

1. half year report 2016



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In short

Statnett is the transmission system operator in the Norwegian power system, and is responsible for socio-economically efficient operations and development of the central transmission grid for power. Statnett's social mission is to ensure a reliable supply of electricity, contribute to value creation in society and pave the way for better environmental solutions.

The power situation in Norway has been good during the first six months of 2016. A good hydrological balance at the beginning of the period meant that reservoir water levels at the end of the first six months were above the median. The operating situation has been satisfactory during the period. Statnett's suppliers had two fatal accidents in connection with work on Statnett's projects. This is not acceptable for Statnett, and the organisation have been marked by the development of an action plan in the second quarter.

The Statnett Group's underlying profit after tax amounted to NOK 696 million in the first six months of 2016 (NOK 823 million in the corresponding period in 2015). The reduction in underlying profit is mainly due to lower pension costs first half of 2015 as a result of a non-recurring effect caused by the transition from defined benefit to a defined contribution pension scheme, somewhat offset by higher permitted revenue in 2016, primarily as a result of an increased asset base in the Group.

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, will level out over time through adjustment of tariffs, ensuring that Statnett's recorded revenue over time corresponds with the regulated permitted revenue.

The Group reported a profit after tax of NOK 463 million in the first half of 2016 (NOK 607 million). In the first six months, Statnett's higher revenue balance was reduced by NOK 311 million, including interest.

Important events

- Several improvement needs have been identified subsequent to two people working for Statnett suppliers losing their lives in separate work accidents in Statnett's development projects in April and May, respectively. These needs have been addressed in a major HSE action plan approved by the Board of Directors of Statnett.
- In April, Statnett's Board of Directors decided to start the first stage of construction for a new power line between Namsos and Surna. This relates to development of the subsections Namsos-Åfjord and Snilldal-Surna. The project is scheduled to be completed in 2019. The project will help realise the wind power development in Central Norway and will increase capacity in the power grid between Northern and Southern Norway.
- In June, Statnett's Board of Directors decided to start development of a new 420 kV power line from Balsfjord to Skillemoen, as well as a new 132 kV substation at Skaidi. Potential energising of Skaidi substation is planned for 2018, and a new 420kV/132 kV substation at Skillemoen and the Balsfjord-Skillemoen power line in 2021.
- In June, the Ministry of Petroleum and Energy (MPE) granted the final licence for construction of a 420 kV power line between Ertsmyra substation near Tonstad and Lyse substation in Lysebotn. Also in June, the Norwegian Water Resources and Energy Directorate (NVE) granted Statnett a licence to build a 420 kV power line between Sauda and Lyse. The licences provide the foundation for a consecutive 420 kv interconnector in the Western Corridor. The project facilitates the connection of new renewable production in Southern Norway and ensures security of supply for existing international interconnectors.
- The MPE provided a process advisory statement concerning Statnett's needs assessment and feasibility study (KVU) for Haugalandet. The KVU is based on plans for increased industrial consumption in connection with electrification of Utsira, Hydro's aluminium plant on Karmøy and Haugaland Industrial Park.
- A cable fault occurred in one of two cable sets that cross the Inner Oslofjord in June, leading to reduced capacity towards Sweden. It has been decided to lay a new back-up cable, with estimated switching in September.
- Statnett acquired the existing main grid from BKK from 1 January 2016, and has signed an agreement whereby Statnett will buy the so-called "Outer Ring", Fana – Kollsnes – Mongstad and Mongstad – Modalen, upon completion. The background for the transaction is a result of the expectation that EU's third Energy Market Package will be integrated into Norwegian law, and the likelihood that all plants in the transmission grid will have to be taken over by Statnett.
- The launch of the Nordic Imbalance Settlement (NBS) is delayed and it was signalled in June that a fully functioning settlement system is expected to be delivered in the first quarter of 2017. Implementation of Elhub will be delayed as a result of this. A new date for launch of both systems will be published in August 2016.
- On June 14, the new operating centre in Alta took over responsibility for operation of the grid from Sunndalsøra down to Sognefjorden. The regional control centre at Sunndalsøra will operate until 1 September 2016. Thereafter this, there will be two operative regional control centres in Oslo and Sunndalsøra.
- A decision was made in May to establish a joint Nordic office in Copenhagen to support the four Nordic system operators in coordinating the operational planning for the Nordic power system.
- In January, Statnett and Svenska Kraftnät signed an agreement to cooperate on further development of the regulation and marketing system Fifty, which is a shared IT system for balancing the Nordic power system.
- On 28 June, Gulating Court of Appeal ruled in favour of Statnett, concluding that the property tax decisions from three municipalities are invalid. The Court ruled in favour of Statnett's claim that the method used for valuation is incorrect and the Court provided instruction for what method should be used as a basis for the new valuation. The deadline for appealing the Courts ruling is 14 September 2016.
- Statnett SF has entered into an agreement to take up a long-term USPP loan in September. The loan amounts to USD 360 million, with a term of 15 years.

Director's report

Safe and efficient operations

The energy situation has been good throughout the first half of 2016. The period was milder than normal for the entire country overall, and January was the only month with a lower than normal monthly temperature. Reservoir water levels at the start of the year were 82.5 per cent, 12.9 percentage points above the median (from measurement series 1990-2015), and snow reservoir levels were about normal. At the end of the period, reservoir water levels were 70.6 per cent, 2.8 percentage points above the median. The hydrological balance weakened by about 15 TWh during the first half of the year, with a shortfall of approximately 3 TWh at the end of the period.

