Statkraft

Statkraft AS
Annual Report 2018

CONTENT

ABOUT THE REPORT

Note that the report from the Board of Directors includes references to other chapters which also are signed by the Board of Directors.

POWERING A GREEN FUTURE

Statkraft is a leading renewable energy company with activities on three continents within hydro, wind and solar. Through our market activities and production assets we create value for our owner, our customers and the societies we operate in.

STATKRAFT - at a glance

KEY FIGURES

EBIT underlying………………………………..…………...NOK 15.0 billion
Net profit……………………………………….……………….NOK 13.4 billion
Net interest-bearing debt……………………….…………….NOK 12.9 billion
Cash flow from operations ……………….…………….NOK 15.3 billion
ROACE…………………………………………………..……….14.7%

EUROPE'S LARGEST PRODUCER OF RENEWABLE ENERGY

62 TWh

98% renewable

Standard & Poor's long-term rating

A-

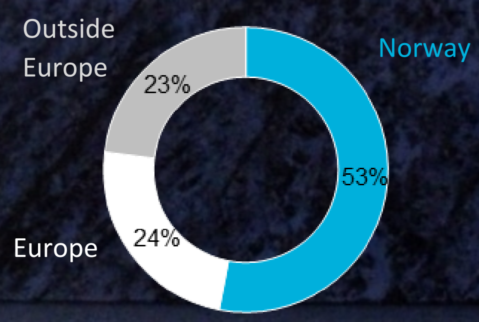
Fitch Ratings' long-term rating

BBB+

Investments

7.0

(NOK billion)



3600

employees in **15** countries

5.3 Total recordable injuries per million hours worked

One fatal accident related to hydro-power construction in Albania

HYDROPOWER **WIND POWER** **SOLAR POWER** **GAS POWER** **DISTRICT HEATING** **TRADING**

The Board of Directors

From the left: Vilde Eriksen Bjerknes, Mikael Lundin, Ingelise Arntsen, Asbjørn Sevlejordet, Thorhild Widvey, Peter Mellbye, Bengt Ekenstierna, Hilde Drønen and Thorbjørn Holøs

Thorhild Widvey
Born 1956, Norwegian

Chair of the board, member since 2016.
Chair of the Compensation Committee
Current board positions: Board member: Kværner, Pacific Lutheran University in Tacoma.
Experience: Minister of Culture.
Minister of Petroleum and Energy.
The Ministry of Foreign Affairs: State Secretary.
The Minister of Fisheries: State Secretary.

Peter Mellbye
Born 1949, Norwegian

Vice Chair of the board, member since 2016.
Member of the Compensation Committee
Current board positions: Chair: Wellesley petroleum, Otovo. Board member: TechnipFMC, Qinterra, Competentia, Halfwave, Resoptima.
Experience: Statoil: EVP. Norwegian Export Council, Norwegian Ministry of Trade and Commerce: various positions.

Hilde Drønen
Born 1961, Norwegian

Board member, member since 2014
Chair of the Audit Committee
Current board positions: Board member: DOF Subsea and various subsidiaries in the DOF ASA Group.
Experience: DOF ASA: CFO (present).
Bergen Yards AS (today Bergen Group ASA): CFO.
Møgster Group: various positions.

Mikael Lundin
Born 1966, Swedish

Board member, member since 2018.
Member of the Audit Committee
Current board positions: Nacka Energi AB
Experience: Nord Pool: CEO. Vattenfall Power Consultant: CEO. Vattenfall Poland: CFO. Vattenfall Europe Trading: CFO. Birka Kraft: Director.

Bengt Ekenstierna
Born 1953, Swedish

Board member, member since 2016.
Current board positions: Chair: Wrams Gunnarstorp Castle.
Experience: Beken: Senior advisor (present). Several CEO positions within E.ON Group; E.ON ES, E.ON Gas, Sydkraft Bredband and Baltic Cable. Sydkraft Elnät: COO.

Ingelise Arntsen
Born 1966, Danish

Board member, member since 2017.
Member of the Audit Committee
Current board positions: Chair of the board: Asplan Viak. Board member: Export Credit Norway, Nammo, Berenberg.
Experience: Aibel: EVP. Sway Turbine: CEO. Statkraft: EVP. Arthur Andersen Business Consulting/ Bearing Point: Director: Sogn og Fjordane Energiverk: CEO. Kværner Fjellstrand: CFO and various positions.

Vilde Eriksen Bjerknes
Born 1975, Norwegian

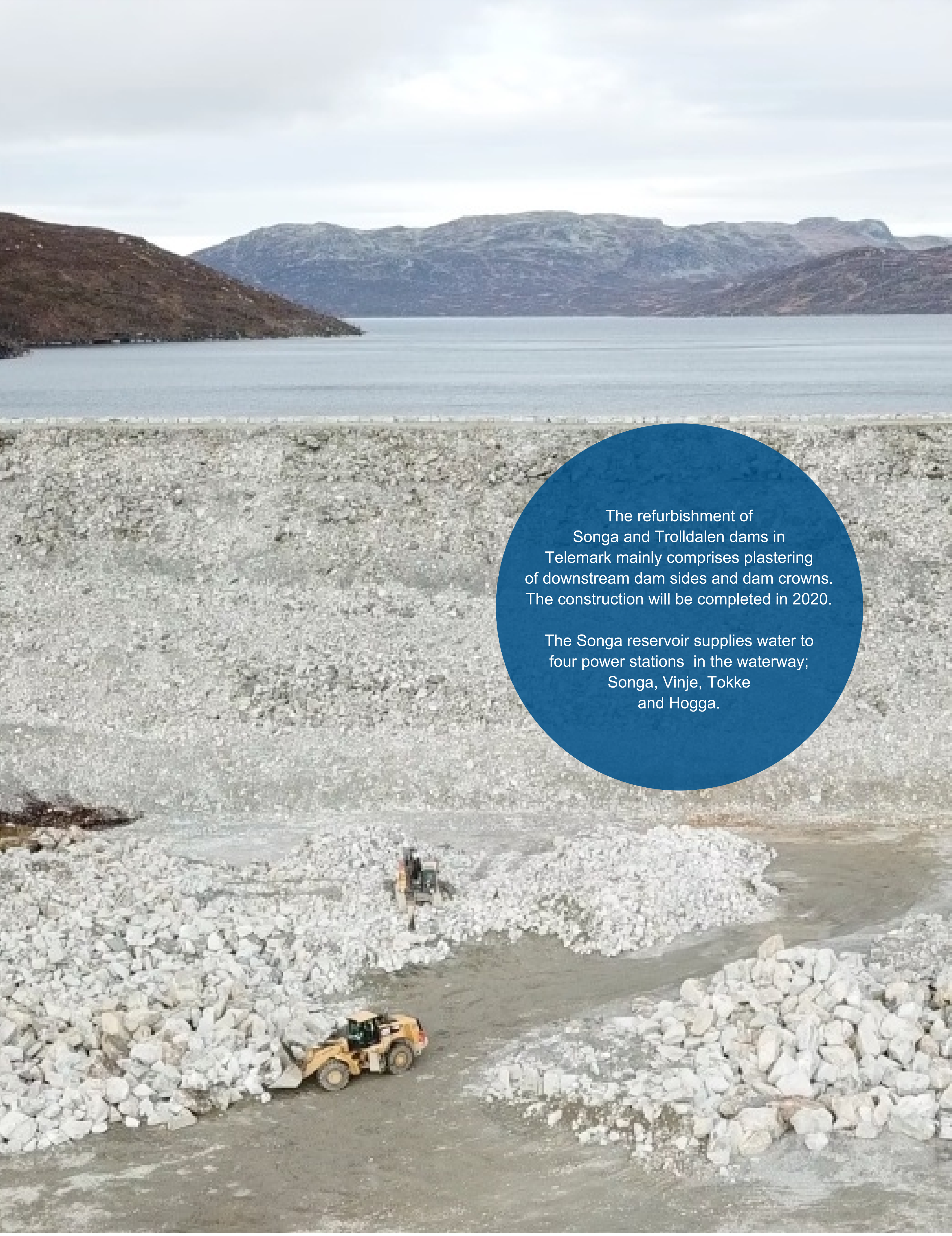
Employee-elected board member, member since 2014.
Employee in Statkraft since: 2001
Current work position: Statkraft: Vendor Manager IT.

Thorbjørn Holøs
Born 1957, Norwegian

Employee-elected board member, member since 2002.
Member of the Audit Committee
Employee since: 1976, Skagerak Energi
Current board positions: Chair: EL og IT Forbundet Vestfold/Telemark. Vice chair: LO/Grenland
Current work position: Skagerak Energi: Head union representative.

Asbjørn Sevlejordet
Born 1960, Norwegian

Employee-elected board member, member since 2014.
Member of the Compensation Committee
Employee in Statkraft since: 1978
Current work position: Statkraft: Head union representative, Mechanical maintenance worker.



The refurbishment of Songa and Trolldalen dams in Telemark mainly comprises plastering of downstream dam sides and dam crowns. The construction will be completed in 2020.

The Songa reservoir supplies water to four power stations in the waterway; Songa, Vinje, Tokke and Hogga.

The Corporate Management

From the left: Jon Vatnaland, Steinar Bysveen, Christian Rynning-Tønnesen, Hallvard Granheim, Hilde Bakken, and Jürgen Tzschoppe.

Anne Harris has been appointed new CFO at Statkraft. She will enter her new position in 2019. Thomas Geiran (SVP Financial Reporting and Accounting and Digital Finance) will act as CFO until Anne Harris commences.

Christian Rynning-Tønnesen
Born 1959, Norwegian

Group management since 2010
Position: CEO
With Statkraft in 1992-2005 and since 2010
Education: MSc NTH, Trondheim
Norwegian Army officer education
Former positions: Norske Skog: CEO and CFO. Statkraft: CFO and other executive positions. McKinsey: Consultant. Esso Norge: Refinery commercial coordinator.
Current board positions: Board member: Klaveness. Chair: VCOM. Advisory board member: Det Norske Veritas.

Steinar Bysveen
Born 1958, Norwegian

Group management since 2010
Position: EVP European Wind and Solar
With Statkraft since 2010
Education: MSc NTH, Trondheim. Business studies BI.
Former positions: Statkraft: EVP Wind, Technology and Strategy, EVP Production and Industrial Ownership, EVP Corporate Development. Energi Norge: CEO. Industrikraft Midt-Norge: MD.
Current board positions: Chair: Fosen Vind DA.

Hallvard Granheim
Born 1976, Norwegian

Group management since 2014
Position: EVP Markets and IT
With Statkraft since 2012
Education: MSc NHH, Bergen
Former positions: Statkraft: EVP & CFO, SVP Financial Reporting, Accounting and Tax. Deloitte: Director, Advisory & Auditor. Norske Skog: VP Energy Sourcing & Trading.

Hilde Bakken
Born 1966, Norwegian

Group management since 2010
Position: EVP Production
With Statkraft since 2000
Education: MSc NTH, Trondheim and TU Delft, Netherlands
Former positions: Statkraft: EVP Corporate Staff and various positions within the Generation and Market business. Norsk Hydro: various mgmt. and engineering positions
Current board positions: Board member: Yara International, Oslo Energy Forum.

Jon Vatnaland
Born 1975, Norwegian

Group management since 2017
Position: EVP Corporate Staff and Industrial Ownership
With Statkraft since 2009
Education: Cand. polit. sociology and Ph.D. innovation studies, UiO.
Former positions: Statkraft: SVP Strategy in Wind Power and Technologies, MD Statkraft UK ltd, Senior advisor Corporate Strategy. McKinsey: Engagement mgr.
Current board positions: Chair: Skagerak Energi. Deputy chair: BKK. Board Member: Agder Energi, Energi Norge, TIK Centre at UiO.

Jürgen Tzschoppe
Born 1968, German

Group management since 2015
Position: EVP International Power
With Statkraft since 2002
Education: Ph.D. Electrical engineering, RWTH Aachen
Former positions: Statkraft: EVP Market Operations and IT, SVP Continental Energy. MD Statkraft Markets GmbH and Knapsack Power GmbH & Co. KG. Enron: Power Trading Europe Associate. IAEW Aachen: Chief engineer.

Letter from the CEO

2018 was characterised by solid operations and very good financial results. Statkraft also launched its new strategy – paving the way for further growth within renewable energy.

High standards of Health, Safety, Security and Environment, human rights and business ethics are integral parts of our strategy and business models and form the basis for interaction with all our business partners.

Statkraft's good results in 2018 demonstrate what a leading renewable energy company can achieve in Norway and internationally. The company’s value creation benefits society through solid tax payments, dividends and job opportunities. Statkraft also helps developing Norwegian renewable energy skills in line with changing energy markets as well as deploying much needed renewable energy production both in Europe and in other parts of the world.

2018 served as a reminder of the unpredictability of nature and the unique qualities and values of hydroelectric power. A cold winter and a record-dry spring and summer period put the Norwegian power system's ability to deliver enough energy to the test – a test it passed successfully. Later, a record-wet autumn showed how hydropower installations are able to curb flood and reduce damage in an excellent manner. Climate change will lead to greater variations and more extreme weather in the future. The outstanding qualities of our hydropower assets make the Norwegian power system unique, with characteristics it is very important to maintain in revision of terms.

The divestment of Statkraft’s offshore wind assets has now been completed. The sale process has demonstrated high value creation amounting to NOK 10.7 billion. Together with the long-term dividend expectation from our owner and the completed Performance Improvement Programme, this provides a solid financial position for the company's further growth.

Clearer than ever, UN’s latest climate report shows the large costs and consequences of temperature increases. The report underlines the urgency in replacing fossil fuels with renewable energy sources. Thanks to our employees, assets and experience, Statkraft is well positioned for this task.

In July, Statkraft presented its new strategy "Powering a Green Future". A main priority is the existing hydropower portfolio in the Nordics, where optimal operations and large refurbishment and maintenance projects are key tasks. The strategy also sets ambitious growth targets for hydro, wind and solar power in Europe, South America and India. Increasing amounts of intermittent renewable power generation make the task of ensuring flexibility, managing risk and contributing to efficient markets more important than ever.

Towards 2025 Statkraft plans to invest around NOK 10 billion annually in renewable energy, of which 1.5 billion constitutes upgrades and maintenance of Nordic hydropower. Further investments are mainly related to onshore wind power, solar power and some international hydropower projects. In combination with business developments related to biofuels, electric vehicles charging, data centres and hydrogen, we are well underway to becoming one of the world's leading renewable companies – powering a green future!

Christian Rynning-Tønnesen

Christian Rynning-Tønnesen
President and CEO

In addition to providing renewable energy, hydropower installations can also reduce flooding.

In Tyssedal in Western Norway, heavy rain caused extremely high water levels in the midst of October 2018. To avoid damaging floods, more than 50% of the inflow to **Ringedalsvatnet** hydro reservoir was withheld.

2018

Report from the Board of Directors

Report from the Board of Directors

Caring for people is at the core of Statkraft's company culture and everyone should return home safely from work for the company. Despite this commitment, there were one fatal accident and six other serious injuries during 2018. Statkraft is dissatisfied with this. Strengthening the safety culture and the performance - across the organisation and among subcontractors - is a top priority and has great attention from the corporate management.

Statkraft had a strong underlying EBIT of NOK 15 billion in 2018, an increase of 38% from 2017. The increase was mainly driven by higher Nordic power prices. Profit before tax ended at NOK 20.6 billion and net profit at NOK 13.4 billion.

Statkraft has a solid financial foundation and is now entering into a new growth phase with an updated strategy. The company's commitment to act in a safe, ethical and socially responsible manner continues to be a foundation for all activities.

VALUES

The values shall govern Statkraft's actions as a business and provide guidance for the employee conduct:

- **Competent**. Use knowledge and experience to achieve ambitious goals and to be recognised as a leading player.
- **Responsible**. Create values, whilst showing respect for employees, customers, the environment and society.
- **Innovative**. Creative thinking, identify opportunities and develop effective solutions.

These core values apply to all employees and others who represent Statkraft.

HIGHLIGHTS OF CORPORATE RESPONSIBILITY

Statkraft is committed to act in a safe, ethical and socially responsible manner. Statkraft supports a global transition towards a low-carbon, climate-resilient economy by providing renewable and sustainable energy solutions. Statkraft's goal is to have operations where people, communities, the environment and the assets are protected.

Global initiatives and standards

In order to fulfil its corporate responsibility commitments, Statkraft takes guidance from globally recognised initiatives and standards, including the OECD's Guidelines for Multinational Enterprises and the IFC Performance Standards on Environmental and Social Sustainability. Statkraft is a member of the UN Global Compact and adheres to its ten principles.

Statkraft contributes to the implementation of several of the 17 UN Sustainable Development Goals (SDGs), and has identified Goal 7: Affordable and Clean Energy and Goal 13: Climate Action as being the SDGs to which Statkraft aims at contributing the most.

Statkraft's external reporting on corporate responsibility is based on the Global Reporting Initiative Standards.

Achievements and priorities

Corporate responsibility is an integral part of Statkraft's strategy and decision-making process. The Code of Conduct describes fundamental principles for sustainable, ethical and socially responsible behaviour. The Code of Conduct applies to all companies in the Group and to all individuals who work for Statkraft. Statkraft's business partners are expected to adhere to standards that are consistent with Statkraft's ethical requirements. Statkraft's requirements for suppliers are described in a Supplier Code of Conduct.

Corporate responsibility is an individual, managerial and line responsibility in Statkraft, and systems are in place to provide employees and managers with necessary guidance to uphold desired behaviour. Principles and requirements related to corporate responsibility are included in Statkraft's management system, which is regularly reviewed and updated in accordance with new expectations and challenges.

A number of initiatives have been implemented during 2018 to ensure continuous improvement in the area of corporate responsibility, with further priorities set for 2019, including:

- Implementation of an HSSE improvement programme with a

further focus on leadership development identified as a priority for 2019.
- Continued focus on climate related initiatives, including work linked to Statkraft's Low Emissions Scenario. Statkraft is continuously building expertise on the impact of climate changes on river systems in order to ensure safe and profitable operations.
- Launch of new Business Ethics Rules, guidance and a new training programme for all staff, focusing in 2019 on strengthening resources and capacity to address business ethics risks in new growth activities.
- Completion of the analysis of Statkraft's current approach to ensuring a responsible supply chain (including the areas of health and safety, business ethics, human rights and environment), providing the basis for further improvements in 2019.

Aspects of corporate responsibility performance are monitored through the use of scorecards at group, business and staff area levels and in business reviews. Corporate responsibility issues are also included in the Corporate Audit's scope of work. Statkraft's Board of Directors follow up the company's corporate responsibility work through their meetings. In 2018, the Board especially emphasised the establishment of more detailed and quantitative long-term goals for the corporate responsibility area, and by following up the corporate responsibility issues in project activities.

More detailed information related to corporate responsibility is presented in the corporate responsibility chapter in this report.

STRATEGY – "POWERING A GREEN FUTURE"

Market development

The world is embracing wind and solar power on a scale that has never been seen before. This massive growth increases the need for flexibility. Decreasing costs of solar and wind power will move the industry away from subsidies and into an energy system with new ways of selling power and customers that are taking stronger interest in renewable energy. The access to cheap and clean energy makes electrification the most effective solution to the climate challenge and contributes to lead the world in the direction of a low-carbon economy.

All these changes represent challenges as well as huge opportunities. Statkraft's response to the development is outlined in a new corporate strategy.

Statkraft's competitive position

Statkraft has a solid foundation for further growth. From being a supplier of hydropower to Norwegian industry and general consumption, Statkraft has become Europe's largest producer of renewable energy and with a growing presence in other international markets.

Unique and large flexible portfolio

Statkraft's unique hydropower portfolio in the Nordics constitutes Europe's largest reservoir capacity and a unique fleet of flexible power plants that enables optimisation of power generation based on market needs. The strong competence in optimising profitability with an integrated energy management and operations and maintenance processes, makes Statkraft an excellent owner of flexible hydropower.

Strong track record in wind power

Statkraft is the largest owner and operator of onshore wind power assets in the Nordics and has a strong track record with developing, constructing and operating wind power plants. Statkraft is currently constructing the largest onshore wind power project in Europe, Fosen Vind in Norway.

Deep market understanding

The Group possesses deep market understanding across many markets. The market operations are strong, including securing profitable long-term power purchase agreements, energy management and trading and origination. The skill-set, originated from managing flexible hydropower, currently forms the foundation for the large market access business of wind and solar power in many countries. Moreover, Statkraft has long experience with large customers, which has been further transformed towards smaller customers in district heating and smaller power producers in the market access business.

Financial solidity

Statkraft has a solid financial foundation and demonstrates ability to make solid returns in changing markets. A high share of long-term power contracts has a stabilising effect on revenues and net profit. The Performance Improvement Programme will yield cost reductions amounting to NOK 800 million in 2019. Cost reductions amounting to around NOK 625 million have been achieved by the end of 2018. Further savings are expected through 2019 from completed initiatives. This will be followed up by the line organisation. The Corporate-wide Programme is now closed. The divestments of offshore wind assets have been highly successful and have strengthened Statkraft's financial position.

Competent and solid partner

Statkraft has a strong competence base and a commitment to act in an ethically and socially responsible manner. The company is seen as a solid and attractive partner.

A market-centric approach

Based on the market trends and the competitive position, Statkraft will continue to pursue a market-centric approach. This means building on the company's deep market understanding to find the best opportunities in renewable energy within each market across technologies. Statkraft focuses on building scale in the countries where it already has presence, i.e. the Nordics, Europe, South America and India, and will own, develop, acquire and operate renewable assets. To further strengthen the position in each market, Statkraft will grow market operations and customise products and services to the customers' needs and market demands.

The rapid changes in the energy markets necessitate some flexibility in the targets and opportunities pursued. Statkraft continuously monitors the market and technology development to discover business risks and opportunities arising.

Strategic priorities

Optimise hydropower and other flexible generation

The need for flexibility increases, which provides a unique starting point for a flexible hydropower player with market expertise. Statkraft will build on and optimise its strong hydropower portfolio and other flexible generation. The Nordic portfolio is a unique and important source of flexible and stable power. Given the age of the Nordic hydropower fleet, Statkraft will continue with reinvestments to retain its competitiveness and optimise profitability. Annual reinvestments of around NOK 1.5 billion are expected for Norwegian and Swedish hydropower in the coming years. Statkraft will further focus on optimising and protecting the value of its hydropower assets outside the Nordics.

Historically, a significant share of the Nordic portfolio has been hedged with long-term power purchase agreements with customers. Statkraft is currently working on entering into new contracts.

Before 2022, 80% of Statkraft's hydropower production portfolio in Norway will be up for revision of the concession terms, targeting improved environmental conditions. This may reduce production and flexibility, decreasing the flood control ability and the profitability of the portfolio. Statkraft keeps a great focus on understanding the environmental regulations.

Statkraft will seek profitable growth in hydropower through acquisitions and swaps, targeting plants that fit well with the rest of the portfolio. Recent transactions in India and Brazil are good examples. As the competitiveness of new hydropower is challenged by solar, wind and batteries, very few new hydropower projects will be profitable. Thus, only projects with particular competitive advantages in terms of costs and/or flexibility will be pursued.

In Europe, gas power will be a key to provide the flexibility needed and Statkraft will own and operate the existing gas power fleet, but all further growth will be on renewable energy.

Ramp up wind and solar development

Solar and onshore wind power are becoming the cheapest way to build new power generation, and strong growth is expected in all countries in which Statkraft operates. Statkraft has a strong onshore wind power position and has also successfully delivered solar projects in the Netherlands and India. Statkraft will ramp up as a wind and solar asset developer, aiming for a total installed capacity of 6 GW of onshore wind and 2 GW of solar power by 2025. Statkraft will take on a developer role, and partially sell down shares of new assets to financial investors, primarily after completion. The company will look into both organic growth based on existing positions and acquisition of new projects or smaller portfolios to ramp up the business. The recent acquisition of the UK and Irish wind development business from Element Power is a good example. As part of this business model, Statkraft will seek to secure revenue streams through auctions and corporate Power Purchase Agreements (PPAs). The company will use its market operations to create additional value from corporate PPAs, selling assets to consumers, financial hedging and energy management.

Substantial growth is also expected in battery solutions. Statkraft will pursue opportunities in batteries together with other business lines, such as hybrid solutions and battery solutions for customers.

Grow customer business

Energy markets are becoming increasingly complex and customers are taking a stronger interest in renewable energy. Statkraft is well-positioned with its deep market expertise, renewable assets and long experience dealing with large customers. Statkraft will profitably grow its business to business customer activities, offering products and services to other power producers and large consumers, district heating and electric vehicle (EV) charging.

By 2025 Statkraft will significantly increase its volumes in market operations, expand the product offering and increase activity also in markets outside Europe. Statkraft will be a leading provider of market access services, hedging services to asset owners as well as green power supply and hedging services to power intensive industry and industrial and commercial customers. The focus will be on green investment products for corporate and institutional investors, bringing wind and solar equity investment opportunities to Statkraft's customers.

For market operations the ability to evaluate and carry risk is fundamental. Future growth in these activities requires that Statkraft keeps a constant focus on managing risk in an effective manner.

Statkraft's district heating business amounts to an annual production of around 1 TWh of heating, and is well-positioned with good profitability. Statkraft aims to be among the top three players in Norway and Sweden. Focus is on strengthening the core business and secure off-take of heat deliveries.

The market for electric vehicles and related services like EV charging is expected to grow massively. The Norwegian market is at the forefront of this development, and Statkraft is well positioned with its 47% direct ownership of Grønn Kontakt, the second largest EV charging company in Norway. Statkraft will expand the Grønn Kontakt business in the Nordics and pursue international expansion.

Develop new business

Norway and Europe are early movers in the energy transition, on decarbonisation overall and on electrification in particular, which gives Statkraft testing ground and early learnings on new business opportunities. Based on these advantages, Statkraft aims to create new profitable growth opportunities and expand in other markets.

Currently, the main initiatives are:

- Develop attractive sites for data centres and other power-intensive industry in Norway, and provide them with its wider energy management services.

- Develop biodiesel production from wood residue feedstock, in a joint venture with Södra, which can be used for transport segments and countries where combustion engines will remain for the next decades.
- Produce hydrogen from water electrolysis, to replace coal and gas in industrial processes and refineries, and for usage in heavy-duty transport replacing diesel.

Moreover, Statkraft is continuously screening new opportunities where existing capabilities and portfolio can give a competitive advantage.

A market integrator

The four strategic priorities are closely linked. Combining them, Statkraft will act as an integrator of renewable energy: matching supply and demand of energy, enabling new renewable assets into the system and managing existing assets and customer portfolios.

Statkraft's ambition for 2025

Statkraft aspires to be a leading renewables company in 2025, with sustainable, ethical and safe operations. The aim is to be:

- The largest hydropower company in Europe and a significant player in South America and India
- A major wind and solar developer with 8 GW installed capacity
- A leading provider of market solutions for renewable energy, tripling today's volumes
- One of top three district heating players in Norway and Sweden
- A developer of 1-2 new commercial and green business areas

Investments

Statkraft is planning annual investments of around NOK 10 billion in renewable energy in the period 2019-2025. Around 70% of the investments until 2025 are planned in Europe, with more than a third of the European investments expected to take place in Norway. There will also be substantial growth in markets where Statkraft is already present, like South America and India. The investment programme will be financed through retained earnings from existing operations, external financing and partial divestments of shares in completed solar and wind projects to financial investors. The investment programme has a large degree of flexibility and will be adapted to the company's financial capacity, rating target and market opportunities.

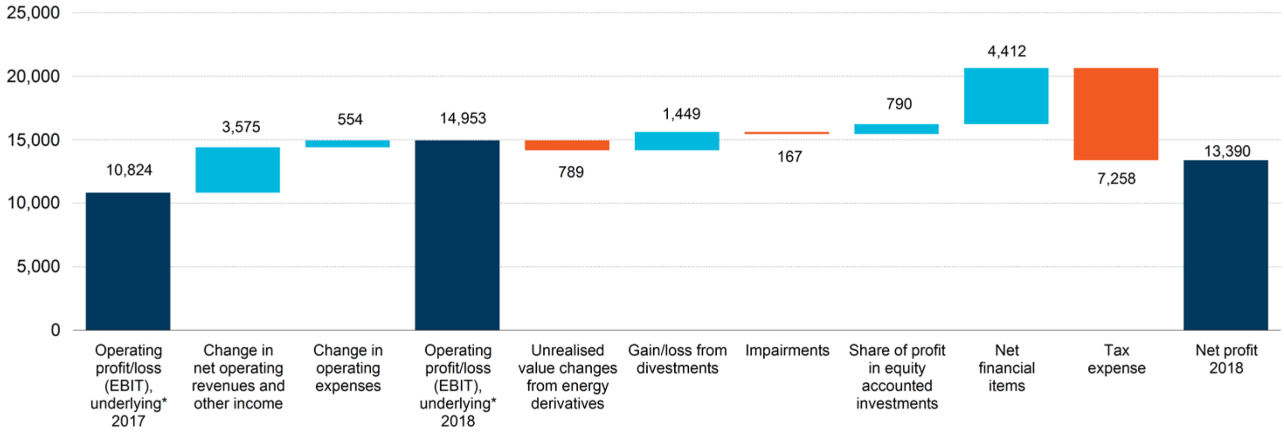
STRATEGIC TARGETS

The Board of Directors has set financial and non-financial targets for the Group. The main targets are listed in the table below. The performance related to several of the targets will be assessed over a longer time horizon.

Ambition	Target	Status
HSE AND CORPORATE RESPONSIBILITY		
Prevent incidents and be committed to a workplace without injury or harm	Zero serious injuries	7
Prevent corruption and unethical practices in all activities	Zero serious compliance incidents	0
Deliver climate-friendly, renewable power and taking responsible environmental measures	Zero serious environmental incidents	0
FINANCIAL PERFORMANCE		
Deliver a solid return on capital	>7% ROACE[1]	14.7%
VALUE CREATION IN ONGOING BUSINESS		
Efficient management of energy resources in the Nordic hydropower fleet	>3.5% higher realised prices than the average spot price in the market	4.8%
GROWTH		
Grow capacity in renewable energy (hydro-, wind- and solar power)	9 GW growth by 2025	On track
ORGANISATIONAL ENABLERS		
Develop diversity in background, competence and gender across the company	Long-term ambition of 40% women in top management positions	23%

[1)] See section Alternative Performance Measures at the end of this report for definition.

Net profit 2018
NOK mill.



** See chapter Alternative Performance Measures for definition.*

FINANCIAL PERFORMANCE[2]

An increase in the Nordic power prices led to an improvement in the Group's underlying operating profit of 38%. The positive effect was partly offset by lower contribution from Market Operations and the deconsolidation of Fjordkraft following the listing of the company in March 2018.

Gains from divestments impacted the result for the year and 2018 ended with a profit before tax of NOK 20 649 million and a net profit of NOK 13 390 million. At the end of 2018, the Group's equity was NOK 98 004 million, NOK 6377 million higher than at the end of 2017.

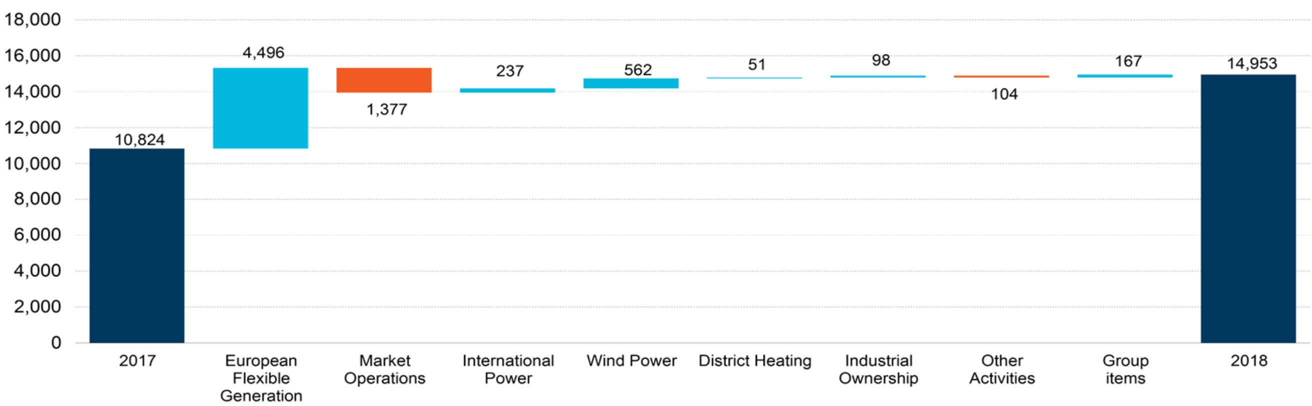
In the following, the emphasis will be to present the result from the underlying operations for items up to and including the operating profit. Unrealised value changes from energy derivatives, gains/losses from divestments of business activities and impairments are explained in the section "Items excluded from the underlying operating profit". All underlying items are alternative performance measures and we refer to the chapter «Alternative Performance Measures» for purpose, definition and statement for all items. Elements from the statement of comprehensive income after the operating profit are analysed in accordance with the financial statements.

Return on investments

Statkraft achieved a return on average capital employed (ROACE)[3] of 14.7% in 2018. This was 4.1 percentage points higher than in 2017, and well above Statkraft's target of a minimum of 7%. The improvement was primarily related to higher operating profit, mainly due to higher Nordic power prices. The average capital employed was on par with 2017.

The return on average equity accounted investments (ROAE)[4] was 5.9% (-0.5%). The negative return in 2017 was primarily due

Operating profit/loss (EBIT), underlying* - change from 2017 to 2018
NOK mill.



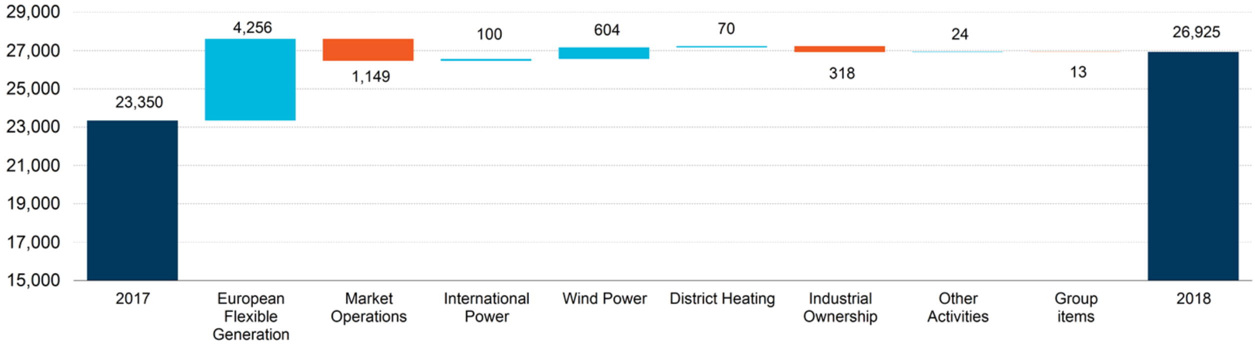
Full year 2018	12 943	-321	631	429	206	1 467	-545	142

** See chapter Alternative Performance Measures for definition.*

[2] Figures in parentheses show comparable figures for 2017.

[3] See section Alternative Performance Measures at the end of this report for definition.
[4] See section Alternative Performance Measures at the end of this report for definition.

Net operating revenues and other income, underlying - change from 2017 to 2018
NOK mill.



Full year 2018	18 765	834	2 244	1 320	650	3 284	1 011	-1 183

** See chapter Alternative Performance Measures for definition.*

to impairments in Chile. Despite the fact that there was an improvement year-on-year, the achieved return is still below the target of a minimum of 7%.

Net operating revenues and other income

Statkraft's revenues are generated through spot sales, contractual sales to the industry, market activities, grid activities and district heating. In addition, the group delivers concessionary power. The fundamental basis for Statkraft's revenues comprises of power prices, energy optimisation and generation. The generation revenues are optimised through financial power trading, and the Group engages in energy related trading activities.

Underlying net operating revenues and other income totalled NOK 26 925 million in 2018, 15% higher than in 2017.

The segments European Flexible Generation, Wind Power, District Heating and Industrial Ownership all benefitted from the higher Nordic power prices.

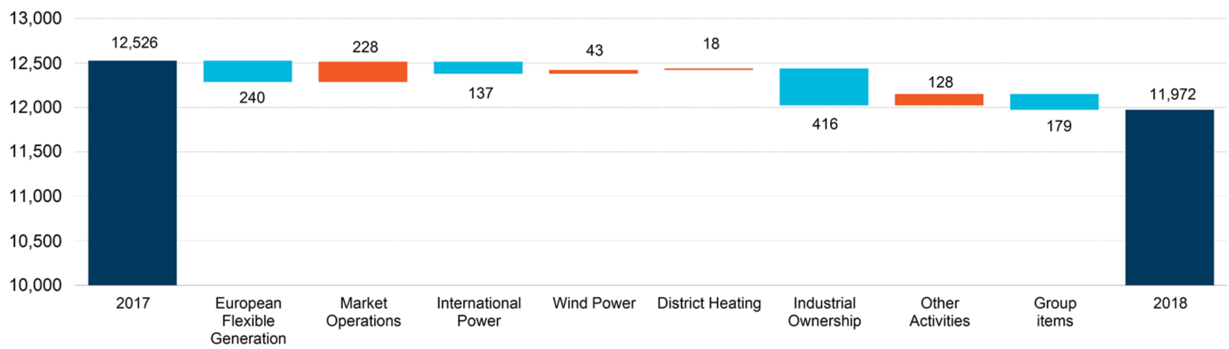
The Industrial Ownership segment still saw a decrease in net operating revenues and other income as the listing and subsequent deconsolidation of Fjordkraft led to a negative effect of NOK 741 million year-on-year.

The Market Operations segment had a negative development due to lower contribution from Nordic origination and value reduction of long-term contracts. The International Power segment had an increase in net operating revenues and other income as the Kargi hydropower plant in Turkey was in full operation in 2018 and higher generation for the Devoll hydropower plant in Albania contributed positively.

Operating expenses

In total, the Group's underlying operating expenses decreased by 4% compared with 2017. The decrease was primarily related to the deconsolidation of Fjordkraft and the reduced number of employees.

Operating expenses, underlying - change from 2017 to 2018
NOK mill.



Full year 2018	5 822	1 155	1 613	891	444	1 817	1 556	-1 325

Items excluded from the underlying operating profit

Items excluded from the underlying operating profit

NOK mill.	2018	2017
Unrealised value changes from energy derivatives	-789	1289
Gain/loss from divestments of business activities	1,449	315
Impairments	-167	-500
Total adjustments	493	1,105

In total, unrealised value changes from energy derivatives, gains/losses from divestments of business activities and impairments had a positive effect in 2018 of NOK 493 million (NOK 1105 million).

Unrealised value changes from energy derivatives adjusted for in the underlying operating profit amounted to NOK -789 million (NOK 1289 million). The negative effect were due to embedded derivatives related to long-term power sales agreements denominated in EUR, which had a negative development of NOK 333 million. Derivatives entered into for risk reduction purposes had a negative development of NOK 456 million, primarily as a result of higher forward UK power prices.

Gains/losses from divestments of business activities excluded from the underlying operating profit amounted to NOK 1449 million in 2018 (NOK 315 million), predominantly related to gain from the listing of Fjordkraft.

The impairments of NOK 167 million were mainly related to two hydropower plants in Peru.

Financial items

Financial items

NOK mill.	2018	2017
Interest income	404	374
Interests expenses	-905	-1,234
Net currency effects	-464	-2,069
Other financial items	5,377	6,748
Net financial items	4,412	3,818

Net currency effects

NOK mill.	2018	2017
Currency hedging contracts and short term currency positions	182	-348
Debt in foreign currency	-542	-1,502
Internal loans, joint ventures and associates	-104	-219
Net currency effects	-464	-2,069

Interest expenses were lower, mainly due to lower average interest rates and repayment of interest-bearing debt.

Net currency effects were negative for 2018, predominantly as a result of a weakening of NOK against EUR and USD.

Other financial items were primarily related to gain from divestments. In 2018, this was related to the divestment of the Dudgeon offshore wind farm.

Tax expense

The recorded tax expense was NOK 7258 million (NOK 3957 million). The tax expense increase was mainly due to higher profit before tax and higher resource rent tax. The majority of Statkraft's tax expense was related to Norway.

Income tax payable amounted to NOK 3181 million, an increase of NOK 1377 million compared with 2017. Resource rent tax payable amounted to NOK 3678 million, an increase of NOK 1227 million, mainly due to higher Nordic power prices and higher tax rate.

Cash flow

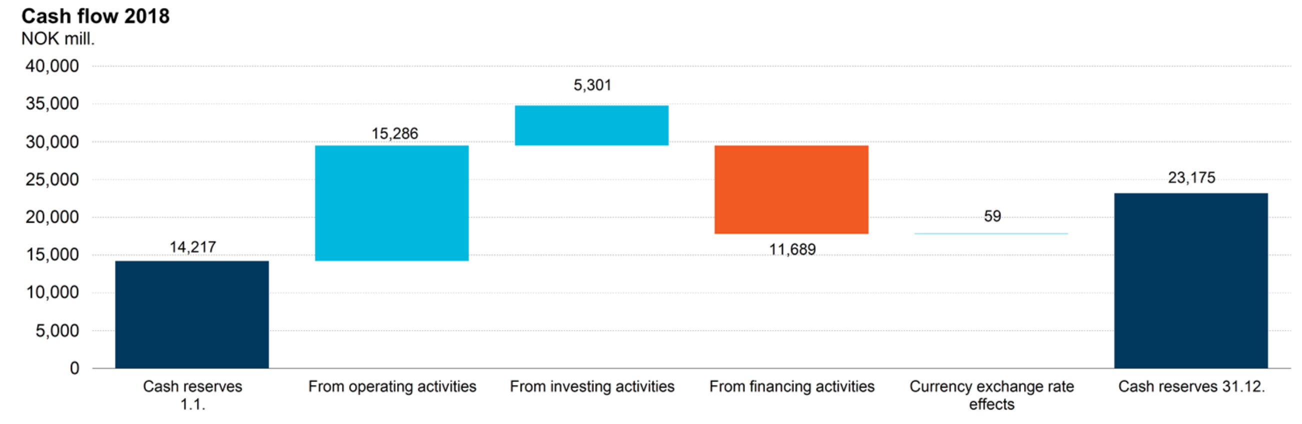
The Group generated a cash flow from operating activities of NOK 15 286 million in 2018 (NOK 8865 million), while the net cash income[5] was NOK 18 285 million (NOK 13 150 million). The increase was primarily due to higher Nordic power prices.

Cash flow from investing activities was NOK 5301 million (NOK 4634 million). The positive effect was mainly related to divestments of NOK 7316 million and repayment of loans from Dudgeon Offshore Wind Ltd. of NOK 3894 million. This was partly offset by investments in property, plant and equipment and acquisition of shares.

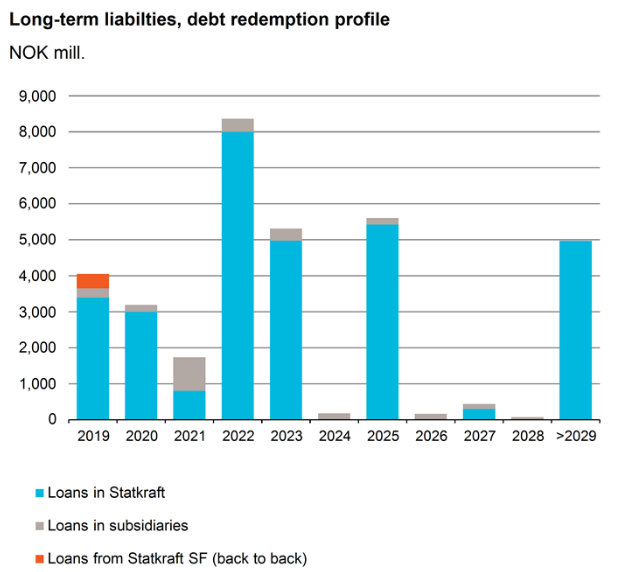
Cash flow from financing activities amounted to NOK -11 689 million (NOK -6556 million) and were mainly related to dividend paid and repurchase and repayment of interest-bearing debt.

At the end of the year, cash and cash equivalents amounted to NOK 23 175 million (NOK 14 217 million).

[5] See section Alternative Performance Measures at the end of this report for definition.



Net interest-bearing debt repayment plan



The main objectives of the Group's capital structure management are to maintain a reasonable balance between solidity and the ability to expand and to maintain a strong credit rating. When new external financing is considered, Statkraft seeks to ensure an evenly distributed repayment profile.

The most important target figure for the Group's management of capital structure is the long-term credit rating.

At the end of 2018, net interest-bearing debt[6] amounted to NOK 12 921 million (NOK 24 845 million), giving a net interest-bearing debt-equity ratio[7] of 11.6%.

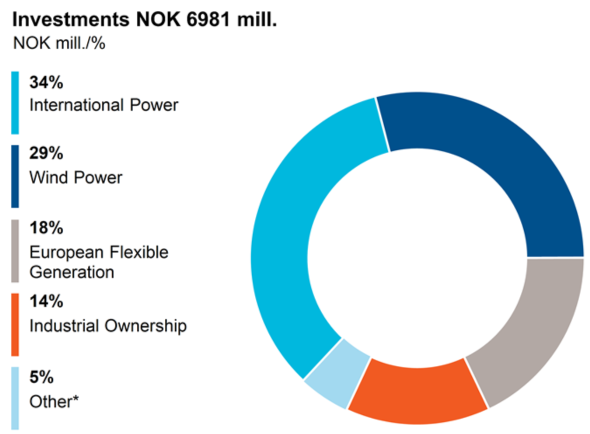
At the end of the year, Statkraft's equity totalled NOK 98 004 million, compared with NOK 91 627 million at the start of the year. This corresponds to 54% of total assets (54%).

[6] See section Alternative Performance Measures at the end of this report for definition.
[7] See section Alternative Performance Measures at the end of this report for definition.

Financial strength and rating

It is important for Statkraft to maintain its credit rating with the two rating agencies Standard & Poor's and Fitch Ratings. Statkraft AS has a current credit rating of A- (stable outlook) from Standard & Poor's and BBB+ (stable outlook) from Fitch Ratings. See note 6 to the consolidated financial statements for further information.

Investments



* Includes Market Operations, District Heating and other activities.

In accordance with the Group's strategy, the project activity level has been scaled down in the last couple of years. However, with the new strategy in 2018, Statkraft has now entered a new growth cycle and is ramping up its investments.

In total, Statkraft invested NOK 6981 million in 2018 (NOK 3895 million), of which 44% were investments in new generating capacity. Investments in new capacity were predominantly related to the Fosen onshore wind farms in Norway and the Devoll hydropower project in Albania. Maintenance investments were primarily made in connection with hydropower in the Nordic region. Investments in shareholdings were mainly related to the acquisition of hydropower plants in Brazil and a wind power development company in Ireland.

SEGMENTS

The Group's operating segments are in accordance with how the Chief Executive Officer makes, follows up and evaluates his decisions. The operating segments have been identified on the basis of internal management information that is periodically reviewed by the Corporate Management and used as a basis for resource allocation and key performance review.

The reportable segments are defined as:

European Flexible Generation includes the majority of the Group's hydropower business in Norway, Sweden, Germany and the United Kingdom, as well as the gas-fired power plants, the subsea cable Baltic Cable and the biomass power plants in Germany.

Market Operations includes trading, origination, market access for smaller producers of renewable energy, as well as revenue optimisation and risk mitigation activities related to Continental and Nordic power generation.

International Power includes development, ownership and operations of renewable assets in emerging markets. The segment currently operates in Brazil, Peru, Chile, India, Nepal, Turkey and Albania.

Wind Power includes Statkraft's development and operation of onshore wind power. The segment operates in Norway, Sweden, Ireland and in the United Kingdom.

District Heating includes Statkraft's development and operation of district heating plants in Norway and Sweden.

Industrial Ownership includes management and development of Norwegian shareholdings within the Group's core business and includes the shareholdings in Skagerak Energi, BKK, Agder Energi, Fjordkraft and Istad. Skagerak Energi is included in the consolidated financial statements, while the other companies are reported as equity accounted investments at year-end. Statkraft has divested Istad and shares in Fjordkraft in 2018. Fjordkraft was consolidated until the divestment in March 2018. After the divestment, Fjordkraft was reported as an equity accounted investment.

In addition:

Other activities includes other small-scale business, group functions and unallocated assets.

Group items include eliminations.

Based on the new strategy, Wind Power will change its name to European Wind and Solar from 1 January 2019. There will be no changes in the segment's financial figures.

European Flexible Generation

European Flexible Generation is by far the largest segment measured in terms of installed capacity, assets, net operating revenues and other income, as well as results. The assets are generally flexible with the majority of the capacity related to hydropower in Norway and Sweden.

Primarily the segment's revenues stem from sales in the spot market and from long-term contracts, mainly with power intensive industries in Norway. The segment also delivers concessionary power. Multi-year reservoirs in Norway and the flexibility of the power plants enable optimisation of the power generation based on the hydrological situation and power prices. Norwegian hydropower is therefore optimised over longer time periods than one year. In order to mitigate risk in relation to uncertainty of future prices and generated volumes, Statkraft hedges generation revenues through physical bilateral contracts and financial power trading. The hedged percentage of generation varies with market development expectations and generation volumes.

The volume sold in the spot market may vary significantly between years, depending on the hydrological situation, e.g. inflow and reservoir filling, and generation optimisation decisions. The management of multi-year reservoirs and flexible power plants normally enables Statkraft to achieve a higher average price for the power generation than what other companies in the Nordics do. How effectively Statkraft manages the Nordic hydropower fleet is measured by comparing the volume weighted average price achieved by Statkraft with the average market prices. For 2018 Statkraft achieved a realised price that was 4.8% higher than the market price. This was above the target of 3.5%.

The management of the Nordic hydropower fleet is further measured by supporting targets for availability and cost.

Availability is an important factor in optimising hydropower revenues. Statkraft measures whether its power plants are available to produce when it is most profitable to do so through a key performance indicator (KPI). The most critical factor affecting the KPI and that can be influenced is how effectively plant maintenance and refurbishments are planned and executed. Inflow and market prices are important external factors affecting the results. The long-term ambition for availability is to have a market-adjusted availability[8] higher than 95%. In 2018 the availability was 96%.

Production costs for the Nordic hydropower plants are relatively low in comparison with other types of power generation facilities. To ensure that Statkraft maintains its long-term competitiveness, Statkraft has an ambition to balance cost of operations for the fleet with ensuring availability, completing necessary reinvestments and continuously improving cost efficiency, and thus, Statkraft has a target to keep cost per kWh stable in real terms (~11 NOK øre/ kWh in 2025 nominal). For 2018 the cost per kWh[9] was NOK 9.8 øre.

Important events in 2018

Statkraft entered into new long-term power contracts in Norway with Hydro Energi, Ferroglobe Mangan Norge, Norske Skog Skogn and Norske Skog Saugbruks. In total, the contracts have a volume of 42 TWh for the period 2019 to 2038.

Due to the condition of the old turbines and increased efficiency in new turbines, it has been decided to refurbish in total eight

[8] Market adjusted availability: 1-(Σ lost productioni [MWh]/ Σ installed capacityi [MWh])x(1/reporting period [h]).
[9] See section Alternative Performance Measures at the end of this report for definition.

turbines in Rana and Kvilldal hydropower plants in Norway. The new turbines will increase the annual generation with approximately 120 GWh.

Main works at Storlia hydropower plant in Norway have started. Installed capacity will be 8.5 MW with an expected annual generation of 34 GWh.

Financial performance

Higher Nordic power prices, good energy management and high availability had a positive impact on the segment's underlying operating profit which increased by 53% compared with 2017, to NOK 12 943 million.

The segment's underlying net operating revenues and other income increased by NOK 4256 million compared with 2017, despite 3% lower generation. The increase was primarily driven by higher Nordic power prices. On average the Nordic system price was 49% higher than in 2017.

The segment's total generation was 48.9 TWh in 2018 (50.4 TWh). 46.8 TWh of this was from the Nordic hydropower plants (47.6 TWh). 28.5 TWh, 58% of total generation, was sold in the spot market. A large share of the generation is sold on long-term contracts and this has a stabilising effect on the segment's revenues. In 2018, contracted volume was 17.6 TWh, on the same level as in 2017 and corresponding to 36% of the total generation. The remaining volume was concessionary sales sold at statutory prices.

The underlying operating expenses were 4% lower than in 2017. The main reason for the decrease was lower salary and payroll costs due to a lower headcount.

The segment had an operating profit/loss (EBIT) IFRS for the year of NOK 12 610 million, an increase of NOK 1906 million from 2017. The operating profit was negatively impacted by unrealised value changes from energy derivatives stemming from long-term power sales agreements denominated in EUR.

The return on average capital employed (ROACE)[10] was 23.3% (15.2%). The increase was primarily a result of the higher underlying EBIT. The average capital employed was on the same level as year-end 2017.

Market Operations

Market Operations is Statkraft's interface to markets where energy and energy-related products are traded. The segment is also responsible for developing new customer-oriented business models in Europe and in selected countries where Statkraft owns assets. The main activities of the segment are:

- Trading of standard financial contracts and structured products
- Origination, which includes customised agreements for industry and commerce
- Dynamic asset management by holding a varying amount of asset-backed positions to generate profit
- Provide market access for Statkraft's own assets, as well as to external generators of renewable energy
- Exploring and developing new business models, primarily targeting customer solutions in the distributed energy market

During the past years, the business activities have increased and have led to a significant geographical expansion with presence in many European countries, Brazil, Peru, USA (California) and India. In the new strategy, Statkraft has an ambition to be a leading provider of market solutions for renewable energy. To reach this ambition, Statkraft's target is to grow profitable market access activities for third party generators and consumers, and build up the market access for flexibility in demand response and batteries by 2025. Furthermore, the ambition is to grow the customer business by substantially increase the volumes in profitable renewable PPAs, sale of power, guarantees of origin and green power supply by 2025. Statkraft is on track to ramp up these activities.

Important events in 2018

Statkraft started with market access activities in Spain. Three Power Purchase Agreements and simultaneously Power Supply Agreements with four Spanish industrial customers were signed.

Statkraft also entered into the Irish market by signing a Power Purchase Agreement with Castledockrell.

In France, a Power Purchase Agreement with Eurowatt was signed.

In Germany, Statkraft signed a four year supply contract with Mercedes-Benz Cars to provide green energy supplied by German wind farms. This is the first supply contract in Germany that will deliver wind power without support from the EEG subsidy scheme.

Financial performance

The segment's underlying EBIT of NOK -321 million was NOK 1377 million lower than in 2017. The decrease was mainly driven by negative contribution from Nordic origination and value reduction for long-term contracts in Brazil due to currency effects. The contribution from dynamic asset management portfolios and trading improved compared with 2017.

The segment's operating expenses increased by 25% compared with 2017, primarily related to higher salary and payroll costs and an extra contribution to Nasdaq's default fund following loss caused by the close-out of the positions of a clearing member.

The segment had an operating profit/loss (EBIT) IFRS of NOK -761 million (NOK 1173 million). The result was negatively impacted by unrealised value changes from energy derivatives entered into for risk reduction purposes due to higher forward UK power prices.

The return on average capital employed (ROACE)[11] for the segment is volatile due to large fluctuations in the underlying EBIT. For 2018 the ROACE was -6.9% (27.2%) as a result of

[10] See section Alternative Performance Measures at the end of this report for definition.

[11] See section Alternative Performance Measures at the end of this report for definition.

the negative underlying EBIT. The average capital employed was relatively stable compared with 2017.

International Power

International Power operates in markets with anticipated great growth and an increasing need for more energy. Statkraft is focusing on selected markets where the company can add value in a clear industrial role. Statkraft aims to expand the portfolio to include more wind and solar power, as well as hydropower. The segment has assets in Southeast Europe, South America and South Asia. Some of the investments are made in collaboration with local partners or international investors.

Important events in 2018

Statkraft acquired the 100 MW Tidong hydropower project in Himachal Pradesh, India. Under the previous owner, around 60% of the works were completed before the project was stopped. Construction works have been restarted and are expected to be completed in 2021.

Statkraft also acquired eight operational hydropower plants in Brazil with a total installed capacity of 132 MW. The acquisition increases the installed capacity in Brazil to around 450 MW.

These transactions position Statkraft for further growth in these key markets.

Financial performance

The underlying profit was NOK 631 million, an increase of NOK 237 million compared with 2017. The main driver for the increase is the fact that the Kargi hydropower plant in Turkey was in full operation in 2018, while it was out of operation for most of 2017. Improved contribution from Brazil and Albania further contributed to the improvement.

The segment's net operating revenues and other income increased by NOK 100 million to NOK 2244 million, mainly due to Kargi being back in operation and improved hydrology for the Banja hydropower plant in Albania.

The power generation was 4.9 TWh in 2018, an increase of 8% compared with 2017. More than 70% of the generation was sold on long-term contracts. The large share of contracted volume has a stabilising effect on the segment’s revenues.

The underlying operating expenses were 8% lower than in 2017, mainly due to lower headcount and that 2017 was negatively affected by repair costs for the Kargi hydropower plant.

The segment had an operating profit/loss (EBIT) IFRS for 2018 of NOK 471 million (NOK -922 million). The figures in 2018 were negatively impacted by impairments of NOK 160 million, while the negative impact was NOK 1392 million in 2017.

Share of profit/loss in equity accounted investments was NOK 143 million (NOK -744 million). The negative result in 2017 was due to impairments in Chile.

The segment’s capital employed is relatively high mainly due to newly built and acquired assets leading to high carrying values, and for 2018 the return on average capital employed (ROACE)[12] was 2.9% (1.7%). The increase was due to higher underlying EBIT. The average capital employed was relatively stable compared with 2017.

The return on average equity accounted investments (ROAE)[13] was 7.8% in 2018 (-17.5%). The negative return in 2017 was primarily a result of the impairments in Chile.

Wind Power

The Wind Power segment focuses on onshore wind power and has operational wind farms in Norway, Sweden and in the UK, as well as activities in Ireland. The revenues come from power sales and support schemes.

Important events in 2018

The construction of the Roan wind farm was completed. The wind farm is part of the Fosen project portfolio. Roan has an installed capacity of 256 MW and is Norway’s largest wind farm to date.

Statkraft acquired the Irish and UK wind power development business of the Element Power Group, including a 1550 MW onshore wind development portfolio in Ireland and the UK. The transaction positions Statkraft as a large onshore wind developer in Ireland. Construction of the Kilathmoy wind farm (23 MW) in South-West of Ireland has been decided. The acquisition of the Irish and the UK wind power development business of the Element Power Group and completion of the remaining five wind farms in the 1057 MW Fosen project portfolio will strengthen Statkraft’s position as the leading renewable company in Europe.

