Statnett

Half year report 2018

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In short

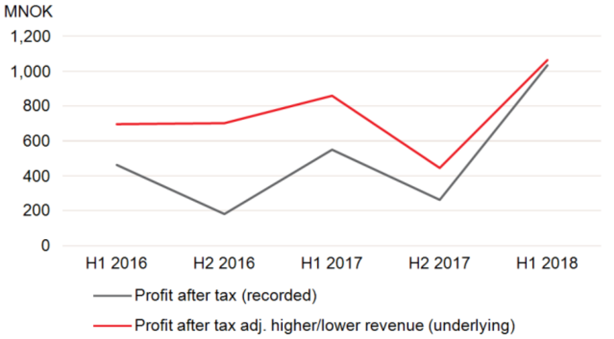
Statnett is the transmission system operator (TSO) in the Norwegian power system and is responsible for developing, operating and maintaining the transmission grid in the best interests of society. Statnett's social mandate is to ensure a secure electricity supply, contribute to value creation for society and facilitate the use of electricity as a means for Norway to realise its climate targets.

The first six months of 2018 were characterised by heavy snow in the winter and a dry and warm spring. Security of supply and availability of flexible consumption were reduced in some parts of Norway during particularly cold periods. The heavy snow also resulted in a high number of interruptions for local system operators. Nonetheless, the operating situation was deemed satisfactory during the period thanks to stable system and infrastructure operation. The reporting period featured many planned interruptions and disconnections, including in connection with the Western Corridor and in Eastern Norway.

Statnett deemed the power situation to be normal throughout the entire first six months of the year. Very dry weather gave a considerable weakening of the hydrological balance. Meanwhile less export and more precipitation than normal improved the balance the last two months and the situation is deemed normal.

While high levels of snow in the winter delayed the start of the construction season, the Group still made good progress on its construction and maintenance projects. Activity levels were high in the Western Corridor, and the company has started to commission new infrastructure and power lines. Several substations for the power line between Ofoten and Balsfjord have been completed and are on schedule for commissioning. Cable-laying between Filtvedt and Brenntangen in the Inner Oslo Fjord has been completed, and tunnel works between Smestad and Sogn have started.

Profit after tax



Jon Fredrik Baksaas was elected the new Chairman of Statnett in June. He succeeded Per Hjorth, who led the board since 2015. At the same time, Tove Elisabeth Pettersen was elected to the board, while Kirsten Indgjerd Værdal stepped down.

The Statnett Group had an underlying profit after tax of NOK 1,063 million for the first half of 2018 (NOK 859 million in the corresponding period in 2017). The consolidated reported profit after tax for the period came in at NOK 1,033 million (NOK 550 million). Including interest, Statnett's income shortfall increased by NOK 39 million during the first half-year (see Note 2).

The increase in the underlying profit is primarily attributable to higher permitted revenue in 2018, mainly as a result of a higher asset base and lower depreciation and amortisation than in the previous year, which featured an extraordinary charge. The increase in the reported profit is attributable to higher tariff revenue, and lower depreciation and amortisation charges. This increase was partly offset by higher system operation costs and an increase in salary and personnel costs due to higher activity levels throughout the Group.

Other highlights

- Installation of Nord Link is ongoing in all sectors (Norway, Germany and Denmark). The cable is due to be commissioned in the fourth quarter of 2020
- The first section of the North Sea Link was laid in Blyth in northern England in May. The cable is due to enter commercial operation in 2021
- Statnett sold the Hjortland transformer substation to Suldal Elverk in April and purchased the Honna substation from Agder Energi in June
- In February, Svenska Kraftnät and Statnett established the jointly owned company Fifty AS, to develop digital solutions to support balancing of the Nordic power system
- In June Statnett and Svenska Kraftnätt also entered a letter of intent covering possible increases in capacity between Norway and Sweden
- In March, the five Nordic TSOs signed a collaboration agreement to develop a new Nordic balancing concept (MACE). In April the report "The way forward – solutions for a changing Nordic power system" was published
- Statnett and Lyse has since 1st May been running a pre-project to map the need for better digital communication between Norwegian grid companies. The project will last until 1st October
- In March, Statnett placed a new bond loan in the Euro market in the amount of EUR 500 million (NOK 4.8 billion)

Key figures and Alternative Performance Measures*

	First half		Year
Highlights profit & loss (amounts in NOK million)	**2018**	**2017**	**2017**
Reported figures			
Operating revenues	4,472	3,682	7,401
Depreciation and amortisation [1)]	-928	-1,064	-2,273
Operating profit (EBIT)	1,559	941	1,312
Profit befor the period	1,033	550	813
Underlying result (adjustet for changes in higher/lower revenue)[2)]			
Underlying operating profit (EBIT)	1,598	1,347	1,958
Underlying profit for the year	1,063	859	1,304
Highlights balance sheet			
Accumulated higher/lower (+/-) revenue	-342	-63	-303
Investments	4,593	4,074	9,139
Equity adjusted for higher/lower revenue after tax	15,078	14,143	14,241
Total assets	63,477	54,473	58,721
Capital employed [3)]	51,448	43,895	49,299
Equity share, adjusted for higher/lower revenue [4)]	23.8 %	26.0 %	24.3 %
Operational key figures			
Employees, total	1,436	1,380	1,404
Absence due to illness %	3.4 %	3.1 %	3.4 %
Lost-time injuries, own employees	4	2	4
Lost-time injuries, including contractors	17	9	20

[1)] Depreciation, amortization and impairment reported in the financial statements excluding impairments (See note 4 Plants under construction)

[2)] 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, referred to as higher or lower revenue (see note 2).

[3)] Capital employed = Tangible fixed assets + Plants under construction + Trade accounts and other short-term receivables - Trade accounts payable and other short-term debt

[4)] Return on equity after tax, adjusted for income surplus/shortfall = Equity adjusted for income surplus/shortfall / Total assets

* To provide a better understanding of Statnett's underlying result we also present a number of alternative performance measures. Alternative performance measures are defined in ESMA's guidelines as a financial measure of historical or future financial performance, financial position, or cash flows, other than a financial measure defined or specified in the applicable financial reporting framework. Statnett's alternative performance measures are adjusted for higher/lower revenue and supplement the figures in the IFRS financial statements. In addition to annual higher/lower revenue, reported accumulated rhigher/lower revenue also include applied interest and any prior-year adjustments.
Changes in selected key financial and operational ratios used by management to monitor alternative performance measures over time are also shown.

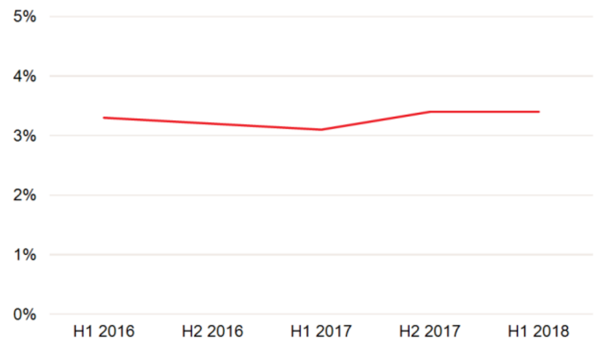
Health, Safety and Environment (HSE)

The Group has a zero vision for accidents and has set itself the ambitious target of becoming a leading transmission system operator (TSO) within HSE in Europe.