The energy situation is still regarded as good, although precipitation was about 13 TWh less than normal during the period. In some smaller areas, the combination of little precipitation and late snow melting caused some local challenges, which is not uncommon at the start of the snow melting period.

Total Norwegian power generation and consumption was 79 TWh and 70 TWh, respectively, in the first half of 2016. This resulted in net export of about 9 TWh, 50 per cent more than during the corresponding period in 2015. The cold weather in January resulted in record high hourly values for both output and consumption, amounting to 26,766 MWh/h and 24,485 MWh/h, respectively.

There were multiple shutdowns during the last half of the period. These have resulted in reduced trading capacity, many special adjustments and reduced operational reliability, such as:

- The voltage upgrade in Central Norway has reduced capacity going out of NO4 and has contributed to NO4 being a low price area.
- The construction of a new power line between Ofoten and Balsfjord requires outages in the existing lines. This has been challenging at times and there have been areas with both surplus and shortfall. This has resulted in both special adjustments and reduced supply security.

Major faults and operational disruptions in the first half of 2016 were:

- During the extreme weather system "Tor" from 29 – 30 January breakdowns occurred in approximately 25 lines in the main and regional grids one or more times, and in some cases the breakdowns also disrupted supply. Several thousand customers had no power due to a fault in the lower voltage level. The 300kV Modalen-Refsdal line broke down during the storm and remained out of operation until 28 February.
- Adverse weather led to a breakdown of Viklandet-Ørskog on 2 February. Outage in the supply from Ørskog to Grov and Ålesund, approximately 250 MW for about 20 min.
- A broken-down current transformer led to a fire in Halden substation on 9 March. The 420 kV line Hasle-Halden was disconnected during the fire extinguishing operation. The fire was extinguished and the line reconnected after about four hours.
- A fire occurred in Viklandet T2 on 20 March. Consumption at Hydro Aluminium Sunndalsøra and Nyhamna was lost simultaneously, but was back after about one hour. The back-up retransformer was connected on 29 April.
- A fault in an earthing switch caused disconnection of the entire Øvre Årdal substation on 15 June. Årdalstangen remained in separate operation, where as Øvre Årdal lost all output and consumption. Hydro Årdal was completely without supply for about 1.5 hours and partly without supply for about four hours.

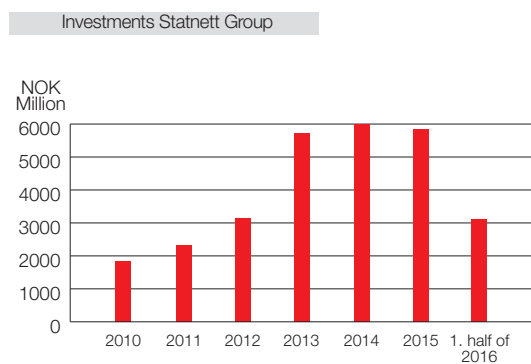


- Breakdown of Sylling-Tegneby on 20 June due to a cable failure caused reduced capacity NO1-SE3 and cancellation/delay of other shutdowns in Southern Norway. A back-up cable will be installed and the estimated date of switching is in September. Following the failure, the cable between Flesaker and Tegneby was under more strain than normal, and high oil pressure occurred. As a result of this, the transmission limit for the cable was lowered to approximately 57 per cent of full capacity.

Investments

Statnett is planning and implementing major development projects. The Statnett 2015 Grid Development Plan describes development trends and anticipated investments in the main grid.

In the first half of 2016, Statnett invested a total of NOK 3 123 million (NOK 2 644 million), including commissioned projects, projects under construction, ICT projects and other investments. The expected investment level for 2016 is approximately NOK 8 billion.



The main projects are listed in the table below.

Overview of major investment projects

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

Project	Location	Expected investments NOK
Completed projects		
Under implementation		
Western Corridor, voltage up grade ¹⁾	Vest-Agder/Rogaland	MNOK 7 100 - 8 500
Ørskog - Sogndal, new 420 kV power line	Møre og Romsdal/Sogn og Fjordane	MNOK 4 600 - 5 600
Balsfjord - Skaidi (- Hammerfest), new 420 kV power line	Troms/Finnmark	MNOK 4 000 - 6 000
Namsos - Åfjord and Snilldal - Surna, new 420 kV power line	Trøndelag/Møre og Romsdal	MNOK 3 400 - 3 700
Ofoten - Balsfjord, new 420 kV power line	Nordland/Troms	MNOK 3 200 - 3 700
Station investments (transformer capacity Eastern Norway, reactors for power reduction and other)		MNOK 1 700 - 2000
Indre Oslofjord, reinvestments interconnectors	Akershus/Buskerud	MNOK 1 050 - 1 200
Nedre Røssåga - Namsos	Nordland/Trøndelag	MNOK 800 - 1 000
Klæbu - Namsos, voltage up grade subsection and power line	Trøndelag	MNOK 700 - 800
Interconnectors, under implementation		
Cable to England (NSL)		MEUR 750 - 1 000 ²⁾
Cable to Germany (NordLink)		MEUR 750 - 1 000 ²⁾
Final licence granted		
Åfjord - Snilldal, new 420 kV power line and cable	Trøndelag	MNOK 1 900 - 2 700
Station investments (Mauranger, Kobbelv and others)		MNOK 1 400 - 1800
Planned investments, licences pending or appealed		
Nettplan Stor-Oslo, phase 1	Østlandet	MNOK 4 000 - 6 000
Lyse - Stølaheia, cable and up grading station	Rogaland	MNOK 2 500 - 3 500
Station investments		MNOK 1 800 - 2 700
Aurland - Sogndal, voltage upgrade	Sogn og Fjordane	MNOK 500 - 900
Kvandal - Kanstadbotn, reinvestment 132 kV - power line	Nordland/Troms	MNOK 500 - 600
ICT-projects		
Renewal of Statnett's central operations system		MNOK 500 - 600
Elhub		MNOK 400 - 600

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

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

The amount in the table show the anticipated range including all project costs.

