Half year report 2017

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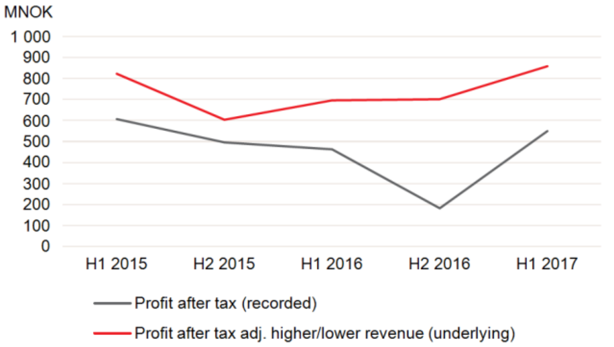
In short

Statnett is the Transmission System Operator in the Norwegian power system. The company is responsible for developing, operating and maintaining the transmission grid in a socio-economically prudent manner. Statnett ensures a reliable supply of electricity and contributes to value creation in society as well as better environmental solutions.

The Statnett Group's underlying profit after tax amounted to NOK 859 million in the first half of 2017 (NOK 696 million in the corresponding period in 2016). Reported profit after tax for the Group amounted to NOK 550 million in the first half of 2017 (NOK 463 million). Statnett's higher revenue balance was reduced by NOK 406 million including interest, in the first half of 2017 (see note 2).

The increase in underlying profit is mainly due to higher permitted revenue in 2017, primarily as a result of an increased asset base in the Group. The increase in reported profit is due to increased operating revenues, offset by increased depreciation and an increase in other operating costs resulting from the high activity in the Group.

Profit after tax



In the first half of 2017, the Group had good progress in construction and maintenance projects, while also maintaining stable system and plant operation. Construction of a new transmission line between Ofoten - Balsfjord - Skaidi is on schedule, and Ofoten – Balsfjord is scheduled to be commissioned in the second half of 2018. The first construction stage between Namsos and Surna is well underway. The projects for construction of international interconnectors to Germany and the UK are progressing well.

The power situation has been good throughout the first half of 2017, with the exception of a four week period in the area north of Ofoten. The hydrological balance showed a surplus at the end of June, and reservoir water levels were at about median levels.

Grid operations has been satisfactory during the period. Shutdowns and work related to voltage upgrades have resulted in reduced security of supply to Stavanger, reduced trading capacity during some periods particularly in Central Norway, and reduced exchange capacity to Denmark and the Netherlands.

Other important highlights

- The grid development plan (NUP) and the System operation and market development plan (SMUP) for 2017 were submitted for consultation in April.
- The joint Nordic Imbalance Settlement (NBS) was launched in May. The settlement is now handled by the company eSett Oy, which is owned by fellowship of the Nordic systems operators. eSett Oy thereby manages the system operators' responsibility for the Nordic Imbalance Settlement.
- A new balancing model for the Nordic power system was presented in June by Statnett and Svenska kraftnät. This balancing model will be implemented with support from the new jointly developed IT system Fifty.
- In April, the Danish Energy Regulatory Authority decided to revoke the approval from 2010 for booking capacity for system services on the interconnector between Denmark and Norway, effective from 1 January 2018. Statnett has appealed the decision.
- Commissioning of Elhub has been postponed from October 2017. The postponement is due to the need for an extended test period. An updated project schedule will be available in September.
- In February, Statnett established a shared office with Energinet.dk in Brussels. The office will help strengthen the role of the Nordic region in the Energy Union.
- Statnett entered into a new credit facility agreement for NOK 8 billion in January, and this will replace the previous agreement. In June, Statnett signed a loan agreement with the European Investment Bank worth EUR 300 million. The loan is associated with the NordLink cable, and has not yet been disbursed.
- The Supreme Court ruled fully in favour of Statnett in June, concluding that the property tax decisions from three municipalities are invalid. This is a judgement of principle, and provides a possibility for judicial review of how the property tax basis is stipulated.

Key figures and Alternative Performance Measures*

	First half		Year
Highlights profit & loss (amounts in NOK million)	**2017**	**2016**	**2016**
Reported figures			
Revenue	3 682	3 225	6 678
Depreciation and amortisation [1)]	-1 064	-833	-2 120
Operating profit (EBIT)	941	802	1 152
Profit after tax	550	463	645
Underlying figures (adjustet for changes in higher/lower revenue)[2)]			
Operating profit (EBIT)	1 347	1 113	2 155
Profit after tax	859	696	1 398
Highlights balance sheet			
Investments	4 074	3 123	7 695
Equity adjusted for higher/lower revenue after tax	14 143	12 923	13 610
Total assets	54 473	49 522	50 743
Capital employed [3)]	43 894	37 452	41 322
Financial key figures			
Return on capital employed before tax, adjusted for higher/lower revenue [4)]	6,6 %	5,7 %	5,6 %
Equity share, adjusted for higher/lower revenue	26,0 %	26,1 %	26,8 %
Operational key figures			
Employees, total	1 338	1 262	1 323
Absence due to illness %	3,1 %	3,3 %	3,2 %
Lost-time injuries, own employees	2	7	9
Lost-time injuries, including contractors	9	9	28

[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 capital employed before tax, adjusted for higher/lower revenue = Operating profit (EBIT), adjusted for changes in higher/lower revenue / Average capital employed last two years

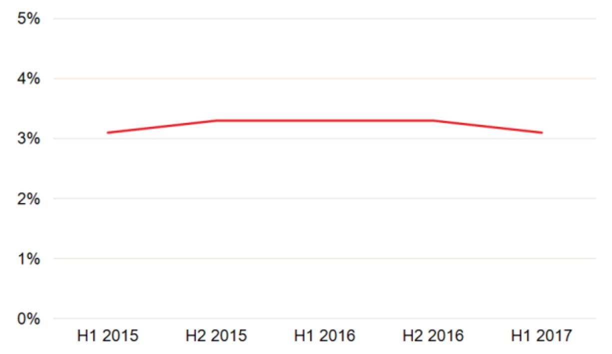
* Alternative Performance Measures are in addition to key figures from IFRS accounts. Alternative Performance Measures for Statnett are key figures adjusted for changes in higher/lower revenue.

