end of the first half of 2015, the Group had total assets of NOK 41 707 million (NOK 35 166 million), and interest-bearing debt amounted to NOK 24 790 million (NOK 19 560 million). Interest-bearing debt includes security under CSA (Credit Support Annex) of NOK 1 919 million (NOK 200 million). The market

value of recognized interest swap and currency swap agreements (fair value hedges) related to interest-bearing debt was NOK 3 482 million. Interest-bearing debt, corrected for such, totaled NOK 21 308 million.

Subsidiaries and associated companies

Statnett SF wholly owns Statnett Transport AS. In the first half of 2015, operating revenues for Statnett Transport AS amounted to NOK 70 million (NOK 77 million), and the profit before tax was NOK 16 million (NOK 23 million).

Statnett SF wholly owns NordLink Norge AS. The company will be responsible for construction and operation of Statnett's share of the NordLink cable. Nordlink Norge AS did not have operating revenues in the first half of 2015. Profit before tax amounted to NOK 34 million, related to foreign exchange gains resulting from the hedging of the NordLink project. The company had no operating activity in 2014.

Statnett SF owns 50 percent of the shares in Lyse Sentralnett and holds control over the company, which has been consolidated in the Group accounts. Operating revenues for Lyse Sentralnett AS amounted to NOK 17 million in the first half of 2015 (NOK 19 million), and the profit before tax amounted to NOK 1 million (NOK 6 million).

Statnett SF has an ownership interest of 28.2 percent in Nord Pool Spot AS. Statnett's share of the result in Nord Pool Spot AS contributed NOK 7.5 million in the first half of 2015 (NOK 9.5 million).

Corporate social responsibility

Corporate social responsibility (CSR) in Statnett entails integration of social and environmental considerations in the company's social mission in a way that extends beyond the minimum requirements stipulated by laws and regulations.

The work on corporate social responsibility is naturally linked to our development of the next generation power system and the enterprise's mission. Statnett shall use the activities, expertise and resource base in the

company to perform its social mission in such a way that it has positive ripple effects for society.

Statnett reports annually on CSR in accordance with the globally recognized reporting framework, Global Reporting Initiative (GRI). Statnett's GRI reporting complies with the requirements relating to CSR reporting stipulated in the Norwegian Accounting Act. Please see Statnett's 2014 annual report for more information about CSR.

Health, Environment and safety (HSE)

In the second quarter of 2015, Statnett reported five lost-time injuries; two internal and three external (contractors/suppliers). Seven lost-time injuries were reported in the corresponding period in 2014. Two of the five incidents in the second quarter of 2015 caused serious personal injury in terms of fractures.

Over the last few years, the Group has improved its HSE performance and works systematically towards the objective of becoming the leading transmission system operator in Europe by the end of 2017. The objective has been specified to an Lost Time Injury Frequency Rate (LTIFR) of 2.0 and Total Recordable Incidents (TRI) of 3.9. As of the first half of 2015, Statnett's LTIFR was 4.8 and the TRI 9.7 (including contractors/suppliers). This is an increase from

year-end 2014 (LTIFR of 4.4 and TRI of 7.6).

The Group's overall absence due to illness was 3.0 percent in the second quarter of 2015, compared with 3.3 percent in the corresponding period in 2014. Overall absence due to illness for Statnett was 3.1 in 2014.

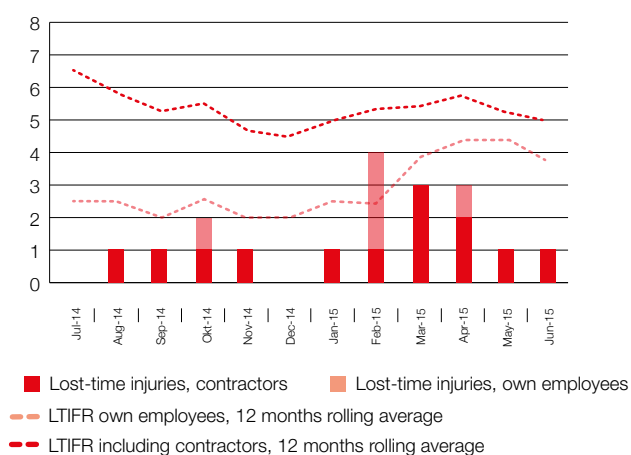
Risk

Statnett's risk management focuses on risk with potential consequences for HSE, security of supply, finance and reputation.