Projects under implementation are shown in current rates, other projects in 2016 rates.

Important project events in the first half of 2016

- Two people working for Statnett suppliers lost their lives in work accidents in Statnett's development projects, one on the Western Corridor in April and another on Nedre Røssåga-Namsos in May.
- *Western Corridor:*
 - o Decision was made to start implementation of substations Lyse and Fjotland and power lines Ertsmyra-Lyse, Ertsmyra-Fjotland and Lyse-Duge. Contract for power lines has been signed and the work has started.
 - o The MPE sanctioned NVE's licence decision for Ertsmyra-Lyse on 3 June. On 13 June, NVE granted Statnett a licence to build a 420 kV power line between Sauda and Lyse.
- *Ørskog-Sogndal:* The final 2.5 km of power lines through Myklebustdalen have been completed, and the transmission grid between Ørskog and Høyanger is thus continuous. The project is scheduled for completion at the end of 2016.
- *Ofoten-Balsfjord:* All pylons in the Ofoten-Kvandal section were erected by 6 April. In the discretionary compensation assessment in Ofoten District Court, the reindeer herding districts affected by the power line claimed that the plant licence and expropriation permit were invalid as a result of breach of international law. The District Court believed it was clear that the establishment of the power line was not a breach of international law. The decision is legally binding.
- *Balsfjord-Skaidi:* Decision from the enforcement authority in April concerning access to land for the remaining four reindeer grazing districts. The project thus has land access for the entire route. In June, the Board of Directors decided to start implementation for the Balsfjord-Skillemoen section, as well as the Skaidi substation.
- *Substation investments in the execution phase:* Investment decisions have been made for Bjerkreim substation, Kvitfossen substation and refurbishment of Skjomen substation, as well as a decision to start reinvestment at Vemorktoppen substation.
- *Inner Oslofjord cable facility:* In May, the Supreme Court rejected the appeal from the landowner concerning access to areas on the Vestby side.
- *Wind power Central Norway (Namsos-Åfjord and Snilldal-Surna):* The Board of Directors decided to start implementation in April.

- *NSL (cable to the UK):* Ground work and tunnel excavation are now taking place in Kvilldal . The project is progressing according to plan and without lost-time injuries.
- *NordLink (cable to Germany):* Cables have passed type tests by both suppliers and cable production has been initiated by one of the suppliers. Construction work at the landing site in Vollesfjord started in January and construction work at Ertsmyra started in June.
- *Greater Oslo Grid plan:*
 - o Smestad-Sogn cable connections and Smestad substation upgrade: Board of Directors made an investment decision in June.
 - o Sogn substation upgrade: Board of Directors made a decision on choice of solution in June
 - o Hamang substation temporary measures: Solution chosen in February.
 - o Liåsen new substation: Solution chosen and further study of two alternative locations decided in February.
- *Substation investments under planning and licence:*
 - o Final licence received for a new control system at Nesflaten and for reinvestment in Kristiansand control system.
 - o Licence application submitted to the NVE for the Mauranger-Jukla-Eidesfoss power line upgrade.

Financial performance

Operating revenues

Total operating revenues for the Statnett Group for the first half of 2016 amounted to NOK 3 225 million (NOK 2 874 million). Operating revenues from regulated operations totalled NOK 3 134 million (NOK 2 801 million), while other operating revenues amounted to NOK 91 million (NOK 73 million). The increase in operating revenues is mainly due to increased tariff revenues and higher congestion revenues. 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 increased due to higher energy prices. Congestion revenues have grown as a result of price differences within Norway as well as high prices in Sweden in the second quarter due to modification of nuclear power plants. The increase is somewhat offset by low price differences against the Netherlands.

The Statnett Group's operating revenues mainly derive from grid operations regulated by the NVE, which stipulates a cap (permitted revenue) for Statnett's revenues. Permitted revenue was NOK 3 448 million for the first half of the year (NOK 3 130 million). The increase was mainly due to an increase in the company's asset base, somewhat offset by lower interest rates as a basis for return on invested grid capital.

If the recorded 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 of the year, Statnett had a lower revenue of NOK 314 million (NOK 329 million), excluding interest. Accumulated higher revenue including interest was NOK 1 035 million at the end of the first half of 2016. Excess or shortfall of revenue is not recognised in the balance sheet.

Operating costs

The Group's operating costs totalled NOK 2 423 million in the first half of 2016 (NOK 1 864 million).

System services costs amounted to NOK 237 million, up NOK 16 million compared with the corresponding period in 2015. The increase is primarily due to higher costs for tertiary reserves, as well as higher transit costs, somewhat offset by lower costs for special adjustments.

In the first half of 2016, transmission losses amounted to NOK 304 million, up NOK 28 million compared with the first half of 2015. The increase is due to higher loss volume in the first quarter and higher power prices in the second quarter.

Wage and staff costs totalled NOK 444 million (NOK 117 million). Corrected for the non-recurring effect of transitioning to a new pension scheme of NOK 312 million recognised in the first half of 2015, wage and staff costs are NOK 15 million higher than in the corresponding period last year. The increase is due to increased staffing.

Depreciation and write-downs totalled NOK 833 million in the first half of 2016, up NOK 74 million

compared with the corresponding period last year. This is due to an increased asset base.