Health, Safety and Environment (HSE)

Statnett has a zero accident vision, which means that the Group works systematically and proactively to prevent all accidents, personal injuries and damage to property and other material assets. The Group has an ambitious goal of becoming one of the leading transmission system operators in Europe, when it comes to HSE. The objective has been specified as a Lost Time Injury Frequency Rate (LTIF)[1)] of 2.0 and Total Recordable Incidents (TRIF)[2)] rate of 4 by the end of 2018.

Nine lost-time injuries were reported in Statnett in the first half of 2017, two involving Statnett employees and seven involving contractors/suppliers. Based on the first half of 2017, this gives the Group an LTIF of 4.1 and TRIF rate of 10.6 (including contractors/suppliers), which is a reduction from the same period in 2016 (LTIF of 6.3 and TRIF rate of 11.3). The Group's overall absence due to illness was 3.1 per cent in the first half of 2017, compared with 3.3 per cent in the corresponding period in 2016. Absence due to illness is at a stable low level, and is significantly lower than the industry average.

Absence due to illness 12 months rolling average Group

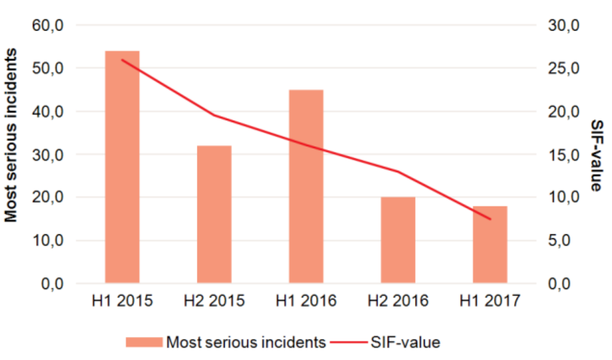


The Group bases its HSE work on a system perspective. This means that Statnett, in addition to working with behaviour and attitudes in individuals, will continue to focus on planning/choosing solutions, risk and project management, leadership and competence.

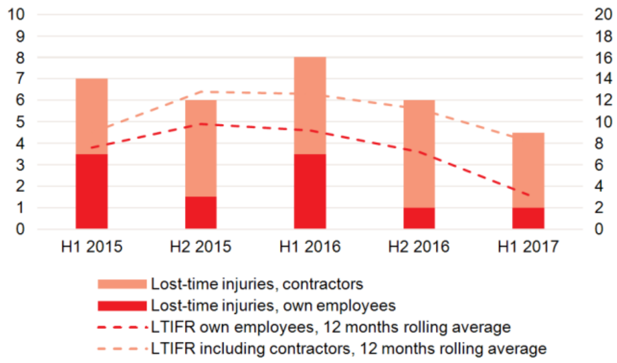
As a result of two fatal accidents on Statnett's development projects during the spring of 2016 the implementation of a HSE action plan was approved by the board in 2016. The plan contains a set of specific improvement areas around four main topics (control, culture, contract and consolidation of the project portfolio), and implementation shows good progress. Multiple specific improvement measures have been implemented in the first half of 2017 and the remaining measures will be implemented in second half of the year. One of the most important measures is the SIKKER (SAFE) programme. The purpose of this programme is to establish a common safety culture and understanding of objectives, responsibility and consequences with a focus on awareness, behaviour and leadership that will yield an injury-free workday.

A new performance indicator (SIF)[3)] has been introduced for more proactive measurement of HSE factors. SIF measures the most serious incidents that involve injuries, near-accidents, damage to the natural environment and unsafe conditions within electric safety and working at heights.

SIF-value 12 months rolling average Group



LTIF-value 12 months and lost-time injuries Group



[1]Long-time Injury Frequency (LTIF), lost time injuries per million hours worked.
[2)] Total Recordable Incidents Frequency (TRIF), number of injuries with or without absence per million hours worked
[3)] Number of serious incidents (red) that involve injuries, near-accidents, damage to the natural environment and unsafe conditions within electric safety and working heights

