Statnett

Half-year report
2020

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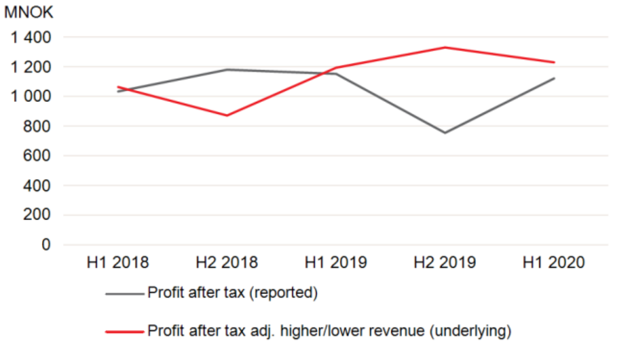
Highlights

Statnett's mission and mandate is to ensure a secure electricity supply, contribute to value creation for the society and facilitate further electrification of Norway. As transmission system operator, Statnett is responsible for operational management of the power system and coordination of all power production. As owner of the power grid, Statnett is responsible for developing, operating and maintaining the transmission grid in a socio-economically optimal manner.

The Covid-19 pandemic has had a major impact on society in 2020 and has affected Statnett's operations. Statnett has a robust emergency response organization, with expertise in areas such as risk analysis, measures and plans for dealing with a pandemic. We started our emergency response work as early as January 2020. When the Norwegian government introduced its restrictions, Statnett implemented strict measures to be able to maintain a secure power supply, make our contribution to limiting the spread of infection and maintain operations in general. Throughout the period, Statnett has assessed and adjusted its measures based on these principles, together with ongoing risk assessments, the infection spread rate and the authorities' instructions. This will continue as long as need be.

Despite the pandemic, operations have been deemed satisfactory throughout the period with a stable system and infrastructure operation in Norway. Higher than normal precipitation and mild temperatures throughout the first half-year strengthened the hydrological balance, ending with a surplus of around 18 TWh at period end. Total Norwegian power production and consumption resulted in a net export of around 6 TWh, compared with a net import of 2 TWh in the first half of 2019. Trading capacity was lower than normal due to several unrelated long-term faults that reduced capacity on the international connectors and the Oslo Fjord connector. Capacity to Sweden was also restricted due to various factors. Power prices were low in Norway throughout the period, and extremely low in Southern Norway towards the close of the period. The capacity reductions resulted in major periodical price differences versus trading partners.

Profit after tax



The Statnett Group posted an underlying profit after tax in the first half-year of NOK 1 230 million, which was on par with the first half of 2019 (NOK 1 194 million). The consolidated profit after tax for the reporting period came in at NOK 1 121 million (NOK 1 152 million). Statnett's lower revenue balance increased by NOK 139 million during the first half-year.

Other key events

- One employee from a main contractor died following an accident involving an all-terrain vehicle in Rogaland on 13 July. The accident occurred in connection with work on the Lyse–Fagrafjell power line.
- In February, three subsea cables in the Outer Oslo Fjord were damaged. All cables were repaired by the end of June.
- The NordLink interconnector has been completed after successful test of the German land cable in August. Commissioning starts in September and trial operation in December.
- The Western Corridor project with cables and transformer for 420 kV in Sauda was completed.
- The tunnel project between Sogn and Smestad was completed.
- Within one year of operations, the Elhub system has collected 30 billion meter data values, 1.5 million supplier and address changes by Norwegian end consumers. The technical solution has been operative from the startup date.
- In June, Statnett and the other transmission system operators in the Nordic region gave the green light for market connection with several power exchanges, making the Nordic region the second region in Europe to facilitate competition between power exchanges.
- Statnett has applied to the Norwegian Energy Regulatory Authority (RME) to reduce its share of the grid tariffs for 2021 by 20–25 percentage versus 2020 due to the economic impact of the Covid-19 pandemic on Norwegian consumers and industry
- A high level of digitalization and improvement activities, as part of the Group's efficiency-improvement program, were maintained during the period.
- In June, Statnett launched its first two green bonds with a total value of NOK 3.6 billion. Prior to this, Statnett was certified by CICERO (the Center for International Climate Research), obtaining the maximum climate rating of "dark green" for the framework.

Key figures and alternative performance measures*

	First half		Year
Highlights profit & loss (amounts in NOK million)	**2020**	**2019**	**2019**
Reported figures			
Operating revenues	4 776	4 764	9 641
Depreciation and amortisation [1)]	-1 365	-1 118	-2 339
Operating profit	1 604	1 729	3 027
Profit for the period	1 121	1 152	1 906
Adjustments			
Changes in accumulated higher/lower (+/-) revenue before tax [5)]	139	53	791
Changes in accumulated higher/lower (+/-) revenue after tax [5)]	108	41	617
Accumulated higher/lower (+/-) revenue	871	-6	732
Underlying result (adjusted for changes in higher/lower revenue)[2)]			
Underlying operating profit	1 743	1 782	3 818
Underlying profit for the year	1 230	1 194	2 523
Highlights balance sheet			
Investments (additions plants under constructions and acquired installations)	3 351	4 288	9 618
Equity adjusted for higher/lower revenue after tax	18 449	16 804	18 354
Total assets	84 997	72 765	76 323
Capital employed [3)]	65 196	57 617	62 705
Equity share, adjusted for higher/lower revenue [4)]	21,7 %	23,1 %	24,0 %
Operational key figures			
Employees, total FTE's	1 556	1 479	1 508
Absence due to illness %	3,0 %	2,8 %	2,9 %
Lost-time injuries, own employees	3	4	5
Lost-time injuries, including contractors	15	17	33

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

[2)] The underlying profit or loss is based on the regulated permitted revenue, whereas the recorded profit or loss will depend on stipulated tariffs and congestion revenues. The difference, referred to as higher or lower revenue (see note 2).

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

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

[5)] For 2019, Elhub and fee imbalance settlement income not included

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

Health, safety and environment (HSE)

All HSE incidents can be prevented, the safety of individuals always comes first, and we must minimize our environmental and climate footprint. In 2019, Statnett presented a new HSE action plan for 2020 intended to ensure that Statnett adopts a zero-vision for HSE incidents.

In the first half of 2020, Statnett's employees had to respond to a major and unprecedented infection and health risk, which had a significant impact on our working environment. So far, this has not had any observable consequences on leave of absence or injury frequency.