Statkraft divested its 30% shareholding in the Dudgeon offshore wind farm and recognised a gain of NOK 5106 million. With this transaction, Statkraft completed its exit from offshore wind in line with the strategy. Overall, Statkraft’s investments in offshore wind have demonstrated high value creation with gains from the sale of the assets and the contribution from the holding period totalling approximately NOK 10.7 billion.

Financial performance

The segment had an underlying operating profit of NOK 429 million in 2018, an increase of NOK 562 million compared with 2017. This was mainly a result of higher power and el-cert prices.

The higher prices led to underlying net operating revenues and other income of NOK 1320 million, an increase of 84%. The consolidated generation was 2.2 TWh, on par with 2017.

Operating expenses increased by 5% compared with 2017, mainly due to increased project activity, the new Roan wind farm and the acquisition part of the Element Power Group.

The segment recorded an operating profit/loss (EBIT IFRS for the year of NOK 431 million (NOK -61 million).

[12] See section Alternative Performance Measures at the end of this report for definition.
[13] See section Alternative Performance Measures at the end of this report for definition.

Share of profit from equity accounted investments was NOK 30 million, a decrease of NOK 183 million. The comparable period included positive contributions from divested offshore assets in the UK.

The return on average capital employed (ROACE)[14] was 6.3% in 2018 (-1.9%). The increase was driven by improved results from the Nordic wind farms. The average capital employed was stable compared with 2017.

The return on average equity accounted investments (ROAE)[15] was 3.2% in 2018 (9.2%). The decrease was due to the divestment of the UK offshore wind farms.

District Heating

District heating operates in Norway and Sweden and distributes heating and cooling to 13 000 customers. Generally, the revenues are influenced by power prices, waste prices, grid tariffs and taxes. Waste, biomass, bio oil, electricity and gas constitute the energy sources in the production of district heating.

Important events in 2018

The construction of the accumulator at Heimdal heat plant was completed and put into production. Estimated additional capacity is approximately 11 GWh per year.

Financial performance

The segment's underlying operating profit continued the growth seen over the past few years and ended at NOK 206 million in 2018, an increase of 33% compared with 2017. The increase was due to higher volume delivered to customers and better prices on both heating and waste handling. This was partly offset by higher energy purchase prices, lower waste volume and higher operating expenses.

The delivered district heating volume increased by 5% to 967 GWh, while the waste handled volume decreased by 8% to 203 000 tonnes.

Operating expenses were 4% higher than in 2017, primarily related to maintenance costs, expensed project cost and costs related to the segment's strategy process.

The segment recorded an operating profit/loss (EBIT) IFRS for the year of NOK 199 million (NOK 151 million).

The return on average capital employed (ROACE)[16] was 5.9% in 2018 (4.4%). The ROACE was mainly driven by good return from district heating activities in Trondheim. The average capital employed was stable compared with 2017.

Industrial Ownership

Industrial Ownership includes management and development of Norwegian shareholdings within the Group's core business and includes the shareholdings in Skagerak Energi, BKK, Agder Energi, Fjordkraft and Istad. Skagerak Energi is included in the consolidated financial statements, while the other companies are reported as equity accounted investments at year-end. Statkraft divested its shares in Fjordkraft and Istad in 2018.

Skagerak Energi's activities are concentrated around power generation, distribution grid operation and district heating operations.

Important events in 2018

Fjordkraft was listed on Oslo Stock Exchange on 21 March through an Initial Public Offering (IPO), valuing the company at NOK 3.2 billion. The IPO resulted in a gain recognised for Statkraft Group of NOK 1.7 billion, of which NOK 227 million was recognised as share of profit from BKK.

Statkraft divested its 49% shareholding in Istad AS to Tussa Kraft with a gain of NOK 168 million.

Statkraft wants to contribute to a good industrial development of its partly owned regional Norwegian companies. Statkraft therefore sold 2.05% of the shares in BKK in order to facilitate BKK to use its own shares in the acquisition of Tysnes Kraftlag and Etne Elektrisitetslag. Statkraft's gain from these transactions was NOK 175 million.

Financial performance

The segment's underlying operating profit of NOK 1467 million was 7% higher than in 2017. The increase was primarily due to higher power prices and generation. This was partly offset by the deconsolidation of Fjordkraft following the listing of the company.

The segment's consolidated power generation in 2018 was 5.7 TWh, 6% higher than in 2017. Despite the higher power prices and generation, the net operating revenues and other income decreased by 9% compared with 2017 to NOK 3284 million. The reason for the decrease was that net operating revenues and other income from Fjordkraft was NOK 741 million lower in 2018 than in 2017 as a result of the deconsolidation of the company in March.

Operating expenses decreased by 19% compared with 2017, mainly due to the deconsolidation of Fjordkraft.

The segment recorded an operating profit/loss (EBIT) IFRS for the year of NOK 2899 million (NOK 1380 million).

Share of profit from equity accounted investments was NOK 635 million (NOK 473 million). The increase was mainly due to higher power prices, partly offset by negative unrealised effects from energy contracts and lower results from grid operations.

The return on average capital employed (ROACE)[17] was 10.1% in 2018 (9.3%). The increase was driven by the higher power prices. The average capital employed was on par with 2017.

The return on average equity accounted investments (ROAE)[18] was 6.1% in 2018 (4.9%), mainly driven by higher power prices.

[14] See section Alternative Performance Measures at the end of this report for definition.
[15] See section Alternative Performance Measures at the end of this report for definition.
[16] See section Alternative Performance Measures at the end of this report for definition.
[17] See section Alternative Performance Measures at the end of this report for definition.
[18] See section Alternative Performance Measures at the end of this report for definition.

PROFIT ALLOCATION

The parent company Statkraft AS had a net profit of NOK 16 992 million in 2018 (NOK 19 538 million).

Statkraft AS is fully owned by Statkraft SF. The Board of Directors of Statkraft SF proposes a dividend of NOK 8444 million to its owner. In order to provide Statkraft SF with sufficient ability to disburse dividend, the Board of Statkraft AS proposes the following allocation of the annual profit in Statkraft AS:

Profit allocation

Amounts in NOK mill.	
Net annual profit in Statkraft AS' company accounts	16,992
Appropriation of profit for the year and equity transfers:	
Allocated dividend from Statkraft AS to Statkraft SF	8,500
Allocated to other equity	8,492

The proposed dividend is deemed to be prudent based on Statkraft AS' equity and liquidity.

GOING CONCERN

In accordance with the Norwegian Accounting Act, the Board of Directors confirms that the annual financial statements have been prepared on the assumption that the company is a going concern, and that it is appropriate to assume this.

RESEARCH AND DEVELOPMENT (R&D)

The ambition for Statkraft's R&D efforts is to strengthen the company's competitive advantage. The majority of the activity is coordinated and financed through Statkraft's Corporate R&D program.

Focus areas

As of today, the activity in the program focuses on strategic and operational themes within hydropower and wind power. In 2018, the following areas have been prioritised:

- Flexibility in a future power market
- Efficient power generation and maintenance
- Develop fact based knowledge to enable good framework conditions for renewable power generation

Added value of the R&D activity

By participating in R&D projects both on the Norwegian, European and international arena, Statkraft wishes to be a leading player in renewable energy.

As of today, the portfolio of the Corporate R&D programme consists of approximately 30 projects. An important project in 2018 has been “High Head Francis", where the goal is safer operation and extended life of the runners in hydropower plants. The project is a collaboration between NTNU, turbine manufacturers and power producers. Results in terms of increased turbine efficiency and lower likelihood of failure during start up make this a profitable project. Statkraft actively seeks external sources of funding to gain a better return on its own research funds.

RISK MANAGEMENT

Statkraft is exposed to risks throughout the value chain. The most important risks are related to market prices, financing and financial risk, project execution and operating activities, and framework conditions. Growth and increased internationalisation in addition to fundamental changes in the energy sector emphasise the importance of risk management.

Risk management is an integrated part of Statkraft's governance model through a risk-based approach to target setting, prioritisations and follow-up of the business and staff areas. The day to day risk management is a line responsibility. The Group's overall risks are reviewed and followed up by the Corporate Management and are reported to the Board of Directors. Statkraft has a central Investment Review Unit that performs an independent quality assessment prior to investments, sales and acquisitions.

Operational risk

All processes throughout the value chain are exposed to operational risk. The operational risk is highest within implementation of our investment projects and operational activities. This may result in:

- Injury to employees, contractors or third parties
- Harm to the environment
- Compliance breaches and weakened reputation
- Damage and losses related to own and third-party production plants and other assets
- Financial loss

Statkraft's first priority is to act in a sustainable, ethical and socially responsible manner and to comply with all applicable legal requirements wherever the company operates. Statkraft has high attention on executing development activities and operations in a responsible manner and to prevent loss. A sound business culture is the foundation of continuously improving a robust system of prevention and control. Ensuring that business development activities are in accordance with international standards has high priority.

Operational risk is managed through procedures for all operational activities, by design of technical solutions, competence development and in various types of contingency plans. Furthermore, Statkraft has a comprehensive system for registering and reporting risks, hazardous conditions, undesirable incidents, damages and injuries. Such cases are continuously analysed in order to prevent and limit any negative consequences, and to ensure that we can follow up causes and implement the necessary measures.

All projects in Statkraft carry out systematic risk assessments. Larger investments have allocated a risk-based project contingency and reserve. Major attention is devoted to the development of sound systems for learning, establishing barriers and ensuring compliance to avoid delays, cost overruns and undesirable incidents during project planning and execution. Implementing risk management in the early stages of business and project development is an important success factor.

The possible financial consequences of the total operational risk, as well as significant individual risks, are key drivers to the Group's overall risk profile. Statkraft has insurance coverage for all significant cases of operational damages or injuries partly through the Group's own captive insurance company Statkraft Forsikring.

More information about risk related to HSE is presented in the corporate responsibility chapter later in the report.

Market risk

Statkraft is exposed to significant market risk in relation to the generation and trading of power:

- Both power prices and generation volumes are impacted by weather conditions and precipitation volumes plus generation, consumption and transmission conditions in the electricity markets.
- Power prices are also affected by fuel prices such as gas, coal and oil, in addition to the price of carbon emission quotas, support schemes, demand growth and the introduction of new technologies.

District heating operations are also exposed to market risk due to fluctuations in fuel prices and the price to customers.

Statkraft manages market risk in the energy markets by trading physical and financial instruments in multiple markets, as well as entering into bilateral long-term power contracts. Increased integration of the energy markets is having a significant impact on business models and risk management. Consequently, Statkraft places significant emphasis on identifying the relationships between the various markets. The Group's hedging strategies are regulated by defined limits on the positions' volume and value, and by criteria for evaluating new contracts against expected revenues and downside risk. The portfolio is constantly adjusted in relation to updated perceptions of future prices and the company's own generation capacity.

Statkraft's activities in energy trading and services consist of both trading with standard products on energy exchanges and sale of services or products adapted to the individual customer. Risk is handled through mandates covering energy products, geographical areas and duration. A risk management function ensures objectivity in the assessment and handling of risk.

Financial risk

The central treasury department coordinates and manages the financial risk associated with foreign currencies, interest rates and liquidity and funding.

Currency and interest rate risk are regulated by means of mandates and managed by using hedging instruments such as forward contracts, swaps and debt in foreign currency. Statkraft's interest rate exposure is related to its debt portfolio and managed based on a balance between keeping interest cost low over time and contributing to stabilise the Group's cash flows. The Group is exposed to currency risk through:

- Integration between the Nordic and the Continental power markets
- Investments and capital expenditures
- The Group's energy trading in different currencies
- Funding
- Other cash flows related to foreign subsidiaries and associated companies

The liquidity risk in Statkraft is related to having insufficient funds to meet the company's financial commitments in a timely manner. The liquidity risk is managed through cash flow forecasting, committed credit facilities, access to several funding sources/markets, ensuring evenly distributed debt maturity profile and maintaining a sufficient liquidity buffer.

Statkraft is exposed to credit and counterparty risk through energy trading, long-term contracts and investment of surplus liquidity. The credit rating of all counterparties is evaluated before contracts are signed, and exposure vis-à-vis individual counterparties are limited by mandates based on their credit rating. Market risk in the energy markets and other financial risk, as well as exposure in connection with the issued mandates, are followed up by independent middle-office functions and regularly reported to management in the business area. A summary is reported annually to the Corporate Management and the Board of Directors.

See note 9 to the consolidated financial statements for further information about credit and liquidity risk.

Regulatory and country risk

Statkraft's activities in Norway are influenced by framework conditions such as taxes, fees, concessions, grid regulations, changes in mandatory minimum water level and other requirements stipulated by the Norwegian Water Resources and Energy Directorate (NVE). Statkraft puts substantial efforts into the understanding of environmental regulations and climate change. The risk of flexibility loss due to stricter regulations for hydropower generation, the cumulative effect for the Norwegian society and value of flood-damping capabilities are being analysed. In addition, there are general terms and conditions stipulated for the energy industry that must be adhered to. These framework conditions may affect Statkraft's generation, costs and revenues.

The framework conditions in the individual countries in Europe are results of international processes that will be important for Norwegian and other European power plants. With its international involvement, Statkraft is also directly exposed to national framework conditions, tax levels, licence terms and public regulations in the countries in which it operates. Statkraft therefore emphasises the uncertainty in relation to the future development of these factors when making investment decisions. Possible changes in the political landscape are considered, and maintaining an open dialogue with decision-makers in relevant arenas is greatly prioritised.

Statkraft is also exposed to significant country risk, especially in emerging countries. A common risk assessment process has been implemented across the business areas to ensure a comprehensive and proactive management of business risk in these countries. The risk assessment of the activity in each country covers political and regulatory aspects, social development, security, compliance, tax regime and corporate legislation. The exposure to corruption risk is high in several of these countries. Statkraft has developed standards and implemented a system to ensure compliance in all activities and has zero tolerance for corruption.

CORPORATE GOVERNANCE

Statkraft adheres to the Norwegian Code of Practice for Corporate Governance (NUES) within the framework established by the company's organisation and ownership. Statkraft follows the Norwegian state's principles for sound corporate governance, described in the White Paper, Meld. St. 27 (2013-2014) "Et mangfoldig og verdiskapende eierskap" ("Diverse and value-creating ownership"), and is subject to reporting requirements relating to corporate governance according to Section 3-3b of the Accounting Act.

See separate chapter later in the report for more information about corporate governance, including corporate audit, internal control of financial reporting and the work of the Board of Directors.

OUTLOOK

Statkraft has Europe's largest portfolio of flexible hydropower plants and reservoir capacity. The operations of the assets are optimised according to the hydrological situation and expected power prices. Statkraft also has a large share of long-term power contracts within the segments European flexible generation and International power. The contracts have a stabilising effect on revenues and net profit. In 2018, Statkraft has successfully extended some of the long-term industry contracts that will expire in the next couple of years, and will continue to work on new contracts to keep the position as a large supplier to the industry in Norway.

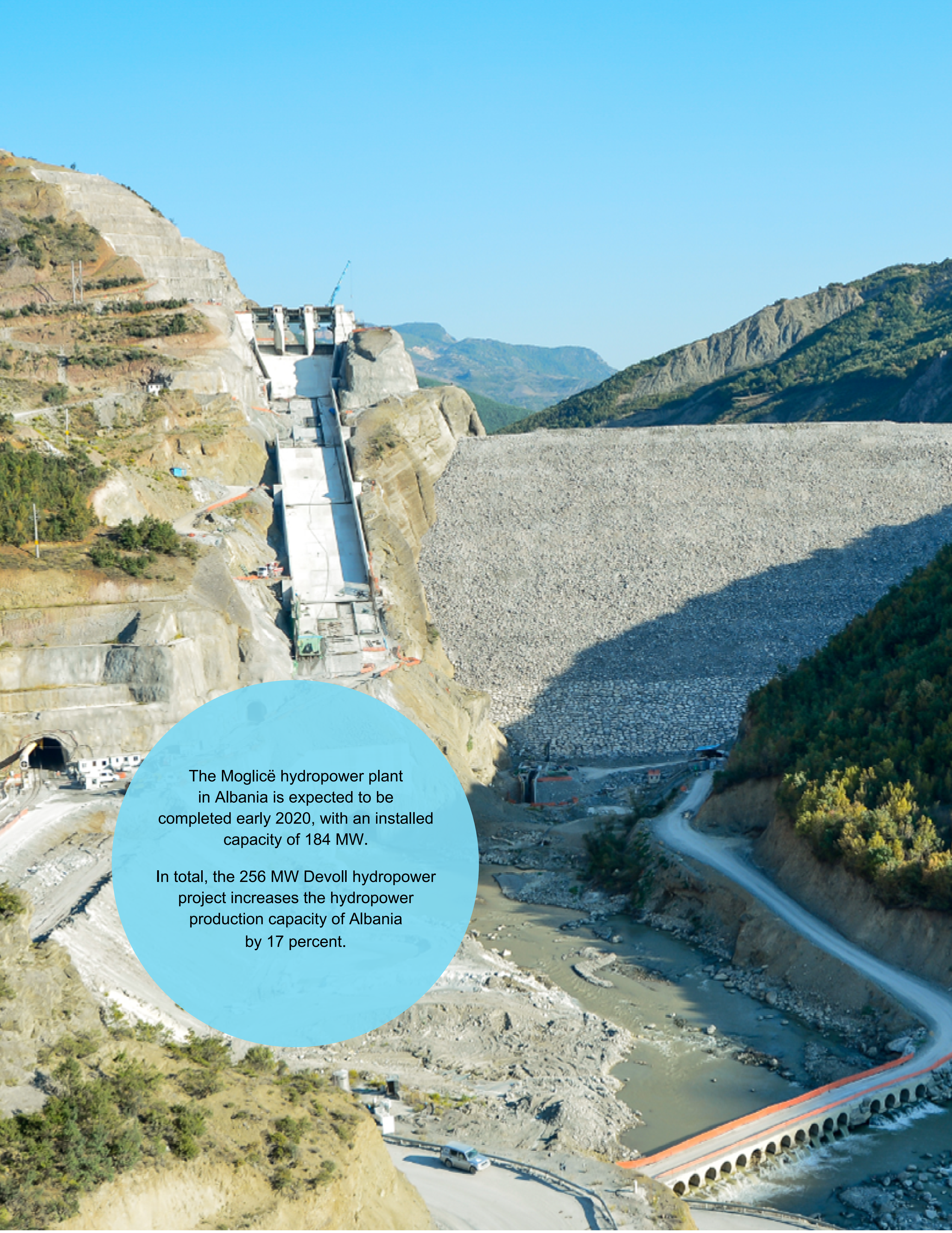
Strong underlying operations, the completion of a corporate-wide performance improvement programme and successful divestments provide Statkraft with a solid financial foundation to meet the new growth phase that is set out in the strategy.

The ambition is to maintain the position as the largest renewable company in Europe and grow significantly in South America and India. The target is to maintain and further grow the hydropower portfolio, develop a portfolio of 8000 MW onshore wind and solar power, increase the market activities, develop district heating and develop new businesses with international potential. Statkraft is planning annual investments of around NOK 10 billion in renewable energy towards 2025. The investments will be financed through retained earnings from existing operations, external financing and partial divestments to financial investors. The investment programme has a large degree of flexibility and will be adapted to the company's financial capacity and rating target.

Statkraft's commitment to act in a safe, ethical and socially responsible manner will continue to be a foundation for all activities.

Statkraft is a significant player in international markets where energy and energy-related products are bought and sold

Brazil is a key growth market for Statkraft, and in 2018 a cluster of eight operational hydropower plants was acquired. The hydropower plants are located in the state of Espírito Santo in Brazil, and have a total installed capacity of 131.9 MW.



The Moglicë hydropower plant in Albania is expected to be completed early 2020, with an installed capacity of 184 MW.

In total, the 256 MW Devoll hydropower project increases the hydropower production capacity of Albania by 17 percent.

2018

Corporate responsibility

Corporate responsibility

MANAGEMENT OF CORPORATE RESPONSIBILITY

Responsible business conduct

Statkraft is committed to act in a sustainable, ethical and socially responsible manner. In order to operationalise this fundamental commitment, Statkraft takes guidance from globally recognised initiatives and standards, including the OECD's Guidelines for Multinational Enterprises and the IFC Performance Standards on Environmental and Social Sustainability.

Statkraft is a member of the UN Global Compact and adheres to its ten principles on human rights, labour rights, environment and anti-corruption. Members of the UN Global Compact are obliged to report annually on progress in relation to UN Global Compact, and this corporate responsibility chapter functions as Statkraft's progress report. In 2018, Statkraft became a member of Global Compact Nordic Network in order to share experiences and best practice.

Statkraft contributes to the implementation of several of the 17 UN Sustainable Development Goals (SDGs), and has identified Goal 7: Affordable and Clean Energy and Goal 13: Climate Action as the SDGs to which Statkraft aims to contribute the most.

Statkraft's assessment and management of climate change impacts are based on comprehensive analysis, including assessments by the Intergovernmental Panel on Climate Change (IPCC) and the United Nations Framework Convention on Climate Change (UNFCCC).

Statkraft does business globally. As a Norwegian entity, Statkraft complies with Norwegian laws and regulations as well as with applicable laws and regulations of countries where it operates. Statkraft's policy is also to act in accordance with relevant international conventions and guidelines set by international organisations. Where differences exist between applicable laws, regulations and Statkraft's governing documents, the norm which sets the highest standard of behaviour is followed.

Governance

Statkraft's fundamental principles for sustainable, ethical and socially responsible behaviour are described in Statkraft's Code of Conduct, which has been adopted by the Board of Directors. The Code applies to all companies in the Statkraft Group and to all individuals who work for Statkraft, regardless of location. Statkraft's business partners are expected to adhere to standards that are consistent with Statkraft's ethical requirements. Statkraft's requirements for its suppliers are described in Statkraft's Supplier Code of Conduct.

Management of corporate responsibility

Statkraft's management system sets ambitions and directions and more detailed requirements for a range of areas, including corporate responsibility. The system facilitates a structured and coordinated management across the organisation, and is regularly reviewed to tailor it to new expectations and challenges.

Corporate responsibility is an individual, managerial and line responsibility in Statkraft, and systems are in place to provide employees with the necessary guidance and advice to uphold desired behaviour. At the group level, Statkraft has staff units to follow up on the company's work and performance with regard to corporate responsibility at an overall level.

Statkraft has a decision gate model for major development projects, mergers and acquisitions that aims at ensuring a unified approach to corporate responsibility from an early development phase to operation. A common project management system for the Group, regardless of technology or geography, is under development and implementation is planned in 2019. This includes a dedicated focus on corporate responsibility topics at all stages of the project cycle.

Corporate responsibility performance

Statkraft has conducted a materiality analysis with the aim of identifying the corporate responsibility topics that are most significant for Statkraft as a company. The analysis was conducted according to the principles described in the Global Reporting Initiative Standards (GRI Standards), and the following topics were identified as most significant for Statkraft:

- Safety and safeguarding of people
- Human rights
- Water management
- Biodiversity
- Climate change mitigation, adaptation and preparedness
- Business ethics and anti-corruption

The company has identified Key Performance Indicators (KPIs) for each business- and staff area and at the group level. These indicators also cover aspects of corporate responsibility, which are regularly reviewed by Corporate Management and the Board of Directors. Statkraft has in 2018 developed new targets for a range of topics, including corporate responsibility areas. Corporate responsibility topics are also included in Corporate Audit's annual plan.

Statkraft has implemented a system for registration and follow-up of non-compliance and potential improvements. The system facilitates structured handling of measures, analysis of incidents and improvements, and learning across the organisation.

Reporting on corporate responsibility

Statkraft's corporate responsibility reporting is based on the GRI Standards, which include disclosures for a range of topics, as well as reporting principles related to the reporting process.

Statkraft believes that the reported disclosures (indicators) capture the most of the material topics for the company, while also taking into account expectations from our stakeholders. Statkraft's information about corporate responsibility has been developed in accordance with the Core option in the GRI Standards.

Corporate responsibility data is collected from all companies and projects where Statkraft is the majority owner, and included in the statement in its entirety. The statement covers activities and sites in all phases from project planning to operation.

Statkraft has engaged Deloitte AS to conduct a review and provide a limited level of assurance on Statkraft's corporate responsibility information.

Stakeholder dialogue

Statkraft develops its business in a way that adds value to its shareholder as well as the countries and local communities in which it operates. The ambition is to establish an open dialogue on sustainability issues with all stakeholders that are impacted by the company's activities. Important partners in these dialogues include government officials, local and regional authorities, local communities, rights holders, employees, customers, suppliers, research institutions, non-governmental organisations, voluntary organisations and the media.

Supply chain management

The basis for Statkraft's supply chain management is Statkraft's Supplier Code of Conduct. Suppliers are expected to meet these requirements throughout their relationship with Statkraft. Statkraft's suppliers are informed about the Code and other relevant requirements during the procurement process and are legally bound to these by contract.

During 2018 an assessment of Statkraft's efforts related to ensuring responsible supply chain management was carried out, and based on the findings improvement areas were identified. Statkraft is initiating a project in 2019 in order to address these areas.

Reporting of concerns

Statkraft works to ensure transparency surrounding dilemmas and ethical issues, and systems are in place to provide all employees with guidance and advice with regard to interpretation of Statkraft's Code of Conduct and desired behaviour.

Statkraft has an established system for reporting of concerns. Employees are encouraged to report concerns, and Statkraft's Code of Conduct emphasises that employees have both the right and responsibility to report breaches of legal or ethical obligations through the line organisation or Statkraft's whistleblowing channel which is managed by Corporate Audit. (Statkraft's subsidiary Skagerak Energi implemented a separate external whistleblowing channel in 2018).

Reporting can be made anonymously, and the whistleblowing channel is also available for externals via Statkraft's website. In 2018, a total number of 55 concerns were reported, where 11 were reported through the whistleblowing channel. In total Statkraft received 12 anonymously reported concerns. The concerns were mainly related to the areas of human resources, conflict of interest, corruption and other business ethics concerns.

The reported concerns are assessed and followed up according to the group requirements. Some of the reported concerns are closed after an initial evaluation by the line management or by Corporate Audit, some are followed up further with necessary measures in the relevant line organisation or by Corporate Audit, and in some cases an internal investigation is needed to clarify the facts. This is decided based on a risk assessment. Corporate Audit is responsible for performing such investigations in Statkraft. In 2018, Corporate Audit initiated three investigations. The investigations concluded in 2018 did not identify material violations of law.

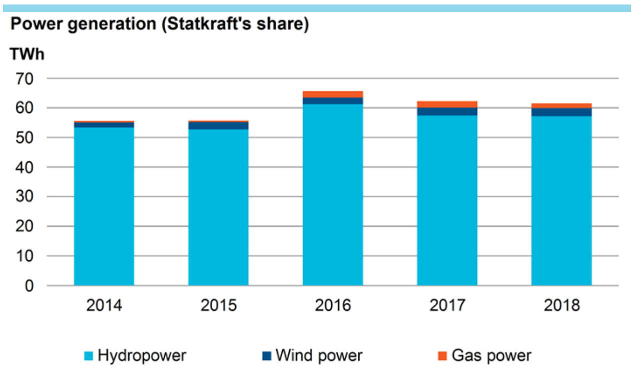
STATKRAFT'S CONTRIBUTION

Statkraft supports a global transition towards a low-carbon economy by offering renewable and sustainable energy solutions, and the company's growth will be solely within renewable energy technologies. Renewable energy is key to combating climate change, and Statkraft is part of the solution for a cleaner future.

Statkraft's activities contribute in different ways to global, national and local economies through dividends to our shareholder, taxes paid to governments, our global and local procurement activities, direct employment in many countries, R&D and social investments. The company also contribute to the promotion of good business practices through our responsible business conduct and knowledge about climate change.

Statkraft's business

In 2018, 97.6% of Statkraft's power generation was based on renewable energy sources, and 92.7%, or 57.2 TWh, came from hydropower. The carbon intensity of Statkraft's power generation was 9 kg CO_2/MWh in 2018. As an energy technology, hydropower has many advantages, including high efficiency, low operating costs, longevity, high flexibility and low carbon intensity. The large Norwegian water reservoirs enable electricity production even in periods of reduced inflow. This flexibility is particularly important in order to balance the increasing amounts of intermittent electricity production from wind power and solar power.



Power generation in Statkraft by technology in 2014-2018.

The development and operation of hydropower plants facilitate multiple uses of watercourses and water regulation structures for example irrigation, drinking water supply, transportation and recreation. In addition, reservoirs utilised for flood control are an important safety function of assets in operation. Such use of installations will be even more important in the future as the consequences of the climate changes become more apparent.

Wind power is a renewable energy technology with few environmental impacts and next to no emissions. Statkraft continues to develop and operate onshore wind farms in the Nordics as well as in the UK and Ireland.

A sharp reduction in the cost of solar panels has made solar power the fastest-growing energy source in the world. At the same time, solar power is becoming commercially viable in an increasing number of markets, renewing Statkraft's interest in solar power investments.

Statkraft's first solar park in Germany was constructed in 2018, next to the hydropower plant in Dörverden. The 750 kW park is a test site for the combination of solar power and batteries.

In countries where Statkraft is present, the company also contributes to more optimal utilisation of energy resources through its services related to market access, remote control of renewable assets and virtual power plants.

Statkraft's non-renewable energy generation includes gas-fired power generation and fossil-based peak and reserve capacity in district heating production. Gas power is considered by many as a transitional technology. This technology generates CO_2 emissions, but the emissions are substantially lower than for coal-fired power plants. Like hydropower, gas power contributes to flexibility in the European energy markets.

Sustainable Development Goals

Statkraft's business contributes to the implementation of the UN Sustainable Development Goals (SDGs). Among the 17 goals, Statkraft has identified Goal 7 "*Affordable and clean energy*" and Goal 13 "*Climate action*" as being the goals to which the company contributes most significantly. Statkraft also contributes to the realisation of other SDGs, such as Goal 2 "*Zero hunger*", Goal 5 "*Gender equality*" and Goal 8 "*Decent work and economic growth*".

Statkraft's main contribution and core achievements in 2018 related to the UN SDGs are presented in the following table.

CORE SDGs FOR STATKRAFT	STATKRAFT'S MAIN CONTRIBUTION	ACHIEVEMENTS IN 2018
7 AFFORDABLE AND CLEAN ENERGY Ensure access to affordable, reliable, sustainable and modern energy for all 13 CLIMATE ACTION Take urgent action to combat climate change and its impacts	Renewable energy is key to combating climate change. Statkraft is part of the solution for a cleaner future. All new investments in Statkraft will be in renewable energy. Core elements in Statkraft's new strategy include optimisation of the company's hydropower portfolio and other flexible generation and ramping up as a solar and wind asset developer. Through its project development, Statkraft also provides electricity to local grids and expands local electricity grids around project areas to communities that do not have access to electricity.	In 2018, Statkraft's power production amounted 61.7 TWh and in addition 1.1 TWh district heating. 97.6% of the power generation was renewable, and another 865 MW renewable energy is under development. In addition to the broader production delivered, Statkraft has also completed specific projects to extend access to affordable and clean energy to rural communities in disadvantaged regions. One example is Statkraft's efforts to assist the Khimti Rural Electricity Cooperative in Nepal in connecting to the national grid and expanding operations to supply electricity to additional rural communities. As of 2018, 8500 households have been given access to the electricity grid as a result of this initiative.

OTHER SDGs FOR STATKRAFT	STATKRAFT'S MAIN CONTRIBUTION	ACHIEVEMENTS IN 2018
2 ZERO HUNGER End hunger, achieve food security and improved nutrition and promote sustainable agriculture	An important target of project development for Statkraft is to ensure that any loss of land, production or access to resources is compensated in a sustainable manner, thereby contributing to future development of sustainable agriculture.	Statkraft has a number of ongoing programmes to restore livelihoods impacted by the company's projects, including examples in Albania and Turkey. Statkraft also has specific initiatives in place to collaborate with local communities to improve food security, such as the initiative to promote improved food security in communities impacted by the company's projects in Peru.
5 GENDER EQUALITY Achieve gender equality and empower all women and girls	Statkraft has a clear commitment to gender equality in all its activities. Zero tolerance for discrimination, bullying and harassment are core tenets of Statkraft's people policies.	Statkraft continued efforts to improve the gender balance in 2018, and work is ongoing to define initiatives tailored to the industry sector and different geographies. As part of project development, Statkraft also invests specifically in gender empowerment activities in local communities affected by the company's projects. Such initiatives were for instance undertaken in Peru, Chile, Nepal and India aiming at promoting women's economic activities, education and institutional capacity building.
8 DECENT WORK AND ECONOMIC GROWTH Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all	Statkraft's approach to mitigating social impacts is framed in the context of sustainable local and regional economic development. Benefit-sharing is an important and integrated part of this work.	In 2018 social development programmes were implemented in project communities in Peru, Brazil and India, either in accordance with permits and regulations or as social development programmes. Social development programmes are primarly focusing on agriculture, improved market access and skills training.

SOCIAL DISCLOSURES

Health and safety

AMBITION	TARGET	STATUS
Prevent incidents and be committed to a workplace without injury or harm	Zero serious injuries	7
Protect health and well-being of staff	Sick leave < 3.5%	3.3%

Supporting initiatives

- Managers at all levels providing leadership and driving cultural change
- Encourage and measure management and employee engagement
- Strengthen the focus on high risk activities and preventative measures
- Provide training to build the required competence
- Ensure learning from incidents and best practices

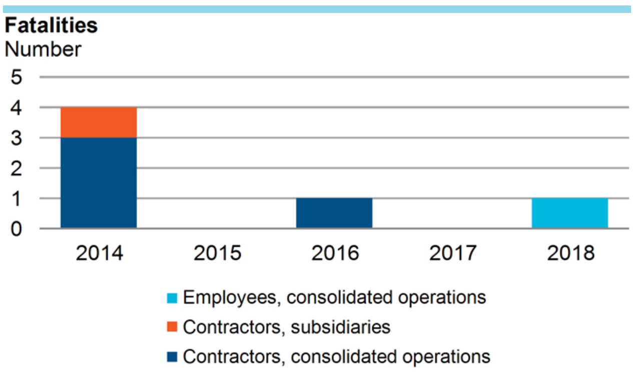
Comments on performance

- The red status reflects the fact that in spite of the high focus and efforts one employee died as a consequence of a work related accident. In addition, six employees and contractors suffered serious injuries.
- The Powered by Care programme and the efforts to continually improve health and safety performance and culture have continued as a priority in 2018. Key elements include implementation of the life saving rules for high risk activities, increasing engagement of employees and managers, learning and sharing across the organisation, and roll-out of the Powered by Care e-learning course. Also, a process for safer operation and maintenance activities has been implemented, reducing risks related to energised systems.

Health and safety risk

Caring for people is at the core of Statkraft's culture and we work continuously towards the goal of zero injuries.

Health and safety risks arise from Statkraft's activities in construction projects, operations and maintenance, and our presence in various geographical locations, as well as in travel and other business activities. The predominant high risk areas are related to personal injuries from workplace accidents. Activities related to driving, working at heights, lifting operations, energised systems, heavy mobile equipment, ground works and working in confined spaces are considered to have highest risk.



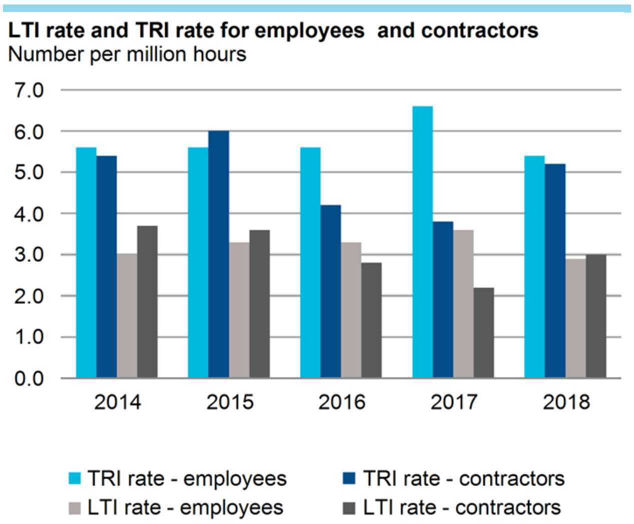
Fatalities in Statkraft's operations (≥20% ownership) in 2014-2018.

Accidents

Tragically, an employee died from injuries sustained following a work related fall accident at the Moglicë Project in Albania on 28 April 2018. The accident has been investigated and mitigating actions have been implemented at the project level as well as across Statkraft in order to ensure learning and preventing recurrence.

In addition, six employees and contractors suffered serious injuries in 2018. A total of 31 accidents and near-accidents were classified as having high risk potential. Most of these accidents and near-accidents were associated with driving, energised systems, ground works, lifting operations, heavy mobile equipment and working at heights.

The Lost Time Injury rate (LTI rate) was 2.9 among Statkraft's employees while LTI rate among Statkraft's contractors was 3.0. Correspondingly the Total Recordable Injury Rate (TRI rate) among Statkraft's employees was 5.4 and 5.2 among Statkraft's contractors. In total, 107 injuries were recorded for Statkraft's employees and contractors, whereof 59 were lost-time injuries.



LTI rate and TRI rate in Statkraft's operations (≥20% ownership) in 2014-2018.

Sick leave

Sick leave in Statkraft is at a stable low level and was 3.3% in 2018, which is within the goal of a sick leave rate not higher than 3.5%.

Health and safety improvement programme

In 2015, a step change programme was launched for further improvements within health and safety. This improvement programme, entitled "Powered by Care", continued in 2018 with a focus on the elements listed below.

Leadership and commitment

Statkraft's Corporate Management clearly demonstrates their commitment to a workplace without injury and harm as communicated through their Powered by Care commitment statement. During 2018, management throughout Statkraft has actively engaged and participated in the roll out of the new Life Saving Rules.

Serious injury mitigation

A Serious Incident KPI has been introduced, measuring serious injury rates, as well as focusing on accidents with high potential. Serious incidents are subject to investigation in order to identify causes, and lessons learned from such incidents, including identifying possible preventative measures. The results are shared across the organisation. Life saving rules with the aim of avoiding serious and fatal injuries have been rolled out and implemented. These rules are based on experience of high risk activities in Statkraft's operations and global knowledge from similar industries.

Engagement KPIs

Leading indicators are in place to encourage and measure employee and management engagement in health and safety. These measure activities such as risk observations, improvement proposals, positive observations and Safe Job Dialogues. A positive development of these KPIs has continued since their introduction in 2016.

CEO's HSSE Award

An HSSE Award scheme is in place to encourage activities that contribute to improved results within this area. This has resulted in great engagement across the organisation.

The award for 2018 was given to Markets & IT Peru for their innovative improvements related to safety when measuring river flows. This was earlier considered a high risk activity, but with use of the new Acoustic Doppler Current Profiler technology personnel no longer need to work over water bodies, thus significantly reducing risk. The time required for this work has also been reduced. This new technology has the potential for being shared and for a wider application related to bathymetry and dam inspections. Furthermore, the effort is part of a generally high health and safety focus in Statkraft Peru, with wide engagement through training and campaigns such as "say-no", safety stops and family days.

Other top nominations competing for the award were also recognised. These included:

- The Hammargård district heating plant in Kungsbacka, which has initiated and completed an initiative to make the plant fossil fuel-free.
- The Khimti-I hydropower plant in Nepal, which has put in an extensive effort to ensure Glacial Lake Outburst Flood (GLOF) preparedness.
- The Maintenance Group Vinje in Region South Norway, which has developed a new solution for safer inspection of shafts.

Sharing and learning

Collaboration takes place within and across business areas in order to share and learn from incidents, health and safety programmes and best practices. Regular network meetings, as well as an annual conference is arranged to help facilitate this process. An intranet portal has been introduced to help improved collaboration and more effective use of resources across the organisation. This provides easy access to documents, materials and tools, as well as functionality for finding expertise, having discussions and sharing content independent of organisational or geographical boundaries.

Health and safety training

Appropriate competence is a prerequisite for a strong health and safety culture and Statkraft employees are provided with training according to their individual needs and working situation. Modular e-learning is made available to effectively reach out and provide fit for purpose training to various target groups. This includes a "Powered by Care" module providing basic training for all, modules to support the Life Saving Rules roll-out, and project specific training, such as for the Fosen wind project. Some of the e-learning is mandatory for employees and/or contractors, depending on their roles, risks and working situations.

Third party safety

Statkraft's activities have significant interfaces with third parties. Dam safety is in the core of the company's work on caring for people.

Statkraft's dam safety measures are carried out according to legal and regulatory requirements. Statkraft performs maintenance on dams and appurtenant structures within a strict and controlled system. The company has developed detailed procedures and plans and thereby ensure that these structures are not posing a threat to life, property or environment. These plans include periodic inspections and surveillance, main inspections and reassessment.

Statkraft assesses, classifies and manages each dam, appurtenant structure and waterway according to the downstream consequences. The strictest requirements for construction and supervision are given to the dams with the highest consequences.

Emergency preparedness

Events ranging from adverse weather and earthquakes to cyber-attacks and political unrest have the potential to negatively affect operations. Statkraft's capability to handle serious and unwanted emergency events is a constant priority, and significant improvements have been made over the last two years. A group requirement on Emergency Response Management was introduced in 2017 with the purpose of ensuring a common approach to emergency response across the company.
This emergency response requirement is founded on the best practice principles of responsibility, parity, proximity and cooperation. Statkraft emergency response is based on the use of dedicated, temporary teams organised in three tiers with different tasks and responsibilities. This approach aims to enable Statkraft to simultaneously handle emergencies at local, regional/national and strategic levels.

In 2018 extensive training was conducted across the company to ensure a uniformed response. Crisis managers have gone through a specialist training regime, and Statkraft has in addition strengthened its training on personnel emergency response.

Statkraft is also working with other companies, non-governmental organisations, local law enforcement and fire departments to ensure the best possible preparedness in handling emergencies.

Security

AMBITION	TARGET	STATUS
Actively prevent harm to people and assets through a systematic approach	Implementation of identified supporting initiatives	●

Supporting initiatives

- Improve processes and capabilities for security management

Comments on performance

- The main reasons behind the green status are a more strategic approach to security as a business enabler, proactive handling of security incidents and improved information security awareness. Key achievements in 2018 include improved operational abilities to protect, detect and handle IT security incidents, positive trends in information security awareness, and improved emergency response capabilities.
- Key measures planned for 2019 include aligning with new national security regulations, carrying out travel requirement project, and enhancing the security risk assessment process.

Security management

Statkraft has a comprehensive approach to security topics and follows international good practice for security management. Security refers to the ability to keep people, operations, information and systems secure from intentional harm or damage. In countries with Statkraft presence or interests, security matters are addressed through a risk based approach. Local, national and international resources are utilised to create situational awareness regarding security, and Statkraft has a well-established relationship with both local and global security companies. Statkraft participates in national and international networks, like the Norwegian Business and Industry Security Council (NSR), to ensure an up-to-date understanding of the security risks.

Statkraft assesses security risk by analysing threats, vulnerabilities and consequences in accordance with Norwegian Standard NS-5832. Conducting security risk assessments is a line responsibility, supported by the Corporate Security & Emergency Response department and the Corporate Information Security organisation. In 2018, Statkraft started a project to enhance security risk assessments in the company.

Statkraft uses a wide range of measures to reduce security risks, which are in general divided into physical, personnel, information and IT security. Sudden changes in a security situation will trigger immediate measures, such as reinforced security and travel restrictions.

Statkraft utilises for the most part unarmed security guards to enforce local security, but in some countries where national regulations or the security situation dictates this, armed security is used. This is the case for some operations in Nepal, India and Peru.

Statkraft's security structure is likely to be impacted by changes in national regulations in several countries and Statkraft is currently working with the different national energy authorities on this matter.

Information security

In Statkraft, information is a valuable asset owned by the various business areas. Information security is of the highest priority and Statkraft follows international good practice for information security management. The aim is to build and continually improve a strong information security culture that ensures the confidentiality, integrity and availability of Statkraft's information.

During 2018, Statkraft experienced a positive trend in information security awareness. There is a significant increase in the number of security risk assessments (ISRA) and assessments of IT systems and third parties. In addition, there has been a significant increase in reported suspicious emails.

To ensure common awareness and to mitigate behavioural risks, all units in Statkraft are offered awareness workshops and dilemma training related to information security.

In 2018, Statkraft executed an information security campaign addressing risk behaviour focusing on email and phone scams, secure sharing of information and the use of secure storage devices.

IT security

Statkraft faces threats from amateur opportunists and professional criminals, as well as industrial espionage and foreign states' intelligence activities. Their attack methods are changing from the traditional networking attacks to targeted attacks on single employees, causing a change in how to manage IT security. Statkraft has continued to improve its operational abilities to protect, detect and handle IT security incidents in 2018.

Security incidents

In 2018, 154 security incidents were reported, and 26 of these were assessed to be serious. Of these incidents, 116 were handled by the cyber security team, including 22 serious incidents that were detected and blocked at an early stage. The majority of the serious incidents related to IT security were related to targeted phishing emails.

One of the serious incidents was related to an illegal occupation of Statkraft's office in Osorno in Chile in October. The occupants were evicted by the local police. One police officer suffered minor injuries and the office was rampaged.

Human rights

AMBITION	TARGET	STATUS
Act according to the United Nations Guiding Principles on Business and Human Rights	Implementation of identified supporting initiatives	● (green)

Supporting initiatives

- Follow developments related to increasing international and national expectations related to human rights management and improve the practices accordingly, starting with large-scale and international projects.
- Ensure adequate implementation of training programs on human rights.
- Strengthen and promote grievance mechanisms, including at the project level.
- Enhanced follow-up of human rights in the supply chain.

Comments on performance

- Key achievements in 2018 included awareness training on salient human rights for management teams across the organisation.
- During 2018 an assessment of Statkraft's efforts related to ensuring responsible supply chain management was undertaken, and several improvement areas were identified with regards to follow up on human rights issues.
- Key measures planned for 2019 include supporting a strengthened focus on human rights in decisions making processes, particularly related to new capital investments and M&As, and improving the management of human rights issues in the supply chain.

Human rights principles

Statkraft's work on human rights is based on the internationally recognised United Nations' Guiding Principles on Business and Human Rights. Statkraft's policy commitment on human rights is reflected in Statkraft's Code of Conduct. This commitment is publicly available and communicated internally and externally to personnel, business partners and other relevant parties. Since its adoption in 2009, Statkraft has worked to reflect this commitment in its governing documents and processes so as to embed it throughout the company. Continuous work on strengthening the integration of human rights into governing documents and processes relating to social management, procurement and security arrangements are examples.

In 2018, Statkraft has continued to embed its policy commitment on human rights in the organisation and has prioritised its efforts on its salient human rights issues. These comprise local community acceptance, including by indigenous peoples, labour rights, health and safety, and security arrangements. As a result, new governing documents and tools were developed this year on indigenous people's rights, on labour rights in the supply chain, land acquisition or land use, as well as on security arrangements. Human rights continue to be a salient issue in large-scale development projects such as Fosen (Norway), Devoll (Albania), Los Lagos (Chile) and Tidong (India).

The assessment undertaken in 2018 of the current efforts related to corporate responsibility management in the supply chain points to a need to further improve the management of human rights issues in the supply chain. Work is planned as part of a new project in 2019 to undertake updated assessments of human rights risks in the supply chain, and to strengthen the approaches used to manage these risks.

Human rights training

Statkraft's training programme continued to be rolled out at senior management and country head levels, as well as for all critical functions and geographies. The training components include a presentation of external and internal expectation, as well as an introduction to Statkraft's salient human rights issues and lessons learned.

While the training includes the same basic components, all training sessions are tailored to the audience and the particular potential impact of activities related to respective groups. In November 2018, Statkraft arranged a two-day workshop on Business and Human Rights in Chile with the participation of key staff from our offices in Peru, Brazil and Chile. External guests to the activity included representatives of the Chilean office of UN High Commissioner for Human Rights.

Networks

Statkraft is a member of the Nordic Business Network for Human Rights, a professional network for global companies, which work with human rights' impacts on their organisations or supply chains. The Network has an overall focus on capacity building and makes use of both human rights experts and peer-to-peer learning. An important objective for the network is to develop applications of the various human rights frameworks to practical business contexts.

Consultations

In 2018, consultations and engagement with a wide range of local stakeholders, including indigenous peoples, continued to take place.

Agreements on mitigating measures and compensation for additional measures during the construction phase have been entered into with the two reindeer herding groups in the Fosen wind farm project in Norway. Discussions are proceeding to reach an agreement for the operation phase.

Statkraft has wind farms in operations in Sweden close to the Sami communities of Ohredahke and Jijnjevaerie, and the company maintains a regular dialogue with community representatives as part of its consultation and engagement initiatives.

Development initiatives

Statkraft is engaged in a wide range of community development initiatives in the different countries of operation, a few of which are presented below.

One example is from Peru, where one of the main challenges that communities need to overcome for the implementation of local development initiatives is the difficult access to governmental financing sources. To address this, Statkraft Peru launched a training initiative in 2018 to improve project management capacity in communities in the vicinity of the company's projects. The initiative is part of the newly established "Education and Awareness" focus area of the corporate responsibility programme in Peru.

Another example is from Albania, where Statkraft in 2018 supported an initiative offering free health checks for women in the area around our Banjë HPP operations. To date more than 250 women have benefited from this campaign and a total of more than 400 are invited to participate.

Sharing knowledge

Statkraft continues to provide expertise for the International Centre for Hydropower (ICH) which holds courses on project management, dam safety, social, environmental and finance themes for government representatives, investors, companies and other stakeholders from emerging markets. The goal of ICH is to increase competence, share knowledge and promote good international standards in the hydropower industry globally. In 2018, Statkraft provided lecturers for courses and workshops held in Trondheim and Oslo, and at regional events in Asia and South America.

Labour practices

AMBITION	TARGET	STATUS
Develop diversity in background, competence and gender across the company	Long-term target of 40% women in top management positions	23%

Supporting initiatives

- A recruitment policy that requires diversity among candidates for all leadership positions, with both men and women represented in final evaluations.
- A target of 30% female participants in leadership development measures.

Comments on performance

- In 2018 efforts continued to improve the company's gender balance. At the end of 2018, 25% of the Group's employees were women, and the percentage of women in management positions was 21%. 30% of employees attending leadership development programmes in 2018 were women.
- To reach the long-term target, Statkraft will increase its efforts to further develop the company's work related to diversity and inclusion. Some measures have already been initiated, including implementation of unconscious bias training for leaders and an improved organisational survey that will better monitor employee perception over time.

Labour rights

Statkraft supports and respects internationally recognised labour rights including freedom of association and the effective recognition of the right to collective bargaining, the elimination of all forms of forced and compulsory labour, the effective abolition of child labour, and the elimination of discrimination with respect to employment and occupation. Statkraft also works towards the realisation of these rights as part of our supply chain management.

Developing the organisation

Statkraft's new strategy builds on existing business models and core capabilities, but also explores new business models that will require new organisational capabilities. On 1 October Statkraft's organisational structure was adjusted to achieve these new strategic priorities. Statkraft's employee engagement survey was conducted in November 2018 with a response rate of 91%. The survey showed high and stable motivation and satisfaction. The result on total score for employee engagement was 78%.

Labour and management relations

Statkraft has a structured and close collaboration with local employee representatives and trade unions. In addition to cooperation at the national level, Statkraft has established the Statkraft European Works Council (SEWC), with employee representatives from Norway, Sweden, Germany and the UK.

Wherever it operates, Statkraft supports and respects internationally recognised labour rights. Relevant ILO conventions and EU directives have been included in the SEWC agreement with EPSU (European Federation of Public Service Unions), the federation for European unions within the energy sector. In countries not covered by SEWC, Statkraft respects the employees' freedom of association and collaborates with union representatives in accordance with collective bargaining agreements, legal requirements, international standards and prevailing industry best-practice for each location.

Training and development

Statkraft launched a new onboarding program in 2018. The aim was to develop a more flexible and targeted on-boarding process based on organisational affiliation and individual work tasks. In addition to this, it is mandatory for all new employees to complete training in HSE, anti-corruption and information security within the first weeks of employment. In Statkraft's people performance process, the company's strategy and targets are cascaded into individual target development plans for each employee or team.

Statkraft offers training in core business processes such as operations and maintenance, energy management and project management, as well as business ethics, safety, and leadership through the Statkraft Academy. A special effort has been made to support the continuous strengthening of Statkraft's emergency preparedness. Mandatory training on personnel emergency response and next-of-kin handling has been developed and implemented.

Diversity and inclusion

Statkraft encourages a culture that capitalises on the diversity of its people and the inclusion of ideas and perspectives that challenge norms, drive innovation and help meeting the needs of diverse customers and stakeholders. A clear commitment to equal treatment and zero tolerance for discrimination, bullying and harassment are core tenets of Statkraft's people policies.

At the end of 2018, Statkraft had approximately 3600 employees and 43% are working outside Norway. Statkraft has employees in 15 countries, representing 57 nationalities. At the end of 2018, 25% of the Group's employees were women, and the percentage of women in management positions was 21%. The percentage of women in Statkraft's Board of Directors is 44%. Average service time in Statkraft is 12 years, while turnover in 2018 was 4.2%.

Statkraft will continue the work to embed diversity into people development processes in order to reflect and encourage the value of individual and unique contribution. To build a better understanding of the levers that drive inclusion in Statkraft, monitoring and following up on employee perception over time are seen as essential.

ENVIRONMENTAL DISCLOSURES

Biodiversity

AMBITION	TARGET	STATUS
Deliver climate-friendly, renewable power and taking responsible environmental measures	Zero serious environmental incidents	

Supporting initiatives

- Enhanced tracking and communication of performance on the systematic handling of biodiversity, e.g. red-list species, critical habitats and presence in protected areas.
- Increased understanding of our impacts on biodiversity, and adequate handling in project development and operation.

Comments on performance

- Statkraft had no serious environmental incidents in 2018 and undertook a broad range of initiatives, either required by the authorities or voluntarily, aimed at preserving biodiversity. Assessing environmental risks on biodiversity is part of Statkraft's daily risk management procedures and practices. For this reason the status is marked as green.
- Key achievements for 2018 comprise mapping and improvement of habitats for species of particular concern which are affected by Statkraft's activities. In project areas detailed lists of red-list fauna and flora species are maintained. Initiatives to increase awareness about biodiversity among employees are carried out. During the revision of terms processes in Norway, several studies have been completed to evaluate environmental enhancement measures. First measures in a series of measures have already been implemented.
- Key measures planned for 2019 are the monitoring of biodiversity and species of particular interest in project areas, whether mitigation measures are adequate and monitoring levels are sufficient.

Management of biodiversity – key issues

Statkraft is active in a variety of countries involving a broad spectrum of climates and institutional systems. The company's main energy sources are water and wind. Both hydropower and wind power are renewable and climate-friendly generating technologies, which help to combat climate change and to preserve species threatened by global warming. However, all forms of energy production leave a footprint. Statkraft is committed to manage the negative impacts generated by its activities in a responsible manner.

While wind turbines may represent a specific challenge for birds and terrestrial ecosystems, hydropower facilities have an impact especially on aquatic species and ecosystems. Statkraft is hence monitoring particularly birds, such as eagles, and aquatic species such as salmon, sea trout, eel or fresh water mussels.

Improving conditions for aquatic species

Statkraft is the largest operator of wild fish hatcheries in Norway with a total of six facilities throughout the country. Together with the Norwegian Environmental Agency Statkraft manages a gene bank at Bjerka in Northern Norway to preserve the unique genetic material of five different wild salmon species from 188 distinct sources. Operations are carried out in collaboration with stakeholders. In the river basins of Surna, Suldalslågen, Ulla and Skien, Statkraft has agreements with local fishing associations to catch adult salmons ready to spawn so that their roe and milt can replenish our hatcheries.

Statkraft's genbank at Bjerka in Northern Norway shelters eight basins of 80 m^3 each and comprises between 3000 - 5000 fish. Genitors often live in the genbank 10 years and are ready to spawn after 3 - 5 years. All fish are registered individually and milt and roe is normally harvested once a year.

Statkraft continuously seeks to enhance living conditions for fish in regulated waterbodies. Historically, stocking of fish was an essential measure to maintain healthy fish populations in Norway, until it was discovered that their survival rate is higher when fish mature in the river itself rather than in hatcheries. Therefore, Statkraft has begun to stock more roe and juvenile fish. At the same time, improving fish habitat and spawning areas has been prioritised. Efforts are also made to sustain the migration of anadromous fish by building fish passages, which increase their habitat area. In Norway, the long-term goal is to achieve self-sustaining fish populations, wherever possible. Monitoring studies conducted in cooperation with the regional authorities have shown that trout populations have become self-sustaining in five reservoirs of the Bjølvo catchment and the Bjoreio River. Therefore, the stocking of trout from hatcheries is no longer necessary in this area.

In Southern Norway, a particular species of large brown trout lives in the Tokkeåi River. Statkraft has developed an action plan in collaboration with authorities, academia, local municipalities and local interest organisations to improve spawning grounds and living conditions for this brown trout. Statkraft has during 2017 and 2018 implemented improvement measures such as landscaping river beds with rocks and gravel, opening up tributaries and modifying weirs to ensure adequate water coverage of these habitats.

As eels are a seriously threatened species in Europe, Statkraft has special programmes to manage them in areas where eels have to migrate through the company's project areas in Sweden and Germany. To develop appropriate measures facilitating fish migration, an integrated approach combining specialist competence in fish biology, hydrology and engineering is necessary.

Other environmental enhancement measures

In Sweden, an environmental mapping of the Lagan, Nätraån and Indalsälvan rivers has been concluded to assess their ecological status and potential environmental enhancement measures. Statkraft also participated in a multi-stakeholder research project investigating effective means to improve the riverine ecosystem in the regulated Ume River. Placing large stones along the river's shore not only protected it from erosion, but also improved the shoreline vegetation coverage and the habitat for grayling.

Hydropower R&D

Statkraft aims to be a driving force in hydropower R&D. Statkraft cooperates with national and European research institutes, and participates e.g. in the EU funded FIT Hydro R&D project focusing on fish friendly innovative technologies for hydropower. The project focuses on mitigation measures and strategies to develop cost-efficient environmental solutions and on strategies to avoid individual fish damage and enhancing population developments. Statkraft contributes with a case study about two-way migration facilities for fish in Anundsjö in Sweden.

Biodiversity in Brazil and Chile

Brazil is the country with the greatest biodiversity in the world. Statkraft's assets are located in two different biomes, 15 in the Atlantic forest region with a biodiversity similar to the Amazon forest and with several endemic species,and three in the Caatinga biome in the northeast, which is a biome that is endemic to Brazil with species only to be found there. All environmental management and monitoring programs are reviewed every 2-3 years as part of a strict permitting and auditing process in Brazil.