Statnett has the last two years done two strategic initiatives to prevent serious HSE incidents. The "SAFE Project" have involved all employees with the purpose of establishing a common safety culture in the company. A plan of action for HSE (K4) was also started in 2016, to prevent serious HSE incidents in investments projects. K4 was started after two fatal accidents in 2016 with construction firms hired by the company.

K4 was concluded in the first half of 2018 and has achieved the targets that were adopted when the action plan was established. A number of processes and work procedures have been established or improved. The company has improved structures for managing HSE risk in early-phase projects and planning for residual risk at subcontractors in construction projects.

Sickness absence rolling 12-month Group



The company has also clarified and simplified its HSE requirements for contracts. K4 has thus resulted in sustainable changes that will greatly improve personal safety. The company has also drawn up nine Life-saving rules based on the result of the K4 project and implemented these across the entire organisation.

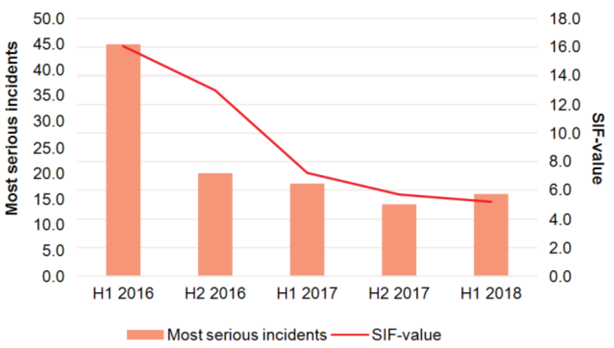
Assemblies have been held to support the change recommendations from K4 and sustainable culture-building in the company. The roll-out of the “SAFE Project” as a tool for securing continuation of the culture programme and a uniform roll-out in the projects have started. In addition, Statnett have introduced "Virtual Reality" as an innovative tool for efficient learning in the HSE work.

In 2017, Statnett introduced a new indicator, "Serious Incident Frequency" (SIF[1)]), in order to measure HSE conditions more proactively.

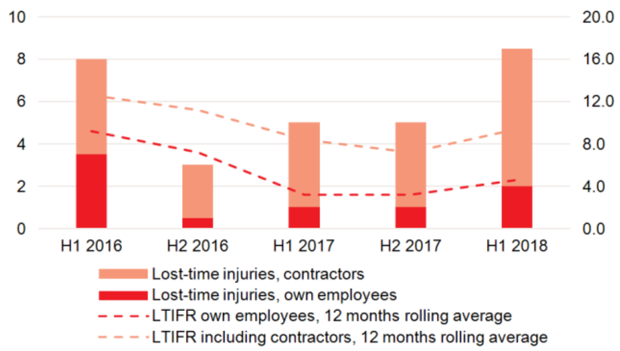
A percentage reduction in the LTIF[2)] and TRIF[3)] indicator measures the improvement potential of HSE work. Statnett set a goal to achieve a 15 per cent long-term reduction in incident frequency. This target was achieved for LTIF and SIF in 2017, but show a small increase so far in 2018.

The Group’s overall sickness absence for first half of 2018 closed on 3.4 per cent (3.2 per cent). While Statnett’s sickness absence rate is low in relation to comparable enterprises and the power industry as a whole, the company is systematically striving to maintain sickness absence at a low level. The company is reviewing and closely monitoring sickness absence trends in 2018.

SIF-value 12 months rolling average Group



LTIF-value 12 months and lost-time injuries Group



1) Frequency of number of actual and potential unintentional serious incidents per million hours worked
2) Frequency of the total number of work-related injuries with or without absence per million hours worked
3) Frequency of the number of actual and potential unintentional serious incidents per million hours worked

Operating and market information

Statnett deemed the power situation to be normal throughout the first six months of 2018. At the beginning of the reporting period, the hydrological balance in Norway was in surplus. There was more snow in the mountains than normal and reservoir levels were slightly above the median. A total precipitation shortfall of around 24 TWh was recorded during the first half of the year. A period of warm weather towards the end of the reporting period caused some of the snow on the mountains to evaporate. In May, the average temperature for Norway as a whole was 4.4 degrees above the normal. The dry and warm first six months of the year resulted in a significant weakening of the hydrological balance.

At the start of the reporting period, reservoir levels were at 72.3 per cent, 1.9 percentage points above the median (from recorded data for 1990–2016). At the end of the period, reservoir levels were at 61.7 per cent, 6.4 percentage points below the median. While the hydrological balance showed a surplus of around 8 TWh compared to the normal at the start of 2018, it showed a deficit of around 12 TWh at the end of June.

Norwegian power production and consumption for the first six months of the year totalled respectively 74 TWh and 71 TWh. This resulted in a net export of around 3 TWh, which was down around 3 TWh compared to the corresponding period in 2017.

Trading capacity from NO2/NO5–NO1 and NO1–SE3 was reduced in the winter due to high consumption in NO1 and reduced capacity from the 300-kV power line between Flesaker and Tegneby. In particularly cold periods (weeks 6 and 9), flexible consumption was also disconnected in NO1, and the grid in the Oslo area operated with reduced security of supply. Other areas also experienced periods of reduced security of supply due to limited grid capacity in periods with cold weather and high consumption, in areas such as Stavanger, Bergen and Vesterålen/Lofoten.

Spells of warm weather in May and June presented a number of challenges. Some power lines and components have extremely low capacity in high temperatures. This resulted in the postponement of planned outages, changes to connection scenarios and reduced trading capacities.

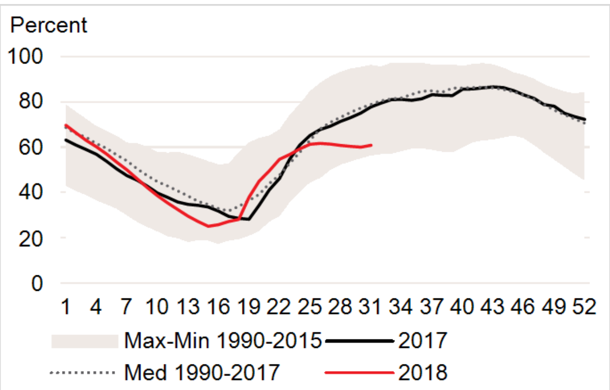
There were many planned outages, in particular towards the end of the period, including several disconnections relating to the Western Corridor in southwestern Norway. In Eastern Norway, work to replace a 300-kV power line between Flesaker and Tegneby has started and is expected to be completed by the end of August.

Operations in East-Finnmark were characterised by major power surpluses and low grid capacity, in part due to a high percentage of installed wind power. The Transmission System Operator had to issue system-critical decision to actors in the area, requesting notification of available down-regulation resources.