In the first half of 2016, other operating costs amounted to NOK 605 million, up NOK 114 million compared with the first half of 2015. The increase is mainly linked to the purchase of third-party services as a result of higher activity in the Group, as well as increased property tax as a result of an increase in the asset base and the introduction of property tax in additional municipalities.

Net profit

The Group's operating profit in the first half of 2016 was NOK 802 million (NOK 1 010 million).

Net financial items for the Group totalled a loss of NOK 186 million (loss of NOK 175 million). The increased financial costs were mainly due to the fact that a strengthened Norwegian krone in 2016 has resulted in an unrealised loss on stand-alone derivatives, as well as an exchange loss on bank deposits in foreign currency. The increase is somewhat offset by lower net interest costs on long term debt. Net financial items include associated companies, which provided revenues of NOK 5 million in the first half 2016 (NOK 5 million).

In the first half of 2016, the Group's profit after tax totalled NOK 463 million (NOK 607 million). The underlying profit after tax, corrected for changes in higher revenue not recognised in the balance sheet, amounted to NOK 696 million (NOK 823 million). The reduction in underlying profit is mainly due to a positive non-recurring effect of transitioning from a defined-benefit to a defined-contribution pension scheme in 2015.

Cash flow and balance sheet

The Group's operating activities generated an accumulated cash flow of NOK 1 254 million at the end of the first half of 2016 (NOK 1 122 million). Net cash flow from investment activities totalled a loss of NOK 3 124 million (loss of NOK 2 647 million). In total, loans were paid down by NOK 1 092 million, and new loans of NOK 3 700 million were raised. At the end of the first half of 2016, the Group's liquid assets and market-based securities amounted to NOK 3 527

million (NOK 2 764 million). The Group is planning to sell gas turbines and associated facilities from the back-up power plant at Tjeldbergodden, and has reclassified book value of NOK 560 million from Tangible fixed assets to Assets held for sale.

At the end of the first half of the year, the Group held total assets of NOK 49 522 million (NOK 41 707 million). Interest-bearing debt amounted to NOK 31 652 million (NOK 24 790 million), including security under CSA (Credit Support Annex) of NOK 3 697 million (NOK 1 919 million). The market value of recognised interest swap and currency swap agreements (fair value hedges) related to interest-bearing debt was NOK 5 337 million. Interest-bearing debt, corrected for this, totalled NOK 26 315 million.

Shares in subsidiaries

Statnett SF wholly owns Statnett Transport AS. In the first half of 2016, operating revenues for Statnett Transport amounted to NOK 52 million (NOK 70 million) and the profit before tax was NOK 2 million (NOK 16 million).

Statnett SF owns 100 per cent of the shares in Nord-Link Norge AS. NordLink Norge AS construct and operate Statnett's share of the NordLink cable. Nord-Link Norge AS had no operating revenues in the first half of 2016. The result before tax was a deficit of NOK 1 million (profit of NOK 35 million).

Statnett SF owns 50 per cent of the shares in Lyse Sentralnett and controls the company. Operating revenues for Lyse Sentralnett AS in the first half of 2016 were NOK 21 million (NOK 17 million). The pre-tax result was a loss of NOK 5 million (profit of NOK 1 million).

Statnett SF owns 100 per cent of the shares in Elhub AS. The company will develop and operate a central data hub for metering values and marketing processes in the Nordic power market (Elhub). The company has a break-even result, at par with same period last year.

Corporate social responsibility

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 Statnett's 2015 annual report for more information about CSR.

Health, Safety and Environment (HSE)

The Group's overall absence due to illness was 3.3 per cent in the first half of 2016, compared with 3.4 per cent in the corresponding period in 2015.

There were 16 lost-time injuries in Statnett in the first half of 2016; seven internal and nine in contractor/supplier companies, including two fatal accidents for Statnett suppliers in April and May. In the corresponding period in 2015, there were seven internal and seven external lost-time injuries. The fatal accidents occurred in connection with working at heights and while using a cable trolley. Following these accidents, several improvement needs have been identified with regard to HSE. They have now been addressed in a major HSE action plan which has been approved by Statnett's Board of Directors.

The action plan focuses on four main areas:

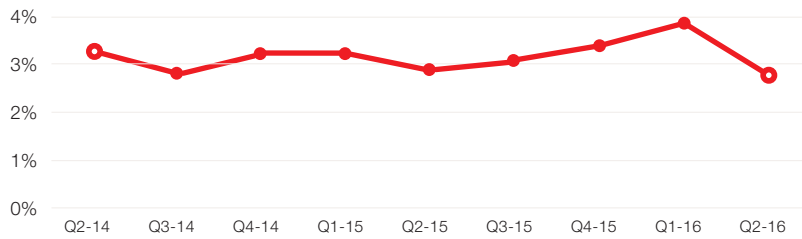
- Consolidation of the project portfolio
- More stringent contract conditions and qualifications demands
- An enhanced safety culture in Statnett and its suppliers
- Increased control and compliance capacity

Statnett deliberately use investigation of undesirable incidents to maximize the learning from the findings that are discovered. These findings are used to improve the HSE in the Group. Statnett's SIKKER programme is used actively to contribute to safe individual behaviour, in addition to supplier-specific measures. The Group is working systematically to reach its HSE goals before the end of 2017. The objective has been specified to a Lost Time Injury Frequency Rate (LTIFR)¹ of 2.0 and Total Recordable Incidents (TRI)² of 3.9. At the end of the first half of 2016, the Group's LTIFR was 6.3 and the TRI 11.0 (including contractors/suppliers). This is an increase from the same period in 2015 (LTIFR of 4.8 and TRI of 9.7).