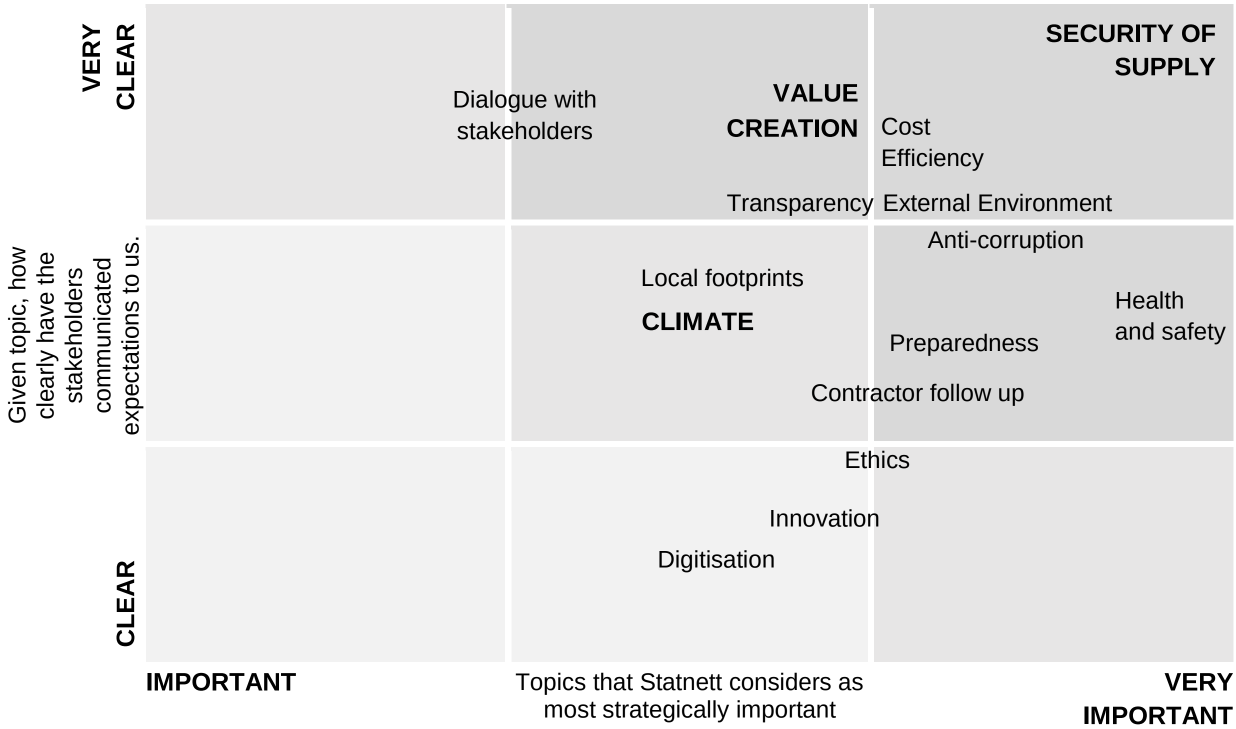
Corporate social responsibility

In June, Statnett adopted an updated Group strategy for the period 2017-2021. The strategy process maps and analyses which social, financial and environmental factors are most important for the Group to manage, measure and report. The analysis reflects what Statnett considers the most important factors, while at the same time highlighting what concerns the stakeholders most. The analysis is illustrated in a matrix.

It is important for Statnett to ensure a comprehensive method for working with HSE along with our suppliers. As a result, Statnett has increased its follow up suppliers gained and adjusted the positioning of the issue in the matrix.

In the first half of 2017, Statnett conducted a climate risk analysis for the company, and mapped areas where the Group should improve its climate and environmental impact. The mapping included an analysis of alternatives to using SF_6 gas and alternative technologies. The Norwegian Water Resources and Energy Administration (NVE) has carried out several audits of the development projects and Statnett mainly receives positive feedback concerning the safeguarding of environmental concerns locally during the construction phase. At the same time, the annual audit of Statnett's environmental management reveals that the Group still has multiple improvement items in order to meet the expectations in the Ownership Report within climate and the environment.

Statnett reports annually on CSR in accordance with the globally recognised 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 the 2016 annual report for more information about CSR.



Operation and market information

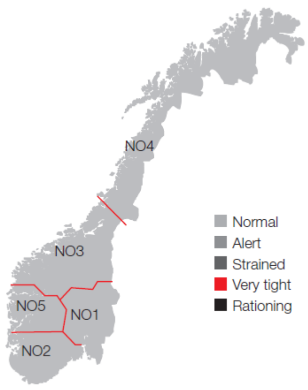
The power situation has been good in large parts of the country throughout the first half of 2017. Due to low reservoir water levels, little water inflow and high consumption in the area north of Ofoten, Statnett reported on 11 May that the situation was considered to be strained in this area. This entailed limited flexibility in the power system, and a long period of little water inflow or long-term faults in transmission and generation facilities could create operational challenges. The temperatures in Troms and Finnmark remained below normal until early May. Statnett considered the situation normal as of 9 June.

The first half of 2017 has been milder than normal in the country overall. There was approx. 5 TWh more precipitation than normal during the period. At the beginning of 2017, reservoir water levels were at 65.7 per cent, 4.9 percentage points below the median (from the 1990-2015 measuring period). At the end of the period, reservoir water levels were 67.8 per cent, 0.6 percentage points below the median. The hydrological balance showed a shortfall relative to normal of about 3 TWh at the beginning of 2017, while showing a surplus of about 1 TWh at the end of the period.

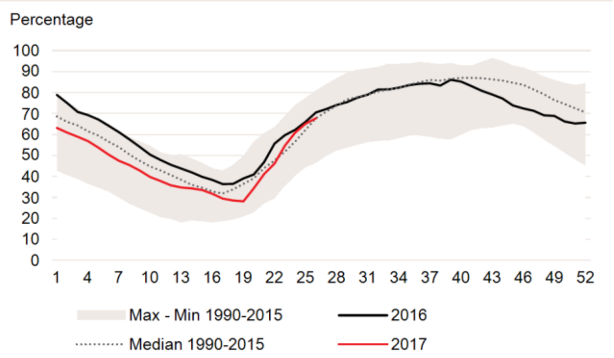
Total Norwegian power generation and consumption was 75 TWh and 69 TWh, respectively, in the first half of 2017. This resulted in net export of about 6 TWh, about 3 TWh less than during the corresponding period in 2016.

Voltage upgrade work in Central Norway has resulted in reduced capacity from NO4 and a generally low price in NO4. The first sections of the planned voltage upgrade are completed with 420kV between Ogndal and Klæbu. The activity level in Southern Norway is high, with voltage upgrades and modifications in connection with new interconnectors. This will result in occasional reduced security of supply for Stavanger, as well as reduced capacity to Denmark and the Netherlands.

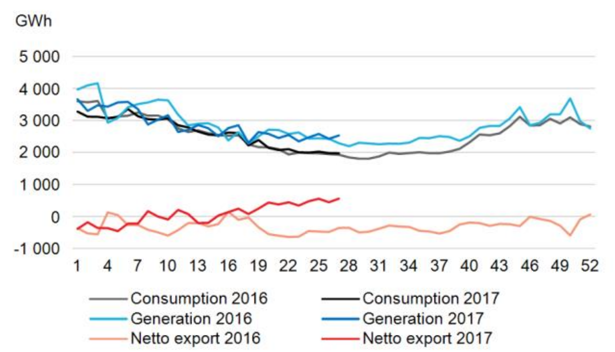
There were two instances of long-term reduced security of supply. A fault in a transformer in Frogner reduced security of supply for parts of Akershus during the winter. In Troms, a landslide caused a pylon breakdown on 132kV Hungern - Ullsfjord (Troms Kraft), and the line was unavailable from mid-April to mid-May. This caused reduced security of supply for Tromsø, as well as northern parts of Troms and Finnmark. The largest supply interruption occurred on 15 June as a result of a fire in the Mosjøen substation (Helgelandskraft). This resulted in an approx. two-hour outage for aluminium production and ordinary consumption in Mosjøen.