In Chile, Statkraft is implementing a range of programmes on the Tinguiririca River. These include protecting nesting sites for the Tricahue Parrot and habitats of the Torrent Duck and freshwater catfish, as well as reforestation and biodiversity offsets for the local La Isla Ecological Park.

Wind power and environmental impact

Wind power is a renewable technology with next to no emissions. In general, it takes only six months for a wind turbine to generate the same amount of energy that it took to produce the turbine itself, while the lifespan of a wind turbine is normally 25 years.

Noise and landscape aesthetics are the most important environmental impacts when establishing new wind farms. By looking for a site with both good wind resources and a reasonable good connection to a grid, one often ends up in rather remote areas. Building wind farms and the associated infrastructure in remote areas can impact the living conditions of rare plants and animals, directly or indirectly, and may change the conditions for grazing animals as well as for recreational activities. Even if the actual land use for construction sites, roads and wind turbines themselves only amounts to 2-3 percent of the total wind farm area, the presence of human beings, or the disturbance caused by operations of the wind turbines, such as noise, may affect the biological conditions outside the actual wind farm area. To design solutions that consider all these aspects, Statkraft cooperates closely with national and local authorities, land owners and other stakeholders. Some negative impacts can be avoided or minimised by good planning and siting, others can be mitigated or compensated ecologically through offsets.

During the planning, construction and operation of wind farms, Statkraft strives to reduce negative environmental impacts. This includes mapping of biodiversity values and sensitive areas early in the planning phase, and compiling information on red-listed bird species and their habitats in and around the constructions sites. In some cases no-work zones close to "active territories" for focus bird species have been established during the breeding season. A lot of research has been carried out on wind farm impacts on birds over the last decade and Statkraft has participated actively in these R&D activities. The impacts on terrestrial mammals are on the other hand not that well understood. Statkraft is therefore supporting R&D initiatives in Norway, especially focusing on semi-domesticated reindeer. This is important as reindeer migratory routes that pass through or near to wind farms are a core part of the traditional Sami cultural livelihood.

Climate neutrality and GHG emissions

AMBITION	TARGET	STATUS
Contribute to the transition to a more climate friendly and sustainable energy system, and continuously seek to maintain a low climate footprint from operations	Growth 100% in renewables	
	Emissions from consumption of electricity 100% neutralised with guarantees of origin from renewables	
	100% of remaining unavoidable greenhouse gas emissions are compensated with Certified Emission Reductions (CERs)	
	Reduction of non-ETS greenhouse gas emissions according to set ambitions	

Supporting initiatives

- Further the understanding of the impact of national and international climate policies on the business and, as appropriate, provide Statkraft's perspectives, including on carbon pricing, to relevant stakeholders.
- Improve the market and strategic analysis in order to incorporate climate change induced changes.
- Further common understanding on how climate change affects all assets and continue to evaluate new business opportunities accordingly, based on company-wide climate assumptions.
- Contribute to scientific methods for assessing the climate impact of the business.

Comments on performance

- The power generation capacity based on renewables was increased by 353 MW, to a total of 17 831 MW, and a new strategy with strong growth ambitions within renewables was adapted.
- Implementation of the new strategy, with growth in solar, wind and hydro, will be a key focus in 2019.

Climate neutrality

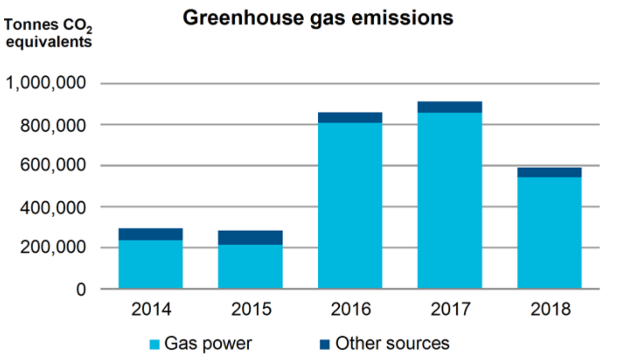
Statkraft is a major producer and provider of renewable power and heat and thus contributes to a cleaner world. Even so, Statkraft contributes to emissions through its gas power plants and in a minor way in district heating production. The gas power plants can provide flexibility which is required to integrate an increasing and large share of intermittent renewables in the European power system. As coal still plays a major role in these markets, gas also contributes to reducing the total carbon intensity. This production is compliant under the EU Emission Trading System (EU ETS), and emissions are compensated with European Emission Allowances (EUAs).

Statkraft also contributes to emissions through regular business activities such as travels and construction activities. These activities are constantly being reviewed in order to identify possible reduction measures. Statkraft has signed the Climate Neutral Now Pledge. In line with this, long term emission reduction targets for fuel consumption related to the company's operations and travel have been established and unavoidable emissions are compensated with UN Certified Emission Reduction Units (CERs).

Statkraft's GHG emissions

In 2018, Statkraft's total emissions of CO_2 equivalents amounted to 590 400 tonnes (including Statkraft's share Herdecke gas power plant in Germany). This corresponds to a relative emission of CO_2 equivalents of 9 kg/MWh. The majority of the GHG emissions is related to the company's gas power plants in Germany. In 2018 this share was 92% and amounted to 544 000 tonnes CO_2 equivalents.

One example of climate related measures in 2018 is the installation of a 5000 m^3 accumulator at the Heimdal incineration plant in Trondheim, Norway. The accumulator enables the plant to recover excess heat and replacing 10 GWh/year of fossil-fired peak-load supply with renewable energy. The measure also enables a more optimised delivery of renewable heat and can function as a security back-up in case of outages.



GHG emissions for 2014-2018 from gas power (including Statkraft's share of Herdecke gas power plant in Germany) and other sources. The significant change from 2015-2016 reflects the increased operation of gas power plants in Germany.

ECONOMIC DISCLOSURES

Water management

AMBITION	TARGET	STATUS
Statkraft is recognised as a company with a responsible water management practice	Implementation of identified supporting initiatives	●

Supporting initiatives

- Ensure proactive, adequate handling and systematic follow-up of water levels, flow limits and hydropeaking requirements in concessions.
- Demonstrate responsible water management based on improved understanding of the effects of climate change on water availability (e.g. water scarcity, drought and flood management) in all areas of operations.

Comments on performance

- A century of energy and water management experience in a mature regulatory context enables Statkraft to optimise water use while continually improving its environmental and economic performances. In the context of climate change adaptation the water storage capacity of hydropower reservoirs contributes to reducing floods and droughts in regulated river basins. Reservoirs can also facilitate other water usage such as increasing the availability of water for irrigation.
- Key achievements in 2018 include responsible operations in extreme situations, resulting in the impacts of major flood events in Norway being more than halved. Knowledge and efficiency in integrated water resource management has been constantly advanced.
- Key measures planned for 2019 are to preserve the flexibility of Norway's hydropower generating system, reduce flood and drought damages through well-coordinated reservoir water management as well as continuous knowledge improvement through R&D.

Working with nature

By using water for renewable power generation, Statkraft is playing an important role in managing this common resource. The company is developing and operating hydropower in various climate zones and in different national framework conditions. Everyday water management is governed through laws and concessions taking into account social, economic and environmental needs.

Statkraft makes additional efforts to improve its performance through R&D and voluntary initiatives. Hydropower reservoirs can provide unique services to the power system such as flexibility. They also offer water management options which reduce our vulnerability to extreme weather conditions such as floods and droughts.

Optimised water use

Statkraft is working continuously towards improving the efficiency of the operations to optimise the use of water resources. A wide spectrum of experts ranging from hydrologists and meteorologists, engineers, production planners and power market analysts to power traders and infrastructure technicians is working to maximise the value of water which is stored in Statkraft's reservoirs. Thanks to simulation models and infrastructure such as dams and reservoirs, the stored water can be released when it has the highest value, typically when demand is high and other technologies are less capable.

Simultaneously, by modernising its facilities, Statkraft strives towards obtaining more power from the same amount of water. This can in certain cases increase the plant generation capacity between 1% and 5%.

Balancing water availability

Statkraft is managing 261 dams and 161 reservoirs in Norway, equal to half of Norway's and close to 25% of Europe's reservoir capacity. In 2018, Norway experienced extreme precipitation variations. A dry summer with very little rain was followed by abundant precipitation in autumn. Thanks to large reservoirs and expertise in managing complex water systems, Statkraft contributed to reducing several major flood episodes in Southern and Western Norway. In the regions of Hardanger, Upper Telemark and Ulla-Førre, about 70% of the precipitation of a flood event in the fourth quarter was stored in Statkraft's reservoirs.

Climate changes are likely to increase such intensive precipitation episodes in Northern Europe, and prognoses indicate more extreme weather is to come.

Improved knowledge

Statkraft aims at being a driving force in hydropower R&D. Statkraft cooperates with national research institutes like HydroCen in Norway to find innovative ways of generating more electricity from the same amount of water and to assist the hydropower sector in adapting to a rapidly changing energy market, while at the same time improving its environmental performance.

As part of the HydroCen R&D Program, Statkraft contributes with a case study on the Nea River (Trøndelag in Norway) to extend the scope of the Environmental Design method for regulated rivers for salmon to include also inland trout, biodiversity and recreational interests.

The EU funded HydroFlex R&D project aims to develop new technologies permitting highly flexible operations of hydropower stations. The project comprises studying the potential for significant ramping rates, frequent starts and stops as well as options to provide a large range of system services. Furthermore, the operations must be within suitable environmental and social conditions while being economically competitive compared to other options.

Operation examples from some countries

Statkraft strives at improving the environment without losing flexibility for future water and energy management needs. The following examples describe key issues for Statkraft's operations in different countries.

Operations in Norway

Norway has long-term hydropower concessions whose terms are reviewed and updated by the authorities every 30 years with the main goal of improving the environmental performance. During the upcoming decade about 70% of Norway's hydropower assets and about 80% of Statkraft's Norwegian hydropower assets will be granted new operating conditions under this process. Currently, Statkraft is active in 13 revision of terms processes in Norway. Statkraft supports environmental improvements which demonstrate higher environmental benefits than costs related to the loss of:

- renewable and climate-friendly power generation
- flexibility required to balance power demand
- flood management possibilities.

Statkraft believes that local environmental conditions can be enhanced without compromising the robustness of the Norwegian power supply system. Therefore, Statkraft is committed to participating in the revision process with its expertise and experience in order to ensure that authorities and politicians have adequate information at their disposal when determining the updated operating terms in the best interest for the environment, as well as for future power and water management needs.

Operations in Sweden

In Sweden, environmental legislation for hydropower is undergoing a revision process to enhance the implementation of EU's Water Framework Directive. A voluntary Hydro Environmental Fund has been established to support the implementation of environmental enhancements. Statkraft is contributing to this fund and is also a member of its board.

Operations in Peru

In Peru Statkraft's operations are governed in part by the National Water Resources Law whose goal is an integrated management of the water resources. In Peru, around 80% of the water consumption is for agriculture, and the National Water Authority (ANA) is the governmental agency responsible for water allocation among the main water users. According to Peruvian law, the agricultural users have priority over energy users and this represents a challenge for Statkraft's operations.

Since the end of 2016 a new regulation from ANA dictates monthly water discharges from all reservoirs. In order to meet this challenge, Statkraft Peru has engaged in a constructive dialogue with authorities and been able to reach an agreement on optimal water discharges which still allow maintaining efficient power generation without jeopardizing the interest of agricultural users. Following this development, Statkraft has implemented an initiative for automatic and real-time monitoring of water discharges in our Surasaca and Cochaquillo reservoirs, which both have downstream agricultural users. In this way, agricultural water users and ANA can both monitor in real-time the water discharges and hence optimize the water distribution among the multiple users.

Operations in Turkey

At the Kargi HPP in Turkey a study to measure the benefits of increased water efficiency downstream on the Kizilirmak river was completed in 2018. The findings indicate that less water is required for irrigation systems than what was originally assumed, and this will lead to more water being available for power generation. Statkraft will work closely with downstream irrigators and local regulatory bodies to ensure that sufficient water is available for rice production and to contribute to maintaining functioning irrigation intake structures on the Kizilirmak river. This study will contribute to significant production increases and is an excellent example of cooperation between environmental, social and production teams.

Climate change

As a leading renewable energy company with mainly renewable power generation (97.6%), Statkraft has a significantly lower carbon intensity (9 kg CO_2/MWh) than the sector average.

The majority of Statkraft's assets have a high longevity, and the company has a long-term perspective in relation to its core activities. Water and wind are other main input parameters, and as natural resources they are exposed to physical climate change. In addition, climate policies as well as energy policies define the regulatory framework for the company's operations.

Improving hydrological performance

Statkraft continuously adapts to climate change in operation and long term planning of its hydro assets. The day-to-day operation in the Nordics requires evolving an understanding of the changes in precipitation patterns.

Statkraft participates in several international and national projects in order to improve its understanding of climate change effects on the hydrological resources for short and long term, both in and outside of Norway. This aims at assessing future water availability in order to understand the implications of balancing water needs for energy production, flood mitigation, ecosystem services and the environment.

In the future, more extreme weather patterns will put water resources in general under increased stress. This requires new coordinated and integrated models for water management. Water will need to be stored and released in times of excess and scarcity for different purposes, the most urgent being drinking water, irrigation and flood control. Combining the need for water storage for these purposes with the storage capacities in hydropower opens up new opportunities for multipurpose hydropower plants. The research and analysis required for developing good water management and business models are similar to the operational models for hydropower plants. In the Nordics, Statkraft is undertaking significant maintenance and upgrade work on dams, among others, to prepare for changes in precipitation patterns and more extreme weather.

Scenario analysis

Statkraft closely follows national, EU and global climate policy developments to assess the possible impact on the business. Likewise, understanding the impacts of cost and technological developments within renewable technologies are a core part of the analysis. Statkraft provides direct input to policy processes in Norway and the EU including an annual "Low Emissions Scenario Report".

During extreme rainfall in October 2018, Statkraft managed to significantly reduce the extent of a major flood incident from a 50-years to a 20-years flood event.

Business ethics

AMBITION	TARGET	STATUS
Prevent corruption and unethical practices in all activities	Zero serious compliance incidents	●
	On schedule implementation of the compliance measures	●

Supporting initiatives

- All employees complete trainings in business ethics with a focus on anti-corruption
- Continue to strengthen the culture of reporting of concerns and breaches
- Continue to ensure adequate corporate-wide handling of anti-corruption and business ethics risks, with particular focus on high risk processes
- Improve the adequacy of how business ethics is reflected in requirements and controls for key business processes

Comments on performance

- The main reasons behind the green status are the on-track roll out of the compliance programme, including implementation of planned measures related to training, culture building and risk mitigation in critical business processes. Key achievements in 2018 include the roll out of training activities to all staff, roll-out of new guidance in all working languages of the group, and development of a new Business Ethics Commitment Statement.
- Measures planned for 2019 include increased focus on leadership engagement activities and roll-out of compliance procedures in a new project management system.

Framework for business ethics and compliance work

Statkraft has continued to expand its efforts within the area of business ethics in recent years, with a comprehensive compliance programme in place covering the areas of corruption, fraud, money-laundering, sanctions and export control, as well as personal data protection and competition law. An audit of the compliance programme in the company was conducted in 2018, with a particular focus on efforts to prevent corruption and fraud across the company. The audit confirmed the existence of a well-established and comprehensive compliance programme, adjusted to the risks of the company, and up to date with the relevant developments in external legislation and standards.

The Board of Directors is involved in compliance work through regular discussions on the development of the programme, at least on a quarterly basis. Last year a new approach was adopted for the Board of Director's involvement in this work, expanding their involvement further. This included a review of the abovementioned audit and follow-up plans presented by the administration to address identified improvement areas.

Compliance programme

Statkraft conducts regular risk assessments on anti-corruption for the whole company, annually for all business areas. Risks are addressed through dedicated mitigation measures. The risk management process is more extensive for high risk locations and projects, and always involves a combination of local expertise and central compliance resources. During 2018 a new risk assessment methodology was implemented, including incorporating new topics covered by the compliance agenda.

During the course of 2018 work was carried out to update the internal rules and guidance related to business ethics. New Business Ethics Rules were introduced in ten different languages with new printed and digital guidance material, including a new portal for easy access. A new business ethics e-learning programme was also introduced, and Corporate Management adopted a new Business Ethics Commitment Statement, to clearly communicate the tone from the top companywide.

The main corruption risks identified for the company relate to business development and M&A processes, procurement and payment processes, the use of consultants and intermediaries, government permitting processes, stakeholder management and conflicts of interest. The risks typically vary depending on the geographical location, technology and type of business activity in question. These nuances are reflected in the risk maps of the different business units.

The corporate compliance programme is regularly updated to reflect risks identified through risk assessments and through analysis of concrete cases and investigations. This includes development of new procedures and controls, and adjustments to training activities.

Training and communication

Statkraft ensures that all employees are familiar with the principles set out in the Code of Conduct through orientation programmes given when joining the company, training conducted regularly for all staff, and through communication by senior managers. Last year training sessions were conducted in all major locations. In addition specialised training sessions were organised for the Board of Directors, the Corporate Management, high level managers, and staff members in different functions. Compliance has been included as an important topic in all major leadership and company events conducted through the year.

Handling of risk related to third parties

Statkraft has clear and detailed procedures for the handling of risks related to third parties. This includes a policy for how background checks are conducted, how contract clauses should be formulated, and how monitoring should be conducted for high risk contracts.

All high-risk business partners (including all agents) are checked independently by the Compliance Unit. The integrity reviews conducted include an assessment of the ownership structure (incl. beneficial owners), an assessment of connections to politically exposed persons and a broad assessment of reputational risks associated with the counterparty. The level of the analysis is adjusted to the nature of the business partners and agreements. In 2018 additional work was undertaken to further develop and adjust the procedures for third party checks for locations and business activity areas of particular risk exposure. There are also new efforts being made to revise approaches to monitoring of third parties throughout the contracting period.

In 2018 work was done to update standard business ethics clauses included in contracts with third parties, to ensure that these reflect the developments of legal requirements and the risk exposure of different types of contracting processes.

Internal controls

In recent years Statkraft has invested in improved controls related to anti-corruption and fraud prevention. There is an ongoing collaboration between the Compliance unit and the CFO area for the further development of such controls. Over the last year significant efforts were invested in the implementation of improved controls in core financial processes.

New initiatives in the compliance area

In addition to the continuous development of the key areas of work outlined above, several new initiatives were launched in 2018, as described below.

Personal data protection project

The Personal Data Protection Project was implemented in 2018. The project aims at bringing Statkraft to the necessary level of maturity of compliance with applicable personal data protection rules, especially the new European General Data Protection Regulation (GDPR) that took effect in May 2018. The project is focused on clarifying roles and responsibilities, improving procedures, and increasing awareness of personal data protection. In addition, a comprehensive mapping exercise has been conducted across the whole company to establish detailed records of processing and to address any gaps identified.

New guidance and training

Significant efforts have been made in developing a simplified and user-friendly set of training guidance and tools in all the operational languages of the company. The new guidance and training is focused on a set of eight core Business Ethics Rules in an effort to ensure that the most fundamental internal rules are well known and easily remembered by all staff. The development of this new guidance and its overall focus has been discussed with the Board of Directors and Corporate Management prior to finalising and launching the material.

Tax

In light of an increased focus globally on tax governance and tax transparency, the Board of Directors decided in 2017 to approve the voluntary disclosure of a global tax strategy detailing the internal tax policies, practices and procedures embedded in Statkraft's management system. The voluntary publication of the global tax strategy was done in addition to the mandatory publication of a specific UK tax strategy, published in accordance with recent UK legislation.

Statkraft pursues a tax strategy that is principled, transparent and sustainable and aligned with Statkraft's Code of Conduct. Statkraft is committed to ensuring full compliance with all statutory obligations and full disclosure to tax authorities. Statkraft transacts on an arm's length basis and does not engage in artificial tax arrangements and actively considers all implications of tax planning. Moreover, all tax planning is subject to robust review and approval processes and shall:

- support genuine commercial activity
- rely on full disclosure of the facts and circumstances to the relevant tax authority
- not use tax regimes considered as “harmful” by the OECD or EU

Statkraft has an established procedure in place for tax risk management that facilitates appropriate identification, measuring, management and reporting of tax risks.

Edvard Högner is a Statkraft customer and one of several thousand **small scale producers** of renewable energy in Germany.

Bringing the production to market requires market insights and analysis capabilities.

Statkraft is Germany’s largest provider of **market access solutions**, and is growing similar activities around the world.

2018

Corporate Governance

Corporate Governance

The corporate governance statement clarifies the distribution of roles between the Norwegian state as owner, the board and the management in the company.

Efficient and transparent management and control of the business forms the basis for creating long-term value for the owner, employees, other stakeholders and society in general, and as a result, contributes to sustainable and lasting value creation. The distribution of roles inspires confidence among stakeholders through predictability and credibility. Open and accessible communication from the company ensures that the Group maintains a good relationship with society in general and, in particular, with all stakeholders affected by the company's activities.

CORPORATE GOVERNANCE STATEMENT

Statkraft is organised through a state enterprise, Statkraft SF. The activity in Statkraft SF is, for all practical purposes, restricted to owning all shares in Statkraft AS. Statkraft SF and Statkraft AS have an identical board of directors and management. Statkraft AS is the parent company for an underlying Group structure. Statkraft adheres to the Norwegian Code of Practice for Corporate Governance (NUES) within the framework established by the company's organisation and ownership. Statkraft follows the Norwegian state's principles for sound corporate governance, described in the White Paper, Meld. St. 27 (2013-2014) “Diverse and value-creating ownership” (“Et mangfoldig og verdiskapende eierskap”), and is subject to reporting requirements relating to corporate governance according to Section 3-3b of the Accounting Act.

The company's value base is described in Statkraft's Code of Conduct, and the guidelines for ethics and corporate responsibility have been designed on the basis of this code. The company's annual report includes a statement on corporate responsibility.

ACTIVITIES

The objective of Statkraft AS, alone, or through participation in, or cooperation with other companies, is to plan, engineer, construct and operate energy facilities, conduct physical and financial energy trading, and perform naturally related operations. Statkraft AS is registered in Norway and its management structure is based on Norwegian company legislation. Statkraft is also subject to the Norwegian Securities Trading Act and stock exchange regulations associated with the company's debt obligations.
Objectives and framework for the activities in Statkraft are set out in parliamentary documents and resolutions by the Parliament (Stortinget), see www.regjeringen.no and www.stortinget.no.

EQUITY AND DIVIDENDS

Statkraft AS' share capital totals NOK 33 600 000 000, divided among 200 000 000 shares of NOK 168 each. The company's shares can only be owned by Statkraft SF.

Capital increases are processed through the enterprise meeting of Statkraft SF and the general meeting of shareholders in Statkraft AS.

The State as the shareholder is free to set the dividend in its wholly owned companies. The provision of the Limited Liability Companies Act to the effect that the general meeting cannot adopt a higher dividend than that proposed or accepted by the Board of Directors, does not apply to wholly owned state companies.

In 2017, the Norwegian government announced a new dividend expectation for Statkraft as part of the proposal for the revised State budget. The owners dividend expectations is that Statkraft pays a dividend of 85 per cent of realised profit from Norwegian hydropower business and 25 per cent of realised profit from other business activities. Realised profit is the profit before tax, minus payable taxes and adjusted for unrealised effects and minority interests. Dividends received from equity accounted investments are included in realised profits. The Norwegian hydropower business is defined in the notes to the annual report. The Board of Directors maintains a continuous focus on adapting the company's objectives, strategy and risk profile to the company's capital situation. Statkraft's investments are financed through a combination of retained capital, borrowings and any new equity contributed by the owner. See Note 6 in the annual report for more information about the company's capital structure management.

EQUAL TREATMENT OF SHAREHOLDERS AND TRANSACTIONS WITH RELATED PARTIES

Statkraft engages in transactions with companies that are closely related to Statkraft's shareholder, the Norwegian state. All transactions are based on regular commercial terms and principles.

The instructions to the Board of Directors state that neither board members nor the President and CEO may participate in the processing or resolution of issues that are of substantial personal or financial interest to them or closely related parties. Any persons in such a situation must, on their own initiative, disclose any interest they or their closely related parties may have in the resolution of an issue. The same follows from the Group's ethical guidelines.

FREELY NEGOTIABLE SHARES

Shares in Statkraft AS can, according to the Articles of Association, only be owned by the state-owned enterprise Statkraft SF.

ENTERPRISE MEETINGS AND GENERAL MEETINGS

The Norwegian state exercises its authority as the owner in the enterprise meeting of Statkraft SF. In accordance with the Articles of Association of Statkraft SF, Statkraft SF cannot attend and vote in a general meeting in Statkraft AS without a preceding decision in an enterprise meeting. The enterprise meeting and the following general meeting are held annually by the end of June. The auditor attends the enterprise meeting and the general meeting.

Before the Board of Directors makes a decision in matters assumed to be of significant importance for the purpose of the enterprise/company, or which will significantly change the character of the activities, the matter must be put before the ministry representing the state's ownership in accordance with the State Enterprise Act.

NOMINATION COMMITTEE

Statkraft SF and Statkraft AS have no nomination committee. The election of the board members appointed by the owner in Statkraft SF will take place in the enterprise meeting. Statkraft SF and Statkraft AS have identical boards.

CORPORATE ASSEMBLY AND BOARD OF DIRECTORS: COMPOSITION AND INDEPENDENCE

The State Enterprise Act stipulates that state-owned enterprises shall be governed by a board and a chief executive officer. Pursuant to the Limited Liability Companies Act, Statkraft AS has entered into an agreement with its employees' trade unions stipulating that the company will not have a corporate assembly. Three of the board's nine members are elected by the employees based on the agreement that the company will not have a corporate assembly.

The State emphasises competence, capacity and diversity based on the company's distinctive character when the State selects people to sit on the companies' boards. The goal is for the board of each company, to collectively represent the desired expertise based on the company's objective, business area, challenges and the State's ownership goals. Emphasis is e.g. placed on selecting representatives with broad-based experience from commerce and industry for companies with commercial goals.

The Norwegian Parliament (Stortinget) has decided that its members should not be appointed to offices in companies that are subject to the Parliament's control. It is also assumed that ministers will resign from such offices when elected into the Government and also cannot be selected for new offices. The same applies to state secretaries.

There are provisions stipulating that senior officials and civil servants employed in a ministry or the Central Administration in general, who deal with matters concerning the enterprise as part of their job, or that are working in a ministry or other Central Administration agency that regularly processes matters of significance for the company or the industry sector in question, cannot be elected to the company's board, see the White Paper, Meld. St. 27 (2013-2014). The President and CEO and senior executives of Statkraft are not members of Statkraft's board.

Members of the Board of Directors are normally elected for terms of two years and can be re-elected.

THE WORK OF THE BOARD OF DIRECTORS

The Board of Directors usually meets eight to ten times a year. The Chair of the Board of Directors will hold board meetings as often as is required. The Board of Directors has stipulated board instructions with guidelines for the work and case processing of the board. The instructions also cover the President and CEO. The instructions define the work scope, duties and authorities of the President and CEO in more detail than follows from the legislation.

The Board of Directors prepares an annual agenda for its work, with a special emphasis on goals, strategies and implementation. The Board of Directors holds an annual strategy conference. The President and CEO prepare background material for such conferences in the form of strategic, economic and financial plans.

The Board of Directors informs the boards of subsidiaries of matters of potential significance for the subsidiary in question. The Board of Directors evaluates its own performance and expertise annually.

The Board of Directors has appointed a Compensation Committee consisting of the Board Chair and two of the other board members. The Compensation Committee prepares the board's deliberations on the wages and other benefits paid to the President and CEO - as well as matters of principle related to wage levels, incentive schemes, pension terms, employment contracts and similar for the company's executives. The remuneration for the Head of Corporate Audit is stipulated by the board.

The board's Audit Committee comprises four of the Board of Director's members. The committee functions as a preparatory body for the board's management and supervision work, and at least one member of the Audit Committee shall have experience in accounts management, financial management or auditing.

An overview of the members' participation in board meetings is available in Note 36 of the annual report.

RISK MANAGEMENT AND INTERNAL CONTROL

The internal control concept includes compliance with the company's value base and guidelines for ethics and corporate responsibility. Important functions to ensure that risk management and internal control are an integrated part of the activities in Statkraft include the Group's internal auditing, the Compliance function, the Group risk function, the Group's Investment Review unit and the Group's internal control in connection with financial reporting. The Investment Review unit (IRU) ensures an independent risk assessment in relation to individual investments and across the project portfolio.

Risk management is an integral part of all activities across the organisation and of the decision making process. It supports the decision makers to prioritise their actions. Managers at all levels of the organisation are responsible for appropriate risk management. Risk management is regulated by mandates, requirements and guidelines. Follow-up of risk and risk management are incorporated in the daily business operations.

Risk management and internal control are integral parts of the Board of Directors work. To ensure that Statkraft has suitable and efficient systems in place for risk management and internal control, the Board of Directors shall:

- Review the Group's most important risk areas at least once a year
- Ensure that the systems are adequately established, implemented and followed up, e.g. through processing of reports submitted to the board by the President and CEO and the internal audit function
- Ensure that risk management and internal control are integrated in the Group's strategy and business plans

Furthermore, the Board of Directors shall ensure that the President and CEO have:

- Stipulated instructions and guidelines for how the Group's risk management and internal control will be carried out in practice
- Established adequate control processes and functions
- Ensured that Statkraft's risk management and internal control are carried out, documented, monitored and followed up in a prudent manner

Statkraft's management system, "The Statkraft Way", defines the Group's principle rules and ensures a sound control environment for fulfilling the management's goals and intentions. The Statkraft Way is based on ISO principles for quality and environmental management systems.

Statkraft's governance model has a risk-based approach to target setting, prioritisations and follow-up of the business and staff areas. The Group's risk function is process owner for the overall risk management framework and monitors Statkraft's overall risks at Group level. The Group's overall risk profile is concluded upon by the Corporate Management and is reported to the Board of Directors. The Group Risk function reports to the CFO.

Corporate Audit

Statkraft's corporate audit function is an independent function which assists the Board of Directors and management in assessing whether the group's most significant risks are sufficiently managed and controlled. The purpose of Corporate Audit is to enhance and protect organisational value by providing risk-based and objective assurance, advice, and insight related to the organisation's governance, risk management and internal control.

Internal audits are conducted according to an annual rolling plan. The audit work shall be carried out in accordance with the International Standards for Internal Auditing (IIA). The annual corporate audit report is submitted to the Board, which also approves the audit plan for the coming year. Corporate Audit also presents a semi-annual report to the Audit Committee. The Audit Committee and Corporate Audit hold a minimum of one meeting per year without anyone from the Group's administration being present. Implementation of the recommendations from Corporate Audit is regularly followed up.

The Head of Corporate Audit is responsible for Statkraft`s system for independent reporting of concerns related to unethical or illegal matters. In cases where an investigation is required, this is the responsibility of the Head of Corporate Audit.

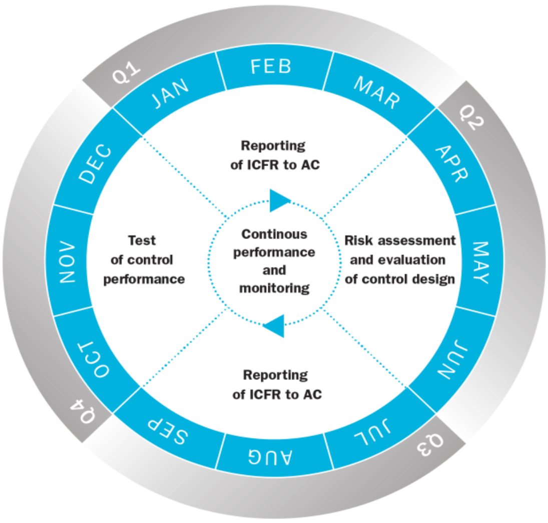
Internal control of financial reporting

The Group's CFO is responsible for the process for Internal Control in the Financial Reporting (ICFR) in Statkraft. The ICFR work is based on the COSO framework for internal control, published by the Committee of Sponsoring Organizations of the Treadway Commission.

The ICFR ensures reliable and timely financial information in the interim and annual reports. All subsidiaries are required to comply with the ICFR requirements. The same applies for associated companies, joint operations and joint ventures where Statkraft is responsible for the book-keeping and financial reporting. If a third party is responsible for the book-keeping and statutory reporting of the partly owned company, the responsible segment shall perform compensating controls.

The activities related to ICFR are performed in the Group's Governance, Risk and Compliance (GRC) system, BWise. Through BWise, the Group is able to efficiently monitor real time status on control performance throughout the whole organisation.

Annual process for internal control over financial reporting



The main elements of the ICFR system are:

- **Risk assessment and evaluation of control design**
  The Group's ICFR Network performs an annual assessment where the financial reporting risks are identified and assessed. The result of this risk assessment is documented in a financial reporting risk map presenting the likelihood and the consequence of risk occurrence. The purpose is to verify whether Statkraft has appropriate controls in place to mitigate these risks sufficiently.
- **Reporting of ICFR to Audit Committee**
  Twice a year, key elements within the ICFR system are reported to the Audit Committee. The result of the yearly assessment related to control design and operational effectiveness is reported in February. The conclusion of the financial reporting risk assessment is reported in September. Material breach of the ICFR requirements will be reported to the Audit Committee.
- **Continuous performance and monitoring**
  For each control, it is defined how often the control shall be performed and who is responsible for performing and reviewing the control in BWise. Managers are responsible for compliance with the control descriptions and ICFR requirements. Responsible managers perform an assessment on design and operational effectiveness of all controls annually.
- **Test of control performance**
  Quarterly and on a sample basis, the quality of control performance and compliance with the control descriptions are tested. The result of this testing is presented to control performers and reviewers, and reported to management.

The principle documents for financial reporting and the reporting instructions, set clear requirements for allocation of responsibilities as regards preparation and assuring the quality of information. In addition, risk assessment and control measures have been established on multiple levels in connection with each individual presentation of the accounts. The accounts are prepared in accordance with statutory and regulatory requirements and are presented on the basis of applicable accounting principles and within the deadlines stipulated by the Board of Directors.

The drafts of accounts are reviewed by the Corporate Management to ensure that the information reflects the underlying operations. In addition, the Audit Committee of the Board of Directors performs a preparatory review of the quarterly accounts and annual accounts. The external auditor participates in all meetings of the Audit Committee.

Fraud Prevention System

Statkraft has started to implement a fraud prevention system to prevent and detect fraud in processes related to procurement, accounting, tax and treasury. The system has a risk-based approach and will make use of methodology already in place for the ICFR system.

REMUNERATION OF THE BOARD OF DIRECTORS

The owner stipulates the remuneration for the Board of Directors. The remuneration is not related to the company's results.

Shareholder-elected board members normally do not perform any additional tasks for the company. To the extent that the members of the board perform tasks for the company, this must be clarified with the other board members in advance. Board of Directors remuneration is described in Note 36 in the annual report.

REMUNERATION OF EXECUTIVE PERSONNEL

Statkraft adheres to the Norwegian state's guidelines for employment terms for managers in state enterprises and companies.

The Board of Directors will contribute to a moderate, but competitive development of executive remuneration in Statkraft. The board's Compensation Committee prepares the board's deliberation of the wages of the President and CEO and the rest of the company's Executive Vice Presidents. The President and CEO and corporate executives shall receive both a fixed salary and a variable payment. The variable salary has a maximum disbursement that complies with the owner's guidelines, see Meld. St. 27 (2013-2014) to the Parliament (Stortinget). The entering into pension agreements adheres to the current guidelines issued by the owner.

The Board of Directors declaration regarding executive wages and other remuneration to executive employees can be read in Note 36 in the annual report.

INFORMATION AND COMMUNICATION

The Board of Directors has stipulated guidelines for financial reporting and other information. Statkraft SF publishes its annual financial statement. Each year, Statkraft AS releases four quarterly financial statements and one annual financial statement.

The financial calendar, press releases and stock exchange notices, investor presentations, quarterly and annual reports and other relevant information are published on Statkraft's website.

Statkraft emphasises transparent communication with all stakeholders. The information the company provides to its owner, lenders and the financial markets in general shall provide sufficient details to permit an evaluation of the company’s underlying values and risk exposure. The owner and the financial markets shall be treated equally, and information shall be communicated in a timely manner.

TAKE-OVERS

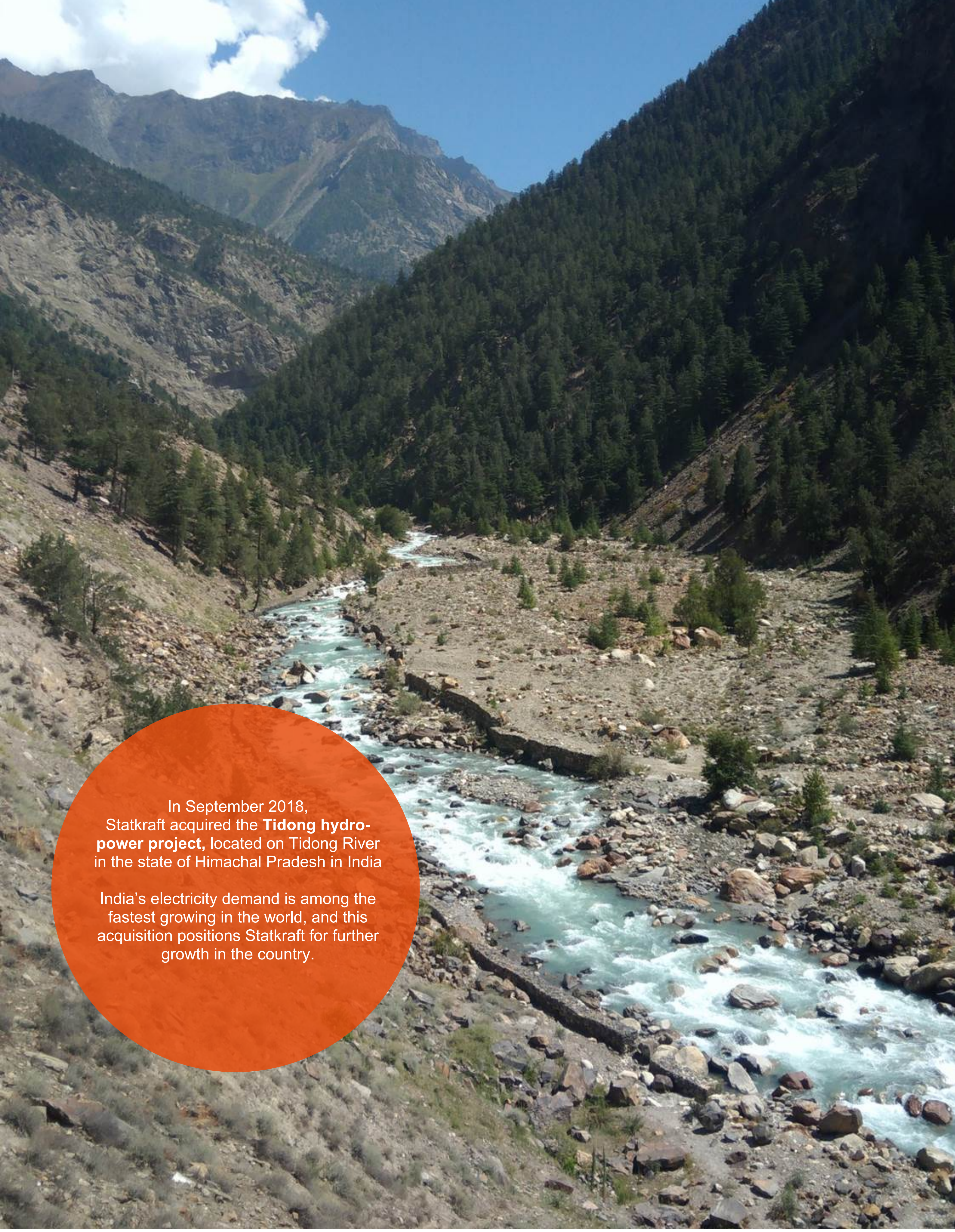
The Articles of Association for Statkraft AS state that the shares can only be owned by Statkraft SF.

AUDITOR

The enterprise meeting appoints the auditor based on the Board of Directors proposal, and stipulates the auditor’s fee. Statkraft SF and Statkraft AS use the same auditor. The auditor serves until a new auditor is appointed.

The Board of Directors and the auditor hold at least one meeting annually where the President and CEO and other Group executives are not present. The Audit Committee evaluates the external auditor’s independence and has established guidelines for use of the external auditor for consultancy purposes.

As part of the ordinary audit, the auditor presents an audit plan to the Audit Committee including a summary of the audit from last year. The auditor reports in writing to Statkraft's Audit Committee concerning the company's internal control, applied accounting principles, significant estimates in the accounts and any disagreements between the auditor and the administration. The Board of Directors is briefed on the highlights of the auditor's reporting. At the end of the audit the auditor performs a summary meeting with the Audit Committee.


In September 2018,
Statkraft acquired the **Tidong hydro-power project**, located on Tidong River in the state of Himachal Pradesh in India

India's electricity demand is among the fastest growing in the world, and this acquisition positions Statkraft for further growth in the country.

Statkraft is ramping up significantly within onshore wind.

In Central-Norway, Europe’s largest onshore wind power project Fosen is being built. **Roan wind farm** was completed in 2018, as the first of the project’s six wind farms.

2018

Statements

Group Financial Statements

GROUP

STATKRAFT AS

CORPORATE RESPONSIBILITY

Statement of Comprehensive Income

Statkraft AS Group

NOK million	Note	2018	2017
Profit and loss			
Sales revenues	4, 12, 20	55,350	50,778
Gains/losses from market activities	13, 20	-1,696	2,414
Other operating income	13	2,580	1,325
Gross operating revenues and other income	4	56,233	**54,517**
Energy purchase	12, 20	-26,808	-28,207
Transmission costs		-1,840	-1,326
Net operating revenues and other income	4	27,585	**24,984**
Salaries and payroll costs	15, 16	-3,615	-3,707
Depreciations and amortisations	22, 23	-3,567	-3,662
Impairments	14, 22, 23	-167	-500
Property tax and licence fees	17	-1,352	-1,341
Other operating expenses	18	-3,439	-3,846
Operating expenses		-12,139	**-13,056**
Operating profit/loss (EBIT)		15,446	**11,928**
Share of profit/loss in equity accounted investments	24	790	-79
Interest income		404	374
Interest expenses	19	-905	-1,234
Net currency effects	20	-464	-2,069
Other financial items	5,19, 20	5,377	6,748
Net financial items		4,412	**3,818**
Profit/loss before tax		20,649	**15,668**
Tax expense	21	-7,258	-3,957
Net profit/loss		13,390	**11,710**
Of which non-controlling interest		680	-95
Of which owners of the parent		12,710	11,805
OTHER COMPREHENSIVE INCOME			
Items in other comprehensive income that recycle over profit/loss:			
Changes in fair value of financial instruments, net of tax		8	-160
Items recorded in other comprehensive income in equity accounted investments		-131	-170
Recycling of financial instruments related to cash flow hedges/net investment hedges, net of tax		-	1,115
Recycling of currency translation effects related to foreign operations disposed		-54	-2,491
Currency translation effects		-316	667
Items in other comprehensive income that will not recycle over profit/loss:			
Changes in fair value of equity instruments, net of tax		-27	2
Estimate deviation pensions, net of tax		-153	-47
Other comprehensive income		-673	**-1,084**
Comprehensive income		12,717	**10,625**
Of which non-controlling interest		642	-465
Of which owners of the parent		12,075	11,090

Statement of Financial Position

Statkraft AS Group

NOK million	Note	31.12.2018	31.12.2017
ASSETS			
Deferred tax assets	21	676	962
Intangible assets	22	3,909	3,313
Property, plant and equipment	23	105,744	103,193
Equity accounted investments	4, 24	13,105	13,335
Other financial assets	25	3,986	4,368
Derivatives	10	2,926	4,023
Non-current assets		**130,345**	**129,194**
Inventories	26	6,316	2,871
Receivables	27	12,831	15,372
Financial investments	10	604	918
Derivatives	10	9,118	6,537
Cash and cash equivalents (incl. restricted cash)	28	23,175	14,217
Current assets		**52,044**	**39,914**
Assets		**182,388**	**169,108**
EQUITY AND LIABILITIES			
Paid-in capital		59,219	59,219
Retained earnings		34,815	28,842
Non-controlling interest		3,970	3,567
Equity		**98,004**	**91,627**
Deferred tax	21	9,826	9,792
Pension liability	16	2,655	2,539
Provisions allocated to capital employed	29	2,552	2,894
Other provisions	29	637	598
Interest-bearing liabilities	30	30,354	36,285
Derivatives	10	1,253	1,101
Non-current liabilities		**47,277**	**53,210**
Interest-bearing liabilities	30	6,346	3,694
Taxes payable	21	7,391	4,010
Interest-free liabilities allocated to capital employed	31	9,742	9,086
Other interest-free liabilities		503	593
Derivatives	10	13,124	6,888
Current liabilities		**37,107**	**24,271**
Equity and liabilities		**182,388**	**169,108**

Statement of Cash Flow
Statkraft AS Group

NOK million	Note		2018	2017
CASH FLOW FROM OPERATING ACTIVITIES				
Operating profit/loss (EBIT)			15,446	11,928
Depreciations, amortisations and impairments	22, 23		3,734	4,162
Gains/losses from divestments and disposal of assets			-1,399	-129
Unrealised effects included in operating profit/loss (EBIT)	20		4,557	940
Dividends from equity accounted investments	24		606	558
Changes in working capital			-2,201	-1,551
Cash effects from foreign exchange derivatives related to operations			-451	-260
Taxes paid			-3,605	-4,843
Other changes			-1,401	-1,939
Cash flow from operating activities		A	**15,286**	**8,865**
CASH FLOW FROM INVESTING ACTIVITIES				
Investments in property, plant and equipment and intangible assets [1]			-4,713	-3,610
Business divestments, net liquidity inflow	5		7,316	7,309
Acquisition of shares in subsidiaries, net liquidity outflow	5		-1,587	-
Loans to equity accounted investments			-3	-1,258
Repayment of loans from equity accounted investments [2]			3,894	2,291
Interests received from loans to equity accounted investments [2]			102	200
Other investments			292	-298
Cash flow from investing activities		B	**5,301**	**4,634**
CASH FLOW FROM FINANCING ACTIVITIES				
New debt	30		759	5,250
Repayment of debt	30		-5,535	-7,647
Interests paid			-1,104	-1,231
Interests received from cash and other assets			284	161
Dividend paid to Statkraft SF			-6,040	-2,052
Transactions with non-controlling interests			-53	-1,037
Cash flow from financing activities		C	**-11,689**	**-6,556**
Net change in cash and cash equivalents		A+B+C	**8,898**	**6,943**
Currency exchange rate effects on cash and cash equivalents			59	-36
Cash and cash equivalents 01.01	28		14,217	7,308
Cash and cash equivalents 31.12 [3]	28		23,175	14,217
Unused committed credit lines			9,189	10,083
Unused overdraft facilities			1,002	2,041
Restricted cash	28		61	70

[1] Investments in property, plant and equipment and intangible assets in the cash flow in 2018 are NOK 407 million lower than new capacity, maintenance and other investments in note 4. This is due to capitalised borrowing costs of NOK -119 million, capitalised decommissioning of NOK -36 million and timing differences between capitalisation and payment date of NOK -252 million.
[2] Effects from a loan to Dudgeon Offshore Wind Ltd. are included. Dudgeon was divested in 2018. See note 5.
[3] Included in cash and cash equivalents are NOK 357 million related to joint operations as of year end 2018.

SIGNIFICANT ACCOUNTING POLICIES

The cash flow statement has been prepared using the indirect method.

Operating activities Changes in working capital comprise of inventory, short-term interest-free receivables and short-term interest-free liabilities. Effects related to capital expenditures, unrealised changes or reclassifications are not included in changes in working capital. Cash effects from cash collateral and margin calls are included in other changes.

Investing activities Acquisition/divestment of shares include cash and cash equivalents in the investee that are recognised/divested at the transaction date. Hence, this is presented net together with the cash consideration paid or received.

Financing activities Cash effects from interest rate derivatives are presented as a part of interest paid. Cash effects from foreign exchange derivatives related to debt are presented as a part of repayment of debt.

In 2018, the statement of cash flow has changed. Interest payment and cash effects from derivatives related to debt are no longer presented as a part of operating activities. For 2017, this led to an increase in cash flow from operating activities of NOK 450 million, increase in investing activities of NOK 325 million and a decrease in financing activities of NOK 775 million. Also, cash flow from operating activities is reconciled from operating profit/loss (EBIT) instead of profit before tax. The comparable figures have been restated.

Statement of Changes in Equity

Statkraft AS Group

NOK million	Paid-in capital	Other reserves [1]	Other equity	Currency translation effects	Retained equity	Attributable to owners of parent	Non-controlling interests	Total equity
Balance as of 01.01.2017 - as previously reported	**58,411**	-1,659	12,957	6,063	**17,361**	75,772	**7,747**	83,519
Change in accounting principle - see note 1	-	-	-101	-	**-101**	-101	**-25**	-126
Balance as of 01.01.2017	**58,411**	-1,659	12,856	6,063	**17,260**	75,671	**7,722**	83,393
Net profit/loss			11,805	-	**11,805**	11,805	**-95**	11,710
Items in other comprehensive income that recycles over profit/loss:								
Change in fair value of financial instruments, net of tax [2]	**-**	-161	-	-	**-161**	-161	**-**	-160
Items recorded in other comprehensive income in equity accounted investments	**-**	-170	-	-	**-170**	-170	**-**	-170
Recycling of financial instruments related to cash flow hedges/net investment hedges, net of tax	**-**	1,115	-	-	**1,115**	1,115	**-**	1,115
Recycling of currency translation effects related to foreign operations disposed of the year	**-**	-	-	-2,491	**-2,491**	-2,491	**-**	-2,491
Currency translation effects	**-**	-	-	1,063	**1,063**	1,063	**-396**	667
Items in OCI that will not recycle over profit/loss:								
Changes in fair value of equity instruments, net of tax	**-**	2	-	-	**2**	2	**-**	2
Estimate deviation pensions, net of tax	**-**	-	-72	-	**-72**	-72	25	-47
Total comprehensive income for the period	**-**	786	11,733	-1,428	**11,090**	11,090	**-465**	10,625
Dividend	**-1,332**	-	-3,018	-	**-3,018**	-4,350	**-1,036**	-5,386
Change in option recognised in equity	**-**	-	890	-	**890**	890	**-**	890
Business combinations/divestments	**-**	-	-	-	**-**	-	**-36**	-36
Transactions with non-controlling interests	**-**	-	2,620	-	**2,620**	2,620	**-2,620**	-
Capital increase [3]	**2,140**	-	-	-	**-**	2,140	**-**	2,140
Balance as of 31.12.2017	**59,219**	-874	25,080	4,635	**28,842**	88,061	**3,567**	91,627
Net profit/loss	**-**	-	12,710	-	**12,710**	12,710	**680**	13,390
Items in other comprehensive income that recycles over profit/loss:								
Changes in fair value of financial instruments, net of tax [4]	**-**	8	-	-	**8**	8	**-**	8
Items recorded in other comprehensive income in equity accounted investments	**-**	-131	-	-	**-131**	-131	**-**	-131
Recycling of currency translation effects related to foreign operations disposed	**-**	-	-	-54	**-54**	-54	**-**	-54
Currency translation effects	**-**	-	-	-306	**-306**	-306	**-10**	-316
Items in OCI that will not recycle over profit/loss:								
Changes in fair value of equity instruments, net of tax	**-**	-23	-	-	**-23**	-23	**-4**	-27
Estimate deviation pensions, net of tax	**-**	-	-129	-	**-129**	-129	**-24**	-153
Total comprehensive income for the period	**-**	-146	12,581	-360	**12,075**	12,075	**642**	12,717
Dividend	**-**	-	-6,100	-	**-6,100**	-6,100	**-204**	-6,304
Capital injection from non-controlling interest	**-**	-	-	-	**-**	-	**176**	176
Business combinations/divestments	**-**	-	-	-	**-**	-	**-212**	-212
Balance as of 31.12.2018	**59,219**	-1,020	31,561	4,275	**34,815**	94,035	**3,970**	98,004

[1] *Other reserves* is mainly related to cash flow hedges and net investment hedges.

[2] *Financial instruments* is related to foreign exchange derivatives and debt denominated in euro.

[3] A conversion of loan to share capital of NOK 2140 million from the owner took place in 2017.

[4] *Financial instruments* is related to foreign exchange and interest rate derivatives.

GENERAL INFORMATION

The parent company has a share capital of NOK 33.6 billion, divided into 200 million shares, each with a par value of NOK 168. All shares have the same voting rights and are owned by Statkraft SF, which is a Norwegian state-owned company, established and domiciled in Norway. Statkraft SF is wholly owned by the Norwegian state, through the Ministry of Trade, Industry and Fisheries.

On 21 June 2018 Statkraft's General Assembly approved a disbursement of NOK 6100 million as dividend to Statkraft SF. For the current year the Board of Directors has proposed to pay a dividend of NOK 8500 million.

SIGNIFICANT ACCOUNTING POLICIES

Dividend proposed at the time of approval of the financial statements is classified as equity. Dividends are reclassified to current liabilities once they have been approved by the General Assembly.

Notes
Statkraft AS Group

Index of notes to the consolidated financial statements

Note 1 General information and summary of significant accounting policies

GENERAL INFORMATION

Statkraft AS is a Norwegian limited liability company, established and domiciled in Norway. Statkraft AS is wholly owned by Statkraft SF, which in turn is wholly owned by the Norwegian state, through the Ministry of Trade, Industry and Fisheries. The company's head office is located in Oslo and the company has debt instruments listed on the Oslo Stock Exchange and the London Stock Exchange.

Statkraft's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and interpretations from International Financial Reporting Interpretations Committee (IFRIC) as adopted by the EU and further requirements in Norwegian Accounting Law (Regnskapsloven).

The statement of comprehensive income, statement of financial position, statement of equity, statement of cash flow and notes provide comparable information in respect of the previous period.

The consolidated accounts have been prepared on the basis of the historical cost principle, with the exception of certain financial instruments, derivatives and certain elements of net pension assets measured at fair value at the balance sheet date.

Historical cost is generally based on fair value of the consideration given when acquiring assets and services.

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The measurement of fair value is contingent upon market prices being available or whether other valuation techniques have been applied. When determining fair value, the management must apply assumptions that market participants would have used in a similar valuation. Measurement and presentation of assets and liabilities measured at fair value when presenting the consolidated accounts are based on these policies, with the exception of measuring net realisable value in accordance with IAS 2 Inventories and when measuring value in use in accordance with IAS 36 Impairment of Assets.

The accounting policies applied to the consolidated financial statements as a whole are described below while the remaining accounting policies are described in the notes to which they relate. The policies have been applied in the same manner in all presented periods, unless otherwise stated.

The descriptions of accounting policies in the statements and notes form part of the overall description of accounting policies:

- Statement of changes in equity
- Statement of cash flow
- Segment information — Note 4
- Business combinations and other transactions — Note 5
- Financial instruments — Note 10
- Hedge accounting — Note 11
- Sales revenues — Note 12
- Government grants — Note 13
- Impairment — Note 14
- Cash generating units (CGU) — Note 14
- Pensions — Note 16
- Income taxes — Note 21
- Intangible assets — Note 22
- Property, plant and equipment — Note 23
- Inventories — Note 26
- Cash and cash equivalents — Note 28
- Provisions — Note 29
- Concessionary power — Note 29
- Leases — Note 34

CONSOLIDATION PRINCIPLES

The consolidated financial statements comprise the financial statements of the parent company Statkraft AS and its subsidiaries. A subsidiary is an entity in which Statkraft has the power to govern the financial and operating policies (control). Control is normally achieved through ownership, directly or indirectly, of more than 50 percent of the voting power. Currently, Statkraft has more than 50 percent of the voting power in all subsidiaries. Subsidiaries are included from the date control commences until the date control ceases.

If necessary, the subsidiaries' financial statements are adjusted to correlate with the Group's accounting policies. Inter-company transactions and inter-company balances, including internal profits and gains and losses, are eliminated. Subsidiaries are consolidated from the date when the Group achieves control and are excluded from the consolidation when control ceases.

Investments in joint arrangements and associates

Statkraft classifies its investments based on an analysis of the degree of control and the underlying facts. This includes an assessment of voting rights, ownership structure and the relative strength, purchase and sale rights controlled by Statkraft and other shareholders. Each individual investment is assessed. Upon changes in underlying facts and circumstances a new assessment must be made on how to classify the investment.

Joint operations are joint arrangements where the participants who have joint control over a business activity have contractual rights to the assets and obligations for the liabilities, relating to the operation. In joint operations, decisions about the relevant activities require the unanimous consent of the parties sharing control. The Group's share in joint operations is recognised in the consolidated financial statements in accordance with Statkraft's interest in the joint operation's assets, liabilities, revenues and expenses. The proportionate share of realised and unrealised gains and losses arising from intragroup transactions between fully consolidated entities and joint operations is eliminated.

Joint ventures are companies where Statkraft has joint control together with one or several other investors. In a joint venture company, decisions related to relevant activities must be unanimous between participants which have joint control. The Group's share in joint ventures is recognised in the consolidated accounts using the equity method and presented as equity accounted investments under non-current assets. The Group's share of the companies' profit/loss after tax, adjusted for amortisation of excess value and any deviations from accounting policies, is presented as share of profit/loss in equity accounted investments in the statement of profit and loss.

Associates are companies or entities where Statkraft has significant influence. The Group's share in associated companies is recognised in the consolidated accounts using the equity method and presented as equity accounted investments under non-current assets. The Group's share of the companies' profit/loss after tax, adjusted for amortisation of excess value and any deviations from accounting policies, is presented as share of profit/loss in equity accounted investments in the statement of profit and loss.

COMPARABLE FIGURES AND RECLASSIFICATIONS

The statement of comprehensive income, statement of financial position, statement of equity, cash flow statement and notes provide comparable information in respect of the previous period.

FOREIGN CURRENCY

Subsidiaries prepare their accounts in the company's functional currency, normally the local currency in the country where the company operates. Statkraft AS uses Norwegian kroner (NOK) as its functional currency, and it is also the presentation currency for the consolidated financial statements.