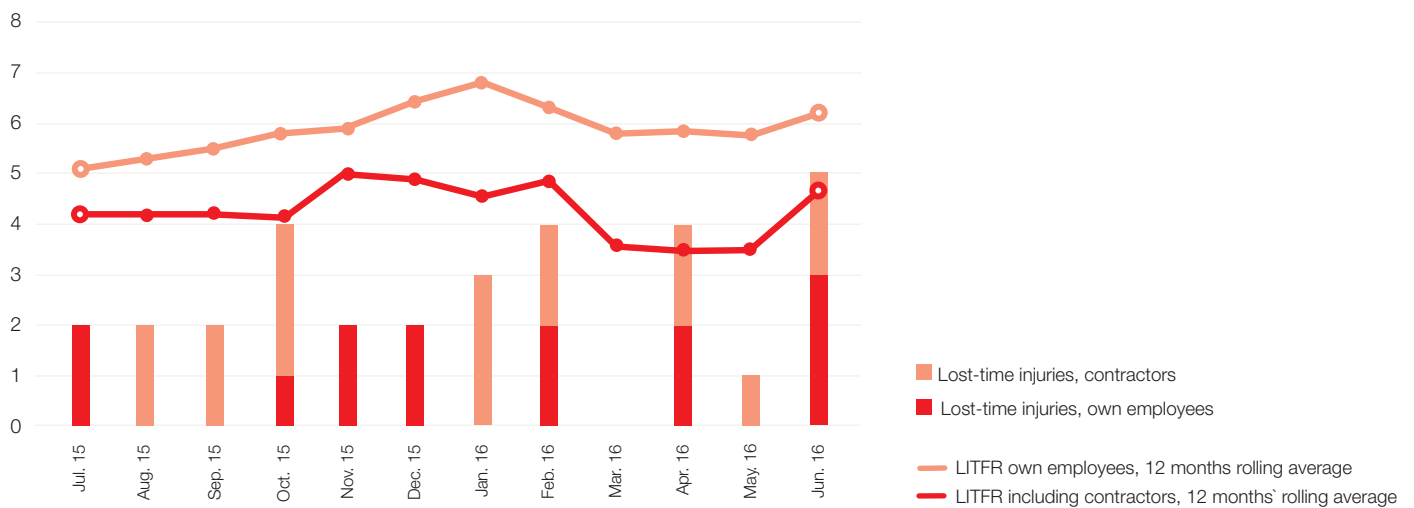
¹ Lost-time injury rate, number of days away from work per million hours worked.

² Injury frequency, number of injuries with and without absence from work per million hours worked.

Absence due to illness



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



The SIKKER programme

Statnett's internal SIKKER programme was initiated in March 2016 and so far this year, three of eight start-up sessions have been held and the local improvement work is under way. The SIKKER programme provides a structured discussion and anchoring of personal obligations and expectations. The objective is to achieve a common culture, improved risk understanding in one's own work environment and agreeing on which measures are to be implemented locally in order to make Statnett a safer and better workplace. This is all about taking responsibility for yourself and caring about each other. Suppliers are invited as guests at some of the sessions. A similar programme will also be rolled out within projects, "SIKKER project execution", based on the same elements for local improvement work and involving both the principal's construction team and the supplier's construction crews.

Risk

Statnett works systematically to improve its risk management and has over the course of 2016 implemented a number of measures in order to strengthen processes, systems and competence linked to risk management. The framework for risk management is based on the globally recognised ISO 31000 standard, and Statnett's risk management covers the enterprise's entire perspective, including strategic, commercial, operational and financial aspects.

Statnett is primarily exposed to HSE risk in connection with implementing development projects as well as maintenance and operation of existing facilities. Incidents in the most recent quarter show that Statnett still needs to strengthen its verification of HSE risk and safe behaviour in development projects. There is a need for improvement in qualification of potential suppliers, contractual matters for suppliers, as well as more visible follow-up out in the field. Statnett is currently in a five-year period of historically high investment levels. This also means that the total project portfolio risk associated with HSE, finance and reputation will increase. Statnett has a wide range of procedures which cover how risky operations should be performed and these are revised regularly.

Interruptions in the electricity supply may occur e.g.

as a result of a fault in a single component during N-0 operation (no barrier against power outage in the main grid) or as a result of concurrent faults in situations with normal operational reliability. Security of supply is below the desired level and N-0 operation is necessary in some areas. However, there has been no recent significant changes in the risk. Areas with the highest risk include Stavanger, Nyhamna/Ormen Lange, and Lofoten/Vesterålen/Andøya/Harstad. The most important risk-reducing measures are Statnett's investment projects. Ordinary and ongoing measures in the short term include maintenance, error correction, ROS analyses, emergency preparedness plans and exercises and component replacements, as well as adaptation of the operations picture during ongoing operations.

The energy situation is normal in all areas and there is little risk of a strained power situation nationally and regionally in the present season. The probability of SAKS is reduced and, starting in the upcoming season, Statnett will neither purchase energy options in consumption nor renew licences for back-up power plants.

Statnett has several critical IT services. Loss of such services would make it challenging to handle system operations. Statnett has bolstered its efforts within information security and is implemented an information security strategy with an associated action and awareness plan. A close collaboration has been established with other stakeholders in the power industry and national authorities in order to increase resilience against cyber-attacks. Work is under way to improve the on-call scheme and emergency preparedness plans.

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

As other enterprises, Statnett is exposed to the risk of fraud and misconduct. Identified risks with relevant measures are continuously monitored through Statnett's risk reporting.