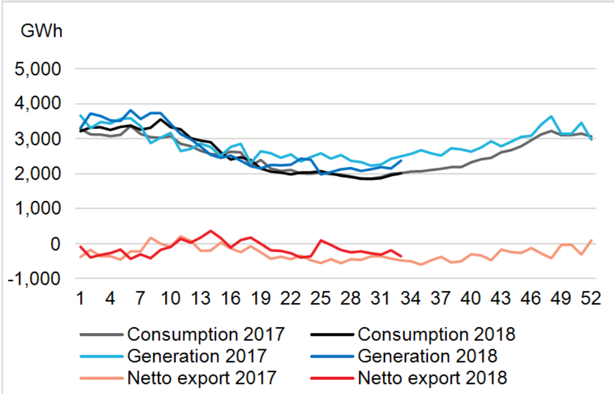
The new market for intraday trading, XBID, started on 12 June. XBID facilitates cross-boundary trading on the intraday market in large parts of Europe.

Heavy snowfall in the winter resulted in many interruptions and outages for local distributional system operators. Agder Energi and Skagerak Energi were particularly hit hard. Two outages had long-term consequences for trading capacities: NorNed was unavailable from 20 March to 26 April due to cable faults, and Skagerak 2 was unavailable from 6 April to 9 May as a result of faults with a transformer in Kristiansand.

Reservoir levels Norway



Production and consumption Norway



	Unit	2018 Target	H1 2018	H1 2017	2017
Non-Delivered Energy (NDE)	MWh	1,250	43	43	772
Frequency variances	Minutes	10,000	5,178	5,954	12,018

Corporate social responsibility

In June 2017, Statnett adopted an updated Group strategy for the period 2017–2021. A essentialness analysis was carried out as part of the strategy process. The analysis was intended to define the factors that Statnett considers to be the most important and the key focus areas for Statnett in the eyes of society. The result of the analysis is presented in the essentiality matrix in the diagram below.

Statnett have implemented a extensive efficiency-improvement programme and has set a target of increasing efficiency by 15 per cent between 2013 and 2018. In the first half of the year, the company performed further work on the implementation and ripening of new measures. Results are being realised on an ongoing basis, and cost forecasts have been adjusted downwards in several construction projects thanks to efficiency improvements. The company is also working to establish new efficiency-improvement targets and measures to take effect after 2018. New efficiency indicators that will include more comparisons with other companies are under development.

Statnett has reported cost and grid infrastructure data from 2017 in accordance with an international TSO benchmark, the results of which will provide important input for the regulator in assessing Statnett's efficiency. The results are expected to be available by the end of the first half of 2019.

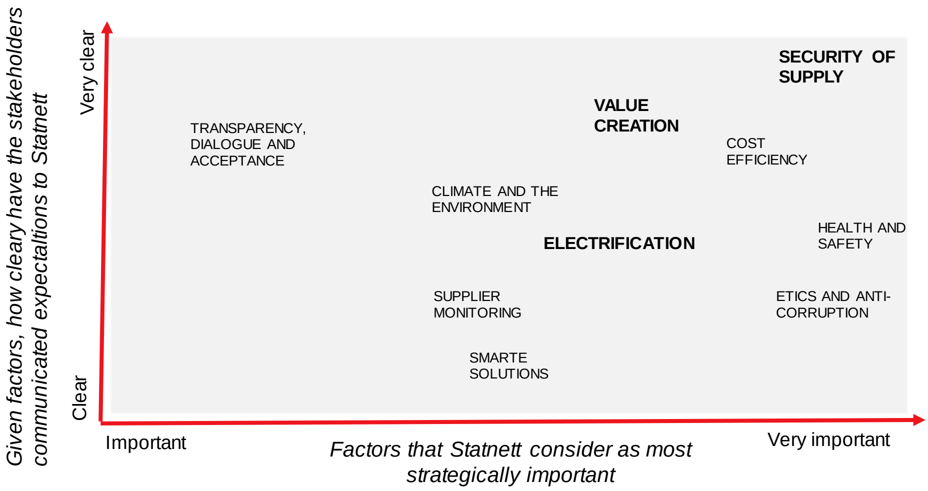
Statnett wishes to develop and commission smart solutions for both new technology and new forms of collaboration, in Norway and the Nordic region. Statnett has an extensive research and development program to accommodate the strategy of the company. The company has also initiated a move to boost digitalisation across the entire power industry. 1st May Statnett and Lyse started a pre-project together with Digital Norway. The pre-project is led by Statnett and will last to 1st October 2018. The pre-project is mapping the digitalisation initiatives with the Norwegian grid companies and is investigating what social economic gains increased cooperation can give. An essential part of the pre-project consist of dialog with actors in the sector and other central interested parties.

In order to leverage gains from further digitalisation, Statnett has decided to prioritise future development of the digital platform, including data and digital security in the coming years. A clear prioritisation over the last year also helped to raise the quality of collection and sharing of information, while data management has been strengthened throughout the company.

The collaboration agreement to develop a new Nordic balancing concept (MACE) will necessitate the development of complex IT services across system boundaries. To this end, Statnett has reinforced its expertise and thus ability to further develop complex operational and market systems.

In the first half of the year, Statnett improved its structures for environmental work and was re-certified to ISO14001:2015. Based on analyses of the environmental impact and recorded environmental and climate risks, the company has drawn up an action plan to realise its ambition of being a leader in environmental and climate work as established in the Group strategy. The action plan primarily involves measures to reduce own greenhouse gas emissions and to develop best practices for taking account of natural diversity and the landscape in construction projects. Statnett's first fossil-free construction project has started between Smestad and Sogn, and have planned several similar projects. No major environmental damage was reported either from the project or from operations during the first half of the year.

Statnett reports annually on corporate social responsibility in accordance with the international Global Reporting Initiative (GRI). GRI reporting satisfies the requirements of the Norwegian Accounting Act as regards reporting on corporate social responsibility. For a more detailed report on corporate social responsibility, please refer to the separate report in Statnett's 2017 Annual Report.



Investments and projects

Investments

In the first half of 2018, Statnett made total investments of NOK 6,259 million, compared to NOK 4,074 million the same period in 2017. These investments include commissioned grid projects, projects under construction, ICT and other investments, and acquisitions and sales of grid infrastructure from other grid owners. Total investments for 2018 are expected to come in at NOK 12.5 billion. The largest projects are shown in the table on next page.

Important events in projects

Major commissioned grid projects

- *Ofoten – Balsfjord: Substations in Balsfjord, Bardufoss and Kvandal were completed in February*
- *Inner Oslo Fjord:* Cable-laying between Solberg (Hurum) and Brenntangen (Vestby) has been completed.

