# Group Financial Statements

# Statement of Comprehensive Income

## Statkraft AS Group

| NOK million | Note | 2016 | 2015 |
|---|---|---|---|
| Sales revenues | 4, 12, 20 | 49 448 | 51 586 |
| Share of profit/loss in equity accounted investments | 4, 14, 24 | 474 | 683 |
| Other operating revenues | 13 | 1 065 | 1 507 |
| **Gross operating revenues** | 4 | 50 987 | 53 777 |
| Energy purchase | 12, 20 | -29 093 | -31 892 |
| Transmission costs | | -1 273 | -1 112 |
| **Net operating revenues** | 4 | 20 621 | 20 773 |
| Salaries and payroll costs | 15, 16 | -3 648 | -3 545 |
| Depreciation, amortisation and impairments | 4, 14, 22, 23 | -8 260 | -6 401 |
| Property tax and licence fees | 17 | -1 733 | -1 679 |
| Other operating expenses | 18 | -3 894 | -4 650 |
| **Operating expenses** | | -17 535 | -16 276 |
| **Operating profit/loss** | 4 | 3 086 | 4 497 |
| Financial income | 19 | 380 | 421 |
| Financial expenses | 19 | -1 411 | -2 058 |
| Net currency effects | 19, 20 | 2 847 | -3 445 |
| Other financial items | 19, 20 | 321 | -237 |
| **Net financial items** | | 2 137 | -5 318 |
| **Profit/loss before tax** | | 5 223 | -821 |
| Tax expense | 21 | -5 402 | -1 548 |
| **Net profit/loss** | | -179 | -2 369 |
| | | | |
| Of which non-controlling interest | | -62 | -598 |
| Of which majority interest | | -117 | -1 772 |
| | | | |
| **OTHER COMPREHENSIVE INCOME** | | | |
| **Items in other comprehensive income that recycle over profit/loss:** | | | |
| Changes in fair value of financial instruments | | 1 235 | -937 |
| Income tax related to changes in fair value of financial instruments | | -320 | 142 |
| Items recorded in other comprehensive income in equity accounted investments | | 445 | 204 |
| Currency translation effects | | -4 851 | 6 138 |
| Reclassification currency translation effects related to foreign operations disposed of in the year | | 6 | 772 |
| | | | |
| **Items in other comprehensive income that will not recycle over profit/loss:** | | | |
| Estimate deviation pensions | | -52 | 758 |
| Income tax related to estimate deviation pensions | | -17 | -314 |
| **Other comprehensive income** | | -3 554 | 6 761 |
| **Comprehensive income** | | -3 733 | 4 392 |
| | | | |
| Of which non-controlling interest | | 217 | -133 |
| Of which majority interest | | -3 950 | 4 525 |

# Statement of Financial Position

## Statkraft AS Group

| NOK million | Note | 31.12.2016 | 31.12.2015 |
|---|---|---|---|
| **ASSETS** | | | |
| Intangible assets | 22 | 4 533 | 5 822 |
| Property, plant and equipment | 23 | 103 303 | 111 207 |
| Equity accounted investments | 4, 24 | 19 438 | 19 388 |
| Other non-current financial assets | 25 | 8 961 | 7 874 |
| Derivatives | 28 | 3 047 | 4 675 |
| **Non-current assets** | | 139 282 | 148 966 |
| Inventories | 26 | 2 653 | 1 044 |
| Receivables | 27 | 10 219 | 10 675 |
| Short-term financial investments | | 532 | 513 |
| Derivatives | 28 | 6 637 | 6 651 |
| Cash and cash equivalents (included restricted cash) | 29 | 7 308 | 9 056 |
| **Current assets** | | 27 349 | 27 940 |
| **Assets** | | 166 630 | 176 905 |
| | | | |
| **EQUITY AND LIABILITIES** | | | |
| Paid-in capital | | 58 411 | 57 111 |
| Retained earnings | | 17 360 | 22 787 |
| Non-controlling interest | | 7 747 | 8 443 |
| **Equity** | | 83 519 | 88 340 |
| Provisions | 16, 30 | 19 195 | 21 228 |
| Long-term interest-bearing liabilities | 31 | 31 886 | 37 410 |
| Derivatives | 28 | 1 805 | 3 736 |
| **Long-term liabilities** | | 52 885 | 62 374 |
| Short-term interest-bearing liabilities | 31 | 8 407 | 7 196 |
| Taxes payable | 21 | 4 764 | 2 825 |
| Other interest-free liabilities | 32 | 11 918 | 10 781 |
| Derivatives | 28 | 5 137 | 5 388 |
| **Current liabilities** | | 30 226 | 26 190 |
| **Equity and liabilities** | | 166 630 | 176 905 |

The Board of Directors of Statkraft AS
Oslo, 15 February 2017

Thorhild Widvey

*Thorhild Widvey*
*Chair of the Board*

*Halvor Stenstadvold*
*Deputy chair*

Hilde Drønen

*Hilde Drønen*
*Director*

*Peter Mellbye*
*Director*

Helene Biström

*Helene Biström*
*Director*

Bengt Ekenstierna

*Bengt Ekenstierna*
*Director*

Vilde Bjerknes

*Vilde Eriksen Bjerknes*
*Director*

Thorbjørn Holøs

*Thorbjørn Holøs*
*Director*

Asbjørn Sevlejordet

*Asbjørn Sevlejordet*
*Director*

Christian Rynning-Tønnesen

*Christian Rynning-Tønnesen*
*President and CEO*

# Statement of Cash Flow

## Statkraft AS Group

| NOK million | Note | | 2016 | 2015 |
|---|---|---|---|---|
| **CASH FLOW FROM OPERATING ACTIVITIES** | | | | |
| Profit before tax | | | 5 223 | -821 |
| Profit/loss on disposal of non-current assets | | | -15 | 43 |
| Depreciation, amortisation and impairment | 14, 22, 23 | | 8 260 | 6 401 |
| Profit/loss from sale of business | 5 | | - | -221 |
| Profit/loss from sale of shares and equity accounted investments | 5 | | -8 | 471 |
| Share of profit/loss in equity accounted investments | 24 | | -474 | -683 |
| Realised currency effect on internal loans | | | -1 216 | 2 635 |
| Unrealised changes in value | 20 | | 300 | -1 308 |
| Changes in long-term items | | | -368 | 410 |
| Changes in short-term items | | | -1 312 | 4 241 |
| Dividend from equity accounted investments | | | 545 | 534 |
| Taxes | 21 | | -2 564 | -3 062 |
| **Cash flow from operating activities** | | A | 8 371 | 8 639 |
| **CASH FLOW FROM INVESTING ACTIVITIES** | | | | |
| Investments in property, plant and equipment [1)] | 4 | | -5 331 | -8 720 |
| Proceeds from sale of non-current assets | | | 31 | 152 |
| Reclassification of joint arrangement [2)] | 24 | | -404 | - |
| Business divestments, net liquidity inflow to the Group | 5 | | 25 | 1 691 |
| Business combinations and asset purchase, net liquidity outflow from the Group [3)] | 5 | | -59 | -2 889 |
| Loans to third parties | | | -1 526 | -407 |
| Repayment of loans from third parties | | | 593 | 628 |
| Considerations regarding investments in other companies [3)] | | | -148 | -289 |
| **Cash flow from investing activities** | | B | -6 817 | -9 834 |
| **CASH FLOW FROM FINANCING ACTIVITIES** | | | | |
| New debt | 31 | | 4 642 | 14 409 |
| Repayment of debt | 31 | | -7 632 | -11 864 |
| Dividend and Group contribution paid | | | -226 | -5 157 |
| Share issue in subsidiary to non-controlling interests | | | - | 9 |
| **Cash flow from financing activities** | | C | -3 217 | -2 603 |
| **Net change in cash and cash equivalents** | | A+B+C | -1 663 | -3 797 |
| Currency exchange rate effects on cash and cash equivalents | | | -85 | 190 |
| Cash and cash equivalents 01.01 | 29 | | 9 056 | 12 663 |
| Cash and cash equivalents 31.12 [4)] | 29 | | 7 308 | 9 056 |
| Unused committed credit lines | | | 11 016 | 13 000 |
| Unused overdraft facilities | | | 2 015 | 2 200 |
| Restricted cash | 29, 34 | | 49 | 32 |

1) Investments in the cash flow are NOK 168 million lower than investments in fixed assets in the segment reporting due to acquisition of assets not paid as of year end 2016

2) Net cash deconsolidated from the Group due to reclassification of Dudgeon Offshore Wind Ltd.

3) Investments in business combinations, asset purchase and investment in other companies are NOK 49 million higher than for investments in other companies shown in the segment reporting. This is mainly due to investments by Statkraft Forsikring AS not presented as investments in the segment reporting.

4) Included in cash and cash equivalents are NOK 110 million related to joint operations as of year end 2016.

SIGNIFICANT ACCOUNTING POLICIES

The cash flow statement has been prepared using the indirect method. The statement starts with the Group's profit before taxes in order to show cash flow generated by operating activities. The cash flow statement is divided into net cash flow from operating activities, investing activities and financing activities. Dividends disbursed to the owner and to non-controlling interests are presented under financing activities. Receipts and payments of interest and dividends from equity accounted investments are presented as provided cash flow from operating activities.

# Statement of Changes in Equity

## Statkraft AS Group

| NOK million | Paid-in capital | Other reserves | Other equity | Accu-mulated translation differences | Retained equity | Attributable to owners of parent | Non-controlling interests | Total equity |
|---|---|---|---|---|---|---|---|---|
| **Balance as of 01.01.2015** | **56 361** | -2 421 | 21 641 | 4 654 | **23 876** | 80 235 | **7 823** | 88 059 |
| | | | | | | | | |
| **Net profit/loss** | - | - | -1 772 | - | **-1 772** | -1 772 | **-598** | -2 369 |
| | | | | | | | | |
| **Items in other comprehensive income that recycles over profit/loss:** | | | | | | | | |
| Changes in fair value of financial instruments | - | -925 | - | - | **-925** | -925 | **-12** | -937 |
| Income tax related to changes in fair value of financial instruments | - | 149 | - | - | **149** | 149 | **-7** | 142 |
| Items recorded in other comprehensive income in equity accounted investments | - | 204 | - | - | **204** | 204 | - | 204 |
| Reclassification currency translation effects related to foreign operations disposed of in the year | - | - | - | 772 | **772** | 772 | - | 772 |
| Currency translation effects | - | - | - | 5 732 | **5 732** | 5 732 | **406** | 6 138 |
| **Items in OCI that will not recycle over profit/loss:** | | | | | | | | |
| Estimate deviation pensions | - | - | 637 | - | **637** | 637 | **120** | 758 |
| Income tax related to estimate deviation pensions | - | - | -273 | - | **-273** | -273 | **-42** | -314 |
| **Total comprehensive income for the period** | - | -572 | -1 407 | 6 504 | **4 525** | 4 525 | **-133** | 4 391 |
| | | | | | | | | |
| Dividend and Group contribution paid | - | - | -5 600 | - | **-5 600** | -5 600 | **-307** | -5 907 |
| Business combinations/divestments | - | - | - | - | - | - | **318** | 318 |
| Transactions with non-controlling interests | - | - | -12 | - | **-12** | -12 | **-14** | -26 |
| Capital increase [1] | **750** | - | - | - | - | 750 | **756** | 1 506 |
| **Balance as of 31.12.2015** | **57 111** | -2 993 | 14 622 | 11 158 | **22 787** | 79 898 | **8 443** | 88 340 |
| | | | | | | | | |
| **Net profit/loss** | - | - | -117 | - | **-117** | -117 | **-62** | -179 |
| | | | | | | | | |
| **Items in other comprehensive income that recycles over profit/loss:** | | | | | | | | |
| Changes in fair value of financial instruments | - | 1 198 | - | - | **1 198** | 1 198 | **37** | 1 235 |
| Income tax related to changes in fair value of financial instruments | - | -309 | - | - | **-309** | -309 | **-11** | -320 |
| Items recorded in other comprehensive income in equity accounted investments | - | 445 | - | - | **445** | 445 | - | 445 |
| Reclassification currency translation effects related to foreign operations disposed of in the year | - | - | - | 6 | **6** | 6 | - | 6 |
| Currency translation effects | - | - | - | -5 101 | **-5 101** | -5 101 | **250** | -4 851 |
| **Items in OCI that will not recycle over profit/loss:** | | | | | | | | |
| Estimate deviation pensions | - | - | -59 | - | **-59** | -59 | **7** | -52 |
| Income tax related to estimate deviation pensions | - | - | -13 | - | **-13** | -13 | **-4** | -17 |
| **Total comprehensive income for the period** | - | 1 333 | -189 | -5 095 | **-3 950** | -3 950 | **217** | -3 733 |
| | | | | | | | | |
| Dividend and Group contribution | - | - | -1 604 | - | **-1 604** | -1 604 | **-226** | -1 830 |
| Changes in provision in connection with equity instruments over non-controlling interests | - | - | 245 | - | **245** | 245 | - | 245 |
| Transactions with non-controlling interests | - | - | -138 | - | **-138** | -138 | **138** | - |
| Reclassification of loan to non-controlling interests [2] | - | - | - | - | - | - | **-825** | -825 |
| Capital increase in joint arrangements from other shareholders | - | - | 20 | - | **20** | 20 | - | 20 |
| Capital increase [3] | **1 300** | - | - | - | - | 1 300 | - | 1 300 |
| **Balance as of 31.12.2016** | **58 411** | -1 659 | 12 957 | 6 063 | **17 360** | 75 771 | **7 747** | 83 519 |

[1] A conversion of loan to share capital of NOK 750 million from owner took place in December 2015.
[2] Statkraft has reassessed its arrangements with non-controlling shareholder and has reclassified a receivable towards such shareholder of NOK 825 million from non-current assets to a reduction of non-controlling interests in equity.
[3] In December 2016 conversion of loan to share capital of NOK 1 300 million from owner took place.

GENERAL INFORMATION

The parent company has a share capital of NOK 33.4 billion, divided into 200 million shares, each with a par value of NOK 167. 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 29 June 2016 Statkraft's general assembly approved a disbursement of NOK 1604 million as dividend to Statkraft SF. For the current year the board has proposed to pay a dividend of NOK 4350 million.

SIGNIFICANT ACCOUNTING POLICIES

Dividends proposed at the time of approval of the financial statements are classified as equity. Dividends are reclassified as 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.

The statement of comprehensive income, statement of financial position, statement of equity, statement of cash flow and notes provide comparative 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 its 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 revenue — Note 12
- Public subsidies — Note 12
- Impairment — Note 14
- Cash generating units (CGU) — Note 14
- Pensions — Note 16
- Taxes — Note 21
- Intangible assets — Note 22
- Property, plant and equipment — Note 23
- Inventories — Note 26
- Derivatives — Note 28
- Cash and cash equivalents — Note 29
- Provisions — Note 30
- Concessionary power, licence fees and compensation — Note 30
- Leases — Note 35

## CONSOLIDATION PRINCIPLES

The consolidated financial statements comprise the financial statements of the parent company Statkraft AS and its subsidiaries. A subsidiary is an investee where Statkraft, as an investor, exercises control. Control is achieved by an investor being exposed to, or having rights to, variable returns as a result of ownership or agreements entered into with the investee. When considering whether control exists, Statkraft evaluates equity interests, voting rights, ownership structure and relative strength, options controlled by Statkraft and other shareholders and shareholder and operating agreements. Each individual investment is assessed. To qualify for control, Statkraft as an investor must have the ability to use its power over the investee to affect its returns.

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.