Statnett's behaviour and communication influences the company's reputation. In order to establish good relationships with external parties, Statnett plans and performs preventive communication measures in specific cases that are important for our interested parties. Other examples include publication of Statnett's plans, as well as key milestones in major development projects. In this way Statnett wishes to build trust with the target groups based upon transparency and disseminating knowledge about the company and the power system.

Outlook

The Government presented its Energy Report on 15 April. The Energy Report emphasises that grid investments, along with new technology and market solutions, are necessary in order to meet a rising demand for security of supply. It also emphasises the importance of strengthened Nordic collaboration. The Energy Report echoes the main message from the Grid Report (2012), where Statnett's role as total system operator (TSO) is presented as central.

Statnett's 2015 Grid Development Plan reflects Norwegian society's need for a stronger grid ensuring a reliable power supply and facilitates renewables projects and industrial and commercial development throughout the country. Statnett is currently in a period with a historically high investment level, and the upcoming five-year period is expected to be the most extensive development of the next generation power system leading up to 2030. This includes initiated major investments such as international interconnectors to Germany and the UK, which are important for development and integration of the power system in Northern Europe, the upgrade of the Western Corridor, a new power line northwards from Ofoten, and the wind power-driven development between Namsos and Surna.

The development of new grid facilities will contribute to increased capacity in the power system, but it also results in delays of important reinvestments in existing plants. In the wake of two fatal accidents in two contractor companies in Statnett's development projects, there are plans for additional initiatives surrounding the project portfolio. Over the coming year, Statnett will systematically evaluate the

opportunities to postpone projects with a view toward relieving the strain on the total portfolio, as well as a reduction of the annual reinvestment scope. At the same time, it is important to maintain an overall project and reinvestment plan that balances safe and efficient development of the main grid in Norway while maintaining reliable security of supply. The scope of projects puts strain on a highly utilised and ageing grid overall, and a focus on preparedness will therefore continue to be important in the years to come.

The Ministry of Petroleum and Energy (MPE) has submitted proposed amendments to the Energy Act for consultation, as a result of the third EU energy market package. The proposal entails substantial growth in the tasks assigned to Statnett if Statnett assumes ownership of the remaining 8 per cent of the main grid. When the amendments are enacted, there will be an increased need for investments and staff in Statnett, and allowing for an overall more efficient organisation of main grid operations and development in the long term. To help strengthen HSE and the capacity to complete Statnett's development projects, the work to take over the entire main grid (the third Energy Market Package) will be suspended for the next year.

Statnett is involved in cooperation both at a European and Nordic level. This work is important, as key framework conditions stipulated by the EU also are relevant for Norway through the EEA Agreement. The establishment of a common European power market makes it necessary to harmonise the framework for the electricity market, as well as for system and grid operations. As the Norwegian and Nordic power systems differ from the European system, it is important that the framework conditions are formulated to safeguard Norwegian and Nordic security of supply, promote cooperation and structure developments at a Nordic level, and ensure value creation from Norwegian hydropower. Increased focus on Nordic collaboration on further development of power systems is therefore key both today and in the years to come.

Statnett will continue to invest in ICT systems, R&D and technological development. Changes in consumption and generation require continuous devel-

opment within system operations. New regulatory requirements from the EU have led to additional development and a need for changes. Rapid technological development affects the power system which gives challenges and creates opportunities. Statnett facilitates an appropriate level of ambition in further digitisation of the enterprise, which enables future functionality and benefits, and new services and suppliers provide opportunities for new ways to collaborate. Through the Group's R&D and ICT programme in cooperation with other Scandinavian grid owners, as well as European and national players, Statnett will continue to facilitate a well-functioning power market. The collaborative solutions also facilitate a cost-efficient development progress. R&D is an important tool for developing new technology that can be used in upcoming development projects.

The considerable investments in the main grid in the time to come will affect tariffs. The measures are based on a sound socio-economic foundation and Statnett strives to ensure transparent, cost-efficient and grid-based tariffs for all customer groups. Statnett's current tariff strategy applies for the period 2014-2018.

Statnett is concerned with maintaining its position as one of the most cost-efficient transmission grid owners in Europe through safe, efficient and cost effective grid development and facility management. The Group aims to increase efficiency by 15 per cent by the end of 2018, based on the 2013 cost level. The results so far have been good. One important objective is to realise the potential for economies of scale to be found in the combination of existing and new facilities.

Oslo, 25 August 2016

The Board of Directors, Statnett SF

Statement of comprehensive income

Statnett Group

Amounts in NOK million	Note	First half	Year	
		2016	2015	2015
Operating revenue				
Operating revenue regulated operations	2	3 134	2 801	5 747
Other operating revenue		91	73	159
Total operating revenue		3 225	2 874	5 906
Operating costs				
System services		237	221	451
Transmission losses		304	276	466
Salaries and personnel costs		444	117	591
Depreciation, amortisation and impairment		833	759	1 626
Other operating costs		605	491	1 058
Total operating costs		2 423	1 864	4 192
Operating profit		802	1 010	1 714
Financial income		76	300	509
Financial costs		262	475	813
Net financial items		-186	-175	-304
Profit before tax		616	835	1 410
Tax		153	228	307
Profit for the period		463	607	1 103
Other comprehensive income				
Changes in fair value, held-for-sale investments		-	-	1
Changes in fair value for cash flow hedges		-16	66	20
Tax effect		4	-18	-10
Other comprehensive income to be reclassified to profit or loss in subsequent periods		-12	48	11
Remeasurements of pension liabilities		-	-	253
Tax effect		-	-	-70
Other comprehensive income not to be reclassified to profit or loss in subsequent periods		-	-	183
Total other comprehensive income		-12	48	194
Total comprehensive income		451	655	1 297