Efforts to intensify work on system improvements and reinforce compliance with HSE requirements started in 2019 have been continued in 2020. This included a focus on improved handling of chemicals, development of internal requirements for engineering blasting operations and safer use of work equipment. We also prioritized close follow-up of non-adherence and incidents, in order for learning points to be systematically and frequently conveyed throughout the organization.

On Monday July 13, an employee at one of Statnett's main contractors died following an accident involving an all-terrain vehicle. The accident occurred in connection with work on the Lyse–Fagrafjell power line. The accident is being investigated by the police and the Norwegian Labor Inspection Authority. Statnett will therefore also review all safety routines applicable for employees in connection with the usage of such vehicles.

One outcome of an investigation of an incident in summer 2019 by the Norwegian Labor Inspection Authority was an instruction to ensure that all personnel responsible for managing and controlling others have the requisite HSE competence. In light of this, we initiated an extensive internal training programmer, initially for operational managers, safety representatives and members of the Working Environment Committee. One focus area of the training was an emphasis on a greater understanding of risk in our various daily work operations at Statnett. The programmer will continue in the second half of the year, slightly delayed by infection control regulations. At 3.0 per cent, the Group's overall 12-month rolling sickness absence rate remained low in the first half of 2020. The sickness absence rate is lower than the industry average and other comparable businesses.

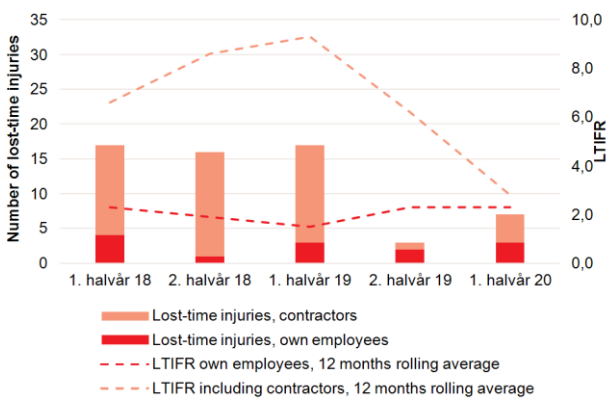
Statnett regularly reports the frequency of serious incidents (SIF) [1], lost-time injuries (H1 value) [2] and total injuries (H2 value) [3]. Individuals' workloads and stress levels are also measured. In addition, Statnett measures the safety culture as part of our annual employee survey each autumn.

The SIF value has increased during the first half of 2020. The risk level was deemed higher than desired and measures were taken to check this development, initially through closer follow-up from managers at all levels. Several of the SIF incidents occurred in connection with the driving of vehicles. Consequently, in spring 2020 we carried out an internal survey and identified a number of measures to strengthen traffic safety in connection with our operations.

The number of lost-time injuries involving Statnett employees has been relatively stable over the last three years, resulting in a low H1 value. The H2 value has also only showed minor fluctuations. The injury frequency for subcontractors has shown a marked decline since summer 2019. This is partially attributable to fewer working hours in 2019 compared with 2018, as well as an unusually high number of incidents in 2018 and the first half of 2019.

SIF-value 12 months rolling average Group

LTIF-value rolling 12 month and lost-time injuries Group



[1] Number of serious (red) incidents involving injuries, near misses, environmental impact and hazardous relating to electrical safety and working at height per million working hours.

[2] Los-time injury frequency, number of lost time injuries per million working hours

[3] Injury frequency, number of lost-time and non-lost-time injuries per million working hours

Operating and market information

The first three months of the year were characterised by very high precipitation and warm weather. January was the wettest (195 per cent of the normal) and the second-warmest (6.1 °C above the normal) January recorded since records began in 1900. Total precipitation equated to 89 TWh in the first half of 2020, 29 TWh more than normal. The precipitation resulted in high volumes of snow in the mountains, and a demanding spring flood situation in some areas.

At the start of the reporting period, reservoir levels were at 63.3 per cent, 6.2 percentage points below the median (from recorded data for 1999–2019). At the end of June, reservoir levels were at 73.4 per cent, 5.5 percentage points above the median. At the end of the first half-year, the hydrological balance in Norway showed a surplus of around 18 TWh (source: NVE, period 1982–2010). Norwegian power production and consumption for the first six months of the year totaled 75 TWh and 69 TWh, respectively. This resulted in a net export around 6 TWh, compared with a net import of 2 TWh in 2019.

Trading capacity was lower than normal for the period, mainly due to capacity reductions as a result of several unrelated long-term faults. The capacity on NorNed was reduced between December 2019 and February 2020 due to a fault with a filter in the Netherlands, and from the end of May due to fault with the Dutch grid. The Skagerak connectors have had reduced capacity due to cable faults at the Danish side.

Capacity to Sweden was also restricted due to various factors. Tegneby substation operated with reduced capacity between 20 December and 12 March due to overheating in the SF6 plant. The failure has since been rectified. The Oslo Fjord connector between Rød and Hasle was put out of operation on 16 February due to damage caused by a tanker started drifting with an unsecured anchor. The cable repairs were completed on 26 June. In addition, Svenska Kraftnät reduced the capacity between Norway (NO1) and Sweden due to upgrading work at Skogsäter substation. This work started in January and is now expected to be completed at the end of September.

A combination of high volumes of snow in the mountains and reduced exchange capacity kept Norwegian power prices low throughout the period, and extremely low in Southern Norway towards the end of the period. These capacity reductions subsequently resulted in major price differences versus our trading partners abroad. In June, high temperatures and a major snowmelt also led to problems with overloads on some lines and down-regulation resources that contravened the regulation schedule for power plants.

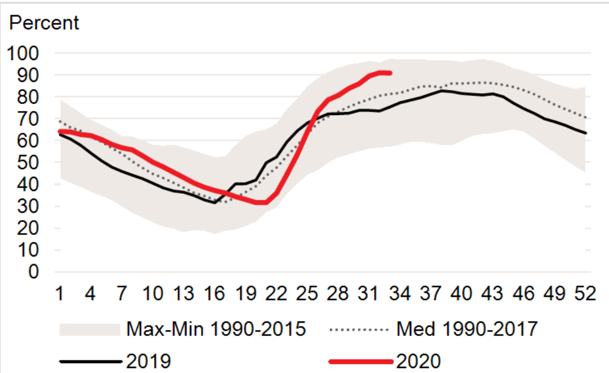
In winter, recurring strong winds and storms impacted several areas of Norway. While there were multiple outages at Statnett's facilities, these did not affect our end costumers.