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 a method corresponding to the proportionate consolidation method. 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 or entities where Statkraft has joint control 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. 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 as to whether this is still a joint venture. The Group's share of the companies' profit/loss after tax, adjusted for amortisation of excess value and any deviations from accounting policies, are presented on a separate line in the consolidated income statement. Joint ventures are recognised in the consolidated accounts using the equity method and presented as non-current assets.

Associates are companies or entities where Statkraft has significant influence. The Group's share in associates are recognised in the consolidated accounts using the equity method and are presented on the same financial statement line item both in the balance sheet and the profit/loss as shares in joint ventures.

## COMPARATIVE FIGURES AND RECLASSIFICATIONS

Income statement, statement of financial position, statement of equity, cash flow statement and notes provide comparative information in respect of the previous period.

## COMPREHENSIVE INCOME – CHANGES IN PRESENTATION

Presentation of share of profit or loss from joint ventures and associated companies with operations closely related to Statkraft's operation is from 2016 presented as a separate line item under gross operating revenue and a part of operating profit/loss. Earlier profit or loss from joint ventures and associated companies was presented on a separate line between operating proft/loss and net financial items.

## 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.

# Note 1 continued

When preparing the consolidated financial statements, 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 as of 31 December; while the income statement is translated using monthly weighted average exchange rates throughout the year. Currency translation effects are recognised in other comprehensive income and recycled to the income statement upon sale of shareholdings in foreign companies.

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 recognized in the income statement.

## CLASSIFICATION AS SHORT-TERM/LONG-TERM

Balance sheet items are classified as short-term when they are expected to be realised within 12 months after the balance sheet date. With the exception of the items mentioned below, all other items are classified as long-term. Some derivatives that are hedging instruments in hedge accounting are presented together with the hedged item. The first year's repayments relating to long-term liabilities are presented as current liability.

## ADOPTION OF NEW AND REVISED STANDARDS

In 2016 amendments to existing standards have become effective. This includes amendment to the following standards:

- IAS 1 (amendments) – related to disclosure initiative
- IFRS 11 (amendments) – related to guidance and accounting for acquisitions of interests in joint operations that constitutes a business
- IAS 16, IAS 36 and IAS 38 (amendments) - clarification of acceptable methods of depreciation and amortisation
- Impact for the annual improvements to IFRSs 2012-2014 cycle

The adoption of these amendments did not have a significant impact on the financial statement of the Group.

## STANDARDS AND AMENDMENTS ISSUED BUT NOT YET EFFECTIVE

The IASB has issued three new standards that are particularly relevant for Statkraft: IFRS 16 Leases, IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers.

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. This is the case under the current applicable standards and will be the case when the new standards are implemented. Statkraft has started a process to identify which energy contracts are within the scope of IFRS 9, IFRS 15 or IAS 17. Statkraft primarily consider the scope of IAS 17, and not IFRS 16, because the new standard on leases will earliest is effective one year later than IFRS 9 and IFRS 15. To ensure that a thorough and proper analysis is performed, representatives from Statkraft's business areas have been included in the process to ensure that the characteristics of energy contracts are correctly understood. The implementation process has a global scope where all material energy contracts are in scope for consideration. Based on the analyses performed to date, Statkraft does not expect any significant effects from IFRS 9 and IFRS 15 with respect to recognition and measurement. Statkraft does however expect to prepare additional disclosures on financial instruments and revenue from contracts with customers when the standards become effective.

The nature of the impending change from each new standard is discussed below.

**IFRS 9 Financial Instruments** In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments that replaces IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. The standard includes new principles for classification and measurement, impairment and hedge accounting. Except for hedge accounting, retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions. In addition to the analyses performed for energy contracts, as outlined above, Statkraft has performed a high-level assessment of the other aspects of IFRS 9. The assessment is based on information currently available and may be subject to changes towards the implementation date. Overall, Statkraft expects no significant impacts from IFRS 9, except for additional disclosure requirements. Statkraft does not expect significant increase in use of hedge accounting from the new standard.

**IFRS 15 Revenue from Contracts with Customers** Issued by the IASB in 2014, IFRS 15 applies to contracts with customers. 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 revenue arising from contracts with customers. The new revenue standard will supersede all current revenue recognition requirements under IFRS, including IAS 18. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after 1 January 2018. Early adoption is permitted. Statkraft plans to adopt IFRS 15 in 2018 using the full retrospective method. During 2016, the Group performed a preliminary assessment of the effects from IFRS 15 on income from energy contracts, as discussed above, and income from other contracts within the scope of the standard such as contracts to sell power on exchanges, e.g. Nord Pool. Based on information currently available, Statkraft expects no significant impacts from IFRS 15 with respect to recognition and measurements. There may be certain changes with respect of gross versus net presentation in the statement of comprehensive income. Further, additional disclosures are being required. The preliminary conclusion may change, as the analysis is still ongoing.

**IFRS 16 Leases** The IASB issued IFRS 16 in 2016. IFRS 16 replaces IAS 17 and its interpretations, including IFRIC 4. 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. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will also be required to remeasure the lease liability 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). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. IFRS 16 also requires lessees to make more extensive disclosures than under IAS 17. The new standard has not yet been endorsed by EU. Early application is permitted, but not before an entity applies IFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. An implementation project for IFRS 16 has been initiated, but is still in an early stage. Statkraft will continue analysing the effects from IFRS 16 in 2017.

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

- IAS 7 (amendments) - disclosure initiative
- IAS 12 (amendments) - recognition of deferred tax assets for unrealised losses
- IFRS 10 and IAS 28 (amendments) - sale or contribution of assets between an investor and its associate or joint venture
- IFRIC 22 (interpretation) - foreign currency transactions and advance consideration
- Annual improvements to IFRS Standards 2014-2016 cycle

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

# 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.

LONG TERM PRICE FORECAST FOR POWER AND OTHER AREAS OF SIGNIFICANT JUDGEMENT

One of the key assumptions used by management in making business decisions is management'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
- Valuation of long term energy contracts — Note 10
- Valuation of certain financial obligations — Note 10
- 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 annually an update of its long term price forecasts and the related expected market developments in the geographical areas where Statkraft operates. 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. The annual update is the output of a continuous process of monitoring, interpreting and analysing global as well as local trends, market fluctuations and drivers that ultimately could affect future markets and revenues.

A fundamental approach is applied to analyse the markets. Such analysis includes among others;

- 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 organization. The main results are benchmarked to external references and major deviations are explained. The process aims to ensure consistency, and arrive at a balanced view of both the markets and the 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.

In addition to the above, significant judgement are 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 35

# Note 3 Subsequent events

There are no significant subsequent events.

# Note 4 Segment information

The Group reports operating segments in accordance with how the Chief Operating 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 management and used as a basis for resource allocation and key performance review.

The Group has adopted a new segment structure from 1 January 2016. The two former segments Nordic Hydropower and Continental Energy and Trading are replaced by European Flexible Generation and Market Operations. The reason for changing the segments is to make sure that the reporting structure is aligned with the strategic focus areas and the key priorities within the Group. The updated strategy has led to a clearer distinction between power generating assets and market operations.

The new European Flexible Generation segment mainly consists of flexible power plants in Norway, Sweden, Germany and the United Kingdom. The main focus for the segment is to maximise the long-term value of the asset base.

The new Market Operations segment mainly consists of market access, trading and origination activities. The activities will gradually increase to create new business opportunities in a changing European market. In addition, Statkraft aims to develop market operations in selected international markets were the Group owns assets.

The other segments are not changed compared to previous years.

The comparable figures are restated.

We are presenting the underlying operating profit/loss for each of the segments. The underlying results are adjusted for the unrealised effects arising from energy contracts (excluding Trading and Origination) and material non-recurring items..

“Other assets” for the segments consists of goodwill, other intangible assets, property plant and equipment and long-term receivables. For Statkraft AS Group “other assets” consists of all assets except equity accounted investments.

The segments are:

**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 bio-power plants in Germany.

**Market Operations** includes Trading and Origination, market access for smaller producers of renewable energy, as well as revenue optimisation and risk mitigation activities related to both the Continental and Nordic production.

**International hydropower** One of Statkraft’s strategic goals is to be a leading international provider of pure energy in growth markets. The business area International hydropower is set up to accomplish this. The business idea for International Hydropower is to deliver a competitive return by developing, acquiring, owning and operating renewable assets in selected growth markets with strong focus on safety and profitability across the value chain.

International hydropower will change name to International power from first quarter 2017 based on revised strategy. There will be no changes in the segment’s financial figures.

**Wind power** includes Statkraft’s operation and development in onshore and offshore wind power. The segment operates in Norway, Sweden and the United Kingdom.

**District heating** operates in Norway and Sweden.

**Industrial ownership** includes management and development of Norwegian shareholdings within the Group’s core business, as well as the end-user business in Fjordkraft.

**Other activities** include small-scale hydropower and group functions.

**Group items** include eliminations, unallocated assets, adjusted significant items and unrealised effects on energy contracts excluding Trading and Origination.

# Note 4 continued

**Accounting specification per segment**

| **Segments** NOK million | Statkraft AS Group | European flexible generation | Market Operations | Inter-national hydropower | Wind power | District heating | Industrial ownership | Other activities | Group items |
|---|---|---|---|---|---|---|---|---|---|
| **2016** | | | | | | | | | |
| Operating revenues external, underlying | **53 330** | 16 223 | 26 549 | 2 429 | 94 | 765 | 7 181 | 128 | -39 |
| Operating revenues internal, underlying | **-** | 234 | -108 | 114 | 667 | 2 | 58 | 824 | -1 791 |
| Share of profit/loss in equity accounted investments | **474** | - | -2 | 16 | 41 | - | 432 | -13 | - |
| Gross operating revenues, underlying | **53 804** | 16 457 | 26 439 | 2 559 | 802 | 767 | 7 671 | 939 | -1 830 |
| Net operating revenues, underlying | **23 033** | 14 865 | 1 238 | 2 234 | 759 | 552 | 3 602 | 938 | -1 155 |
| Operating profit/loss, underlying | **10 240** | 8 380 | 400 | 517 | -196 | 107 | 1 496 | -418 | -46 |
| Unrealised value changes energy contracts | **-2 413** | -1 048 | -1 158 | - | - | - | -237 | 37 | -7 |
| Adjusted significant items | **-4 741** | -2 802 | - | -1 336 | -585 | -18 | - | - | - |
| Operating profit/loss | **3 086** | 4 529 | -758 | -819 | -781 | 89 | 1 259 | -381 | -52 |
| | | | | | | | | | |
| **Balance sheet 31.12.16** | | | | | | | | | |
| Equity accounted investments | **19 438** | - | 55 | 5 860 | 3 522 | - | 9 979 | 18 | 4 |
| Other assets | **147 192** | 57 240 | 124 | 27 896 | 9 138 | 3 521 | 15 381 | 24 042 | 9 850 |
| Total assets | **166 630** | 57 240 | 179 | 33 756 | 12 660 | 3 521 | 25 360 | 24 060 | 9 854 |
| | | | | | | | | | |
| Depreciation, amortisation and impairment | **-8 260** | -4 554 | -14 | -1 910 | -973 | -190 | -544 | -74 | -2 |
| Maintenance investments and other investments | **1 763** | 1 154 | 2 | 162 | - | 13 | 387 | 44 | - |
| Investments in new production capacity | **3 736** | 582 | 4 | 1 250 | 1 457 | 142 | 301 | - | - |
| Investments in shares | **158** | - | 56 | 30 | 32 | - | - | 39 | 1 |

| **Segments** NOK million | Statkraft AS Group | European flexible generation | Market Operations | Inter-national hydropower | Wind power | District heating | Industrial ownership | Other activities | Group items |
|---|---|---|---|---|---|---|---|---|---|
| **2015** | | | | | | | | | |
| Operating revenues external, underlying | 50 579 | 13 002 | 26 589 | 1 738 | -8 | 626 | 6 093 | 167 | 2 597 |
| Operating revenues internal, underlying | - | 362 | 1 935 | 57 | 708 | 9 | 47 | 561 | -3 679 |
| Share of profit/loss in equity accounted investments | 683 | - | - | -196 | 55 | 1 | 835 | -12 | - |
| Gross operating revenues, underlying | 51 262 | 13 364 | 28 524 | 1 600 | 755 | 636 | 6 975 | 716 | -1 308 |
| Net operating revenues, underlying | 19 938 | 11 636 | 2 052 | 1 378 | 712 | 465 | 3 820 | 707 | -831 |
| Operating profit/loss, underlying | 7 499 | 5 664 | 1 024 | 181 | -257 | 50 | 1 627 | -801 | 11 |
| Unrealised value changes energy contracts | 609 | 557 | -471 | - | - | - | 359 | 138 | 26 |
| Adjusted significant items | -3 610 | - | - | -2 086 | -1 750 | - | - | 226 | - |
| Operating profit/loss | 4 497 | 6 221 | 553 | -1 905 | -2 008 | 50 | 1 986 | -437 | 36 |
| | | | | | | | | | |
| **Balance sheet 31.12.15** | | | | | | | | | |
| Equity accounted investments | 19 338 | - | 13 | 6 094 | 3 649 | 8 | 9 604 | 16 | 4 |
| Other assets | 157 517 | 62 390 | 246 | 28 215 | 10 087 | 3 620 | 15 197 | 28 088 | 9 674 |
| Total assets | 176 905 | 62 390 | 259 | 34 309 | 13 736 | 3 628 | 24 801 | 28 104 | 9 678 |
| | | | | | | | | | |
| Depreciation, amortisation and impairment | -6 401 | -1 763 | -38 | -1 688 | -2 083 | -163 | -544 | -122 | - |
| Maintenance investments and other investments | 1 969 | 1 413 | - | 104 | -30 | 10 | 404 | 66 | - |
| Investments in new production capacity | 7 797 | 741 | - | 3 048 | 3 335 | 272 | 281 | 120 | - |
| Investments in shares | 3 790 | - | 25 | 3 399 | 101 | 18 | - | 247 | - |

# Note 4 continued

**Underlying line items** are performance measures that are adjusted for significant items and unrealised value of energy contracts. Unrealised energy contracts within trading and origination activities are not adjusted, as the market portfolios are managed and followed up on market values.

**Adjusted significant items** are items that are material and can be described as revenues/gains and/or expenses/losses that are not expected to occur on a regular basis. The effects are adjusted in order to have comparable figures in the financial analysis of performance.

Relevant significant items in the period:

**Impairment** is excluded from underlying operating profit since it affects the economics of an asset for the lifetime of that asset; not only the period in which it is impaired or the impairment is reversed.

**Gain on sales of assets** is eliminated from the measure since the gain does not give an indication of future performance or periodic performance; such a gain is related to the cumulative value creation from the time the asset is acquired until it is sold.

**Specification of adjusted significant items:**

| NOK million | 2016 | 2015 |
|---|---|---|
| Unrealised value changes energy contracts | -2 413 | 609 |
| Adjusted significant items | -4 741 | -3 610 |
| *Gain on sale of assets* | - | *226* |
| *Impairments and related costs* [1] | *-4 741* | *-3 836* |
| Total | -7 154 | -3 001 |

[1] Impairments include related cost of NOK 105 million (NOK 789 million in 2015).
See note 14, 18, 22, 23 and 30 for further information.

**Specification per product**
Reference is made to note 12.

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

Non-current assets consist of property, plant and equipment and intangible assets except deferred tax and are allocated on the basis of the country of origin for the production facility or activity.