Reservoir levels Norway



Power generation and consumption Norway



	Unit	2017 Target	H1 2017	H1 2016	2016
Energy not Supplied	MWh	1 250	43	660	823
Frequency Deviations	Minutes	10 000	5 954	8 233	13 647

Investments and projects

Investments

In the first half of 2017, Statnett invested a total of NOK 4 023 million, compared to NOK 3 123 million in the corresponding period in 2016. This includes commissioned grid projects, projects under construction, ICT projects as well as other investments. The expected investment level for 2017 is approx. NOK 10 billion. The largest projects are listed in the table on the following page.

Important events, projects

Commissioned major investment projects

- *Increased transformer capacity Eastern Norway:* The final of seven facilities was commissioned in January.

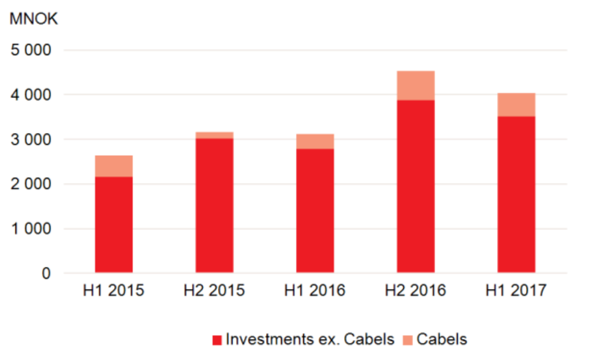
Ongoing major investment projects

- *Western Corridor:* New three-bundle conductor on Ertsmyra - Kvinesdal L1 and Tonstad - Feda 1 and 2 was commissioned in March. However, quality deviations have been identified in the steel deliveries at multiple substations. This will lead to a tighter schedule for the project as a whole, but it does not affect the preliminary completion date.
- *Balsfjord - Skaidi:* Erection of pylons is well underway, and a new construction method using prefabricated foundations has led to faster and safer progress.
- *Ofoten – Balsfjord:* 132kV Båtsvann commissioned in the summer of 2017. All phase conductors Kvandal – Bardufoss have been installed.
- *Namsos - Åfjord and Snilldal - Surna:* Groundwork on road and land at Hofstad substation has been completed. Erection of pylons is progressing well on both sections.
- *Inner Oslofjord:* All seven cables have been installed on the Sylling – Tegneby interconnector, pylons are completed and lines have been installed up to the gantry.
- *Klæbu - Namsos, voltage upgrade:* Klæbu – Verdal - Ogndal commissioned in May.
- *North Sea Link (cable to the UK):* The drilling of microtunnels down to the fjord from the tunnel between Suldalsvatnet and Hylsfjorden is ongoing, which is a part of the cable route. Groundwork will be completed at the rectifier facility in Kvilldal over the course of the summer and autumn of 2017.
- *NordLink (cable to Germany):* First part of the subsea cable has been produced, and installation started from the Norwegian side in the summer of 2017.
- *Removal of old cables Ytre Oslofjord:* Removal of the old subsea cable between Bastøy and Vestfold has been completed, and all marine operations in the project are complete. The NVE's final inspection in May concluded that the measure was conducted in accordance with the approved CEMP.
- *Substation investments in the execution phase:* An investment decision has been made for Bjerkreim substation, Furuset transformer replacement, Vågåmo expansion 132kV, Hove control system and Sogn substation. A decision has also been made to start reinvestments in Røldal substation (new transformer).

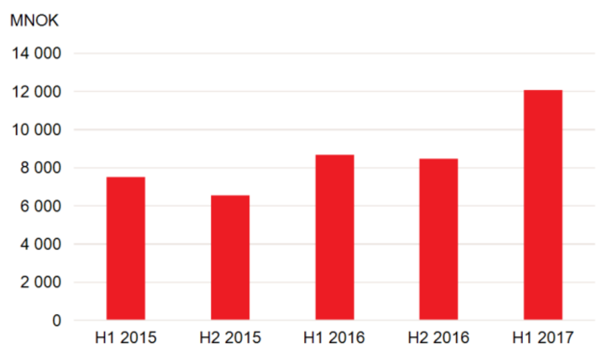
Projects under development

- *Greater Oslo grid plan:*
  - Smestad – Sogn cable connection and Smestad substation: Statnett has received the final licence from the Ministry of Petroleum and Energy in April.
  - Sogn - Ulven new cable connection in tunnel: Solution was adopted by the board in March.

Development investements



Development plants and construction



	Unit	2017 Target	H1 2017	H1 2016	2016
Power Line Completed	Km	230	94	79	157
Commissioned Switchgears	Number	51	22	19	61

Overview of major investement projects

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

Project	Location	Expected investment NOK
Completed projects		
Increased transformer capacity Eastern Norway	Øst	
Under gjennomføring		
Western Corridor, voltage upgrade [1)]	Soth	MNOK 7 100 - 8 500
Balsfjord - Skaidi (-Hammerfest), new 420 kV power line	North	MNOK 4 000 - 6 000
Namsos - Åfjord and Snilldal - Surna, new 420 kV power line [2)]	Mid	MNOK 3 400 - 3 700
Ofoten - Balsfjord, new 420 kV power line	North	MNOK 3 000 - 3 700
Smestad - Sogn, cabel connection and Smestad substation	East	MNOK 1 250 - 1 420
Inner Oslofjord, reinvestments interconnectors	East	MNOK 1 050 - 1 200
Nedre Røssåga - Namsos, subsection voltage upgrade	North	MNOK 900 - 1 000
Klæbu - Namsos, subsection voltage upgrade	Mid	MNOK 700 - 800
Bjekreim, new substation [3)]	Soth	MNOK 500 - 540
Interconnectors, under implementation		
Cable to England (NSL) [4)]		MEUR 750 - 1 000
Cable to Germany (NordLink) [4)]		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, new substation	East	MNOK 480 - 700
Planned investments, licences pending or appealed		
Lyse - Fagrafjell, new power line and station	Soth	MNOK 1 700 - 2 200
Sogn - Ulven, interconnector	East	MNOK 1 050 - 1 250
Aurland - Sogndal, voltage upgrade	West	MNOK 750 - 900
Sylling, reinvestment	East	MNOK 490 - 610
Sogn, substation reinvestment	East	MNOK 490 - 550
ICT projects		
Renewal of Statnett's central operations system		MNOK 600 - 800
Elhub		MNOK 500 - 600

[1)] Parts of the project are under planning. Final licence is granted for all sub-sections and substatations of the prosject.
[2)] The sub-section Åfjord - Snilldal is not included in the estimate, but final licence is granted.
[3)] The estimat is shown as a total estimate for the entire project, both Statnett and Lyse Elnett share.
[4)] 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 2016 rates.