Other significant incidents included failure of the Aurland1–Usta 420 kV power line on 5 January. Demanding weather conditions meant that the repairs took time, and the line was not reconnected until 30 January. In Oslo, the 300 kV power line between Sogn and Smestad was put out of operation on 6 March due to faults with both Statnett's and Elvia's infrastructure. The infrastructure was out of operation until May 15.

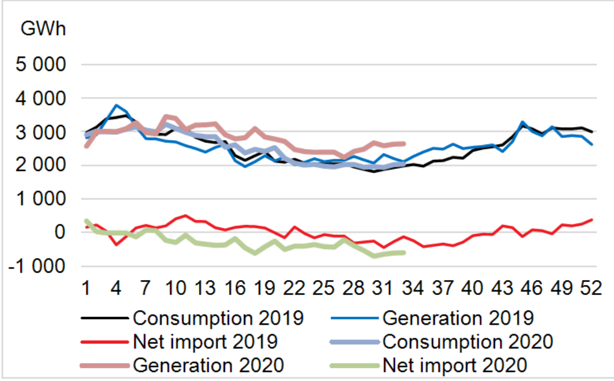
A demonstration project for delivery of a Fast Frequency Reserve (FFR) started on 1 May. FFR must be available extremely quickly in the event of major faults in the Nordic system in order to prevent the frequency dropping below 49.00 Hz. This reserves market will be open until 30 September, covering the period of the year with the highest probability of low inertia in the system.

Following the coronavirus outbreak, we introduced a number of infection control measures, including revised staffing levels at our regional and national control centers. Grid activities were low, in particular at the start of the coronavirus outbreak, as planned operational stoppages were either cancelled or postponed. However, the last three months of the period were characterized by high activity levels and multiple planned disconnections.

Reservoir levels Norway



Production and consumption Norway



	Unit	2020 Target	H1 2020	H1 2019	2019
Non-Delivered Energy (NDE)	MWh	1,250	263	43	49
Frequency variances	Minutes	10,000	7,287	5,178	11,471

Corporate social responsibility

CSR at Statnett means fulfilling and developing our tasks in a way that is sustainable and socially and ethically responsible. We have taken several steps to strengthen and systematize our work in this area, despite the coronavirus outbreak forcing us to re-prioritize and change our daily work routines.

Statnett uses the UN's Sustainable Development Goals as a framework for our corporate social responsibility initiatives. We contribute to eight of the UN Sustainable Development Goals through our social and corporate social responsibility mandates.

In recent years, Statnett has focused on improving our efforts on sustainability. Information has been tailored specifically towards the external market for green bonds. Green bonds are used to finance construction projects with a positive climate impact. In June, Statnett took out its first two green bonds with a total value of NOK 3.6 billion. Prior to this, Statnett was certified by CICERO (Centre for International Climate Research), gaining the highest-possible climate rating of "dark green" for the framework.

COVID-19 has changed our daily work routines

The whole world has been affected by the coronavirus epidemic in 2020, and Statnett is no exception. With most of our staff working from home during this period, we focused more sharply on the working environment and implemented measures to prevent adverse health impacts, mainly with the help of our occupational health service.

National measures to restrict the spread of infection have resulted in many tasks being performed digitally. One example is recruitment and follow-up of our summer students. Statnett provides around 100 summer jobs each year. This year recruitment and training took place digitally, and the majority of our students worked from home. It is important for Statnett to offer jobs and relevant work experience in a period when many people are furloughed or unemployed.

Statnett normally follows up pay and working conditions at construction sites through face-to-face interviews with employees. This is important to ensure that these interviews are conducted in a secure and anonymous setting. In the wake of the coronavirus, we have held interviews by phone with an interpreter available and by checking documents. This has not proved as effective in identifying breaches of regulations, and consequently we plan to restart physical checks during the summer. The number of whistleblower cases has so far been on a par with previously.

Reinforcing the frameworks for the environment and social matters

Statnett aims to be a leader in environmental and climate work. This includes, among other measures, using fossil free fuel for construction work and seeking to avoid building new infrastructure on wetland. However, when power masts must be erected on wetland for technical reasons, it is vital to restore any damage. As part of the GRAN R&D project, we are testing a new method for wetland restoration. We are closely monitoring these trials with the aim of developing best practice that can be used by Statnett and other developers.

Qualification of suppliers and requirements incorporated in supplier contracts play an important role in promoting social and environmental considerations. Statnett has revised its internal guidelines for procurements to take into account climate and environmental considerations, and we now require procurements to be based on ethical conduct and sound business practice. Statnett has received an Environmental Product Declaration from two of its suppliers as a result of including environmental requirements in its framework agreement for power lines and steel.

In 2019, we entered into a collaboration agreement with the Norwegian Tax Administration to obtain information to qualify, and ensure that we only use reputable, suppliers. In 2020, we have adopted the agreement frameworks and started training our procurement team.

Statnett reports annually on corporate social responsibility in accordance with the international Global Reporting Initiative (GRI). GRI reporting satisfies the requirements of the Norwegian Accounting Act as regards reporting on corporate social responsibility. For further information, please see www.statnett.no and Statnett's Annual Report for 2019.

Investments and projects

Investments

In the first half of 2020, Statnett's investments totaled NOK 3,351 million, compared to NOK 4,288 million during the first six months of 2019. The investments relates to commissioned grid projects, projects under construction, IT and other investments, as well as acquisitions of grid infrastructure from other grid owners. Total investments for 2020 are expected to account for around NOK 8.2 billion. The largest projects are shown in the table on the following page.

Important project events

Commissioned

Ålfoten – increased transformer substation capacity: The substation has been commissioned and the project was completed in February.

Under construction

- *Western Corridor:* 420 kV transformer substation and cable installation were commissioned in Sauda in June. This marks the completion of the first step of the last stage of the Corridor.
- *Salten:* Construction start approved in February and license granted in April.
- *Rød control gear and switchgear refurbishment:* Construction start approved in May.
- *Samnanger substation:* Construction start approved in February.
- *Smestad–Sogn substation and cable installation:* Tunnel works completed.