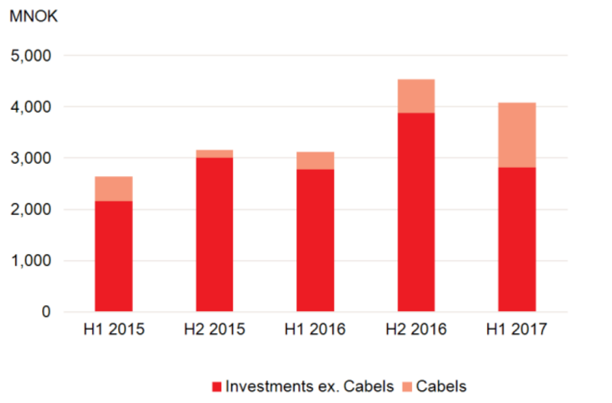
Grid projects under construction

- *Western Corridor:* To facilitate completion of NordLink, commissioning of the 420-kV facility in Ertsmyra is planned for autumn 2018. Several important power lines have been installed and commissioned for the new Kvinesdal substation. The new 420kV facility in Saurdal has entered operation and the 420-kV power line between Kvinesdal and Kristiansand has been commissioned. Work has started on the Sauda and Tjørholm substations, as well as the new power line between Sauda and Lyse.
- *Balsfjord – Skaidi:* A decision has been taken to commence implementation of the power line between Skillemoen and Skaidi
- *Namsos – Åfjord and Snilldal – Surna:* The project is more than 60 per cent complete.
- *NSL (cable to the UK):* Ground works in Blyth and Kvilldal have been completed, and construction works at converter substations started at both locations in the second quarter. Installation of pull-in cable at Blyth and laying of the first sections of cable were completed in May. A seabed survey was completed in the Norwegian sector in May.
- *NordLink (cable to Germany):* The installation of the sea cable was completed on Norwegian side in May. At the converter station on Norwegian side the buildings have been completed and good progress is being made on the German side.
- *Lyse – Fagrafjell new power line and substation:* Investment decision has been made, and a site inspection has been carried out with the Ministry of Petroleum and Energy with a view to granting a licence in 2018.
- *The Greater Oslo Grid Plan:*
  - Smestad – Sogn cable installation: Tunnel works between Smestad and Sogn started in January.
  - Sogn, upgrading of transformer: Final licence is received and decision on start-up is taken.
  - Ulven, new transformer: Decision on start-up taken in January.
- *Substation investments under implementation:* An investment decision has been taken to increase transformer capacity at Ålfoten and increase transformation at Mauranger. There has also been taken decisions to start up temporary compensation at Håvik, construct a new transformer substation at Kobbvatnet and to reinvest in a 300-kV facility at Nedre Vinstra.

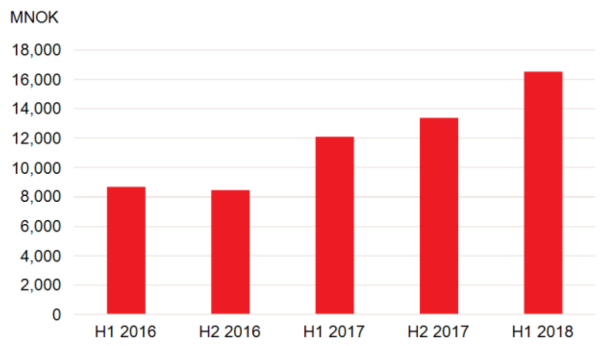
Projects under development

- Solutions have been decided for the Haugalandet grid reinforcement project and Karmøy substation, as well as substation refurbishment/increased transformation at Leirdøla and a new transformer at Røykås. A revised solution has been adopted for a new transformer substation at Hamang.
- A licence application has been submitted for refurbishment of the power line between Kvandal and Kanstadbotn.

Development investements



Development plants and construction



	Unit	2018 Target	H1 2018	H1 2017	2017
Power Line Completed	Km	230	94	79	157
Commissioned Switchgears	Number	51	22	19	61

List of major investement projects

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

Project	Location	Expected investment NOK
Commmissioned projects		
Ofoten - Balsfjord, new 420 kV power line	North	MNOK 2,980 - 3,020
Inner Oslofjord, reinvestments interconnectors	East	MNOK 1,050 - 1,110
Klæbu - Namsos, subsection voltage upgrade	Mid	MNOK 700 - 800
Under construction		
Western Corridor, voltage upgrade	Soth	MNOK 6,600 - 6,800
Balsfjord - Skaidi (-Hammerfest), 420 kV power line	North	MNOK 4,260 - 4,440
Namsos - Åfjord and Snilldal - Surna, 420 kV power line [1)]	Mid	MNOK 2,950 - 3,090
Smestad - Sogn, cabel connection and Smestad substation	East	MNOK 1,250 - 1,390
Nedre Røssåga - Namsos, subsection voltage upgrade	North	MNOK 900 - 1,000
Bjekreim, substation [2)]	Soth	MNOK 500 - 540
Sogn, substation reinvestment	East	MNOK 545 - 583
Sylling, reinvestment	East	MNOK 450 - 490
Interconnectors, under construction		
Cable to England (NSL) [3)]		MEUR 750 - 1,000
Cable to Germany (NordLink) [3)]		MEUR 750 - 1,000
Final licence granted		
Åfjord - Snilldal, ny 420 kV power line and interconnector	Mid	MNOK 1,900 - 2,700
Aura/Viklandet - Surna, voltage upgrade	Mid	MNOK 500 - 700
Hamang, substation	East	MNOK 480 - 700
Planned investments, licences pending or appealed		
Lyse - Fagrafjell, power line and station	Soth	MNOK 1,800 - 2,100
Sogn - Ulven, interconnector	East	MNOK 1,050 - 1,250
Aurland - Sogndal, voltage upgrade	West	MNOK 500 - 900
Mauranger - Samnanger, upgrade	West	MNOK 600- 950
ICT projects		
Renewal of Statnett's central operations system		MNOK 600 - 800
Elhub		MNOK 600 - 700

[1)] The sub-section Åfjord - Snilldal is not included in the estimate, but final licence is granted.

[2)] The estimat is shown as a total estimate for the entire project, both Statnett and Lyse Elnett share.

[3)] 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.

Cost of Projects under construction are shown in current rates, other projects are shown in 2016 currency, excl. Construction loan interest an exchange rate uncertainty.

Financial performance

Operating revenues

In the first half of 2018, Statnett had a total consolidated operating revenue of NOK 4,472 million (NOK 3,682 million). Operating revenue from regulated activities amounted to NOK 4,240 million (NOK 3,533 million), while other operating revenue totalled NOK 232 million (NOK 149 million).

- Tariff revenue from fixed tariff components increased as a result of a change in the tariff rate for retail customers following a rise in Statnett's permitted revenue, while tariff revenue from energy components rose due to higher power prices.
- Low price differences with Denmark and the Netherlands due to higher prices in Norway and disconnection of the NorNed link, resulted in slightly lower congestion revenue. Congestion revenue within Norway remained at the same level.

In the first half of 2018, permitted revenue amounted to NOK 4,276 million (NOK 3,940 million). The increased permitted revenue, which is attributable to a higher asset base, higher operating costs and higher power prices, was partly offset by low depreciation and amortisation compared with the previous year, which featured an extraordinary charge.