Balance sheet

Statnett Group

(Amounts in NOK million)	Note	30/06/16	30/06/15	31/12/15
ASSETS				
Fixed assets				
Intangible fixed assets		298	252	336
Tangible fixed assets		30 022	27 195	30 215
Plants under construction	4	8 673	7 479	6 553
Investment in associates		87	87	90
Other financial fixed assets	3	5 542	3 617	5 213
Total fixed assets		44 622	38 630	42 407
Current assets				
Trade accounts and other short-term receivables	3	813	313	764
Market-based securities	3	723	688	680
Asset held for sale	5	560	-	-
Liquid assets	3	2 804	2 076	1 696
Total current assets		4 900	3 077	3 140
Total assets		49 522	41 707	45 547
EQUITY AND LIABILITIES				
Equity				
Contributed capital		5 950	5 950	5 950
Other equity accrued		7 710	6 935	7 614
Non-controlling interest		39	78	41
Total equity		13 699	12 963	13 605
Long-term liabilities				
Deferred tax		1 193	857	1 055
Pension liabilities		228	423	249
Other liabilities		693	656	665
Long-term interest-bearing debt	3	26 258	22 272	24 266
Total long-term liabilities		28 372	24 208	26 235
Current liabilities				
Short-term interest-bearing debt	3	5 394	2 518	4 023
Trade account payable and other short-term debt	3	2 056	1 947	1 673
Tax payable		1	71	11
Total current liabilities		7 451	4 536	5 707
Total equity and liabilities		49 522	41 707	45 547

Statement of changes in equity

Statnett Group

<i>(Amounts in NOK million)</i>	Total equity	Non-controlling interest	Total equity allocated to owner of Statnett SF	Other equity accrued	Other items	Contributed capital
Equity as at 1.1.2015	12 629	78	12 551	6 771	-170	5 950
Profit/loss for the year	1 103	-37	1 140	1 140	-	-
Other comprehensive income	194	-	194	183	11	-
Dividends declared	-321	-	-321	-321	-	-
Equity as at 31.12.2015	13 605	41	13 564	7 773	-159	5 950
Equity as at 1.1.2015	12 629	78	12 551	6 771	-170	5 950
Profit/loss for the year	607	-	607	607	-	-
Other comprehensive income	48	-	48	-	48	-
Dividends declared	-321	-	-321	-321	-	-
Equity as at 30.06.2015	12 963	78	12 885	7 057	-122	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 30.06.2016	13 699	39	13 660	7 881	-171	5 950

Cash flow statement

Statnett Group

	First half		Year
(Amounts in NOK million)	2016	2015	2015
Cash flow from operating activities			
Profit before tax	617	835	1 410
Loss/gain(-) on sale of fixed assets	-2	1	-18
Depreciation, amortisation and impairment	833	759	1 626
Taxes paid	-5	-37	-37
Interest recognised in the income statement	162	169	327
Interest received	16	29	40
Interest paid, excl. construction interest	-144	-180	-366
Changes in trade accounts receivable/payable	60	-77	-121
Changes in other accruals	-278	-372	-593
Income from associate	-5	-5	-8
Net cash flow from operating activities	1 254	1 122	2 260
Cash flow from investing activities			
Proceeds from sale of tangible fixed assets	2	6	46
Purchase of tangible fixed assets, other intangible fixed assets and plants under construction	-3 063	-2 596	-5 676
Construction interest paid	-71	-64	-144
Change in long term loan receivables	-	-	-10
Dividend received	8	7	7
Net cash flow from investing activities	-3 124	-2 647	-5 777
Cash flow from financing activities			
Proceeds from new interest-bearing borrowings	3 700	500	1 503
Repayment of interest-bearing debt	-1 092	-642	-1 142
Changes in collateral under CSA (Credit Support Annex) agreements	368	59	1 469
Proceeds from sale of market-based securities	230	973	1 111
Purchase of market-based securities	-228	-308	-426
Dividend paid	-	-	-321
Net cash-flow from financing activities	2 978	582	2 194
Net cash flow for the period	1 108	-943	-1 323
Cash and cash equivalents at the start of the period	1 696	3 019	3 019
Cash and cash equivalents at the close of the period	2 804	2 076	1 696

Restricted bank deposit amounting to NOK 91 million is included in cash and cash equivalents as at 30 June, 2016.

Unused credit facilities of NOK 6 500 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 2015 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 2015 annual accounts.

Note 2 – Operating revenues regulated operations

Statnett's operating revenues mainly derive from regulated grid operations. Operating revenues from regulated activities in Statnett's financial reporting consist primarily of fixed grid tariffs from the customers as well as congestion revenues (price differences between areas in the Nordic region and towards the Netherlands). Statnett's grid operations are regulated by the NVE, which stipulates a cap for Statnett's revenues (permitted revenue). If the total revenues from grid operations for one year diverge from the permitted revenue, so-called higher or lower revenue will occur. Higher/lower revenue will level out over time through adjustment of future grid tariffs.