Interconnectors

- *NordLink (cable to Germany):* The infrastructure on the Norwegian side of the NordLink interconnector has been completed. The land cable on the German side was installed and passed testing in August. Thus, the interconnector will be ready for planned start up in September. This will be followed by planned test operation with energy exchange up to 1,400 MW from December 2020.
- *North Sea Link (cable to the UK):* Despite COVID-19-related challenges, both the offshore and construction works in Kvilldal and Blyth have made enough progress to make completion of the project by the planned date of 2021 realistic.

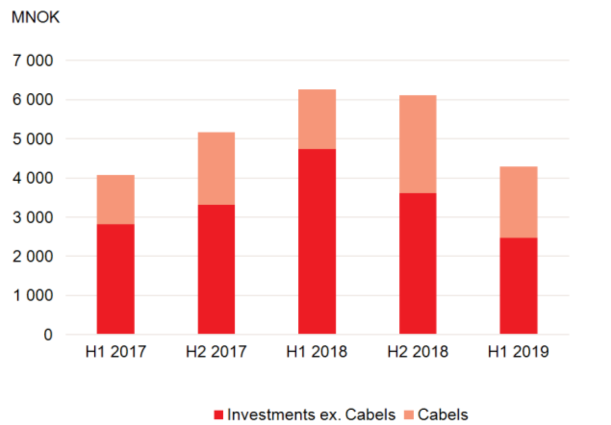
Planned investments

- *Aurland–Sogndal:* Investment decision for voltage upgrade to 420 kV taken in February, and license granted by the NVE in June.
- *Hadselfjorden – refurbishment of cable installation:* Investment decision taken in April.
- *Tveiten – expansion and refurbishment of substation:* Solution and investment decisions taken in June.
- *New Onarheim substation (previously Husnes):* Solution approved in March.
- *NSO Reactive compensation:* Solution approved in April.
- *Fortun, substation refurbishment:* Solution approved in May.
- *Kvandal–Kanstadbotn:* License granted in March.

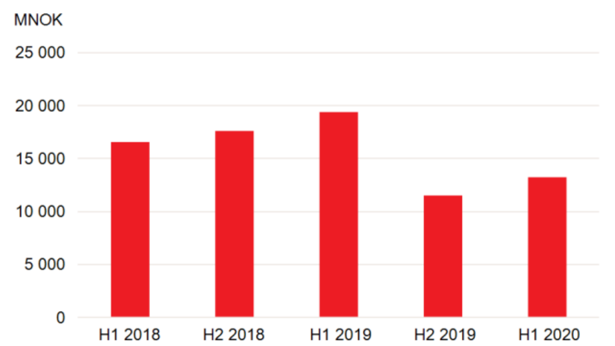
IT projects

New Nordic Balancing Model (NBM): Realization of the New Nordic Balancing Model is generally on plan and on budget. However, realization of the capacity market for automatic frequency restoration reserve (aFRR) has been delayed after the Nordic regulators escalated approval of the proposed solution to the Agency for the Cooperation of Energy Regulators (ACER). ACER approval was received on August 17 2020.

Development investments



Development plants and construction



	Unit	2020 Target	H1 2020	H1 2019	2019
Power Line Completed	Km	158	76	103	225
Commissioned Switchgears	Number	97	30	24	67

List of major investment projects

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

Project	Location	Expected investment
Under construction		
Western Corridor, voltage upgrade	South	6 600 - 6 800
Balsfjord - Skaidi, 420 kV-power line	North	4 090 - 4 230
Lyse - Fagrafjell, new power line and substation	South	2 020 - 2 095
Smestad - Sogn substation and cable installation	East	1 344 - 1 385
Nedre Røssåga - Namsos, voltage upgrade	North	900 - 1 000
Rød, renewal control gear and switchgear	East	665 - 690
Sogn, transformer substation reinvestment	East	560 - 570
Salten, new transformer station	North	545 - 575
Sylling, reinvestment	East	540 - 570
Interconnectors		
Cable to England (NSL) 1)		MEUR 750 - 1,000
Cable to Germany (NordLink) 1)		MEUR 750 - 1,000
Final licence granted		
Åfjord - Snilldal, ny 420 kV- power line and cabel installation	Mid	1 900 - 2 700
Aurland - Sogndal, voltage upgrade	West	940 - 1 050
Aura/Viklandet - Surna, voltage upgrade	Mid	500 - 700
Hamang, new substation	East	760 - 850
Planned investments, licences pending or appealed		
Skaidi - Hammerfest 420 kV-cabel	North	1 810 - 2 080
Sogn - Ulven, ny 420 kV- cabel installation	East	1 340 - 1 490
Haugalandet voltage upgrade	West	1 150 - 1 350
Karmøy reinvestment / new substation	West	530 - 640
Hamang - Bærum - Smestad 420 kVcabel & Bærum station 2)	East	240 - 320

1) Statnett share. Exposure mainly in Euro, equals a range of 7-9 billion NOK per project. Contracts with partners in Germany and England in Euro.

2) The cost range is for the overhead power lines. Cables for the project have an estimated cost of 1000-1250 MNOK.

The amounts in the table shows the anticipated range including all project costs.

Financial performance

Operating revenue

In the first half of 2020, Statnett's consolidated operating revenues were NOK 4 776 million (NOK 4 764 million). Operating revenues from regulated activities accounted for NOK 4 459 million (NOK 4 490 million), while other operating revenue totaled NOK 318 million (NOK 274 million).

- Tariff income from the fixed tariff component in the first half of the year were on a par with 2019. Tariff income from the energy component were down by NOK 347 million versus the comparable prior year period, mainly due to lower power prices.
- Congestion revenue was NOK 298 million higher than the same period of 2019 due to major differences in power prices in Norway versus Sweden, Denmark and the Netherlands. Revenues also increased due to the weakening of the Norwegian krone. The increase was offset by lower revenues in periods when the transmission capacity was reduced.

The Group's operating revenues are primarily regulated through a ceiling for permitted income established by the RME. In the first half of 2020, permitted income amounted to NOK 4 632 million (NOK 4 596 million). The increase is due to a higher revenue base from additional infrastructure completion. This was offset by lower costs for transmission losses, a lower revenue base from costs that are included with a two-year time lag and a lower NVE interest rate in 2020.

If recorded revenues from grid operations deviate from permitted income in a year, this results in higher or lower revenue.