GROUP

STATKRAFT AS

CORPORATE RESPONSIBILITY

Note 1 continued

When preparing the consolidated financial statements, the local currency of the foreign subsidiaries, associated companies and joint ventures are translated into NOK in accordance with the current exchange rate method. This means that balance sheet items are translated to NOK at the exchange rate prevailing at 31 December; whilst the income statement is translated using monthly weighted average exchange rates throughout the year. Currency translation effects are recognised as other comprehensive income and recycled to the income statement upon sale or loss of control of shareholdings in foreign companies. The currency translation effects that are recycled are presented as part of the gain or loss of the sale/disposal in the income statement. The part of the currency translation effects related to non-controlling interest are not recycled to the income statement.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the transaction dates. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

CLASSIFICATION AS CURRENT/NON-CURRENT

Items in the statement of financial position are classified as current when they are expected to be realised within 12 months after the reporting date. With the exception of the items mentioned below, all other items are classified as non-current. Derivatives that are hedging instruments in fair value hedge accounting are presented together with the hedged item. The first year's repayments relating to non-current liabilities are presented as current liability.

CHANGES IN THE FINANCIAL STATEMENTS AND COMPARABLE FIGURES

Compared with 2017, Statkraft has changed the Group's statement of comprehensive income. The effects from implementing IFRS 15 are described in note 12. Gains/losses from market activities are separated from Sales revenues. The line item Gains/losses from market activities contains trading, origination, risk reducing energy derivatives and embedded derivatives.

Statkraft's share of profit and loss in equity accounted investments is from 2018 recognised below the operating profit/loss on a separate financial statement line item in the statement of comprehensive income. The amount in 2017 was NOK -79 million. Gains and losses from divestment of equity accounted investments are from 2018 recognised in Other financial items instead of Other operating income. The amount in 2017 was NOK 5166 million. Se note 19.

The specification of Net financial items in the statement of comprehensive income has changed, however without effect on total Net financial items.

The statement of cash flow has changed. The changes are described on the same page as the statement.

Comparable figures have been restated.

ADOPTION OF NEW AND REVISED STANDARDS

In 2018 new standards and amendments to existing standards have become effective. This is related to the following standards:

- IFRS 9 Financial Instruments
- IFRS 15 Revenue from Contracts with Customers, including clarifications
- IFRIC 22 (interpretation) Foreign Currency Transactions and Advance Consideration
- Annual Improvements to IFRS Standards 2014-2016

The effects from implementing IFRS 15 are described in note 12 and 24.

The implementation of IFRS 9 Financial instruments had no significant impact on the statement of comprehensive income or the statement of financial position. This includes changes in initial and subsequent measurement and the expected credit loss model. However, the standard had impact on the disclosure requirements in note 10 and 11. Statkraft has implemented the new categories of financial instruments described in note 10.

The implementation and adoption of the other items did not have a significant impact on the financial statements of the Group.

STANDARDS AND AMENDMENTS ISSUED BUT NOT YET EFFECTIVE

IFRS 16 Leases is effective from 1 January 2019. IFRS 16 replaces IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17.

At the commencement date of a lease, a lessee will recognise a liability at the present value of lease payments with a corresponding asset representing the right to use the underlying asset during the lease term ("right-of-use asset"). The standard includes a number of optional practical expedients related to initial application and recognition. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessor accounting under IFRS 16 is substantially unchanged from previous accounting under IAS 17. Lessors will continue to classify all leases using the similar classification principle as in IAS 17.

The Group will, with effect from 1 January 2019, adopt IFRS 16 using the modified retrospective approach. Accordingly, comparable information will not be restated.

Determining whether a contract is or contains a lease under IFRS 16
At the date of initial application of IFRS 16, the Group will recognise a lease liability for leases previously classified as operating leases under IAS 17 in accordance with the transition requirements. The Group will measure the lease liabilities at the present value of the remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019. Statkraft has not been applying the practical expedient to rely on previous assessments of whether a contract is or contains a lease and has therefore performed a reassessment of the contract portfolio. Further, will the right-of-use assets on a lease-by-lease basis be measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments.

Statkraft has nearly completed its analysis of the effects of the new standard and concluded on the impact on the financial statement for contracts previously accounted for as operating leases:

Statkraft's leases mainly involve the following type of assets:
The contracts that will largely affect the recognition of the lease liability and right-of-use asset under the new standard are contracts for renting of office premises. In addition, contracts for lease of land, cars and equipment are identified.

Power purchase agreements
Statkraft is providing market access to renewable energy producers by entering into long term power purchase agreements. Some of these agreements were defined as operating leases in accordance with IFRIC 4.

After transition to IFRS 16 these agreements are considered not to contain a lease. It is concluded that the agreements are in scope of IFRS 9 Financial instruments when such contracts are net settled and not held for own use. Under IAS 17 the rent paid to the power-producers is presented as energy purchase. When preparing the financial statements for 2019, power purchase agreements assessed to be derivatives will be accounted for at fair value with value changes through profit and loss.

The following practical expedients and recognition exemptions to leases previously classified as operating leases at the date of initial application are applied:

- Recognition exemption for short-term leases (defined as 12 months or less)
- Recognition exemption for low value assets (defined as low value equipment)
- Excluded any initial direct costs from the measurement of the right-of-use asset

Note 1 continued

- Relied on previous assessment of whether a lease is onerous applying IAS 37 Provisions, Contingent Liabilities and Contingent Assets, and not performed an impairment review. For such leases, the right-of-use assets have been adjusted by the amount of such provisions recognised in the statement of financial position.
- Intangible assets will also be chosen to be excluded from IFRS 16, hence leased concessions or payments for power production licenses, for instance, will not be treated within IFRS 16.

Measurement
Statkraft has evaluated whether the Group is reasonably certain to exercise an option to renew a lease, not terminate a lease or to purchase the underlying asset. All relevant factors that can create an economic incentive for Statkraft to exercise options e.g. contract-, asset-, entity- and market-based factors are evaluated. Contracts to rent office premises are not considered to be customised to Statkraft's use and options to renew leases are not included in the estimated lease liability. Contracts to rent production facilities are in most cases customised to meet Statkraft's requirements and material expenses will incur if moving from the existing premises. Hence, such contracts are included in the estimated lease liability.

A lease liability will be remeasured upon the occurrence of certain events e.g. a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments. Generally, the amount of the remeasurement of the lease liability will be recognised as an adjustment to the right-of-use asset. Right-of-use assets and lease liabilities will not be presented separately in the statement of financial position but will be disclosed in a separate note.

The incremental borrowing rates are calculated as a sum of currency dependant market rates and entity specific credit spreads for each relevant year on an asset-by-asset basis. The incremental borrowing rate applied as discount rate is an average of these yearly borrowing rates for each individual leased asset, depending on the length of each contract. The weighted average yearly discount rate applied is 3.22% and the effect of discounting the nominal values is approximately NOK 427 million. Minimum lease expense recognised in 2018 was NOK 202 million, see note 34.

The estimated impacts on the financial statement and key figures for 2019 considering the current lease contracts are:
- Recognition of short-term and long-term lease liabilities of approximately NOK 1.5 billion.
- Recognition of right-of-use assets of approximately NOK 1.6 billion, including prepayments on lease contracts of NOK 100 million.
- Recognition of power purchase agreements at their fair value of approximately NOK 667 million as derivatives under assets. A similar amount will be recognised as an increase in equity as of 1 January 2019.
- Annual lease operating expenses will be reduced and impact the EBITDA positively with approximately NOK 204 million.
- Annual depreciation will increase by approximately NOK 174 million.
- Annual interest expenses will increase by approximately NOK 50 million.
- Annual gains/losses from financial instruments will be recognised.
- Improved cash flow from operating activities, due to the principal portion of the lease payments being classified as finance activity, whereas the whole lease payment was previously classified as operating activity (IFRS 16 has no impact on the cash position of the Group).

In addition to this standard, the following revised IFRSs have been issued, but are not yet effective, and in some cases have not yet been adopted by the EU:

- IFRIC 23 (interpretation) Uncertainty over Income Tax Treatments
- IFRS 9 (amendments) prepayments Features with Negative Compensation
- IAS 28 (amendment) Long-term interests in Associates and Joint Ventures
- IAS 19 (amendment) Plan amendment, Curtailment or Settlement
- Conceptual Framework (amendment) References in IFRS Standards
- IFRS 3 (amendment) Definition of a Business
- IAS 1 and IAS 8 (amendment) Definition of Material
- Annual improvements to IFRS Standards 2015-2017 cycle

Statkraft does not expect that the adoption of these Standards will have a material impact on the financial statements of the Group in future periods.

The Financial Statements were resolved by the Board of Directors on 13 February 2019.

GROUP STATKRAFT AS CORPORATE RESPONSIBILITY

Note 2 Key accounting estimates and judgements

INTRODUCTION

The use of reasonable estimates and judgements is a critical element in preparing the financial statements. Due to the level of uncertainties inherent in Statkraft's business activities, management must make certain estimates and judgements that effect the application of accounting policies, results of operations, cash flows and financial position as reported in the financial statements.

Management bases its estimates on historical experience and various other assumptions that are held to be reasonable under the circumstances.

AREAS OF SIGNIFICANT JUDGEMENT

LONG TERM PRICE FORECAST FOR POWER
One of the key assumptions used by management in making business decisions is Statkraft's long term price forecasts for power and the related market developments. In addition, these assumptions are critical input for management related to financial statement processes such as:

- Allocation of fair value in business combinations — Note 5
- Impairment testing of property, plant and equipment — Note 14, 23
- Impairment testing of intangible assets — Note 14, 22
- Impairment testing of equity accounted investments — Note 14, 24

Statkraft performs an annual update of its long-term price forecasts and the related expected market developments in the geographical areas where Statkraft operates. This update is the output from a continuous process of monitoring, interpreting and analysing global as well as local trends, which will affect future markets and revenues. The update provides basis for both strategic decisions as well as the management's expectation for future prices and revenue streams beyond 2025 associated with the assets.
A fundamental approach is applied when analysing the markets, considering elements such as:

- Cost levels of competing technologies and fuels
- Future energy balances
- Political regulations
- Technological developments to reduce emissions of climate gases

The process is headed and run by a team of experts across the Group. The main results are benchmarked to external references and major deviations are explained. The process aims to ensure consistency, and provide a balanced view of both the markets and expected future power prices.

The Corporate Management is forming its management view by being involved in the process. Corporate Management is invited to provide and challenge the input and scenarios applied in the analysis to be used in asset valuations and other strategic considerations. Based on the expert recommendations, the Corporate Management approves the annual long term price forecasts for power and the view upon related market development.

Various sensitivity analyses are disclosed in:

- Analysis of market risk — Note 8
- Financial instruments — Note 10
- Impairments — Note 14

FAIR VALUE MEASUREMENT
In addition to the above, significant judgement is applied in the valuation of the Group's long term power purchase- and power sales-contracts categorised within level 3 in the fair value hierarchy levels. The fair value estimate is based on the amounts for which the assets or liabilities could be exchanged at the relevant transaction date on the reporting period end. Where fair value measurement cannot be derived from publicly available information, they are estimated using models and other valuations methods. To the extent possible, the assumptions and inputs used take into account externally verifiable inputs. However, such information is by nature subject to uncertainty, particularly where comparable market-based transactions do often not exist. In such cases Statkrafts management is required to make market based-assumptions, see note 10.

OTHER AREAS
In addition, significant judgement is applied in estimating the carrying amounts of:

- Pensions — Note 16
- Deferred tax assets — Note 21

APPLICATION OF ACCOUNTING POLICY

Due to Statkraft's business activities, management must apply judgements in determining the appropriate accounting policy in areas where these policies may have a material impact on how amounts are reported in the financial statements. Such areas include;

- Classification of energy contracts — Note 10
- Classification of energy revenue — Note 12
- Classification of investments made together with third parties — Note 24
- Classification of power purchase agreements — Note 34

Note 3 Subsequent events

There have been no significant subsequent events.

Note 4 Segment information

The Group reports operating segments in accordance with how the corporate management makes, follows up and evaluates its decisions. The operating segments have been identified on the basis of internal management information that is periodically reviewed by the corporate management and used as a basis for resource allocation and key performance review.

The segment reporting is based on underlying figures. The table below reconciles the Group IFRS figures with the Group underlying figures. The rationale for reporting underlying figures are described in the Alternative Performance Measures.

See note 12 for revenues per category and geography.

The reportable segments are defined as:

European flexible generation includes the majority of the Group's hydropower business in Norway, Sweden, Germany and the United Kingdom, as well as the gas fired power plants, the subsea cable Baltic Cable and the biomass power plants in Germany.

Market operations includes trading, origination, market access for smaller generators of renewable energy, as well as revenue optimisation and risk mitigation activities related to both the Continental and Nordic production.

International power includes development, ownership and operations of renewable assets in emerging markets. The segment currently operates in Brazil, Peru, Chile, India, Nepal, Turkey and Albania.

Wind power includes Statkraft's development and operation of onshore wind power. The segment currently operates in Norway, Sweden, Ireland and the United Kingdom.

District heating includes Statkraft's development and operation of district heating plants in Norway and Sweden.

Industrial ownership includes management and development of Norwegian shareholdings within the Group's core business and includes the shareholdings in Skagerak Energi, BKK, Agder Energi, Fjordkraft and Istad. Skagerak Energi is included in the consolidated financial statements, while BKK and Agder Energi are reported as equity accounted investments. Statkraft has divested shares in Fjordkraft and Istad in 2018. Fjordkraft was consolidated until the divestment in March 2018. After the divestment, Fjordkraft was reported as an equity accounted investment.

Other activities includes other small-scale business, group functions and unallocated assets.

Group items include eliminations.

Reconciliation of IFRS versus underlying figures

NOK million	2018 IFRS	Adjustments	2018 Underlying	2017 IFRS	Adjustments	2017 Underlying
Profit and loss						
Sales revenues	55,350	-676	54,674	50,778	-116	50,662
Gains/losses from market activities	-1,696	1,464	-232	2,414	-1,172	1,242
Other operating income	2,580	-1,449	1,131	1,325	-346	979
Gross operating revenues and other income	56,233	**-660**	55,573	**54,517**	**-1,634**	**52,883**
Energy purchase	-26,808		-26,808	-28,207		-28,207
Transmission costs	-1,840		-1,840	-1,326		-1,326
Net operating revenues and other income	27,585	**-660**	26,925	**24,984**	**-1,634**	**23,350**
Salaries and payroll costs	-3,615		-3,615	-3,707		-3,707
Depreciations and amortisations	-3,567		-3,567	-3,662		-3,662
Impairments	-167	167	-	-500	500	-
Property tax and licence fees	-1,352		-1,352	-1,341		-1,341
Other operating expenses	-3,439	-	-3,439	-3,846	30	-3,816
Operating expenses	-12,139	**167**	-11,972	**-13,056**	**530**	**-12,526**
Operating profit/loss (EBIT)	15,446	**-493**	14,953	**11,928**	**-1,105**	**10,824**

The underlying adjustments are:

- Sales revenues: gains or losses from hedges (IFRS 9) within market access activities (customers) are reclassified from "Gains/losses from market activities" to "Sales revenues". Hence, these gains/losses are not included in Sales revenues for the IFRS figures.
- Gains/losses from market activities:
  - Unrealised value changes from embedded derivatives in energy contracts are not included in the underlying figures.
  - Unrealised gains/losses from certain derivatives entered into for risk reduction purposes are not included in the underlying figures.
- Other operating income: gains from divestment of subsidiaries and joint operations are not included in the underlying figures.
- Impairments: related to intangible assets, property, plant and equipment are excluded from underying figures.
- Other operating expenses: losses from divestment of subsidiaries and joint operations are not included in the underlying figures.

Note 4 continued

Accounting specification per segment

Segments NOK million	Statkraft AS Group	European flexible generation	Market operations	International power	Wind power	District heating	Industrial ownership	Other activities	Group items
2018									
Gross operating revenues and other income, external	55,573	21,158	26,007	2,502	399	907	4,537	134	-71
Gross operating revenues and other income, internal	-	444	-50	139	968	1	94	877	-2,473
Gross operating revenues and other income, underlying	55,573	21,602	25,957	2,641	1,367	908	4,631	1,011	-2,544
Net operating revenues and other income, underlying	26,925	18,765	834	2,244	1,320	650	3,284	1,011	-1,183
Operating profit/loss (EBIT), underlying	14,953	12,943	-321	631	429	206	1,467	-545	142
Unrealised value changes from energy derivatives	-789	-333	-456	-	-	-	-	-	-
Gains/losses from divestments of business activities	1,449	-	15	-	1	-	1,432	-	-
Impairments	-167	-	-	-160	-	-7	-	-	-
Operating profit/loss (EBIT), IFRS	15,446	12,610	-761	471	431	199	2,899	-545	142
Share of profit/loss in equity accounted investments	790	-	2	143	30	-	635	-20	-
Assets and capital employed 31.12.18									
Property, plant and equipment and intangible assets	109,653	57,250	85	24,976	8,018	3,461	15,494	369	-
Equity accounted investments	13,105	-	25	1,977	879	-	10,116	108	-
Loans to equity accounted investments	2,319	-	-	1,737	568	-	15	-	-
Other assets	57,311	2,221	11,655	1,447	533	281	988	40,318	-132
Total assets	182,388	59,472	11,765	30,137	9,998	3,741	26,613	40,795	-132
Assets not included in capital employed	-56,323	-35	-203	-4,011	-1,461	-	-10,609	-40,003	-
Liabilities included in capital employed	-19,685	-2,848	-5,856	-1,481	-293	-212	-1,275	-7,853	132
Capital employed	106,380	56,589	5,706	24,645	8,243	3,529	14,728	-7,061	-
Return on average capital employed (ROACE)	14.7%	23.3%	-6.9%	2.9%	6.3%	5.9%	10.1%	n/a	n/a
Return on average equity accounted investment (ROAE)	5.9%	n/a	n/a	7.8%	3.2%	n/a	6.1%	n/a	n/a
Depreciations, amortisations and impairments	-3,734	-1,692	-17	-910	-309	-172	-574	-59	-
Maintenance investments and other investments	2,067	1,185	10	155	4	9	663	40	-
Investments in new production capacity	3,053	67	24	894	1,623	134	309	-	-
Investments in shares	1,862	-	39	1,345	381	-	-	97	-

Note 4 continued

Accounting specification per segment

Segments NOK million	Statkraft AS Group	European flexible generation	Market operations	International power	Wind power	District heating	Industrial ownership	Other activities	Group items
2017									
Gross operating revenues and other income, external	52,883	16,908	25,294	2,522	55	788	7,209	134	-28
Gross operating revenues and other income, internal	-	176	84	108	706	1	53	853	-1,981
Gross operating revenues and other income, underlying	52,883	17,084	25,378	2,630	761	789	7,262	987	-2,009
Net operating revenues and other income, underlying	23,350	14,508	1,983	2,143	716	580	3,602	987	-1,170
Operating profit/loss (EBIT), underlying	10,824	8,447	1,057	394	-132	155	1,369	-441	-25
Unrealised value changes from energy derivatives	1,289	1,173	116	-	-	-	-	-	-
Gains/losses from divestments of business activities	315	-	-	76	258	-	11	-30	1
Impairments	-500	1,084	-	-1,392	-187	-4	-	-	-1
Operating profit/loss (EBIT), IFRS	11,928	10,704	1,173	-922	-61	151	1,380	-471	-25
Share of profit/loss in equity accounted investments	-79	-	2	-744	213	-	473	-23	-
Assets and capital employed 31.12.17									
Property, plant and equipment and intangible assets	106,506	58,329	161	22,634	6,317	3,510	15,188	368	-
Equity accounted investments	13,335	-	86	1,821	1,771	-	9,640	16	-
Loans to equity accounted investments	6,182	-	-	1,640	667	-	16	3,860	-
Other assets	43,085	1,895	7,905	1,788	538	258	2,340	29,110	-748
Total assets	169,108	60,224	8,152	27,882	9,293	3,767	27,184	33,354	-748
Assets not included in capital employed	-49,197	-29	-206	-3,702	-2,449	-	-10,125	-32,686	-
Liabilities included in capital employed	-15,990	-3,010	-4,655	-1,633	-358	-197	-2,106	-4,778	748
Capital employed	103,922	57,185	3,292	22,546	6,486	3,571	14,953	-4,111	-
Return on average capital employed (ROACE)	10.5%	15.2%	27.2%	1.7%	-1.9%	4.4%	9.3%	n/a	n/a
Return on average equity accounted investment (ROAE)	-0.5%	n/a	n/a	-17.5%	9.2%	n/a	4.9%	n/a	n/a
Depreciations, amortisations and impairments	-4,162	-620	-12	-2,160	-553	-175	-575	-66	-1
Maintenance investments and other investments	1,820	1,053	5	173	12	7	566	4	-
Investments in new production capacity	1,964	117	103	794	500	130	320	-	-
Investments in shares	111	-	91	-	-	-	-	19	-

Selected financial figures from "Norwegian hydropower and related business"

In the white paper Prop. 40 S (2014-2015) related to revised national budget, it was stated that Statkraft should disclose information related to the Norwegian hydropower activities ("Norwegian hydropower").

The table on the next page includes financial figures for the Norwegian hydropower, which have been extracted from the relevant operational segments.

"Norwegian hydropower" includes all activities related to the Norwegian hydropower assets in the subsidiaries Statkraft Energi AS and Skagerak Kraft Group, which are subject to resource rent tax. Further, it includes Nordic dynamic asset management portfolio related to the assets defined above and the financial risk reduction portfolio in Statkraft Energi AS.

"Related business" refers to all activities in the investments in the associated regional companies BKK AS, Agder Energi AS and Istad AS. The column Sum "Norwegian hydropower, excluding related business" represents the totals for the two subsidiaries after elimination of intercompany transactions and balances. The figures for Statkraft Energi AS are extracted from the segments European flexible generation and Market operations, while the figures for Skagerak Kraft Group are extracted from the segment Industrial ownership. The line "Profit after tax (majority share)" from Skagerak Kraft Group is calculated based on Statkrafts ownership interest of 66.62%.

The lines Net financial items and Tax expense show the financial items and tax related to the activities in the definition of "Norwegian hydropower".

The figures from the equity accounted investments in the associated companies BKK AS, Agder Energi AS and Istad AS have been extracted from the segment Industrial ownership. See note 24.

Note 4 continued

Norwegian hydropower — "Norwegian hydropower" from:

NOK million	Statkraft AS Group	Statkraft Energi AS	Skagerak Kraft Group	Sum "Norwegian hydropower, excluding related business"	Associated regional companies	Sum "Norwegian hydropower and related business"
2018						
Gross operating revenues and other income	56,233	17,499	2,118	19,587		19,587
Net operating revenues and other income	27,585	16,185	2,009	18,184		18,184
Operating profit/loss (EBIT)	15,446	12,045	1,375	13,420		13,420
Share of profit/loss in equity accounted investments	790	-	-	-	596 [1]	596
Net financial items	4,412	-171	-64	-235		-235
Tax expense	-7,258	-6,299	-853	-7,151		-7,151
Profit/loss after tax	13,390	5,576	458	6,034	596	6,630
Profit/loss after tax (majority share)	12,710	5,576	303	5,879	596	6,475
Paid dividend and group contribution to Statkraft		4,499 [2]	119 [3]	4,618	541 [3]	5,159
Assets 31.12.18						
Equity accounted investments	13,105	-	2	2	9,030 [1]	9,032
Other assets	169,284	37,754	5,306	43,060		43,060
Total assets	182,388	37,754	5,307	43,062	9,030	52,092
EBITDA	19,180	13,145	1,567	14,712		14,712
Depreciations, amortisations and impairments	-3,734	-1,100	-192	-1,292		-1,292
Maintenance investments and other investments	2,067	864	105	969		969
Investments in new production capacity	3,053	62	25	87		87
Investments in shares	1,862	-	-	-		-

[1] Statkraft's share
[2] Dividend and group contribution after tax paid from Statkraft Energi AS
[3] Dividend paid to Statkraft

Norwegian hydropower — "Norwegian hydropower" from:

NOK million	Statkraft AS Group	Statkraft Energi AS	Skagerak Kraft Group	Sum "Norwegian hydropower, excluding related business"	Associated regional companies	Sum "Norwegian hydropower and related business"
2017						
Gross operating revenues and other income	54,517	15,666	1,651	17,303		17,303
Net operating revenues and other income	24,984	12,943	1,571	14,514		14,514
Operating profit/loss (EBIT)	11,928	9,303	955	10,258		10,258
Share of profit/loss in equity accounted investments	-79	-	-	-	471 [1]	471
Net financial items	3,818	-136	-83	-218		-218
Tax expense	-3,957	-4,687	-522	-5,210		-5,210
Profit/loss after tax	11,710	4,480	350	4,830	471	5,301
Profit/loss after tax (majority share)	11,805	4,480	232	4,711	471	5,182
Paid dividend and group contribution to Statkraft		3,758 [2]	76 [3]	3,834	528 [3]	4,362
Assets 31.12.17						
Equity accounted investments	13,335	-	1	1	9,484 [1]	9,485
Other assets	155,773	37,930	5,356	43,287		43,287
Total assets	169,108	37,930	5,357	43,288	9,484	52,772
EBITDA	16,090	10,066	1,146	11,212		11,212
Depreciations, amortisations and impairments	-4,162	-763	-191	-954		-954
Maintenance investments and other investments	1,820	950	95	1,046		1,046
Investments in new production capacity	1,964	22	4	26		26
Investments in shares	111	-	-	-		-

[1] Statkraft's share
[2] Dividend and group contribution after tax paid from Statkraft Energi AS
[3] Dividend paid to Statkraft

Note 5 Business combinations and other transactions

SIGNIFICANT ACCOUNTING POLICIES

The acquisition method is applied in business combinations. The consideration is measured at fair value on the transaction date, which is also the date when fair value of identifiable assets, liabilities and contingent liabilities acquired in the transaction are measured. If the accounting of a business combination is incomplete at the end of the reporting period, in which the transaction occurred, the Group will report preliminary values for the assets and liabilities. Preliminary values are adjusted throughout the measuring period of maximum one year in order to reflect new information obtained about circumstances that existed as of the acquisition date, that if known, would have affected the valuation on that date. Correspondingly, new assets and liabilities can be recognised. The transaction date is when risk and control has been transferred and normally coincides with the closing date.

Non-controlling interests are recognised either at fair value or the proportionate share of the identifiable net assets and liabilities. The assessment is done for each transaction.

Any differences between cost and fair value for acquired assets, liabilities and contingent liabilities are recognised as goodwill or recognised in the income statement when the cost is lower. No provisions are recognised for deferred tax on goodwill.

Transaction costs are recognised in the income statement when incurred.

If business combinations are achieved in stages, the existing ownership interests is recognised at fair value at the point in time when control is transferred to Statkraft. Such a change in the carrying value of the investment is recognised in the income statement.

The principles applied to the recognition of acquisition of associated companies and joint ventures are in general the same as those applied to the acquisition of subsidiaries.

ESTIMATES AND ASSUMPTIONS

Consideration paid in business combinations is allocated to acquired assets and liabilities and contingent liabilities based on their estimated fair values. For major acquisitions, Statkraft uses independent external advisors to assist in the determination of the fair value of acquired assets and liabilities. This type of valuation requires management to make judgements as regards valuation method, estimates and assumptions. Management's estimates of fair value and useful life are based on assumptions supported by the Group's experts, and involve inherent uncertainty. As explained in Note 2, Statkraft's long-term price forecast for power is a critical assumption used in estimating fair values of relevant assets and liabilities.

BUSINESS COMBINATIONS AND TRANSACTIONS IN 2018

Tidong On 4 September, Statkraft acquired 100% of the shares in NSL Tidong Power Generation Private Ltd. The shares were acquired from NSL Renewable Power Private Ltd. The purchase price of the shares was close to zero. Tidong is a hydropower project in India with a planned capacity of 100 MW.

Element Power Group On 2 October, Statkraft acquired 100% of the shares in the Irish and UK wind development business of the Element Power Group. The shares were acquired from Hudson Clean Energy Partners AIV LP. The purchase price of the shares was NOK 372 million. In addition, loans to former shareholders of a total of NOK 40 million were repaid in connection with the transaction.

Tamar On 21 December, Statkraft acquired 100% of the shares in the two companies Santa Fé Energia S.A. and Tamar Pequenas Centrais Hidroelectricas S.A., consisting of eight operational hydropower plants in the state of Espírito Santo in Brazil. The shares were acquired from EDP Energias do Brasil for a total of NOK 1344 million. The portfolio has a total installed capacity of 132 MW and will expand Statkraft's operations in Brazil.

DIVESTMENT AND RESTRUCTURING OF BUSINESS IN 2018

Dudgeon Offshore Wind On 7 March, an agreement to divest Statkraft's 30% share in the joint venture Dudgeon Offshore Wind Ltd was closed. The counterparty was a consortium led by China Resources Company Limited. Net cash inflow from the transaction was NOK 5947 million and resulted in a gain of NOK 5106 million recognised as Other financial items. A shareholder loan of NOK 317 million from Statkraft UK Ltd provided to Dudgeon was repaid by the joint venture in the first quarter. Statkraft UK Ltd provided a sponsor loan to Dudgeon of NOK 3534 million. The sponsor loan was not part of the transaction and was repaid in the fourth quarter.

Fjordkraft On 21 March, Fjordkraft concluded a successful Initial Public Offering (IPO) and was listed on Oslo Stock Exchange at a share price of 31 NOK/share. Statkraft has recognised a total gain from the IPO of NOK 1659 million of which NOK 1432 million was recognised as Other operating income. BKK, an associated company of Statkraft, also divested some of its shareholding in Fjordkraft through the IPO and recognised a gain of NOK 227 million that was presented as Share of profit/loss in equity accounted investments. Net cash income from the transaction was NOK 673 million. Subsequent of the IPO, Statkraft holds a shareholding of 29.72% in Fjordkraft and the investment is presented according to the equity method, see note 24.

Of the total gain recognised, NOK 869 million is a true up to fair value on the remaining shares in Fjordkraft held by Statkraft. The excess values have been analysed and allocated to identifyible intangible assets. NOK 255 million (before tax) are allocated to customer portfolios and will be depreciated over six years. The depreciations will affect share of profit/loss in equity accounted investments. The remaining excess values are allocated to brand name and goodwill, which both have indefinite useful life. The excess values are presented net as a part of equity accounted investments in the statement of financial position.

BKK On 11 June, an agreement where BKK acquires its own B-shares from Statkraft, corresponding to 1.7% of the company's total share capital, was closed. Net cash inflow from the transaction was NOK 350 million. The gain was NOK 141 million and was recognised as Other financial items.

Istad On 3 September, Statkraft closed the agreement to divest 49% of the shares in Istad AS. Net cash inflow from the transaction was NOK 380 million and a gain of NOK 168 million was recognised as Other financial items.

Lange Runde On 7 September, Statkraft sold 90% of the shares in the solar park Lange Runde in the Netherlands. The cash inflow from the transaction was NOK 130 million, including repayment of a loan. The gain from the sale was NOK 15 million and was recognised as Other operating income.

BKK On 14 September, an agreement where BKK acquires its own B-shares from Statkraft, corresponding to 0.35% of the company's total share capital, was closed. BKK has used the acquired shares as consideration when acquiring Etne Elektrisitetslag. Net cash inflow from the transaction was NOK 72 million and a gain of NOK 34 million was recognised as Other financial items.

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STATKRAFT AS

CORPORATE RESPONSIBILITY

Note 5 continued

Allocation of cost price for business combinations in 2018 [1]	Tidong	Element Power	Tamar	Total
Acquisition date	04.09.2018	02.10.2018	21.12.2018	
Voting rights/shareholding acquired through the acquisition	100%	100%	100%	
Total voting rights/shareholding following acquisition	100%	100%	100%	
Measurement of non-controlling interests	n/a	n/a	n/a	
Consideration				
NOK million				
Cash	-	372	1,344	1,716
Total acquisition cost	-	372	1,344	1,716
Book value of net acquired assets (see table below)	-4	252	566	814
Identification of excess value, attributable to:				
Intangible assets	-	-99	334	235
Property, plant and equipment	4	-	449	453
Inventory	-	-	-4	-4
Gross excess value	4	-99	779	684
Deferred tax on excess value	-1	-	-119	-120
Net excess value	3	-99	659	563
Fair value of net acquired assets, excluding goodwill	-1	153	1,225	1,377
Of which				
Controlling interests	-1	153	1,225	1,377
Total	-1	153	1,225	1,377
Total acquisition cost	-	372	1,344	1,716
Fair value of net acquired assets, excluding goodwill (controlling interest)	-1	153	1,225	1,377
Goodwill	1	219	119	339

[1] All cost price allocations are based on preliminary assessments, and could be subject to changes within 12 months of each transaction.

NOK million	Tidong	Element Power	Tamar	Total
Book value of net acquired assets				
Intangible assets	-	371	6	378
Property, plant and equipment	392	1	727	1,120
Deferred tax assets	-	-	2	2
Other non-current assets	34	-	11	45
Non-current assets	426	372	747	1,545
Cash and cash equivalents	-	15	150	165
Inventories	-	-	12	12
Receivables	1	-	48	49
Current assets	1	15	210	226
Acquired assets	427	387	957	1,771
Deferred tax	1	-	-	1
Interest-bearing liabilities, non-current	342	38	337	717
Interest-bearing liabilities, current	2	-	19	21
Taxes payable	-	-	24	24
Other interest-free liabilities	87	97	10	195
Net value of acquired assets	-4	252	566	814
Total acquisition cost	-	372	1,344	1,716
Non-cash elements of acquisition cost	-	-	-	-
Consideration and cost in cash and cash equivalents	-	372	1,344	1,716
Cash and cash equivalents in acquired companies	-	15	150	165
Net cash payments in connection with the acquisitions	-	357	1,194	1,551
Contribution to gross operating revenue since acquisition date	-	7	-	7
Contribution to net profit since acquisition date	-8	-15	-	-23

Note 5 continued

BUSINESS COMBINATIONS AND TRANSACTIONS IN 2017

There were no significant business combinations, asset purchases or new joint arrangements in 2017.

DIVESTMENTS AND RESTRUCTURING OF BUSINESS IN 2017

Forewind Ltd On 23 March, Statkraft divested its shares in the joint operation Forewind Ltd. which included the Dogger Bank offshore wind project in the UK. This resulted in a gain of NOK 256 million recognised in profit and loss.

Cetin Enerji On 11 July, Statkraft divested its interests in the Cetin hydropower project in Turkey. This resulted in a gain of NOK 76 million, mainly due to the reclassification of currency translation differences, recognised in profit and loss. As part of the sales agreement, there is a contingent earn-out. The earn-out will be recognised when payments are received.

SN Power On 25 September, an agreement was entered into between Statkraft and Norfund whereby Statkraft acquired the remaining 18.1% share in Statkraft IH Invest AS and disposed its 50% share in SN Power AS. In addition, Statkraft received a cash payment of NOK 1717 million. A gain of NOK 2091 million, which includes a deferred gain from an earlier restructuring and currency effects, was recognised as other financial items. See note 24.

Triton Knoll On 10 October, Statkraft divested its 50% share in the joint venture Triton Knoll Offshore Wind Farms Ltd. to innogy Renewables UK Ltd. The transaction included a loan of NOK 331 million from Statkraft UK provided to the joint venture. Total cash inflow from the transaction was NOK 765 million. The transaction resulted in a gain of NOK 426 million recognised as other financial items.

Scira On 14 December, Statkraft signed an agreement to divest its 40% share in the joint venture Scira Offshore Energy Ltd. which includes the Sheringham Shoal offshore wind project in the UK. The transaction was closed later in December and included a loan of NOK 1403 million from Statkraft AS provided to the joint venture. Total cash inflow from the transaction was NOK 6192 million. The transaction resulted in a gain of NOK 2634 million from sale of shares recognised as other financial items and a gain of NOK 43 million from settlement of loans recognised as other financial items.

Skagerak Naturgass AS Skagerak Naturgass was previously 100% owned by Skagerak Energi and consolidated as a subsidiary. 51% of the shares were divested and the entity was recognised as an equity accounted investment after the transaction. There were no material effects on the financial statements.

Steinsvik AS The subsidiary Steinsvik AS was divested. There were no material effects on the financial statements.

Vindpark Em AB The subsidiary Vindpark Em AB and the wind farm Tollarpabjär were divested. There were no material effects on the financial statements.

Note 6 Management of capital structure

The main aims of the Group's management of its capital structure is to maintain a reasonable balance between the company's debt/equity ratio, and its ability to expand whilst maintaining a strong credit rating.

The tools for long-term management of the capital structure consist primarily of the draw-down and repayment of long-term liabilities and payments of share capital from/to the owner. The Group endeavours to obtain external financing from various capital markets. The Group is not subject to any external requirements with regard to the management of capital structure other than those relating to the market's expectations and the owner's dividend requirements.

There were no changes in the Group's targets and guidelines governing the management of capital structure in 2018.

The most important target figure for the Group's management of capital structure is long-term credit rating. Statkraft AS has a long-term credit rating of A- (stable outlook) from Standard & Poor's and BBB+ (stable outlook) from Fitch Ratings. Statkraft's target is to maintain its current ratings.

Overview of capital included in management of capital structure

NOK million	Note	2018	2017
Interest-bearing liabilities, non-current	30	**30,354**	36,285
Interest-bearing liabilities, current	30	**6,346**	3,694
Financial investments, current		**-604**	-918
Cash and cash equivalents, excluding restricted cash	28	**-23,114**	-14,147
Net interest-bearing liabilities		**12,982**	24,915

Note 7 Market risk in the Group

RISK AND RISK MANAGEMENT OF FINANCIAL INSTRUMENTS GENERALLY

Statkraft is engaged in activities that entail risk in many areas and has a unified approach to the Group's market risks. The Group's risk management policy is based upon assuming the right risk based on the Group's ability and willingness to take risks, expertise, financial strength and development plans. The purpose of risk management is to identify threats and opportunities for the Group, and to manage the overall risk level to provide reasonable assurance that the Group's objectives will be met.

In Statkraft, market risk will primarily relate to prices of energy and commodities, interest rates and foreign currency. The following section contains a more detailed description of the various types of market risk, and how these are managed.

DESCRIPTION OF MARKET RISK RELATED TO PRICES ON ENERGY AND COMMODITIES

Statkraft is exposed to significant market risk in relation to the generation and trading of power. Revenues from power generation are exposed to volume and power price risk. The company has an advanced energy management process and aims to have production capacity available in periods with high demand. Statkraft manages market risk in the energy markets by trading physical and financial instruments in multiple markets. The production revenues are optimised through financial power trading. The company is also engaged in other trading activities.

Risk management in energy trading in Statkraft focuses on total portfolios rather than individual contracts. Internal guidelines controlling the level of market exposure have been established for all portfolios. Responsibility for the continual monitoring of granted mandates and frameworks lies with independent organisational units. The frameworks for trading in both financial and physical contracts are continuously monitored. The Group has trading offices located in Oslo, Trondheim, Stockholm, London, Amsterdam, Düsseldorf, Istanbul, Tirana, Rio de Janeiro, San Francisco, New Delhi and Lima.

A description of the energy portfolios, within the various profit and loss categories, can be found below:

Generation activities Statkraft has entered into bilateral physical power sales agreements with industrial customers. The most significant part is related to contracts in Norway. These contracts stabilise Statkraft's revenues as they normally have fixed prices and volume, although with different durations. A substantial part of the contracted volume is settled in euro, and is therefore subject to a foreign exchange risk. Some of the contracts are indexed to raw materials.

In addition to bilateral physical contracts, Statkraft enters into financial contracts, normally forwards and futures, in order to hedge prices on a certain volume of future spot sales.

Statkraft has one Nordic and one Continental dynamic asset management portfolio, managed in Oslo and in Düsseldorf, respectively. The objective of these portfolios is to optimise portfolio revenues and reduce the risk levels in Statkraft as a whole. Statkraft performs financial trades in order to generate values in futures and forward markets, in addition to physical production and trading.

Mandates to enter into financial contracts are based on volume thresholds related to available production. The risk is quantified using simulations of various scenarios for relevant risk factors. The management portfolios consist mainly of financial contracts for power, CO_2, coal, gas and oil products. The contracts are traded on energy exchanges and by bilateral contracts. In general, the time horizon for these contracts is less than five years.

The effects from financial contracts related to power generation, are presented as a part of Gains/losses from market activities in the profit and loss statement since hedge accounting is not applied.

Customer activities This revenue category mainly consist of market access activities. Statkraft purchases power from smaller energy generators and sells the power to power exchanges, which includes handling volume and imbalance risk. Depending on the price mechanisms in the purchase agreements with the generators, Statkraft may be exposed to a price risk. The price risk is mitigated by entering into financial contracts, mainly forwards and futures, with third parties.

Trading and origination activities The trading activities involve buying and selling standardised and liquid products, such as power, gas, oil and CO_2 products. The activities also include trading transportation capacity across borders. The contracts in the trading portfolio have maturities ranging from 0 to 5 years. The aim is to realise profit on changes in the market value of energy and energy-related products. The market risk in these contracts is mainly related to future commodity prices.

Origination activities include buying and selling both standard and structured products. Structured products are typically environmental certificates or power contracts with tailor made profiles, long-term contracts or power contracts in different currencies. Virtual power plant contracts are also included within the origination activities. Quoted, liquid contracts pertaining to system price, area prices and foreign currency are primarily used to reduce the risk involved in trading structured products and contracts. The majority of the contracts in the portfolio have a duration of up to five years, though some contracts run until 2035.

Statkraft has various trading and origination portfolios that are managed independently of the Group's expected power generation. Statkraft has allocated risk capital to these activities. Clear guidelines have been established limiting the types of products that can be traded. The mandates are adhered to by applying specified limits for value-at-risk and profit-at-risk. Both methods calculate the maximum potential loss a portfolio can incur, with a given probability factor over a given period of time. The credit risk and operational risk are also quantified in relation to the allocated risk capital.

The effects from trading and origination are presented as a part of Gains/losses from market activities in the profit and loss statement.

DESCRIPTION OF FOREIGN EXCHANGE AND INTEREST RATE RISK

Statkraft is exposed to foreign exchange and interest rate risk. Statkraft uses interest rate and foreign currency derivatives in addition to debt in foreign currency to mitigate these risks. Funding, forwards and swaps in foreign currency together with interest rate swaps are used to achieve the desired currency and interest structure of the company's debt portfolio.

Statkraft's methods for managing these risks are described below:

Foreign exchange risk Statkraft incurs currency risk in the form of transaction risk, mainly in connection with energy sales revenues, investments and dividends in foreign currency. Balance sheet risk is related to shareholdings in foreign subsidiaries, joint operations and equity accounted investments.

Statkraft's settlement currency at the Nordic power exchange Nord Pool is EUR and all power contracts traded in the Nordic power exchange Nasdaq are denominated in EUR. In addition most of Statkraft's bilateral power purchase agreements in Norway and all power purchase and sales abroad are denominated in foreign currency. The objective of Statkraft's hedging is to secure the NOK value of future cash flows exposed to changes in foreign currency rates. The currency exposure in Statkraft is treated in accordance with the company's treasury strategy. Economic hedging is achieved by using financial derivatives and debt in foreign currencies as hedging instruments. Few of these hedging relationships fulfil the requirements of hedge accounting.

Interest rate risk Statkraft's interest rate exposure is related to its debt portfolio. The management of interest rate risk is based on a balance between keeping interest cost low over time and contributing to stabilise the Group's cash flows with regards to interest rate changes. The interest rate risk is monitored by having duration as measure. Statkraft shall at all times keep the average duration of its debt portfolio within the range of two to five years.

Compliance with the limit for currency and interest rate risk is followed up continuously by the middle-office function. Responsibility for entering into and following up the various positions has been separated and is allocated to separate organisational units.

GROUP

STATKRAFT AS

CORPORATE RESPONSIBILITY

Note 8 Analysis of market risk

Statkraft follows up market risk within energy optimisation, trading and origination portfolios, currency and interest rate positions, revenues from grid activities and district heating.

The Group quantifies risk as deviations from expected net results with a given confidence level (value-at-risk). Market risk is included in these calculations, which are used both in the follow-up of the business areas and business portfolios as well as at Group level as part of reporting to Corporate management and the Board of Directors. Statkraft's targets for market risk shall have a 95% probability of covering all potential losses, i.e deviations from expected results, connected with the market risk of positions at the reporting date during the course of a year. Uncertainty in the underlying instruments/prices and their interrelatedness is calculated using statistical methods.

The time period for the calculations is one year. For contracts with exposures beyond one year, only the uncertainty relating to the current year is reflected in the calculations.

The exposure can take the form of actual exposure or an expected maximum utilisation of the mandates. The analysis also takes into account correlation, both within the individual areas and between the areas.

The diversification effect emerges as the difference between total market risk in the specified areas and total market risk, where the correlation between e.g. power prices, interest rates and currency exchange rates is taken into account.

Specification of market risk

NOK million	2018	2017
Market risk in energy optimisation (volume risk, spot price risk and hedging)	2,749	2,336
Market risk in Trading and Origination portfolios	1,659	1,185
Market risk in interest rates and currency positions	35	29
Market risk in distribution grid revenues	30	30
Market risk in end-user activities and district heating	30	50
Total market risk before diversification effects	4,503	3,631
Diversification effects	-534	-410
Total market risk	3,969	3,221
Diversification effect as a percentage	12%	11%

Specification of debt by currency [1] [2]

NOK million	2018	2017
Debt in NOK	4,447	13,284
Debt in EUR	23,790	19,716
Debt in USD	3,561	763
Debt in GBP	423	2,662
Debt in BRL	1,737	968
Debt in INR	437	-
Debt in CLP/CLF	-	501
Total	34,394	37,894

[1] Includes long-term interest-bearing liabilities, first-year instalment on long-term interest-bearing debt, certificate loans, the currency effect of allocated forward exchange rate contracts and the currency effect of combined interest rate and currency swaps. Specifications of debt by currency includes effects from allocated forward exchange rate contracts and combined interest rate and currency swaps, since Statkraft uses these derivatives to achieve the desired currency structure for the Group's debt portfolio.
[2] Management of foreign exchange risk and interest rate risk are presented in more detail in note 7.

Specification of interest by currency [1] [2]	2018	2017
Nominal average interest rate, NOK	3.30%	4.00%
Nominal average interest rate, EUR	2.10%	2.60%
Nominal average interest rate, USD	4.10%	5.90%
Nominal average interest rate, GBP	0.70%	0.50%
Nominal average interest rate, BRL	7.80%	8.10%
Nominal average interest rate, INR	8.80%	-
Nominal average interest rate, CLP/CLF	-	6.00%

[1] Includes long-term interest-bearing liabilities, first-year instalment on long-term interest-bearing debt, certificate loans, allocated forward exchange rate contracts, interest rate swaps and combined interest rate and currency swaps.
[2] Management of foreign exchange risk and interest rate risk are presented in more detail in note 7.

Note 9 Credit risk and liquidity risk

GENERAL INFORMATION ON CREDIT RISK

Credit risk is the risk that Statkraft incurs losses due to the failure of counterparties to honour their financial obligations. Statkraft is facing credit risk when entering into transactions with financial institutions and to providers of clearing services. Credit risk against financial institutions arises from cash or current account, deposit, investment of interest bearing securities, derivative transactions and incoming guarantees. Credit risk against providers of clearing services arises from margin requirements settled as cash payments. Statkraft also assumes credit risk when providing loans to associates and joint ventures. In addition, Statkraft assumes credit risk in connection with energy trading and physical sales contracts. The total risk of counterparties not being able to meet their obligations is considered to be low. Historically, Statkraft's credit losses have been limited.

Statkraft has entered into agreements under which collateral is posted or received based on the mark-to-market value of interest rate and foreign exchange derivatives between counterparties. Collateral is posted or received on a weekly basis. Counterparty credit risk is significantly mitigated by collateral under these agreements. Similar agreements have also been established for individual counterparties for financial energy contracts.

The credit risk for financial energy contracts which are settled through an energy exchange is considered to be very low. For all other energy contracts entered into, the limits are stipulated for the individual counterparty using an internal credit rating. The counterparties are allocated to different categories.

Statkraft has netting agreements with several of its energy trading counterparties. In the event of default, the netting agreements give a right to a final settlement where all future contract positions are netted and settled. If a contractual counterparty experiences payment problems, specific procedures are applied. See note 10 for more information.

The liquidity portfolio consists of investment grade rated certificates of deposits/commercial paper and short term bonds with fixed or floating coupon rates. The minimum rating requirement is BBB/Ba2 from S&P and Fitch Ratings. The limits are stipulated for the individual counterparty using credit rating assigned by one of the main rating agencies. Internal credit rating may be used when ratings have not been assigned by the credit rating agencies. The credit limits are managed by the use of volume limits, duration limits and rating limits. The liquidity portfolio is managed and optimised within the given credit mandate, financial guidelines and internal strategy. Excess liquidity is managed in a conservative manner considering credit risk, diversification, liquidity and return. Different instruments and counterparties are used to achieve this.

In order to reduce credit risk in connection with energy trading and physical sales contracts, bank or parent company guarantees are sometimes requested when entering into such contracts. The bank which issues the guarantee must be an internationally rated commercial bank which meets minimum rating requirements. When parent company guarantees are received, the parent company is assessed by using ordinary internal credit assessments.

The individual counterparty exposure limits are monitored continuously and reported regularly to the management. An overall counterparty exposure is reported for all relevant units, in addition to being consolidated at Group level and included in the Group risk management.

Statkraft's gross credit exposure corresponds to the recognised value of financial assets, which are found in the various notes to the statement of financial position. The extent, to which relevant and significant collaterals have been provided, is presented below.

NOK million	Note	2018	2017
Gross exposure credit risk:			
Other financial assets, non-current	25	3,986	4,368
Derivatives	10	12,044	10,559
Receivables	27	12,831	15,372
Financial investments, current		604	918
Cash and cash equivalents	28	23,175	14,217
Gross exposure credit risk		52,640	45,434
Exposure reduced by cash collateral:			
Cash collateral	30	-1,510	-1,322
Net exposure credit risk		51,130	44,112

GROUP STATKRAFT AS CORPORATE RESPONSIBILITY

Note 9 continued

GENERAL INFORMATION ON LIQUIDITY RISK

The Group's liquidity risk is the risk that the Group has insufficient funds to meet its payment obligations. Statkraft assumes a liquidity risk because the terms of its financial obligations do not coincide with the cash flows generated by its assets. Furthermore, Statkraft assumes liquidity risk in relation to cash payments for collaterals in connection with trading of financial power contracts and financial derivatives. Statkraft also uses cash to cover margin calls. The liquidity risk is mitigated through liquidity forecasts, access to different borrowing sources and markets, ensures an evenly distributed debt redemption profile and maintaining a sufficient liquidity buffer.

Liquidity forecasts are prepared to plan future financing needs as well as the investment of the Group's surplus liquidity.

A separate target figure for short-term liquidity, which reflects Statkraft's ability to cover its future obligations, is included in the Group's balanced scorecard. The objective is to ensure that Statkraft has a satisfactory level of liquidity sources, consisting of cash and cash equivalents, short-term financial investments and committed unused credit facilities, to meet its financial obligations.

Maturity schedule, external long-term liabilities

NOK million	0-1 year	1–2 years	2–3 years	3–4 years	4–5 years	5 years and later
Instalments on debt from Statkraft SF	400	-	-	-	-	-
Instalments on bond loans from the Norwegian market	1,000	3,000	800	1,500	-	750
Instalments on loans raised in non-Norwegian markets	2,795	-	-	6,942	4,943	9,885
Instalments on external loans in subsidiaries and other loans	245	175	960	347	322	731
Interest payments	989	673	639	566	289	771
Total maturity schedule 2018	5,429	3,848	2,399	9,355	5,554	12,136
Total maturity schedule 2017	3,264	7,772	3,811	1,687	9,132	18,352

Allocation of non-discounted value of derivatives per period

The Group has a significant number of financial derivatives, which are presented as derivatives in the balance sheet. For derivatives with negative market value, where contractual due dates are decisive for the understanding of the timing of the cash flows, the non-discounted values are allocated to the time periods shown in the table below.

NOK million	0-1 year	1–2 years	2–3 years	3–4 years	4–5 years	5 years and later
Energy derivatives	8,794	2,399	902	427	397	1,126
Interest rate- and foreign currency derivatives	568	109	60	124	79	318
Total derivatives 2018	9,362	2,508	961	550	475	1,444
Total derivatives 2017	4,490	1,414	663	318	213	1,632

Note 10 Financial instruments

GENERAL INFORMATION

Financial instruments account for a significant part of Statkraft's statement of financial position and are of material importance for the Group's financial position and results. Most of the financial instruments can be placed into the two main categories; energy trading and financial activities. In addition, Statkraft has other financial instruments such as accounts receivable, accounts payable, cash, short-term financial investments and equity investments.

Financial instruments in energy trading Within energy trading, financial instruments are used in the trading and origination activities. The trading and origination activities are managed independently of the Group's energy production. Their main objectives are to achieve profit from changes in the market value of energy and energy-related financial products, as well as profit from non-standard contracts. Financial instruments in energy trading mainly consist of financial and physical agreements relating to purchase and sale of power, gas, oil, coal, carbon quotas and environmental certificates

Financial instruments are also used as part of the Group's financial hedging strategy for continuous optimisation of future revenues from the expected generation from own assets. Derivatives recognised in the statement of financial position are shown as separate items and are measured at fair value with changes in value recognised in the profit and loss statement. As the Group's future generation of power does not qualify for recognition in the statement of financial position, the effect of changes in value of financial energy derivatives may have major effects on the profit and loss statement without necessarily reflecting the underlying business activities.

Financial instruments in financial activities Financial instruments used in financial activities primarily consist of loans, interest rate swaps, combined interest rate and currency swaps and forward exchange contracts. Financial derivatives are used as hedging instruments in accordance with the Group's financial hedging strategy. The hedging objects are considered to be assets in foreign currency, future cash flows or loan arrangements measured at amortised cost. Hedging is reflected in the financial statements for selected loan arrangements where the interest rate has been changed from fixed to floating (fair value hedging), hedging of some net investments in foreign units and cash flows. Because not all financial hedging relationships are reflected in the financial statements, changes in value for financial instruments may result in volatility in the profit and loss statement without necessarily reflecting the underlying business activities.

SIGNIFICANT ACCOUNTING POLICIES

Financial instruments are recognised when Statkraft becomes a party to the contractual provisions of the instrument. Financial assets and liabilities are classified on the basis of the nature and purpose of the instruments into the categories "financial instruments at fair value through profit and loss", "financial assets at fair value through other comprehensive income" and "financial instruments at amortised cost". Initial measurement is at fair value for all categories. The content of the categories and subsequent measurement are described below.

Financial instruments at fair value through profit and loss

- Physical power sales contracts which are considered to be ready convertible to cash and are not entered into for own use purposes are measured at fair value.
- Financial contracts to purchase and sell energy-related products are classified as derivatives. Both stand-alone derivatives and embedded derivatives that are separated from the host contract are recognised at fair value.
- Currency and interest rate derivatives.
- Long-term shares, were Statkraft does not have control or significant influence, are measured at fair value through profit and loss, unless Statkraft applies the option to recognise changes in fair value through other comprehensive income.
- Other short-term financial assets held for trading.

Financial assets at fair value through other comprehensive income
Long-term shares, were Statkraft does not have control or significant influence, are measured at fair value through other comprehensive income when this option is applied. The changes in fair value will not be recycled to profit and loss. Dividends are recognised in the profit and loss statement as part of Other financial items.

Financial instruments at amortised cost
Asset debt instruments are classified in this category when the cash flows are solely payments of principal and interest and Statkraft intends to hold the asset to the maturity date. Liability debt instruments are classified in this category unless they are held for trading. The instruments, both assets and liabilities, are measured at amortised cost using the effective interest rate method, where the effective interest remains the same over the entire term of the instrument. Credit losses on financial assets are deducted from the carrying value and recognised in the profit and loss statement.

ACCOUNTING JUDGEMENT

Statkraft has a significant volume of energy contracts. A characteristic with energy contracts is that they can be accounted for as financial instruments, leases or as contracts with customers, depending on the terms and conditions.

Leases Judgement is made when determining whether a power purchase agreement contains a lease. A power purchase agreement contains a lease if its fulfilment depends on a specific asset and the arrangement conveys a right to control the use of the underlying asset. Further details on leases are disclosed in note 34.

"Own use" contracts within energy trading Physical energy contracts are entered into for Statkraft's own use if the purpose of the receipt or delivery of the power is in accordance with Statkraft's expected purchase, sale or usage requirements. These contracts do not qualify for recognition in the statement of financial position. "Own use" contracts will typically have a stable customer base (for example bilateral industry contracts) and are always settled by physical delivery.

Physical energy contracts that are not covered by the "own use" exemption, shall be accounted for as derivatives (financial instruments). Management has reviewed the contracts that are accounted for as financial instruments and those contracts that are not covered by the definition as a result of the "own use" exemption.

ESTIMATES AND ASSUMPTIONS

Fair value hierarchy The Group classifies fair value measurements by using a fair value hierarchy which reflects the importance of the input used in the preparation of the measurements. The fair value hierarchy has the following levels:

Level 1: Non-adjusted quoted prices in active markets for identical assets or liabilities.
Level 2: Other data than the quoted prices included in Level 1, which are observable for assets or liabilities either directly, e.g. as prices, or indirectly, e.g. derived from prices.
Level 3: Data for the asset or liability which is not based on observable market data

Level 3 consists of investments in shares and energy derivatives where observable data does not cover the whole contract period. Observable data (quoted futures) for energy derivatives will normally be available for five years ahead of time. If the duration of the contract is longer than the period where observable data exists, the entire contract is a level 3 contract. Energy contracts within the level 3 category mainly consists of physical and financial energy contracts and embedded derivatives from bilateral power sales contracts. A significant part of the embedded derivatives consists of foreign exchange derivatives. These are not affected by estimated future power prices. The discounted cash flow method is used.

Valuation of energy derivatives within level 3 is based on observable market data for the short-term where this is available. Prices are extrapolated for the subsequent period. For certain contracts, a rebate is included in fair value due to factors such as area prices, contract length and volume.

Note 10 continued

Exchange traded contracts are normally discounted with a risk-free rate. For most bilateral contracts, a credit spread is included in the discount rate.

Valuation of investments in shares within level 3 is based on management's best knowledge of market conditions within the relevant industry. Changes in fair value of these investments are not considered to have any material effects on the Group's financial statements.

Description of contracts and assumptions used

When the fair values of financial assets and financial liabilities that are recognised in the statement of financial position cannot be measured based on quoted prices in active markets, their fair value is measured using valuation techniques including the discounted cash flow model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. Judgements include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions relating to these factors could affect the reported fair value of financial instruments. Below is a description of assumptions and parameters that have been applied in the determination of fair value.

Power contracts Energy exchange contracts are valued at official closing rates on the reporting date.

For other bilateral power contracts, the expected cash flow is stipulated on the basis of a market price curve on the reporting date. The market price curve is stipulated on the basis from official closing rates quoted on energy exchanges.