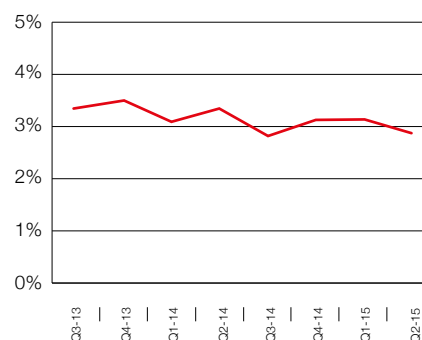
Statnett is exposed to HSE risks mainly in connection with implementation of development projects as well as operation and maintenance of existing facilities. Statnett has recently made investment decisions for interconnectors to Germany and to the UK. This entails project portfolio risk associated with HSE, finance and reputation. Statnett's HSE risk assessment forms the basis of systematic improvement work within HSE.

The energy situation is normal in all areas and there is low probability of a strained power situation nationally or regionally in the present season. Reservoir water levels in Norway are below median, at the same time the hydrological balance is above median due to large amounts of snow in the mountains, especially

Lost Time Injury Frequency Rate (LTIFR) and lost-time injuries



Absence due to illness



on Vestlandet. The risk of very strained power situations (SAKS) has been reduced in the medium run. Consequently, the use of SAKS measures will not continue after completion of the new power line between Ørskog and Sogndal.

Security of supply is below the desired level and N-0 operation is necessary in some areas (no barrier against power outages in the main grid). However, there have been no recent significant changes in the risk level.

There is currently perceived to be an increasing threat against critical ICT infrastructure. The control centers and associated communication systems are critical ICT services. Loss of such services can make it challenging to handle system operations, for instance in the event of faults in grid facilities or major changes in supply and demand. Statnett cooperates with other stakeholders in the power industry to strengthen protection against cyber-attacks through a joint company – KraftCERT.

The enterprise Group has a credit facility totaling NOK 6 500 million to be able to fund at least 12 months' revolving operation and investments without incurring any new debt. Statnett has long-term credit ratings of A+ and A2 from Standard and Poor's and Moody's Investor Service respectively.

Outlook

In October, Statnett will release the 2015 Grid Development Plan. Society's need for a stronger grid which will ensure a reliable power supply, facilitate projects in renewable energy and industrial and commercial development throughout the country, means Statnett has entered a decade with historically high investment levels. The expansion will contribute to increased capacity, but it also results in delays of reinvestments in existing plants. Statnett emphasizes to maintain an overall project and reinvestment plan that balances the efficient development of the main grid in Norway with reliable security of supply.

Together with its German and British partners, Statnett

has made a final investment decision for the interconnectors to Germany and the UK. Both projects are important for the development and integration of the Northern European power system. The projects will help ensure security of supply in Norway, Germany and the UK, and balance variations in German and British renewable power production throughout the day. Power exchange capacity enhances value creation in Norway. Moreover, the projects will support the ambitions to increase generation of renewable energy throughout the region and help meet the EU's climate and energy targets.

The highly prioritized grid development measures have significant effect on security of supply. However, the large construction activity put strain on a generally highly utilized and ageing power grid. Hence, a focus on emergency preparedness will therefore be important in the years to come.

Statnett will continue its collaboration with the wind power operators in Central Norway, and has applied for extended license to facilitate a new assessment of wind power projects at Fosen and in Snillfjord.

The Royal Norwegian Ministry of Petroleum and Energy (OED) has submitted proposed amendments to the Energy Act for consultation, as a result of EU's third electricity legislative package. The proposal entails substantial growth in the tasks assigned to Statnett if Statnett assumes ownership of the remaining 15 percent of the main grid. This will lead to an increased need for investments and staff in Statnett, but will also allow for an overall more efficient organization of main grid operations and development in the long run.