Financial performance

Operating revenues

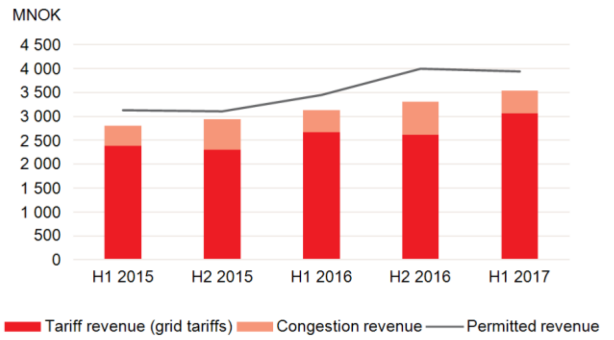
Total recorded operating revenues for the Statnett Group for the first half of 2017 amounted to NOK 3 682 million (NOK 3 225 million). Operating revenues from regulated operations totalled NOK 3 533 million (NOK 3 134 million), while other operating revenues amounted to NOK 149 million (NOK 91 million).

- Tariff revenues from fixed tariff components have increased as a consequence of a change in tariff rates for consumers based on an increase in Statnett's permitted revenue, whereas tariff revenues from energy components have remained the same.
- Domestic congestion revenues in Norway have declined, but this is offset by higher congestion revenues against Sweden as a result of higher power prices in Sweden.
- Continued low price differences vis-à-vis the Netherlands have resulted in minor changes to congestion revenues from NorNed.

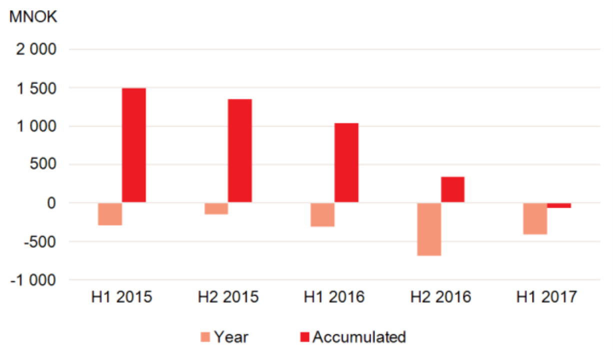
Permitted revenue (see Note 2) was NOK 3 940 million for the first half of the year (NOK 3 448 million). The increase is primarily due to an increased asset base, increased depreciation, as well as higher power prices.

In the first half of the year, Statnett had a lower revenue (see Note 2) of NOK 407 million (NOK 314 million), excluding interest. Accumulated lower revenue including interest was NOK 63 million at the end of the first half of 2017. The higher/lower revenue is not recognised in the balance sheet.

Development revenue



Development higher/ lower revenue



Operating costs

The Group's operating costs totalled NOK 2 741 million (NOK 2 423 million) in the first half of the year.

- Total salaries and personnel costs are unchanged as the increase in salaries and personnel costs resulting from increased staffing, are offset by an increase in capitalised internal hours for the investment projects.
- Lower system services costs are mainly due to lower costs for tertiary reserves because of an uncommonly mild winter and lower costs for special adjustments due to few breakdowns and few planned outages. Somewhat higher transit costs have the opposite effect.
- Increased transmission loss is caused by higher power prices, somewhat offset by a reduced volume of loss.
- Total depreciation and write-downs have grown as a result of the increased asset base and a reduction in estimated residual values. The increase is partly offset by reduced depreciation on asset retirement obligations.
- The increase in other operating costs is due to higher activity in the Group, and is mainly associated with operation and maintenance, as well as IT service agreements.

Operating costs	**First half**		**Year**
(Amounts in NOK million)	**2017**	**2016**	**2016**
System sevices	208	237	479
Transmission losses	315	304	642
Salaries and personnel costs	444	444	887
Depreciation, amortisation and impairment	1 074	833	2 144
Other operating costs	700	605	1 374
Total operating costs	**2 741**	**2 423**	**5 526**

Net profit

The Group's operating profit in the first half of 2017 was NOK 941 million (NOK 802 million).

Net financial items for the Group totalled a loss of NOK 171 million (loss of NOK 186 million).

- The reduced net financial costs were mainly due to the fact that a weak NOK after year-end has resulted in an unrealised gain on stand-alone derivatives, as well as a profit on exchange for bank deposits in foreign currency. Major fluctuations in the exchange rate and a high currency balance have resulted in both a high financial income and financial costs compared to the same period last year.
- The reduction is somewhat offset by higher interest costs on loans as a result of increased loan balances.
- Net financial items include income from associated companies, which provided revenues of NOK 10 million in the first half of 2017 (NOK 5 million).

In the first half of 2017, the Group's profit after tax totalled NOK 550 million (NOK 463 million). The underlying profit after tax, adjusted for changes in higher revenue not recognised in the balance sheet, amounted to NOK 859 million (NOK 696 million). The increase in underlying profit is mainly due to higher permitted revenue in 2017, as a result of an increased asset base in the Group.

Cash flow and balance sheet

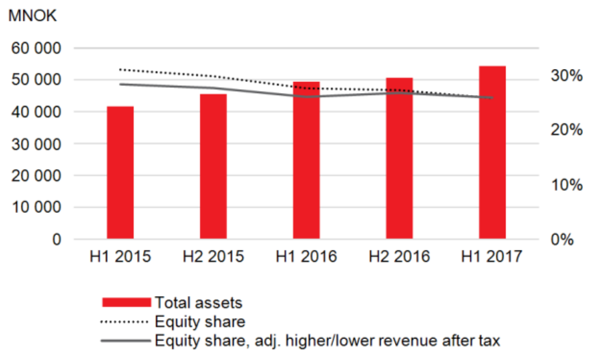
Net cash flow for the period is NOK 833 million (NOK 1 108 million).