Several power contracts refer to area prices. These contracts are valued using the official closing rates on energy exchanges, where such exist. Separate models are used for regional prices where official closing prices are unavailable.

Statkraft has energy contracts where the contract price is indexed against raw materials such as metal, gas, petroleum products and coal. These are valued using forward prices from relevant commodity exchanges and major financial institutions.

Several energy contracts have prices in different currencies. Quoted foreign exchange rates from The European Central Bank (ECB) are used in the valuation of contracts denominated in foreign currency. If there are no quotes for the entire period, then the interest parity is used to calculate exchange rates.

The market interest rate curve (swap interest rate) is used as the basis for discounting derivatives. The market interest rate curve is stipulated on the basis of the publicised swap interest rates. A credit surcharge is added to the market interest rate curve in cases where the credit risk is relevant. This applies to all external bilateral contracts classified as assets and liabilities.

Environmental certificate derivatives

- CO_2 contracts are priced based on the forward price of European Union Allowance (EUA) quotas and Certified Emission Reduction (CER) quotas.
- Green certificate derivatives are valued at forward price.

Currency and interest rate derivatives The fair value of interest rate swaps and combined interest rate and currency swaps, is determined by discounting expected future cash flows to present value through the use of observed market interest rates and quoted exchange rates from ECB. The valuation of forward currency exchange contracts is based on quoted exchange rates from which the forward exchange rate is extrapolated. Estimated net present value is subject to a test of reasonableness against calculations made by the counterparties to the contracts.

Certificates and bonds are valued at listed prices.

Shares and shareholdings are valued at quoted prices where such are available and the securities are liquid. Other securities are valued by discounting expected future cash flows.

Fair value hierarchy

2018	Fair value measurement at period-end using:			
NOK million	Level 1	Level 2	Level 3	Total
Derivatives at fair value through profit and loss				
Energy derivatives, non-current assets	-	1,315	336	1,651
Energy derivatives, current assets	105	5,204	3,244	8,553
Energy derivatives, non-current liabilities	-	-449	-179	-628
Energy derivatives, current liabilities	-237	-8,658	-3,721	-12,616
Energy derivatives, net	-132	-2,587	-320	-3,039
Currency and interest rate derivatives, non-current assets	-	1,275	-	1,275
Currency and interest rate derivatives, current assets	-	565	-	565
Currency and interest rate derivatives, non-current liabilities	-	-625	-	-625
Currency and interest rate derivatives, current liabilities	-	-509	-	-509
Currency and interest rate derivatives, net	-	706	-	706
Other financial assets at fair value through profit and loss				
Shares	-	-	207	207
Financial investments, current	524	81	-	604
Money market funds, certificates, promissory notes, bonds	7,880	-	-	7,880
Total	8,404	81	207	8,691
Financial assets at fair value through other comprehensive income				
Shares	-	-	109	109

Note 10 continued

2017	Fair value measurement at period-end using:			
NOK million	Level 1	Level 2	Level 3	Total
Derivatives at fair value through profit and loss				
Energy derivatives, non-current assets	-	685	1,396	2,081
Energy derivatives, current assets	437	5,501	-	5,938
Energy derivatives, non-current liabilities	-	-	-177	-177
Energy derivatives, current liabilities	-85	-3,370	-1,928	-5,383
Energy derivatives, net	352	2,816	-709	2,459
Currency and interest rate derivatives, non-current assets	-	1,942	-	1,942
Currency and interest rate derivatives, current assets	-	598	-	598
Currency and interest rate derivatives, non-current liabilities	-	-924	-	-924
Currency and interest rate derivatives, current liabilities	-	-1,505	-	-1,505
Currency and interest rate derivatives, net	-	111	-	111
Other financial assets at fair value through profit and loss				
Financial investments, current	918	-	-	918
Money market funds, certificates, promissory notes, bonds	3,154	-	-	3,154
Total	4,072	-	-	4,072
Financial assets at fair value through other comprehensive income				
Shares	22	-	278	299

Assets and liabilities measured at fair value based on Level 3

NOK million	Assets	Liabilities	Total
Opening balance 01.01.2018	1,674	-2,105	-431
Unrealised changes in value recognised in profit and loss	1,943	-1,815	128
Changes in value recognised in other comprehensive income	-33	-	-33
Additions or derecognitions	40	-	40
Transfers into or out of Level 3	239	64	303
Currency translation effects	33	-44	-11
Closing balance 31.12.2018	3,895	-3,900	-5
Net realised gain (+)/loss (-) recognised in profit and loss 2018			-19
Opening balance 01.01.2017	2,875	-1,787	1,088
Unrealised changes in value recognised in profit and loss	-1,365	-137	-1,502
Changes in value recognised in other comprehensive income	4	-	4
Additions or derecognitions	44	-	44
Transfers into or out of Level 3	8	-119	-111
Currency translation effects	108	-62	46
Closing balance 31.12.2017	1,674	-2,105	-431
Net realised gain (+)/loss (-) recognised in profit and loss 2017			-82

Sensitivity analysis of factors classified to Level 3

NOK million	10% reduction	10% increase
Net effect from power prices	-478	434

The effects are not symmetrical due to volume flexibility in the contracts that reduce the downside.

Note 10 continued

Assets and liabilities recognised at amortised cost		**Amortised cost**	**Fair value** [1]	**Amortised cost**	**Fair value** [1]
NOK million	Note	2018	2018	2017	2017
Financial assets at amortised cost					
Loans to equity accounted investments, non-current	25	2,244		2,223	
Bonds and other long-term receivables	25	932		1,366	
Accounts receivable	27	7,439		8,201	
Loans to equity accounted investments, current	27	75		3,959	
Cash collateral and margin calls	27	3,351		1,931	
Other receivables [2]	27	917		1,039	
Cash and cash deposits	28	15,295		11,062	
Total		30,253		29,781	
Financial liabilities at amortised cost					
Long-term interest-bearing debt to Statkraft SF	30	-	-	-400	-445
Bonds issued in the Norwegian market	30	-6,050	-6,192	-7,050	-7,349
Debt issued in non-Norwegian markets	30	-21,770	-22,911	-26,427	-28,156
External debt in subsidiaries and other debt	30	-2,535	-2,468	-2,408	-2,332
Cash collateral	30	-1,510		-1,322	
First year's instalment on long-term debt	30	-4,440	-4,546	-2,172	-2,175
Other interest-bearing short-term debt	30	-397		-201	
Accounts payable	31	-1,115		-1,950	
Accrued interest-free liabilities	31	-5,658		-4,696	
Other		-2,364		-2,053	
Total		-45,837		-48,679	

[1] Fair value is not disclosed when the carrying amount is a reasonable approximation of fair value.

[2] Amount differs from note 27 since prepaid expenses and indirect taxes are not included in note 10.

Note 10 continued

NETTING AGREEMENTS

2018

Financial assets

NOK million	Gross amount	Amount offset	Booked amount	Netting agreements not offset in balance sheet	Financial collateral received	Net value
Energy derivatives	122,807	112,602	10,205	-	97	10,107
Currency and interest rate derivatives	1,840	-	1,840	-	1,412	427
Total derivatives (current and non-current)	124,646	112,602	12,044	-	1,510	10,534
Receivables	21,505	8,674	12,831	-	-	12,831

Financial liabilities

NOK million	Gross amount	Amount offset	Booked amount	Netting agreements not offset in balance sheet	Financial collateral pledged	Net value
Energy derivatives	-125,846	-112,602	-13,244	-	-2,834	-10,410
Currency and interest rate derivatives	-1,134	-	-1,134	-	-518	-616
Total derivatives (current and non-current)	-126,979	-112,602	-14,377	-	-3,351	-11,026
Interest-bearing liabilities, non-current	-30,354	-	-30,354	-	-15	-30,339
Interest-free liabilities allocated to capital employed	-18,416	-8,674	-9,742	-	-	-9,742

2017

Financial assets

NOK million	Gross amount	Amount offset	Booked amount	Netting agreements not offset in balance sheet	Financial collateral received	Net value
Energy derivatives	31,547	23,528	8,019	-	141	7,878
Currency and interest rate derivatives	2,541	-	2,541	-	1,181	1,360
Total derivatives (current and non-current)	34,087	23,528	10,559	-	1,322	9,237
Receivables	21,256	5,884	15,372	-	-	15,372

Financial liabilities

NOK million	Gross amount	Amount offset	Booked amount	Netting agreements not offset in balance sheet	Financial collateral pledged	Net value
Energy derivatives	-29,088	-23,528	-5,560	-	-901	-4,658
Currency and interest rate derivatives	-2,430	-	-2,430	-	-1,030	-1,400
Total derivatives (current and non-current)	-31,517	-23,528	-7,990	-	-1,931	-6,058
Interest-bearing liabilities, non-current	-36,285	-	-36,285	-	-151	-36,134
Interest-free liabilities allocated to capital employed	-14,969	-5,884	-9,086	-	-	-9,086

The tables show a reconciliation of gross amounts, booked amounts and net value (net exposure) of financial instruments where there are netting agreements or similar.

A financial asset and a financial liability are presented net in the statement of financial position when Statkraft has a legally enforceable right to offset the asset and the liability, and intends to settle on a net basis or realise the asset and the liability simultaneously.

For energy derivatives, futures and spot transactions, Statkraft has agreements with counterparties based on various types of master agreements setting the standard terms and conditions between the two parties. In general, the master netting agreements permit netting of payments and involve offsetting cash flows between the two parties when certain conditions are met, such as same currency and maturity.

The master agreements further serve to mitigate exposure to credit loss by allowing set-offs when an agreement is terminated, provided that such offsetting is permitted within the jurisdiction of the counterparty.

Termination can occur for instance if a party is bankrupt or has defaulted on the agreement. Such close-out netting does not in itself meet the criteria of offsetting in the statement of the financial position.

Currency and interest rate derivatives are booked gross for each contract in the statement of financial position.

Financial collateral is typically cash collateral and margin payments to/from counterpart, usually a bank or a clearing house. Financial collateral can also be cash set a side on a restricted bank account to cover forthcoming interest payments and instalments on a loan.

In the tables, the energy, currency and interest rate derivatives are separated in assets and liabilities. Cash collaterals received or pledged are booked net per counterpart and presented as current assets/liabilities, regardless of the maturity of the corresponding derivative. The derivatives, both current and non-current, are therefore presented on the same line item in the table above.

Note 11 Hedge accounting

GENERAL INFORMATION

Refer to note 7 for information about how Statkraft manages interest rate and foreign exchange risks. Statkraft is exposed to foreign exchange and interest rate risks and enter into financial instruments to mitigate these risks. Statkraft often manages the risk on a net basis, where few of the hedging relationships fulfil the requirement of hedge accounting. The main objective of the hedge accounting strategy is to reduce the volatility in the profit and loss statement.

Fair value hedging Three loan arrangements are treated as fair value hedges. Issued bonds have been designated as hedging items in the hedging relationships, and the associated interest rate swaps have been designated as hedging instruments. The hedging items are fixed-interest rate bonds with a total nominal value of EUR 850 million. The hedging instruments are interest rate swaps with a nominal value of EUR 850 million, entered into with major banks as the counterparties. The agreements swap interest rate from fixed to floating 3-month EURIBOR. The objective of the economic hedging arrangements are to hedge the exposure to changes in the fair value of the borrowings, which are issued at a fixed rate (interest rate risk).

Critical terms of the hedging items and hedging instruments are deemed to be approximately the same and there was no significant impact in profit and loss resulting from ineffectiveness.

Hedging of net investments in foreign operation GBP 220 million in synthetic debt in Statkraft AS was designated as hedging of the net investment in Statkraft UK Ltd. Debt in GBP was synthetically constructed using debt in NOK together with forward exchange rate contracts. The hedging relationship was discontinued in 2018. The currency effects of this debt were recognised in other comprehensive income. Objectives of the economic hedging arrangements were to offset the foreign exchange exposures arising from the translation of foreign investments from their functional currency to NOK (foreign exchange risk).

Critical terms of the hedging item and hedging instrument were exactly the same, and there was no impact in profit and loss resulting from ineffectiveness.

SIGNIFICANT ACCOUNTING POLICIES

Financial instruments designated as hedging instruments Financial instruments that are designated as hedging instruments or hedged items in hedge accounting are identified on the basis of the intention behind the acquisition of the financial instrument. In a fair value hedge the value change will meet the corresponding change in value of the hedged item, and presented in the same line item in the profit and loss and statement of financial position.

The value changes from hedges of net investments in foreign operations are recognised in other comprehensive income. Gains and losses resulting from changes in exchange rates on debt entered into to hedge net investments in a foreign entity are recognised directly in other comprehensive income, and recycled to profit and loss upon disposal of the foreign entity.

The ineffectiveness from the hedges is recognised in profit and loss.

Hedging instruments

NOK million	Nominal amount of the hedging instrument	Carrying amount of the hedging instrument [1] Assets	Liabilities	Line item in the statement of financial position where the hedging instrument is located	Changes in fair value used for calculating hedge ineffectiveness during the period
2018					
Fair value hedges					
Interest rate risk:					
Interest rate swaps	MEUR 850	-	172	Interest-bearing liabilties	36
Net investment hedges					
Foreign exchange risk:					
Forward exchange rate contracts	-	-	-	-	47

[1] Accrued interest is not a part of the carrying amount.

Hedging instruments - timing profile

NOK million	0-1 year	1-2 years	2-3 years	3-4 years	4-5 years	5 years and later
2018						
Fair value hedges						
Interest rate risk:						
Interest rate swaps	MEUR 100	-	-	-	MEUR 500	MEUR 250

Note 11 continued

Hedged items

NOK million	Nominal amount of the hedged item	Carrying amount of the hedged item[1)]		Accumulated amount of fair value hedge adjustment on the hedged item included in the carrying amount of the hedged item[1)]		Line item in the statement of financial position where in which the hedged item is included	Changes in value used for calculating hedge ineffectiveness for the period	Net investment hedge reserve
		Assets	Liabilities	Assets	Liabilities			
2018								
Fair value hedges								
Interest rate risk:								
Fixed rate borrowing	MEUR 850	-	-8,593	-	-177	Interest-bearing liabilties	-33	-
Net investment hedges								
Foreign exchange risk:								
Discontinued net investments hedges in foreign operations	MGBP 220	-	-	-	-	-	-47	-321

[1)] Accrued interest is not a part of the carrying amount

Hedging effectiveness

NOK million	Change in the value of the hedging instrument recognised in other comprehensive income	Hedge ineffectiveness recogniced in profit and loss	Line item in profit and loss (that includes hedge ineffectiveness)	Amount reclassified from net investment hedge reserve to profit and loss statement	Line item affected in profit and loss statement because of the reclassifications
2018					
Fair value hedges					
Interest rate risk:					
Fixed rate borrowing	-	2	Other financial items	-	-
Net investment hedges					
Foreign exchange risk:					
Net investments in foreign operations	47	-	-	-	-

Hedging reserves

NOK million	Foreign exchange risk
2018	
Net investment hedge reserve	
Balance at 01.01	-368
Hedging gain or loss	47
Balance at 31.12	-321

Note 12 Sales revenues and energy purchase

GENERAL INFORMATION

The Group's sales revenues and energy purchase are divided into four categories:

Generation includes sales revenues and energy purchase related to Statkraft's physical power generating assets and district heating. The category includes spot sales, bilateral industry contracts, concessionary sales contracts and green certificates.

Sale of gas includes gas purchase agreements related to certain gas-fired power plants. Excess volume under these purchase contracts were sold in the market. These arrangements were terminated in the autumn of 2017.

Customers include sales revenues and energy purchases related to market access and end-user activities. Market access activities mainly relate to the German and British markets. End-user activities include Fjordkraft.

Grid and other revenues mainly consist of grid activities in Norway and Peru and a subsea interconnector between Sweden and Germany.

SIGNIFICANT ACCOUNTING POLICIES

The main principle under IFRS 15 is to recognise revenue at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. To achieve this, IFRS 15 establishes a five-step model to account for revenues arising from contracts with customers.

Generation
The revenues from Generation bear the characteristic of delivering power at a certain price. The performance obligation is to deliver a series of distinct goods (power) and the transaction price is the consideration Statkraft expects to receive, at either spot price, regulated price or contract price. The performance obligation is satisfied over time which entails that revenue should be recognised for each unit delivered at the transaction price. Statkraft applies a practical expedient under IFRS 15 whereby the revenue from power for most of the contracts is recognised at the amount of which the entity has a right to invoice. The right to invoice power arises when power is produced and delivered and the right to invoice the consideration will normally correspond directly with the value to the customer.

In arrangements where Statkraft sells power on an exchange (e.g. Nord Pool), the exchange is determined to be the customer. This is based on the fact that Statkraft has enforceable contracts with the exchanges.

In certain jurisdictions, Statkraft is required by law to cede a share of the power production to counties and municipalities where the power is produced. Statkraft has concluded that income from delivery of concessionary power does not arise from a contract with a customer under IFRS 15. However, Statkraft applies the principles and policies in IFRS 15 by analogy and presents income from sale of concessionary power as revenues.

With regard to district heating, the Group receives monetary contributions from customers related to infrastructure assets. Refer to Grid and other revenues for further description.

Customers
When other parties are involved in providing goods or services to Statkraft's customers, Statkraft has to determine whether its performance obligation is to provide the good or service itself (i.e. Statkraft is a principal) or to arrange for those goods or services to be provided by another party (i.e. Statkraft is an agent). In assessing whether Statkraft is agent or principal, Statkraft considers its contractual rights to direct the use of the electricity, balancing risk, discretion prices of the deliveries and whether Statkraft acts as the primary obligor of the deliveries. If Statkraft is a principal, the remuneration received from the customer is presented gross as sales revenues. The corresponding energy purchase is presented gross on a separate line item in the profit and loss statement. If Statkraft is an agent, the compensation for the service delivered is presented net as revenues.

Grid and other revenues
Revenues from grid activities have the same characteristics as those described under Generation. Statkraft applies a practical expedient under IFRS 15 whereby the revenues from transportation of power is recognised at the amount to which the entity has a right to invoice.

The Group receives monetary contributions from customers in different jurisdictions in aid of construction of infrastructure connecting the customer to the grid for electricity or to district heating. Statkraft owns and controls the infrastructure and the total cost should therefore be recognised as assets in line with IAS 16. Statkraft has concluded that contributions to infrastructure assets represent payments which are to be evaluated together with pricing of future deliveries by Statkraft to the customer (one performance obligation). Revenue is therefore recognised over time. During 2018 the pattern of revenue recognition has been further discussed, and Statkraft has concluded that it is more appropriate to recognise the revenue over the expected useful life of the infrastructure. Therefore the period over which the contributions from customers are recognised is changed from estimated customer life to the expected useful life of the infrastructure. The changes did not have a significant impact on the financial statement of the Group.

Effective 1 January 2017 Statkraft has adopted the requirements of IFRS 15 using the full retrospective method.

The impact on the equity as of 01.01.2017 was as follows:
- Contribution from customers recognised over time had a negative impact on equity of NOK 126 million, including effects in equity accounted investments.

The impacts to sales revenues income in the 2017 were as follows:
- Contribution from customers recognised over time had a negative impact on Generation revenues of NOK 19 million.
- Revenues from market access and end-user activities, presented net after adopting IFRS 15, had a negative impact on Customer revenues of NOK 8826 million. This had a corresponding decrease in energy purchase.
- Net gains from embedded derivatives of NOK 1173 million are no longer presented as sales revenues.
- Net gains from trading and origination of NOK 1754 million are no longer presented as sales revenues.

Note 12 Continued

Specification per revenue category

NOK million	Statkraft AS Group	European flexible generation	Market operations	International power	Wind power	District heating	Industrial ownership	Other activities	Group items
2018									
Generation - sales revenues	26,973	20,092	185	2,387	1,267	881	2,451	-	-290
Generation - energy purchase	-1,334	-925	-167	-166	-	-258	-47	-	228
Generation - net	25,638	19,167	18	2,221	1,267	623	2,404	-	-62
Customers - sales revenues	25,896	-	25,103	-	-	-	1,183	-	-390
Customers - energy purchase	-24,556	-	-24,621	-	-	-	-1,002	-	1,067
Customers - net	1,340	-	482	-	-	-	181	-	677
Grid and other - sales revenues	2,482	798	319	214	-	12	1,189	-	-50
Grid and other - energy purchase	-917	-739	-45	-156	-	-	-23	-	45
Grid and other - net	1,564	59	273	58	-	12	1,166	-	-4
Sales revenues - total	55,350	20,890	25,607	2,601	1,267	893	4,822	-	-731
Energy purchase - total	-26,808	-1,664	-24,834	-322	-	-258	-1,071	-	1,340
Sales revenues adjusted for energy purchase	28,542	19,226	774	2,279	1,267	635	3,752	-	610
2017									
Generation - sales revenues	**20,864**	15,429	666	2,376	733	783	1,555	-	-677
Generation - energy purchase	**-1,408**	-922	-625	-291	-	-209	-32	-	671
Generation - net	**19,456**	14,507	41	2,085	733	574	1,522	-	-6
Sale of gas - sales revenues	**2,763**	-	2,763	-	-	-	-	-	-
Sale of gas - energy purchase	**-2,895**	-	-2,895	-	-	-	-	-	-
Sale of gas - net	**-133**	-	-133	-	-	-	-	-	-
Customers - sales revenues	**24,860**	-	20,537	-	-	-	4,322	-	1
Customers - energy purchase	**-23,138**	-	-19,777	-	-	-	-3,491	-	130
Customers - net	**1,722**	-	760	-	-	-	831	-	131
Grid and other - sales revenues	**2,291**	885	36	181	-	2	1,225	-	-38
Grid and other - energy purchase	**-766**	-698	-26	-	-	-	-68	-	26
Grid and other - net	**1,525**	187	10	181	-	2	1,157	-	-13
Sales revenues - total	**50,778**	16,314	24,001	2,557	733	785	7,102	-	-714
Energy purchase - total	**-28,207**	-1,620	-23,323	-291	-	-209	-3,591	-	826
Sales revenues adjusted for energy purchase	**22,571**	14,693	679	2,267	733	576	3,511	-	113

Specification per geographical area

External sales revenues are allocated on the basis of the geographical origin of generating assets or activities.

Geographical areas

NOK million	Statkraft AS Group	Norway	Germany	Sweden	UK	Other
2018						
Sales revenues external	55,350	24,371	13,631	3,092	10,780	3,475
Generation	26,973	19,929	1,610	2,881	218	2,335
Customers	25,896	3,264	11,398	19	10,296	920
Grid and other	2,482	1,179	624	192	266	221
2017						
Sales revenues external	**50,778**	22,101	9,575	2,219	13,656	3,226
Generation	**20,864**	14,538	1,762	2,149	158	2,256
Sale of gas	**2,763**	280	2,483	-	-	-
Customers	**24,860**	6,100	4,499	-	13,489	772
Grid and other	**2,291**	1,183	831	70	9	198

GROUP

STATKRAFT AS

CORPORATE RESPONSIBILITY

Note 12 Continued

Further specification of sales revenues for revenue category **Generation:**

Generation - sales revenues

NOK million	2018	2017
Spot sales	17,257	12,059
Long term contracts	7,470	7,480
Concessionary power	378	373
District heating	987	863
Environmental certificates	881	90
Generation - sales revenues	**26,973**	**20,864**

The **Customers** category mainly relates to market access activities in Europe. Statkraft offers market access services to small producers of renewable energy. These services include wind forecasting, nomination, balancing, settlement and necessary IT systems in order to market the power. A key success factor for Statkraft is to achieve low imbalance costs. The market access business is a low margin activity combined with large scale, where the power is sold through the power exchanges. The most significant revenues are in Germany and the UK, see specification per geographical area on previous page.

Further specification of sales revenues for revenue category **Grid and other revenues:**

Grid and other - sales revenues

NOK million	2018	2017
Distribution grid	1,369	1,244
Subsea cable	798	885
Miscellaneous	314	162
Grid and other - sales revenues	**2,482**	**2,291**

Note 13 Gains/losses from market activities and Other operating income

GENERAL INFORMATION

Gains/losses from market activities

Risk reducing activities consist of financial power contracts that mitigate price risk related to power generation and market access activities. The activities also include the dynamic asset management portfolios.

Trading activities include buying and selling standardised and liquid products, such as power, oil and gas contracts.

Origination activities include buying and selling both standardised and structured energy related products and services.

Embedded derivatives Most of the embedded derivatives are related to bilateral power sales agreements with industrial customers in Norway where the contracts are nominated in euro.

See note 7 for more information on the categories above

Other operating income

Government grants The government grants are conditional to own production of power from certain technologies. The right to receive the grants are obtained at the time of production. Environmental certificates from trading, origination and market access activities are not considered as government grants.

SIGNIFICANT ACCOUNTING POLICIES

Derivatives Risk reducing derivatives and most of the contracts within trading and origination are recognised as derivatives at fair value through profit and loss (see note 10). The gains and losses consist of both realised and unrealised items and are presented net.

Embedded derivatives The foreign exchange exposure Statkraft takes on by nominating power sale contracts with Norwegian industrial customers in euro is considered to be an embedded derivative. The derivative is separated from its host contract and recognised at fair value in the statement of financial position. See note 10.

Government grants Environmental certificates, including green certificates and Renewable Obligation Certificates (ROCs) are considered as government grants and accounted for in accordance with IAS 20 Accounting for Government Grants and Disclosure of Government Assistance.

The government grants are received for each unit of power. At the point of production there is a reasonable assurance that Statkraft complies with the conditions related to the government grants and that the grants will be received. The grants are closely connected to the production and the income is therefore presented as sales revenues. See note 12.

Gains/ losses from market activities

NOK million	2018	2017
Risk reducing activities	-984	172
Trading activities	14	613
Origination activities	-394	457
Embedded derivatives in energy contracts	-333	1,173
Total	-1,696	2,414

Other operating income

NOK million	Note	2018	2017
Income from rental of power plants [1)]		488	362
Gains from divestments of subsidiaries and joint operations	5	1,449	346
Miscellaneous other operating income		643	617
Total		2,580	1,325

1) Income from power plants that are leased to third parties are presented in other operating income, while expenses related to the operations in the power plants are recognised under operating expenses.

Note 14 Impairments

SIGNIFICANT ACCOUNTING POLICIES

Property, plant, equipment and intangible assets are reviewed for impairment at the end of every quarter. When there are indicators that future earnings cannot justify the carrying value, the recoverable amount is calculated to consider whether an allowance for impairment must be made. The recoverable amount is the higher of the asset's fair value less costs of disposal and its value in use.

For the purposes of assessing impairment losses, assets are grouped at the lowest level for which there is separately identifiable cash flows (cash-generating units (CGUs)). CGUs in Statkraft are identified as follow:

Hydropower Power plants sharing the same water flow and/or being subject to the same infrastructure limitation is managed together to optimise power production.

Wind farms The individual wind farm.

Gas power plants A gas power plant normally constitutes a CGU unless two or more plants are controlled and optimised together so that revenues are not independent of each other.

District heating Each plant together with associated infrastructure including transmission lines.

Biomass power plants The individual biomass power plants.

Goodwill Segment is the lowest CGU level used when testing goodwill for impairment.

Equity accounted investments are tested for impairment when there are indications of possible loss in value. An impairment loss is recognised if the recoverable amount, estimated as the higher of fair value less cost to sell or value in use, is below the carrying value.

Previously impaired non-financial assets, except goodwill, are reviewed for possible reversal of the impairment at each reporting date.

ACCOUNTING JUDGEMENTS

Indicator assessment In accordance with the ordinary reporting procedures, impairment of the carrying value of an asset is reviewed on a quarterly basis. Indicators that might give rise to an impairment loss are analysed and discussed by the segments and group's specialists. If indicators are identified, calculations will be made and if carrying value is higher than recoverable amount, an impairment loss is recognised in the financial statement. Analogue procedures are performed regarding reversal of earlier impairment. The Audit committee is informed of any impairment issues on a quarterly basis.

Special attention is given to assets where one or more of the following situations are present:

- The difference between carrying value and recoverable amount is marginal.
- Regulatory environment are unclear or project execution is uncertain.
- Structural changes in market conditions that lead to changes in the expected long-term power prices.
- Impairment loss has been assessed in earlier periods.

ESTIMATES AND ASSUMPTIONS

Value in use is calculated as future expected cash flows discounted by using a required rate of return equal to the market's required rate of return for corresponding assets in the same industry. The operating expenses are derived from the current year's expenses and next year's budget. Restructuring activities that the Group has not yet committed to or significant future investments that will enhance the asset's performance in the CGU being tested, is not included. Expected maintenance investments are included for commissioned power plants. Provision for decommissioning is not usually included in the value in use calculation.

When determining the value in use for property, plant and equipment under construction, remaining investments approved by Statkraft's management are included.

Assumptions applied when assessing value in use The recoverable amount is sensitive to the long-term price forecast for power, expected production volumes, and the discount rate.

Power prices:

- For the short-term period, typically the first five years, observable market prices are applied as a basis for estimating future revenues.
- For the long-term period, typically ten years subsequent of the balance sheet date, estimated revenues are based on Statkraft's long-term price forecast for power, as described in note 2.
- For the period between short-term and long-term period the prices are interpolated.

Production volumes The production volume used in the discounted cash flow analyses is the long term expected production volume for any given site, taking into account all expected technical, hydrological and wake losses. The volume estimate is a combination of information from turbine suppliers, third-party consultants and Statkraft's internal estimates.

Discount rate Calculated value in use is based on nominal discount rates after tax, whereas the tax effects are considered in the calculated cash flows. This means that the recoverable amount calculated is consistent with before-tax calculations. The discount rates applied take into account the risk profile of the asset or asset class in the relevant market.

Assumptions applied when assessing fair value less cost to sell A fair value less cost to sell approach is applied for assets operating in a market where an active market for comparable assets exists. This is applied for onshore wind assets in the UK, where the fair value of the CGUs was derived from comparable onshore wind transactions in the UK market. The valuation model applied is based on multiples for annual power production.

Impairment losses recognised in the profit and loss statement

NOK million	2018	2017
Property, plant, equipment and intangible assets	167	1,800
Reversal of impairment on intangible assets, property, plant and equipment	-	-1,300
Total impairment losses in consolidated business	167	500
Equity accounted investments	-	1,187
Total impairment losses	167	1,687

Note 14 continued

IMPAIRMENT IN 2018

Hydropower plants in Peru Two hydropower plants in Peru were impaired by NOK 132 million. The assets are part of the International power segment.

The remaining impairment loss of NOK 35 million was related to goodwill from previous acquisitions in Brazil and Sweden.

IMPAIRMENT IN 2017

Property, plant, equipment and intangible assets

Hydropower plants in Chile The Pilmaiquén investment in Chile, which consists of one operating hydropower plant and two hydropower projects under developement, was impaired with NOK 1219 million. The assets are part of the segment International power. The main impairment indicator was lower expected long-term prices. Calculated value in use is based on a nominal discount rate after tax of 6.8-7.3% (representing 7.8-9.5% before tax).

The estimated values in use are particularly sensitive to changes in future power prices and cost of capital. A change in the future power price of 10% will result in a change of approximately NOK 430 million. A decrease in the discount rate of 1 percentage point (after tax) will result in a change of approximately NOK 1010 million. An increase in the discount rate of 1 percentage point (after tax) will result in a change of approximately NOK 728 million.

Reversal of impairment on gas-fired power plants in Germany A reversal of impairment loss of NOK 914 million was recognised due to increased need for flexible power generation in the German market and an improved outlook for future gas to power margin. The assets are part of the European flexible generation segment. Calculated value in use is based on a nominal discount rate after tax of 5.6% (representing 7.7% before tax).

The estimated values in use are particularly sensitive to changes in future power prices and cost of capital. An increase in the future power price of 10% will result in a change of approximately NOK 2007 million. A decrease in the future power price of 10% will result in a change of approximately NOK 1378 million. A decrease in the discount rate of 1 percentage point (after tax) will result in a change of approximately NOK 118 million. An increase in the discount rate of 1 percentage point (after tax) will result in a change of approximately NOK 266 million.

Reversal of impairment on hydropower plants in Norway A verdict in the Supreme Court stated that Statkraft is not the taxable owner of Sønnå Høy power plant. This ruling will lead to lower property tax for Statkraft in the future. A reversal of impairment loss of NOK 386 million was recognised due to the verdict and, in addition, the market development. The asset is a part of the European flexible generation segment.

Pump-storage hydropower plant A pump-storage hydropower plant in Germany was impaired by NOK 197 million. The asset is part of the European flexible generation segment.

Wind farms in the Nordic Wind projects in Norway and Sweden were impaired by NOK 187 million. The assets are part of the Wind power segment.

Hydropower plants and wind farms in Brazil Hydropower plants and wind farms were impaired by NOK 101 million. The assets are part of the International power segment.

Hydropower plant in Peru A hydropower plant was impaired by NOK 66 million. The asset is part of the International power segment.

Other There were other impairments of NOK 30 million. This mainly relates to decommissioning of the gas-fired power plant at Kårstø in Norway.

Equity accounted investments

Hidroelectrica La Higuera S.A (HLH) The investment in HLH in Chile was impaired with NOK 689 million due to lower expected long-term power prices. The asset is part of the International power segment. Calculated value in use is based on a nominal discount rate after tax of 7.6% (representing 8.7% before tax).

The estimated values in use are particularly sensitive to changes in future power prices and cost of capital. A change in the future power price of 10% will result in a change of approximately NOK 360 million. A decrease in the discount rate of 1 percentage point (after tax) will result in a change of approximately NOK 618 million. An increase in the discount rate of 1 percentage point (after tax) will result in a change of approximately NOK 462 million.

Hidroelectrica La Confluencia S.A (HLC) The investment in HLC in Chile was impaired with NOK 446 million due to lower expected long-term power prices. The asset is a part of the International power segment. Calculated value in use is based on a nominal discount rate after tax of 7.8% (representing 8.6% before tax).

The estimated values in use are particularly sensitive to changes in future power prices and cost of capital. A change in the future power price of 10% will result in a change of approximately NOK 282 million. A decrease in the discount rate of 1 percentage point (after tax) will result in a change of approximately NOK 478 million. An increase in the discount rate of 1 percentage point (after tax) will result in a change of approximately NOK 352 million.

A shareholder loan from Statkraft was impaired by NOK 117 million and recognised as financial expense.

Malana and Allain Duhangan Two hydropower plants in India were impaired with a total of NOK 52 million. The assets are part of the International power segment.

Note 15 Payroll costs and number of full-time equivalents

NOK million	2018	2017
Salaries	2,425	2,564
Employers' national insurance contribution	417	445
Pension costs [1)]	380	398
Other benefits	393	300
Total	3,615	3,707

[1)] Pension costs are described in further detail in note 16.

	2018	2017
Average number of full-time equivalents Group	3,270	3,397
Number of full-time equivalents as of 31.12.	3,229	3,310

Note 16 Pensions

GENERAL INFORMATION

Statkraft's pension benefit schemes have been established in accordance with local statutes, and cover both defined contribution schemes and defined benefit schemes.

Defined contribution schemes A defined contribution scheme is a retirement benefit scheme where the Group pays fixed contributions to a fund manager without incurring further obligations once the payment has been made. The payments are expensed as salaries and payroll costs.

Statkraft's pension scheme for new employees in wholly owned companies in Norway from 1 January 2014 is a defined contribution scheme. The contributions are 6% of the pensionable salary up to 7.1 of the National Insurance Scheme's basic amount (G), and 18% of the pensionable salary between 7.1G and 12G. In addition to retirement pensions, the contribution scheme also entails risk coverage.

Defined benefit schemes A defined benefit scheme is a retirement benefit scheme that defines the retirement benefits that an employee will receive on retirement. The retirement benefit is normally set as a percentage of the employee's salary. To be able to receive full retirement benefits, contributions will normally be required to be paid over a period of between 30 and 40 years. Employees who have not made full contributions will have their retirement benefits proportionately reduced.

Funded defined benefit schemes Norwegian companies in the Group have organised their pension schemes in the National Pension Fund (SPK), own pension funds as well as in insurance companies. Employees in the Group's Norwegian companies participate in public service occupational pension schemes in accordance with the Norwegian Public Service Pension Fund Act, the Norwegian Public Pension Service Pension Fund Transfer Agreement and the regulatory framework governing public service pensions.

The defined benefit schemes cover retirement, disability and survivor pensions. The majority of the companies also offer early retirement from the age of 62 under the Norwegian early retirement pension scheme. Pension scheme benefits are coordinated with the benefits provided by the Norwegian National Insurance Scheme. At maximum accrual, the retirement schemes provide pension benefits amounting to 66% of pensionable salary, up to 12G.

Employees who leave before retirement age receive a deferred pension entitlement provided they have at least three years' pension entitlements.

National Pension Fund (SPK) Companies with schemes in the SPK pay an annual premium and are responsible for the financing of the scheme. Pension benefits from the SPK are guaranteed by the Norwegian state.

The SPK scheme is not asset-based, but management of the pension fund assets is simulated as though the assets were invested in bonds with 1, 3, 5 or 10-year duration. In this simulation it is assumed that the bonds are held to maturity.

The pension benefit scheme in the National Pension Fund (SPK) was closed for new employees 1 January 2014.

Pension funds and insurance companies The pension funds and insurance companies have placed the pension assets in a diversified portfolio of Norwegian and foreign interest-bearing securities, Norwegian and foreign shares, secured loans to members, hedge funds and properties through external asset managers.

Unfunded defined benefit schemes Some Group companies in Norway have entered into an additional pension agreement that provides all employees whose pensionable incomes exceed 12G with a retirement and disability pension equivalent to 66% of that portion of their pensionable income exceeding 12G. This agreement was closed for new employees 30 April 2012.

Existing members of the closed agreement who leave before pensionable age receive a deferred pension entitlement for the scheme above 12G, based on the accrued share, provided they have at least three years' pension entitlements.

SIGNIFICANT ACCOUNTING POLICIES

The liability recognised in the balance sheet which relates to the defined benefit scheme is the present value of the future retirement benefits that are reduced by the fair value of the plan assets.

Net pension fund assets for overfunded schemes are classified as non-current assets and recognised in the balance sheet at fair value. Net retirement benefit liabilities for underfunded schemes and non-funded schemes that are covered by operations are classified as long-term liabilities.

Gains and losses attributable to changes in actuarial assumptions or base data are recognised in other comprehensive income.

The net retirement benefit cost for the period is included under salaries and other payroll costs, and comprises the total of the retirement benefits accrued during the period, the interest on the estimated liability and the projected yield on pension fund assets.

ESTIMATES AND ASSUMPTIONS

The calculation of pension liabilities involves the use of judgement and estimates across a range of parameters. Present value of accrued pension entitlements for defined benefit schemes and present value of accrued pension entitlements for the year are calculated using the accrued benefits method. Net pension liabilities in the balance sheet are adjusted for expected future salary increases until retirement age. Calculations are based on staff numbers and salary data at the end of the year.

The discount rate The discount rate is based on high-quality corporate bonds (covered bonds - OMF). Statkraft is of the opinion that the market for covered bonds represents a deep and liquid marked with relevant durations that qualify as a reference interest rate in accordance with IAS 19.

Ongoing changes is the public sector pension scheme in Norway A proposal for new terms for the public sector pension scheme is expected to be voted on by the Norwegian parliament in 2019. In 2018 new regulations for how the public benefit schemes shall be coordinated with the benefits provided by the Norwegian National Insurance Scheme have been partly enforced.

Statkraft has not changed the estimated pension liabilities due the above as of 31 December 2018, and is not expecting that any changes in 2019 will have a significant impact on the Group's financial statement.

Actuarial losses Actuarial losses recognised in other comprehensive income during the year is mainly due to changes in the assumptions for salary adjustments and adjustments for the National Insurance Scheme's basic amount (G).

The following assumptions are used [1]	31.12.2018	31.12.2017
Discount rate and projected yield	2.60%	2.40%
Salary adjustment	2.75%	2.50%
Adjustment of current pensions	1.75%	1.50%
Adjustment of the National Insurance Scheme's basic amount (G)	2.50%	2.25%
Demographic factors for mortality and disability	K2013/IR73	K2013/IR73

[1] The assumptions apply for Norwegian entities. Foreign entities apply assumptions adapted to local conditions.

Note 16 continued

Members of defined benefit schemes	2018	2017
Employees	1,511	1,838
Pensioners and people with deferred entitlements	2,699	2,802

Breakdown of net defined benefit pension liability

NOK million	2018	2017
Present value of accrued pension entitlements for funded defined benefit schemes	6,915	6,749
Fair value of pension assets	5,744	5,653
Net pension liability for funded defined benefit schemes	1,171	1,096
Present value of accrued pension entitlements for unfunded defined benefit schemes	694	685
Employers' national insurance contribution	297	279
Net pension liabilities in the balance sheet	2,161	2,059
Of which net pension asset - see note 25	494	480
Of which net pension liability	2,655	2,539

Movement in defined benefit pension liability

NOK million	2018	2017
Defined gross benefit pension liabilities 01.01	7,433	6,957
Net change in liabilities due to additions/disposals	-243	-6
Present value of accrued pension entitlements for the year	229	250
Interest expenses	165	152
Actuarial gains/losses	199	212
Paid benefits	-184	-186
Currency translation effects	10	54
Gross defined benefit pension liabilities 31.12	7,609	7,433

Movement in the fair value of pension assets for defined benefit pension schemes

NOK million	2018	2017
Fair value of pension assets 01.01	5,653	5,254
Net change in assets due to additions/disposals	-150	-4
Projected yield on pension assets	127	116
Actuarial gains/losses	-13	154
Total contributions	274	254
Paid benefits	-151	-148
Currency translation effects	5	27
Fair value of pension assets 31.12	5,744	5,653

Pension assets comprise	2018	2017
Equity instruments	1,303	1,243
Interest-bearing instruments	3,878	3,850
Other	563	559
Fair value of pension assets 31.12	5,744	5,653

Actuarial gains and losses recognised in other comprehensive income

NOK million	2018	2017
Accumulated actuarial gains and losses recognised in other comprehensive income before tax 31.12	2,604	2,357

Pension cost recognised in the income statement

Defined benefit schemes

NOK million	2018	2017
Present value of accrued pension entitlements for the year	229	250
Interest expenses	165	152
Projected yield on pension assets	-127	-116
Employee contributions	-17	-23
Employers' national insurance contribution	47	47
Net pension cost defined benefit schemes	297	310

Defined contribution schemes

Employer payments	83	88
Total pension cost - see note 15	380	398

	Discount rate		Salary adjustment		Adjustment of G	
Sensitivity analysis upon changes in assumptions	1 %	-1 %	1 %	-1 %	1 %	-1 %
Increase (+)/decrease (-) in net pension cost defined benefit schemes for the period	-22%	23%	14%	-17%	12%	-14%
Increase (+)/decrease (-) in gross defined pension liability as of 31.12.	-16%	21%	6%	-6%	13%	-12%

Note 17 Property tax and licence fees

NOK million	2018	2017
Property tax	987	1,024
Licence fees	364	317
Total	1,352	1,341

Note 18 Other operating expenses

NOK million	2018	2017
Purchase of third-party services [1]	1,656	1,353
Materials	362	419
Power plants operated by third parties	287	256
Compensation payments	202	131
IT	335	346
Marketing	67	145
Travel	154	159
Insurance	56	139
Loss on divestments of subsidiaries and joint operations	0	30
Miscellaneuos	319	868
Total	3,439	3,846

[1] Purchase of third-party services mainly includes consultants, entrepreneur expenses and other services.

Note 19 Financial items

NOK million	2018	2017
Interest income	404	374
Interest expenses		
Interest expenses external debt	-969	-1,296
Other interest expenses	-55	-14
Capitalised borrowing costs	119	76
Total	-905	-1,234
Net currency effects	-464	-2,069
Other financial items		
Unrealised gains/losses on interest rate derivatives and securities	27	-681
Gains/losses from divestments of equity accounted investments [1]	5,449	5,166
Other [2]	-98	2,263
Total	5,377	6,748
Net financial items	4,412	3,818

[1] Includes divestments of Dudgeon Offshore Wind Ltd, Istad AS and shares in BKK. See note 5 for more details.
[2] In 2017, "Other" includes cumulative currency translation effects from the investment in Statkraft Treasury Centre (STC). The major business activities in STC were transferred to Statkraft AS, and as a result of the transfer NOK 2003 million were reclassifed from other comprehensive income to "Other financial items".

Note 20 Unrealised effects recognised in the profit and loss

The table below discloses the effects on the profit and loss from unrealised value changes from inventories and financial instruments measured at fair value and currency gains and losses on financial instruments measured at amortised cost.

In 2018 Statkraft reassessed the classification related to variation margin regarding the presentation of realised versus unrealised in the disclosures to the financial statements.

Some exchange traded contracts, typically futures, require that the mark-to-market exposure is covered by a variation margin which is paid between Statkraft and a clearing house. Variation margins are paid on a daily basis.

In previous years, variation margins payments were classified as realised in the profit and loss. After the reassessment, the variation margin payments are classified as unrealised before delivery of the underlying contract. At the delivery date, the cumulative unrealised gains or losses will be reclassified to realised. Statkraft does not view variation margin payments as partial settlements. The comparable figures have been restated and the effects on unrealised figures are NOK -1 million on sales revenues for **Customers** and NOK - 561 million for **Gains/losses from market activities** with opposite effects on realised figures.

	2018			2017		
NOK million	Unrealised	Realised	Total	Unrealised	Realised	Total
Generation	290	26,683	26,973	-150	21,014	20,864
Sale of gas	-	-	-	-	2,763	2,763
Customers	-115	26,010	25,896	44	24,816	24,860
Grid and other revenues	-	2,482	2,482	-	2,291	2,291
Total sales revenues	175	55,175	55,350	-106	50,884	50,778
Gains/losses from market activities	-4,897	3,201	-1,696	-832	3,247	2,414
Generation	-	-1,334	-1,334	-	-1,408	-1,408
Purchase of gas	-	-	-	-	-2,895	-2,895
Customers	165	-24,721	-24,556	-1	-23,137	-23,138
Other purchase	-	-917	-917	-	-766	-766
Total energy purchase	165	-26,973	-26,808	-1	-28,206	-28,207
Unrealised effects included in EBIT [1)]	**-4,557**			**-940**		
Net currency effects [2)]	606	-1,070	-464	-109	-1,960	-2,069
Other financial items	27	5,350	5,377	-681	7,430	6,748
Total financial items	633			-791		
Total unrealised effects	**-3,924**			**-1,730**		

[1)] Total sales revenues + Gains/losses from market activities + Total energy purchase.

[2)] Losses for 2018 from internal loans were NOK -103 million, of which NOK -161 million was realised. The corresponding figures for 2017 were NOK -220 million and NOK -860 million, respectively.

Note 21 Income taxes

GENERAL INFORMATION

Group companies that are engaged in energy generation in Norway are subject to the special rules for taxation of energy companies. The Group's tax expense therefore includes, in addition to ordinary income tax, natural resource tax and resource rent tax.

Income tax is calculated in accordance with ordinary tax rules and by applying the adopted tax rate. The tax expense in the income statement comprises taxes payable and changes in deferred tax liabilities/assets. Taxes payable are calculated on the basis of the taxable income for the year. Deferred tax liabilities/assets are calculated on the basis of temporary differences between the accounting and tax values and the tax effect of losses carried forward.

Natural resource tax is a profit-independent tax that is calculated on the basis of the individual power plant's average output over the past seven years. The tax rate is NOK 13/MWh. Income tax can be offset against the natural resource tax paid.

Resource rent tax is a profit-dependent tax levied on the net resource rent revenue generated by each power plant. Resource rent revenue is calculated on the basis of the individual power plant's production hour by hour, multiplied by the spot price for the corresponding hour. The actual contract price is applied for deliveries of concessionary power and power subject to physical contracts with a term exceeding seven years. Income from green certificates is included in gross resource rent revenue. Actual operating expenses, depreciation and a tax-free allowance are deductible.

The tax-free allowance is set each year on the basis of the taxable value of the power plant's operating assets, multiplied by a normative interest rate.

Negative resource rent revenues per power plant from the 2006 fiscal year or earlier years can only be carried forward with interest offset against future positive resource rent revenues from the same power plant. From 2007 onwards negative resource rent revenues per power plant can be pooled with positive resource rent revenues for other power plants.

SIGNIFICANT ACCOUNTING POLICIES

Tax related to items recognised in other comprehensive income is also recognised in other comprehensive income, while tax related to equity transactions is recognised in equity.

Deferred tax liabilities and deferred tax assets are recognised net provided that these are expected to reverse in the same period. The same applies to deferred tax liabilities and deferred tax assets connected with resource rent tax. Deferred tax positions connected with income tax payable cannot be offset against tax positions connected with resource rent tax.

Any natural resource tax that exceeds income tax can be carried forward with interest to subsequent years, and is recognised as prepaid tax.

The tax-free allowance deductible for resource rent tax is treated as a permanent difference in the year it is calculated for, and therefore does not affect the calculation of deferred tax connected with resource rent.

ESTIMATES AND ASSUMPTIONS

Recognition of deferred tax assets involves judgment. Deferred tax assets are recognised to the extent that it is probable that they will be utilised.

Deferred tax assets relating to resource rent revenue carryforwards are recognised in the balance sheet with the amount expected to be utilised within a period of ten years. The period over which negative resource rent revenues can be used is estimated on the basis of expectations related to normal production and price curves.

Other deferred tax assets are recognised in the balance sheet if they are expected to be utilised within a period of five years.

For uncertain tax positions see note 32.

Nominal Norwegian tax rates in the income statement	2018	2017
Income tax rate	23%	24%
Resource rent tax rate	35.7%	34.3%

Nominal Norwegian tax rates in the balance sheet statement (deferred tax)	2018	2017
Income tax rate	22%	23%
Resource rent tax rate	37.0%	35.7%

The tax expense in the income statement

NOK million	2018	2017
Income tax payable (including natural resource tax payable)	3,181	1,804
Resource rent tax payable	3,678	2,451
Withholding tax payable	23	21
Previous years payable tax expense	87	-133
Change in deferred tax net of group contributions	289	-186
Tax expense in the income statement	7,258	3,957

Taxes payable in the balance sheet

NOK million	2018	2017
Income tax payable	2,443	817
Natural resource tax payable	634	614
Resource rent tax payable	3,678	2,451
Previous years taxes payable	635	128
Taxes payable in the balance sheet	7,391	4,010

Tax included in receivables

NOK million	2018	2017
Prepaid tax	107	52
Tax included in receivables - see note 27	107	52

GROUP STATKRAFT AS CORPORATE RESPONSIBILITY

Note 21 continued

Reconciliation of nominal Norwegian tax rate and effective tax rate

NOK million	2018	2017
Profit before tax	20,649	15,668
Expected tax expense at a nominal rate of 23% (24%)	4,749	3,760
Effect on taxes of		
Resource rent tax	4,122	2,934
Foreign tax rate differences	-245	-107
Change in tax rates	-108	-63
Share of profit/loss in equity accounted investments	-182	19
Tax-free income [1)]	-1,392	-1,594
Changes relating to previous years	-5	-105
Change in unrecognised deferred tax assets [2)]	198	-759
Other permanent differences [3)]	121	-129
Tax expense	7,258	3,957
Effective tax rate	35.2%	25.3%

[1)] Tax free income is mainly related to tax exempt gains from the divestments of the shareholding in Dudgeon offshore wind farm and the listing and subsequent deconsolidation of Fjordkraft.
[2)] Change in unrecognised deferred tax assets is mainly related to Germany.
[3)] Other permanent differences are mainly non-deductible expenses and items included in the profit and loss statement without tax effect. Items included in the profit and loss statement without tax effect entail depreciation and impairment on excess values.

Breakdown of deferred tax

NOK million	01.01.18	Tax expense in the income statement	Other comprehensive income	Acquisitions and sale of companies	31.12.18
Current assets/current liabilities	-173	81	-4	-14	-110
Property, plant and equipment not part of resource rent tax regime [3)]	3,794	145	0	93	4,031
Property, plant and equipment part of resource rent tax regime	7,495	167	-	5	7,667
Pension liabilities	-725	18	-94	24	-776
Derivatives	1,489	-682	4	15	826
Other long-term items	3	-31	-71	32	-66
Tax loss carryforward/compensation [3)]	-423	202	42	-1	-179
Negative resource rent tax carryforward [4)]	-2,630	388	-	-	-2,241
Total net deferred tax liability	8,830	289	-122	154	9,151
Of which presented as deferred tax assets	962				676
Of which presented as deferred tax liabilities	9,792				9,826

NOK million	01.01.17	Tax expense in the income statement	Other comprehensive income	Acquisitions and sale of companies	31.12.17
Current assets/current liabilities [2)]	-105	-74	6	-	-173
Property, plant and equipment not part of resource rent tax regime [1,3)]	4,398	-558	-45	-	3,794
Property, plant and equipment part of resource rent tax regime	7,275	219	-	-	7,495
Pension liabilities	-665	-11	-49	-	-725
Derivatives [2)]	713	464	312	-	1,489
Other long-term items [2)]	-35	24	14	-	3
Tax loss carryforward/compensation [3)]	-296	-152	16	8	-423
Negative resource rent tax carryforward [4)]	-2,531	-98	-	-	-2,630
Total net deferred tax liability	8,753	-186	255	8	8,830
Of which presented as deferred tax assets	675				962
Of which presented as deferred tax liabilities	9,428				9,792

[1)] Effects from implementing IFRS 15 have reduced deferred taxes with NOK 22 million as of 31.12.2017 (NOK 18 million as of 01.01.2017).
[2)] Deferred taxes related to derivatives are from 2018 presented separately from current assets/current liabilities and other long term items.
[3)] The Group also has deferred tax assets not recognised in the balance sheet. This mainly relates to Germany with not recognised deferred tax assets of NOK 1805 million as of 31.12.2018 (NOK 1628 million as of 31.12.2017).
[4)] The Group also has deferred tax assets not recognised in the balance sheet related to negative to negative resource rent tax carryforward. This amounted to NOK 503 million as of 31.12.2018 (NOK 811 million as of 31.12.2017)

Deferred tax recognised in other comprehensive income

NOK million	2018	2017
Remeasurement of pension obligations	-95	-49
Currency translation effects	-36	-10
Changes in fair value of financial instruments	9	313
Total deferred tax recognised in other comprehensive income	-122	255

Note 22 Intangible assets

SIGNIFICANT ACCOUNTING POLICIES

Intangible assets are carried at cost less accumulated amortisation and accumulated impairment losses. Costs relating to intangible assets, including goodwill, are recognised in the balance sheet when it is probable that the asset will generate future economic benefits and the costs can be measured reliably. Goodwill and intangible assets with an indefinite useful life are not amortised and are tested annually for impairment.

Research and development costs are expensed as incurred. Development costs are capitalised to the extent that a future economic benefit can be identified from the development of an identifiable intangible asset.

Nok million	Goodwill	Other	Total
2018			
Balance at 01.01	1,051	2,262	**3,313**
Additions	-	48	**48**
Additions from business combinations	339	630	**969**
Reclassifications	-	-28	**-28**
Amortisations	-	-143	**-143**
Impairments	-35	-	**-35**
Derecognition from divestments	-	-95	**-95**
Disposals	-	-1	**-1**
Currency translation effects	-5	-115	**-120**
Balance at 31.12	1,351	2,558	**3,909**
Cost 31.12	2,299	3,592	**5,891**
Accumulated amortisation and impairments as of 31.12	-948	-1,034	**-1,982**
Balance at 31.12	1,351	2,558	**3,909**

Nok million	Goodwill	Other	Total
2017			
Balance at 01.01	1,453	2,405	3,858
Additions	-	65	65
Reclassifications	-	25	25
Amortisations	-	-157	-157
Impairments	-333	-2	-335
Reversal of impairments	-	28	28
Disposals	-	-3	-3
Currency translation effects	-69	-99	-168
Balance at 31.12	1,051	2,262	3,313
Cost 31.12	2,042	3,545	5,587
Accumulated amortisation and impairments as of 31.12	-991	-1,283	-2,274
Balance at 31.12	1,051	2,262	3,313
Expected useful life		10–22 years	

RESEARCH AND DEVELOPMENT

The Group's research and development activities are focused on investigating potential new energy sources and developing existing plants and technologies. Research activities relating to new energy sources include general research projects. These projects are intended to provide further knowledge on technologies or other areas that could provide a basis for future activities/projects.

In order to gain new knowledge and develop new methods within the fields of energy optimisation and preservation, the Group also performs research and development activities in connection with existing plants/energy sources. Research and development activities carried out in 2018 and 2017 are expensed with NOK 36 million and NOK 42 million, respectively. Capitalised development costs in 2018 and 2017 were NOK 10 million and NOK 38 million.

Note 23 Property, plant and equipment

SIGNIFICANT ACCOUNTING POLICIES

Investments in production facilities and other property, plant and equipment are recognised at cost less accumulated depreciation and impairment. Depreciation is charged from the time the assets are available for use. The cost of property, plant and equipment includes fees for acquiring or bringing assets into a condition in which they can be used. The cost also includes directly attributable borrowing costs. Expenses incurred after the operating asset has been taken into use, such as ongoing repair and maintenance expenses, are recognised in the profit and loss statement as incurred, whilst other expenses that are expected to increase future production capacity are capitalised. The estimate of decommissioning obligation is included in the carrying value of the relevant asset.

Statkraft starts capitalising costs when it is probable that the asset will generate future economic benefits and the cost can be measured reliably.

Depreciation is calculated on a straight-line basis over the assets' expected useful life. Residual values are taken into account in the calculation of annual depreciation. Periodic maintenance is capitalised over the period until the time when the next maintenance is scheduled. The depreciation period is adapted to the licence period. Expected useful life, depreciation methods and residual values are assessed annually.

Property and waterfall rights are not depreciated, as the assets are deemed to have perpetual life if there is no right of reversion to state ownership. Waterfall rights are presented as property, plant and equipment as Statkraft has perpetual right to utilise the waterfall.

ESTIMATES AND ASSUMPTIONS

Property, plant and equipment is depreciated over its expected useful life. Expected useful life is estimated based on experience, historical data and accounting judgements, and is adjusted in the event of any changes to the expectations. Residual values are estimates that are taken into account when calculating depreciation. Estimates of decommissioning obligations, which are included as part of the plant's carrying amount, are subject to continuously reviews.