In the first half of 2020, Statnett recorded a lower revenue (see note 2) of NOK 139 million (NOK 53 million)

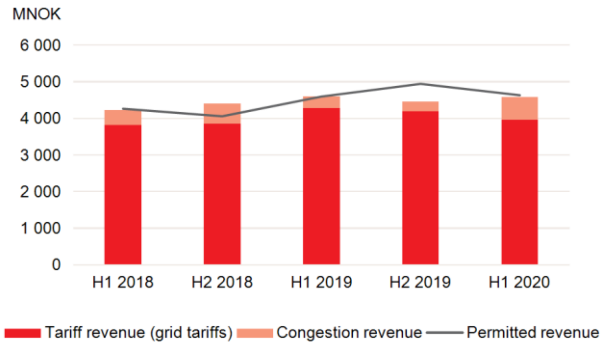
This was more than expected due to a higher congestion revenue in the period. At the closing date, the accumulated lower revenue amounted to NOK 871 million. The accumulated lower revenue is attributable to a desire to equalize the grid tariff for Statnett's customers. Any delayed effect on the tariff basis as a result of the changed tariff model for 2021 could increase the lower revenue next year. The lower revenue has not been recognized in the balance sheet.

Operating costs

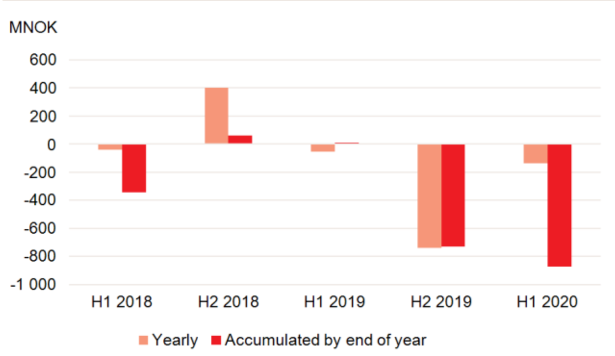
In the first half of 2020, total operating costs totaled NOK 3 173 million (NOK 3 036 million).

- Total salary and personnel costs increased by NOK 56 million as a result of higher resource needs in order to manage the growth and development of Statnett's improvement portfolio.
- Reduced costs for system services of NOK 20 million are mainly due to lower costs for primary and tertiary reserves as a result of good availability of power, but were partly offset by higher transit costs, including currency effects.
- Transmission losses decreased by NOK 339 million as a result of lower power prices.
- Total depreciation, amortization and impairments increased by NOK 239 million due to a higher asset base, including Nordlink, the Western Corridor, Namsos–Surna and Bjerkerheim.
- The increase in other operating costs of NOK 200 million relates to higher activity levels on digitalization/improvement projects, the system portfolio, and a focus on IT areas such as information security, integrations and data platforms. This also includes currency effects of NOK 28 million.

Total operating revenue



Higher/ lower revenue



Financial results

In the first half of 2020, the Group posted an operating profit of NOK 1 604 million (NOK 1 729 million).

Consolidated net financial items result was NOK -204 million (NOK (-250 million).

- The improved net financial items are mainly attributable to a increased profits from the associated company TSO Holding following a restructuring of the Nord Pool Group and a gain on the sale of shares to Euronext (NOK 129 million), along with an increase in the value of derivatives (NOK/SEK interest and currency swaps of NOK 28 million) and other securities (NOK 15 million).
- This improvement was offset by higher interest expenses (NOK 75 million) as a result of higher long term interest bearing liabilities of NOK 1.9 billion and a slightly higher average interest expense (0.26 per cent) in the period.

In the first half of the year, the Group posted a profit after tax of NOK 1 121 million (NOK 1 152 million). Adjusted for the change in higher/lower revenues not recognised in the balance sheet, the underlying profit after tax amounted to NOK 1 230 million (NOK 1 194 million). The increase in the underlying profit is mainly attributable to higher permitted income in 2020. (See explanation under Operating revenue.)

Cash flow

The net cash flow for the period amounted to NOK 2 371 million (NOK 491 million).

- The consolidated cash flow from operating activities was NOK 2 684 million (NOK 2 433 million).
- The net cash flow from investing activities was NOK -4 562 million (NOK -3 129 million).
- Total loan repayments of NOK 7 458 million were made, while new debt amounted to NOK 8 554 million.
- At the end of the first half of the year, consolidated cash and cash equivalents and market-based securities totaled NOK 4 792 million (NOK 3 523 million).
- Total unused drawdown facilities amounted to NOK 8 000 million.

Balance sheet

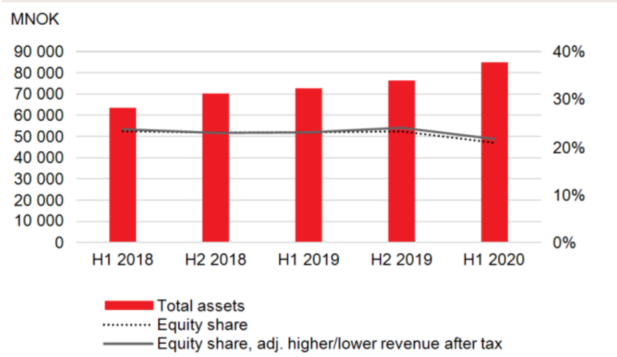
At the end of June, the Group had total assets of NOK 84 997 million (NOK 72 765 million).

- Interest-bearing liabilities totaling NOK 58 668 million (NOK 46 764 million) include guarantees under the CSA[6] scheme (provision of collateral for derivative counterparties) of NOK 7 836 million (NOK 3 719 million). The market value of interest and currency swaps (fair value hedges) recognized in the balance sheet relating to interest-bearing liabilities totaled NOK 8 985 million.
- The end of period equity ratio adjusted for higher/lower revenue was 21.7 per cent (23.1 per cent). Adjusted for interest and currency swaps the equity ratio was 24.3 per cent (24,5 per cent).

Risk

The financial markets have seen increased risk premiums and lower liquidity in the wake of the coronavirus pandemic. However, Statnett has few loan maturities in the coming months and has received significant CSA payments (collateral from derivative counterparties) as a result of the weakening Norwegian krone and Statnett hedging strategy. This means that our liquidity situation is good. In addition, Statnett has an unused drawdown facility of NOK 8 billion for situations where the loan market is performing poorly, which we will use on a need be basis.