**Geographical areas**

| NOK million | Statkraft AS Group | Norway | Germany | Sweden | UK | Other |
|---|---|---|---|---|---|---|
| **2016** | | | | | | |
| Sales revenues external | 49 448 | 21 924 | 14 620 | 1 634 | 8 016 | 3 254 |
| *Generation* | 18 976 | 14 659 | 705 | 1 391 | 39 | 2 181 |
| *Sales and trading* | 3 634 | 509 | -116 | - | -525 | 3 767 |
| *Customer* | 24 913 | 5 768 | 13 591 | 1 | 8 502 | -2 949 |
| *Other* | 1 925 | 988 | 441 | 242 | - | 254 |
| Non-current assets as of 31.12. | 107 161 | 57 046 | 2 182 | 21 866 | 1 195 | 24 873 |
| **2015** | | | | | | |
| Sales revenues external | 51 586 | 19 501 | 16 918 | 1 686 | 10 448 | 3 033 |
| Non-current assets as of 31.12. | 115 730 | 56 744 | 4 790 | 25 681 | 3 300 | 25 215 |

**Information regarding significant customers**
No external customers account for 10% or more of the Group’s operating revenues.

# Note 4 continued

**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 below includes financial figures for the Norwegian hydropower, which have been extracted from different operational segments.

"Norwegian hydropower" includes all activities related to our 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" refer to all activities in the investments in the associated regional companies BKK AS, Agder Energi AS and Istad AS.

The column Sum "Norwegian hydropower" 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 shows the financial items and tax related to the activities in the definition of "Norwegian hydropower".

We have extracted the figures from our equity accounted investments in the associated companies BKK AS, Agder Energi AS and Istad AS from the segment Industrial Ownership, refer also note 24.

| Norwegian hydropower<br>NOK million | Statkraft AS Group | "Norwegian hydropower" from: Statkraft Energi AS | Skagerak Kraft Group | Sum "Norwegian hydropower, excluding related business" | Associated regional companies | Sum "Norwegian hydropower and related business" |
|---|---|---|---|---|---|---|
| **2016** | | | | | | |
| Share of profit/loss in equity accounted investments | 474 | - | 1 | 1 | 434 [1)] | 435 |
| Gross operating revenues | 50 987 | 14 186 | 1 239 | 15 411 | 434 | 15 846 |
| Net operating revenues | 20 621 | 11 774 | 1 146 | 12 924 | 434 | 13 358 |
| Operating profit/loss | 3 086 | 6 985 | 527 | 7 513 | 434 | 7 947 |
| Net financial items | 2 138 | -239 | -88 | -327 | | -327 |
| Tax expense | -5 402 | -4 177 | -355 | -4 531 | | -4 531 |
| Profit/loss after tax | -178 | 2 570 | 85 | 2 655 | 434 | 3 090 |
| Profit/loss after tax (majority share) | -117 | 2 570 | 57 | 2 627 | 434 | 3 062 |
| Paid dividend and group contribution to Statkraft | | 5 038 [2)] | 59 [3)] | 5 097 | 525 [3)] | 5 622 |
| **Balance sheet 31.12.16** | | | | | | |
| Equity accounted investments | 19 438 | - | 23 | 23 | 9 890 [1)] | 9 913 |
| Other assets | 147 192 | 38 000 | 5 431 | 43 431 | | 43 431 |
| Total assets | 166 630 | 38 000 | 5 454 | 43 454 | 9 890 | 53 344 |
| EBITDA | 11 346 | 8 529 | 716 | 9 245 | 434 | 9 679 |
| Depreciation, amortisation and impairment | -8 260 | -1 544 | -188 | -1 732 | | -1 732 |
| Maintenance investments and other investments | 1 763 | 1 070 | 103 | 1 173 | | 1 173 |
| Investments in new production capacity | 3 736 | 452 | 1 | 453 | | 453 |
| Investments in shares | 158 | - | - | - | | - |

1) Statkraft share of profit/loss after tax and balance sheet
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 is 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. Temporary 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, 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 income 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 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, 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, but with 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.

**Final purchase price allocation of Desenvix Energias Renovàeis S.A**
The subsidiary Desenvix Energias Renovàeis S.A. was acquired in July 2015. IFRS 3 allows making adjustments to the purchase price allocation within one year after the acquisition date. The valuation of assets and liabilities acquired are based on management’s best judgement. The valuation of customer contracts (intangible assets) is based on discounted future cash flows. A critical input in the cash flows is the long-term price forecast, which is aligned with Statkrafts long term market view (ref.further described in note 2). The valuation of fixed assets is based on replacement cost.

The acquisition cost partly consists of a contingent consideration (earn out). The earn out is recognised at fair value based on discounted future cash flows.

All assets and liabilities are measured based on information that existed on the acquisition date. The valuation is performed by both external and internal experts. There are no changes from the amounts that were booked in the financial statements as of 31 December 2015. Furthermore, nor does the dispute described in note 33 have any impact on the final purchase price allocation of the acquisition.

## Note 5 continued

BUSINESS COMBINATIONS AND TRANSACTIONS IN 2016

There were no significant business combinations, asset purchases or sale of business in 2016.

SALE AND RESTRUCTURING OF BUSINESS IN 2015

**Småkraft AS** On 22 December 2015, Statkraft sold the subsidiary Småkraft AS. The gain from the transaction was NOK 226 million and is booked in other operating revenues. Some of the shares in Småkraft AS were owned through associates (Agder Energi AS and BKK AS). The gain in associated companies was NOK 108 million and is booked in share of profit from associates and joint ventures. Total gain for Statkraft, including gain in associates, was NOK 334 million. Statkraft still holds one of the power plants from the sale of Småkraft AS, which has been transferred into a new established company Steinsvik Kraft AS. The ownership structure of Steinsvik Kraft AS is the same as for Småkraft AS prior to the sale.

BUSINESS COMBINATIONS 2015

**Statkraft Tofte AS** On 6 February 2015 during the establishment of Silva Green Fuel AS, Statkraft acquired all shares in Statkraft Tofte AS, previously Södra Cell Tofte AS. The acquisition of the shares in Statkraft Tofte AS is recognised as purchase of assets. The total cost price for the purchase of shares in Statkraft Tofte AS was NOK 220 million. Net assets in the company totalled NOK 153 million at takeover, in addition to the identified excess value of operating equipment of NOK 67 million.

**Empresa Eléctrica Pilmaiquén S.A.** On 23 April 2015, Statkraft completed its purchase of the listed hydropower company Empresa Eléctrica Pilmaiquén S.A. in Chile. The total cost price for 98.18% of the shares was NOK 1948 million. Net assets as of 23 April 2015 totalled NOK -272 million. The negative value in equity is related to an earlier purchase of non-controlling interest, where the excess values were booked against equity. The acquisition analysis shows an excess value of NOK 2257 million, mainly allocated to regulation plants (fixed asset). The analysis also gives goodwill of NOK 605 million, which mainly relates to the difference between net present value and nominal value of the deferred tax on excess values. An additional 1.21% shareholding has been acquired after the transaction date.

**Desenvix Energias Renovàeis S.A.** On 13 July 2015, Statkraft completed its purchase of 35% of the shares of Desenvix Energias Renovàeis S.A. in Brazil and changed the name to Statkraft Energias Renováveis (SKER). The transaction increased Statkraft's ownership interest from 46.3% to 81.3%. The estimated total cost price for 81.3% of the shares was NOK 3071 million, and consists of cash payment of NOK 1007 million, offsetting of a liability of NOK 189 million, fair value of previous ownership of NOK 1749 million and an estimated contingent consideration of NOK 127 million. Net assets as of 30 June 2015 in Desenvix totalled NOK 1639 million. The preliminary allocation of excess values from the transaction are related to long-term power purchase agreements (intangible asset) of NOK 1549 million, power plants (fixed asset) of NOK 721 million, associated company of NOK 81 million and goodwill of NOK 455 million.

According to IFRS 10, the transaction represents a change of control from an investment in an associated company to an investment in a subsidiary. A transaction that entails a change of control in accordance with IFRS 3 is treated as a realisation and require that a gain/loss at the time of de-recognition of the associated company has to be calculated. At realisation any negative or positive effect from accumulated translation differences has to be presented as a loss/gain in the income statement and a corresponding positive/negative recycling amount through comprehensive income, resulting in a zero effect in equity. The estimated accounting effect of de-recognition of the associated company is a net loss of NOK 471 million. The net loss consists of a gain of NOK 301 million on the underlying net asset in BRL, and a loss on accumulated translation differences of NOK 772 million.

**Gardermoen Energi AS** On 2 November 2015, Statkraft purchased 100% of the shares in Gardermoen Energi AS (District Heating). The company has a yearly production of 54 GWh. There were no excess values.

JOINT ARRANGEMENTS 2015

**Silva Green Fuel AS** On 6 February 2015, Statkraft, along with Södra Skogägarna Ekonomisk Förening (Södra), established the company Silva Green Fuel AS, organised as a joint venture, with the goal of establishing future production of biofuel based on forest raw material at the industrial area housing the former cellulose factory at Tofte in Hurum. Statkraft and Södra own 51% and 49%, respectively, of the new company. The owners have injected NOK 50 million into the company as seed capital.

**Triton Knoll** On 12 February 2015, Statkraft and RWE Innogy GmbH entered into an agreement to develop and construct the offshore wind farm Triton Knoll, which may have an installed capacity of up to 900 MW. The offshore wind farm is located off the eastern coast of England. Through this agreement, Statkraft secures 50% of Triton Knoll Offshore Wind Ltd. Statkraft paid NOK 86 million for its shareholding in Triton Knoll.

# Note 5 continued

| **Allocation of cost price for business combinations in 2015** | Empresa Eléctrica Pilmaiquén S.A. | Desenvix Energias Renovàeis S.A. | Other [1] | Total |
|---|---|---|---|---|
| Acquisition date | 23.04.2015 | 13.07.2015 | | |
| Voting rights/shareholding acquired through the acquisition | 98.18% | 35% | | |
| Total voting rights/shareholding following acquisition | 98.18% | 81.31% | | |
| Measurement of non-controlling interests | Proportionate | Proportionate | | |
| **Consideration** | | | | |
| NOK million | | | | |
| Cash | 1 948 | 1 195 | 238 | 3 381 |
| Fair value of previously recognised shareholdings | - | 1 749 | - | 1 749 |
| Contingent consideration | - | 127 | - | 127 |
| Total acquisition cost | 1 948 | 3 071 | 238 | 5 257 |
| Book value of net acquired assets (see table below) | -272 | 1 639 | 170 | 1 537 |
| Identification of excess value, attributable to: | | | | |
| Intangible assets | -24 | 1 549 | - | 1 525 |
| Property, plant and equipment | 2 281 | 721 | 68 | 3 070 |
| Investments in associates | - | 81 | - | 81 |
| Gross excess value | 2 257 | 2 351 | 68 | 4 676 |
| Deferred tax on excess value | -616 | -772 | - | -1 388 |
| Net excess value | 1 641 | 1 579 | 68 | 3 288 |
| Fair value of net acquired assets, excluding goodwill | 1 369 | 3 218 | 238 | 4 825 |
| Of which | | | | |
| Majority interests | 1 344 | 2 616 | 238 | 4 198 |
| Non-controlling interests | 25 | 601 | - | 626 |
| Total | 1 369 | 3 218 | 238 | 4 825 |
| Total acquisition cost | 1 948 | 3 071 | 238 | 5 257 |
| Fair value of net acquired assets, acquired by the majority through the transaction | 1 344 | 2 616 | 238 | 4 199 |
| Goodwill | 605 | 455 | - | 1 060 |

[1] Purchase of Statkraft Tofte AS and Gardermoen Energi AS is included in Other column.

## Note 5 continued

| NOK million | Empresa Eléctrica Pilmaiquén S.A. | Desenvix Energias Renovàeis S.A. | Other | Total |
|---|---|---|---|---|
| **Book value of net acquired assets** | | | | |
| Intangible assets | 92 | 305 | - | 397 |
| Property, plant and equipment | 911 | 2 706 | 88 | 3 705 |
| Investments in associates | - | 517 | - | 517 |
| Other non-current assets | - | 206 | - | 206 |
| Non-current assets | 1 003 | 3 734 | 88 | 4 825 |
| Cash and cash equivalents | 21 | 97 | 211 | 329 |
| Inventory | - | - | 1 | 1 |
| Receivables | 322 | 178 | 14 | 513 |
| Current assets | 343 | 274 | 226 | 843 |
| Acquired assets | 1 346 | 4 008 | 313 | 5 668 |
| Long-term interest-bearing liabilities | 1 279 | 1 695 | 53 | 3 027 |
| Other interest-free liabilities | 224 | 442 | 90 | 755 |
| Liabilities and non-controlling interests | 115 | 234 | - | 349 |
| Net value of acquired assets | -272 | 1 639 | 170 | 1 537 |
| Net value of acquired assets, including increase in the value of private placing | -272 | 1 639 | 170 | 1 537 |
| Total acquisition cost | 1 948 | 3 071 | 239 | 5 258 |
| Non-cash elements of acquisition cost | - | 2 040 | - | 2 040 |
| Consideration and cost in cash and cash equivalents | 1 948 | 1 031 | 239 | 3 218 |
| Cash and cash equivalents in acquired companies | 21 | 97 | 211 | 329 |
| Net cash payments in connection with the acquisitions | 1 927 | 934 | 27 | 2 889 |
| Fair value of acquired receivables | 322 | 178 | 14 | 513 |
| Gross nominal value of acquired receivables | 322 | 178 | 14 | 513 |
| Gain/loss from derecognition of previously recognised shareholding | - | -471 | - | -471 |
| Contribution to gross operating revenue since acquisition date [1] | 114 | 339 | 12 | 465 |
| Contribution to net profit since acquisition date [1] | -41 | -16 | -3 | -61 |
| Proforma figure 2015 gross operating revenue [1] | 151 | 693 | 32 | 877 |
| Proforma figure 2015 net profit after tax [1] | -81 | -152 | -9 | -242 |

[1] Information for Gardermoen Energi AS included in Other column is based on unaudited financial statements. Profit disclosed for the corresponding company is profit before tax.

## Note 6 Management of capital structure

The main aim of the Group's management of its capital structure is to maintain a reasonable balance between the company's debt/equity ratio, its ability to expand as well as 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 2016.

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- (negative outlook) from Standard & Poor's and Baa1 (stable outlook) from Moody's. Statkraft's target is to maintain its current rating

**Overview of capital included in management of capital structure**

| NOK million | Note | 2016 | 2015 |
|---|---|---|---|
| Long-term interest-bearing debt | 31 | **31 886** | 37 410 |
| Current interest-bearing debt | 31 | **8 407** | 7 196 |
| Cash and cash equivalents, excluding restricted cash and short-term financial investments | 29 | **-7 840** | -9 570 |
| Net interest-bearing liabilities | | **32 453** | 35 036 |

# 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 continually monitored. The Group has trading activities in Oslo, Trondheim, Stockholm, London, Amsterdam, Düsseldorf, Istanbul, Tirana, Rio de Janeiro, San Francisco and New Dehli.

A description of the energy portfolios in Statkraft can be found below:

**Bilateral contracts** Statkraft has entered into physical power sales agreements with industrial customers in the Nordic region. These contracts stabilise Statkraft's revenues. The bilateral industrial contracts have different duration. The price of some of these sales obligations are indexed to foreign currency and raw materials such as metals. These contracts may include an embedded derivative for instance in the case of a currency exposure in relation to other currencies than the functional currency of the counterparty. Embedded derivatives in physical sales contracts are recognised at fair value, other contracts entered into for own use are excepted from recognition in the balance sheet and are recognised in the income statement as part of normal purchase and sale.

**Nordic and Continental dynamic asset management portfolios**
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 contracts are measured at fair value.

**Trading portfolios** The trading activities involve buying and selling standardised and liquid products. Power and $CO_2$ products, as well as green certificates, gas and oil products are traded. The contracts in the trading portfolio have maturities ranging from 0 to 4 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 prices for power, coal, gas and oil products. Contracts in the trading portfolios are recognised at fair value.