NOK million	Regulation plants	Turbines, generators etc.	Waterfall rights	Properties, mountain halls, buildings, roads, bridges and quay facilities	Plants under construction	Other	Total
2018							
Balance at 01.01	28,694	24,183	18,123	14,930	4,813	12,450	103,193
Additions	72	271	5	45	3,713	847	4,953
Additions from business combinations	323	777	-	85	420	6	1,611
Capitalised borrowing costs [1)]	-	-	-	-	119	-	119
Reclassifications	-13	5	-	-	32	4	28
Transfer between asset classes	534	2,571	-	-73	-2,229	-803	-
Depreciation	-786	-1,340	-	-457	-	-841	-3,424
Impairments	-76	-32	-	-18	-	-7	-132
Derecognition from divestments	-	-101	-	-1	-	-4	-105
Disposals	-59	-29	-	25	-36	-74	-173
Currency translation effects	-119	-247	125	-314	267	-38	-325
Balance at 31.12	28,571	26,057	18,253	14,223	7,099	11,541	105,744
Carrying value 31.12 of assets with infinite useful life	n/a	n/a	18,253	67	n/a	38	18,358
Cost 31.12	43,510	52,376	19,618	21,238	7,815	24,399	168,955
Accumulated depreciation and impairments as of 31.12	-14,939	-26,319	-1,365	-7,015	-716	-12,858	-63,211
Balance at 31.12	28,571	26,057	18,253	14,223	7,099	11,541	105,744

[1)] The average interest rate applied during the year was 2.55%

Note 23 continued

NOK million	Regulation plants	Turbines, generators etc.	Waterfall rights	Properties, mountain halls, buildings, roads, bridges and quay facilities	Plants under construction	Other	Total
2017							
Balance at 01.01	24,220	25,590	17,620	19,358	4,639	11,877	103,304
Additions	161	445	-	56	2,130	850	3,642
Capitalised borrowing costs [1]	-	-	-	-	76	-	76
Reclassifications	-12	-	-	-	-2	-11	-25
Transfer between asset classes	5,355	-1,280	1,157	-3,926	-2,238	932	-
Depreciation	-728	-1,239	-	-533	-	-1,005	-3,505
Impairments	-145	-296	-920	-67	-	-37	-1,465
Reversal of impairments	1	766	386	119	-	-	1,272
Derecognition from divestments	-	-47	-	-104	-9	-98	-258
Disposals	-162	-87	-2	-23	-	-44	-319
Currency translation effects	4	331	-118	50	217	-14	470
Balance at 31.12	28,694	24,183	18,123	14,930	4,813	12,450	103,193
Carrying value 31.12 of assets with infinite useful life	n/a	n/a	18,123	67	n/a	40	18,230
Cost 31.12	42,289	49,625	19,433	21,801	7,048	25,093	165,289
Accumulated depreciation and impairments as of 31.12	-13,595	-25,442	-1,310	-6,871	-2,235	-12,643	-62,096
Balance at 31.12	28,694	24,183	18,123	14,930	4,813	12,450	103,193

[1] The average interest rate applied during the year was 2.82%.

INVESTMENTS IN 2018

The additions in 2018 of NOK 4953 million in property, plant and equipment (excluding capitalised borrowing costs of NOK 119 million) and of NOK 48 million in intangible assets, consisted of investments in new generating capacity, maintenance investments and other investments. Maintenance investments and other investments amounted to NOK 2067 million (NOK 1820 million). The investments were primarily related to hydropower plants in Norway. Investments in new capacity amounted to NOK 3053 million (NOK 1964 million). The largest projects were a hydropower plant in Albania and wind farms in Norway.

ASSETS PLEDGED AS SECURITY TO COUNTERPARTIES

Statkraft has pledged property, plant and equipment as security to counterparties. See note 33 for more information.

INTANGIBLE ASSETS, PROPERTY, PLANT AND EQUIPMENT PER COUNTRY

			2018			2017
NOK million	Intangibles	PPE	Total	Intangibles	PPE	Total
Norway	799	58,011	58,810	883	56,386	57,269
Sweden	76	21,353	21,428	87	22,417	22,504
Germany	39	2,508	2,547	46	2,656	2,702
UK	67	1,218	1,285	28	1,248	1,276
Turkey	2	1,294	1,295	3	1,748	1,751
Albania	2	4,999	5,001	2	3,888	3,890
Peru	114	9,231	9,345	85	8,924	9,009
Brazil	1,919	3,612	5,531	1,758	2,898	4,656
Chile	450	2,071	2,521	421	1,984	2,405
Other	443	1,448	1,891	-	1,043	1,043
Total	3,909	105,744	109,653	3,313	103,193	106,506

Note 23 continued

EXPECTED USEFUL LIFE OF PROPERTY, PLANT AND EQUIPMENT

A more detailed specification of the expected useful life of the various assets is provided below. In 2018 Statkraft has extended the estimated useful life for tunnel systems (from 75 to 90), pipe trenches (from 40 to 75), wind turbines (from 20-22 to 20-25), underground facilities (from 75 to 90), control equipment (from 15 to 20) and operating centre (from 15 to 20).

	Depreciation period (years)		Depreciation period (years)
Regulation plants		Properties, mountain halls, buildings, roads, bridges etc.	
- riprap dams, concrete dams	75	- land	perpetual
- other dams	30	- underground facilities	90
- tunnel systems	90	- roads, bridges and quays	75
		- control equipment	20
Turbines, generators etc.		- operating centre	20
- pipe trenches	75	- communication equipment	10
- generators (turbine, valve)	40		
- other mechanical installations	15	Other	
- transformer/generator	40	- transformer (grid)	35
- wind turbines	20-25	- switchgear, high voltage (grid)	35-40
- gas and steam generators	20-25	- buildings	25-50
- gas power plant transformers	20-25	- other fixed installations	10-20
		- miscellaneous fixtures	5
Waterfall rights	perpetual	- office and computer equipment	3
		- furnishings and equipment	5
		- vehicles	8
		- construction equipment	12
		- small watercraft	10
		- water cooling systems	20-25

Note 24 Associates and joint arrangements

SIGNIFICANT ACCOUNTING POLICIES

The gain/loss from a transaction where the investment changes from being classified as a joint operation to be classified as a joint venture or associated company are recognised in the Group's consolidated financial statement only to the extent of other parties interest in the joint operation. Hence, the carrying value of Statkraft's remaining ownership is booked at continuity. In addition changed contractual rights and obligations relating to the underlying asset or debt and changes in the shareholders agreement might lead to a change in the accounting method. For Statkraft, this is expected to apply if the participants are not obliged to off-take the production and are not responsible for the obligation held by the entity.

ACCOUNTING JUDGEMENTS

Judgement is required to assess the classification of investments in projects with third party owners. The degree of control over the investee is one of the key elements in the assessment to whether the investment should be accounted for as subsidiary, joint operation, joint venture or associate. To assess the degree of control all facts and circumstances are evaluated.

The decisions about relevant activities that significantly affect the return of the investments are the elements that require the highest degree of judgement. In order to conclude on the degree of control, Statkraft has systematically defined the relevant activities and value drivers for each of its main type of technologies, in addition to an individual assessment per investment to reflect other facts and circumstances.

For agreements which require unanimous consent from the partners to direct the relevant activities of the investments, and where the other criterias in IFRS 11 are met, the investment is classified as a joint arrangement. Judgement is required in assessing whether a joint arrangement is a joint operation or a joint venture. Rights and obligations arising from a joint arrangement, including other facts and circumstances, are evaluated in order to classify the joint arrangement. For investments structured through a legal entity, other facts and circumstances, such as agreements between shareholders and agreements between shareholders and the investee, must override its legal form for a joint operation to exist. Entities established to produce power and where the owners are committed to purchase all the power produced, as well as being responsible for settling of short term and long term financing of the company, are normally classified as joint operations. When Statkraft has rights to the net assets of the arrangement, the arrangement is a joint venture.

Co-owned power plants in which Statkraft have joint control are recognised as joint operation.

Based on size and complexity, the following associated companies and joint ventures are considered material:

2018

NOK million	BKK AS	Agder Energi AS	Fjordkraft Holding ASA [1]	Hidroelectrica La Higuera S.A [2]	Wind UK Invest Ltd.	Other	Total
Opening balance 01.01.	5,417	3,935	-	844	876	2,264	13,335
Additions [1]	108	-	967	-	-	-	1,075
Divestments [1]	-250	-	-4			-1,066	-1,320
Deconciled	-	-	-	-	-	-60	-60
Share of profit/loss	730	26	59	43	33	102	993
Depreciation and impairment of excess value	-62	-110	-25	-	-2	-4	-203
Capital increases	-	-	-	-	-	111	111
Dividends	-258	-276	-	-	-24	-49	-607
Currency translation effects	-84	-4	-	53	3	-56	-88
Items recorded in other comprehensive income	-45	-97	4	-1	-6	14	-131
Closing balance 31.12.	5,556	3,474	1,001	939	879	1,255	13,105
Excess value 31.12.	1,976	1,803	845	392	44	148	5,208
Of which unamortised waterfall rights	1,711	314	-	370	-	-	2,395

[1] See note 5 for more information about the transactions.
[2] Hidroelectrica La Higuera S.A was previously included in "Other".

2017

NOK million	BKK AS	Agder Energi AS	SN Power AS	Scira Offshore Energy Ltd.	Wind UK Invest Ltd.	Other [4]	Total
Opening balance 01.01. - as previously reported	5,656	4,040	2,930	2,005	853	3,954	19,438
Changes in accounting principle - see note 1	-80	11	-	-	-	-	-69
Balance as of 01.01	5,576	4,052	2,930	2,005	853	3,954	19,369
Additions/divestments [1]	-	-	-2,853	-2,060	-	71	-4,842
Share of profit/loss [2]	339	196	230	46	23	326	1,161
Depreciation and impairment of excess value [3]	-14	-66	-	-	-2	-1,158	-1,240
Capital increases	-	-	-	-	-	32	32
Dividends	-252	-276	-	-	-31	1	-558
Currency translation effects	-13	-	-308	9	40	-145	-416
Items recorded in other comprehensive income	-219	29	-	-	-6	26	-170
Closing balance 31.12.	5,417	3,935	-	-	876	3,108	13,335
Excess value 31.12.	2,168	1,912	-	-	46	653	4,779
Of which unamortised waterfall rights	1,818	314	-	-	-	370	2,502

[1] See note 5 for more information about the transactions.
[2] Due to implementing IFRS 15, share of profit/loss from BKK and Agder Energi has been restated by NOK -16 million and NOK 10 million respectively - see note 12.
[3] The shares in Hidroelectrica La Confluencia S.A, Hidroelectrica La Higuera S.A and Malana presented in "Other" have been impaired, see note 14.
[4] "Other" includes Statkraft's 30% ownership share in the wind farm Dudgeon Offshore Wind Ltd. with a carrying value of NOK 895 million.
The wind farm was classified as held for sale per 31 December 2017 and was divested in 2018. Due to the relative size of its carrying value the investment was not presented as assets held for sale on a single line item in the statement of financial position.

Note 24 continued

GROUP | STATKRAFT AS | CORPORATE RESPONSIBILITY

DESCRIPTION OF THE ACTIVITIES IN SIGNIFICANT ASSOCIATES AND JOINT VENTURES

BKK AS has operations in Western Norway, with its core activities being production, sale and transmission of electric power. BKK also sells consultation and contracting services, and offers customers broadband, district heating and joint metering of electricity.

Agder Energi AS has operations in Southern Norway, with its core activities being production, trading and transmission of electric power, as well as other energy-related services.

Fjordkraft Holding ASA is a national electricity supplier in Norway, which serves private households and companies with electricity.

Hidroelectrica La Higuera S.A has operations in Chile and contains the La Higuera hydropower plant.

Wind UK Invest Ltd. (WUKI) owns the land-based wind farms Alltwalis, Baillie and Berry Burn in the UK.

See note 33 Pledges, guarantees and obligations for information regarding bank guarantees and parent company guarantees related to associates and joint arrangements.

FINANCIAL INFORMATION FOR SIGNIFICANT ASSOCIATED COMPANIES

The following table presents summarised financial information for significant associated companies. The figures apply to 100% of the companies' operations in accordance with IFRS 12.

2018

NOK million	BKK AS [1]	Agder Energi AS [1]	Fjordkraft Holding ASA [1]	Hidroelectrica Higuera S.A [1]	Wind UK Invest Ltd. [1]
Current assets	3,270	3,072	2,918	328	265
Non-current assets	20,285	18,283	530	4,350	3,038
Current liabilities	6,588	5,967	2,282	439	206
Non-current liabilities	8,391	11,736	296	3,145	3,302
Gross operating revenues	5,155	13,980	6,721	631	428
Net profit	1,729	57	254	86	64
Total comprehensive income	1,661	-158	255	84	52

[1] Figures are preliminary and unaudited.

2017

NOK million	BKK AS [1]	Agder Energi AS [1]	SN Power AS	Scira Offshore Energy Ltd.	Wind UK Invest Ltd.
Current assets	4,030	2,952	-	-	220
Non-current assets	19,067	17,423	-	-	3,237
Current liabilities	5,391	4,747	-	-	211
Non-current liabilities	10,251	11,172	-	-	1,607
Gross operating revenues	4,233	9,371	-	-	373
Net profit	850	397	-	-	45
Total comprehensive income	806	471	-	-	45

[1] Figures have been restated to reflect changes after implementing IFRS 15.

JOINT VENTURES, JOINT OPERATIONS AND ASSOCIATES

Shares in companies classified as joint ventures and associates are recognised using the equity method in the consolidated financial statements. Statkraft recognises its share of assets, liabilities, revenues and expenses of companies classified as joint operations on a line-by-line basis in the group financial statements.

Name	Registered office	Shareholding	Voting share
JOINT VENTURES			
Allain Duhangan Hydro Power Ltd.	New Delhi	43.12%	43.12%
Dugar Hydro Power Ltd	New Delhi	50.00%	50.00%
Hidroelectrica La Confluencia S.A	Santiago	50.00%	50.00%
Hidroelectrica La Higuera S.A	Santiago	50.00%	50.00%
KraftCERT AS	Bærum	33.33%	33.33%
Malana Power Company Ltd.	New Delhi	49.00%	49.00%
Silva Green Fuel AS	Oslo	51.00%	51.00%
Vattenkraftens Miljöfond Sverige AB	Stockholm	9.06%	9.06%
Windpark Kollweiler GmbH & Co	Billerbeck	20.00%	20.00%
Wind UK Invest Ltd.	London	51.00%	51.00%
Glencloosgh Energy Ltd	Cork	50.00%	50.00%

Note 24 continued

Name	Registered office	Shareholding	Voting share
JOINT OPERATIONS			
Aktieselskabet Tyssefaldene [1)]	Tyssedal	60.17%	60.17%
Fosen Vind DA	Oslo	52.10%	52.10%
Harrsele AB	Vännäs	50.57%	50.57%
Kraftwerksgesellschaft Herdecke, GmbH & Co. KG	Hagen	50.00%	50.00%
Sira-Kvina Kraftselskap DA	Sirdal	46.70%	46.70%
Aurlandsverkene	Aurland	7.00%	7.00%
Grytten	Rauma	88.00%	88.00%
Gäddede	Stockholm	70.00%	70.00%
Kobbelv	Sørfold	82.50%	82.50%
Kraftverkene i Orkla	Rennebu	48.60%	48.60%
Sima	Eidfjord	65.00%	65.00%
Solbergfoss [2)]	Askim	33.33%	33.33%
Stegaros	Tinn	50.00%	50.00%
Svartisen	Meløy	70.00%	70.00%
Svorka	Surnadal	50.00%	50.00%
Vikfalli	Vik	88.00%	88.00%
Volgsjöfors	Stockholm	73.10%	73.10%
Ulla-Førre	Suldal	73.48%	73.48%
ASSOCIATES			
Agder Energi AS	Kristiansand	45.50%	45.50%
BKK AS	Bergen	47.85%	47.85%
Fjordkraft Holding ASA	Bergen	29.72%	29.72%
Nape Kraftverk AS	Grimstad	49.00%	49.00%
Passos Maia Energética S.A.	Caçador City	50.00%	50.00%
Laugstol AS	Porsgrunn	33.40%	33.40%
Viking Varme AS	Porsgrunn	50.00%	50.00%
Røldal-Suldal Kraft AS [3)]	Suldal	4.79%	4.79%
Skagerak Naturgass AS	Porsgrunn	49.00%	49.00%
Statt-werk GmbH	Berlin	25.00%	25.00%
enQu GmbH	Berlin	50.00%	50.00%
Grønn Kontakt AS	Kristiansand	47.21%	47.21%

[1)] Statkraft controls 71.4% of the production from the Tysso II power plant.
[2)] Statkraft owns 33.3% of Solbergfoss, but controls 35.6% of the production.
[3)] Statkraft owns 8.74% of the shares in Røldal-Suldal Kraft AS, which in turn owns 54.79% of the Røldal-Suldal plants. Statkraft's indirect shareholding in the power plant is thus 4.79%.

Fjordkraft Holding ASA was listed on Oslo Stock Exchange in March 2018 and consequently has a quoted market price. The share price at 28 December 2018 was NOK 34. The fair value of Statkraft's ownership share as of 31 December 2018 was NOK 1056 million. Except for Fjordkraft, none of the companies have observable market values in the form of listed market prices or similar.

GROUP
STATKRAFT AS
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Note 25 Other non-current financial assets

NOK million	2018	2017
Loans to equity accounted investments	2,244	2,223
Bonds and other long-term receivables	932	1,365
Net pension asset	494	480
Other shares and securities	316	299
Total	3,986	4,368

Note 26 Inventories

GENERAL INFORMATION

Statkraft's inventories are mainly related to environmental certificates, such as green certificates in the Nordics, Renewable Obligation Certificates (ROCs) in the UK and emission quotas. Green certificates and ROCs are obtained from trading, origination and market access activities and in addition from own generating assets that are eligible for receiving these government grants.

The most significant part of the environmental certificate inventories is related to trading, origination and market access activities.

SIGNIFICANT ACCOUNTING POLICIES

Environmental certificates that are purchased are classified as inventory when they are received and measured at fair value less costs to sell. Changes in fair value of inventories related to trading activities are presented as Gains/losses from market activities in the profit and loss statement.

Environmental certificates received from own generation are taken to the market by the segment Market operations. Certificates that are not sold externally at the reporting date are recognised as inventory and measured to fair value less costs to sell.

Other inventory is recognised at the lowest of cost price and net realisable amount.

	2018		2017	
NOK million	Recognised value	Cost price	Recognised value	Cost price
Inventories measured at fair value less costs to sell				
Environmental certificates	6,111	5,034	2,712	2,695
Total	6,111	5,034	2,712	2,695
Inventories measured at the lower of cost price and net realisable value				
Spare parts	151		114	
Other	54		45	
Total	204		159	
Total	6,316		2,871	

Note 27 Receivables

NOK million	2018	2017
Accounts receivable	7,439	8,201
Loans to equity accounted investments [1) 2)]	75	3,959
Prepaid tax	107	52
Cash collateral and margin calls	3,351	1,931
Other receivables	1,859	1,228
Total	12,831	15,372

1) Interest-bearing receivables.
2) In 2017 mainly related to shareholder loan provided to Dudgeon.

Maturity analysis of receivables

2018 NOK million	Not yet due	Receivables overdue by: Less than 90 days	Receivables overdue by: More than 90 days	Receivables overdue and impaired	Total
Accounts receivable	7,396	18	89	-65	7,439
Other receivables	5,266	7	119	-	5,392
Total	12,661	25	209	-65	12,831

Recognised as loss for the year	62

2017 NOK million	Not yet due	Receivables overdue by: Less than 90 days	Receivables overdue by: More than 90 days	Receivables overdue and impaired	Total
Accounts receivable	7,443	567	221	-30	8,201
Other receivables	6,754	435	42	-59	7,171
Total	14,197	1,002	263	-89	15,372

Recognised as loss for the year	33

Note 28 Cash and cash equivalents

SIGNIFICANT ACCOUNTING POLICIES

Cash and cash equivalents include certificates and bonds which are normally traded within a period of three months. The item also includes restricted cash. Classification of cash deposit to cover margin calls, related to trading activities, depends on the characteristics of the exchange clearing service. If the service provider is not a financial institution, nor part of Statkraft's daily cash management and holds no bank accounts in the name of Statkraft, the cash deposit is classified as other receivables. For other service providers cash deposit is classified as cash and cash equivalents.

Market settlements for derivatives connected with financial activities (cash collateral) are recognised in the statement of financial position as either receivables or liabilities. Bank deposits, cash and similar from joint operations are also presented under this line item.

NOK million	2018	2017
Cash and cash deposits [1)]	15,295	11,062
Money market funds, certificates, promissory notes, bonds	7,880	3,154
Total	23,175	14,217

1) Includes NOK 357 million and NOK 129 million respectively in 2018 and 2017 from companies reported as joint operations.

Book value of cash and cash equivalents pledged as security to counterparties

NOK million	2018	2017
Deposit account related to power sales on energy exchanges	54	62
Other restricted cash	7	8
Total	61	70

Note 29 Provisions

SIGNIFICANT ACCOUNTING POLICIES

Provisions, contingent assets and contingent liabilities Provisions are only recognised when there is an existing obligation as a result of a past event, and when it is more than 50% probable that an obligation has arisen. It must also be possible to reliably measure the provision. Provisions are recognised with an amount that is the best estimate of the expenditure required to settle the present obligation at the reporting date. If the probability is lower than 50%, the conditions will be stated in note 33 if significant.

Onerous contracts Obligations arising under onerous contracts are recognised and measured as provisions. An onerous contract is considered to exist where the Group has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received from the contract.

Concessionary power Each year, concessionary sales are made to local authorities at statutory prices stipulated by the Norwegian Parliament. The supply of concessionary power is recognised as income on an ongoing basis in accordance with the established concessionary price. In the case of certain concessionary power contracts, agreements have been made regarding financial settlement in which Statkraft is invoiced for the difference between the spot price and the concessionary price. Such concessionary contracts are not included in the financial statements. The capitalised value of future concessionary power obligations is estimated and disclosed in note 33.

Decommissioning Provisions related to decommissioning typically arise when Statkraft has the right to time-limited concessions.

NOK million	2018	2017
Provisions allocated to capital employed [1)]	2,552	2,894
Other provisions [2)]	637	598
Total provisions	3,189	3,492

[1)] Mainly related to annual compensations and free power, long-term power agreements and equity instruments.

[2)] Mainly related to decommissioning of gas-fired power plants and wind farms.

Reconciliation of movements during the period

NOK million	2018	2017
Carrying value 01.01.	3,492	7,578
Additions during the year	278	173
Additions due to company acquisitions	80	-
Provisions used/reversed during the year	-485	-4,603
Reclassifications	-123	140
Other movements	6	204
Currency translation effects	-60	-
Carrying value 31.12	3,189	3,492

Note 30 Interest-bearing liabilities

NOK million	2018	2017
Interest-bearing liabilities, current		
First year's instalment on non-current debt	4,440	2,172
Cash collateral	1,510	1,322
Other short-term debt	397	200
Total	6,346	3,694
Interest-bearing liabilities, non-current		
Debt to Statkraft SF	-	400
Bonds issued in the Norwegian market	6,050	7,050
Debt issued in non-Norwegian markets	21,770	26,427
External debt in subsidiaries and other debt	2,535	2,408
Total	30,354	36,285
Total interest-bearing liabilities	36,700	39,979

NOK million	2018	2017
Cash flows from interest-bearing liabilities		
Total interest-bearing liabilities 01.01	39,979	40,293
New debt (cash inflow)	759	5,250
Repayment of debt (cash outflow) [1]	-5,182	-7,941
Cash collateral (cash in-/outflow) [2]	188	-95
Addition from business combinations (no cash effect)	720	-
Deconsolidation of entities (no cash effect)	-	-11
Changes in foreign exchange rates (no cash effect)	10	2,119
Other (no cash effect)	226	364
Total interest-bearing liabilities 31.12	36,700	39,979

[1] The difference between the table above and the statement of cash flow is related to cash effects from foreign exchange derivatives which are not included in this note.
[2] Part of other changes in the statement of cash flow.

Note 31 Interest-free liabilities allocated to capital employed

Interest-free liabilities allocated to capital employed

NOK million	2018	2017
Accounts payable	1,115	1,950
Indirect taxes payable	1,108	979
Accrued interest-free liabilities [1]	5,658	4,696
Other interest-free liabilities	1,861	1,460
Total	9,742	9,086

1) Mainly related to trading activities, external power producers (market access activities) and subcontractors in construction projects.

Note 32 Contingencies and disputes

CONTINGENCIES
In distribution grid business, differences can arise between the revenue ceiling determined by the Norwegian Water Resources and Energy Directorate (NVE) and the amount actually invoiced as grid rental charges. If the invoiced amount is lower than the revenue ceiling, a shortfall of revenue arises, and if the invoiced amount is higher than the ceiling, excess revenue arises. Excess/shortfall of revenue will even out over time as the actual invoicing is adjusted.

Revenues are recognised in the accounts based on actual invoicing. Accumulated excess/shortfall of revenue is recognised in future periods.

DISPUTES
The Group is involved in a number of legal proceedings in various forms. Whilst acknowledging the uncertainties of litigation, the Group is of the opinion that based on the information currently available, these matters will be resolved without any adverse material effect, individually or collectively on the Group's financial position. For legal disputes, in which the Group assesses it to be probable (more likely than not) that an economic outflow will be required to settle the obligation, provisions have been made based on management's best estimate.

Statkraft Treasury Centre SA
On 9 October 2017, Statkraft AS received a draft decision of a tax reassessment from the Norwegian tax authorities. The reassessment regards the income tax returns for the fiscal years 2008-2014 related to the investment in the Statkraft Treasury Centre SA (STC) in Belgium. The main issue relates to STC's capital structure and its compliance with the arm's length principle.

Statkraft strongly disagrees that there is a legal basis for any reassessment, and has made no provisions related to this case.

If all arguments from the Norwegian tax authorities would prevail, the financial exposure for the period 2008-2017 is estimated to NOK 4 billion as additional payable tax and interest expenses.

On 24 April 2017, the major business activities in STC were transferred to Statkraft AS. All business activities in STC have been closed down.

There has been no development in 2018 that has an impact on Statkraft's assessment.

Brazil
On 13 July 2015, Statkraft acquired controlling interest in the Brazilian company Desenvix Energias Renováveis S.A. which subsequently changed name to Statkraft Energias Renováveis (SKER). Over the past years, Brazil has experienced several severe corruption cases. On this background, Statkraft initiated an internal investigation related to the subsidiary acquired in 2015. Based on the investigation, the company has contacted Brazilian authorities. It is at this stage not possible to predict if the outcome could have potential negative financial effects.

The Brazilian Federal Prosecutor has been investigating potential crimes committed by representatives of the four main pension funds in Brazil and representatives of companies in which the pension funds invested, as well as any other individual who may have been involved in the alleged scheme, related to historical investments made by the pension funds, including FUNCEF, which invested in Desenvix (now SKER) in 2009 and 2010, and now owns 18.7% of SKER. The Prosecutor has concluded the investigation in relation to FUNCEF and filed the criminal lawsuit against the individuals, including the shareholders of Jackson and former officers of FUNCEF. In August 2017, the Federal Judge in charge of the criminal investigation issued a resolution stating that no information had been found relating SKER with the alleged illicit activities and therefore decided to release guarantees and other precautionary measures imposed on SKER. Additionally, a civil lawsuit has been filed against the pension funds and companies and individuals related to the pension fund's investments, including SKER. It is at this stage not possible to predict if the outcome of the case could have potential negative effects on SKER.

Note 33 Pledges, guarantees and obligations

PLEDGES

Under certain circumstances local authorities and publicly owned energy companies are entitled to a share of the output from power plants belonging to Statkraft in return for paying a share of the construction costs. To finance the acquisition of such rights, the local authorities/companies have been granted permission to pledge the power plant as security. The mortgage debt raised by the local authorities under this scheme totals NOK 375 million. In addition, other subsidiaries have a total of NOK 1604 million in pledged debt. As of 31 December 2018, the carrying value of the pledged assets in Statkraft Energi AS totalled NOK 3922 million, and a total of NOK 4532 million in other subsidiaries, mainly in the Statkraft IH Invest Group. Pledged assets in Statkraft IH Invest Group consist of property, plant and equipment to ensure compliance of long-term debt.

GUARANTEES

The Statkraft Group has the following off-balance-sheet guarantees:

NOK million	2018	2017
Parent company guarantees on behalf of subsidiaries [1)]	**16,790**	16,306
Parent company guarantees on behalf of associates and joint arrangements	**451**	2,500
Other	**876**	1,728
Total guarantees in Statkraft AS	**18,118**	20,534

[1)] Whereof the most material guarantees are regarding energy purchase of NOK 15 679 million and liabilities to suppliers of NOK 1026 million.

Guarantees issued by subsidiaries	**2,710**	2,646
Guarantees issued by associates and joint arrangements	**158**	469
Total guarantees in subsidiaries, associates and joint arrangements	**2,868**	3,115
Total guarantees	**20,986**	23,649

CONTRACT OBLIGATIONS

The Statkraft Group has the following significant off-balance-sheet obligations:

- Statkraft is obliged to pay licence fees related to hydropower plants, mainly in Norway. The present value of the Group's future licence fee obligations, not recognised in the statement of financial position, is estimated at NOK 9560 million. The estimated amount is based on a regulated discount rate of 3.8%, annual compensation and funds etc. In 2017, the corresponding amount was NOK 9056 million with a discount rate of 3.5%.
- Future minimum lease payments in relation to non-cancellable leases not recognised in the statement of financial position is NOK 1890 million, see note 34.
- A power purchase agreement with a 15-year horizon. The purchase obligation is NOK 1438 million.
- Obligation regarding service agreements related to gas-fired power plants of NOK 862 million.
- A license agreement relating to the development, construction and operation of one hydropower plant which involves a responsibility estimated at NOK 693 million.

CONCESSIONARY POWER CONTRACTS

The Group recognises concessionary power as normal buying and selling in accordance with stipulated concessionary power prices upon delivery, regardless of whether the settlement takes place upon physical delivery or financial settlement. Concessionary power contracts are normally regarded as indefinite. The parties can however agree on financial settlement for a period of time.

At the end of 2018, the contracts with financial settlement had a total volume of around 31.8 GWh and an average price from the Ministry of Petroleum and Energy of 11.2 øre/kWh. For the remaining contracts with financial settlement, the estimated fair value at 31 December 2018 was NOK 399 million.

Note 34 Leases

SIGNIFICANT ACCOUNTING POLICIES

Operating leases are mainly recognised as an expense on a straight-line basis over the lease term. For leased production plants where use is closely connected with the production, lease payments are measured by consumption and presented as energy purchases.

ESTIMATES AND ASSUMPTIONS

Power purchase agreements Judgement is made when determining whether a power purchase agreement contains a lease. A power purchase agreement contains a lease if its fulfilment depends on a specific asset and the arrangement conveys a right to control the use of the underlying asset and Statkraft takes a significant amount of the output at a price that is neither fixed nor equal to the current market price.

The total of future minimum lease payments in relation to non-cancellable leases for each of the following periods is:

NOK million	Within 1 year of the end of the period	Between 1 and 5 years after the end of the period	More than 5 years after the end of the period	Total
Property rental agreements	170	625	1,001	1,797
Vehicles	8	9	-	17
Other leases	5	33	40	78
Total	183	667	1,041	1,890

Lease-related rent recognised in the period and specified in the following manner:

NOK million	Minimum lease expense	Variable lease expense	Lease and sublease income
Property rental agreements	184	5	21
Vehicles	7	-	-
Other leases	11	-	-
Total	202	5	21

Total future minimum sublease income under non-cancellable subleases is NOK 100 million at 31 December 2018.

The majority of Statkraft`s lease expenses and future lease commitments is related to rent of premises and land.

Statkraft is offering market access to smaller renewable energy producers. Some of these contracts are defined as operating leases, due to a fixed element in the lease payments, and are presented as energy purchases, see note 12. The lease agreements have durations ranging up to 20 years and the rent paid for 2018 was NOK 10 286 million, whereas the corresponding amount for 2017 was NOK 9446 million.

Statkraft has no significant financial lease agreements at the end of 2018.

Note 35 Fees paid to external auditors

Deloitte AS is the Statkraft Group's auditor and audits all subsidiaries subject to auditing requirements.

The total fees (excluding VAT) paid for auditing and other services were as follows:

NOK thousand	2018	2017
Statutory auditing	13,992	15,845
Other attestation services	809	829
Tax consultancy services	1,302	2,349
Other services [1)]	6,181	1,669
Total	22,284	20,693

[1)] The main items in fees for other services in 2018 relate to assistance in a due dilligence process and attestation of the sustainability report. The corresponding figure for 2017 relate to assistance with the listing of Fjordkraft and the attestation of the sustainability report.

Note 36 Benefits paid to executive management and the Board of Directors

Statkraft is organised into business units and support functions. The managers of these units report to the Group management, which comprises the executive vice presidents (EVPs) and the President and CEO.

Salary and other benefits – executive management

2018

NOK	Salary	Bonus [1]	Benefits in kind	Salaries and other benefits
Christian Rynning-Tønnesen, President and CEO	5,288,570	664,000	196,054	6,148,623
Irene Egset, Executive Vice President and CFO [2]	2,569,843	-	198,239	2,768,082
Hallvard Granheim, Executive Vice President	3,318,523	442,000	199,592	3,960,115
Steinar Bysveen, Executive Vice President	2,812,461	445,000	208,940	3,466,401
Hilde Bakken, Executive Vice President	2,788,684	432,000	206,193	3,426,877
Jürgen Tzschoppe, Executive Vice President	3,553,969	473,000	159,992	4,186,961
Jon Vatnaland, Executive Vice President	2,332,114	429,000	199,025	2,960,139

[1] Bonus earned in 2018, but disbursed in 2019.
[2] Irene Egset resigned from her position as Executive Vice President and CFO on 31 December 2018.

2017

NOK	Salary	Bonus [1]	Benefits in kind	Salaries and other benefits
Christian Rynning-Tønnesen, President and CEO	5,144,192	883,000	188,641	6,215,832
Irene Egset, Executive Vice President and CFO	2,417,438	510,000	192,069	3,119,507
Hallvard Granheim, Executive Vice President	3,068,615	550,000	193,024	3,811,639
Steinar Bysveen, Executive Vice President	2,702,892	466,000	214,003	3,382,895
Hilde Bakken, Executive Vice President	2,711,629	473,000	196,970	3,381,599
Jürgen Tzschoppe, Executive Vice President	3,430,575	547,000	142,117	4,119,692
Jon Vatnaland, Executive Vice President [2]	1,679,588	386,000	89,130	2,154,718

1) Bonus earned in 2017, but disbursed in 2018.
2) Jon Vatnaland was appointed Executive Vice President on 24 January 2017. He also held the position as Managing director for Statkraft UK Ltd. until August 2017 and was on an expatriate agreement in this period.

The Group management has not received any compensation or financial benefits from other companies in the same Group other than those shown above. No additional compensation for special services beyond normal managerial functions has been provided, nor have any loans or surety been granted.
For 2018, total salaries and other benefits paid to the executive management amounted to NOK 26 917 198. The corresponding amount in 2017 was NOK 26 185 882.

Pension costs – executive management

NOK	2018	2017
Christian Rynning-Tønnesen, President and CEO	2,495,232	2,384,012
Irene Egset, Executive Vice President and CFO [1]	1,394,708	1,282,081
Hallvard Granheim, Executive Vice President	289,049	273,691
Steinar Bysveen, Executive Vice President	1,203,229	1,145,485
Hilde Bakken, Executive Vice President	1,474,632	1,385,858
Jürgen Tzschoppe, Executive Vice President	140,832	136,896
Jon Vatnaland, Executive Vice President [2]	948,879	822,594

[1] Irene Egset resigned from her position as Executive Vice President and CFO on 31 December 2018.
[2] Jon Vatnaland was appointed Executive Vice President on 24 January 2017.

The year's accounting cost for the pension scheme reflects the period during which the individual has been an executive employee.
For 2018, the total pension costs for executive management were NOK 7 946 561. In 2017 the corresponding amount was NOK 7 430 617.

Note 36 continued

Remuneration to the Board, Audit Committee and Compensation Committee as well as participation in Board meetings

2018

NOK	Board remuneration	Audit Committee	Compensation Committee	Participation in board meetings
Thorhild Widvey, chair	501,000	-	51,650	9
Peter Mellbye, deputy chair	323,000	-	32,050	9
Hilde Drønen, director	290,500	83,700	-	9
Mikael Lundin, director [1]	150,000	36,150	-	6
Halvor Stenstadvold, director [2]	170,500	46,650	-	4
Ingelise Arntsen, director	290,500	69,950	-	9
Bengt Ekenstierna, director	290,500	-	-	9
Vilde Eriksen Bjerknes, employee-elected director	290,500	-	-	10
Thorbjørn Holøs, employee-elected director	290,500	69,950	-	10
Asbjørn Sevlejordet, employee-elected director	290,500	-	32,050	9

[1] Was appointed board member in June 2018.

[2] Left the Board in June 2018.

2017

NOK	Board remuneration	Audit Committee	Compensation Committee	Participation in board meetings
Thorhild Widvey, chair	484,000	-	49,900	10
Halvor Stenstadvold, deputy chair	341,000	93,300	-	10
Hilde Drønen, director	281,000	67,600	-	8
Peter Mellbye, director	281,000	-	31,000	10
Ingelise Arntsen, director [1]	140,500	33,800	-	3
Bengt Ekenstierna, director	281,000	-	-	10
Thorbjørn Holøs, employee-elected director	281,000	67,600	-	10
Vilde Eriksen Bjerknes, employee-elected director	281,000	-	-	10
Asbjørn Sevlejordet, employee-elected director	281,000	-	31,000	10
Helene Biström, director [2]	140,500	33,800	-	5

[1] Was appointed board member in June 2017.

[2] Left the Board in June 2017.

The Board has no remuneration agreements other than the directors' fee and remuneration for participation in committee work, nor have any loans or surety been granted to directors of the Board. Total remuneration paid to the Board, Audit Committee and Compensation Committee in 2018 was NOK 2 887 500, NOK 306 400 and NOK 115 750, respectively. The respective amounts in 2017 were NOK 2 792 000, NOK 296 100 and NOK 111 900.

THE BOARD'S STATEMENT REGARDING SALARIES AND OTHER REMUNERATIONS TO SENIOR EXECUTIVES – 2018

The board of Statkraft will contribute to a moderate, but competitive development of executive pay in Statkraft. The principles and guidelines for executive salary and other remunerations are formed accordingly. There were no significant policy changes with regard to salaries and other remunerations in 2018.

Statkraft AS follows the Ministry of Trade, Industry and Fisheries's guidance for salary and other benefits to corporate management in state owned companies.

Statkraft's policy is to offer competitive terms, but not take a leading position. Upon deciding salaries and other remunerations in Statkraft, an external position assessment system that ranks positions according to a recognized and widely used methodology is utilised. An annual survey is then conducted, evaluating how similarly ranked positions in the Norwegian labour market are compensated.

This information, together with the general salary development in Statkraft, forms the basis for determining compensation.

Organisation
The board of Statkraft has established a separate Compensation Committee. The mandate of the committee is as follows:

- Once a year prepare the board's treatment of items relating to the CEO's salary and conditions of employment.
- Prepare the Board's statement on executive pay and other compensation paid to senior executives.
- Prepare the Board's treatment of all the fundamental issues relating to salary, bonus systems, pension and employment agreements and similar for the executive management in Statkraft.
- Deal with specific issues related to compensation for employees in the Statkraft Group to the extent that the Committee deems that these concern matters of particular importance for the Group's reputation, competitiveness and attractiveness as an employer.
- The CEO shall consult the Compensation Committee regarding the salaries for the corporate executives and head of Corporate Audit before they are decided upon.

Report on executive remuneration policy
The CEO and corporate executives receive both a fixed salary and a variable payment.

Fixed salary
The fixed salary is determined based on an assessment of the specific position and the market – as well as an assessment against Statkraft's policy of offering competitive terms, but not take a leading position. When deciding the annual salary regulation, the average salary increases of other employees are also considered.

Note 36 continued

Variable salary
Statkraft has a variable remuneration scheme for the senior executives based on key performance indicators and individual goals. The purpose is to drive operational performance and manage risks to achieve the objectives in the strategy.

Statkraft has established a performance management process to ensure clear relationship between the Group's overall Strategic platform and defined targets. Performance is reported and followed up through key performance indicators (KPIs) in the Group scorecard. The key performance indicators are based on the most relevant value drivers and strategic ambitions for the group. The targets are set to ensure value creation.

The variable remuneration scheme for Statkraft's senior executives is developed to support the performance management process, establishing a clear link between value-creating activities and individual variable remuneration.

Below is a description of relevant categories of KPIs included in the variable remuneration scheme. The measurement is weighted on the individual's area of responsibility:

i) Care for people and environment
Within this category Statkraft monitors that required legal, environmental, social and ethical standards in the industry are followed. A main focus is on health, safety and security risks for employees and reduction of negative environmental impact. Common health and safety targets are included for all members of executive management.

ii) Financial indicators
Statkraft's financial performance from market activities is measured through profitability KPIs, where Statkraft's added value from energy management and other market activities are measured against the market. The main focus is to enhance value creation for Statkraft, measured by different KPIs with stretch targets.

iii) Operational indicators
There are several KPIs to follow up operational performance. Statkraft measures the utility-adjusted availability of the power plants, i.e. the availability in times where Statkraft benefits from available plants. Moreover Statkraft follows up costs by measuring the development of the cost base. Also for these indicators, the main focus is on enhanced value creation for Statkraft; measured by different KPIs with stretch targets

For the CEO and corporate management, the variable remuneration has a maximum potential of 25 per cent of gross base salary. The individual bonus achievement may vary from 0 to 100%, based on an evaluation of performance against a defined set of targets.

For the CEO and corporate management, targets are defined for strategic objectives as well as financial and operational performance. The CEO's variable pay is fully based on these targets while the variable pay for the executive vice presidents has a combined weighting of 70% of these targets and a 30% weighting of individual targets on leadership and organisational development.

Other variable elements
Other variable elements include arrangements with a company car, newspapers, phone and coverage of broadband communication in accordance with established standards.

Pension plans
For wholly owned Norwegian subsidiaries, Statkraft has established a defined contribution plan in Gjensidige Pensjonsforsikring AS and has a closed defined benefit plan in the Government Pension Fund (SPK).

The CEO, Christian Rynning-Tønnesen, has a retirement age of 67 years, and will receive a pension of 66% of his annual salary, provided that he has been part of SPK during the entire 30-year vesting period. The other corporate executives have a retirement age of 65 years at the earliest, with the right to 66% of their annual salary, provided that they have been part of SPK during the entire 30-year vesting period.

Statkraft established a pension scheme funded out of current income for income above 12G in 2003. The scheme included all employees with an annual salary over 12G, including the CEO and corporate executives. This scheme was closed to new employees in 2012. There is no established new retirement pension scheme for annual salary over 12G, but an additional salary system has been established that can be used for supplementary private pension savings. Additional salary is set at 18% of ordinary salary over 12G. Group disability coverage relating to salaries over 12G has also been established.

Employees with a salary above 12 G and date of hire prior to April 30 2012 kept their pension agreements in the closed pension scheme. This practice was also applied for internal promotions to corporate management. Members of the closed scheme for income above 12G included in 2018 the CEO and four members of corporate management. Statkraft will for future internal promotions assume that the 12G restraint for pension schemes shall be made applicable for new members of corporate management regardless of hire date in the company.

Position change agreements
The CEO and one member of corporate management have agreements regarding change of position after the age of 62. These are agreements where, at any time after the employee has reached 62 years of age, the executive or the company has a mutual right to request to resign, or be requested to resign, from his executive position without further justification. If any of the parties exercise this right, the executive should be offered another position with a salary of 75% of the executive's pay – and working hours of up to 50% until the agreed-upon retirement age. The policy regarding executive remuneration has been amended and the arrangement is closed to new employees.

Severance arrangements
The mutual period of notice for the CEO is 6 months. For corporate executives, there is a mutual notice period of 3 months. After more than 2 years of employment, the employer's period of notice is 6 months.

For the CEO, and two members of corporate management, agreements have been signed guaranteeing a special severance pay from the employer if notice is given by the employer with a shorter deadline than mentioned above. The agreement waives the employee's rights in the Work Environment Act (Arbeidsmiljøloven) for protection against dismissal. If the employer uses this right of termination, the employee is entitled to a severance payment of up to 12 months' salary in excess of agreed notice period. The amount shall be paid monthly.

Severance pay shall be reduced according to established rules if the employee receives other income within the payment period. These agreements are entered into in accordance with the guidelines for the employment conditions of managers in state owned enterprises and companies of 28 June 2004. The policy regarding executive remuneration has been changed, and the arrangement is closed to new employees.

Terms for the CEO
Fixed salary paid to the CEO for 2019 is NOK 5 309 000, with other terms as set out in this statement.

Note 37 Related parties

All subsidiaries, associates and joint arrangements stated in note 24 and note 38 are related parties of Statkraft. Intercompany balances and transactions between consolidated companies are eliminated in Statkraft's consolidated financial statements and are not presented in this note.

The individuals stated in note 36 are members of the executive management or the Board and are also related parties of Statkraft.

The table below shows transactions with related parties classified as associates or joint ventures that have not been eliminated in the consolidated financial statements.

NOK million	2018	2017
Revenues	92	309
Expenses	314	1,318
Receivables at the end of the period	2,394	5,616
Liabilities at the end of the period	34	24

Significant transactions with the owner and companies controlled by the owner

The shares in Statkraft AS are all owned by Statkraft SF, which is a company wholly owned by the Norwegian State.

NOK million	2018	2017
Gross operating revenues include:		
Concessionary sales at statutory prices	378	373
Net operating revenues includes:		
Energy purchases from Equinor	390	607
Transmission costs to Statnett	1,498	1,239
Operating expenses include:		
Property tax and licence fees to Norwegian authorities	1,052	959
Financial expenses include:		
Interest expenses to Statkraft SF	33	35
Tax expenses include:		
Taxes payable to Norwegian authorities	6,706	3,577
Dividend and Group contribution from Statkraft AS to Statkraft SF	8,500	6,100

The energy purchase from Equinor shown above includes purchase of gas used either in the Group's electricity production or resold on the market. Volumes and prices are based on long-term contracts negotiated at commercial terms. Transmission costs to Statnett are mainly grid tariff. The prices in this market are stipulated by the Norwegian Water Resources and Energy Directorate. Other transactions with related parties are conducted at commercial terms and conditions.

Except for interest-bearing debt covered in note 30, there are no other significant items between Statkraft AS and Statkraft SF in the statement of financial position.

Statkraft also has transactions and balances with other enterprises controlled by the Norwegian state, but their size, neither individually nor combined, have significance for Statkraft's financial statements.

Note 38 Consolidated companies

Shares in consolidated subsidiaries

Name	Segment [1)]	Country	Registered office	Parent company	Shareholding and voting share
Hitra Vind AS	WP	Norway	Oslo	Statkraft AS	100.00%
Kjøllefjord Vind AS	WP	Norway	Oslo	Statkraft AS	100.00%
Smøla Vind 2 AS	WP	Norway	Oslo	Statkraft AS	100.00%
Statkraft Vind Utvikling DA	WP	Norway	Kristiansand	Statkraft AS	100.00%
Statkraft European Wind and Solar Holding AS	WP	Norway	Oslo	Statkraft AS	100.00%
Statkraft Asset Holding AS	EF,OA	Norway	Oslo	Statkraft AS	100.00%
Baltic Cable AB	EF	Sweden	Malmö	Statkraft Asset Holding AS	100.00%
Statkraft France SAS	EF	France	Lyon	Statkraft Asset Holding AS	100.00%
Statkraft Markets BV	MO	Netherlands	Amsterdam	Statkraft Asset Holding AS	100.00%
Statkraft Renewables Albania SHPK	IP	Albania	Tirana	Statkraft Markets BV	100.00%
Devoll Hydropower Sh.A.	IP	Albania	Tirana	Statkraft Markets BV	100.00%
Statkraft Solar Solutions Pte Ltd	IP	India	New Delhi	Statkraft Markets BV	100.00%
Statkraft Sverige AB	EF, WP	Sweden	Stockholm	Statkraft Asset Holding AS	100.00%
Gidekraft AB	EF	Sweden	Stockholm	Statkraft Sverige AB	90.10%
Statkraft US Holding AS	MO	Norway	Oslo	Statkraft Asset Holding AS	100.00%
Statkraft US LLC	MO	USA	San Francisco	Statkraft US Holding AS	100.00%
Statkraft Värme AB	DH	Sweden	Kungsbacka	Statkraft Asset Holding AS	100.00%
Statkraft Vind AB	WP	Sweden	Stockholm	Statkraft Asset Holding AS	100.00%
Statkraft Leasing AB	WP	Sweden	Stockholm	Statkraft Vind AB	100.00%
Statkraft Sverige Vind AB	WP	Sweden	Stockholm	Statkraft Vind AB	100.00%
Statkraft Vind Elnät AB	WP	Sweden	Stockholm	Statkraft SCA Vind AB	100.00%
Statkraft Vind II AB	WP	Sweden	Stockholm	Statkraft Vind AB	100.00%
Statkraft Ireland Limited	WP	Ireland	Cork	Statkraft Asset Holding AS	100.00%
Winter Winds Limited	WP	Ireland	Limerick	Statkraft Ireland Limited	100.00%
Coole Wind Farm Ltd	WP	Ireland	Cork	Statkraft Ireland Limited	100.00%
Greenwire Transmission Pentir Ltd	WP	Ireland	Cork	Statkraft Ireland Limited	100.00%
Greenwire Transmission South Wales Ltd	WP	Ireland	Cork	Statkraft Ireland Limited	100.00%
Jupiter Energy Supply Company Ltd	WP	Ireland	Cork	Statkraft Ireland Limited	100.00%
Moanvane Wind Farm Ltd	WP	Ireland	Cork	Statkraft Ireland Limited	100.00%
North Kildare Wind Farm Ltd	WP	Ireland	Cork	Statkraft Ireland Limited	100.00%
North Meath Wind Farm Ltd	WP	Ireland	Cork	Statkraft Ireland Limited	100.00%
Behy Renewables Energy Limited	WP	Ireland	Cork	Statkraft Ireland Limited	100.00%
Fossy Wind Farm Limited	WP	Ireland	Cork	Statkraft Ireland Limited	100.00%
Statkraft Asset Management Ltd	WP	Ireland	Cork	Statkraft Ireland Limited	100.00%
Statkraft Development Projects Ltd	WP	Ireland	Cork	Statkraft Ireland Limited	100.00%
Statkraft Ireland Projects Ltd	WP	Ireland	Cork	Statkraft Ireland Limited	100.00%
Statkraft Carbon Invest AS	MO	Norway	Oslo	Statkraft AS	100.00%
Statkraft Elektrik Enerjisi Toptan Satis Ltd. Sti	MO	Turkey	Istanbul	Statkraft AS	100.00%
Statkraft Energi AS	MO, EF, WP	Norway	Oslo	Statkraft AS	100.00%
Statkraft Tofte AS	OA	Norway	Oslo	Statkraft Energi AS	100.00%
Statkraft Varme AS	DH	Norway	Trondheim	Statkraft Energi AS	100.00%
Stjørdal Fjernvarme AS	DH	Norway	Trondheim	Statkraft Varme AS	85.00%
Statkraft Enerji A.S.	IP	Turkey	Istanbul	Statkraft AS	100.00%
Çakıt Enerji A.S.	IP	Turkey	Istanbul	Statkraft Enerji A.S.	100.00%
Kargi Kizirlmak Enerji A.S.	IP	Turkey	Istanbul	Statkraft Enerji A.S.	100.00%
Statkraft Financial Energy AB	MO	Sweden	Stockholm	Statkraft AS	100.00%
Statkraft Forsikring AS	OA	Norway	Oslo	Statkraft AS	100.00%
Statkraft Western Balkan	MO	Serbia	Beograd	Statkraft AS	100.00%
Statkraft Germany GmbH	MO	Germany	Düsseldorf	Statkraft AS	100.00%
Statkraft Markets GmbH	MO, EF	Germany	Düsseldorf	Statkraft Germany GmbH	100.00%
Statkraft Holding Herdecke GmbH	EF	Germany	Düsseldorf	Statkraft Markets GmbH	100.00%
Statkraft Holding Knapsack GmbH	EF	Germany	Düsseldorf	Statkraft Markets GmbH	100.00%
Knapsack Power GmbH & Co KG	EF	Germany	Düsseldorf	Statkraft Holding Knapsack GmbH	100.00%
Knapsack Power Verwaltungs GmbH	EF	Germany	Düsseldorf	Knapsack Power GmbH & Co KG	100.00%
Statkraft Markets Financial Services GmbH	MO	Germany	Düsseldorf	Statkraft Markets GmbH	100.00%
Statkraft Trading GmbH	MO	Germany	Düsseldorf	Statkraft Markets GmbH	100.00%
Statkraft Ventures GmbH	MO	Germany	Düsseldorf	Statkraft Markets GmbH	100.00%
Statkraft Solar Deutschland GmbH	MO	Germany	Düsseldorf	Statkraft Germany GmbH	100.00%
Wenumse Veld B.V.	MO	Netherlands	Amsterdam	Statkraft Germany GmbH	100.00%

GROUP
STATKRAFT AS
CORPORATE RESPONSIBILITY

Note 38 continued

Name	Segment [1)]	Country	Registered office	Parent company	Shareholding and voting share
Statkraft IH Invest AS	IP	Norway	Oslo	Statkraft AS	100.00%
Statkraft Brasil AS	IP	Norway	Oslo	Statkraft IH Invest AS	100.00%
Statkraft Investimentos Ltda.	IP	Brazil	Florianopolis	Statkraft Brasil AS	100.00%
Statkraft Energia do Brasil Ltda.	IP, MO	Brazil	Florianopolis	Statkraft Investimentos Ltda.	100.00%
Statkraft Energias Renováveis S.A.	IP	Brazil	Florianopolis	Statkraft Investimentos Ltda.	81.31%
Esmeralda S.A.	IP	Brazil	Florianopolis	Statkraft Energias Renováveis S.A.	100.00%
Enex O&M de Sistemas Elétricos Ltda.	IP	Brazil	Florianopolis	Statkraft Energias Renováveis S.A.	100.00%
Santa Laura S.A.	IP	Brazil	Florianopolis	Statkraft Energias Renováveis S.A.	100.00%
Santa Rosa S.A.	IP	Brazil	Florianopolis	Statkraft Energias Renováveis S.A.	100.00%
Moinho S.A.	IP	Brazil	Florianopolis	Statkraft Energias Renováveis S.A.	100.00%
Macaúbas Energética S.A.	IP	Brazil	Florianopolis	Statkraft Energias Renováveis S.A.	100.00%
Novo Horizonte Energética S.A.	IP	Brazil	Florianopolis	Statkraft Energias Renováveis S.A.	100.00%
Seabra Energética S.A.	IP	Brazil	Florianopolis	Statkraft Energias Renováveis S.A.	100.00%
Energen Energias Renováveis S.A.	IP	Brazil	Florianopolis	Statkraft Energias Renováveis S.A.	99.99%
Monel Monjolinho Energética S.A.	IP	Brazil	Florianopolis	Statkraft Energias Renováveis S.A.	100.00%
Santa Fé Energia S.A	IP	Brazil	Florianopolis	Statkraft Energias Renováveis S.A.	100.00%
Tamar PCH S.A.	IP	Brazil	Florianopolis	Statkraft Energias Renováveis S.A.	100.00%
Statkraft IH Holding AS	IP	Norway	Oslo	Statkraft IH Invest AS	100.00%
Statkraft Holding Singapore Pte. Ltd.	IP	Netherlands	Amsterdam	Statkraft IH Holding AS	100.00%
Himal Power Ltd.	IP	Nepal	Kathmandu	Statkraft Holding Singapore Pte. Ltd.	57.07%
Statkraft Holding Chile Pte. Ltd.	IP	Netherlands	Amsterdam	Statkraft Holding Singapore Pte. Ltd.	100.00%
Statkraft Chile Inversiones Electricas Ltd.	IP	Chile	Santiago	Statkraft Holding Chile Pte. Ltd.	100.00%
Statkraft Market Services Chile S.A.	IP	Chile	Santiago	Statkraft Chile Inversiones Electricas Ltd.	100.00%
Empresa Eléctrica Pilmaiquén S.A.	IP	Chile	Santiago	Statkraft Chile Inversiones Electricas Ltd.	99.39%
Empresa Eléctrica Rucatayo S.A.	IP	Chile	Santiago	Empresa Eléctrica Pilmaiquén S.A.	100.00%
Transrucatayo S.A	IP	Chile	Santiago	Empresa Eléctrica Rucatayo S.A.	100.00%
Statkraft Chile Tinguiririca SCC	IP	Chile	Santiago	Statkraft Chile Inversiones Electricas Ltd.	100.00%
Statkraft Holding Peru Pte. Ltd.	IP	Netherlands	Amsterdam	Statkraft Holding Singapore Pte. Ltd.	100.00%
Statkraft Peru Holding S.A.C.	IP	Peru	Lima	Statkraft Holding Peru Pte. Ltd.	100.00%
Statkraft Peru S.A.	IP	Peru	Lima	Statkraft Peru Holding S.AC.	100.00%
Inversiones Shaqsa S.A.C.	IP	Peru	Lima	Statkraft Peru S.A.	100.00%
Tidong Power Generation Private Ltd	IP	India	Shimla	Statkraft IH Holding AS	100.00%
Statkraft India Pvt. Ltd.	IP	India	New Delhi	Statkraft Holding Singapore Pte. Ltd.	100.00%
Statkraft Markets Pvt. Ltd.	MO	India	New Delhi	Statkraft Holding Singapore Pte. Ltd.	100.00%
Statkraft Industrial Holding AS	IO	Norway	Oslo	Statkraft AS	100.00%
Skagerak Energi AS	IO	Norway	Porsgrunn	Statkraft Industrial Holding AS	66.62%
Skagerak Kraft AS	IO	Norway	Porsgrunn	Skagerak Energi AS	100.00%
Grunnåi Kraftverk AS	IO	Norway	Porsgrunn	Skagerak Kraft AS	55.00%
Sauland Kraftverk AS	IO	Norway	Hjartdal	Skagerak Kraft AS	67.00%
Skagerak Nett AS	IO	Norway	Porsgrunn	Skagerak Energi AS	100.00%
Skagerak Varme AS	IO	Norway	Porsgrunn	Skagerak Energi AS	100.00%
Skien Fjernvarme AS	IO	Norway	Skien	Skagerak Varme AS	51.00%
Statkraft Brussel Sprl	OA	Belgium	Brussels	Statkraft AS	100.00%
Statkraft Treasury Centre SA	OA	Belgium	Brussels	Statkraft AS	100.00%
Statkraft UK Ltd.	WP, MO	United Kingdom	London	Statkraft AS	100.00%
Lluest Y Gwynt Ltd	WP	United Kingdom	London	Statkraft UK Ltd.	79.00%
Slickly Wind Ltd	WP	United Kingdom	London	Statkraft UK Ltd.	100.00%
LyG SPV Ltd	WP	United Kingdom	London	Statkraft UK Ltd.	100.00%
Ackron Wind Farm Ltd	WP	United Kingdom	London	Statkraft UK Ltd.	100.00%
Windy Rig Wind Farm Ltd	WP	United Kingdom	London	Statkraft UK Ltd.	100.00%
Keith Storage Solutions Ltd	WP	United Kingdom	London	Statkraft UK Ltd.	100.00%
Twentyshilling Ltd	WP	United Kingdom	London	Statkraft UK Ltd.	100.00%
Andershaw Wind Power Ltd.	WP	United Kingdom	London	Statkraft UK Ltd.	100.00%
Statkraft Energy Ltd.	EF	United Kingdom	London	Statkraft UK Ltd.	100.00%
Rheidol 2008 Trustees Ltd.	EF	United Kingdom	London	Statkraft Energy Ltd.	100.00%
Statkraft Pure Energy Ltd.	MO	United Kingdom	London	Statkraft UK Ltd.	95.00%
Bryt Energy Storage	MO	United Kingdom	London	Statkraft Pure Energy	100.00%
Bryt Energy Ltd	MO	United Kingdom	London	Statkraft Pure Energy	100.00%
Statkraft Vind Holding AS	WP	Norway	Oslo	Statkraft AS	100.00%

1) EF: European flexible generation, MO: Market operations, IP: International power, WP: Wind power, DH: District heating, IO: Industrial ownership, OA: Other activities.