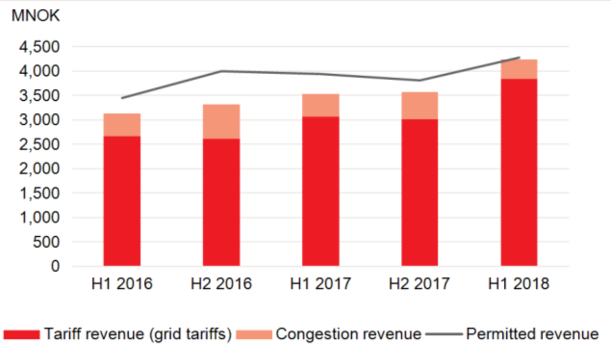
In the first half of 2018, Statnett had an lower revenue, excluding interest, of NOK 36 million (NOK 407 million) (See Note 2). At the end of first half of 2018, the accumulated lower revenue, including interest, amounted to NOK 342 million. Higher/lower revenues are not recognised in the balance sheet.

Operating expenses

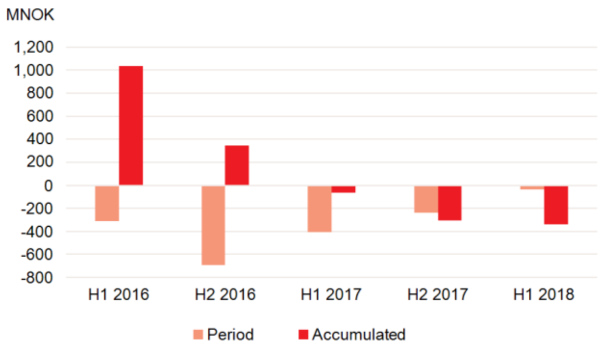
In the first half of 2018, total operating expenses amounted to NOK 2,913 million (NOK 2,741 million).

- Total salary and personnel costs are higher due to higher staffing levels and due to fewer capitalised internal hours for investment projects.
- Higher expenses for system services are mainly attributable to increased costs for primary and tertiary reserves due to a long and cold winter that resulted in high prices and the purchase of secondary reserves for several hours. Transit costs also increased.
- High transmission losses are attributable to higher power prices and higher loss volumes.
- Total depreciation were lower due to extraordinary depreciation recognised in the previous year in respect of estimated residual values of back-up power plants. Adjusted for this, depreciation increased in line with the higher asset base.
- The slight increase in other operating costs was attributable to higher activities throughout the Group.

Development revenue



Development higher/ lower revenue



	First half		Year
Operating costs	**2018**	**2017**	**2018**
System services	275	208	435
Transmission losses	466	315	642
Salaries and personnel expenses	498	444	951
Depreciation, amortisation and impairment	950	1,074	2,403
Other operating costs	724	700	1,658
Total operating costs	**2,913**	**2,741**	**6,089**

Profit for the period

In the first half of 2018, the Group had an operating profit of NOK 1,559 million (NOK 941 million).

Consolidated net financial items amounted to NOK -230 million (NOK -171 million).

- The increase in net financial items is primarily attributable to higher interest expenses due to higher net borrowings, as well as unrealised losses on standalone derivatives and exchange losses on bank deposits held in foreign currency, following an appreciation in the NOK.
- The increase was partly offset by lower financing charges, which were high in the previous year due to the signing of a new, increased drawdown facility.
- Net financial items include income received from associates in the reporting period of NOK 11 million (NOK 10 million).

In the first half of the year, the Group had a profit after tax of NOK 1,033 million (NOK 550 million). Adjusted for the change in higher/lower revenues not recognised in the balance sheet, the underlying profit after tax amounted to NOK 1,063 million (NOK 859 million). The increase in the underlying result is mainly attributable to higher permitted income in 2018 as a result of a higher asset base in the Group.

Cash flow and balance sheet

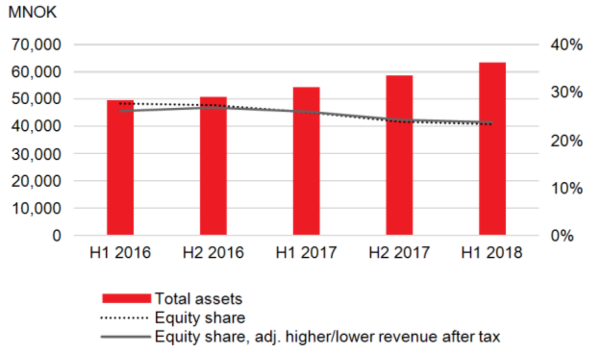
The net cash flow for the period amounted to NOK 1,287 million (NOK 833 million).

- The consolidated cash flow from operating activities for the first half of the year amounted to NOK 1,852 million (NOK 1,621 million).
- The net cash flow from investing activities was NOK -2,988 million (NOK -3,936 million).
- Total loan repayments of NOK 3,289 million were made, while new loans of NOK 6,990 million were taken out.
- At the end of the first half of the year, consolidated cash and cash equivalents and market-based securities totalled NOK 3,994 million (NOK 3,763 million).
- Total unused drawdown facilities amounted to NOK 10,200 million.

At 30th June, the Group had total assets of NOK 63,447 million (NOK 54,473 million).

- Interest-bearing liabilities totalling NOK 41,641 million (NOK 35,468 million) included guarantees under the CSA scheme of NOK 2,040 million (NOK 2,796 million). The market value of interest and currency swaps (value hedges) relating to interest-bearing liabilities amounted to NOK 2,147 million. Adjusted for the above, interest-bearing liabilities totalled NOK 39,494 million.

Development balance value and equity share



Risk

Statnett is exposed to operational risk along its entire value chain. An evaluation of the risk scenario in the first half of 2018 shows the Group to be most exposed to risk within the areas of personal safety, commercial and financial risk, as well as security of supply. This is confirmed by reported injuries on personnel and serious incidents (SIF).

In recent years, the HSE action plan (K4) and the "SAFE programme" have been key elements of the company's HSE improvement work. K4 was completed in the first half of 2018 and has achieved its established targets. The fact that several of the measures are under implementation makes it difficult to measure the HSE results. Still Statnett has reported a clear reduction in SIF. Work on the SAFE programme is still ongoing, and in the long term, the programme is expected to reduce the Group's risks relating to personal safety and the working environment and risk at the company's suppliers. In the meantime, for the above reason, risk relating to personal safety and the working environment remains above the desired level.

Statnett's finances are affected by terms and conditions and requirements established for the power gird industry. Consequently, the company attaches significant importance to uncertainty surrounding the future development of these factors. The Norwegian Water Resources and Energy Directorate (NVE) has submitted for consultation proposed changes in the reference interest rate that will result in a reduction in the return on grid capital of around 0.4 percentage points from 2019. Statnett's return is also affected by the NVE's assessment of the company's efficiency. Statnett focuses on cost efficiency. Statnett's goal is to be 15 per cent more efficient by the end of 2018 than at in 2013.