- The Group's operating activities generated an accumulated cash flow of NOK 1 621 million at the end of the first half of 2017 (NOK 1 254 million).
- Net cash flow from investment activities totalled a loss of NOK 3 825 million (loss of NOK 3 122 million).
- In total, loans were paid down by NOK 1 692 million, and new loans of NOK 4 402 million were raised.
- At the end of June, the Group's liquid assets and market-based securities amounted to NOK 3 763 million (NOK 3 527 million).
- The total unused credit facilities amounts to NOK 11 100 million.

At the end of June, the Group held total assets of NOK 54 473 million (NOK 49 522 million).

- Interest-bearing debt amounted to NOK 35 468 million (NOK 31 652 million), including security under CSA of NOK 2 979 million (NOK 3 697 million). The market value of recognised interest swap and currency swap agreements (fair value hedges) related to interest-bearing debt was NOK 2 942 million. Interest-bearing debt, adjusted for this, totalled NOK 32 526 million.

Development balance value and equity share



Risk

Statnett's risk profile for the first half of the year shows that the Group is most exposed to risk within the areas of HSE and security of supply.

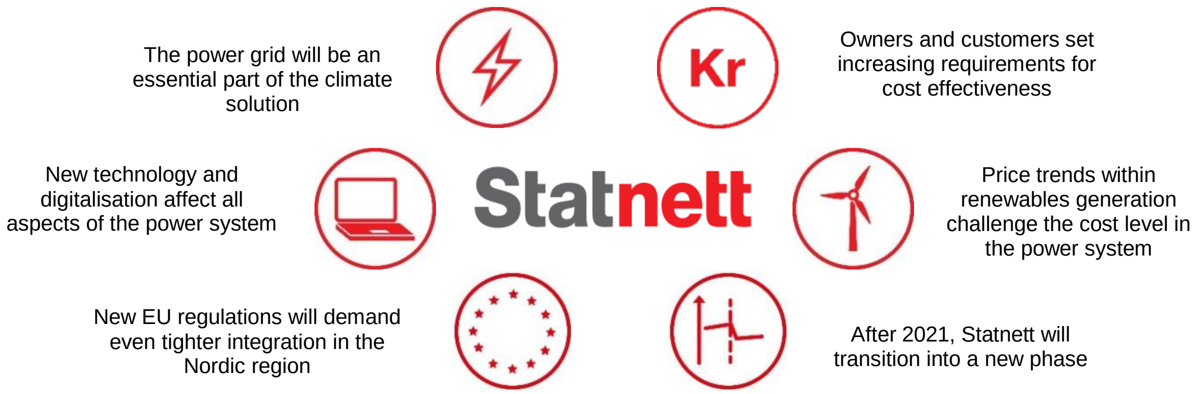
Due to high activity across the Group, risk level within HSE is still high. The HSE action plan adopted by the board in 2016 shows good progress. Several specific measures have been implemented and the remaining measures will be implemented over the course of the second half of 2017. This work and the efforts within the colleague programme SAFE, have provided the organisation with an increased awareness about HSE, and this is expected to lead to a reduction in the HSE risk level for the Group and with our suppliers over time.

Safe and efficient operations are expected for the upcoming period, but certain risks can have a significant impact. Security of supply is still below the desired level, with the highest risk in the areas of Lofoten/Vesterålen/Andøya/Harstad and Nyhamna/ Ormen Lange and Stavanger. Weather-related incidents, terrorism aimed at physical facilities and attacks on/hacking of the operating systems are other incidents that pose a risk to supply security. Weather-related risks are gradually reduced with commissioning of investment projects.

The development of common European operations and energy market solutions can in certain cases entail risks in relation to Norwegian interests, and will require vigilant follow-up from Statnett. Looking ahead, we see a trend where the power system is challenged by major fluctuations in both consumption and generation, and by declining costs of alternative energy solutions. Statnett is working actively to address this challenge. Increased digitalisation, as well as new system and market solutions, contribute to more flexibility nationally and across international borders. This will strengthen the system's sustainability and the Group's ability to support value creation, without compromising on information security.

Over the course of the first half of the year, Statnett has started implementation of a comprehensive approach to risk management and internal control. This entails an overall assessment of the enterprise's risk profile from inherent risk to residual risk. The improvement and implementation of internal control in critical processes continues with a focus on those controls as a contributor to efficiency improvements. Statnett has also coordinated reporting of risk and goals in order to create a better and more effective management tool.

Outlook



The power grid will be an essential part of the climate solutions of the future. This sets even greater requirements related to security of supply than we have today. In 2021, Statnett will have implemented large parts of the planned development of the transmission grid, and will transition into a new phase. Over the next 10 to 15 years, increased utilisation of existing grids, along with a cost-effective implementation of necessary reinvestments, will be key.

Statnett's main objective is to develop a smart and future-oriented power system, while at the same time safeguarding security of supply and high available grid capacity. Our strategy for realising these goals can be summarised by the key words EFFICIENT, SMART and SAFE.

Declining costs for renewables generation means continued investment in new renewable energy in the EU and Nordic region. Along with increased exchange capacity, this will lead to fundamental changes in the Nordic synchronous area. Efficient and automated system and market solutions, and increased Nordic collaboration to manage the balance, are crucial. This is in line with the development of the regulations in the EU, which are moving in the direction of even tighter integration of regional system operation, and a clearer role for local grid companies (DSO). In order to meet the growing challenge, Statnett has developed a new balancing model for the Nordic power system along with Svenska kraftnät.

The power industry has plans to invest NOK 140 billion in grids and communications solutions over the next ten years. This will result in a substantial increase in the grid tariff for consumers, and the cost development is challenging when the prices for alternatives are declining. Statnett's goal is a levelling of the tariff level for end-users once the major investments have been implemented. This will require us to use smart solutions in facility management, system operation and grid development, and that we improve and simplify our work methods. Statnett will increase its commitment to developing the skills of its own employees, including leadership and more efficient and digital working methods and processes.