	Year to date		Year
<i>(Amounts in NOK million)</i>	2016	2015	2015
Statnett Group			
Tariff revenues	2 747	2 480	4 875
Congestion revenues	466	417	1 067
Income from other owners in shared grids	-79	-96	-195
Total operating revenues regulated activities	3 134	2 801	5 747
Total permitted revenue	3 448	3 130	6 236
This year's higher/lower revenue (-/+), excl. interest	314	329	489
This year's provision for interest higher/lower revenue (-/+)	-7	-13	-25
Higher/lower revenue decision (-/+)	4	-20	-20
This year's changed balance for higher/lower revenue (-/+)	311	296	444
Balance higher/lower (-/+) revenue, incl. interest as at 1 Jan.	-1 346	-1 790	-1 790
Changed balance for higher/lower revenue (-/+), incl. interest	311	296	444
Balance higher/lower revenue (-/+), incl. interest year to date	-1 035	-1 494	-1 346

Impact of grid outages on profit

As the transmission system operator, Statnett is in dialogue with the NVE regarding how outages in Nyhamna in the event of system protection activation in the period leading up to 2012 should be handled with respect to the KILE scheme and system operation costs. The financial consequences for Statnett of such grid interruptions/outages have therefore not been clarified. On 1. February 2016, NVE provided their opinion to the Ministry of Petroleum and Energy (MPE) which will conclude on the matter. For outages on the Viklandet–Fræna power line after 2012, a provision has been made in the accounts following the same principle as for previous incidents.

Note 3 – Overview of financial instruments

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

As at 30. June 2016

Group (Amounts in NOK million)	Category	Measure- ment level	Book value	Fair value
Assets				
Fixed assets				
Long-term receivables	Loans and receivables		44	44
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	10	10
Derivatives	Fair value through profit/loss	2	5 413	5 413
Total financial fixed assets			5 542	5 542
Current assets				
Trade accounts receivable	Loans and receivables		99	99
Derivatives	Fair value through profit/loss	2	22	22
Other short-term receivables	Loans and receivables		692	692
Total trade accounts and other short-term receivables			813	813
Investment in market-based securities	Fair value through profit/loss	1	723	723
Liquid assets	Fair value through profit/loss		2 804	2 804
Liabilities				
Long-term interest-bearing debt	Other liabilities	2	25 959	26 533
Derivatives	Fair value through profit/loss	2	299	299
Total long-term interest-bearing debt			26 258	26 832
Short-term interest-bearing debt	Other liabilities	2	5 388	5 392
Derivatives	Fair value through profit/loss	2	6	6
Total short-term interest-bearing debt			5 394	5 051
Trade accounts payable and other short-term debt	Other liabilities		2 056	2 056
Total Level 1*			723	723
Total Level 2**			-26 217	-26 795
Total Level 3**			85	85

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

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

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

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

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

Fair value measurements

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 interest-bearing liabilities accounted for at amortised cost has been calculated:

- using quoted market prices,
- using interest rate terms for liabilities with a corresponding maturity and credit risk, or
- using the present value of estimated cash flows discounted by the interest rate that applies to corresponding liabilities and assets on the balance sheet date.

In the case of financial instruments such as financial assets available for sale, trade account receivables and other short-term receivables, liquid assets, trade accounts payable and other current liabilities, it is assumed that the book value is the best estimate for fair value, due to the short-term nature of the items.

CSA agreements

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

Note 4 – Plants under construction

Group (Amounts in NOK million)	2016	2015
Acquisition cost at 1 January	6 724	5 166
Additions	3 070	2 580
Capitalised construction interest	71	64
Transferred to tangible and other intangible fixed assets	-1 140	-257
Write-offs	-	-
Acquisition cost at 31 December	8 725	7 553
Effect hedge accounting	-52	-74
Plants under construction at 31 December	8 673	7 479

Contractual obligations as at 30 June 2016

Contractual obligations as at 30 June 2016 total NOK 15 870 million.

The selection only includes investment projects where future contractual obligations exceed NOK 50 million.

In 2014, Statnett entered into an agreement with Lofotkraft AS. The agreement stipulates that Lofotkraft has the right, but no obligation to, sell or grid facilities to Statnett, and Statnett has the obligation, but no right, to purchase the grid facility from Lofotkraft from the time the grid facility in question has been commissioned and connected. The purchase price is estimated at NOK 250 million, and completion is scheduled for October 2016.

For the plants under construction on the Fana-Kollsnes-Mongstad line, BKK Nett AS has a right to transfer the plants, effective from 1 January 2018. Estimated transaction price for the plants is NOK 1,4 billion. For the line Mongstad-Modalen the parties have agreed, pending approval from the Board, to sign an option agreement during the third quarter in 2016, permitting BKK Nett AS to transfer the plants to Statnett upon completion in 2019.

Note 5 – Assets held for sale

The Group will start the process to sell gas turbines and related assets from the back-up power plant at Tjeldbergodden. However, the timing of completion of the sale is uncertain. The reason for the planned sale is that the Group no longer expects to benefit from the back-up power plant when the Ørskog-Sogndal line is in operation. The book value as at 30 June 2016 is NOK 560 million. The sales price is uncertain, and the Group has not recognized any profit or loss in connection with the assets being reclassified from Tangible fixed assets to Assets held for sale.

Declaration from the Board of Directors and President and CEO

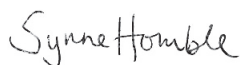
We confirm that the financial statements for the period 1 January to 30 June 2016 have, to the best of our knowledge, been prepared in compliance with IFRS and that the disclosures in the financial statements give a true and fair picture of the enterprise's and the Group's assets, liabilities, financial 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, 25 August 2016

The Board of Directors, Statnett SF



Per Hjorth
Chairman of the Board



Synne Larsen Homble
Deputy Chairman




Maria Sandsmark
Board member



Egil Gjesteland
Board member



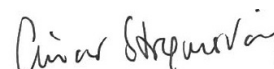
Kirsten Indgjerd Værdal
Board member



Nils Ole Kristensen
Board member



Steinar Jøråndstad
Board member



Einar Anders Strømsvåg
Board member



Karianne Burhol
Board member



Auke Lont
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