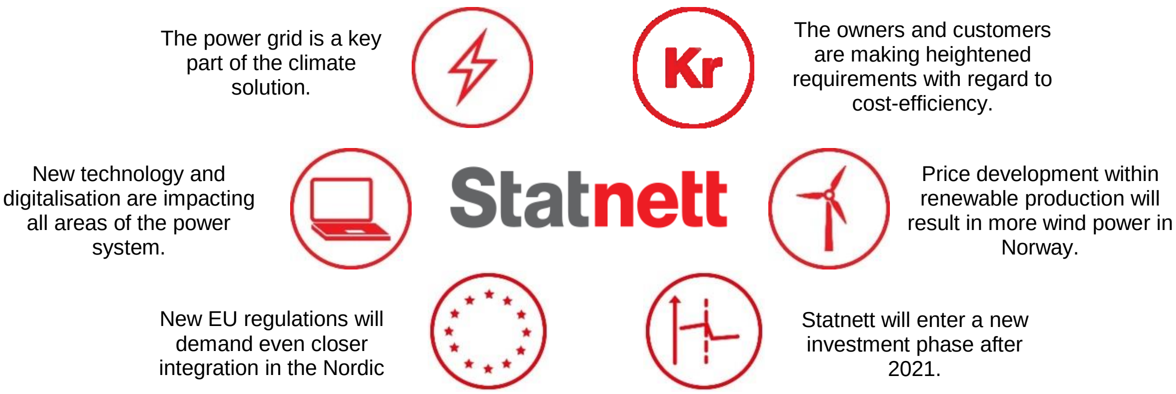
While safe and efficient operations are expected in the coming period, certain risk factors could also have a major impact. Security of supply continues to be below the desired level, with the highest risk in the Lofoten/Vesterålen/Andøya/Harstad, Nyhamna/Ormen Lange, Greater Oslo, Bergen and Kollsnes areas. Weather-related incidents and attacks against (hacking of) operating systems also pose a risk to security of supply. Ongoing investment projects will strengthen security of supply in these areas.

In light of more extreme weather and a heightened focus on the climatic changes, Statnett have over time worked with risk-reducing initiatives in accordance with the company's facilities and the energy system. Experiences being made in the company and the knowledge being developed nationally and internationally gives Statnett qualifications and technological insight which is used to strengthen the power system's ability to cope with climatic changes. Statnett is working to reduce the company's spill of greenhouse gases and has started its first fossil-free construction project.

In the first half of the year, the company further enhanced its holistic approach to risk management and internal control. In order to secure effective framework conditions, the company performs extensive work to assess compliance with external frameworks. This will provide a basis for further reinforcement of and efficiency improvements in Statnett's internal control system by facilitating effective control in the places required to maintain risk at an acceptable level.

Adaptations have also been made to satisfy the requirements of the EU's General Data Protection Regulation (GDPR). Existing routines and procedures for data protection have been reviewed to ensure that Statnett satisfies the new legal requirements that entered into force in July.

Outlook



In a European context, climate policy is reinforcing the need for electrification of the transport and heat sector. The greatest need for transformation in Norway is in transport and industrial production. Statnett also expects increased electricity consumption in industry, including at data centres. Together, these factors will increase society's dependence on a secure power supply moving forward. This will in turn reinforce the need for a robust transmission grid with good capacity both within Norway and for exchange with Norway's neighbours.

New technology will present Statnett with new opportunities to fulfil its social mandate. Statnett's primary objective is to develop a future-proof power system, while maintaining secure power supplies and high available grid capacity. Statnett's strategy for realising these targets stems from an ambition on being EFFICIENT, SMART AND SAFE.

By the end of 2021, Statnett will have completed large parts of the planned development of the transmission grid and will enter a new phase. Over the next 10 to 15 years the focus will be on increased utilisation of the existing grid and reviewing the cost efficiency of required reinvestments.

Together with increased exchange capacity, more renewable energy in the EU and Nordic region will result in fundamental changes in the Nordic synchronous area. With the across border cables that is decided and under construction the capacity out of the Nordic area will increase up to 10 000 MW. Efficient and automated system and market solutions and stronger Nordic collaboration will be required to manage the power balance. This is consistent with regulatory developments in the EU, which are tending towards closer integration of system operation regionally, and a more active role for distributional grid operators (DSOs) in system management. To deal with the growing challenges, the four Nordic TSOs, Statnett, Svenska kraftnät, Energinet and Fingrid, have developed a new balancing model for the Nordic power system. The Nordic planning cooperation will also be strengthen by the publishing of coordinated common grid analysis.

Norway has a closely integrated and decentralised power system, where 40 per cent of installed production capacity is connected to the regional and distributional grid. More diverse production and changing consumption patterns can make it difficult to plan and operating the power system. Coordination and interaction will become more important going forward. Statnett has established a partnership with Norwegian grid companies with a key remit of securing sufficient flexibility at all network levels.

Increased demand for electricity could reinforce the market basis for development of wind power in Norway. This could result in higher demand for grid connection in the future. Market tools and price signals are key elements for efficient grid development, and Statnett believes that technological development will provide opportunities for renewal and system development in particular in the area of traditional grid development.

Digitalisation is a prerequisite for realising the goal of an efficient, smart and safe power system. Better knowledge about the situation in the power system and the condition of individual components will facilitate better and more coordinated decisions. It will also be important to understand how society's requirements for a secure supply will be affected by increased electrification and digitalisation.

The Group has set itself a target of increasing efficiency by 15 per cent by the end of 2018, based on cost levels in 2013. The efficiency programme has produced the expected results. The company is performing further work to establish new efficiency-improvement targets and measures that are expected to be effective after 2018.

Comprehensive income

		First half		Year
(Amounts in NOK million)	Note	**2018**	**2017**	**2017**
Operating revenue				
Operating revenue regulated operations	2	4,240	3,533	7,103
Other operating revenue		232	149	298
Total operating revenue		**4,472**	**3,682**	**7,401**
Operating costs				
System services		275	208	435
Transmission losses		466	315	642
Salaries and personnel costs		498	444	951
Depreciation, amortisation and impairment		950	1,074	2,403
Other operating costs		724	700	1,658
Total operating costs		**2,913**	**2,741**	**6,089**
Operating profit		**1,559**	**941**	**1,312**
Financial income		80	255	443
Financial costs		309	426	779
Net financial items		**-230**	**-171**	**-336**
Profit before tax		**1,329**	**770**	**976**
Tax		297	220	163
Profit for the year		**1,033**	**550**	**813**
Other comprehensive income				
Changes in fair value, available-for-sale investments		-1	-7	-6
Changes in fair value for cash flow hedges		81	46	-110
Tax effect		-19	-11	23
Other comprehensive income to be reclassified to profit or loss in subsequent periods		**62**	**28**	**-93**
Changes in estimate deviations of pension liabilities		-	-	-293
Tax effect		-	-	67
Other comprehensive income not to be reclassified to profit or loss in subsequent periods		**-**	**-**	**-226**
Total other comprehensive income		**62**	**28**	**-319**
Total comprehensive income		**1,094**	**578**	**494**