Norway has a closely integrated and decentralised power system, where 40 per cent of installed production capacity is connected to regional and distribution grids. More scattered production and changed patterns of consumption challenge the planning and the operation of the power system. Coordination and collaboration will become more important. In order to establish a common understanding of the challenges the industry is facing, Statnett has invited Norwegian grid companies to cooperate, where an important goal is to ensure sufficient flexibility on all grid levels.

Digitalisation is a requirement for realising the goal of achieving an efficient, smart and safe power system. Improved knowledge about the situation in the power system, and concerning the condition of individual components makes it possible to make better and more coordinated decisions across our three roles as system operator, grid owner and responsible for impact assessments for the transmission grid. This entails that Statnett will work systematically with methods that view probability and consequence in context, and in facility management to develop digital solutions that highlight risks. R&D is an important tool for development of market and system solutions and for new technology that can be used in upcoming construction projects.

Technology development and digitalisation make it possible to develop new and more cost-effective solutions. The Group aims to increase efficiency by 15 per cent by the end of 2018 compared to 2013. Results so far show that Statnett is expected to achieve this goal.

Financial reporting

Statement of comprehensive income

		First half		Year
(Amounts in NOK million)	Note	**2017**	**2016**	**2016**
Operating revenue				
Operating revenue regulated operations	2	3 533	3 134	6 446
Other operating revenue		149	91	232
Total operating revenue		**3 682**	**3 225**	**6 678**
Operating costs				
System sevices		208	237	479
Transmission losses		315	304	642
Salaries and personnel costs		444	444	887
Depreciation, amortisation and impairment		1 074	833	2 144
Other operating costs		700	605	1 374
Total operating costs		**2 741**	**2 423**	**5 526**
Operating profit		**941**	**802**	**1 152**
Financial income		255	76	292
Financial costs		426	262	661
Net financial items		**-171**	**-186**	**-369**
Profit before tax		**770**	**616**	**783**
Tax		220	153	138
Profit for the period		**550**	**463**	**645**
Other comprehensive income				
Changes in fair value, held-for-sale investments		-7	-	-
Changes in fair value for cash flow hedges		46	-16	-22
Tax effect		-11	4	3
Other comprehensive income to be reclassified to profit or loss in subsequent periods		**28**	**-12**	**-19**
Remeasurements of pension liabilities		-	-	94
Tax effect		-	-	-24
Other comprehensive income not to be reclassified to profit or loss in subsequent periods		**-**	**-**	**70**
Total other comprehensive income		**28**	**-12**	**51**
Total comprehensive income		**578**	**451**	**696**

Balance sheet

(Amounts in NOK million)	Note	**30.06.17**	**30.06.16**	**31.12.16**
ASSETS				
Non-current assets				
Intangible assets		437	298	421
Tangible assets		33 014	30 022	33 861
Plants under construction	4	12 087	8 673	8 473
Investment in associates		85	87	90
Pension assets		126	-	85
Other non-current financial assets	3	3 441	5 542	3 494
Total non-current assets		**49 190**	**44 622**	**46 424**
Current assets				
Trade accounts and other short-term receivables	3	1 520	813	1 288
Market-based securities	3	630	723	731
Assets held for sale		-	560	-
Cash and cash equivalents	3	3 133	2 804	2 300
Total current assets		**5 283**	**4 900**	**4 319**
Total assets		**54 473**	**49 522**	**50 743**
EQUITY AND LIABILITIES				
Equity				
Contributed capital		5 950	5 950	5 950
Retained earnings		8 145	7 710	7 917
Non-controlling interest		-	39	-
Total equity		**14 095**	**13 699**	**13 867**
Long-term liabilities				
Deferred tax		1 432	1 193	1 205
Pension liabilities		216	228	207
Other provsions		534	693	521
Long-term interest-bearing debt	3	28 165	26 258	25 957
Total long-term liabilities		**30 347**	**28 372**	**27 890**
Current liabilities				
Short-term interest-bearing debt	3	7 303	5 394	6 676
Trade account payable and other short-term debt	3	2 727	2 056	2 300
Tax payable		1	1	10
Total current liabilities		**10 031**	**7 451**	**8 986**
Total equity and liabilities		**54 473**	**49 522**	**50 743**

Statement of changes in equity

(Amounts in NOK million)	Total equity	Non-controlling interest	Total equity allocated to owner of Statnett SF	Retained earnings	Other items	Contribut-ed capital
Equity as at 1.1.2016	**13 605**	**41**	**13 564**	**7 773**	**-159**	**5 950**
Profit/loss for the year	645	1	644	644	-	-
Other comprehensive income	51	-	51	70	-19	-
Dividends declared	-357	-	-357	-357	-	-
Acquisition subsidiary	-77	-42	-35	-35	-	-
Equity as at 31.12.2016	**13 867**	**-**	**13 867**	**8 095**	**-178**	**5 950**
Equity as at 1.1.2016	**13 605**	**41**	**13 564**	**7 773**	**-159**	**5 950**
Profit/loss for the year	463	-2	465	465	-	-
Other comprehensive income	-12	-	-12	-	-12	-
Dividends declared	-357	-	-357	-357	-	-
Equity as at 30.6.2016	**13 699**	**39**	**13 660**	**7 881**	**-171**	**5 950**
Equity as at 1.1.2017	**13 867**	**-**	**13 867**	**8 095**	**-178**	**5 950**
Profit/loss for the year	550	-	550	550	-	-
Other comprehensive income	28	-	28	-	28	-
Dividends declared	-350	-	-350	-350	-	-
Equity as at 30.6.2017	**14 095**	**-**	**14 095**	**8 295**	**-150**	**5 950**