Statnett is involved in cooperation at both a European and Nordic level. This work is important, as key framework conditions stipulated by the EU are also relevant for Norway through the EEA agreement. The establishment of a common European power market makes it necessary to harmonize the framework for the electricity market, as well as for system and grid operations. As the Norwegian and Nordic power systems are different for the European system, it is important that

the framework conditions are formulated to safeguard Norwegian and Nordic security of supply and ensure value creation from Norwegian hydropower.

Major investments will be made in the main grid over an extended period, and all customers must contribute towards the financing. Statnett's work is based on a social-economic model, and must ensure transparent and grid-based tariffs for all customer groups.

Statnett is focusing on maintaining its position as one of the most efficient TSOs in Europe. The Group established an objective to increase efficiency by 15 percent by the end of 2018, relative to the 2013 budget. Statnett's objectives for 2014 were achieved, and the progress has been good in the first half of 2015. An important objective is to realize the potential for economies of scale inherent in the combination of existing facilities, new commissioned facilities as well as the acquisition of the remaining part of the grid as a consequence of EUs third electricity legislative package.

Oslo, 20 August 2015

The Board of Directors, Statnett SF

Statement of comprehensive income

Statnett Group

Amounts in NOK million	Note	Second quarter		Year to date		Year
		2015	2014	2014	2015	2014
OPERATING REVENUE						
Operating revenue regulated operations	2	1 340	1 422	2 801	2 713	5 389
Other operating revenue		25	30	73	63	174
Total operating revenue		1 365	1 452	2 874	2 776	5 563
OPERATING COSTS						
System services		84	131	221	284	609
Transmission losses		94	99	276	270	586
Salaries and personnel costs	5	-107	165	117	350	715
Depreciation, amortisation and impairment		399	267	759	527	1 150
Other operating costs		232	275	491	537	1 125
Total operating costs		702	937	1 864	1 968	4 185
Operating profit		663	515	1 010	808	1 378
Income from associate		2	7	5	9	11
Financial income		131	36	295	56	202
Financial costs		227	109	475	191	471
Profit before tax		569	449	835	682	1 120
Tax		159	121	228	183	291
Profit for the period		410	328	607	499	829
OTHER COMPREHENSIVE INCOME						
Changes in fair value, held-for-sale investments		-	-	-	-	2
Changes in fair value for cash flow hedges		54	-37	66	-58	-158
Tax effect		-15	10	-18	16	43
<i>Other comprehensive income to be reclassified to profit or loss in subsequent periods</i>		39	-27	48	-42	-113
Changes in estimate deviations of pension liabilities		-	-	-	-	-407
Tax effect		-	-	-	-	110
<i>Other comprehensive income not to be reclassified to profit or loss in subsequent periods</i>		-	-	-	-	-297
Total other comprehensive income		39	-27	48	-42	-410
Total comprehensive income		449	301	655	457	419

Balance sheet

Balance sheet

(Amounts in NOK million)

	Note	30.06.15	30.06.14	31.12.14
ASSETS				
FIXED ASSETS				
Goodwill		53	53	53
Other intangible fixed assets		199	184	227
Tangible fixed assets		27 195	21 963	27 515
Plant under construction	4	7 479	8 071	5 047
Investment in associates		87	86	89
Other financial fixed assets	3	3 617	1 373	3 340
Total fixed assets		38 630	31 730	36 271
CURRENT ASSETS				
Trade accounts receivable and other short-term receivables	3	313	574	472
Market-based securities	3	688	682	1 345
Liquid assets	3	2 076	2 180	3 019
Total current assets		3 077	3 436	4 836
Total assets		41 707	35 166	41 107
EQUITY AND LIABILITIES				
EQUITY				
Contributed capital		5 950	5 950	5 950
Other equity accrued		6 935	6 641	6 601
Non-controlling interest		78	76	78
Total equity		12 963	12 667	12 629
LONG-TERM LIABILITIES				
Deferred tax		857	743	682
Pension liabilities	5	423	378	869
Other liabilities		656	377	485
Long-term interest-bearing debt	3	22 272	18 410	22 138
Total long-term liabilities		24 208	19 908	24 174
CURRENT LIABILITIES				
Short-term interest-bearing debt	3	2 518	1 150	2 505
Trade account payable and other short-term debt	3	1 947	1 436	1 763
Tax payable		71	5	36
Total current liabilities		4 536	2 591	4 304
Total equity and liabilities		41 707	35 166	41 107