Balance sheet

(Amounts in NOK million)	Note	**30.6.2018**	**30.6.2017**	**31.12.2017**
Assets				
Fixed assets				
Intangible assets		442	437	413
Tangible assets		37,553	33,014	35,653
Plants under construction	4	16,549	12,087	13,393
Investment in associates		91	85	94
Pension assets		2	126	-
Other non-current financial assets	3	2,782	3,441	3,200
Total fixed assets		**57,420**	**49,190**	**52,753**
Current assets				
Trade accounts and other short-term receivables	3	1,771	1,520	3,563
Market-based securities	3	1,388	630	1,086
Assets held for sale	5	293	-	-
Cash and cash equivalents	3	2,606	3,133	1,319
Total current assets		**6,058**	**5,283**	**5,968**
Total assets		**63,477**	**54,473**	**58,721**
Equity and liabilities				
Equity				
Contributed capital		5,950	5,950	5,950
Retained earnings		8,865	8,145	8,061
Total equity		**14,815**	**14,095**	**14,011**
Long-term liabilities				
Deferred tax		1,471	1,432	944
Pension liabilities		375	216	354
Other liabilities		595	534	578
Long-term interest-bearing debt	3	38,173	28,165	35,217
Total long-term liabilities		**40,613**	**30,347**	**37,093**
Current liabilities				
Short-term interest-bearing debt	3	3,469	7,303	3,972
Trade accounts payable and other short-term debt	3	4,425	2,727	3,310
Tax payable		156	1	335
Total current liabilities		**8,049**	**10,031**	**7,617**
Total equity and liabilities		**63,477**	**54,473**	**58,721**

Changes in equity

(Amounts in NOK million)	Total equity	Retained earnings	Other items	Contributed capital
01.01.2017	**13,867**	**8,095**	**-178**	**5,950**
Profit/loss for the year	813	813	-	-
Other comprehensive income	-319	-226	-93	-
Dividends declared	-350	-350	-	-
31.12.2017	**14,011**	**8,332**	**-271**	**5,950**
01.01.2017	**13,867**	**8,095**	**-178**	**5,950**
Profit/loss for the period	550	550	-	-
Other comprehensive income	28	-	28	-
Dividends declared	-350	-350	-	-
30.6.2017	**14,095**	**8,295**	**-150**	**5,950**
01.01.2018	**14,011**	**8,332**	**-271**	**5,950**
Profit/loss for the period	1,033	1,033	-	-
Other comprehensive income	62	-	62	-
Implementation effect IFRS 15	35	35	-	-
30.6.2018	**14,815**	**9,075**	**-210**	**5,950**

Cash flow

(Amounts in NOK million)	Note	First half 2018	First half 2017	Year 2017
Cash flow from operating activities				
Profit before tax		1,329	770	976
Loss/gain(-) on sale of fixed assets		-9	-7	-3
Depreciation, amortisation and impairment		950	1,074	2,403
Paid taxes		15	-6	-10
Interest recognised in the income statement		203	189	362
Interest received		8	23	33
Interest paid, excl. construction interest		-224	-190	-396
Changes in trade accounts receivable/payable		-165	-74	76
Changes in other accruals		-255	-158	174
Net cash flow from operating activities		**1,852**	**1,621**	**3,615**
Cash flow from investing activities				
Proceeds from sale of tangible fixed assets		52	81	88
Purchase of tangible and intangible fixed assets and plants under construction	4	-2,914	-3,949	-10,661
Construction interest paid		-135	-93	-216
Changes in investment in associates and other companies		-	9	9
Dividend received		9	16	16
Net cash flow from investing activities		**-2,988**	**-3,936**	**-10,764**
Cash flow from financing activities				
Proceeds from new interest-bearing debt	3	6,990	4,402	12,549
Repayment of interest-bearing debt	3	-3,289	-1,692	-5,801
Changes in collateral under CSA (Credit Support Annex) agreements		-986	327	105
Proceeds from sale of market-based securities	3	316	208	958
Purchase of market-based securities	3	-608	-97	-1,293
Dividend paid		-	-	-350
Net cash flow from financing activities		**2,423**	**3,148**	**6,168**
Net cash flow for the period		1,287	833	-981
Cash and cash equivalents at the start of the period		1,319	2,300	2,300
Cash and cash equivalents at the close of the period		**2,606**	**3,133**	**1,319**

Restricted bank deposit amounting to NOK 124 million is included in cash and cash equivalents as at 30 June, 2018.

Unused credit facilities of NOK 10 200 million are not included in cash and cash equivalents.

Selected 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 2017 annual accounts. The interim accounts are unaudited.

The accounting principles applied for the interim accounts are consistent with the accounting principles that were applied for the 2017 annual accounts.

The Group has implemented two new IFRS standards from 1 January 2018:

IFRS 9 Financial instruments
Implementation of IFRS 9 Financial instruments had limited impact on the Group and neither the standard's rules on classification, impairment or hedge accounting had significant impact on the financial statements. Historical figures have not been restated, and equity has not changed. Hedge relations that qualified for hedge accounting under IAS 39 will still qualify for hedge accounting under IFRS 9. A more principal approach to hedge accounting implies a stronger connection between the risk management strategy and the actual risk management and will open for more hedge relations than before. However, the Group has not seen the need for increase in hedging instruments compared to prior periods. Simplified requirements to hedge effectiveness testing, whereas retrospective, quantitative testing is replaced by a more qualitative prospective approach to testing of hedge effectiveness, can result in reduced events of breaches in hedge relations due to hedge ineffectiveness. The simplification will otherwise not result in significant changes as ineffectiveness still has to be measured and accounted for. Assets in equity investments that are not part of a trading portfolio, earlier classified at fair value through Other Comprehensive Income, are now classified at fair value through profit or loss. Recognized changes to fair value of such investments of NOK 1 million have been reclassified from equity to profit or loss as a reclassification adjustment. There are no other changes in classification of financial instruments that involve changes in measurement.

IFRS 15 Revenue from Contract with Customers
The standard replaces all existing standards and interpretations for revenue recognition. The core principle of IFRS 15 is that an entity will recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. With some few exceptions, the standard is applicable for all remunerative contracts and includes a model for recognition and measurement of sale of individual non-financial assets (e.g. sale of property, plant and equipment). The Group has assessed it’s revenue recognition and concluded that the standard does not imply significant changes, other than to the notes to the annual report. The Group has identified a change in timing of revenue recognition from the sale of software licenses due to the new standard. This resulted in an equity increase of NOK 35 million at the date of implementation, 1 January 2018. The Group has not identified further consequences for recognition and measurement of revenue from customer contracts.

Note 2 – Operating revenues

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. In the first half year, Statnett had a lower revenue of NOK 36 million (NOK 407 million in first half of 2017). Higher/lower revenue is not accounted for, however it is reported as part of underlying results (Alternative Performance Measures).

	Year to date		**Year**
(Amounts in NOK mill)	**2018**	**2017**	**2017**
Tariff revenues	3,961	3,159	6,343
Congestion revenues	406	474	1,030
Income from other owners in shared grids	-127	-100	-238
Total operating revenues regulated activities	**4,240**	**3,533**	**7,135**
This period's unrecorded higher/lower revenue (-/+)	36	407	646
Total permitted revenue	**4,276**	**3,940**	**7,781**
Change in higher/lower revenue (-/+), incl. interest			
This period's unrecorded higher/lower revenue (-/+)	36	407	646
This period's unrecorded provision for interest higher/lower revenue (-/+)	2	-1	-
This period's change in balance for higher/lower revenue (-/+)	**39**	**406**	**646**
Balance higher/lower (-/+) revenue, incl. interest as at 1 Jan.	**303**	**-343**	**-343**
Changed balance for higher/lower revenue (-/+), incl. interest	39	406	646
Balance higher/lower revenue (-/+), incl. interest year to date	**342**	**63**	**303**

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 Group's financial instruments measured at fair value are classified, compared to how objective the measurement method is.