Cash flow statement

		First half		Year
(Amounts in NOK million)	Note	**2017**	**2016**	**2016**
Cash flow from operating activities				
Profit before tax	2	770	617	783
Loss/gain(-) on sale of fixed assets		-7	-2	33
Depreciation, amortisation and impairment		1 074	833	2 144
Taxes paid		-6	-5	-8
Interest recognised in the income statement		189	162	322
Interest received		23	16	28
Interest paid, excl. construction interest		-190	-144	-340
Changes in trade accounts receivable/payable		-74	60	345
Changes in other accruals		-158	-283	-72
Net cash flow from operating activities		**1 621**	**1 254**	**3 235**
Cash flow from investing activities				
Proceeds from sale of tangible assets		81	2	14
Purchase of tangible assets, intangible assets and plants under construction		-3 949	-3 063	-7 547
Construction interest paid		-93	-71	-171
Purchase of subsidiary		-	-	-78
Changes in investment in associates and other companies		9	-	-
Change in long term loan receivables		-	-	-14
Proceeds from sale of market-based securities		208	230	350
Purchase of market-based securities		-97	-228	-362
Dividend received		16	8	8
Net cash flow from investing activities		**-3 825**	**-3 122**	**-7 800**
Cash flow from financing activities				
Proceeds from new interest-bearing borrowings		4 402	3 700	9 159
Repayment of interest-bearing debt		-1 692	-1 092	-2 692
Changes in collateral under CSA (Credit Support Annex) agreements		327	368	-941
Dividend paid		-	-	-357
Net cash flow from financing activities		**3 037**	**2 976**	**5 169**
Net cash flow for the period		**833**	**1 108**	**604**
Cash and cash equivalents at the start of the period		2 300	1 696	1 696
Cash and cash equivalents at the close of the period		3 133	2 804	2 300

Restricted bank deposit amounting to NOK 74 million is included in cash and cash equivalents as at 30 June, 2017.

Unused credit facilities of NOK 11 100 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 2016 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 2016 annual accounts.

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 407 million (NOK 314 million in first half of 2016). 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)	**2017**	**2016**	**2016**
Statnett Group			
Tariff revenues	3 159	2 747	5 528
Congestion revenues	474	466	1 170
Income from other owners in shared grids	-100	-79	-252
Total operating revenues regulated activities	**3 533**	**3 134**	**6 446**
This period's unrecorded higher/lower revenue (-/+)	407	314	999
Total permitted revenue	**3 940**	**3 448**	**7 445**
Change in higher/lower revenue (-/+), incl. interest			
This period's unrecorded higher/lower revenue (-/+)	407	314	999
This period's unrecorded provision for interest higher/lower revenue (-/+)	-1	-7	-12
Higher/lower revenue unrecorded adjustment for prior periods (-/+)	-	4	16
This period's change in balance for higher/lower revenue (-/+)	**406**	**311**	**1 003**
Balance higher/lower (-/+) revenue, incl. interest as at 1 Jan.	**-343**	**-1 346**	**-1 346**
Changed balance for higher/lower revenue (-/+) , incl. interest	406	311	1 003
Balance higher/lower revenue (-/+), incl. interest year to date	**63**	**-1 035**	**-343**

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)	**Category**	**Measure-ment level**	**Book value**	**Fair value**
Assets				
Non-current asset				
Long-term receivables	Loans and receivables		60	60
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	2	2
Derivatives	Fair value through profit/loss	2	3 304	3 304
Total non-current financial assets			**3 441**	**3 441**
Current assets				
Trade accounts receivable	Loans and receivables		150	150
Derivatives	Fair value through profit/loss	2	158	158
Other short-term receivables	Loans and receivables		1 212	1 212
Total trade accounts and other short-term receivables			**1 520**	**1 520**
Investment in market-based securities	Fair value through profit/loss	1	**630**	**630**
Cash and cash equivalents	Fair value through profit/loss		**3 133**	**3 133**
Liabilities				
Long-term interest-bearing debt	Other liabilities	2	27 615	28 248
Derivatives	Fair value through profit/loss		550	550
Total long-term interest-bearing debt			**28 165**	**28 798**
Short-term interest-bearing debt	Other liabilities	2	7 282	7 290
Derivatives	Fair value through profit/loss		21	21
Total short-term interest-bearing debt			**7 303**	**7 311**
Trade accounts payable and other short-term debt	Other liabilities		**2 727**	**2 727**
Total measurement levels				
Level 1			630	630
Level 2			-32 006	-32 647
Level 3			77	77

There have not been any transactions between the measurement levels in the accounting period.
During the period there have been no changes in fair value for financial instruments measured in level 3.

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.

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)	**2017**	**2016**
Acquisition cost at 1 January	8 432	6 724
Additions	3 981	3 070
Capitalised construction interest	93	71
Transferred to tangible and intagible non-current assets	-334	-1 140
Impairments	-10	-
Acquisition cost at 30 June	**12 162**	**8 725**
Effect hedge accounting	-75	-52
Plants under construction at 30 June	**12 087**	**8 673**

Contractual obligations as at 30 June 2017

Contractual obligations as at 30 June 2017 total NOK 14 895 million. The selection only includes investment projects where future contractual obligations exceed NOK 50 million.

During 2016 Statnett SF acquired a number of grid facilities that are part of the transmission grid. For the stretch Fana-Kollsnes-Mongstad, which is under construction, an agreements was made, granting BKK Nett AS the right to transfer the facilities from 1 January 2018. For the stretch Mongstad-Modalen an agreement was entered on 11 August 2017, granting BKK Nett AS the right to transfer the facilities upon completion in 2019. Estimated purchase price for the facilities in both stretches equals NOK 3.4 billion.

Declaration from the Board of Directors and President and CEO

We confirm that the financial statements for the period 1 January to 30 June 2017 have, to the best of our knowledge, been prepared in compliance with IFRS and that the disclosures in the financial statements give a true and fair picture of the enterprise's and the Group's assets, liabilities, financial position and results as a whole. We also confirm that the disclosures in the annual report give a true and fair overview of the development, results and position of the enterprise and the Group, together with a description of the most significant risk and uncertainty factors faced by the enterprise.

Oslo, 24 August 2017
The Board of Directors, Satnett 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	Nils Ole Kristensen Board member	Steinar Jøråndstad Board member	Einar Anders Strømsvåg Board member
	Karianne Burhol Board member	Auke Lont President and CEO	

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