**Origination portfolios** Origination activities include buying and selling both standardised and structured products. Structured products are typically power contracts with tailor made profiles, long-term contracts or power contracts in different currencies. Trading transportation capacity across borders and 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 2025. The contracts are recognised at fair value. Market access activities for power purchase agreements with minor producers of renewable energy in Scandinavia, Germany and in the UK, are not part of these Origination activities.

Statkraft has various trading, and origination portfolios that are managed independently of the Group's expected power production. Statkraft has allocated risk capital for 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.

DESCRIPTION OF FOREIGN EXCHANGE AND INTEREST RATE RISK

Statkraft is exposed to two main types of risk as regards the finance activities: foreign exchange risk and interest rate risk. Statkraft therefore employs interest rate and foreign currency derivatives to mitigate these risks.

Interest rate swaps, currency- and interest rate swaps and forward exchange rate contracts are used to achieve the desired currency and interest rate structure for the company's debt portfolio. Forward exchange rate contracts and debt in foreign currency are also used to hedge cash flows denominated in foreign currency.

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 dividend from subsidiaries and associates in foreign currency. Balance sheet risk is related to shareholdings in foreign subsidiaries. There is also balance sheet risk related to investments in some associated companies.

The settlement currency for Statkraft's main power exchange is EUR, and all contracts that are entered into on the power exchange are nominated in EUR and thus exposed to EUR. A corresponding currency exposure incurs when trading energy on other exchanges with other currencies than EUR. Statkraft hedges its currency exposure related to cash flows from power sales of physical contracts and financial trading on power exchanges, investments, dividends and other currency exposures 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 the hedging relationships fulfil the requirements of hedge accounting in accordance with IAS 39.

**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, contributing to stabilize the Group's cash flows with regards to interest rate changes, and stabilizing FFO/Net Debt over time. 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 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 separated and is allocated to separate organisational units. The interest rate exposure per currency in relation to established frameworks in the finance strategy is regularly reported to corporate management.

# Note 8 Analysis of market risk

Statkraft follows up market risk within energy optimisation, its Trading and Origination portfolios, currency and interest rate positions, distribution grid revenues and end-user business 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 Group management and the Board. 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 balance sheet date during the course of a year. Uncertainty in the underlying instruments/prices and their interrelatedness are 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.

Total market risk as of 31 December 2016 was calculated at NOK 3617 million, which has increased from last year.

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 | 2016 | 2015 |
|---|---|---|
| Market risk in energy optimisation (volume risk, spot price risk and hedging) | 2 714 | 1 529 |
| Market risk in Trading and Origination portfolios (excl. market access activities) | 1 226 | 906 |
| Market risk in interest rates and currency positions | 39 | 17 |
| Market risk in distribution grid revenues | 30 | 30 |
| Market risk in end-user activities and district heating | 50 | 50 |
| Total market risk before diversification effects | 4 059 | 2 532 |
| Diversification effects | -442 | -310 |
| Total market risk | 3 617 | 2 222 |
| Diversification effect as a percentage | 11% | 12% |

**Specification of debt by currency [1) 2)]**

| NOK million | 2016 | 2015 |
|---|---|---|
| Debt in NOK | 12 058 | 12 987 |
| Debt in SEK | 9 | 11 |
| Debt in EUR | 18 216 | 19 424 |
| Debt in USD | 904 | 1 284 |
| Debt in GBP | 5 308 | 6 542 |
| Debt in BRL | 1 275 | 1 141 |
| Debt in CLP/CLF | 483 | n/a |
| Total | 38 253 | 41 389 |

[1)] Includes long-term interest-bearing debt, first-year instalment on long-term interest-bearing debt, certificate loans and the currency effect of combined interest rate and currency swaps. Specifications of debt by currency includes effects from combined interest rate and currency swaps, since Statkraft uses these swaps 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)] | 2016 | 2015 |
|---|---|---|
| Nominal average interest rate, NOK | 4.40% | 4.80% |
| Nominal average interest rate, SEK | n/a | 1.20% |
| Nominal average interest rate, EUR | 2.60% | 2.90% |
| Nominal average interest rate, USD | 5.90% | 5.60% |
| Nominal average interest rate, GBP | 0.70% | 0.80% |
| Nominal average interest rate, BRL | 8.40% | 8.20% |
| Nominal average interest rate, CLP/CLF | 6.40% | 0.00% |

[1)] Includes long-term interest-bearing debt, first-year instalment on long-term interest-bearing debt, certificat loans, 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.

**Fixed interest rate debt portfolio [1) 2)]**

| | Future interest rate adjustments | | | | |
|---|---|---|---|---|---|
| NOK million | 0-1 year | 1–3 years | 3–5 years | 5 years and more | Total |
| Debt in NOK | 4 598 | 1 110 | 1 100 | 5 250 | 12 058 |
| Debt in SEK | - | - | - | 9 | 9 |
| Debt in EUR | 12 286 | 1 389 | 84 | 4 457 | 18 216 |
| Debt in USD | 102 | 203 | 145 | 453 | 904 |
| Debt in GBP | 5 306 | 2 | - | - | 5 308 |
| Debt in BRL | 668 | 71 | 88 | 448 | 1 275 |
| Debt in CLP/CLF | 182 | 1 | - | 300 | 482 |
| Total fixed interest 2016 | 23 142 | 2 775 | 1 417 | 10 918 | 38 253 |
| Total fixed interest 2015 | 24 612 | -1 447 | 6 947 | 11 277 | 41 389 |

[1)] Includes long-term interest-bearing debt, first-year instalment on long-term interest-bearing debt, certificate loans and the currency effect of combined interest rate and currency swaps. The split between years also take into account interest rate adjustments in interest rate swaps and combined interest rate and currency swaps. Negative figures reflect that Statkraft receive
fixed interest from interest rate swaps.
[2)] Management of foreign exchange risk and interest rate risk are presented in more detail in note 7.

**Short-term financial investments – bonds per debtor category**

| NOK million | 2016 | 2015 | Mod. duration | 2016 Av. interest rate (%) |
|---|---|---|---|---|
| Commercial and savings banks | 175 | 155 | 2.36 | 1.84% |
| Industry | 47 | 38 | 1.73 | 2.03% |
| Public sector | 56 | 58 | 3.29 | 1.69% |
| Total | 278 | 250 | | |

# Note 9 Credit risk and liquidity risk

GENERAL INFORMATION ON CREDIT RISK

Credit risk is the risk that Statkraft suffering losses due to the failure of a counterparty to honour its financial obligations. Statkraft is facing credit risk when entering into transactions with banks and financial institutions involving interest bearing securities, bank deposits, derivative transactions, incoming guarantees, committed but undrawn credit lines and to financial institutions being provider of clearing services etc. In addition, Statkraft assumes counterparty risk in connection with energy trading and physical sales. The total risk of counterparties not being able to meet their obligations is considered to be limited. Historically, Statkraft's losses on receivables have been limited.

The counterparty 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 counter-parties are allocated to different categories. The internal credit rating is based on financial key figures. Bilateral contracts are subject to limits for each counterparty with regards to volume, amount and duration.

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.

Investment of surplus liquidity is mainly distributed among institutions rated BBB (Standard & Poor's) or better. For investment of surplus liquidity, the limits are stipulated for the individual counterparty using an internal credit rating.

Statkraft has entered into agreements relating to interim cash settlement of the market value of financial derivatives with counterparties (cash collateral).

Counterparty exposure in connection with these agreements are considered to be very low. Cash collateral is settled on a weekly basis and will therefore not always be settled at period end. There could therefore be an outstanding credit risk at the period end. Similar agreements have also been established for individual counterparties for financial energy contracts.

In order to reduce credit risk in connection with investments, bank or parent company guarantees are sometimes used when entering into such agreements. The bank which issues the guarantee must be an internationally rated commercial bank which meets minimum rating requirements. When parent company guarantees are used, the parent company is assessed by using ordinary internal credit assessments. Subsidiaries will never be rated higher than the parent company. In cases involving bank guarantees and parent company guarantees, the counterparty will be classified in the same category as the issuer of the guarantee.

The individual counterparty exposure limits are monitored continuously and reported regularly to the management. In addition, the counterparty risk is quantified by combining exposure with the probability of the individual counterparty defaulting. The overall counterparty risk is calculated and reported for all relevant units, in addition to being consolidated at Group level and included in the Group risk management.

Statkraft's gross credit risk exposure corresponds to the recognised value of financial assets, which are found in the various notes to the balance sheet. The extent to which relevant and significant collateral has been provided, is presented below.

| NOK million | Note | 2016 | 2015 |
|---|---|---|---|
| **Gross exposure credit risk:** | | | |
| Other non-current financial assets | 25 | 8 961 | 7 874 |
| Derivatives | 28 | 9 684 | 11 325 |
| Receivables | 27 | 10 219 | 10 675 |
| Short-term financial investments | | 532 | 513 |
| Cash and cash equivalents | 29 | 7 308 | 9 056 |
| Gross exposure credit risk | | 36 704 | 39 444 |
| | | | |
| **Exposure reduced by cash collateral:** | | | |
| Cash collateral [1] | 31 | -1 408 | -1 725 |
| Net exposure credit risk | | 35 296 | 37 720 |

[1] The split between interest- bearing and interest-free is NOK 1408 million and 0 million in 2016 and NOK 1614 million and NOK 110 million in 2015.

# 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 current 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 by collaterals in connection with trading both financial power contracts and financial derivatives. Statkraft also uses cash payments to cover margin calls related to trading activities. The liquidity risk is minimised by employing the following tools: liquidity forecasts, reporting of short-term liquidity target figures, liquidity reserve requirements, requirements relating to minimum cash in hand, requirements relating to guarantees in connection with energy trading and available committed bank facilities.

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

An individual target figure for short-term liquidity capacity, which reflects Statkraft's ability to cover its future obligations, is included in the Group's balanced scorecard. The objectives relating to Statkraft's desire for a satisfactory liquidity reserve consisting of available cash in hand, short-term financial placements and unused credit facilities to cover e.g. refinancing risk, and also to act as a buffer against volatility in the Group's cash flows.

A guarantee has been established to handle significant fluctuations in the collateral required by energy exchanges in connection with trading financial power contracts. The guarantee significantly reduces the volatility in the Group's cash flows.

**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 | 2 250 |
| Instalments on loans raised in non-Norwegian markets | 5 892 | 1 816 | 4 531 | - | - | 15 326 |
| Instalments on external loans in subsidiaries and other loans | 235 | 241 | 336 | 216 | 300 | 1 670 |
| Interest payments | 1 341 | 1 050 | 1 026 | 586 | 549 | 1 376 |
| Total maturity schedule 2016 | 7 467 | 3 107 | 7 293 | 3 802 | 1 648 | 20 622 |
| Total maturity schedule 2015 | 5 940 | 7 700 | 1 215 | 7 383 | 3 718 | 22 986 |

**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 | 2 700 | 942 | 326 | 107 | 18 | -24 |
| Interest rate- and foreign currency derivatives | 1 073 | 427 | 337 | 75 | 83 | 643 |
| Total derivatives 2016 | 3 773 | 1 369 | 664 | 182 | 100 | 620 |
| Total derivatives 2015 | 3 797 | 861 | 666 | 598 | 178 | 1 036 |

# Note 10 Financial Instruments

GENERAL INFORMATION

Financial instruments account for a significant part of Statkraft's total balance sheet and are of material importance for the Group's financial position and results. Most of the financial instruments can be categorised 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-standardised contracts. Financial instruments are used as part of the Group's financial hedging strategy for continuous optimisation of future revenues from the expected production volume. 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 green certificates. Derivatives recognised in the balance sheet are shown as separate items and are measured at fair value with changes in value recognised in the income statement. As the Group's future own production of power does not qualify for recognition in the balance sheet, the effect of changes in value of financial energy derivatives may have major effects on the income statement without necessarily reflecting the underlying business.

**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. 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, hedging is reflected in the financial statements. Because not all financial hedging relationships are being reflected in the financial statements, changes in value for financial instruments may result in volatility in the income statement without fully reflecting the financial reality.

SIGNIFICANT ACCOUNTING POLICIES

Financial instruments are recognised when Statkraft becomes a party to the contractual provisions of the instrument. Initial recognition of financial assets and liabilities are at fair value. Financial assets and liabilities are classified on the basis of the nature and purpose of the instruments into the categories "financial assets at fair value through profit or loss", "loans and receivables", "available-for-sale financial assets" and "financial liabilities".

**1) Financial instruments valued at fair value through profit or loss**
Initial recognition of instruments are at fair value.

- Physical power sales contracts are as a main rule measured at fair value since these contracts are considered to be readily convertible to cash.
- Financial contracts for the purchase and sale of energy-related products are classified as derivatives. Energy derivatives consist of both stand-alone derivatives, and embedded derivatives that are separated from the host contract and recognised at fair value as if the derivative were a stand-alone contract.
- "Own use" physical contracts for the purchase and sale of energy-related products that are entered into as a result of mandates connected to Statkraft's own requirements for use or procurement in own production normally fall outside the scope of IAS 39.
- Currency and interest rate derivatives.
- Other financial assets held for trading.

**2) Loans and receivables** are financial receivables or debt that is not quoted in an active market. Loans and receivables are measured at fair value upon initial recognition with the addition of directly attributable transaction costs. In subsequent periods, loans and receivables 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. If an impairment loss is assessed to have occurred, the loss is recognised in the income statement.

**3) Assets held as available for sale** are financial assets which are not included in any of the above categories. Statkraft classifies strategic long-term shareholdings in this category. The assets are initially measured at fair value together with directly attributable transaction costs. Subsequently, the assets are measured at fair value with changes in value recognised in other comprehensive income.

**4) Financial liabilities** are measured at fair value on initial recognition including directly attributable transaction costs. In subsequent periods, financial 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.

ACCOUNTING JUDGEMENT

**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 35.

**"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 balance sheet. "Own use" contracts will typically have a stable customer base (for example bilateral industry contracts) and are always settled by physical delivery.

According to IAS 39, non-financial energy contracts that are not covered by the "own use" exemption, shall be accounted for as if they are derivatives (financial instruments). This will typically apply to contracts for physical purchases and sales of power and gas. 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 "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, i.e. as prices, or indirectly, i.e. 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, this 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 where this is available, and the last observable data adjusted with inflation for the period where market data is unavailable. As a main rule, the cash flows are discounted with a risk-free rate. For embedded derivatives a credit spread will be included in the discount rate.

## Note 10 continued

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 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 is 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 (DCF) 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 balance sheet date.

For other bilateral power contracts, the expected cash flow is stipulated on the basis of a market price curve on the balance sheet date. The market price curve is stipulated on the basis from official closing rates quoted on energy exchanges. For time horizons beyond the period for which there are official quotes, the prices are adjusted for expected inflation.

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. If the contracts extend beyond the horizon quoted on energy exchanges, the price is adjusted for the expected inflation.

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. If quotes are not available for the entire contract delivery period, the commodity prices are adjusted for inflation based on the most recent quoted price in the market.

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 time period in question, 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.

**$CO_2$ contracts** are priced based on the forward price of EU Allowance (EUA) quotas and Certified Emmision Reduction (CER) quotas. For time horizons beyond the horizon quoted, the price curve is adjusted for expected inflation.