Total assets and equity share



[6] Credit Support Annex

Outlook

Extensive electrification and more renewable power production to achieve climate goals are the most important drivers of the development of the power grid, both in Norway and our neighboring countries. At the same time, Norway is becoming ever-more closely linked with the European energy system, through joint climate pledges, increased exchange capacity and joint regulations and market solutions.

The green transition continues

While the coronavirus pandemic and the resulting economic downturn increases the level of uncertainty, the expected long-term direction remains unchanged. The EU's European Green Deal, which aims to establish a climate-neutral EU by 2050, is clearly pointing towards a greener European energy system, where electrification and a transition from fossil to renewable sources will be key instruments. The EU's Recovery Fund to mitigate the effects of the coronavirus crisis prioritizes climate-friendly investments.

Electrification is a cost-effective way of replacing fossil energy consumption, and consequently reducing greenhouse gas emissions. According to our analyses, direct and indirect electrification (via hydrogen), is expected to lead to a doubling of European power consumption by 2050. In addition, 2,000–3,000 TWh of renewable energy will be required to replace existing fossil power production in Europe. Together, this will necessitate the development of enormous volumes of wind and solar power. An ambitious climate policy, rapidly falling costs and growing resistance to onshore wind-power are likely to be the main drivers of large-scale development of offshore wind power and grids in the areas adjoining Norway (the North Sea and the Baltic Sea). Hydrogen will also play a key role in the power system of the future.

Norway can become a fully electric society

Although Norway is currently one of the world's most highly electrified countries, around half of the country's energy consumption comes from fossil sources. Renewable power, competitive prices and a flexible power system are creating favorable terms for further electrification and commercial development.

Statnett expects both consumption and production of electricity in Norway to increase significantly in the next decades. Electrification is increasing at a rapid rate – even faster than predicted just a few years ago. The challenge to ensure sufficient transfer capacity, and that developments in consumption and demand remain balanced, will be a key issue in the years ahead. There is much to indicate that the 2020s will be the decade of electrification.

Statnett is developing the power system of the future

With business and consumer activity becoming more dependent on electricity and with increasing digitalization, a secure power supply is more important than ever. It is Statnett's task to facilitate electrification while ensuring a secure power supply at an acceptable price. Development and implementation of new technology is a crucial success factor. Statnett is a front runner within R&D towards the realization of a fully electrical Norway. Statnett's actions will lead to increased knowledge, innovation and value creation within a safe sustainable energy system.

In several places along the coast and in areas surrounding major cities, there is need for major grid upgrades, not least to accommodate the electrification of offshore petroleum installations, and other growth in consumption. In many places in Norway, there is also a need for more grid capacity for the connection of new renewable power production. In addition, there is an increasing need for re-investments, maintenance and life cycle enhancing measures. This has accelerated by Statnett's acquisitions of assets following the Third Energy Package. The solutions we develop must capture all these needs and be aligned with potential regional solutions.

Statnett and other Nordic TSO's has proposed to the Nordic regulators to establish a Nordic Coordinating Entity in Copenhagen from 2022 ("RCC"). This entity will manage important grid coordinating tasks in the future. System operations will undergo fundamental changes in the years to come. As grid system operator, Statnett must ensure instantaneous balance in the Norwegian power system. Since the Nordic region is one synchronized area, Nordic TSOs must work closely together to fulfil their balancing obligations. The Nordic Balancing Model (NBM) is facilitating the development of new solutions to manage a larger and more complex power system with greater fluctuations in production, consumption and power flows. Close dialogue with stakeholders and regional grid operators, smart infrastructure management and new system and market solutions will help Statnett pave the way for the electric future and value creation in a cost-effective manner.

Comprehensive income statement

		First half		Year
(Amounts in NOK million)	Note	**2020**	**2019**	**2019**
Operating revenue				
Regulated operating revenue	2	4 459	4 490	8 828
Other operating revenue		318	274	813
Total operating revenue		**4 776**	**4 764**	**9 641**
Operating costs				
System services		234	254	492
Transmission losses		119	458	882
Salaries and personnel costs		575	519	1 077
Depreciation, amortisation and impairment	4	1 391	1 152	2 405
Other operating costs		852	652	1 758
Total operating costs		**3 173**	**3 036**	**6 614**
Operating profit		**1 604**	**1 729**	**3 027**
Financial income		718	29	72
Financial costs		922	279	659
Net financial items		**-204**	**-250**	**-587**
Profit before tax		**1 400**	**1 479**	**2 440**
Tax		278	326	534
Profit for the year		**1 121**	**1 152**	**1 906**
Other comprehensive income				
Changes in fair value for cash flow hedges		163	-68	129
Tax effect		-36	15	-28
Other comprehensive income to be reclassified to profit or loss in subsequent periods		**127**	**-53**	**101**
Changes in estimate deviations of pension liabilities		-	-	86
Tax effect		-	-	-19
Other comprehensive income not to be reclassified to profit or loss in subsequent periods		**-**	**-**	**67**
Total other comprehensive income		**127**	**-53**	**168**
Total comprehensive income		**1 248**	**1 099**	**2 074**

Balance sheet

(Amounts in NOK million)	Note	**30.6.2020**	**30.6.2019**	**31.12.2019**
Assets				
Fixed assets				
Deferred tax asset		-	53	29
Intangible assets		1 030	988	1 021
Tangible assets		54 944	42 673	54 637
Plants under construction	4	13 222	19 366	11 514
Investment in jointly controlled company and associates		116	102	108
Pension assets		99	-	65
Other non-current financial assets	3	8 765	4 337	4 835
Total fixed assets		**78 177**	**67 518**	**72 210**
Current assets				
Trade accounts and other short-term receivables	3	2 028	1 724	1 688
Market-based securities	3	1 094	1 077	1 097
Cash and cash equivalents	3	3 698	2 447	1 327
Total current assets		**6 820**	**5 247**	**4 113**
Total assets		**84 997**	**72 765**	**76 323**
Equity and liabilities				
Equity				
Contributed capital		5 950	5 950	5 950
Other equity accrued		11 820	10 859	11 833
Total equity		**17 770**	**16 809**	**17 783**
Long-term liabilities				
Deferred tax		2 765	2 232	2 484
Pension liabilities		259	293	253
Other liabilities		532	514	466
Long-term interest-bearing debt	3	48 373	40 733	41 508
Total long-term liabilities		**51 929**	**43 773**	**44 711**
Current liabilities				
Short-term interest-bearing debt	3	10 295	6 031	8 691
Trade accounts payable and other short-term debt	3	4 998	6 146	5 135
Tax payable		5	7	3
Total current liabilities		**15 298**	**12 184**	**13 829**
Total equity and liabilities		**84 997**	**72 765**	**76 323**