(Amounts in NOK million)				30.06.2018		30.06.2017	
Assets	**Classification under IAS 39**	**Classification under IFRS 9**	**Measure-ment level**	**Book value**	**Fair value**	**Book value**	**Fair value**
Fixed assets							
Long-term receivables	Loans and receivables	Amortised cost	-	67	67	60	60
Subord. capital in Statnett SF's pension fund	Fair value through P/L	Amortised cost	3	75	75	75	75
Financial assets available for sale	Available for sale	Fair value through P/L	3	3	3	2	2
Derivatives*	Fair value through P/L	Fair value through P/L	2	2,637	2,637	3,304	3,304
Derivatives, non-interest bearing**	Fair value through P/L	Fair value through P/L	2	2	2	-	-
Total financial fixed assets				**2,782**	**2,782**	**3,441**	**3,441**
Current assets							
Trade accounts receivable	Loans and receivables	Amortised cost	-	156	156	150	150
Derivatives*	Fair value through P/L	Fair value through P/L	2	3	3	158	158
Derivatives, non-interest bearing**	Fair value through P/L	Fair value through P/L	2	30	30	-	-
Other short-term receivables	Loans and receivables	Amortised cost	-	1,582	1,582	1,212	1,212
Total trade accounts and other short-term receivables				**1,771**	**1,771**	**1,520**	**1,520**
Market-based securities	Fair value through P/L	Fair value through P/L	1	**1,388**	**1,388**	**630**	**630**
Liquid assets	Fair value through P/L	Fair value through P/L	-	**2,606**	**2,606**	**3,133**	**3,133**
Other liabilities* **							
Derivatives, non-interest bearing**	Fair value through P/L	Fair value through P/L	2	1	1	-	-
Other liabilities	Other liabilities	Amortised cost	-	595	595	534	534
Total other liabilities				**595**	**595**	**534**	**534**
Liabilities							
Long-term interest-bearing debt	Other liabilities	Amortised cost	2	37,402	37,926	27,615	28,248
Derivatives*	Fair value through P/L	Fair value through P/L	2	771	771	550	550
Total long-term interest-bearing debt				**38,173**	**38,697**	**28,165**	**28,798**
Short-term interest-bearing debt	Other liabilities	Amortised cost	2	3,469	3,569	7,282	7,290
Derivatives*	Fair value through P/L	Fair value through P/L	2	-	-	21	21
Total short-term interest-bearing debt				**3,469**	**3,569**	**7,303**	**7,311**
Trade accounts payable and other short term debt							
Trade accounts payable and other short term debt	Other liabilities	Amortised cost	-	4,352	4,352	2,727	2,727
Derivatives, non-interest bearing**	Fair value through P/L	Fair value through P/L	2	73	73	-	-
Total trade accounts payable and other short-term debt				**4,425**	**4,425**	**2,727**	**2,727**

Total measurement levels	30.06.2018 Book value	30.06.2018 Fair value	30.06.2017 Book value	30.06.2017 Fair value
Level 1	1,388	1,388	630	630
Level 2	-39,044	-39,668	-32,006	-32,647
Level 3	78	78	77	77

*This line item includes interest bearing derivatives for 2018, while for 2017 the line item also includes non-interest bearing derivatives. Interest bearing derivatives are derivatives related to inerest-bearing debt. Non-interest bearing derivatives ar related to hedging of foreign exchange risk in significant purchase contracts.

** Non-interest bearing derivatives are presented separatly from 2018

*** Unrealised loss on non-interest bearing derivatives due more than one year into the future, is presented as "Other liabilities" from 2018. In the Annual report for 2017 "Other liabilities" are presented in note 21.

There have not been any transactions between the measurement levels during the period.

Fair value

The fair value of forward exchange contracts is determined by applying the forward exchange rate on the balance sheet date. The fair value of currency swaps and interest rate 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.

Measurement of financial instruments

The Group uses the following measuring hierarchy to measure and present the fair value of financial instruments:

Level 1: Fair value is measured using listed 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 used at level 1, either directly (prices) or indirectly (derived from prices).
Level 3: Fair value is measured using input that is not based on observable market data.

Listed shares, bonds and certificates are considered level 1 because the securities are listed on the stock exchange and freely negotiable, and measured at the most current market price. Shares and ownership interests that are not listed on the stock exchange are assessed based on corporate accounts and are consequently considered to be at level 3.

Derivatives are considered level 2. The currency element of currency futures contracts is measured at observable market prices applying Norges Bank rates. Different maturity dates mean that an interest rate element is added which provides a calculation of the fair value of currency futures contracts.

Note 4 Plants under construction

(Amounts in NOK million)	**2018**	**2017**
Acquisition cost at 1 January	13,472	8,432
Additions	4,458	3,981
Capitalised construction interest	135	93
Transferred to tangible and other intangible fixed assets	-1,535	-334
Write-offs	-22	-10
Acquisition cost at 30 June	**16,509**	**12,162**
Hedge accounting effects	40	-75
Plants under construction at 30 June	**16,549**	**12,087**

Contractual obligations as at 30 June 2018
Contractual obligations as at 30 June 2018 amounts to NOK 12.7 billion. The reported obligation includes investment projects where future contractual obligations exceed NOK 50 million.

Effective from 1 January 2018, Statnett purchased the 300 kV grid for the stretch Fana-Kollsnes-Mongstad from BKK Nett AS. In connection with the transfer, the grid facilities were re-classified to transmission grid by the Norwegian Water Resources and Energy Directorate (NVE), effective from the same date as the transfer. For the stretch Mongstad – Modalen, an agreement was signed 11 August 2017 granting BKK Nett AS the right to transfer the facilities when completed in 2019. Estimated purchase price is NOK 2.0 billion.

Note 5 – Assets held for sale

The Group has entered an agreement concerning sale of gas turbines and related assets from the back-up power plant at Tjeldbergodden. The sale is planned to take place during the last quarter of 2018. The carrying value is NOK 293 milllion, and the assets are presented as Assets held for sale as at 30 June 2018.

Declaration from the board and CEO

We confirm, to the best of our knowledge, that the interim financial statements for the period 1 January to 30 June 2018 have been prepared in accordance with IFRSs and that the note disclosures in the financial statements fairly present the company's and the Group's assets, liabilities financial position and performance as a whole. We further declare, to the best of our knowledge, that the information contained in the Interim Report from the Board of Directors for the first six months of 2018 fairly presents the performance, results and position of the company and the Group, together with a description of the key risk and uncertainty factors facing the company.

Oslo, 28 August 2018
Statnett's Board of Directors

Jan Fredrik Baksaas
Chairman

Synne Larsen Homble
Deputy Chair

Maria Sandsmark
Board member

Egil Gjesteland
Board member

Tove Pettersen
Board member

Pernille Dørstad
Board member

Steinar Jøråndstad
Board member

Einar Anders Strømsvåg
Board member

Ole Bjørn Kirstihagen
Board member

Auke Lont
President and CEO

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