**Green certificates** are valued at forward price and adjusted for inflation from the last noted price quotation.

**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.

| 2016 | | Fair value measurement at period-end using: | | | |
|---|---|---|---|---|---|
| NOK million | Note | Level 1 | Level 2 | Level 3 | Fair value |
| **Financial assets at fair value** | | | | | |
| Energy derivatives | 28 | 1 036 | 3 604 | 2 627 | 7 268 |
| Currency and interest rate derivatives | 28 | - | 2 416 | - | 2 416 |
| Short-term financial investments | | 532 | - | - | 532 |
| Money market funds, certificates, promissory notes, bonds | 29 | - | 20 | - | 20 |
| Total | | 1 568 | 6 041 | 2 627 | 10 236 |
| **Available-for-sale financial assets** | | | | | |
| Other shares and securities | 25 | 90 | - | 248 | 338 |
| Total | | 90 | - | 248 | 338 |
| **Financial liabilities at fair value** | | | | | |
| Energy derivatives | 28 | -182 | -2 420 | -1 787 | -4 389 |
| Currency and interest rate derivatives | 28 | -181 | -2 372 | - | -2 553 |
| Total | | -364 | -4 792 | -1 787 | -6 942 |

| 2015 | | Fair value measurement at period-end using: | | | |
|---|---|---|---|---|---|
| NOK million | Note | Level 1 | Level 2 | Level 3 | Fair value |
| **Financial assets at fair value** | | | | | |
| Energy derivatives | 28 | 530 | 4 586 | 3 471 | 8 587 |
| Currency and interest rate derivatives | 28 | - | 2 739 | - | 2 739 |
| Short-term financial investments | | 513 | - | - | 513 |
| Money market funds, certificates, promissory notes, bonds | 29 | 550 | - | - | 550 |
| Total | | 1 594 | 7 325 | 3 471 | 12 389 |
| **Available-for-sale financial assets** | | | | | |
| Other shares and securities | 25 | 75 | 40 | 143 | 257 |
| Total | | 75 | 40 | 143 | 257 |
| **Financial liabilities at fair value** | | | | | |
| Energy derivatives | 28 | -77 | -1 205 | -3 020 | -4 302 |
| Currency and interest rate derivatives | 28 | - | -4 823 | - | -4 823 |
| Total | | -77 | -6 028 | -3 020 | -9 125 |

# Note 10 continued

**Total unrealised changes in value**

| NOK million | Note | 2016 | 2015 |
|---|---|---|---|
| Energy contracts | 20 | -1 364 | 347 |
| Financial items | 20 | 1 064 | 956 |
| Total | | -300 | 1 303 |

**Assets and liabilities measured at fair value based on Level 3**

| NOK million | Financial assets at fair value | Financial liabilities at fair value | Total |
|---|---|---|---|
| Opening balance 01.01.2016 | 3 614 | -3 020 | 594 |
| Unrealised changes in value, incl. currency translation effects | -718 | 1 131 | 413 |
| Additions or realisations | 5 | 96 | 100 |
| Moved to/from Level 3 | -25 | 7 | -19 |
| Closing balance 31.12.2016 | 2 875 | -1 787 | 1 088 |
| | | | |
| Net realised gain (+)/loss (-) for 2016 | | | -82 |
| | | | |
| Opening balance 01.01.2015 | 2 294 | -1 256 | 1 038 |
| Unrealised changes in value, incl. currency translation effects | 1 207 | -2 071 | -864 |
| Additions or realisations | 137 | - | 137 |
| Moved to/from Level 3 | -23 | 307 | 283 |
| Closing balance 31.12.2015 | 3 614 | -3 020 | 594 |
| | | | |
| Net realised gain (+)/loss (-) for 2015 | | | 844 |

**Sensitivity analysis of factors classified to Level 3**

| NOK million | 10% reduction | 10% increase |
|---|---|---|
| Net effect from power prices | -303 | 328 |
| Net effect from gas prices | -39 | 39 |

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

| Assets and liabilities recognised at amortised cost | | 2016 | 2016 | 2015 | 2015 |
|---|---|---|---|---|---|
| NOK million | Note | Recognised value | Fair value | Recognised value | Fair value |
| **Financial assets at amortised cost** | | | | | |
| Loans to associates | 25 | 6 740 | 6 831 | 4 974 | 5 197 |
| Bonds and other long-term receivables | 25 | 1 883 | 1 883 | 2 642 | 2 662 |
| Accounts receivable | 27 | 7 335 | 7 335 | 5 903 | 5 903 |
| Short-term loans to associates | 27 | 381 | 381 | 335 | 335 |
| Receivables related to cash collateral | 27 | 1 226 | 1 226 | 2 477 | 2 477 |
| Other receivables | 27 | 1 178 | 1 178 | 1 398 | 1 398 |
| Cash and cash deposits | 29 | 7 288 | 7 288 | 8 506 | 8 506 |
| Total | | 26 031 | 26 123 | 26 236 | 26 479 |
| | | | | | |
| **Financial liabilities at amortised cost** | | | | | |
| Long-term interest-bearing debt to Statkraft SF | 31 | -400 | -462 | -400 | -477 |
| Bonds issued in the Norwegian market | 31 | -7 050 | -7 351 | -7 050 | -7 299 |
| Debt issued in non-Norwegian markets | 31 | -21 673 | -23 620 | -27 166 | -28 449 |
| External debt in subsidiaries and other debt | 31 | -2 762 | -2 762 | -2 794 | -2 794 |
| Debt connected to cash collateral | 31 | -1 408 | -1 408 | -1 614 | -1 614 |
| First year's instalment on long-term debt | 31 | -6 126 | -6 348 | -4 508 | -4 598 |
| Short-term interest-bearing debt to Statkraft SF | 31 | -304 | -304 | -11 | -11 |
| Credit facilities | 31 | - | - | -1 000 | -1 000 |
| Other short-term debt | 31 | -569 | -569 | -63 | -63 |
| Accounts payable | 32 | -1 730 | -1 730 | -2 560 | -2 560 |
| Indirect taxes payable | 32 | -974 | -974 | -1 362 | -1 362 |
| Interest-free debt to Statkraft SF | 32 | -2 | -2 | -2 | -2 |
| Other interest-free liabilities | 32 | -9 212 | -9 212 | -6 857 | -6 857 |
| Total | | -52 211 | -54 742 | -55 387 | -57 085 |

# Note 10 continued

## NETTING AGREEMENTS

### 2016

**Financial assets**

| NOK million | Note | Gross amount | Amount offset | Booked amount | Netting agreements, not offset in balance sheet | Financial collateral received | Net value |
|---|---|---|---|---|---|---|---|
| Energy derivatives | 28 | 20 586 | 13 318 | 7 268 | - | 69 | 7 199 |
| Currency and interest swaps | 28 | 2 416 | - | 2 416 | - | 1 292 | 1 125 |
| Total derivatives (current and non-current) | | 23 002 | 13 318 | 9 684 | - | 1 361 | 8 323 |
| Receivables | 27 | 15 297 | 5 078 | 10 219 | - | - | 10 219 |

**Financial liabilities**

| NOK million | | Gross amount | Amount offset | Booked amount | Netting agreements, not offset in balance sheet | Financial collateral pledged | Net value |
|---|---|---|---|---|---|---|---|
| Energy derivatives | 28 | 17 706 | 13 318 | 4 389 | - | 253 | 4 136 |
| Currency and interest swaps | 28 | 2 553 | - | 2 553 | - | 935 | 1 618 |
| Total derivatives (current and non-current) | | 20 259 | 13 318 | 6 942 | - | 1 187 | 5 755 |
| Long-term interest-bearing debt | 31 | 31 886 | - | 31 886 | - | 210 | 31 675 |
| Other interest-free liability | 32 | 16 997 | 5 078 | 11 918 | - | - | 11 918 |

### 2015

**Financial assets**

| NOK million | Note | Gross amount | Amount offset | Booked amount | Netting agreements, not offset in balance sheet | Financial collateral received | Net value |
|---|---|---|---|---|---|---|---|
| Energy derivatives | 28 | 16 318 | 7 732 | 8 587 | - | 110 | 8 476 |
| Currency and interest swaps | 28 | 2 748 | 9 | 2 739 | - | 1 614 | 1 125 |
| Total derivatives (current and non-current) | | 19 066 | 7 740 | 11 326 | - | 1 725 | 9 601 |
| Receivables | 27 | 16 933 | 6 258 | 10 675 | - | - | 10 675 |

**Financial liabilities**

| NOK million | | Gross amount | Amount offset | Booked amount | Netting agreements, not offset in balance sheet | Financial collateral pledged | Net value |
|---|---|---|---|---|---|---|---|
| Energy derivatives | 28 | 12 033 | 7 732 | 4 302 | - | - | 4 302 |
| Currency and interest swaps | 28 | 4 831 | 9 | 4 823 | - | 2 477 | 2 346 |
| Total derivatives (current and non-current) | | 16 865 | 7 740 | 9 125 | - | 2 477 | 6 647 |
| Long-term interest-bearing debt | 31 | 37 410 | - | 37 410 | - | 94 | 37 316 |
| Short-term interest-bearing debt | 31 | 7 196 | - | 7 196 | - | 79 | 7 118 |
| Other interest-free liability | 32 | 17 039 | 6 258 | 10 781 | - | - | 10 781 |

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 balance sheet 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 for instance 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 in 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 balance sheet.

Financial collateral is typically cash collateral payments to/from counterpart, normally a bank. 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 lifetime of the corresponding derivative. The derivatives, both current and non-current, are therefore presented on the same row in the table above.

# Note 11 Hedge accounting

GENERAL INFORMATION

**Fair value hedging** Three loan arrangements are treated as fair value hedges. Issued bonds 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 rate bonds with a total nominal value of EUR 1200 million. The hedging instruments are interest rate swaps with a nominal value of EUR 1200 million, entered into with major banks as the counterparties. The agreements swap interest rate from fixed to floating 3-month and 6-month EURIBOR.

**Hedging of net investments in foreign operation** EUR 1000 million of Statkraft AS' external debt is designated as hedging of the net investment in Statkraft Treasury Centre. In addition, GBP 220 million in synthetic debt in the hedging of the net investment in Statkraft UK Ltd is included. The currency effects of this debt are recognised in other comprehensive income. The accumulated effect of the hedging is that NOK 1589 million is recognised in other comprehensive income as a negative effect at the end of 2016. The effect of the hedging for the year 2016 is NOK 1058 million recognised in other comprehensive income as a positive effect.

**Cash flow hedging** As a general rule, the Group does not use hedge accounting of cash flows hedged. There are some minor exceptions related to debt in subsidiaries.

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. The value changes for cash flow hedges and hedges of net investments in foreign operations will be 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 the income statement upon disposal of the foreign entity.

The critical terms of the hedging object and hedging instrument are deemed to be approximately the same, and 90–110% hedging efficiency is assumed. The inefficiency is recognised in the income statement

**Fair value of hedging instruments**

| NOK million | 2016 | 2015 |
|---|---|---|
| Hedging instruments used in fair value hedging | 476 | 612 |
| Hedging instruments used in cash flow hedging [1] | -181 | -310 |
| Hedging instruments used in net investments in foreign operations [2] | -1 144 | -2 270 |
| Total fair value of hedging instruments | -848 | -1 969 |

[1] The value represents the fair value of financial instruments. Changes in fair value are recognised in other comprehensive income.
[2] The value represents the currency effects from financial instruments. Currency effects are recognised in other comprehensive income.

**Other information on fair value hedging**

| NOK million | 2016 | 2015 |
|---|---|---|
| Net gain (+)/loss (-) on hedging instruments | -136 | -456 |
| Net gain (+)/loss (-) on hedging objects, in relation to the hedged risk | 136 | 456 |
| Hedge inefficiency | - | - |

# Note 12 Sales revenues and energy purchase

GENERAL INFORMATION

Presentation of the disclosures of sales revenues and energy purchase is changed from 2016 with the purpose to better present the Group's main sales revenue streams and its corresponding energy purchase. The comparable figures are restated.

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. The category includes spot sales, bilateral industry contracts, concessionary sales contracts and green certificates.

**Sales and trading** includes trading portfolios, financial energy contracts, financial risk reduction portfolios and dynamic asset management portfolios.

**Customers** include sales revenues and energy purchase related to origination portfolios, market access and end-user activities. Market access activities mainly relate to the Nordic, British and German market. End-user activities include Fjordkraft.

**Other** sales revenues and energy purchase mainly consists of grid activities in Norway and Peru and the subsea cable Baltic Cable (between Sweden and Germany).

SIGNIFICANT ACCOUNTING POLICIES

Revenues from the sale of energy products and services are recognised when the risk and control over the goods have substantially been transferred to the buyer and the consideration can be measured reliably.

Energy revenues are recognised upon delivery, and generally presented gross in the income statement. Realised gains and losses from trading portfolios are presented net as sales revenues.

Realised revenues from physical and financial trading in energy contracts are presented as sales revenues. Unrealised changes in value relating to physical and financial contracts recognised in accordance with IAS 39, are classified as sales revenues.

Distribution grid activities are subject to a regulatory regime established by the Norwegian Water Resources and Energy Directorate (NVE). Each year, the NVE sets a revenue ceiling for the individual distribution grid owner. Revenue ceilings are set partly on the basis of historical costs, and partly on the basis of a norm. The norm is established to ensure efficient operation by the companies. An excess/shortfall of revenue will be the difference between actual income and allowed income. The revenue ceiling can be adjusted in the event of changes in delivery quality. Revenues included in the income statement correspond to the actual tariff revenues generated during the year. The difference between the revenue ceiling and the actual tariff revenues comprises a revenue surplus/shortfall. Excess or shortfall of revenue is not recognised in the balance sheet. The size of this is stated in note 33.

Green certificates are accounted for at fair value at the time of production. The change in value is recognised as sales revenue. $CO_2$ certificates are accounted for in a similar manner. See note 26 for more details about accounting policies for green certificates.

ACCOUNTING JUDGEMENTS

Statkraft both sells and purchases power through NordPool. It is the judgement of the management that income from sale of power meets the criteria for gross recognition. The basis for this judgement is that sales and purchases are managed independently, are nominated gross and that the day-to-day purchases at NordPool are normal purchases for a generator as long as the sales obligations are within its generation capacity.

| NOK million | 2016 | 2015 |
|---|---|---|
| Generation - sales revenues | 18 976 | 16 181 |
| Generation - energy purchase | -368 | -665 |
| **Generation - net** | 18 608 | 15 516 |
| | | |
| Sales and trading - sales revenues | 3 634 | 5 410 |
| Sales and trading - energy purchase | -3 249 | -5 437 |
| **Sales and trading - net** | 386 | -27 |
| | | |
| Customers - sales revenues | 24 913 | 25 986 |
| Customers - energy purchase | -24 897 | -25 347 |
| **Customers - net** | 16 | 639 |
| | | |
| Other - sales revenues | 1 925 | 4 010 |
| Other - energy purchase | -579 | -443 |
| **Other - net** | 1 345 | 3 566 |
| | | |
| **Sales revenues - total** | 49 448 | 51 586 |
| **Energy purchase - total** | -29 093 | -31 892 |
| Sales revenues adjusted for energy purchase | 20 355 | 19 694 |

# Note 13 Other operating revenues

| NOK million | 2016 | 2015 |
|---|---|---|
| Revenue from rental of power plants [1] | 489 | 455 |
| Other operating revenues [2] | 575 | 1 052 |
| Total | 1 065 | 1 507 |

[1] Revenues from power plants that are leased to third parties are presented in other operating revenues, while expenses related to the operations in the power plants are recorded under operating expenses.

[2] Other operating revenues in 2015 include a gain of NOK 226 million related to the sale of the subsidiary Småkraft. See note 5 for further information.

# Note 14 Impairment

SIGNIFICANT ACCOUNTING POLICIES

**Property, plant, equipment and intangible assets** that are depreciated/amortised 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 to sell and its value in use. Intangible assets with indefinite useful life are not amortised, but tested for impairment once a year and when events or circumstances indicate that the asset might be impaired.