Statkraft AS Financial Statements

Income statement
Statkraft AS parent company

NOK million	Note	2018	2017
Operating revenues	23	1,009	1,055
Salaries and payroll cost	5, 6	-797	-787
Depreciation	10	-48	-56
Other operating expenses	7, 20, 23	-805	-688
Operating expenses		-1,650	-1,531
Operating profit (EBIT)		-641	-476
Revenues from investments in subsidiaries and associates	8, 23	17,674	22,148
Financial income	8, 23	850	1,019
Financial costs	8, 23	-969	-1,151
Net realised and unrealised securities	8, 23	704	1,158
Net realised and unrealised currency and derivatives	8	-465	-2,897
Net financial items		17,794	20,277
Profit before tax		17,153	19,801
Tax expense	9	-161	-263
Profit for the year		16,992	19,538
Appropriation of profit for the year and equity transfers			
Dividends payable	15	8,500	6,100
Transfer to/from retained earnings	15	8,492	13,438

Statement of Financial Position
Statkraft AS parent company

NOK million	Note	31.12.2018	31.12.2017
Assets			
Deferred tax asset	9	424	540
Property, plant and equipment	10	222	250
Investments in subsidiaries, associates and joint arrangements	11	92,828	78,973
Derivatives	19, 23	12	9
Other non-current financial assets	12, 23	15,654	15,794
Non-current assets		109,140	95,566
Receivables	13, 23	10,451	26,290
Derivatives	19, 23	301	754
Cash and cash equivalents	14	19,954	11,985
Current assets		30,706	39,029
Assets		139,846	134,595
EQUITY AND LIABILITIES			
Paid-in capital	15	56,402	56,402
Retained earnings	15	21,794	13,375
Equity		78,196	69,777
Provisions	16	995	886
Long-term interest-bearing liabilities	3, 17, 23	27,822	33,887
Derivatives	19, 23	472	718
Non-current liabilities		29,289	35,491
Short-term interest-bearing liabilities	3, 17, 23	22,494	20,909
Taxes payable	9	20	-
Derivatives	19, 23	700	1,602
Other interest-free liabilities	18, 23	9,147	6,816
Current liabilities		32,361	29,327
Equity and liabilities		139,846	134,595

Statement of Cash Flow
Statkraft AS parent company

NOK million	Note		2018	2017
CASH FLOW FROM OPERATING ACTIVITIES				
Profit before tax			17,153	19,801
Gain/loss on sale of property, plant and equipment			-	-5
Depreciation	10		48	56
Write-downs/reversal of write-downs from previous years	8		-708	-1,178
Gain/loss on sale of shares			5	80
Unrealised changes in value			-698	-866
Changes in long-term items			18	452
Changes in other short-term items			701	1,653
Booked income from dividend and group contribution with no cash effects			-8,162	-21,891
Group contribution and dividend received			12,259	10,248
Taxes paid			-7	-45
Cash flow from operating activities		A	20,609	8,306
CASH FLOW FROM INVESTING ACTIVITIES				
Investments in property, plant and equipment			-20	-8
Proceeds from sale of property, plant and equipment			-	7
Loans to subsidiaries and associates			-3,400	-26
Repayment of loans from subsidiaries and associates			15,262	7,624
Investments in subsidiaries and associates			-13,992	-9,150
Capital reduction in subsidiaries and associates			67	2,641
Divestments of shares			360	86
Cash flow from investing activities		B	-1,723	1,174
CASH FLOW FROM FINANCING ACTIVITIES				
Changes in cash pool			-1,074	1,802
New debt			358	5,247
Repayment of debt			-4,161	-7,693
Dividend and Group contribution paid			-6,040	-2,052
Cash flow from financing activities		C	-10,917	-2,696
Net change in cash and cash equivalents		A+B+C	7,969	6,784
Cash and cash equivalents 01.01	14		11,985	5,201
Cash and cash equivalents 31.12	14		19,954	11,985
Unused commited credit lines			9,167	10,080
Unused overdraft facilities			1,000	1,000

SIGNIFICANT ACCOUNTING POLICIES

The cash flow statement has been prepared using the indirect method. The statement starts with the company's result for the year in order to show cash flow generated by regular operating, investing and financing activities respectively.

Notes
Statkraft AS parent company

Index of notes to Statkraft AS parent company financial statement

Note 1 Significant accounting policies

GENERAL INFORMATION

The annual accounts for Statkraft AS have been prepared in accordance with the Accounting Act and generally accepted accounting principles in Norway (Norwegian GAAP).

The descriptions of accounting policies in the statements and notes form part of the overall description of accounting policies:

• Statement of cash flow	
• Pensions	Note 6
• Research and development costs	Note 7
• Income taxes	Note 9
• Property, plant and equipment	Note 10
• Investments in subsidiaries, associates and joint arrangements	Note 11
• Other non-current financial assets	Note 12
• Receivables	Note 13
• Cash and cash equivalents	Note 14
• Long-term liabilities	Note 17

VALUATION AND CLASSIFICATION PRINCIPLES

Uncertainties in estimates The accounts are based on assumptions and estimates that affect the book value of assets, liabilities, income and costs. The best estimate at the time when the accounts are rendered form the basis, but the actual figures may deviate from the initial estimates.

Principles for recognition of income and expensing of costs Recognition of revenues from sale of goods and services takes place when earned, whilst expensing of costs takes place in accordance with the accrual principle.

Gains/losses from sale of property, plant and equipment are treated as operating revenues or expenses.

Classification and valuation of assets and debt Assets intended for lasting ownership or use are classified as fixed assets. Other assets are classified as current assets. Receivables that will be repaid within 12 months are classified as current assets. Corresponding criterias are used to classify current and long-term liabilities.

Fixed assets are valued at cost, but are impaired when the reduction in value is not expected to be transitory. Impairment is reversed when the basis for the impairment no longer exists. Fixed assets with limited useful economic life are depreciated according to schedule.

Current assets are valued at the lower of cost and fair value. Short-term loans are recognised in the balance sheet at the nominal received amount at the time of establishment.

Contingent liabilities Contingent liabilities are recognised if settlement is more likely than not. Best estimates are used when calculating settlement value.

Foreign currency Money items denominated in foreign currency are valued at the exchange rate on the balance sheet date. Realised and unrealised currency effects are presented as net in the financial statements. Transactions denominated in foreign currency are translated using the exchange rate at the transaction date.

Note 2 Market risk

RISK AND RISK MANAGEMENT OF FINANCIAL INSTRUMENTS IN GENERAL

The risk management policy is based upon assuming the right risk based on the Group's ability and willingness to take risks, expertise, financial strength and development plans. The purpose of risk management policy is to identify threats and opportunities for the Group, and to manage the risk within an acceptable level. The central treasury function in Statkraft AS coordinates and manages the financial risks relating to currency, interest rates, credit and liquidity of the Group. A more detailed explanation of how these are managed will be provided in the following.

FOREIGN EXCHANGE AND INTEREST RATE RISK

Statkraft is exposed to foreign exchange and interest rate risk. Statkraft uses interest rate and foreign currency derivatives in addition to debt in foreign currency to mitigate these risks. Funding, forwards and swaps in foreign currency together with interest rate swaps are used to achieve the desired currency and interest structure of the company's debt portfolio.

Statkraft's methods for managing these risks are described below:

Foreign exchange risk Statkraft AS manages the Group's currency risk. Statkraft incurs currency risk in the form of transaction risk, mainly in connection with energy sales revenues, investments and dividends. Balance sheet risk is related to shareholdings in foreign subsidiaries, associates and joint operations.

Statkraft's settlement currency at the Nordic power exchange Nord Pool is EUR, and all power contracts traded in the Nordic power exchange Nasdaq are denominated in EUR. In addition most of Statkraft's bilateral power purchase agreements in Norway and all power purchase and sales abroad are denominated in foreign currency. The objective of Statkraft's hedging is to secure the NOK value of future cash flows exposed to changes in foreign currency rates. The currency exposure in Statkraft is treated in accordance with the company's treasury strategy. Economic hedging is achieved by using financial derivatives and debt in foreign currencies as hedging instruments. Few of these hedging relationships fulfil the requirements of hedge accounting.

Interest rate risk Statkraft's interest rate exposure is related to its debt portfolio. The management of interest rate risk is based on a balance of keeping interest cost low over time and contributing to stabilise the Group's cash flows with regards to interest rate changes. The interest rate risk is monitored by having duration as the measure. Statkraft shall at all times keep the average duration of its debt portfolio within the range of 2 to 5 years.

Compliance with the limit for currency and interest rate risk is followed up continuously by the middle-office function. Responsibility for entering into and following up the various positions has been delegated and allocated to separate organisational units.

LIQUIDITY RISK

Statkraft AS assumes a liquidity risk because the terms of its financial obligations are not matched to the cash flows generated by its assets. Statkraft AS has good borrowing opportunities from the Norwegian and international money markets and from the banking market. Credit lines and overdraft facilities have been established to secure access to short-term financing.

Liquidity forecasts are prepared as an important part of the daily liquidity management and for planning future financing requirements. The liquidity reserve is a tool for risk management and functions as a buffer in relation to the liquidity forecast.

CREDIT RISK

Credit risk is the risk of a party to a financial instrument inflicting a financial loss on the other party by not fulfilling its obligations. Statkraft AS assumes credit risk when placing surplus liquidity and when trading in financial instruments.

The liquidity portfolio consists of investment grade rated certificates of deposits/commercial paper and short term bonds with fixed or floating coupon rates. The minimum rating requirement is BBB/Ba2 from S&P and Moody's. The limits are stipulated for the individual counterparty using credit rating assigned by one of the main rating agencies. Internal credit rating may be used when ratings have not been assigned by the credit rating agencies. The credit limits are managed by the use of volume limits, duration limits and rating limits. The liquidity portfolio is managed and optimised within the given credit mandate, financial guidelines and internal strategy. Excess liquidity is managed in a conservative manner considering credit risk, diversification, liquidity and return. Different instruments and counterparties are used to achieve this.

Statkraft AS has entered into agreements under which collateral is transferred or received based on the mark-to-market value of interest rate and foreign exchange derivatives between counterparties. Collateral is transferred or received on a weekly basis. Counterparty credit risk is significantly mitigated by collateral under these agreements.

Note 3 Analysis of market risk

Specification of debt by currency [1)]

NOK million	2018	2017
Debt in NOK	4,253	13,018
Debt in EUR	23,635	19,545
Debt in USD	2,824	-
Debt in BRL	361	-
Debt in GBP	423	2,662
Total	31,496	35,225

[1)] The specification includes long-term interest-bearing liabilities, the first-year instalment on long-term interest-bearing debt, certificate loans, the currency effect of allocated forward exchange rate contracts and the currency effects of combined interest rate and currency swaps. Specifications of debt by currency includes effects from allocated forward exchange rate contracts and combined interest rate and currency swaps, since Statkraft uses these derivatives to achieve the desired currency structure for the company's debt portfolio.

Specification of interest by currency	2018	2017
Nominal average interest rate, NOK	3.30%	4.00%
Nominal average interest rate, EUR	2.10%	2.60%
Nominal average interest rate, USD	3.30%	-
Nominal average interest rate, BRL	8.50%	-
Nominal average interest rate, GBP	0.70%	0.50%

Fixed interest rate debt portfolio [1)]

	Future interest rate adjustments				
NOK million	0-1 year	1–3 years	3–5 years	5 years and later	Total
Debt in NOK	-668	-1,329	-	6,250	4,253
Debt in EUR	13,754	2,537	-53	7,398	23,636
Debt in USD	2,824	-	-	-	2,824
Debt in BRL	361	-	-	-	361
Debt in GBP	423	-	-	-	423
Total fixed interest 2018	16,694	1,208	-53	13,648	31,496
Total fixed interest 2017	15,395	5,733	573	13,524	35,225

[1)] The specification includes long-term interest-bearing liabilities, first-year instalment on long-term interest-bearing debt, certificate loans, the currency effect of allocated forward exchange rate contracts and the currency effect of combined interest rate and currency swaps. The split between years also take into account maturity of allocated forward exchange rate contracts, interest rate adjustments in interest rate swaps and combined interest rate and currency swaps. Negative figures reflect that Statkraft receives fixed interest from interest rate swaps.

Repayment schedule

NOK million	0-1 year	1–2 years	2–3 years	3–4 years	4–5 years	5 years and later	Total
Instalments on debt to Statkraft SF (back-to-back agreement)	400	-	-	-	-	-	400
Bonds issued in the Norwegian market	1,000	3,000	800	1,500	-	750	7,050
Debt issued in non-Norwegian markets	2,795	-	-	6,942	4,943	9,885	24,565
Other debt	-	1	-	1	-	-	2
Currency effect of allocated forward exchange rate contracts and currency effects of combined interest rate and currency swaps	-164	36	72	-464	-	-	-520
Total repayment schedule 2018	4,031	3,037	872	7,979	4,943	10,635	31,496
Total repayment schedule 2017	2,136	5,965	3,000	800	7,920	15,404	35,225

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CORPORATE RESPONSIBILITY

Note 4 Hedge accounting

GENERAL INFORMATION

Fair value hedging Statkraft AS treats some loan arrangements as fair value hedges. Issued bond have been designated as hedging objects in the hedging relationships, and the associated interest rate swaps have been designated as hedging instruments.

The hedging objects are issued fixed-interest bonds with a total nominal value of EUR 180 million and NOK 2900 million. The hedging instruments are interest rate swaps with a nominal value of respectively EUR 180 million and NOK 2900 million, entered into with major banks as the counterparties. The agreements swap interest rate from fixed to floating 3-month and 6-month EURIBOR or NIBOR. The critical terms of the hedging object and hedging instrument are deemed to be approximately the same. The inefficiency is recognised in the income statement. The hedges expire during the period 2019-2022.

SIGNIFICANT ACCOUNTING POLICIES

Hedging The accounting treatment of financial derivatives designated as hedging instruments is recorded in line with the principles for fair value hedging. In the event of hedging of assets or liabilities in the balance sheet, the derivative is recognised at fair value.

The carrying value of the hedged asset or liability is adjusted for the value of the financial derivative's change in value which is related to hedged risk.

Fair value of hedging instruments

NOK million	2018	2017
Hedging instruments used in fair value hedging	185	365

Other information on fair value hedging

NOK million	2018	2017
Net gain (+)/loss (-) in income statement on hedging instruments	-260	-932
Net gain (+)/loss (-) in income statement on hedging objects, in relation to the hedged risk	261	934
Hedge inefficiency	1	2

Note 5 Payroll costs and number of full-time equivalents

NOK million	2018	2017
Salaries	495	510
Employers' national insurance contribution	100	93
Pension costs [1)]	113	106
Other benefits	89	78
Total	797	787

[1)] Pension costs are described in further detail in note 6.

Remuneration to the Chairman and the Board of Directors are disclosed in note 36 in the Group accounts.

	2018	2017
Average number of full-time equivalents	455	462
Number of full-time equivalents as of 31.12	458	453

Note 6 Pensions

GENERAL INFORMATION

Statkraft AS is obligated to and fulfills the requirements of the act regarding mandatory occupational pension scheme ("Lov om obligatorisk tjenestepensjon").

Defined contribution schemes A defined contribution scheme is a retirement benefit scheme where Statkraft AS pays fixed contributions to a fund manager without incurring further obligations for the company once the payment has been made. The payments are expensed as salaries and payroll costs.

Statkraft AS' pension scheme for new employees from 1 January 2014 is a defined contribution scheme. The contributions are 6% of the pensionable salary up to 7.1 of the National Insurance Scheme's basic amount (G), and 18% of the pensionable salary between 7.1G and 12G. In addition to retirement pensions, the contribution scheme also entails risk covers.

Defined benefit schemes A defined benefit scheme is a retirement benefit scheme that defines the retirement benefits that an employee will receive on retirement. The retirement benefit is normally set as a percentage of the employee's salary. To be able to receive full retirement benefits, contributions will normally be required to be paid over a period of between 30 and 40 years. Employees who have not made full contributions will have their retirement benefits proportionately reduced.

Funded defined benefit schemes Statkraft AS has organised their defined benefit scheme in the National Pension Fund (SPK). The defined benefit schemes cover retirement, disability and survivor pensions. The retirement schemes provide pension benefits amounting to 66% of pensionable income, up to 12G, with maximum accrual. Statkraft AS also offers early retirement from the age of 62 under the Norwegian early retirement pension scheme.

Statkraft AS pays an annual premium and is responsible for the financing of the scheme in the National Pension Fund (SPK). Pension benefits from the SPK are guaranteed by the Norwegian state (Section 1 of the Pension Act). The SPK scheme is not asset based, but management of the pension fund assets is simulated as though the assets were invested in Norwegian government bonds. In simulations it is assumed that bonds are held to maturity.

The pension benefit scheme in SPK was closed for new employees 1 January 2014.

Unfunded defined benefit schemes In addition to the above, Statkraft AS has entered into an additional pension agreement that provides all employees whose pensionable incomes exceed 12G with a retirement and disability pension equivalent to 66% of that portion of their pensionable income exceeding 12G. The agreement was closed 30 April 2012.

Existing members of the closed agreement who leave the company before pensionable age receive a deferred pension entitlement for the scheme above 12G, provided they have at least three years' pension entitlements.

SIGNIFICANT ACCOUNTING POLICIES

The liability recognised in the balance sheet which relates to the defined benefit scheme is the present value of the future retirement benefits that are reduced by the fair value of the plan assets.

Net pension fund assets for overfunded schemes are classified as non-current assets and recognised in the balance sheet at fair value. Net retirement benefit liabilities for underfunded schemes and non-funded schemes that are covered by operations are classified as long-term liabilities.

Gains and losses attributable to changes in actuarial assumptions or base data are recognised directly against equity.

The net retirement benefit cost for the period is included under salaries and payroll costs, and comprises the total of the retirement benefits accrued during the period, the interest on the estimated liability and the -projected yield on pension fund assets.

ESTIMATES AND ASSUMPTIONS

Present value of accrued pension entitlements for defined benefit schemes and present value of accrued pension entitlements for the year are calculated using the accrued benefits method. Net pension liabilities in the balance sheet are adjusted for expected future salary increases until retirement age. Calculations are based on staff numbers and salary data at the end of the year. The discount rate is based on high-quality corporate bonds (covered bonds – OMF).

The actuarial gain recognised directly in equity during the year is mainly due to changes in assumptions for discount rate and salary adjustments.

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Note 6 continued

The following assumptions are used	31.12.2018	31.12.2017
Discount rate and projected yield	2.60%	2.40%
Salary adjustment	2.75%	2.50%
Adjustment of current pensions	1.75%	1.50%
Adjustment of the National Insurance Scheme's basic amount (G)	2.50%	2.25%
Demographic factors for mortality and disability	K2013/IR73	K2013/IR73

Members of defined benefit schemes	2018	2017
Employees	285	305
Pensioners and people with deferred entitlements	459	447

Pension cost recognised in the income statement

Defined benefit schemes NOK million	2018	2017
Present value of accrued pension entitlements for the year	69	68
Interest costs	36	31
Projected yield on pension assets	-18	-16
Employee contributions	-5	-5
Employers' national insurance contribution	12	11
Net pension cost defined benefit schemes	94	89
Defined contribution schemes		
Employers payments	19	17
Total pension costs	113	106

Breakdown of net defined benefit pension liability

NOK million	2018	2017
Present value of accrued pension entitlements for funded defined benefit schemes	1,270	1,146
Fair value of pension assets	827	799
Net pension liability for funded defined benefit schemes	443	347
Present value of accrued pension entitlements for unfunded defined benefit schemes	412	403
Employers' national insurance contribution	121	106
Net pension liabilities	976	855

Actuarial gains and losses recognised directly in equity

NOK million	2018	2017
Accumulated actuarial gains and losses recognised directly in equity before tax 31.12	352	261

Note 7 Other operating expenses

SIGNIFICANT ACCOUNTING POLICIES

Principles for expensing of costs Expensing of costs takes place in accordance with the accrual principle, whilst own research and development expenses are expensed as incurred.

NOK million	2018	2017
Purchase of third-party services [1)]	379	272
Materials	17	15
Rent	103	126
IT expenses	150	143
Marketing	12	18
Travel expenses	31	32
Insurance	10	5
Miscellaneous expenses	103	77
Total	805	688

[1)] Purchase of third-party services mainly includes consultants and other services.

Note 8 Financial items

Revenues from investments in subsidiaries and associates

NOK million	2018	2017
Dividend from group companies	15,874	17,861
Group contribution	1,800	4,287
Total	17,674	22,148

Financial income

NOK million	2018	2017
Interest income from group companies	607	761
Interest income	170	144
Other financial income	73	114
Total	850	1,019

Financial costs

NOK million	2018	2017
Interest expense to group companies	-158	-107
Interest expenses external debt	-792	-957
Other financial costs	-19	-87
Total	-969	-1,151

Net realised and unrealised securities

NOK million	2018	2017
Write-downs/reversal of write-downs from previous years [1)]	708	1,178
Gains and losses on securities, realised and unrealised	-4	-20
Total	704	1,158

[1)] The reversal of write-downs from previous years are related to the shares in Statkraft Germany GmbH and Statkraft Enerji A.S. The write-down is related to Statkraft Vind Utvikling DA (previously SAE Vind DA).

Based on an assessment of impairment considerations of German gas-fired power plants, valuation of trading activities and currency effects, previous years write-downs of NOK 270 million have been reversed in 2018. In 2017, an assessment of the same parameters concluded with a reversal of previous years write-downs with NOK 1178 million.

Previous years write-downs of shares in Statkraft Enerji A.S. have been reversed in 2018 with NOK 522 million due to currency effects and increased valuation of underlying assets.

The shares in Statkraft Vind Utvikling DA has been impaired with NOK 85 million based on a valuation of the assets in the company.

Net realised and unrealised currency and derivatives

NOK million	2018	2017
Currency gains and losses, realised	-1,073	-2,072
Currency gains and losses, unrealised	439	-1,798
Gains and losses derivatives, realised [2)]	-54	-79
Gains and losses derivatives, unrealised	223	1,052
Total	-465	-2,897

2) Prepayment of EUR 219 million debt (bonds), resulted in NOK 148 million loss. Novation of loans to equity accounted investments and novation of interest rate swaps, resulted in NOK 90 million gain.

Net financial items	17,794	20,277

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STATKRAFT AS

CORPORATE RESPONSIBILITY

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Note 9 Income taxes

SIGNIFICANT ACCOUNTING POLICIES

Statkraft AS is subject to tax on profits that is calculated in accordance with ordinary tax rules. The tax charge in the income statement comprises taxes payable and changes in deferred tax liabilities/assets. Taxes payable are calculated on the basis of the taxable income for the year.

Deferred tax liabilities/assets are calculated on the basis of temporary differences between the accounting and tax values and the tax effect of losses carried forward. Deferred tax assets are only recognised in the balance sheet to the extent it is probable that the assets will be realised in the future. Tax related to equity transactions is recognised in equity.

The tax expense in the income statement

NOK million	2018	2017
Income tax payable	9	-
Withholding tax	7	1
Previous years payable tax expense	11	-3
Change in deferred tax	134	265
Tax expense in the income statement	161	263

Taxes payable in the balance sheet

NOK million	2018	2017
Income tax payable on profit for the year	9	-
Previous years taxes payable	11	-
Taxes payable in the balance sheet	20	-

Reconciliation of nominal tax rate and effective tax rate

NOK million	2018	2017
Profit before tax	17,153	19,801
Expected tax expense at a nominal rate of 23% (24%)	3,945	4,752
Effect on taxes of		
Tax-free income	-3,651	-4,287
Changes relating to previous years	1	-3
Withholding tax	7	1
Impairment/reversal of impairment previous years	-182	-283
Changes in tax rates	15	20
Other permanent differences, net	26	63
Tax expense	161	263
Effective tax rate	1%	1%

Breakdown of deferred tax

NOK million	2018	2017
Current assets/current liabilities	-406	-598
Derivatives	-463	-932
Other long-term items	15	94
Property, plant and equipment	-98	-58
Pension liabilities	-976	-855
Total temporary differences and tax loss carry forward	-1,928	-2,349
Total deferred tax (+)/deferred tax asset (-)	-424	-540
Applied tax rate	22%	23%
Deferred tax (+)/deferred tax asset (-) as of 01.01	-540	-790
Recognised in income	134	265
Recognised directly in equity	-18	-15
Deferred tax (+)/deferred tax asset (-) as of 31.12	-424	-540

Note 10 Property, plant and equipment

SIGNIFICANT ACCOUNTING POLICIES

Property, plant and equipment are recognised in the balance sheet and depreciated on a straight-line basis from the time the property, plant or equipment starts regular operations. The acquisition cost consists solely of directly attributable costs. Indirect administration costs are excluded when recognising own hours in the balance sheet.

NOK million	Buildings, office equipment and other	Assets under construction	Total
Balance at 01.01	247	4	250
Additions	11	9	20
Transferred from assets under construction	3	-3	-
Disposals	-1	-	-1
Depreciation and impairment	-48	-	-48
Balance at 31.12	212	10	222
Cost 31.12	569	10	579
Accumulated depreciation and impairment as of 31.12	-357	-	-357
Balance at 31.12	212	10	222
Period of depreciation	3–75 years		

Note 11 Shares in subsidiaries, associates and joint arrangements

SIGNIFICANT ACCOUNTING POLICIES

Investment in subsidiaries, associated companies and joint arrangements Subsidiaries are companies where Statkraft AS has controlling influence over financial and operational principles. Controlling influence is normally achieved when the company owns more than 50% of the voting shares. Associated companies are companies where Statkraft AS has significant influence. Significant influence is normally deemed to exist where the company owns or controls from 20 to 50% of the voting shares. Joint arrangements are where Statkraft shares control of a company together with another party.

The investment is valued at cost for the shares unless impairment has been necessary. Impairment is done when the reduction in value is due to reasons that cannot be considered transitory. Impairment is reversed when the basis for the impairment no longer exists.

Dividends and group contributions received are recognised as income in the same year as allocated by the subsidiary, while dividends from other companies are recognised in accordance with the cash principle. If the dividend exceeds the share of retained profits after the purchase, the excess part represents repayment of invested capital and the disbursements received are deducted from the value of the investment in the balance sheet.

NOK million	Registered office	Shareholding and voting share	Equity 31.12.2018 [1)]	Net profit 2018 [1)]	Carrying value
Shares in subsidiaries					
Hitra Vind AS	Oslo	100.00%	112	5	95
Kjøllefjord Vind AS	Oslo	100.00%	106	15	102
Renewable Energies and Photovoltaics Spain S.L.	Malaga	70.00%	-	-	-
Smøla Vind 2 AS	Oslo	100.00%	243	34	150
Statkraft Asset Holding AS	Oslo	100.00%	29,868	1,216	24,248
Statkraft Brussels SPRL	Brussels	99.90%	2	-3	1
Statkraft Carbon Invest AS	Oslo	100.00%	5	1	4
Statkraft Elektrik Enerjisi Toptan Satıs¸ Ltd. Sirketi	Istanbul	100.00%	13	-2	44
Statkraft Energi AS	Oslo	100.00%	15,149	5,886	14,295
Statkraft Enerji A.S.	Istanbul	100.00%	1,839	47	2,652
Statkraft European Wind and Solar Holding AS	Oslo	100.00%	-	-	1
Statkraft Financial Energy AB	Stockholm	100.00%	22	4	1
Statkraft Forsikring AS	Oslo	100.00%	405	13	80
Statkraft Germany GmbH	Düsseldorf	100.00%	7,431	-104	7,690
Statkraft IH Invest AS	Oslo	100.00%	15,362	171	16,963
Statkraft Industrial Holding AS	Oslo	100.00%	13,623	1,096	17,938
Statkraft Treasury Centre SA	Brussels	100.00%	25	3	1
Statkraft UK Ltd.	London	100.00%	7,302	5,407	5,759
Statkraft Vind Holding AS	Oslo	100.00%	2,981	27	2,725
Statkraft Vind Utvikling DA[2)]	Oslo	62.00%	2	-1	2
Statkraft Western Balkans d.o.o.	Belgrade	100.00%	15	-	28
Total subsidiaries					92,776
Associates and joint arrangements					
Grønn Kontakt AS	Kristiansand	47.50%	48	-25	52
Total associates and joint arrangements					52
Total					92,828

[1)] Based on preliminary unaudited financial statements 2018.

[2)] Statkraft Asset Holding AS bought the remaining 38 % of the shares from Agder Energi AS in 2018. The name was changed from Statkraft Agder Energi Vind DA to Statkraft Vind Utvikling DA.

Note 12 Other non-current financial assets

SIGNIFICANT ACCOUNTING POLICIES

Long-term share investments and shareholdings All long-term investments are treated in accordance with the lowest value principle.

NOK million	2018	2017
Loans to group companies	15,632	15,199
Loans to associates and joint ventures	-	562
Other shares and securities	22	33
Total	15,654	15,794

Note 13 Receivables

SIGNIFICANT ACCOUNTING POLICIES

Accounts receivable and other receivables are recognised at nominal value after the deduction of expected loss. Loss allocations are made on the basis of individual evaluations of each receivable.

NOK million	2018	2017
Accounts receivable	11	7
Receivables related to cash collateral	518	1,030
Group cash pooling receivable	15	1
Short-term receivables from group companies [1)]	9,775	25,048
Other receivables	132	204
Total	10,451	26,290

[1)] Short-term receivables from group companies comprise short-term loans, dividends and group contribution from subsidiaries.

As of 31 December 2018 no provision for bad debt has been identified.

Note 14 Cash and cash equivalents

SIGNIFICANT ACCOUNTING POLICIES

The line item cash and cash equivalents also includes certificates and bonds with short residual terms at the time of acquisition. Cash pool deposits and loans to subsidiaries are reported as net values, and the corresponding items are classified gross either as cash pool receivable or cash pool debt (note 13 and 17).

NOK million	2018	2017
Cash and cash deposits	12,074	8,831
Money market funds, certificates	7,880	3,154
Total	19,954	11,985

Statkraft AS has unused committed credit lines of NOK 9167 million and unused overdraft facilities of NOK 1000 million.

Note 15 Equity

	Paid-in capital			
NOK million	Share capital	Share premium account	Retained earnings	Total equity
Equity as of 01.01.17	33,400	20,862	-	54,261
Profit for 2017	-	-	19,538	19,538
Actuarial gains/losses pensions	-	-	-63	-63
Dividends 2017	-	-	-6,100	-6,100
Capital contribution [1]	200	1,940	-	2,140
Equity as of 31.12.17	33,600	22,802	13,375	69,777
Profit for 2018	-	-	16,992	16,992
Actuarial gains/losses pensions	-	-	-74	-74
Dividends 2018	-	-	-8,500	-8,500
Equity as of 31.12.18	33,600	22,802	21,794	78,196

[1] The capital contribution was carried out as conversion of debt to equity.

The parent company has a share capital of NOK 33.6 billion, divided into 200 million shares, each with a par value of NOK 168. All shares have the same voting rights and are owned by Statkraft SF, which is a Norwegian state-owned company, established and domiciled in Norway. Statkraft SF is wholly owned by the Norwegian state, through the Ministry of Trade, Industry and Fisheries.

Note 16 Provisions

NOK million	2018	2017
Pension liabilities [1]	975	855
Other provisions	20	31
Total	995	886

[1] Pension liabilities are described in further detail in note 6.

Note 17 Interest-bearing liabilities

SIGNIFICANT ACCOUNTING POLICIES

Long-term liabilities Funding costs and early redemption penalty or discount are recognised in accordance with the effective interest rate method (amortised cost) for fixed interest debt. The first year's repayments relating to long-term debt are presented as short-term liabilities.

Short-term liabilities Market settlements for derivatives connected with financial activities (cash collateral) are recognised in the balance sheet as receivable or short-term liabilities. Cash collateral is a payment to/from counterparties as security for the net unrealised gains and losses that Statkraft AS has on interest rate swaps, combined interest rate and currency swaps and forward exchange contracts (see also note 13).

Repurchase of debt Repurchase of issued bonds are recognised as repayment of debt and any gain or loss is recognised up front in the net financial items.

NOK million	2018	2017
Short-term interest-bearing liabilities		
First year's instalment of long-term debt [1)]	4,195	1,968
Group cash pooling debt	16,528	17,588
Debt related to cash collateral	1,412	1,181
Other short term debt	359	172
Total	22,494	20,909
Long-term interest-bearing liabilities		
Debt to Statkraft SF (back-to-back agreement)	-	400
Bonds issued in the Norwegian market	6,050	7,050
Debt issued in non-Norwegian markets	21,770	26,427
Other debt	2	9
Total	27,822	33,887
Total interest-bearing liabilities	50,316	54,796

[1)] Includes NOK 400 million debt to Statkraft SF (back-to-back agreement).

Note 18 Other interest-free liabilities

NOK million	2018	2017
Accounts payable	76	69
Indirect taxes payable	44	41
Dividends payable	8,500	6,100
Debt to group companies	26	16
Other interest-free liabilities	501	590
Total	9,147	6,816

Note 19 Derivatives

GENERAL INFORMATION

Statkraft AS trades in financial derivatives for different purposes, and accounts will depend on the purpose as described below.

SIGNIFICANT ACCOUNTING POLICIES

Interest rate derivatives Statkraft AS uses interest rate derivatives to balance interest rate exposure to the Group's debt portfolio. Recognition of gains and losses depends on whether the interest rate derivative has been classified as a hedging instrument. Interest rate derivatives that are not hedging instruments are recorded in accordance with the lowest value principle. Unrealised losses or gains are included in the net financial items. Interest rate derivatives that are defined as hedging instruments are accrued in the same way as interest on hedged debts or receivables. Interest rate derivatives are classified as non-current assets or long-term liabilities if the remaining term is longer than one year. Gains and losses are recognised in the income statement when settling loans before maturity. Any interest rate derivatives connected to loans that have been repaid are normally cancelled. Gains and losses from cancelled interest rate swaps, are accrued together with the underlying loans.

Currency derivatives In order to hedge against fluctuations in the foreign currency rates, Statkraft AS uses currency derivatives in line with approved financial policy. Forward exchange rate contracts are valued at fair value. Changes in value are recorded in the income statement as net realised and unrealised currency and derivatives. Combined interest rate and currency swaps are recorded in accordance with the lowest value principle.

ESTIMATES AND ASSUMPTIONS

The fair value of interest rate swaps, as well as combined interest rate and currency swaps, is determined by discounting expected future cash flows to present value through use of observed market interest rates and quoted exchange rates from ECB. The valuation of forward currency exchange contracts is based on quoted exchange rates, from which the forward exchange rate is extrapolated. Estimated present value is subject to a test of reasonableness against calculations made by the counterparties to the contracts.

The interest rate swaps, including the interest portion of combined interest rate and currency swaps, are part of risk management and are accounted for as hedging or at the lowest value principle, depending on whether the requirements for hedge accounting are achieved.

Currency and interest rate agreements

Carrying value and fair value of currency and interest rate derivatives:

	31.12.2018		31.12.2017	
Derivatives – non-current assets NOK million	Carrying Value	Fair value [1]	Carrying Value	Fair value [1]
Currency and interest rate derivatives				
Interest rate swaps	-	735	-	702
Forward exchange rate contracts	12	12	9	9
Combined interest rate and currency swaps	-	527	-	866
Total	12	1,274	9	1,577
Derivatives – current assets				
NOK million				
Currency and interest rate derivatives				
Interest rate swaps	-	-	-	5
Forward exchange rate contracts	301	301	754	754
Combined interest rate and currency swaps	-	408	-	90
Total	301	709	754	849
Derivatives – non-current liabilities				
NOK million				
Currency and interest rate derivatives				
Interest rate swaps	328	328	571	571
Forward exchange rate contracts	91	91	100	100
Combined interest rate and currency swaps	53	53	47	47
Total	472	472	718	718
Derivatives – current liabilities				
NOK million				
Currency and interest rate derivatives				
Interest rate swaps	27	27	12	12
Forward exchange rate contracts	673	673	1,590	1,590
Total	700	700	1,602	1,602

[1] Fair value does not include accrued interests.

Note 20 Fees paid to external auditors

Deloitte AS is the Statkraft Group's auditor. The total fees paid for auditing and other services for Statkraft AS (excluding VAT) were as follows:

NOK thousand	2018	2017
Statutory auditing	2,109	2,316
Other attestation services	196	187
Tax consultancy services	758	488
Other services [1]	6,143	543
Total	9,206	3,534

[1] The main items in the fees for other services in 2018 relate to assistance in a due dilligence process and the attestation of the sutainability report. The corresponding figure for 2017 relates to the attestation of the sustainability report.

Note 21 Obligations and guarantees

Statkraft AS has guarantees and off-balance-sheet obligations totaling NOK 18118 million. Of this, NOK 17241 million concerns parent company guarantees.

Statkraft AS leases office buildings in Lilleakerveien 4 and 6 in Oslo and Sluppenveien 17B in Trondheim. The lessors are Mustad Eiendom AS and Sluppenvegen 15 AS respectively. The lease agreements in Oslo expire in 2028 with an option to prolong for ten plus ten years. The annual lease totals NOK 100 million for the Oslo premises. The lease agreement in Trondheim expires in 2030 with an option to prolong for 5 years. The annual lease totals NOK 8 million for the Trondheim premises.

Note 22 Disputes

Statkraft AS received in 2017 a draft decision of a tax reassessment from the Norwegian tax authorities, regarding reassessment of income tax returns for the fiscal years 2008-2014 related to the investment in the Statkraft Treasury Centre SA (STC) in Belgium. See note 32 in the Group accounts for further information. There has been no development in 2018 that has an impact on Statkraft's assessment.

Note 23 Related parties

The Company's related parties are considered to be:

- Directly owned subsidiaries, see specification in note 11
- Other group companies, see specification in note 24 and 38 to the Consolidated Financial Statements
- The parent company of the Group, Statkraft SF
- Associated companies and joint arrangements, see specification in note 11
- Group management and the board of directors, see specification in note 36 to the Consolidated Financial Statements

Transactions with subsidiaries, associated companies and joint arrangements mainly relate to the following:

- Statkraft AS sells intra-group services from centralised service centres
- Dividends and group contributions are accrued through Statkraft AS' own shareholdings
- Statkraft AS is also the borrower for the majority of the Group's external debts and is the owner of the cash pooling facilities. The central treasury function in Statkraft AS coordinates and manages the financial risks relating to currency, interest rates and liquidity of the Group.
- Statkraft AS finances subsidiaries, associates and joint arrangements through loans.

All intra-group transactions are conducted at market terms.

Guarantees related to group companies are listed in note 21.

The share capital of Statkraft Enerji A. S. was in 2018 reduced by TRY 50 million and thereby reducing the cost price of the shares in the company.

On 24 April 2017, Statkraft AS bought the lending portfolio from Statkraft Treasury Centre SA at market value and transferred all operations to Statkraft AS. Statkraft AS has received dividends of NOK 14910 million in 2017. The share capital of Statkraft Treasury Centre SA was in 2017 reduced by NOK 2641 million and thereby reducing the cost price of the shares in the company.

Note 23 continued

Transactions and balances within the Group are presented below:

Income statement - NOK million	2018	2017
Operating revenues		
Statkraft Energi AS	467	491
Fosen Vind DA	90	62
Statkraft Markets GmbH	67	48
Statkraft Peru S.A.	45	44
Statkraft Sverige AB	36	35
Statkraft UK Ltd.	20	42
Other	229	223
Total	955	945
Other operating expenses		
Statkraft Energi AS	48	66
Statkraft Markets GmbH	11	4
Other	18	1
Total	77	71
Dividend and group contribution from group companies (recognised as financial income)		
Statkraft UK Ltd.	9,233	-
Statkraft Energi AS	5,783	5,139
Statkraft Asset Holding AS	1,220	1,840
Statkraft Industrial Holding AS	1,090	-
Statkraft Treasury Centre SA	-	14,910
Statkraft IH Invest AS	-	210
Other	348	49
Total	17,674	22,148
Financial income from group companies		
Statkraft Energi AS	232	239
Statkraft Asset Holding AS	169	175
Skagerak Energi AS	140	162
Statkraft Markets GmbH	54	113
Kargi Kizirilmak Enerji A.Ş	29	137
Other	53	46
Total	677	872
Financial costs to group companies		
Statkraft SF	33	35
Statkraft Energi AS	30	9
Statkraft Asset Holding AS	28	18
Statkraft UK Ltd.	21	2
Statkraft IH Invest AS	11	27
Other	37	18
Total	160	109

Balance sheet - NOK million	2018	2017
Non-current assets		
Loan to Statkraft Energi AS	10,800	7,800
Loan to Skagerak Energi AS	3,350	4,175
Loan to Statkraft Varme AS	1,016	1,116
Baltic Cable AB	398	410
Other	-	2,260
Other non-current financial assets	15,564	15,761
Statkraft Energi AS	5	9
Statkraft Markets GmbH	106	-
Derivatives	111	9

Note 23 continued

Current assets		
Statkraft Varme AS	11	-
Baltic Cable AB	4	-
Statkraft Brasil AS	-	1
Group cash pooling receivable	15	1
Statkraft Energi AS	5,874	8,225
Statkraft Industrial Holding AS	1,701	752
Statkraft Asset Holding AS	1,357	13,151
Skagerak Energi AS	557	638
Other	287	2,282
Short-term receivables group companies	9,776	25,048
Statkraft IH Invest AS	-	146
Statkraft Markets GmbH	238	128
Statkraft Energi AS	31	25
Derivatives	269	299
Long-term liabilities		
Debt to Statkraft SF (back-to-back agreement)	-	400
Long-term interest-bearing liabilities	-	400
Statkraft Markets GmbH	97	81
Statkraft Energi AS	-9	14
Derivatives	88	95
Current liabilities		
Statkraft UK Ltd	4,482	5,191
Statkraft Asset Holding AS	1,064	4,330
Statkraft IH Invest AS	410	1,946
Statkraft Markets GmbH	2,088	1,008
Statkraft Sverige AB	540	780
Statkraft Energi AS	3,441	527
Other	4,503	3,806
Group cash pooling debt	16,528	17,588
Debt to Statkraft SF	618	158
Current interest-bearing liabilities to group companies	618	158
Statkraft Markets GmbH	11	99
Statkraft Energi AS	2	37
Derivatives	13	136
Statkraft SF	8,502	6,102
Other	24	14
Current interest-free liabilities to group companies	8,526	6,116

Note 24 Transactions

2018: Naturkraft AS that was 50% owned by Statkraft AS has been liquidated in 2018. The remaining cash of NOK 354 million has been distributed to Statkraft AS with a gain of NOK 279 million booked as dividend.

2017: In September Statkraft AS bought the remaining of the shares in Statkraft IH Invest AS (18.1%) from Norfund via Statkraft Asset Holding AS in a swap with 50% of the shares in SN Power AS. Statkraft AS has paid NOK 2 828 million for the shares.

For information about the transfer of the lending portfolio from Statkraft Treasury Centre SA, see note 23.

In January Statkraft AS sold its shares in the subsidiary Steinsvik Kraft AS. The loss from the transaction was NOK 14 million and was booked as a financial item.

Note 25 Subsequent events

There are no significant subsequent events.

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To the General Meeting of Statkraft AS

INDEPENDENT AUDITOR'S REPORT

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Statkraft AS. The financial statements comprise:

- The financial statements of the parent company Statkraft AS (the Company), which comprise the balance sheet as at 31 December 2018, and the income statement and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and
- The consolidated financial statements of Statkraft AS and its subsidiaries (the Group), which comprise statement of financial position as at 31 December 2018, statement of comprehensive income, the statement of changes in equity and the statement of cash flow for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion:

- The financial statements are prepared in accordance with the law and regulations.
- The accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2018, and its financial performance and its cash flows for the year then ended in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway.
- The accompanying consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Basis for Opinion

We conducted our audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company and the Group as required by laws and regulations, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

The key audit matters identified in our audit are:

- Impairments
- Valuation of energy contracts

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Impairments

Key audit matter	How the matter was addressed in the audit
Refer to note 14 to the group financial statements for description of Statkraft's impairment process and key assessments. Refer also to note 2 for a description of Statkraft's process to determine its long-term forecasts for energy prices in the markets in which they operate and the judgements and estimates that are involved in this process. The total carrying value of intangible assets, property, plant and equipment and investments in associates and joint ventures amounted to NOK 122.8 billion at 31 December 2018. The recoverability of these non-current assets are assessed for impairment at the end of each reporting period if impairment indicators are identified. Impairment recognized in the year amounts to NOK 0.167 billion. To assess recoverability of these non-current assets, management must make assumptions about future energy prices, discount rates as well as future production levels and operating costs. Due to the level of complexity in assessing the appropriate accounting for impairment and the level of management judgement involved, this has been identified as a key audit matter.	We assessed Statkraft's impairment process and tested the design and implementation of internal controls established. We challenged management's assessment as to whether indicators of impairment and/or impairment reversal exist for these assets. For assets were indicators of impairment were identified we obtained the valuation models used to determine the recoverable amount. We evaluated and challenged management's judgements, in particular: • the models used by management to establish its forecasts for energy prices; • the significant assumptions on which the price forecasts are built; • capital expenditure and operating cost forecasts; • the discount rate used; and • the estimated production levels and profiles. We made comparisons to recent analyst forecast commodity price data, reference to third party documentation where available, utilisation of Deloitte valuation specialists and consideration of sensitivity analyses in order to challenge management's estimates. We performed audit procedures on the mathematical integrity of the models used to determine the value in use. We assessed the adequacy of the related disclosures in the financial statements.

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Valuation of energy contracts

Key audit matter	How the matter was addressed in the audit
Refer to note 10 to the group financial statements for description of Statkraft's portfolio of energy contracts, the process and judgments to estimate fair values, presentation in the financial statements and how judgements related to the use of physical energy volumes affect the accounting treatment. The carrying value of energy derivatives measured at fair value amounted to NOK -3.0 billion (net) at 31 December 2018. Refer to note 10 to the group financial statements for a breakdown of the net position as of 31 December 2018. The nature and risk of the energy contracts vary. The main area of audit focus is on long-term industry contracts, long-term energy purchase contracts and origination contracts, with high degree of estimation uncertainty and judgments, involving management assessments. Key risks relate to; • identification and valuation of embedded derivatives. • judgments applied to assess whether the physical long-term contracts are for own use. • valuation of structured power contracts and transportation capacity contracts across borders. Due to the level of complexity in assessing the appropriate accounting for energy contracts and the level of management judgement involved, this has been identified as a key audit matter.	We assessed Statkraft's processes for identification, classification and valuation of energy contracts and tested the design and implementation of internal controls. We utilised Deloitte energy valuation specialists to assess the appropriateness of management's valuation models, and tested the mathematical integrity of the models used. We tested that Statkraft's classification of own use contracts comply with the appropriate accounting treatment. We tested a sample of fair value measurements, specifically testing and challenging the evidence supporting unobservable inputs utilised in Level 2 and 3 measurements in the fair value hierarchy as outlined in note 10 to the financial statements. We also assessed the adequacy of the related disclosures in the financial statements.

Other information

Management is responsible for the other information. The other information comprises information in the annual report, except the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors and the President and CEO for the Financial Statements

The Board of Directors and the President and CEO (Management) are responsible for the preparation in accordance with law and regulations, including fair presentation of the financial statements of the Company in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway, and for the preparation and fair presentation of the consolidated financial statements of the Group in accordance with International Financial Reporting Standards as adopted by the EU, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's and the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern. The financial statements of the Company use the going concern basis of accounting insofar as it is not likely that the enterprise will cease operations. The consolidated financial statements of the Group use the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error. We design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's or the Group's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company and the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company and the Group to cease to continue as a going concern.
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements.

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We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

Opinion on the Board of Directors' report

Based on our audit of the financial statements as described above, it is our opinion that the information presented in the Board of Directors' report and in the statements on Corporate Governance and Corporate Social Responsibility concerning the financial statements, the going concern assumption and the proposed allocation of the profit is consistent with the financial statements and complies with the law and regulations.

Opinion on Registration and Documentation

Based on our audit of the financial statements as described above, and control procedures we have considered necessary in accordance with the International Standard on Assurance Engagements *(ISAE) 3000, Assurance Engagements Other than Audits or Reviews of Historical Financial Information*, it is our opinion that management has fulfilled its duty to produce a proper and clearly set out registration and documentation of the Company's accounting information in accordance with the law and bookkeeping standards and practices generally accepted in Norway.

Oslo, 13 February 2019
Deloitte AS

Aase Aa. Lundgaard

Aase Aa. Lundgaard
State Authorised Public Accountant (Norway)

Corporate responsibility statement

Social disclosures

Health and safety

Fatalities	Unit of measurement	2018	2017	2016
Consolidated operations [1]				
Employees	Number	1	0	0
Contractors	Number	0	0	1
Third party	Number	0	0	0
Associates [2]				
Employees	Number	0	0	0
Contractors	Number	0	0	0
Third party	Number	0	0	0

[1] Activities where Statkraft has > 50% ownership.
[2] Activities where Statkraft has 20 - 50% ownership

The fatal accident 2018 occurred 28 April at the Moglicë Project in Albania.

Serious incidents [1), 2)]	Unit of measurement	2018	2017	2016
Serious injuries	Number	7	4	5
Incidents with, or with potential for, serious consequences	Number	31	48	40

[1] Includes activities where Statkraft has ≥ 20% ownership.
[2] Incidents include accidents and near misses.

Injuries [1]	Unit of measurement	2018	2017	2016
Employees				
Lost-time injuries (LTI) [2]	Number	30	40	42
Lost-time injuries per million hours worked	LTI rate	2.9	3.4	3.3
Total recordable injuries (TRI) [3]	Number	57	78	71
Total recordable injuries per million hours worked	TRI rate	5.4	6.6	5.6
Contractors				
Lost-time injuries (LTI) [2]	Number	29	27	39
Lost-time injuries per million hours worked	LTI rate	3.0	2.2	2.8
Total recordable injuries (TRI) [3]	Number	50	46	57
Total recordable injuries per million hours worked	TRI rate	5.2	3.8	4.2
Third parties				
Injuries [4]	Number	0	0	0
Statkraft, total				
Lost-time injuries per million hours worked	LTI rate	2.9	2.8	3.1
Total recordable injuries per million hours worked	TRI rate	5.3	5.2	4.9

[1] Includes activities where Statkraft has ≥ 20% ownership.
[2] Work-related injuries which have resulted in absence extending beyond the day of the injury.
[3] Work-related injuries, with and without absence. Includes injuries which resulted in absence, medical treatment or need for alternative work assignments.
[4] Recorded injuries requiring treatment by a doctor.

Sick leave [1]	Unit of measurement	2018	2017	2016
Sick leave, total	%	3.3	3.5	3.0
Of which short-term absence (16 days or less)	%	1.5	1.5	1.5
Of which long-term absence (more than 16 days)	%	1.8	2.0	1.5

[1] Sick leave due to illness or injuries, as percentage of normal working hours.

Judicial sanctions and fines, health and safety	Unit of measurement	2018	2017	2016
Cases where judicial or administrative sanctions have been applied due to material non-compliance with health and safety legislation	Number	1	1	0
Judicial fines applied due to material non-compliance with health and safety legislation	NOK million	0	0	0
Administrative fines applied due to material non-compliance with health and safety legislation	NOK million	0.02 [1]	0.05 [2]	0

[1] Fine to Devoll Hydropower Moglicë related to fatal accident in 2018.
[2] Fine to District Heating related to safety incident.

Labour practices

Employees	Unit of measurement	2018	2017	2016
Employees 31.12	Number	3,557	3,593	3,804
Of which in Norway	Number	2,040	2,241	2,297
Of which in other Nordic countries	Number	212	213	224
Of which in other European countries	Number	713	661	732
Of which in the rest of the world	Number	592	478	551
Full-time employees 31.12	%	95	96	96
Staff turnover rate [1]	%	4.2	5.7	6.6
Service time				
Average service time	Years	11.6	12.0	11.6
Average service time for employees resigned or dismissed [1]	Years	12.4	8.3	9.7
Apprentices employed 31.12	Number	77	77	59
Trainees employed 31.12	Number	3	7	15
Nationalities represented among Statkraft's employees	Number	57	51	43

[1] Excluding retirements, and not including ENEX in Brazil (2016).

Gender equality	Unit of measurement	2018	2017	2016
Percentage of women				
Total	%	25	25	25
In Norway	%	25	27	27
In other Nordic countries	%	18	19	20
In other European countries	%	24	23	24
In the rest of the world	%	25	22	19
In management positions	%	21	22	22
In Norway	%	25	26	25
In other Nordic countries	%	11	9	12
In other European countries	%	18	18	19
In the rest of the world	%	17	18	18
In Corporate Management	%	29	29	29
In Statkraft's Board of Directors	%	44	44	44
Among employees recruited in the reporting year	%	31	22	24
Among managers recruited in the reporting year	%	24	20	19
Among full-time employees	%	23	23	23
Among part-time employees	%	53	57	70

Equal salary	Unit of measurement	2018	2017	2016
Salary ratio among employees [1]	Ratio	0.94	0.93	0.90
In Norway	Ratio	0.97	0.97	0.93
In other Nordic countries	Ratio	1.03	1.00	0.96
In other European countries	Ratio	0.85	0.81	0.76
In the rest of the world	Ratio	0.88	0.92	0.94
Salary ratio among managers [1]	Ratio	0.87	0.92	0.90
In Norway	Ratio	0.95	0.99	0.97
In other Nordic countries	Ratio	0.83	0.90	0.84
In other European countries	Ratio	0.78	0.74	0.73
In the rest of the world	Ratio	0.83	1.04	0.93

[1] Average salary for women in relation to average salary for men.

Statkraft as employer	Unit of measurement	2018	2017	2016
Organisation and leadership evaluation [1]				
Employee engagement	Scale 0-100	78	72	[2]
Response rate	%	91	92	[2]
Employees who have completed the performance and career development review	%	87	97	-
Ranking as preferred employer [3] among				
Business students	Ranking	65	58	60
Engineering students	Ranking	11	6	6
Business professionals	Ranking	45	22	31
Engineering professionals	Ranking	10	13	6

[1] From Statkraft's internal annual organisation and leadership evaluation survey. Statkraft's score can be compared with the Global Employee and Leadership Index Norway 2018 result of 70.

[2] Evaluation postponed to 2017.

[3] Ranking among final-year students and professionals, as defined and measured in the annual Universum Graduate Survey for Norway and the Universum Professional Survey for Norway.

GROUP

STATKRAFT AS

CORPORATE RESPONSIBILITY

Human rights

Training on human rights [1), 2)]	Unit of measurement	2018	2017
Number of hours devoted to training on human rights in the last two years	Hours	300	200
Employees that have received training on human rights in the last two years	%	13	13
Senior management that have received training on human rights in the last two years	%	100	100

[1)] These indicators were introduced in 2017.

[2)] Human rights training considered here is a specific human rights training and awareness. This number does not cover trainings on human rights aspects such as health and safety, or our report of concern procedures (that are part of our implementation of Pillar 3 of the UN Guiding Principles for Business and Human Rights) for which 100% of employees received training.

Consultations with indigenous peoples	Unit of measurement	2018	2017	2016
Number of projects with ongoing consultations involving rights of indigenous peoples	Number	14	8	10

Incidents of violations involving rights of indigenous peoples [1)]	Unit of measurement	2018	2017
Total number of confirmed incidents of violations involving the rights of indigenous peoples during the reporting period	Number	0	0

[1)] This indicator was introduced in 2017.

Judicial sanctions and fines, human rights [1)]	Unit of measurement	2018	2017	2016
Cases where judicial or administrative sanctions have been applied due to material non-compliance with human rights legislation	Number	0	0	0
Judicial fines applied due to material non-compliance with human rights legislation	NOK million	0	0	0
Administrative fines applied due to material non-compliance with human rights legislation	NOK million	0	0	0

[1)] Material judicial sanctions for discrimination, forced labour, child labour or violations of the freedom of association, indigenous peoples rights or labour rights.

Environmental disclosures

Climate

Greenhouse gas emissions	Unit of measurement	2018	2017	2016
Emissions of CO_2 eqivalents, consolidated activities [1)]	Tonnes	485,400	818,000	773,400
Of which from gas power plants (scope 1)	Tonnes	439,000	763,900	722,700
Of which from district heating plants [2)] (scope 1)	Tonnes	28,500	23,500	24,900
Of which from SF_6 emissions (scope 1)	Tonnes	200	900	2,700
Of which halon emissions (scope 1)	Tonnes	0	0	1,000
Of which from fuel consumption [3)] (scope 1)	Tonnes	14,900	26,900	19,100
Of which from electricity consumption [4)] (scope 2)	Tonnes	0	0	-
Of which from business travel [5)] (scope 3)	Tonnes	2,800	2,800	3,000
Emissions of CO_2 equivalents from affiliated gas power plants [6)] (scope 1)	Tonnes	105,000	94,500	85,600
Emissions of CO_2 equivalents from Heimdal incineration plant [2)]	Tonnes	74,400	79,800	79,000
Emissions of biogenic CO_2 from district heating plants	Tonnes	306,500	317,300	-
SF_6 emissions	kg	28	40	120
Halon emissions	kg	0	0	140

[1)] Statkraft's ownership is >50%.