Statement of changes in equity

Statnett Group

<i>(Amounts in NOK million)</i>	Total equity	Non-controlling interest	Total equity allocated to owner of Statnett SF	Other equity accrued	Other items	Decided, non-registered contributed capital	Contributed capital
Equity as at 1.1.2014	12 135	-	12 135	6 198	-13	3 250	2 700
Profit/loss for the year	829	3	826	826	-	-	-
Other comprehensive income	-410	-	-410	-	-410	-	-
Paid contributed capital	-	-	-	-	-	-3 250	3 250
Acquisition subsidiary	75	75	-	-	-	-	-
Equity as at 31.12.2013	12 629	78	12 551	7 024	-423	-	5 950
Equity as at 1.1.2014	12 135	-	12 135	6 198	-13	3 250	2 700
Profit/loss for the year	499	1	498	498	-	-	-
Other comprehensive income	-42	-	-42	-	-42	-	-
Paid contributed capital	-	-	-	-	-	-3 250	3 250
Acquisition subsidiary	75	75	-	-	-	-	-
Equity as at 31.3.2014	12 667	76	12 591	6 696	-55	-	5 950
Equity as at 1.1.2015	12 629	78	12 551	7 024	-423	-	5 950
Profit/loss for the year	607	-	607	607	-	-	-
Other comprehensive income	48	-	48	-	48	-	-
Equity as at 31.3.2015	13 284	78	13 206	7 631	-375	-	5 950

Cash flow statement

Statnett Group

CASH FLOW FROM OPERATING ACTIVITIES <i>(Amounts in NOK million)</i>	Year to date		Year
	2015	2014	2014
Profit before tax	835	682	1 120
Loss/gain(-) on sale of fixed assets	1	-3	-59
Depreciation and write-downs	759	527	1 150
Taxes paid	-37	-	-
Interest recognised in the income statement	169	145	270
Interest received	29	33	55
Interest paid, excl. construction interest	-180	-145	-301
Changes in trade accounts receivable/payable	-77	-57	273
Changes in other accruals	-372	292	531
Result from companies using equity method	-5	-9	-11
Net cash flow from operating activities	1 122	1 465	3 028
CASH FLOW FROM INVESTING ACTIVITIES			
Proceeds from sale of tangible fixed assets	6	3	58
Purchase of tangible fixed assets, other intangible fixed assets and plants under construction	-2 596	-2 719	-5 809
Construction interest paid	-64	-85	-196
Purchase of subsidiary, net of cash acquired	-	-40	-40
Change in long term loan receivables	-	-	-14
Dividend received	7	4	4
Net cash flow from investing activities	-2 647	-2 837	-5 997
CASH FLOW FROM FINANCING ACTIVITIES			
Proceeds from new interest-bearing borrowings	500	1 329	3 048
Repayment of interest-bearing debt	-642	-1 992	-2 287
Changes in collateral under CSA (Credit Support Annex) agreements	59	27	1 687
Proceeds from sale of market-based securities	973	323	476
Purchase of market-based securities	-308	-355	-1 156
Proceeds from new equity	-	3 250	3 250
Net cash-flow from financing activities	582	2 582	5 018
Net cash flow for the period	-943	1 210	2 049
Cash and cash equivalents at the start of the period	3 019	970	970
Cash and cash equivalents at the close of the period	2 076	2 180	3 019

Restricted bank deposit amounting to NOK 64 million is included in cash and cash equivalents as at 30 June, 2015. Unused credit facilities of NOK 6 500 million are not included in cash and cash equivalents.