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)). The highest level of a CGU is a reported operating segment. CGUs in Statkraft are identified as follow:

**Hydropower:** Power plants located in the same water resource and managed together to optimise power production.

**Wind power plants:** The individual wind power plant.

**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 used as the lowest CGU for testing goodwill for impairment.

**Investment in 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.

Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date

ACCOUNTING JUDGEMENTS

**Indicator assessment** In accordance with the ordinary reporting procedures the need to impair the carrying value of an asset is reviewed quarterly. 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 are 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 book value and recoverable amount is minimal
- Market outlook is declining, regulatory environment unclear or project execution is uncertain
- Structural changes in market conditions that lead to changes in the expected long-term power prices
- Impairment loss is 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 budget and prognosis for the next five years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the asset's performance of the CGU being tested. Expected maintenance investments are included for commissioned power plants. Provision for decommissioning is usually not included in the value in use calculation.

When determining the value in use 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 intrapolated.

**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 are equal to the theoretical before tax model. 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 yearly power produced.

# Note 14 continued

**Impairment loss recognised in the income statement**

| NOK million | 2016 | 2015 |
|---|---|---|
| Property, plant and equipment | 4 407 | 2 920 |
| Intangible assets [1)] | 262 | 161 |
| Equity accounted investments | 189 | 384 |
| Total impairment loss | 4 858 | 3 465 |

1) The impairment loss includes NOK 108 million mainly related to rights to use grids and associated equipment in the German gas-fired power plants.

IMPAIRMENT IN 2016

**Property plant and equipment**

**Gas-fired power plants in Germany** Statkraft maintains the view that gas-fired generation is a key bridge technology for the future energy supply in Germany, but based on operational analysis the revenues are expected to be postponed compared with earlier assumptions. This, together with indications that capacity prices might be set by cheaper technologies than expected resulted in an impairment loss of NOK 1947 million. The plants are part of the segment European flexible generation. Calculated value in use is based on a nominal discount rate after tax of 6.0 % (representing 8.7% before tax).

The estimated values in use are particularly sensitive to changes in future gross margins and cost of capital. A change in the future gross margin of 10 % will result in approximately NOK 930 million. A change in the discount rate of one percentage point (after tax) will result in approximately NOK 930 million.

**Hydropower plants in Albania** The Devoll project in Albania, which consists of the hydropower plants Banja and Moglice, was impaired with NOK 1071 million. The assets are part of the segment International hydropower. Main impairment indicators were lower expected long-term prices and updated market assessment. Calculated value in use is based on a nominal discount rate after tax of 7.0 % (representing 7.8% 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 approximately NOK 430 million. A change in the discount rate of 1 percentage point (after tax) will result in approximately NOK 900 million.

**Nordic market**

Due to lower expected long-term prices in the Nordic market, the hydropower plants and wind farms in the Nordic market were assessed for impairment using value in use calculations.

**Wind farms in Sweden** A impairment loss of NOK 585 million was recognised for onshore wind farms based in Sweden. The assets are part of the Wind power segment. Calculated value in use is based on a nominal discount rate after tax of 6.7% (representing 8.5% 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 approximately NOK 700 million in change in value in use. A change in the discount rate of one percentage point (after tax) will result in approximately NOK 400 million in change in value in use.

**Hydropower plants in Norway and Sweden** A impairment loss of NOK 441 million was recognised for some smaller hydropower plants based in Norway and an impairment of NOK 132 million for several minor hydro power plants based in Sweden. All hydropower assets are part of the segment European flexible generation. Calculated value in use is based on a nominal discount rate after tax of 6.2% (representing 8.1% before tax) in both Norway and Sweden.

The estimated value in use of the Norwegian power plant is in particular influenced by increased property tax related to the Sønnå Høy case (see note 33) and is in addition sensitive to changes in cost of capital. A change in the discount rate of one percentage point (after tax) will result in a change in value of approximately NOK 350 million. For assets based in Sweden the sensitivity analyses showed minor impact from changes in assumptions.

**Wind farm in Brazil** The production capacity for one of the wind farms are lower than previously expected. The value in use calculation shows an impairment of NOK 58 million. The asset is part of the segment International hydropower.

**District heating** A Norwegian heating plant was impaired by NOK 18 million.

**Intangible assets**

**Goodwill in Brazil** Due to the decision to restructure Enex in 2016, NOK 78 million of Goodwill was impaired.

**Equity accounted investments**

**SN Power and BKK** Due to lower expected mid-term power prices for hydropower plants based in Panama, Statkraft has recognised impairment losses of NOK 76 million in SN Power and NOK 65 million in BKK.

**Hidroelectrica La Confluencia S.A (HLC)** The investment in HLC was impaired with NOK 48 million due to lower expected long-term power prices.

**Wind UK Invest Ltd** Due to lower expected long-term prices in the UK market an indicator for impairment was identified and the assets were assessed for impairment using fair value less cost to sell. The valuation model applied was based on multiples for yearly power produced for assets with similar support regime. The carrying value per MWh of annual production for the assets was lower than the median price range of £750-800 per MWh, achieved in comparable transactions observed in the market, and no impairment was therefore booked.

## Note 14 continued

IMPAIRMENT IN 2015

**Wind parks in Sweden** The combination of lower energy prices and lower el cert prices have had a significant negative impact on the future cash flow of the Swedish greenfield and operating assets. The impairment calculations show an impairment of NOK 1530 million related to the operational assets. In addition, an impairment charge of NOK 220 million is recognised related to the wind development portfolios in Sweden. Calculated value in use is based on a nominal discount rate after tax of 6.6% for wind parks in Sweden. The total impairment charge on wind assets in Sweden amounts to NOK 1750 million.

When calculating the expected value in use, assumptions are made relating to future revenue and cost. 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 approximately NOK 730 million. A change in the discount rate of one percentage point (before tax) will result in approximately NOK 500 million. Changes to these assumptions going forward may result in a change to the conclusions reached as of 31 December 2015.

**Power plants under construction in South East Europe** At year-end the security situation in South-East Turkey and challenges related to project execution was considered an impairment indicator for the Cetin project. On 15 December 2015, Statkraft decided to suspend the majority of the construction works. The management will continue its current effort to find a sustainable solution for moving the project forward. Due to the significant uncertainties related to the outcome of these processes management has determined that it is most appropriate to recognise an impairment loss of NOK 1297 million. The figures may change as the outcome of the ongoing assessments and negotiations are becoming more certain.

**Equity accounted investment in India** The shares in Malana and Allain Duhangan were impaired with NOK 384 million due to a permanent downward shift in the Indian market.

## **Note 15** Payroll costs and number of full-time equivalents

| NOK million | 2016 | 2015 |
|---|---|---|
| Salaries | 2 604 | 2 499 |
| Employers' national insurance contribution | 446 | 438 |
| Pension costs [1] | 386 | 444 |
| Other benefits | 212 | 164 |
| Total | 3 648 | 3 545 |

[1] Pension costs are described in further detail in note 16.

| | 2016 | 2015 |
|---|---|---|
| Average number of full-time equivalents Group | 3 639 | 3 572 |
| Number of full-time equivalents as of 31.12. | 3 484 | 3 795 |

# 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 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 PRINCIPLES

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 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.

The actuarial gain recognised in other comprehensive income during the year is mainly due changes in assumptions for discount rate and salary adjustments.

| **The following assumptions are used** [1] | 31.12.2016 | 31.12.2015 |
|---|---|---|
| Discount rate and projected yield | 2.30% | 2.50% |
| Salary adjustment | 2.25% | 2.50% |
| Adjustment of current pensions | 1.25% | 1.50% |
| Adjustment of the National Insurance Scheme's basic amount (G) | 2.00% | 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 | 2016 | 2015 |
|---|---|---|
| Employees | 1 852 | 2 011 |
| Pensioners and people with deferred entitlements | 2 732 | 2 641 |

**Breakdown of net defined benefit pension liability**

| NOK million | 2016 | 2015 |
|---|---|---|
| Present value of accrued pension entitlements for funded defined benefit schemes | 6 368 | 5 961 |
| Fair value of pension assets | 5 254 | 4 896 |
| Net pension liability for funded defined benefit schemes | 1 115 | 1 065 |
| Present value of accrued pension entitlements for unfunded defined benefit schemes | 589 | 580 |
| Employers' national insurance contribution | 243 | 242 |
| Net pension liabilities in the balance sheet | 1 947 | 1 887 |
| Of which net pension asset - see note 25 | 300 | 238 |
| Of which net pension liability - see note 30 | 2 247 | 2 125 |

**Movement in defined benefit pension liability**

| NOK million | 2016 | 2015 |
|---|---|---|
| Defined gross benefit pension liabilities 01.01 | 6 541 | 6 996 |
| Net change in liabilities due to additions/disposals | - | -167 |
| Present value of accrued pension entitlements for the year | 253 | 297 |
| Interest expenses | 160 | 152 |
| Scheme changes | - | - |
| Actuarial gains/losses | 204 | -590 |
| Paid benefits | -160 | -182 |
| Currency translation effects | -41 | 35 |
| Gross defined benefit pension liabilities 31.12 | 6 957 | 6 541 |

**Movement in the fair value of pension assets for defined benefit pension schemes**

| NOK million | 2016 | 2015 |
|---|---|---|
| Fair value of pension assets 01.01 | 4 896 | 4 663 |
| Net change in assets due to additions/disposals | - | -105 |
| Projected yield on pension assets | 120 | 99 |
| Actuarial gains/losses | 148 | 74 |
| Total contributions | 247 | 276 |
| Paid benefits | -127 | -134 |
| Currency translation effects | -30 | 23 |
| Fair value of pension assets 31.12 | 5 254 | 4 896 |

| Pension assets comprise | 2016 | 2015 |
|---|---|---|
| Equity instruments | 955 | 899 |
| Interest-bearing instruments | 3 722 | 3 524 |
| Other | 577 | 473 |
| Fair value of pension assets 31.12 | 5 254 | 4 896 |

**Actuarial gains and losses recognised in other comprehensive income**

| NOK million | 2016 | 2015 |
|---|---|---|
| Accumulated actuarial gains and losses recognised in other comprehensive income before tax 31.12 | 2 262 | 2 210 |

**Pension cost recognised in the income statement**
**Defined benefit schemes**

| NOK million | 2016 | 2015 |
|---|---|---|
| Present value of accrued pension entitlements for the year | 253 | 297 |
| Interest expenses | 160 | 152 |
| Projected yield on pension assets | -120 | -99 |
| Scheme changes | - | - |
| Employee contributions | -24 | -25 |
| Employers' national insurance contribution | 49 | 50 |
| Net pension cost defined benefit schemes | 318 | 375 |

**Defined contribution schemes**

| | 2016 | 2015 |
|---|---|---|
| Employer payments | 68 | 69 |
| Total pension cost - see note 15 | 386 | 444 |

| | 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% | 25% | 16% | -17% | 11% | -13% |
| Increase (+)/decrease (-) in gross defined pension liability as of 31.12. | -16% | 21% | 7% | -7% | 12% | -11% |

## Note 17 Property tax and licence fees

| NOK million | 2016 | 2015 |
|---|---|---|
| Property tax | 1 391 | 1 338 |
| Licence fees | 341 | 341 |
| Total | 1 733 | 1 679 |

Licence fees are mainly related to hydropower plants in Norway and are adjusted in line with the Consumer Price Index, with the first adjustment taking place on 1 January five years after the licence was granted and every fifth year thereafter.

The present value of the Group's future licence fee obligations, not recognised in the statement of financial position, is estimated at NOK 8823 million. The estimated amount is based on a regulated discount rate of 3.9%, annual compensation and funds etc. In 2015, the corresponding amount was NOK 8633 million with an interest rate of 4.0%.

## Note 18 Other operating expenses

| NOK million | 2016 | 2015 |
|---|---|---|
| Purchase of third-party services [1] | 1 334 | 1 465 |
| Materials | 487 | 407 |
| Power plants operated by third parties | 263 | 267 |
| Compensation payments | 141 | 164 |
| Rent | 351 | 347 |
| IT | 245 | 239 |
| Marketing | 116 | 129 |
| Travel | 161 | 191 |
| Insurance | 139 | 141 |
| Other operating expenses [2] | 657 | 1302 |
| Total | 3 894 | 4 651 |

[1] Purchase of third-party services mainly includes consultants, entrepreneur expenses and other services.
[2] In 2015 other operating expenses include costs of NOK 789 million related to impairment in Turkey. Additionally, NOK 105 million was expensed in 2016 related to the project in Turkey. See note 30.

## Note 19 Financial items

| 2016 | Assessment basis | | | | | |
|---|---|---|---|---|---|---|
| NOK million | Fair value through profit or loss | Amortised cost | Available for sale | Equity method | Bank | Total |
| **Financial income** | | | | | | |
| Interest income | 7 | 156 | - | - | 160 | 323 |
| Other financial income | 13 | 41 | 4 | - | - | 58 |
| Total | 20 | 196 | 4 | - | 160 | 380 |
| **Financial expenses** | | | | | | |
| Interest expenses external debt | -489 | -895 | - | - | - | -1 384 |
| Other interest expenses | - | -47 | - | - | -9 | -56 |
| Capitalised borrowing costs | - | 139 | - | - | - | 139 |
| Other financial expenses | - | -110 | - | - | - | -110 |
| Total | -489 | -913 | - | - | -9 | -1 411 |
| Net currency effects | 1 778 | 1 053 | - | - | 16 | 2 847 |
| **Other financial items** | | | | | | |
| Net gains and losses on derivatives and securities | - | - | - | - | - | - |
| Impairment and gain/loss on financial assets | 321 | - | - | - | - | 321 |
| Total | 321 | - | - | - | - | 321 |
| Net financial items | 1 630 | 336 | 4 | - | 167 | 2 137 |

## Note 19 continued

| 2015 | Assessment basis | | | | | |
|---|---|---|---|---|---|---|
| NOK million | Fair value through profit or loss | Amortised cost | Available for sale | Equity method | Bank | Total |
| **Financial income** | | | | | | |
| Interest income | 21 | 123 | - | - | 234 | 378 |
| Other financial income | - | 33 | - | 10 | - | 43 |
| Total | 21 | 156 | - | 10 | 234 | 421 |
| | | | | | | |
| **Financial expenses** | | | | | | |
| Interest expenses external debt | -88 | -1322 | - | - | - | -1 410 |
| Other interest expenses | - | -165 | - | - | -13 | -178 |
| Capitalised borrowing costs | - | 266 | - | - | - | 266 |
| Other financial expenses | - | -13 | - | -723 | - | -736 |
| Total | -88 | -1234 | - | -723 | -13 | -2 058 |
| | | | | | | |
| Net currency effects | -3 024 | -621 | - | - | 200 | -3 445 |
| | | | | | | |
| **Other financial items** | | | | | | |
| Net gains and losses on derivatives and securities | -232 | - | - | - | - | -232 |
| Impairment and gain/loss on financial assets | - | - | -4 | - | - | -4 |
| Total | -232 | - | -4 | - | - | -236 |
| | | | | | | |
| Net financial items | -3 323 | -1 699 | -4 | -713 | 421 | -5 318 |

## **Note 20** Unrealised effects recognised in the income statement

| | 2016 | | | 2015 | | |
|---|---|---|---|---|---|---|
| NOK million | Unrealised | Realised | Total | Unrealised | Realised | Total |
| Generation | -426 | 19 402 | **18 976** | 790 | 15 391 | 16 181 |
| Sales and trading | -493 | 4 128 | **3 634** | 922 | 4 488 | 5 410 |
| Customers | -849 | 25 762 | **24 913** | 316 | 28 009 | 28 325 |
| Other | - | 1 925 | **1 925** | - | 1 670 | 1 670 |
| Total sales revenues | -1 768 | 51 216 | **49 448** | 2 028 | 49 558 | 51 586 |
| | | | | | | |
| Generation | - | -368 | **-368** | 86 | -750 | -665 |
| Sales and trading | 338 | -3 586 | **-3 249** | -1 754 | -3 683 | -5 437 |
| Customers | 66 | -24 963 | **-24 897** | -12 | -25 335 | -25 347 |
| Other | - | -579 | **-579** | - | -443 | -443 |
| Total energy purchase | 404 | -29 497 | **-29 093** | -1 681 | -30 212 | -31 892 |
| | | | | | | |
| Net currency effects | 557 | 2 290 | **2 847** | 1 171 | -4 616 | -3 445 |
| Other financial items | 507 | -186 | **321** | -215 | -22 | -237 |
| **Total unrealised effects** | -300 | | | 1 303 | | |

# Note 21 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 carry-forwards 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 recognized in the balance sheet if they are expected to be utilised within a period of five years.