Changes in equity

(Amounts in NOK million)	Total equity	Other equity accrued	Other items	Contributed capital
01.01.2019	**16 194**	**10 312**	**-68**	**5 950**
Profit/loss for the period	1 906	1 906	-	-
Other comprehensive income	168	67	101	-
Dividends declared	-484	-484	-	-
31.12.2019	**17 783**	**11 801**	**33**	**5 950**
01.01.2019	**16 194**	**10 312**	**-68**	**5 950**
Profit/loss for the period	1 152	1 152	-	-
Other comprehensive income	-53	-	-53	-
Dividends declared	-484	-484	-	-
30.6.2019	**16 809**	**10 980**	**-121**	**5 950**
01.01.2020	**17 783**	**11 801**	**33**	**5 950**
Profit/loss for the period	1 121	1 121	-	-
Other comprehensive income	127	-	127	-
Dividends declared	-1 261	-1 261	-	-
30.6.2020	**17 770**	**11 661**	**159**	**5 950**

Cash flow

(Amounts in NOK million)	Note	First half 2020	First half 2019	Year 2019
Cash flow from operating activities				
Profit before tax		1 400	1 479	2 440
Loss/gain(-) on sale of fixed assets		-5	-71	-95
Depreciation, amortisation and impairment		1 391	1 152	2 405
Paid taxes		-3	-2	-2
Interest recognised in the income statement		364	250	590
Interest received		11	6	16
Interest paid, excl. construction interest		-428	-315	-634
Changes in trade accounts receivable/payable		561	402	384
Changes in other accruals		-607	-468	-605
Net cash flow from operating activities		**2 684**	**2 433**	**4 499**
Cash flow from investing activities				
Proceeds from sale of tangible fixed assets		17	372	401
Purchase of tangible and intangible fixed assets and plants under construction	4	-4 551	-3 341	-9 129
Construction interest paid	4	-152	-184	-338
Changes in investment in joint ventures, associates and other companies		-11	4	4
Changes in long term loan receivables	3	-	7	9
Dividend received		135	13	13
Net cash flow from investing activities		**-4 562**	**-3 129**	**-9 040**
Cash flow from financing activities				
Proceeds from new interest-bearing debt	3	8 554	2 250	6 259
Repayment of interest-bearing debt	3	-7 458	-2 359	-4 175
Changes in collateral under CSA (Credit Support Annex) agreements		3 151	600	1 624
Proceeds from sale of market-based securities	3	1 115	796	2 082
Purchase of market-based securities	3	-1 114	-100	-1 394
Dividend paid		-	-	-484
Net cash flow from financing activities		**4 249**	**1 187**	**3 912**
Net cash flow for the period		2 371	491	-629
Cash and cash equivalents at the start of the period		1 327	1 956	1 956
Cash and cash equivalents at the close of the period		**3 698**	**2 447**	**1 327**

Selected notes

Note 1 – Accounting policies

These interim financial statements have been prepared in accordance with International Standards for Financial Reporting (IFRSs) and interpretations issued by the International Accounting Standards Board (IASB), including IAS 34. The interim financial statements do not contain all the supplementary disclosures required in the annual financial statements and should therefore be read in conjunction with the annual financial statements for 2019. The interim financial statements have not been audited.

The accounting policies applied for the interim financial statements are consistent with the accounting policies applied in the annual financial statements for 2019.

Note 2 – Operating revenue

Statnett's operating revenue mainly derives from grid activities, which are regulated. Operating revenue from regulated activities in Statnett's financial statements primarily comprises established grid rental from customers and congestion revenue (price differences between areas in the Nordic region and with the Netherlands). Grid activities are regulated by the RME, which establishes a ceiling (permitted income) for Statnett's revenue. If total revenue from grid activities deviates from permitted income in a year, this gives rise to higher or lower revenue. Higher or lower revenues are equalized over time through adjustment of future grid rental charges. In the first half of the year, Statnett recorded a lower revenue of NOK 173 million (NOK 53 million). Higher/lower revenues are not recognized in the financial statements but are reported as part of the underlying result (an alternative performance measure).

Statnett's income from its role as settlement coordinator is reported in Other operating revenue. Settlement activities are regulated by the RME. The calculation basis is the recognized operating result of own grid operations adjusted for changes in non-recognized higher/lower revenue. In the first half of the year, Statnett had a higher revenue of NOK 41 million. Higher/lower revenues are not recognized in the financial statements but are reported as part of the underlying result (an alternative performance measure).

In the first half of the year, Statnett recorded a net lower revenue of NOK 132 million from grid operations and its role as settlement coordinator as part of the underlying result (an alternative performance measure).

	Year to date		**Year**
(Amounts in NOK mill)	**2020**	**2019***	**2019**
Operating revenue from regulated grid operations			
Tariff revenues	3 960	4 284	8 472
Congestion revenues	618	320	587
Income from other owners in shared grids	-118	-114	-232
Total operating revenue from regulated grid operations	**4 459**	**4 490**	**8 828**
This period's unrecorded higher/lower revenue (-/+)	173	53	711
Total permitted revenue from grid operations	**4 632**	**4 596**	**9 539**
Change in higher/lower revenue from grid operations (-/+), incl. interest			
This period's unrecorded higher/lower revenue (-/+)	173	53	711
This period's unrecorded provision for interest higher/lower revenue (-/+)	4	-	5
Higher/lower revenue unrecorded adjustment for prior periods (-/+)	-	-	10
This period's changed balance for higher/lower revenue from grid operations (-/+)	**177**	**53**	**726**
Balance higher/lower (-/+) revenue from grid operations, incl. interest as at 1 Jan.	**667**	**-59**	**-59**
Changed balance for higher/lower revenue (-/+), incl. interest	177	53	726
Balance higher/lower revenue from grid operations (-/+), incl. interest, year to date	**844**	**-6**	**667**
Operating revenue from imbalance settlement			
Income fee imbalance settlement	199	*	331
This period's unrecorded higher/lower revenue (-/+)	-41	*	-65
This period's unrecorded provision for interest higher/lower revenue (-/+)	3	*	-
Total permitted revenue from imbalance settlement	**161**	*****	**266**