[2)] Emissions of CO_2 from Heimdal incineration plant is not included in Statkraft's total CO_2 statement, according to established reporting practice for the district heating industry.

[3)] CO_2 from fuel consumption from the Group's machinery and vehicles.

[4)] 100% of Statkraft'selectricity consumption is certified renewable.

[5)] Comprises travel by air and car in the Norwegian operations.

[6)] Statkraft's share.

Greenhouse gas emissions per scope [1)]	Unit of measurement	2018	2017
Scope 1: Direct emissions [2)]	Tonnes	587,600	909,700
Scope 2: Indirect emissions, related to electricity consumption	Tonnes	0	0
Scope 3: Other indirect emissions	Tonnes	2,800	2,800

[1)] Reporting of greenhouse gas emissions per scope was introduced in 2017.

[2)] Includes Statkraft's share of emissions of CO_2 in the jointly controlled power plant Herdecke (Germany).

Relative greenhouse gas emissions	Unit of measurement	2018	2017	2016
CO_2-equivalent emissions per MWh power generation, total [1)]	kg/MWh	9	14	12
CO_2-equivalent emissions per MWh power generation, gas power [1)]	kg/MWh	363	390	367
CO_2-equivalent emissions per MWh district heating production [2)]	kg/MWh	26	19	23

[1)] Includes Statkraft's share of production and emissions of CO_2 in the jointly controlled power plant Herdecke (Germany).

[2)] Emissions of CO_2 from Heimdal incineration plant is not included in Statkraft's total CO_2 statement, according to established reporting practice for the district heating industry.

Biodiversity and impact on nature

Impact on watercourses [1), 2)]	Unit of measurement	2018	2017	2016
Impacted river courses with:				
Anadromous fish	Number	47	46	46
Catadromous fish	Number	8	6	5
Impacted national salmon rivers	Number	13	13	13
Impacted protected rivers	Number	8	8	8

1) Impact entails change of waterflow, water levels or other living conditions for fish.
2) More detailed information related to impact on watercourses is presented in the table "Impact on watercourses".

Fish cultivation	Unit of measurement	2018	2017	2016
Restocking of fish and smolt [1)]	Number	658,900	2,188,400	916,700
Of which in Norway	Number	325,200	1,614,700	485,400
Of which in other Nordic countries	Number	323,000	543,700	403,300
Of which in other European countries	Number	10,700	30,000	28,000
Restocking of juveniles [2), 3)]	Number	1,168,800	-	-
Of which in Norway	Number	923,900	-	-
Of which in other Nordic countries	Number	244,900	-	-
Stocking of fish roe [4)]	Number	1,332,800	568,200	471,800

1) Includes salmon, inland trout, sea trout, grayling and eel.
2) Includes salmon, inland trout, sea trout, grayling and eel. Juveniles is defined as startfed fry, one-year old fry and two-summer old fry.
3) Reporting on restocking of juveniles was introduced in 2018.
4) Includes salmon in Norway and eel in Sweden.

Red list species (fauna) [1), 2)]	Unit of measurement	2018	2017	2016
Red list species with habitat in areas impacted by Statkraft's operations in:				
Norway	Number	33	32	33
Other Nordic countries	Number	6	6	6
Other European countries	Number	13	13	2
Rest of the world	Number	83	83 [3)]	23

1) More detailed information on red list species is presented in the table "Red list species (fauna)".
2) Includes species defined as red list species by either International Union for Conservation of Nature (IUCN) or national authorities.
3) The increase in red list species is mainly due to the inclusion of Brazil in the statement.

Operational sites in, or adjacent to, protected areas [1)]	Unit of measurement	2018	2017	2016
Operational sites in, or adjacent to, protected areas	Number	29	27	21
Of which in Norway	Number	18	16	16
Of which in other Nordic countries	Number	6	6	4
Of which in other European countries	Number	5	5	1

1) Limited to natural parks and nature or wildlife reserves.

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Consumption

Electricity consumption	Unit of measurement	2018	2017	2016
Electricity consumption	GWh	1,067	944	918
Of which pumped-storage power	GWh	709	633	566
Of which electric boilers for district heating	GWh	89	65	63
Of which other operations	GWh	269	246	289

Fuel consumption	Unit of measurement	2018	2017	2016
Fossil fuel consumption				
Natural gas, gas power plants	Mill. Nm^3	258	354	349
Fuel gas, district heating plants	Tonnes	7,918	5,750	6,722
Fuel oil, district heating plants	Tonnes	1,674	1,813	1,556
Engine fuel [1)]	Tonnes	4,707	8,493	6,039
Other fuel consumption				
Waste for district heating plants	Tonnes	206,800	221,800	219,400
Waste for bio power plants	Tonnes	262,300	265,400	279,200
Bio fuel	Tonnes	188,500	183,900	207,700

[1)] Includes consumption of fuel for vehicles and machinery (for example generators).

Use of water [1)]	Unit of measurement	2018	2017
Cooling water, gas power plants	m^3	1,731,000	1,900,000
Process water [2)]	m^3	177,800	251,000
Of which used in gas power plants	m^3	32,000	185,000
Of which used in bio power plants	m^3	83,300	-
Of which used in district heating plants	m^3	62,500	66,000
District heating pipe leakages	m^3	30,200	24,600

[1)] This indicator was introduced in 2017.
[2)] Used for treatment of gas emissions.

Waste

Waste	Unit of measurement	2018	2017	2016
Hazardous waste	Tonnes	21,200	15,400	17,000
Of which from waste incineration plants [1)]	Tonnes	4,500	6,900	6,800
Of which from bio power plants	Tonnes	15,800	7,900	9,400
Of which other hazardous waste	Tonnes	900	600	900
Non-hazardous waste	Tonnes	46,400	51,400	50,000
Of which non-hazardous waste separated at source	Tonnes	45,100	49,800	48,600
Of which non-hazardous waste from biopower plants	Tonnes	800	-	-
Of which non-hazardous waste from waste incineration plants	Tonnes	36,500	-	-
Of which residual non-hazardous waste	Tonnes	1,300	1,600	1,300

[1)] Consists of filter dust and filter cake.

Environmental incidents

Environmental incidents	Unit of measurement	2018	2017	2016
Serious environmental incidents [1)]	Number	0	0	0
Less serious environmental incidents [2)]	Number	283	187	233

[1)] An incident that causes serious or irreversible environmental impact on critical or protected resources.
[2)] An incident that causes minor or moderate negative environmental impact.

Most of the less serious envoronmental incidents in 2018 were related to minor breaches of emission regulations for biomass plants and minor oil spills to water and ground with little or no impact on the environment.

Judicial sanctions and fines, environment	Unit of measurement	2018	2017	2016
Cases where judicial or administrative sanctions have been applied due to material non-compliance with environmental legislation	Number	4	1	0
Judicial fines applied due to material non-compliance with environmental legislation	NOK million	0	0	0
Administrative fines applied due to material non-compliance with environmental legislation	NOK million	0.2 [1)]	0,2 [2)]	0

[1)] Breach of concession terms at four hydropower plants in Sweden (occurred in the period 2015-2017).
[2)] Breach of the concessional terms at Alta hydropower plant.

Economic disclosures

Power generation and district heating production

Installed capacity per technology and geography	Unit of measurement	2018	2017	2016
Installed capacity power generation	MW	17,831	17,478	17,418
Of which hydropower	MW	14,190	14,099	14,075
Of which wind power	MW	1,203	947	703
Of which gas power [1)]	MW	2,390	2,390	2,600
Of which other [2)]	MW	49	43	40
Installed capacity, district heating	MW	836	835	820
Installed capacity per geography, power generation				
Norway	MW	12,127	11,857	12,041
Other Nordic countries	MW	1,813	1,813	1,606
Other European countries	MW	2,974	2,974	2,971
Rest of the world	MW	917	834	800
Installed capacity per geography, district heating				
Norway	MW	673	671	657
Other Nordic countries	MW	164	164	164

Installed capacity per technology and geography	Unit of measurement	2018	2017	2016
Installed capacity per technology, power generation				
Hydropower	%	79.6	80.7	80.8
Wind power	%	6.7	5.4	4.0
Gas power [1)]	%	13.4	13.7	14.9
Other [2)]	%	0.3	0.2	0.2
Installed capacity per geography, power generation				
Norway	%	68.0	67.8	69.1
Other Nordic countries	%	10.2	10.4	9.2
Other European countries	%	16.7	17.0	17.1
Rest of the world	%	5.1	4.8	4.6
Installed capacity per geography, district heating				
Norway	%	80.5	80.4	80.1
Other Nordic countries	%	19.6	19.6	19.9

Capacity under development per technology and geography [3)]	Unit of measurement	2018	2017	2016
Capacity under development, power generation	MW	865	718	729
Of which hydropower	MW	292	184	207 [4)]
Of which wind power [5)]	MW	574	520	522
Of which solar power	MW	0	14	0
Capacity under development, district heating	MW	0	0	0
Capacity under development per geography, power generation				
Norway [5)]	MW	559	520	545
Other Nordic countries	MW	0	0	0
Other European countries	MW	23	198	184 [4)]
Rest of the world	MW	282	0	0
Capacity under development per geography, district heating	MW	0	0	0

Capacity under development per technology and geography [3)]	Unit of measurement	2018	2017	2016
Capacity under development per technology, power generation				
Hydropower	%	33.7	25.6	28,4 [4)]
Wind power [5)]	%	66.3	72.4	71.6
Solar power	%	0	1.9	0
Capacity under development per geography, power generation				
Norway [5)]	%	64.6	72.4	74.8
Other Nordic countries	%	0	0	0
Other European countries	%	2.7	27.6	25,2 [4)]
Rest of the world	%	32.7	0	0

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Power generation and district heating production per technology and geography	Enhet	2018	2017	2016
Power generation, total	TWh	61.7	62.6	66.0
Of which hydropower	TWh	57.2	57.4	61.2
Of which wind power	TWh	2.7	2.7	2.3
Of which gas power [1]	TWh	1.5	2.2	2.2
Of which other [2]	TWh	0.3	0.3	0.3
District heating	TWh	1.1	1.1	1.1
Renewable power generation [6]	%	97.6	96.5	96.7
Renewable district heating [6]	%	89.2	91.6	91.8
Power generation per geography				
Norway	TWh	48.6	48.6	52.8
Other Nordic countries	TWh	6.0	6.6	6.1
Other European countries	TWh	2.8	3.2	3.2
Rest of the world	TWh	4.3	4.2	3.9
District heating per geography				
Norway	TWh	0.9	0.9	0.9
Other Nordic countries	TWh	0.2	0.2	0.2

Power generation and district heating production per technology and geography	Enhet	2018	2017	2016
Power generation per technology				
Hydropower	%	92.7	91.7	92.7
Wind power	%	4.4	4.3	3.5
Gas power [1]	%	2.4	3.6	3.3
Other [2]	%	0.5	0.4	0.5
Power generation per geography				
Norway	%	78.8	77.6	80
Other Nordic countries	%	9.7	10.5	9.2
Other European countries	%	4.5	5.1	4.8
Rest of the world	%	7.0	6.8	5.9
District heating per geography				
Norway	%	81.8	79.5	81.8
Other Nordic countries	%	18.2	20.5	18.2

[1] Includes Statkraft's share of the jointly controlled Herdecke (Germany) power plant.
[2] Includes bio power and solar power.
[3] Includes projects with an investment decision.
[4] The Cetin project is no longer included in the figures, as it was divested in 2017.
[5] Includes Statkraft's share of the Fosen project.
[6] Non-renewable production consists of gas power and share of district heating based on fossil fuel. Production at Heimdal, the incineration plant in Trondheim, is counted as 100% renewable district heating production (alligned with SSB, Statistics Norway, reporting practice).

Contribution to society

Value creation [1]	Unit of measurement	2018	2017
Gross operating revenues	NOK million	55,573	52,883
Unrealised changes in the value of energy contracts	NOK million	-789	1,289
Paid to suppliers for goods and services [2]	NOK million	32,087	33,349
Gross value added	NOK million	22,698	20,823
Depreciation, amortisation and impairment	NOK million	3,734	4,162
Net value added	NOK million	18,964	16,661
Gain or loss from divestments	NOK million	5,781	7,122
Financial income	NOK million	1,449	315
Share of profit from associates	NOK million	790	-79
Minority interests	NOK million	680	-94
Values for distibution	NOK million	26,303	24,113

[1] New reporting format for value creation from 2017 due to changed income statement format.
[2] Includes energy purchases, transmission costs and operating expenses.

Distribution of value created [1]	Unit of measurement	2018	2017
Employees			
Gross salaries and benefits	NOK million	3,198	3,262
Lenders/owners			
Interest	NOK million	1,369	3,303
Dividend [2]	NOK million	8,500	6,100
Taxes [3]	NOK million	9,027	5,743
The company			
Change in equity	NOK million	4,210	5,705
Total wealth distributed	NOK million	26,303	24,113

[1] New reporting format for distribution of value created from 2017 due to changed income statement format.
[2] Includes dividend and Group contribution from Statkraft AS to Statkraft SF.
[3] Includes taxes, property tax, licence fees and employers' contribution.

Taxes [1]	Unit of measurement	2018	2017	2016
Total	NOK million	7,391	4,010	4,764
Of which in Norway	NOK million	6,857	3,603	4,366
Of which in other Nordic countries	NOK million	113	50	8
Of which in other European countries	NOK million	364	333	293
Of which in the rest of the world	NOK million	57	23	97

[1] Taxes payable in the statement of financial position.

Business ethics and anti-corruption

Training on anti-corruption [1]	Unit of measurement	2018	2017	2016
Employees that have received training on anti-corruption in the last three years	Percentage	100	100	100
Employees in senior management positions that have received training on anti-corruption in the last two years	Percentage	100	100	100
Statkraft's Board members have received training on anti-corruption in the last two years	Yes/No	Yes	Yes	Yes

[1] This indicator covers the Group, excluding Skagerak Energi.

Incidents of corruption [1]	Unit of measurement	2018
Confirmed breaches of Statkraft's Code of Conduct related to corruption	Number	0
Public legal cases regarding corruption [2]	Number	0

[1] This indicator was introduced in 2018.
[2] Cases brought against the organisation or its employees.

Judicial sanctions and fines, business ethics [1]	Unit of measurement	2018	2017	2016
Cases where judicial or administrative sanctions have been applied due to material non-compliance with business ethics legislation	Number	0	0	0
Judicial fines applied due to material non-compliance with business ethics legislation	NOK million	0	0	0
Administrative fines applied due to material non-compliance with business ethics legislation	NOK million	0	0	0

[1] Material judicial sanctions for accounting fraud, corruption, anti-competetive behaviour, anti-trust and monopoly practices.

Reported concerns covering the scope of the Code of Conduct

Reported concerns (whistleblowing) [1]	Unit of measurement	2018	2017	2016
Total number of reported concerns	Number	55	57	46
Of which related to business ethics and anti-corruption	Number	32	40	23
Of which related to discrimination [2]	Number	2	-	-
Investigations initiated by Corporate Audit in the reporting year	Number	3	5	4

[1] The scope of the whistleblowing procedures relates to the full scope of Statkraft's Code of Conduct, e.g. human rights, environment, health and safety, business ethics and anti-corruption.
[2] This indicator was introduced in 2018.

When a reported concern is received, a risk assessment is done in order to decide how to follow up the concern. Most of the reported concerns are handled by the respective business areas according to Statkraft's procedures for handling of reported concerns. Concerns with potentially high consequences for the Statkraft Group are handled by Corporate Audit. In cases where a formal investigation is required, this is the responsibility of the Head of Corporate Audit.

Impact on watercourses

Protected rivers and rivers with migrating fish impacted by Statkraft's activities

NORWAY	River with anadromous fish	River with eel population (catadromous fish)	National salmon river	Protected river
Region North Norway & South America				
Altaelva	X		X	
Beiarelva	X		X	
Bjerkaelva	X			
Engabrevassdraget	X			
Kobbelvvassdraget	X			
Målselvvassdraget	X		X	X
Ranaelva	X		X	
Røssåga	X			
Skjoma	X			
Vefsna	X		X	
Glomdalselva				X
Region Mid Norway				
Auravassdraget	X			
Bævra	X			
Daleelva	X			
Dalselva	X			
Hopra	X			
Indredalselva	X			
Isa/Glutra	X			
Jostedalselva	X			
Litledalselva	X			
Nærøydalselva	X		X	
Rauma	X		X	X
Surna	X		X	
Vikja	X		X	
Ytredalselva	X			
Nidelva	X	X	X	
Region South Norway				
Austdøla/Norddøla	X			
Austrepollelva	X			
Bondhuselva	X			
Førreåna	X			
Eio/Bjoreio	X			
Jondalselva	X			
Sima	X			
Suldalslågen	X		X	X
Ulla	X			
Øyreselva	X			
Årdalselva	X			
Klebastølåi				X
Gaularvassdraget			X	
Eidselva		X		
Numedalsågen	X	X	X	
Austbygdåi				X
Dagali				X
Skagerak Energi AS				
Daleelven				X
Kragerøvassdraget		X		
Skienselva	X	X		
SWEDEN				
Skellefteåälven	X			
Gideälven	X			
Moälven	X			
Nätraälven	X			
Lagan	X	X		
Nissan	X	X		
Ljungan	X			
GERMANY				
Weser	X	X		
UK				
Rheidol	X			

Red list species (fauna)

Red list species (fauna) with habitat in areas affected by Statkraft's activitities

Red list species	Vulnerability not known	Level of vulnerability: IUCN list					Level of vulnerability: National list				
		Critically endangered	Endan-gered	Vulne-rable	Near threatened	Least concern	Critically endangered	Endan-gered	Vulne-rable	Near threatened	Least concern
NORWAY											
Eagle owl						X		X			
Goshawk						X				X	
Red-throated diver						X					X
Black-throated diver						X					X
Willow grouse						X				X	
Rough-legged buzzard						X					X
Eel		X							X		
Pearl mussel			X						X		
Osprey						X				X	
Mycetochara obscura (beetle)									X		
Arctic warbler						X		X			
Stagetus borealis (beetle)										X	
Dolichocis laricinus (beetle)										X	
Mycetophagus multipunctatus (beetle)										X	
Acerbia alpina (moth)										X	
Exodontha dubia (fly)										X	
Trypophloeus alni (beetle)										X	
Phiaris heinrichana (butterfly)										X	
Dune tiger beetle								X			
Hypnoidus consobrinus (beetle)										X	
Denticollis borealis (beetle)									X		
Fleutiauxellus maritimus (beetle)										X	
Bledius denticollis (beetle)										X	
Hare						X				X	
Little bunting						X			X		
Great snipe					X					X	
Common reed bunting						X				X	
Northern lapwing					X			X			
Northern shoveler						X			X		
Black-headed gull						X			X		
Sand martin						X				X	
Gyrfalcon						X				X	
Crayfish								X			
SWEDEN											
Sea lamprey						X				X	
Crayfish				X			X				
Otter					X					X	
Golden eagle						X				X	
Eel		X					X				
Pearl mussel			X				X				
GERMANY											
Eel		X									
Pearl mussel		X									
UK											
Red kite					X						
TURKEY											
Dalmatian pelican					X						
Wild Goat				X							
Lesser horseshoe bat						X					
Mediterranean Horseshoe Bat					X						
Egyptian vulture			X								
Greek tortoise				X							
Euphrates softshell turtle			X								
Central Anatolian Spined Loach			X								
Orontes Spotted Bleak				X							
European sea or Atlantic sturgeon		X									
ALBANIA											
Dalmatian pelican					X						
NEPAL											
Chinese pangolin		X									
Asian small-clawed otter				X							
East Himalayan Yew			X								
Himalayan Musk Deer			X								
Western Tragopan					X						
PERU											
Sechuran fox or *zorro*					X						
BRAZIL											
Puma, Mountain Lion						X					
Araucaria Tit-spinetail					X						
Azure Jay					X						

Red list species (fauna) with habitat in areas affected by Statkraft's activitities (continued)

Red list species	Vulnerability not known	Level of vulnerability: IUCN list					Level of vulnerability: National list				
		Critically endangered	Endan-gered	Vulne-rable	Near threatened	Least concern	Critically endangered	Endan-gered	Vulne-rable	Near threatened	Least concern
BRAZIL											
Black Spiny-necked Swamp Turtle											
Brazilian Dwarf Brocket				X							
Brazilian Three-banded Armadillo				X							
Canebrake Groundcreeper					X						
Green-throated Euphonia					X						
Helmeted Woodpecker				X							
Black-fronted Piping-guan or *Jacutinga*			X								
Jaguar					X						
Margay					X						
Neotropical Otter					X						
Ochre-breasted Pipit				X							
Northern Tiger Cat or *Oncilla*				X							
Pampas Deer					X						
Red Myotis					X						
Sharp-tailed Tyrant				X							
Southern Bristle-tyrant					X						
Southern Long-Nosed Armadillo					X						
Southern Tiger Cat				X							
Straight-billed Reedhaunter					X						
Swallow-tailed Cotinga					X						
Vinaceous-breasted Parrot			X								
White-browed Guan				X							
Wild Common Carp					X						
William's South-American Side-necked	X										
Yellow-browed Woodpecker					X						
Yellow-legged Timanou	X										
Mottled Piculet					X						
Black-capped Piprites				X							
Pinheiro-bravo	X										
Creamy-bellied Gnatcatcher					X						
Argintine Horned Frog (Sapo-de-chifres)	X										
Bare-throated Bellbird				X							
Mantled Hawk					X						
Saffron Toucanet					X						
Black-horned Capuchin					X						
Coypu or *Rato-do-banhado*						X					
Marsh Tapaculo			X								
Ornate Hawk-eagle				X							
Sporophila melanogaster					X						
Rusty Barred Owl *(Strix hylophila*)					X						
Solitary Tinamou					X						
Saffron-cowled Blackbird				X							
Black-and-white Monjita				X							
CHILE											
Puye Chico / Inanga	X										
Pejerrey Cauque	X										
Bagre Pintado				X							
Tollo de Agua Dulce			X								
Puye	X										
Pocha del Sur						X					
Pouched Lamprey	X										
Carmelita Común						X					
Peladilla						X					
Perca Trucha						X					
Brown Trout					X						
Atlantic Salmon						X					
Chiloe Island Ground Frog						X					
Rosy Ground Frog						X					
Grey Wood Frog						X					
Chile Four-eyed Frog						X					
Yellow-billed Pintail						X					
Chiloé wigeon						X					
Great White Egret						X					
Cocoi Heron						X					
Churrete	X										
Chacoan Peccary or *Tagua*			X								
Amazon Kingfisher or *Martin Pescador*	X										
Neotropic Cormorant or *Pato Yeco*	X										
Great Grebe or *Huala*						X					
Pied-billed Grebe or *Picurio*						X					
White-tufted Grebe or *Pimpollo /Hualita*						X					
Tollo, Bagre, Tollo de Agua Dulce	X										
Torrent Duck						X					
Andean condor					X						
Guanaco						X					
Puma, Mountain Lion						X					

Statkraft's GRI index

The GRI Standards represent the global best practice for sustainability reporting. The standards comprise both general disclosures, as well as economic, environmental and social disclosures. Companies can report according to two reporting levels - Core or Comprehensive.

Statkraft's corporate responsibility reporting is based on the GRI Standards, at reporting level Core. Statkraft has engaged Deloitte AS to conduct a review to provide a limited level of assurance on the company's corporate responsibility information in Statkraft's Annual Report 2018. The review is based on the assurance standard ISAE 3000, and the auditor's conclusion is presented in the Auditor's report.

Explanations for the GRI index

Reported = The disclosure is reported according to the GRI Standards.
Partly = The disclosure is partly reported according to the GRI Standards.
GRI alignment in process = A reporting process aligned with the GRI Standards is under development.
EU = Specific disclosure for the energy utilities sector.

DISCLOSURES		REFERENCE / RESPONSE	STATUS
GENERAL DISCLOSURES: ORGANISATIONAL PROFILE			
102-1	Name of the organisation	Statkraft AS	Reported
102-2	Activities, brands, products and services	Statkraft at a glance Report from the Board of Directors	Reported
102-3	Location of headquarters	Oslo, Norway	Reported
102-4	Location of operations	Statkraft at a glance	Reported
102-5	Ownership and legal form	State-owned limited company	Reported
102-6	Markets served	Statkraft at a glance Report from the Board of Directors	Reported
102-7	Scale of the organisation	Key figures Statkraft at a glance	Reported
102-8	Information on employees and other workers	CR statement: Labour practices	Reported
102-9	Supply chain	Management of corporate responsibility	Reported
102-10	Significant changes to the organisation and its supply chain	Report from the Board of Directors Note 5: Business combinations and other transactions	Reported
102-11	Precautionary principle or approach	Management of corporate responsibility Economic disclosures: Water management Economic disclosures: Climate change	Reported
102-12	External initiatives	Corporate governance Management of corporate responsibility	Reported
102-13	Membership of associations	Management of corporate responsibility	Reported
GENERAL DISCLOSURES: STRATEGY			
102-14	Status from senior decision-maker	Letter from the CEO Report from the Board of Directors	Reported
GENERAL DISCLOSURES: ETHICS AND INTEGRITY			
102-16	Values, principles, standards and norms of behaviour	Report from the Board of Directors Corporate governance Management of corporate responsibility Economic disclosures: Business ethics	Reported
GENERAL DISCLOSURES: GOVERNANCE			
102-18	Governance structure	Corporate governance	Reported
GENERAL DISCLOSURES: STAKEHOLDER ENGAGEMENT			
102-40	List of stakeholder groups	Management of corporate responsibility	Reported
102-41	Collective bargaining agreements	Social disclosures: Labour practices	Reported
102-42	Identifying and selecting stakeholders	Management of corporate responsibility	Reported
102-43	Approach to stakeholder engagement	Management of corporate responsibility	Reported
102-44	Key topics and concerns raised	Management of corporate responsibility Social disclosures: Human rights	Reported
GENERAL DISCLOSURES: REPORTING PRACTICE			
102-45	Entities included in the consolidated financial statements	Note 38: Consolidated companies	Reported
102-46	Defining report content and topic boundaries	Management of corporate responsibility	Reported
102-47	List of material topics	Management of corporate responsibility	Reported
102-48	Restatements of information	Corporate responsibility statement	Reported
102-49	Changes in reporting	Corporate responsibility statement	Reported
102-50	Reporting period	2018	Reported
102-51	Date of most recent report	Statkraft's corporate responsibility report 2017	Reported
102-52	Reporting cycle	Annual	Reported
102-53	Contact point for questions regarding the report	info@statkraft.com	Reported
102-54	Claims of reporting in accordance with the GRI Standards	The corporate responsibility information has been prepared in accordance with the GRI Standards: Core option	Reported
102-55	GRI content index	Statkraft's GRI index	Reported
102-56	External assurance	Management of corporate responsibility Auditor's statement	Reported

GRI G4 GUIDELINES: UTILITIES SECTOR			
G4-EU1	Installed capacity	CR statement: Power generation and district heating production	Reported
G4-EU2	Net energy output	CR statement: Power generation and district heating production	Reported
G4-EU3	Number of different customer accounts	See customer related information under: www.statkraft.com www.skagerakenergi.no www.statkraftvarme.no	Partly
G4-EU25	Injuries and fatalities to the public involving company assets	CR statement: Health and safety	Reported
ECONOMIC DISCLOSURES: ECONOMIC PERFORMANCE			
103: 1-3	Management approach for economic disclosures	Report from the Board of Directors Corporate governance Management of corporate responsibility	Reported
201-1	Direct economic value generated and distributed	CR statement: Contribution to society	Reported
201-2	Financial implications and other risks and opportunities due to climate change	Report from the Board of Directors Economic disclosures: Climate change Economic disclosures: Water management	Reported
201-3	Defined benefit plan obligations and other retirement plans	Note 16: Pensions	Reported
ECONOMIC DISCLOSURES: INDIRECT ECONOMIC IMPACTS			
203-1	Infrastructure investments and services supported	Social disclosures: Human rights	Partly
203-2	Significant indirect economic impacts	Statkraft's contribution	Partly
ECONOMIC DISCLOSURES: ANTI-CORRUPTION			
205-1	Operations assessed for risks related to corruption	Economic disclosures: Business ethics	Reported
205-2	Communication and training about anti-corruption policies and procedures	Economic disclosures: Business ethics CR statement: Business ethics and anti-corruption	Reported
205-3	Confirmed incidents of corruption and actions taken	Economic disclosures: Business ethics CR statement: Business ethics and anti-corruption	Reported
ENVIRONMENTAL DISCLOSURES: ENERGY			
103: 1-3	Management approach for environmental disclosures	Report from the Board of Directors Management of corporate responsibility	Reported
302-1	Energy consumption within the organisation	CR statement: Consumption	Reported
ENVIRONMENTAL DISCLOSURES: WATER WITHDRAWAL BY SOURCE			
303-1	Water withdrawal by source	CR statement: Consumption	Partly
303-2	Water sources significantly affected by withdrawal of water	Economic disclosures: Water management CR statement: Biodiversity and impact on nature CR statement: Impact on watercourses	Reported
ENVIRONMENTAL DISCLOSURES: BIODIVERSITY			
304-1	Operational sites owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas	CR statement: Biodiversity and impact on nature	Reported
304-2	Significant impacts of activities, products, and services on biodiversity	Environmental disclosures: Biodiversity Economic disclosures: Water management CR statement: Biodiversity and impact on nature	Reported
304-4	IUCN Red List species and national conservation list species with habitats in areas affected by operations	CR statement: Biodiversity and impact on nature CR statement: Red list species (fauna)	Reported
ENVIRONMENTAL DISCLOSURES: EMISSIONS			
305-1	Direct GHG emissions (scope 1)	CR statement: Climate	Reported
305-2	Energy indirect GHG emissions (scope 2)	CR statement: Climate	Reported
305-3	Other indirect GHG emissions (scope 3)	CR statement: Climate	Reported
305-4	GHG emissions intensity	CR statement: Climate	Reported
ENVIRONMENTAL DISCLOSURES: EFFLUENTS AND WASTE			
306-2	Waste by type and disposal method	CR statement: Waste	Reported
306-3	Significant spills	CR statement: Environmental incidents	Reported
ENVIRONMENTAL DISCLOSURES: COMPLIANCE			
307-1	Non-compliance with environmental laws and regulations	CR statement: Environmental incidents	Reported
ENVIRONMENTAL DISCLOSURES: SUPPLIER ENVIRONMENTAL ASSESSMENT			
308-1	New suppliers that were screened using environmental criterias	Management of corporate responsibility	Reported
SOCIAL DISCLOSURES: EMPLOYMENT			
103: 1-3	Management approach on social disclosures	Report from the Board of Directors Management of corporate responsibility Social disclosures: Health and safety Social disclosures: Security Social disclosures: Human rights Social disclosures: Labour practices	Reported
401-1	New employee hires and employee turnover	CR statement: Labour practices	Reported

SOCIAL DISCLOSURES: OCCUPATIONAL HEALTH AND SAFETY			
403-1	Workers representation in formal joint management-worker heath and safety committees	Social disclosures: Health and safety Social disclosures: Labour practices	Partly
403-2	Types of injury and rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities	Social disclosures: Health and safety CR statement: Health and safety	Reported
SOCIAL DISCLOSURES: TRAINING AND EDUCATION			
404-2	Programs for upgrading employee skills and transition assistance programs	Social disclosures: Labour practices	Partly
404-3	Percentage of employees receiving regular performance and career development reviews	Social disclosures: Labour practices CR statement: Labour practices	Reported
SOCIAL DISCLOSURES: DIVERSITY AND EQUAL OPPORTUNITY			
405-1	Diversity of governance bodies and employees	CR statement: Labour practices	Reported
405-2	Ratio of basic salary and remuneration of women to men	CR statement: Labour practices	Reported
SOCIAL DISCLOSURES: NON-DISCRIMINATION			
406-1	Incidents of discrimination and corrective actions taken	Management of corporate responsibility CR statement: Reported concerns covering the scope of the Code of Conduct	Reported
SOCIAL DISCLOSURES: FREEDOM OF ASSICIATION AND COLLECTIVE BARGAINING			
407-1	Operations and suppliers in which the right to freedom of association and collective bargaining may be at risk	Management of corporate responsibility Social disclosures: Labour practices	GRI alignment in process
SOCIAL DISCLOSURES: CHILD LABOUR			
408-1	Operations and suppliers at significant risk for incidents of child labour	Management of corporate responsibility	GRI alignment in process
SOCIAL DISCLOSURES: FORCED OR COMPULSORY LABOUR			
409-1	Operations and suppliers at significant risk for incidents of forced or compulsory labour	Management of corporate responsibility Social disclosures: Labour practices	GRI alignment in process
SOCIAL DISCLOSURES: RIGHTS OF INDIGENOUS PEOPLES			
411-1	Incidents of violations involving rights of indigenous peoples	Social disclosures: Human rights CR statement: Human rights	Reported
SOCIAL DISCLOSURES: HUMAN RIGHTS ASSESSMENT			
412-1	Operations that have been subject to human rights reviews or impact assessments	Management of corporate responsibility Social disclosures: Human rights	Partly
412-2	Employee training on human rights policies and procedures	Social disclosures: Human rights CR statement: Human rights	Reported
412-3	Significant investment agreements and contracts that include human rights clauses or that underwent human rights screening	Management of corporate responsibility Social disclosures: Human rights	Partly
SOCIAL DISCLOSURES: LOCAL COMMUNITIES			
413-1	Operations with local community engagement, impact assessments and development programs	Social disclosures: Human rights Economic disclosures: Water management	Partly
413-2	Operations with significant actual and potential negative impacts on local communities	Social disclosures: Human rights Economic disclosures: Water management	Partly
SOCIAL DISCLOSURES: SUPPLIER SOCIAL ASSESSMENT			
414-1	New suppliers that were screened using social criteria	Management of corporate responsibility	Reported
SOCIAL DISCLOSURES: SOCIOECONOMIC COMPLIANCE			
419-1	Non-compliance with laws and regulations in the socioeconomic area	CR statement: Business ethics and anti-corruption CR statement: Human rights	Reported

Statkraft's Global Compact index

Global Compact comprises ten fundamental principles relating to human rights, labour rights, protection of the environment and combating corruption. Companies that endorse Global Compact commit to support and respect the principles and report their performance in the various areas annually.

HUMAN RIGHTS

PRINCIPLE	DESCRIPTION	REFERENCE
1	Business should support and respect the protection of internationally proclaimed human rights, and	Report from the Board of Directors Management of corporate responsibility Social disclosures, Human rights
2	make sure that they are not complicit in human rights abuses.	Management of corporate responsibility Social disclosures, Human rights

LABOUR

PRINCIPLE	DESCRIPTION	REFERENCE
3	Business should uphold the freedom association and the effective recognition of the right to collective bargaining,	Management of corporate responsibility Social disclosures, Labour practices
4	the elimination of all forms of forced and compulsory labour,	Management of corporate responsibility Social disclosures, Labour practices
5	the effective abolition of child labour, and	Management of corporate responsibility Social disclosures, Labour practices
6	the elimination of discrimination in respect of employment and occupation.	Management of corporate responsibility Social disclosures, Labour practices

ENVIRONMENT

PRINCIPLE	DESCRIPTION	REFERENCE
7	Business should support a precautionary approach to environmental challenges,	Report from the Board of Directors Management of corporate responsibility Environmental disclosures, Biodiversity Economic disclosures, Water management Economic disclosures, Climate change
8	undertake initiatives to promote greater environmental responsibility, and	Environmental disclosures, Biodiversity Economic disclosures, Water management Economic disclosures, Climate change
9	encourage the development and diffusion of environmentally friendly technologies.	Statkraft's contribution Environmental disclosures, Biodiversity Economic disclosures, Water management Economic disclosures, Climate change

ANTI-CORRUPTION

PRINCIPLE	DESCRIPTION	REFERENCE
10	Business should work against corruption in all its forms, including extortion and bribery.	Report from the Board of Directors Management of corporate responsibility Economic disclosures, Business ethics

Auditor's statement

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To the Board of Directors of Statkraft AS

INDEPENDENT AUDITOR'S REPORT ON STATKRAFT CORPORATE RESPONSIBILITY REPORTING FOR 2018

We have reviewed certain aspects of Statkraft AS - Annual Report 2018, the chapter Corporate Responsibility and the Corporate Responsibility Statement ("the Report"). The Report is the responsibility of and has been prepared by the management of Statkraft AS ("the Company"). Our responsibility is to draw a conclusion based on our review.

We have based our work on the international standard ISAE 3000 "Assurance Engagements other than Audits or Reviews of Historical Financial Information", issued by the International Auditing and Assurance Standards Board. The objective and scope of the engagement were agreed with the management of the Company and included those subject matters on which we have concluded below.

Based on an assessment of materiality and risks, our work included analytical procedures and interviews as well as a review on a sample basis of evidence supporting the subject matters. We have performed interviews and meetings with management and individual resources responsible for corporate responsibility aspects at corporate level and at selected business and staff units.

We believe that our work provides an appropriate basis for us to provide a conclusion with a limited level of assurance on the subject matters. In such an engagement, less assurance is obtained than would be the case had an audit-level engagement been performed.

Conclusions

Based on our review, nothing has come to our attention causing us not to believe that:

- Statkraft has established management processes and systems to manage material aspects related to corporate responsibility, as described in the Report.
- Statkraft has applied procedures to identify, collect, compile and validate information for 2018 to be included in the Report, as described in the Report. Information presented for 2018 is consistent with data accumulated as a result of these procedures and appropriately presented in the Report.
- Statkraft applies a reporting practice for its corporate responsibility reporting aligned with the Global Reporting Initiative (GRI) Standards reporting principles and the reporting fulfils in accordance level Core according to the GRI Standards. Statkraft's GRI index presented in the Report appropriately reflects where information on each of the disclosures of the GRI Standards is to be found within the Statkraft Annual Report 2018.

Oslo, 13 February, 2019
Deloitte AS

Aa. Lundgaard

Aase Aa. Lundgaard
State Authorized Public Accountant

Frank Dahl

Frank Dahl
Deloitte Sustainability

The market for solar power comes in many sizes - from small private plants on rooftops to huge commercial parks.

Statkraft's ambitions within solar power are high, and as a first step into this market the **solar park Lange Runde** in the Netherlands was developed.

2018

Declaration

In 2018 Statkraft acquired the Irish and UK wind development businesses of the Element Power Group, and decided to start construction of the 23 MW Kilathmoy wind farm in Ireland.

Declaration from the Board of Directors and the President and CEO

We confirm to the best of our knowledge that:

- the consolidated financial statements for 2018 have been prepared in accordance with IFRS as adopted by the EU, as well as additional information requirements in accordance with the Norwegian Accounting Act,
- the financial statements for the parent company for 2018 have been prepared in accordance with the Norwegian Accounting Act and generally accepted accounting practice in Norway,
- the information presented in the financial statements gives a true and fair view of the company's and group's assets, liabilities, financial position and result for the period viewed in their entirety,
- the board of directors report, the chapters on corporate governance and corporate responsibility including the corporate responsibility statement, gives a true and fair view of the development, performance and financial position of the company and group, and includes a description of the key risks and uncertainties the companies are faced with.

The Board of Directors of Statkraft AS
Oslo, 13 February 2019

Thorhild Widvey
Chair of the Board

Peter Mellbye
Deputy chair

Hilde Drønen
Director

Mikael Lundin
Director

Ingelise Arntsen
Director

Bengt Ekenstierna
Director

Vilde Eriksen Bjerknes
Director

Thorbjørn Holøs
Director

Asbjørn Sevlejordet
Director

Christian Rynning-Tønnesen
President and CEO

District heating based on renewable energy sources has a positive environmental effect.

Oslo Airport is dependent on energy deliveries 24 hours a day, 365 days a year.

Statkraft's district heating plant is situated nearby the airport providing heating solutions, as well as critical deliveries to the de-icing of aircrafts.

Photo: Avinor / Sune Eriksen

2018

Key figures and Alternative Performance Measures

Key Figures

FINANCIAL KEY FIGURES

	Unit	2018	2017	2016	2015	2014
Income statement						
Gross operating revenues and other income underlying	NOK mill	55,573	52,883	48,351	n/a	n/a
Net operating revenues and other income underlying	NOK mill	26,925	23,350	21,400	n/a	n/a
Operating profit/loss(EBIT) underlying	NOK mill	14,953	10,824	8,673	n/a	n/a
Operating profit/loss(EBIT) IFRS	NOK mill	15,446	11,928	2,612	3,814	13,560
Share of profit/loss in equity accounted investments	NOK mill	790	-79	474	683	661
Net financial items	NOK mill	4,412	3,818	2,137	-5,318	-6,283
Profit/loss before tax	NOK mill	20,649	15,668	5,223	-821	7,937
Net profit/loss	NOK mill	13,390	11,710	-179	-2,369	3,892
Items excluded from underlying business						
Unrealised value changes from energy derivatives*	NOK mill	-789	1,289	-1,270	n/a	n/a
Gains/losses from divestments of business activities*	NOK mill	1,449	315	16	n/a	n/a
Impairments*	NOK mill	-167	-500	-4,808	n/a	n/a
Balance sheet						
Property, plant & equipment and intangible assets	NOK mill	110,328	107,469	107,836	117,029	102,638
Equity accounted investments	NOK mill	13,105	13,335	19,438	19,388	19,027
Other assets	NOK mill	58,955	48,305	39,357	40,488	46,152
Total assets	NOK mill	182,388	169,108	166,630	176,905	167,817
Equity	NOK mill	98,004	91,627	83,519	88,340	88,059
Cash flow						
Cash flow from operating activities	NOK mill	15,286	8,865	8,371	8,639	6,898
Dividend paid to owners (incl. non-controlling interests)	NOK mill	6,093	3,089	-226	5,157	74
Cash and cash equivalents (incl. restricted cash)	NOK mill	23,175	14,217	7,308	9,056	12,663
Investments						
Maintenance investments [1)]	NOK mill	2,067	1,820	1,763	1,970	2,368
Investments in increased capacity, fixed assets [2)]	NOK mill	3,053	1,964	3,736	7,797	7,525
Investments in shareholdings [3)]	NOK mill	1,862	111	158	3,790	1,287
Financial metrics						
ROACE [4)]	%	14.7	10.5	n/a	n/a	n/a
ROAE [5)]	%	5.9	-0.5	n/a	n/a	n/a
Ratio/Rating						
Net Interest-bearing debt ratio [6)]	%	11.6	21.3	28.0	28.4	28.5
Equity ratio [7)]	%	53.7	54.2	50.1	49.9	52.5
Long-term rating - Standard & Poor's		A- / Stable	A-	A-	A-	A-
Long-term rating - Fitch Ratings		BBB+ / Stable	n/a	n/a	n/a	n/a

Statkraft has amended the definitions of its underlying operating profit and capital employed with effect from 2017.

* See section regarding Alternative Performance Measures (APM)

1) Book value of maintenance investments to sustain current generating capacity.

2) Book value of investments to expand generating capacity.

3) Purchase of shares as well as equity increase in other companies.

4) $\frac{\text{Operating profit/loss (EBIT) underlying (rolling 12 months) * 100}}{\text{Average capital employed (rolling 12 months)}}$

5) $\frac{\text{Share of profit/loss in equity accounted investments (rolling 12 months) * 100}}{\text{Average equity accounted investments (rolling 12 months)}}$

6) $\frac{\text{Net interest-bearing debt * 100}}{\text{Net interest-bearing debt + equity}}$

7) $\frac{\text{Total equity * 100}}{\text{Total assets}}$

POWER GENERATION AND DISTRICT HEATING PRODUCTION

	Unit	2018	2017	2016	2015	2014
Installed capacity, power generation	MW	17,831	17,478	17,418	16,778	16,401
Of which hydropower	MW	14,190	14,099	14,075	13,464	13,273
Of which wind power	MW	1,203	947	703	647	488
Of which gas power [1]	MW	2,390	2,390	2,600	2,600	2,600
Of which other [2]	MW	49	43	40	67	40
Installed capacity, district heating	MW	834	835	820	838	760
Capacity under development, power generation [3]	MW	865	718	729	909	1,262
Of which hydropower	MW	292	184	207	873	1,016
Of which wind power [4]	MW	574	520	522	36	247
Of which solar power	MW	0	14	0	0	0
Capacity under development, district heating [3]	MW	0	0	0	21	23
Production capacity [5]	TWh	59.6	61.9	61.3	58.7	53.7
Power generation, actual	TWh	61.7	62.6	66.0	56.3	56.0
Of which hydropower	TWh	57.2	57.4	61.2	53.1	53.4
Of which wind power	TWh	2.7	2.7	2.3	2.5	1.7
Of which gas power [1]	TWh	1.5	2.2	2.2	0.5	0.5
Of which other [2]	TWh	0.3	0.3	0.3	0.3	0.3
District heating production	TWh	1.1	1.1	1.1	1.1	1.0
Renewable power generation [6]	%	97.6	96.5	96.7	99.1	99.1
Renewable district heating [6]	%	89.2	91.6	91.8	94.7	83.6

[1] Includes Statkraft's share of the jointly controlled Herdecke (Germany) power plant.

[2] Includes biopower and solar power.

[3] Includes projects with an investment decision.

[4] Includes Statkraft's share of the Fosen project.

[5] Excluding gas-fired power and district heating. Annual mean generation.

[6] Non-renewable production consists of gas power and share of district heating based on fossil fuel. Production at Heimdal, the incineration plant in Trondheim, is counted as 100% renewable district heating production (alligned with SSB, Statistics Norway, reporting practice).

EMISSIONS AND ENVIRONMENTAL INCIDENTS

	Unit	2018	2017	2016	2015	2014
Emissions of CO_2 equivalents, consolidated activities	Tonnes	485,400	818,000	773,400	258,600	313,300
Greenhouse gas emissions per scope [1]						
Scope 1: Direct emissions [2]	Tonnes	587,600	909,700	-	-	-
Scope 2: Indirect emissions, related to electricity consumption	Tonnes	0	0	-	-	-
Scope 3: Other indirect emissions	Tonnes	2,800	2,800	-	-	-
Relative greenhouse gas emissions						
CO_2-equivalent emissions per MWh power generation, total [2]	kg/ MWh	9	14	12	5	6
CO_2-equivalent emissions per MWh district heating production [3]	kg/ MWh	26	19	23	12	64
Environmental incidents						
Serious environmental incidents	Number	0	0	0	0	0
Less serious environmental incidents	Number	283	187	233	228	159

[1] Reporting of greenhouse gas emissions per scope was introduced in 2017.

[2] Includes Statkraft's share of production and emissions of CO_2 in the jointly controlled power plant Herdecke (Germany).

[3] Emissions of CO_2 from Heimdal incineration plant is not included in Statkraft's total CO_2 statement, according to established reporting practice for the district heating industry.

CONTRIBUTION TO SOCIETY

	Unit	2018	2017
Distribution of value created [1]			
Dividend [2]	NOK mill	8,500	6,100
Taxes [3]	NOK mill	9,027	5,743
Interest	NOK mill	1,369	3,303
Employees	NOK mill	3,198	3,262
The company	NOK mill	4,210	5,705

[1] New reporting format for distribution of value created from 2017 due to changed income statement format.

[2] Includes dividend and Group contribution from Statkraft AS to Statkraft SF.

[3] Includes taxes, property tax, licence fees and employer's contribution.

REPORTED CONCERNS COVERING THE SCOPE OF THE CODE OF CONDUCT

	Unit	2018	2017	2016
Total number of reported concerns (whistleblowing) [1], [2]	Number	55	57	46
Of which related to business ethics and anti-corruption	Number	32	40	23
Of which related to discrimination	Number	2	-	-

[1] The scope of the whistleblowing procedures relates to the full scope of Statkraft's Code of Conduct, e.g. human rights, environment, health and safety, business ethics and anti-corruption.

[2] The format for this indicator was changed in 2016, but historical data related to whistleblowing is available and has been published in Statkraft's annual reports since 2008. The indicator for discrimination was introduced in 2018.

EMPLOYEES AND GENDER EQUALITY

	Unit	2018	2017	2016	2015	2014
Employees per 31.12	Number	3,557	3,593	3,804	4,119	3,731
Percentage of women						
Total	%	25	25	25	23	24
In management positions	%	21	22	22	23	22
Among new employees	%	31	22	24	26	25

HEALTH AND SAFETY

	Unit	2018	2017	2016	2015	2014
Fatalities, consolidated operations [1]						
Employees	Number	1	0	0	0	0
Contractors	Number	0	0	1	0	3
Third parties	Number	0	0	0	0	0
Fatal accidents, associated activities [2]						
Employees	Number	0	0	0	0	0
Contractors	Number	0	0	0	0	1
Third parties	Number	0	0	0	0	0
Seious incidents [3), 4), 5]						
Serious injuries	Number	7	4	5	6	-
Incidents with, or with potential for, serious consequences	Number	31	48	40	12	-
Total recordable injuries per million hours worked [3]	TRI rate	5.3	5.2	4.9	5.9	5.5
Absence due to illness	%	3.3	3.5	3.0	3.0	2.8

[1] Activities where Statkraft has > 50% ownership.
[2] Activities where Statkraft has 20-50% ownership.
[3] Includes activities where Statkraft has ≥ 20% ownership.
[4] This indicator was introduced in 2015.
[5] Incidents include accidents and near misses.

MARKET VARIABLES

	Unit	2018	2017	2016	2015	2014
System price, Nord Pool	EUR/MWh	44.0	29.4	26.9	21.0	29.6
Spot price, European Energy Exchange	EUR/MWh	44.4	34.2	29.0	31.7	32.8
Electricity consumption in the Nordic market	TWh	395	388	386	379	375
Electricity generated in the Nordic market, actual	TWh	397	397	389	394	385
Statkraft's share of Nordic electricity production	%	13.8	13.9	15.1	13.1	13.5

POWER PLANTS

	Pro-rata[1]		Consolidated plants	
	No. of plants	Capacity (MW)	No. of plants	Capacity (MW)
Hydropower	**334**	**15,722**	**270**	**14,190**
Norway	226	12,855	170	11,627
Sweden	59	1,268	59	1,268
Germany	10	262	10	262
UK	3	49	3	49
Albania	1	72	1	72
Turkey	2	122	2	122
Brazil	18	269	14	232
Peru	9	442	9	442
Chile	3	213	1	57
Nepal	1	34	1	60
India	2	136	-	-
Wind power	**16**	**1,125**	**13**	**1,203**
Norway	4	378	4	500
Sweden	4	546	4	546
Brazil	4	98	4	120
UK	4	104	1	36
Solar power	**2**	**6**	**2**	**6**
India	2	6	2	6
Gas	**5**	**2,390**	**5**	**2,390**
Germany	5	2,390	5	2,390
Bio	**2**	**43**	**2**	**43**
Germany	2	43	2	43
Total, power generation	**359**	**19,285**	**292**	**17,831**

DISTRICT HEATING PLANTS

	Pro-rata[1]		Consolidated plants	
	No. of locations	Capacity (MW)	No. of locations	Capacity (MW)
Norway	24	626	24	673
Sweden	4	161	4	161
Total, district heating	**28**	**787**	**28**	**834**

[1] Statkraft equity share in all power plants (pro-rata share of direct and indirect ownership), including those in partly-owned companies

Alternative Performance Measures

As defined in ESMAs guideline on alternative performance measures (APM), an APM is understood 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.

From 2018, ROACE and ROAE are disclosed on segment level. Previously, Statkraft had only disclosed ROACE on Group level. For other changes in the financial statements, see note 1 in the Group financial statements.

Statkraft uses the following APMs:

EBITDA underlying is defined as underlying operating profit/loss before depreciation and amortisation. The APM is used to measure performance from operational activities. EBITDA underlying should not be considered as an alternative to operating profit/loss and profit/loss before tax as an indicator of the company's operations in accordance with generally accepted accounting principles. Nor is EBITDA underlying an alternative to cash flow from operating activities in accordance with generally accepted accounting principles.

Operating profit/loss (EBIT) underlying is an APM used to measure performance from operational activities.

Items excluded from Operaint profit/loss (EBIT) underlying:
Statkraft adjusts for the following three items when reporting operating profit/loss (EBIT) underlying:

1. **Unrealised value changes from energy derivatives**
   - → **Embedded derivatives** are excluded from underlying operating profit/loss since they only represent part of an energy contract and the other parts of these energy contracts are not reported based on fair market values.
   - → **Derivatives entered into for risk reduction purposes** are excluded**.** This is done where the related item is carried at cost or not recognised in the statement of financial position.
2. **Impairments** are excluded from underlying operating profit/loss since they affect the economics of an asset for the useful life of that asset; not only the period in which it is impaired or the impairment is reversed.
3. **Gains/losses from divestments of business activities** are eliminated from the measure since the gains or losses do not give an indication of future performance or periodic performance from operating activities. Such gains or losses are related to the cumulative value creation from the time the asset is acquired until it is sold.

The same items as above are also excluded from **Gross operating revenues and other income underlying** and **Net operating revenues and other income underlying,** see note 4 in the Group financial statements.

ROACE is defined as Operating profit/loss (EBIT) underlying divided by capital employed. ROACE is calculated on a rolling 12 month average and is used to measure return from the operational activities as well as benchmarking performance.

ROAE is defined as share of profit/loss in equity accounted investments, divided by the average book value of the Group's equity accounted investments. ROAE is calculated on a rolling 12 month average. The financial metric is used to measure return from the Group's equity accounted investments as well as benchmarking performance.

Capital employed is the capital allocated to perform operational activities and is presented in a table on the next page.

Net interest-bearing debt is used to measure indebtedness. The components are presented in a table on the next page.

Net cash income is defined as cash flow from operating activities excluding taxes paid and cash effects from equity accounted investments. This is used to measure cash flow from operations from consolidated business in the Group.

Net interest-bearing debt-equity ratio is calculated as net interest-bearing debt relative to the sum of net interest- bearing debt and equity.

Operating profit/loss (EBIT) margin underlying (%) is calculated as Operating profit/loss (EBIT) underlying relative to gross operating revenues and other income underlying.

Cost of operations, Nordic hydropower generation (øre/kWh) is an APM that is used to measure the cost of operations per kWh for Nordic hydropower assets in the segment European flexible generation. Total operating expenses for these assets are divided by the seven-year average output from Nordic hydropower plants under own management in the segment. Total operating expenses include salaries and payroll costs, depreciation and amortisation, property tax and licence fees and other operating expenses. Net financial items and taxes related to these assets are not included. In addition, the costs related to both hydropower assets outside the Nordics and other technologies in the segment are not included in this APM.

ALTERNATIVE PERFORMANCE MEASURES

NOK million	2018	2017
RECONCILIATION OF OPERAING PROFIT/LOSS (EBIT) UNDERLYING TO EBITDA UNDERLYING		
Operating profit/loss (EBIT) underlying, see note 4 in the Group Financial Statements	14,953	**10,824**
Depreciation and amortisation	3,567	3,662
EBITDA underlying	18,520	**14,486**
Operating profit/loss (EBIT) margin underlying (%)	26.9	20.5
RECONCILIATION OF CASH FLOW FROM OPERATING ACTIVITIES TO NET CASH INCOME		
Cash flow from operating activities	15,286	8,865
Taxes paid	3,605	4,843
Dividend from equity accounted investments	-606	-558
Net cash income	18,285	**13,150**
FINANCIAL STATEMENT LINE ITEMS INCLUDED IN CAPITAL EMPLOYED		
Intangible assets	3,909	3,313
Property, plant and equipment	105,744	103,193
Other non-current financial assets	3,986	4,368
- Loans to equity accounted investments [1)]	-2,244	-2,223
- Bonds and other long-term investments [1)]	-232	-299
- Pension assets [1)]	-494	-480
- Other shares and shareholdings [1)]	-316	-299
Inventories	6,316	2,871
Receivables	12,831	15,372
- Receivables related to cash collateral [2)]	-3,351	-1,931
- Short-term loans to equity accounted investments [2)]	-75	-3,959
- Other receivables not part of capital employed [2)]	-8	-15
Provisions allocated to capital employed	-2,552	-2,894
Taxes payable	-7,391	-4,010
Interest-free liabilities allocated to capital employed	-9,742	-9,086
Capital employed	106,380	**103,922**
Average capital employed [3)]	102,020	**102,726**
RECONCILIATION OF CAPITAL EMPLOYED TO TOTAL ASSETS		
Capital employed	106,380	**103,922**
Deferred tax assets	676	962
Equity accounted investments	13,105	13,335
Other non-current financial assets [1)]	3,286	3,301
Derivatives, long term	2,926	4,023
Receivables [2)]	3,434	5,905
Short-term financial investments	604	918
Derivatives, short term	9,118	6,537
Cash and cash equivalents (incl. restricted cash)	23,175	14,217
Liabilities allocated to capital employed, see table above	19,685	15,990
Total assets as of the statement of financial position	182,388	**169,108**
RETURN ON AVERAGE CAPITAL EMPLOYED (ROACE)		
Operating profit/loss (EBIT) underlying, rolling 12 months	14,953	10,824
Average capital employed	102,020	102,726
ROACE	14.7%	**10.5%**
RETURN ON AVERAGE EQUITY ACCOUNTED INVESTMENTS (ROAE)		
Share of profit/loss in equity accounted investments, rolling 12 months	790	-79
Average equity accounted investments [3)]	13,359	16,339
ROAE	5.9%	**-0.5%**
NET INTEREST-BEARING DEBT		
Long-term interest bearing liabilities	30,354	36,285
Short-term interest bearing liabilities	6,346	3,694
Cash and cash equivalents (incl. restricted cash)	-23,175	-14,217
Short-term financial investments	-604	-918
Net interest-bearing debt	12,921	**24,845**
NET INTEREST-BEARING DEBT-EQUITY RATIO		
Net interest-bearing debt	12,921	24,845
Equity	98,004	91,627
Net interest-bearing debt - equity ratio	11.6%	**21.3%**

COST OF OPERATIONS, NORDIC HYDROPOWER GENERATION IN SEGMENT EUROPEAN FLEXIBLE GENERATION (EF)		
Net operating revenues and other income underlying	18,765	14,508
- operating profit/loss (EBIT) underlying	12,943	8,447
Operating expenses, underlying	5,822	6,062
- items in EF not related to Nordic hydropower generation [4)]	1,180	1,077
= Cost of operations, Nordic hydropower generation (EF)	4,642	4,985
7 year average generation Nordic hydropower (GWh)	47,165	46,833
= Cost of operations, Nordic hydropower generation in EF (øre/kWh)	**9.8**	10.6

[1)] The item is a part of other non-current financial assets in the statement of financial position, but not a part of capital employed.

[2)] The item is a part of receivables in the statement of financial position, but not a part of capital employed.

[3)] Average capital employed and average equity accounted investments are based on the average for the last four quarters.

[4)] Includes all operating expenses related to hydropower generation outside the Nordics and other technologies.

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