For uncertain tax positions see Note 33.

| Nominal Norwegian tax rates in the income statement | 2016 | 2015 |
|---|---|---|
| Income tax rate | 25% | 27% |
| Resource rent tax rate | 33% | 31% |

| Nominal Norwegian tax rates in the balance sheet statement (deferred tax) | 2016 | 2015 |
|---|---|---|
| Income tax rate | 24% | 25% |
| Resource rent tax rate | 34.3 % | 33% |

**The tax expense in the income statement**

| NOK million | 2016 | 2015 |
|---|---|---|
| Income tax payable (including natural resource tax payable) | 2 762 | 429 |
| Resource rent tax payable | 2 249 | 1 481 |
| Withholding tax payable | 13 | 15 |
| Previous years payable tax expense | -41 | -122 |
| Change in deferred tax net of group contributions | 420 | -255 |
| Tax expense in the income statement | 5 402 | 1 548 |

**Taxes payable in the balance sheet**

| NOK million | 2016 | 2015 |
|---|---|---|
| Income tax payable | 1 478 | 358 |
| Natural resource tax payable | 608 | 591 |
| Resource rent tax payable | 2 249 | 1 481 |
| Previous years taxes payable | 429 | 395 |
| Taxes payable in the balance sheet | 4 764 | 2 825 |

**Tax included in receivables**

| NOK million | 2016 | 2015 |
|---|---|---|
| Prepaid tax | 99 | 42 |
| Natural resource tax carryforwards | - | 520 |
| Tax included in receivables - see note 27 | 99 | 562 |

# Note 21 continued

**Reconciliation of nominal Norwegian tax rate and effective tax rate**

| NOK million | 2016 | 2015 |
|---|---|---|
| Profit before tax | 5 223 | -821 |
| Expected tax expense at a nominal rate of 25% (27%) | 1 306 | -222 |
| **Effect on taxes of** | | |
| Resource rent tax | 2 445 | 1 356 |
| Foreign tax rate differences | -244 | -46 |
| Change in tax rates | -12 | -198 |
| Share of profit from associates | -119 | -185 |
| Tax-free income | -21 | -66 |
| Changes relating to previous years | 49 | -195 |
| Change in unrecognised deferred tax assets [1)] | 1 682 | 751 |
| Other permanent differences [2)] | 317 | 352 |
| Tax expense | 5 402 | 1 548 |
| Effective tax rate | 103.4 % | -188.5 % |

[1)] Change in unrecognised deferred tax assets is mainly related to impairments in Germany, Albania and Sweden.

[2)] 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 and changes in value of equity instruments.

**Breakdown of deferred tax**

| NOK million | 01.01.16 | Tax expense in the income statement | Other comprehensive income | Acquisitions and sale of companies | 31.12.16 |
|---|---|---|---|---|---|
| Current assets/current liabilities | 352 | -398 | 301 | - | 255 |
| Property, plant and equipment [1)] | 8 525 | 438 | -70 | -62 | 8 832 |
| Pension liabilities | -435 | 2 | 18 | - | -415 |
| Other long-term items | 298 | -285 | 14 | - | 28 |
| Tax loss carryforward/compensation [1)] | -755 | 444 | 15 | - | -296 |
| Deferred tax, resource rent tax | 2 715 | 186 | -2 | - | 2 899 |
| Negative resource rent tax carryforward [2)] | -2 564 | 32 | - | - | -2 531 |
| Total net deferred tax liability | 8 137 | 420 | 276 | -62 | 8 771 |
| Of which presented as deferred tax asset, see note 22 | 1 298 | | | | 675 |
| Of which presented as deferred tax liability, see note 30 | 9 435 | | | | 9 446 |

| NOK million | 01.01.15 | Tax expense in the income statement | Other comprehensive income | Acquisitions and sale of companies | 31.12.15 |
|---|---|---|---|---|---|
| Current assets/current liabilities | 292 | 380 | -172 | -147 | 352 |
| Property, plant and equipment [1)] | 6 609 | 132 | 239 | 1 545 | 8 525 |
| Pension liabilities | -682 | -7 | 233 | 20 | -435 |
| Other long-term items | 451 | -161 | -3 | 11 | 298 |
| Tax loss carryforward/compensation [1)] | -227 | -405 | -26 | -98 | -755 |
| Deferred tax, resource rent tax | 2 509 | 125 | 81 | - | 2 715 |
| Negative resource rent tax carryforward [2)] | -2 244 | -320 | - | - | -2 564 |
| Total net deferred tax liability | 6 708 | -255 | 353 | 1 331 | 8 137 |
| Of which presented as deferred tax asset, see note 22 | 1 471 | | | | 1 298 |
| Of which presented as deferred tax liability, see note 30 | 8 180 | | | | 9 435 |

[1)] 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 1987 million as of 31.12.2016 (NOK 1040 million as of 31.12.2015).

[2)] The Group also has deferred tax assets not recognized in the balance sheet related to negative to negative resource rent tax carryforward. This amounted to NOK 1110 million as of 31.12.2016 (NOK 1336 million as of 31.12.2015)

**Deferred tax recognised in other comprehensive income**

| NOK million | 2016 | 2015 |
|---|---|---|
| Remeasurement of pension obligations | 17 | 314 |
| Translation differences | -61 | 180 |
| Changes in fair value of financial instruments | 320 | -142 |
| Total deferred tax recognised in other comprehensive income | 276 | 353 |

# 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 provided that the requirements for doing so have been met. Goodwill and intangible assets with an indefinite useful life are not amortised and are tested annually for impairment.

Some business combinations generate "technical goodwill". The reason for this is that deferred tax cannot be booked at fair value. The fair value of a deferred tax liability is normally lower than the nominal value. The difference between fair value and nominal value gives a "technical goodwill".

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 | 2016 | 2015 |
|---|---|---|
| Deferred tax asset [1] | 675 | 1 298 |
| Goodwill [2] | 1 453 | 1 550 |
| Other [3] | 2 405 | 2 974 |
| Total | 4 533 | 5 822 |

[1] Deferred tax is presented in more detail in note 21.

[2] The amount is mainly technical goodwill associated with deferred tax. The rest is excess value identified through acquisitions of businesses.

[3] Includes rights in connection with leasehold improvements for power plants transferred from Statkraft SF and excess values related to physical power sales agreements from acquisitions.

| Nok million | Goodwill | Other | Total |
|---|---|---|---|
| **2016** | | | |
| Balance at 01.01 | 1 550 | 2 974 | 4 524 |
| Additions | - | 55 | 55 |
| Additions from business combinations | 8 | 29 | 37 |
| Transferred to/from non-current assets | -29 | 5 | -24 |
| Reclassification between intangible assets and provisions | - | -428 | -428 |
| Disposals | -5 | -6 | -11 |
| Derecognised on disposal of a subsidiary | -57 | -176 | -233 |
| Currency translation effects | 83 | 228 | 311 |
| Amortisation | -45 | -135 | -180 |
| Impairment [4] | -121 | -141 | -262 |
| Accumulated amortisation/impairment on disposals | 69 | - | 69 |
| Balance at 31.12 | 1 453 | 2 405 | 3 858 |
| | | | |
| Cost 31.12 | 2 094 | 3 483 | 5 577 |
| Accumulated amortisation and impairment as of 31.12 | -641 | -1 078 | -1 719 |
| Balance at 31.12 | 1 453 | 2 405 | 3 858 |

[4] Impairment is mainly related to Enex in Brazil and German gas power plants. See note 14 for further information.

| Nok million | Goodwill | Other | Total |
|---|---|---|---|
| **2015** | | | |
| Balance at 01.01 | 599 | 1 368 | 1 967 |
| Additions | 17 | 323 | 340 |
| Additions from business combinations | 1 060 | 1 859 | 2 919 |
| Transferred to/from non-current assets | - | -202 | -202 |
| Disposals | - | -24 | -24 |
| Derecognised on disposal of a subsidiary | - | - | - |
| Currency translation effects | 34 | -318 | -284 |
| Amortisation | - | -31 | -31 |
| Impairment [5] | -160 | -1 | -161 |
| Accumulated amortisation/impairment on disposals | - | - | - |
| Balance at 31.12 | 1 550 | 2 974 | 4 524 |
| | | | |
| Cost 31.12 | 2 115 | 3 762 | 5 877 |
| Accumulated amortisation and impairment as of 31.12 | -565 | -788 | -1 353 |
| Balance at 31.12 | 1 550 | 2 974 | 4 524 |

[5] Impairment is related to Swedish wind farms. See note 14 for further information.

| | |
|---|---|
| Expected economic lifetime | 10–22 years |

## Note 22 continued

**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 2016 and 2015 are expensed with NOK 92 million and NOK 104 million, respectively.

# 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. Directly attributable borrowing costs are added to the cost price. Expenses incurred after the operating asset has been taken into use, such as ongoing repair and maintenance expenses, are recognised in the income statement as incurred, while other expenses that are expected to increase future production capacity are recognised in the balance sheet. In the case of time-limited licences, provisions are made for decommissioning costs, with a balancing entry increasing the carrying amount of the relevant asset.

As a main principle Statkraft starts capitalising costs when an investment decision is made by the management.

Costs incurred for own plant investments are recognised in the balance sheet as facilities under construction. Cost includes directly attributable costs including interest on loans.

Depreciation is calculated on a straight-line basis over assets' expected useful economic lives. Residual values are taken into account in the calculation of annual depreciation. Periodic maintenance is recognised in the balance sheet over the period until the time when the next maintenance round is scheduled. The depreciation period is adapted to the licence period. Estimated useful lives, depreciation methods and residual values are assessed annually.

Land 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 since this is closely related to the physical plant. Statkraft's view is that there is no substantial difference between owning the property and having a perpetual right to utilize 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 taken into account in calculating depreciation. Estimates of decommissioning obligations, which are included as part of the plant's carrying amount, are subject to ongoing reviews.

| NOK million | Regulation plants | Turbines, generators etc. | Waterfall rights [1] | Properties, mountain halls, buildings, roads, bridges and quay facilities | Plants under construction | Other | Total |
|---|---|---|---|---|---|---|---|
| **2016** | | | | | | | |
| Balance at 01.01 | 24 544 | 27 948 | 18 477 | 19 865 | 8 727 | 11 646 | 111 207 |
| Additions | 326 | 507 | - | 284 | 3 575 | 651 | 5 343 |
| Additions from business combinations | - | 50 | - | - | 96 | - | 146 |
| Transferred between asset classes | 1 371 | 1 215 | 1 | 1 105 | -4 337 | 645 | - |
| Transferred from intangible assets | -1 | - | - | 62 | -37 | - | 24 |
| Disposals | - | -45 | - | -28 | -58 | -154 | -285 |
| Derecognised on disposal of a subsidiary | - | - | - | - | -2 518 | - | -2 518 |
| Capitalised borrowing costs | - | - | - | - | 139 | - | 139 |
| Currency translation effects | -864 | -760 | -337 | -645 | -418 | -84 | -3 108 |
| Depreciation | -655 | -1 414 | - | -487 | - | -855 | -3 411 |
| Impairment [2] | -501 | -1 927 | -521 | -815 | -554 | -89 | -4 407 |
| Accumulated depreciation/ impairment on disposals | - | 16 | - | 17 | 24 | 117 | 174 |
| Balance at 31.12 | 24 220 | 25 590 | 17 620 | 19 358 | 4 639 | 11 877 | 103 304 |
| | | | | | | | |
| Book value 31.12 of assets with infinite useful life | n/a | n/a | 17 620 | 231 | n/a | 14 | 17 866 |
| | | | | | | | |
| Cost 31.12 | 34 709 | 52 446 | 18 299 | 25 142 | 7 025 | 23 354 | 160 975 |
| Accumulated depreciation and impairment as of 31.12 | -10 489 | -26 856 | -679 | -5 784 | -2 386 | -11 477 | -57 671 |
| Balance at 31.12 | 24 220 | 25 590 | 17 620 | 19 358 | 4 639 | 11 877 | 103 304 |

[1] The category waterfall rights is new, comparative figures have been restated.
[2] See note 14 for further information

# 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 |
|---|---|---|---|---|---|---|---|
| **2015** | | | | | | | |
| Balance at 01.01 | 23 392 | 25 181 | 15 716 | 11 225 | 13 111 | 10 574 | 99 199 |
| Additions | 160 | 1 806 | - | 253 | 6 249 | 692 | 9 160 |
| Additions from business combinations | 123 | 1 856 | 2 195 | 1 882 | - | 719 | 6 775 |
| Transferred between asset classes | 654 | 1 189 | - | 6 813 | -10 300 | 1 644 | - |
| Transferred from intangible assets | - | 2 | - | 299 | -99 | - | 202 |
| Disposals | -7 | -160 | - | -138 | -66 | -333 | -704 |
| Derecognised on disposal of a subsidiary | - | -309 | - | - | -202 | -1 364 | -1 875 |
| Capitalised borrowing costs | - | - | - | - | 266 | - | 266 |
| Currency translation effects | 844 | 552 | 566 | 514 | 1 065 | 144 | 3 685 |
| Depreciation | -629 | -1 508 | - | -291 | - | -861 | -3 289 |
| Impairment | - | -843 | - | -770 | -1 297 | -10 | -2 920 |
| Accumulated depreciation/ impairment on disposals [1] | 7 | 182 | - | 78 | - | 441 | 708 |
| Balance at 31.12 | 24 544 | 27 948 | 18 477 | 19 865 | 8 727 | 11 646 | 111 207 |
| | | | | | | | |
| Book value 31.12 of assets with infinite useful life | n/a | n/a | 18 477 | 253 | n/a | 14 | 18 744 |
| | | | | | | | |
| Cost 31.12 | 34 022 | 51 959 | 18 640 | 24 506 | 11 002 | 22 496 | 162 625 |
| Accumulated depreciation and impairment as of 31.12 | -9 478 | -24 011 | -163 | -4 641 | -2 275 | -10 850 | -51 418 |
| Balance at 31.12 | 24 544 | 27 948 | 18 477 | 19 865 | 8 727 | 11 646 | 111 207 |

[1] Most of the disposal of accumulated depreciation and impairment is related to disposal of subsidiaries.

**INVESTMENTS IN 2016**

The addition in 2016 of property, plant and equipment worth NOK 5343 million (excluding capitalized borrowing costs of NOK 139 million) and intangible assets worth NOK 55 million, consisted of both investments in new generating capacity, maintenance investments, other investments and reclassification of assets (NOK 39 million). Maintenance investments and other investments amounted to NOK 1763 million (NOK 1970 million in 2015). The investments primarily relate to hydropower plants in Norway. Investments in new capacity amounted to NOK 3736 million (NOK 7797 million in 2015). The largest projects were hydropower plants in Norway and Albania and wind farms in the UK (Dudgeon).