Change in higher/lower revenue from imbalance settlement, incl. interest			
Balance higher/lower (-/+) revenue, incl. interest as at 1 Jan.	65	*	-
Changed balance for higher/lower revenue (-/+), incl. interest	-38	*	65
Balance higher/lower revenue from imbalance settlement (-/+), incl. interest year to date	**27**	*	**65**

Change in higher/lower revenue from grid operations and imbalance settlement, incl. interest			
Balance higher/lower (-/+) revenue from grid operations and imbalance settlement, incl. interest as at 1 Jan.	732	*	-59
Changed balance for higher/lower revenue (-/+), incl. interest	139	*	791
Balance higher/lower revenue from grid operations and imbalance settlement (-/+), incl. interest year to date	**871**	*****	**732**

** Not reported for 2019*

Note 3 –Financial instruments

The Note provides an overview of the carrying value and fair value of financial instruments, and how these are treated in the financial statements. The table also shows at which level in the valuation hierarchy the various measurement methods for the Group's financial instruments measured at fair value are included, based on the relative objectivity of the measuring methods.

(Amounts in NOK million) **Assets**	**Classification under IFRS 9**	**Measure-ment level**	**30.06.2020 Carrying value**	**30.06.2019 Carrying value**
Fixed assets				
Long-term receivables	Amortised cost	na	49	36
Subord. capital in Statnett SF's pension fund	Amortised cost	na	75	75
Financial assets available for sale	Fair value through P/L	3	3	3
Derivatives	Fair value through P/L	2	8 637	4 223
Derivatives, non-interest bearing	Fair value through P/L	2	1	1
Total financial fixed assets			**8 765**	**4 337**
Current assets				
Trade accounts receivable	Amortised cost	na	102	138
Derivatives	Fair value through P/L	2	659	6
Derivatives, non-interest-bearing	Fair value through P/L	2	88	17
Other short-term receivables	Amortised cost	na	1 179	1 562
Total trade accounts and other short-term receivables			**2 028**	**1 723**
Market-based securities	Fair value through P/L	1	1 094	1 077
Liquid assets	Fair value through P/L	1	3 698	2 447
Other liabilities				
Derivatives, non-interest-bearing	Fair value through P/L	2	6	2
Other liabilities	Amortised cost	na	526	512
Total other liabilities			**532**	**514**
Liabilities				
Other long-term interest-bearing debt	Amortised cost	2	47 878	40 244
Lease liability	Amortised cost	na	184	213
Derivatives	Fair value through P/L	2	311	276
Total long-term interest-bearing debt			**48 373**	**40 733**
Other short-term interest-bearing debt	Amortised cost	2	10 264	6 000
Lease liability	Amortised cost	na	31	31
Total short-term interest-bearing debt			**10 295**	**6 031**
Trade accounts payable and other short term debt				
Trade accounts payable and other short term debt	Amortised cost	na	4 946	6 162
Derivatives, non-interest-bearing	Fair value through P/L	2	52	-16
Total trade accounts payable and other short-term debt			**4 998**	**6 146**

Fair value of Other interest bearing debt recognised at amortised cost	30.06.2020	30.06.2019
	Fair value	**Fair value**
Other long-term interest-bearing debt	49 196	40 536
Other short-term interest-bearing debt	10 264	6 000
Total Other interest bearing debt	**59 460**	**46 536**

Total measurement levels	30.06.2020 Carrying value	30.06.2019 Carrying value
Level 1	1 094	1 077
Level 2	-49 126	-42 503
Level 3	3	78

There has not been any transfers between the measurement levels during the period.

Fair value

The fair value of forward exchange contracts is established using the forward rate at the balance sheet date. The fair value of currency and interest swaps is calculated as the present value of future cash flows. Fair values are mainly confirmed by the financial institutions with which Statnett has entered an agreement. The fair value of financial assets, trade payables and other current and interest-bearing liabilities are measured at amortized cost using the effective interest method.

Due to their short-term nature, the carrying value of financial instruments such as available-for-sale financial assets, trade and other current receivables, cash and cash equivalents, trade and other current payables is deemed to be a fair estimate of fair value.

Measurement of financial instruments

The Group applies the following 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 adjustment is made for these prices.
Level 2: Fair value is measured using other observable inputs than those 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, money market and interest funds, bonds and certificates are deemed to be Level 1 since the securities are listed on a stock market and freely tradable and are measured at the most recent quoted price. Non-listed shares and shareholdings are valued based on the company's financial statements and are therefore deemed to be Level 3.

Derivatives are deemed to be Level 2. The currency element of forward exchange rates is measured at observable market prices using rates from Norges Bank. The fair value of forward exchange contracts also takes account of the interest element inherent in the individual contract.

Note 4 Plants under construction

(Amounts in NOK million)	**2020**	**2019**
Acquisition cost at 1 January	11 505	17 657
Additions	3 199	4 105
Capitalised construction interest	152	183
Transferred to tangible and other intangible fixed assets	-1 588	-2 540
Write-offs	-26	-34
Acquisition cost at 30 June	**13 242**	**19 371**
Hedge accounting effects	-20	-5
Plants under construction at 30 June	**13 222**	**19 366**

Contractual obligations
Total contractual commitments as of 30 June 2020 amounted to NOK 4.9 billion. The total relates to development projects where future contractual commitments are greater than NOK 50 million.

Declaration from the Board of Directors and CEO

We confirm that, to the best of our knowledge, the interim financial statements for the period 1 January to 30 June 2020 have been prepared in accordance with IFRSs and that the disclosures in the financial statements fairly present the company's and the Group's assets, liabilities, financial position and performance as a whole. We further declare, to the best of our knowledge, that the information contained in the Interim Report from the Board of Directors for the first six months of 2020 fairly presents the performance, results and position of the company and the Group, together with a description of the key risk and uncertainty factors facing the enterprise.

Oslo, 20 August 2020
Statnett SF's Board of Directors

Jan Fredrik Baksaas
Chair

Tove Pettersen
Board member

Maria Sandsmark
Board member

Egil Gjesteland
Board member

Wenche Teigland
Board member

Christian Reusch
Board member

Ingeborg Ligaarden
Board member

Ole Bjørn Kirstihagen
Board member

Steinar Jøråndstad
Board member

Auke Lont
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