Notes

Note 1 - Accounting policies

The interim report has been submitted in accordance with International Standards for Financial Reporting (IFRS) and interpretations stipulated by the International Accounting Standards Board (IASB) including IAS 34. The interim accounts do not contain all the additional information required in the annual accounts, and should therefore be read in the context of the 2014 annual accounts.

The accounting principles applied for the interim accounts are consistent with the accounting principles that were applied for the 2014 annual accounts with the following exceptions:

As of 1 January, 2015 the Group implemented IFRIC 21 which is an interpretation of IAS 37 Provisions, Contingent Liabilities and Contingent Assets. IAS 37 sets out criteria for the recognition of a liability. The Interpretation clarifies that the obligating event that gives rise to a liability to pay a levy is the event that triggers the payment of the levy. The obligating event will occur when the municipality issues the property tax to the Group entity. This implies that the Group recognizes the property tax when the invoice for the next term is received from the municipalities.

Note 2 – Operating revenues regulated operations

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, so-called higher or lower revenue will occur. Higher/lower revenue will level out over time through adjustment of future grid tariffs.

Tariff revenues increased from NOK 2 363 million in the first half of 2014 to NOK 2 480 million in the same period in 2015. Congestion revenues decreased from NOK 453 million in the first half of 2014 to NOK 417 million in the same period in 2015.

Lower revenue in the first half year of 2015 amounted to NOK 329 million compared with NOK 281 million in the corresponding period in 2014. Accumulated higher revenue including interest and changes in previous year amounted to NOK 1 494 million at the end of the first half of 2015.

STATNETT GROUP <i>(Amounts in NOK million)</i>	Year to date		Year
	2015	2014	2014
Tariff revenues	2 480	2 363	4 741
Congestion revenues	417	453	807
Income from other owners in shared grids	-96	-103	-160
Total operating revenues regulated activities	2 801	2 713	5 389
Total permitted revenue	3 130	2 994	6 054
This year's higher/lower (-/+) revenue, excl. interest	329	281	665
This year's provision for interest higher/lower (-/+) revenue	-13	-23	-42
Higher/lower (-/+) revenue, change previous year	-20	-	-
Changed balance for higher/lower (-/+) revenue	296	258	623
Balance higher/lower (-/+) revenue, incl. interest as at 1 Jan.	-1 790	-2 413	-2 413
Changed balance for higher/lower (-/+) revenue, incl. interest	296	258	623
Balance higher/lower (-/+) revenue, incl. interest year to date	-1 494	-2 155	-1 790

Impact of grid outages on profit

As the transmission system operator, Statnett is in dialogue with the NVE regarding how outages in Nyhamna in the event of system protection activation in the period leading up to 2012 should be handled with respect to the KILE scheme and system operation costs. The financial consequences for Statnett of such grid interruptions/ outages have therefore not been clarified. For outages on the Viklandet–Fræna power line after 2012, a provision has been made in the accounts following the same principle as for previous incidents.

Note 3 - Overview of financial instruments

This note gives an overview of book value and fair value of financial instruments, including accounting treatment. The table also shows at which level in the valuation hierarchy the different measurement methods for the Groups financial instruments measured at fair value is classified, compared to how objective the measurement method is.

As at 30 June 2015

Group (Amounts in NOK million)	Category	Measurement level	Book value	Fair value
Assets				
Fixed assets				
Long-term receivables	Loans and receivables		46	46
Subord. capital in Statnett SF's pension fund	Fair value through profit/loss	3	75	75
Financial assets available for sale	Available for sale	3	12	12
Derivatives	Fair value through profit/loss	2	3 484	3 484
Total financial fixed assets			3 617	3 617
Current assets				
Trade accounts receivable	Loans and receivables		71	71
Derivatives	Fair value through profit/loss	2	17	17
Other short-term receivables	Loans and receivables		225	225
Total trade accounts and other short-term receivables			313	313
Investment in market-based securities	Fair value through profit/loss	1	688	688
Liquid assets	Fair value through profit/loss		2 076	2 076
Liabilities				
Long-term interest-bearing debt	Other liabilities	1	22 102	22 329
Derivatives	Fair value through profit/loss	2	170	170
Total long-term interest-bearing debt			22 272	22 499
Short-term interest-bearing debt	Other liabilities	1	2 510	2 510
Derivatives	Fair value through profit/loss	2	8	8
Total short-term interest-bearing debt			2 518	2 518
Trade accounts payable and other short-term debt	Other liabilities		1 947	1 947
Total Level 1*			-23 924	-24 151
Total Level 2**			3 323	3 323
Total Level 3**			87	87

* Quoted prices for active markets for identical financial instruments. No adjustments are made regarding these prices.

** Measured using other observable input compared to level 1, either directly (prices) or indirectly (derived from prices)

*** Measured using input not based on observable market data.

During the period there has not been any transactions between the measurement levels.

During the period there has been no changes in fair value for financial instruments measured in level 3.

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 swap is calculated as the present value of future cash flows.

Fair value is mainly confirmed by the financial institution Statnett has contracts with.

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 sale, 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 the best estimate for fair value, due to the short-term nature of the items.

CSA agreements

Statnett has entered into CSA (Credit Support Annex) agreements with major counterparts. This entails that the market value of derivatives entered into between Statnett and a counterparty is settled on a weekly basis, and that monetary security is received or given for any outstanding amounts.

Note 4 - Plants under construction

Group (Amounts in NOK million)	2015	2014
Acquisition cost at 1 January	5 166	6 083
Additions during the year	2 644	2 842
Transferred to tangible fixed assets	-257	-811
Acquisition cost at 30 June	7 553	8 114
Effect hedge accounting	-74	-43
Book value 30 June	7 479	8 071

Contractual obligations as at 30 June 2015

Contractual obligations as at 30 June 2015 total NOK 8 943 million. The amount concerns development projects where contractual obligations exceed NOK 50 million.

Note 5 - Pensions

In June 2015 Statnett made a decision to change the Group's pension plan from a defined benefit plan to a defined contribution plan. The transitioning to the defined contribution plan will take place from January 1, 2016. The defined contribution plan will have a contribution level based on the maximum level of contribution in accordance with the "Defined pension contribution Act (Lov om innskuddspensjon)". The payments to the defined contribution plan will be charged as accrued as an operating expense and included in the line "Salaries and personnel costs".

Employees that are 52 years or older when the transitioning takes place, will remain in the defined benefit plan. For employees between 37 and 51 years of age a compensation plan will be established in addition to the defined contribution plan. This arrangement is an unfunded defined benefit plan with yearly increase in compensation until 67 years of age. Payment under the compensation plan will take place at 67 years of age or earlier if the employee resigns.

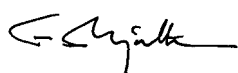
The plan amendment resulted in a cost reduction of NOK 312 million included in the line "Salaries and personnel costs" in the second quarter. The cost reduction is net after past services cost from earlier periods related to the compensation plan.

Declaration from the board of directors and CEO

We confirm that the financial statements for the period 1 January to 30 June 2015, to the best of our knowledge, have been prepared in compliance with IFRS. The disclosures in the financial statements give a true and fair view of the assets, liabilities, financial position and results as a whole, and that the disclosures in the half-year report give a true and fair overview of the development, performance and position of the Group, together with a description of the principal risks and uncertainties facing the Group.

Oslo, 20 August 2015

The Board of Directors, Statnett SF



Per Hjorth
Chairman of the Board



Synne Larsen Homble
Deputy Chairman



Maria Sandsmark
Board member



Egil Gjesteland
Board member



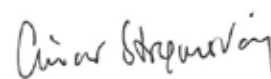
Kirsten Indgjerd Værdal
Board member



Pål Erland Opgård
Board member



Steinar Jøråndstad
Board member



Einar Strømsvåg
Board member



Trine Pande-Rolfen
Board member



Auke Lont
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