**ASSETS PLEDGED AS SECURITY TO COUNTERPARTIES**

Statkraft has pledged property, plant and equipment as security to counterparties. Please see note 34 for more information.

**USEFUL LIVES OF PROPERTY, PLANT AND EQUIPMENT**

A more detailed specification of the useful economic lives of the various assets is provided below. There have been no material changes in depreciation schedules compared with previous years:

| | Depreciation period (years) |
|---|---|
| Regulation plants | |
| - riprap dams, concrete dams | 75 |
| - other dams | 30 |
| - tunnel systems | 75 |
| Turbines, generators etc… | |
| - pipe trenches | 40 |
| - generators (turbine, valve) | 40 |
| - other mechanical installations | 15 |
| - transformer/generator | 40 |
| - wind turbines (onshore) | 20-22 |
| - wind turbines (offshore) | 25 |
| - gas and steam generators | 20–25 |
| - gas power plant transformers | 20–25 |
| Waterfall rights | perpetual |

| | Depreciation period (years) |
|---|---|
| Properties, mountain halls, buildings, roads, bridges etc. | |
| - land | perpetual |
| - underground facilities | 75 |
| - roads, bridges and quays | 75 |
| - control equipment | 15 |
| - operating centre | 15 |
| - communication equipment | 10 |
| Other | |
| - transformer (grid) | 35 |
| - switchgear, high voltage (grid) | 35–40 |
| - buildings (admin etc.) | 25–50 |
| - other fixed installations | 10-20 |
| - miscellaneous fixtures | 5 |
| - 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

Co-owned power plants, which are those power plants where Statkraft owns shares regardless of whether they are operated by Statkraft or one of the other owners, are recognised in accordance with the proportionate consolidation method as joint operation.

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 shift in the accounting method. For Statkraft, this is expected to apply if the participants are not the sole off-takers of the production and 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 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 investments where Statkraft is the operator, a careful analysis is performed to whether the operator agreements give Statkraft the power to direct the relevant activities. A key judgement in this consideration is the degree of flexibility and power to adjust business plans and budgets.

For agreements which requires unanimous consent from the partners to direct the relevant activities of the investments, and the other criteria's 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 from 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.

Based on size and complexity, the following associated companies and joint ventures are considered material:

**2016**

| NOK million | BKK AS | Agder Energi AS | SN Power AS | Scira Offshore Energy Ltd. | Wind UK Invest Ltd. | Other | Total |
|---|---|---|---|---|---|---|---|
| Opening balance 01.01 | 5 272 | 4 117 | 3 084 | 2 399 | 1 067 | 3 448 | 19 388 |
| Investment/sales | - | - | - | - | - | 508 | 508 |
| Share of profits [1] | 424 | 82 | 29 | 67 | 11 | -2 | 611 |
| Amortisation and impairment of excess value [2] | -14 | -66 | - | - | -2 | -54 | -137 |
| Capital increase | - | - | - | - | - | 138 | 138 |
| Dividend | -224 | -300 | - | - | -15 | -5 | -545 |
| Currency translation effects | -10 | - | -189 | -460 | -204 | -107 | -970 |
| Items recorded in other comprehensive income | 208 | 207 | 6 | -1 | -4 | 28 | 445 |
| Closing balance 31.12 | 5 656 | 4 040 | 2 930 | 2 005 | 853 | 3 954 | 19 438 |
| | | | | | | | |
| Excess value 31.12. | 2 182 | 1 978 | - | - | 46 | 1 416 | 5 622 |
| Of which unamortised waterfall rights | 1 818 | 314 | - | - | - | 1 022 | 3 154 |

[1] There has been an impairment in SN Power and BKK related to a hydropower plant in Panama, see note 14.

[2] The shares in HLC presented in other has been impaired, see note 14.

**2015**

| NOK million | Desenvix Energias Renovávei S.A | BKK AS | Agder Energi AS | SN Power AS | Scira Offshore Energy Ltd. | Wind UK Invest Ltd. | Other | Total |
|---|---|---|---|---|---|---|---|---|
| Opening balance 01.01 | 1 567 | 4 928 | 3 848 | 2 645 | 1 980 | 971 | 3 088 | 19 027 |
| Investment/sales | -1 484 | - | -14 | - | - | - | 281 | -1 217 |
| Share of profits | 19 | 335 | 596 | 130 | 125 | 8 | -28 | 1 184 |
| Amortisation and impairment of excess value [1] | -11 | -14 | -66 | - | - | -32 | -377 | -501 |
| Capital increase | 80 | - | - | - | - | - | 19 | 99 |
| Dividend | - | -200 | -323 | - | - | -5 | -7 | -534 |
| Currency translation effects | -168 | 86 | - | 372 | 296 | 125 | 416 | 1 127 |
| Items recorded in other comprehensive income | -4 | 138 | 76 | -62 | -1 | - | 57 | 204 |
| Closing balance 31.12 | - | 5 272 | 4 117 | 3 084 | 2 399 | 1 067 | 3 448 | 19 388 |
| | | | | | | | | |
| Excess value 31.12. | - | 2 197 | 2 043 | - | - | 60 | 1 296 | 5 596 |
| Of which unamortised waterfall rights | - | 1 818 | 314 | - | - | - | 1 052 | 3 184 |

[1] The shares in Malana and Allain Duhangan presented in other has been impaired, see note 14.

# Note 24 continued

**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 sell 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.

**SN Power AS** has its renewable energy operations in emerging markets in Southeast Asia, Africa and Central America. The Group's activities include production, trading and transmission of electric power, as well as other energy-related services. The Group is a leading commercial investor and developer of hydropower projects in emerging markets.

**Wind UK Invest Ltd. (WUKI)** owns the land-based wind farms Alltwalis, Baillie and Berry Burn in the UK.

**Scira Offshore Energy Ltd. (Scira)** owns the offshore wind farm Sheringham Shoal in the UK.

Statkraft has pledged parent company guarantees to Scira of NOK 385 million, Hidroelectrica La Higuera of NOK 345 million, Dudgeon of NOK 2770 million, Forewind NOK 41 million and Triton Knoll of NOK 32 million. In addition there are bank guarantees related to Hidroelectrica La Higuera of NOK 93 million, Hidroelectrica La Confluencia of NOK 46 million, Dudgeon of NOK 3 million, Triton Knoll of NOK 2 million, Scira NOK 11 million and a decommissioning bank guarantee related to the Berry Burn Wind Farm of NOK 85 million. See note 34 for pledges, guarantees and obligations.

**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.

**2016**

| NOK million | BKK AS | Agder Energi AS | SN Power AS | Scira Offshore Energy Ltd. | Wind UK Invest Ltd. |
|---|---|---|---|---|---|
| Current assets | 1 263 | 3 561 | 1 991 | 573 | 227 |
| Non-current assets | 19 862 | 16 526 | 8 226 | 11 627 | 3 296 |
| Short-term liabilities | 4 493 | 5 071 | 162 | 221 | 220 |
| Long-term liabilities | 9 505 | 10 554 | 1 821 | 7 141 | 1 711 |
| Gross operating revenues | 4 240 | 7 973 | 681 | 1 390 | 311 |
| Net profit | 1 013 | 99 | -315 | 110 | 21 |
| Total comprehensive income | 974 | 570 | -290 | 110 | 21 |

**2015**

| NOK million | BKK AS | Agder Energi AS | SN Power AS | Scira Offshore Energy Ltd. | Wind UK Invest Ltd. |
|---|---|---|---|---|---|
| Current assets | 2 232 | 4 045 | 1 401 | 886 | 370 |
| Non-current assets | 18 697 | 14 668 | 9 799 | 14 783 | 4 362 |
| Short-term liabilities | 5 915 | 4 747 | 267 | 60 | 297 |
| Long-term liabilities | 7 965 | 9 431 | 1 978 | 9 759 | 2 448 |
| Gross operating revenues | 3 958 | 8 486 | 229 | 1 705 | 406 |
| Net profit | 846 | 1 178 | 272 | 256 | 14 |
| Total comprehensive income | 1 455 | 1 516 | 72 | 256 | 14 |

**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. Companies classified as joint operations are treated in accordance with the proportionate consolidation method as indicated in IFRS 11.

Due to a restructuring of the company's debt finalised in May 2016, Dudgeon Offshore Wind Ltd was reclassified from a joint operation to a joint venture.

| Name | Registered office | Shareholding | Voting share |
|---|---|---|---|
| **JOINT VENTURES** | | | |
| Allain Duhangan Hydro Power Ltd. | New Dehli | 43.10% | 43.10% |
| Dudgeon Offshore Wind Ltd. | London | 30.00% | 30.00% |
| Dugar Hydro Power Ltd | Himachal Pradesh | 50.00% | 50.00% |
| Grønn Kontakt AS | Kristiansand | 42.60% | 42.60% |
| Hidroelectrica La Confluencia S.A | Santiago | 50.00% | 50.00% |
| Hidroelectrica La Higuera S.A | Santiago | 50.00% | 50.00% |
| HPC Ammerån AB | Stockholm | 50.00% | 50.00% |
| HPC Byske AB | Stockholm | 50.00% | 50.00% |
| HPC Edsox AB | Stockholm | 50.00% | 50.00% |
| HPC Röan AB | Stockholm | 50.00% | 50.00% |
| Malana Power Company Ltd. | New Dehli | 49.00% | 49.00% |
| Scira Offshore Energy Ltd. | London | 40.00% | 40.00% |
| Silva Green Fuel AS | Oslo | 51.00% | 51.00% |
| SN Power AS | Oslo | 50.00% | 50.00% |
| Statkraft BLP Solar Solutions Pte Ltd. | New Dehli | 90.00% | 90.00% |
| Triton Knoll Offshore Wind Farms Ltd. | London | 50.00% | 50.00% |

# Note 24 continued

| Name | Registered office | Shareholding | Voting share |
|---|---|---|---|
| Windpark Kollweiler GmbH & Co | Düsseldorf | 20.00% | 20.00% |
| Wind UK Invest Ltd. | London | 51.00% | 51.00% |

| Name | Registered office | Shareholding | Voting share |
|---|---|---|---|
| **JOINT OPERATIONS** | | | |
| Aktieselskabet Tyssefaldene [1] | Tyssedal | 60.17% | 60.17% |
| Forewind Ltd. [1] | London | 25.00% | 25.00% |
| Fosen Vind DA | Oslo | 50.10% | 50.10% |
| Harrsele AB | Vännäs | 50.57% | 50.57% |
| Kraftwerksgesellschaft Herdecke, GmbH & Co. KG | Hagen | 50.00% | 50.00% |
| Naturkraft AS | Tysvær | 50.00% | 50.00% |
| Sira-Kvina Kraftselskap DA [3] | Sirdal | 46.70% | 46.70% |
| Statkraft Agder Energi Vind DA [1] | Kristiansand | 62.00% | 62.00% |
| **ASSETS** | | | |
| Aurlandsverkene | Aurland | 7.00% | 7.00% |
| Folgefonn [4] | Kvinnherrad | 100.00% | 100.00% |
| 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% |
| Røldal-Suldal Kraft AS [2] | Suldal | 4.79% | 4.79% |
| Sima | Eidfjord | 65.00% | 65.00% |
| Solbergfoss [5] | Askim | 33.33% | 33.33% |
| Stegaros | Tinn | 50.00% | 50.00% |
| Svartisen | Meløy | 70.00% | 70.00% |
| Svorka | Surnadal | 50.00% | 50.00% |
| Tyssefaldene [6] | Odda | 60.17% | 60.17% |
| Vikfalli | Vik | 88.00% | 88.00% |
| Volgsjöfors | Stockholm | 73.10% | 73.10% |
| Ulla-Førre [7] | Suldal | 73.48% | 73.48% |
| **ASSOCIATES** | | | |
| Agder Energi AS | Kristiansand | 45.50% | 45.50% |
| BKK AS | Bergen | 49.90% | 49.90% |
| Energi og Miljøkapital AS | Skien | 35.00% | 35.00% |
| Fosen Vind AS | Trondheim | 50.10% | 50.10% |
| Istad AS | Molde | 49.00% | 49.00% |
| Nape Kraftverk AS | Grimstad | 49.00% | 49.00% |
| Passos Maia Energética S.A. | Caçador City | 50.00% | 50.00% |
| Skagerak Elektro AS | Porsgrunn | 49.00% | 49.00% |
| Viking Varme AS | Porsgrunn | 50.00% | 50.00% |

1) The shareholder's agreements indicate joint control.
2) 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%.
3) Statkraft's total shareholding is 46.7% of which Skagerak Energi AS' shareholding is 14.6%.
4) Statkraft's total shareholding is 100% of which Skagerak Energi AS' shareholding is 14.94%.
5) Statkraft owns 33.3% of Solbergfoss, but controls 35.6% of the production.
6) Statkraft controls 71.4% of the production from the Tysso II power plant.
7) Statkraft's total shareholding is 73.48% of which Skagerak Energi AS' shareholding is 1.49%.

None of the companies have observable market values in the form of listed market prices or similar.

**APPROPRIATION RIGHTS**

Statkraft has appropriation rights in power plants also owned by other players. These rights are treated as joint operations and recognised with Statkraft's share of the revenues, expenses, assets and liabilities. Overview of appropriation rights:

| Name | Shareholding |
|---|---|
| Båtfors | 6.64% |
| Forsmo | 2.20% |
| Selfors | 10.60% |

# Note 25 Other non-current financial assets

| NOK million | 2016 | 2015 |
|---|---|---|
| **Measured at amortised cost:** | | |
| Loans to associates | 6 740 | 4 974 |
| Bonds and other long-term receivables [1)] | 1 883 | 2 642 |
| Total | 8 623 | 7 617 |

[1)] The amount includes net pension asset. See note 16.

| | | |
|---|---|---|
| **Available for sale:** | | |
| Other shares and securities | 338 | 257 |
| Total | 8 961 | 7 874 |

# Note 26 Inventories

SIGNIFICANT ACCOUNTING POLICIES

Green certificates, including el-certificates, are considered as a government grant and are accounted for according to IAS 20 - Accounting for Government Grants and Disclosure of Government Assistance. Such certificates are recognised as grants conditional to own production of power. It is considered to be likely that Statkraft meets the conditions set out by the government and eligible for receiving the grants. Thus, the certificates are accounted for at fair value at the time of production. The asset is classified as a receivable until the certificate is awarded. Certificates are classified as inventory when awarded. If the period from the el-certificates are awarded to they are received exceeds one accounting period, the receivable are recognised at the lowest of fair value at the time of production and net realisable value. The change in value is recognised as sales revenue. $CO_2$ certificates are accounted for in a similar manner.

Generation- and end-user business are organised as two separate lines of businesses. El-certificates received from own productions are as such not used to settle the emission liability in the end-user business. To meet the Group's obligation for delivering certificates, the end-user business purchases the certificates in the market. El-certificates purchased in the market are recognised as Inventory in accordance with IAS 2 as they are held for sale in the ordinary course of business and are recognised at the lowest of cost and net realisable value. If the certificates are held to settle the emission liability, the liability is measured according to the book value of the certificates. Any obligation not settled is measured at fair value of the el-certificate at the balance sheet date.

Green certificates and $CO_2$ certificates held for sale are classified as inventory and are measured at net realisable value. Net realisable value is sale price less expected transaction cost.

Other inventory is accounted for at the lowest of cost price and net realisable amount.

Cost is allocated to specific inventories where possible. For exchangeable goods, cost is allocated in accordance with the weighted average or the FIFO (first in, first out) method.

| | 2016 | | 2015 | |
|---|---|---|---|---|
| NOK million | Recognised value | Cost price | Recognised value | Cost price |
| **Inventories measured at net realisable value:** | | | | |
| Electricity certificates | 538 | 658 | 578 | 529 |
| Carbon quotas | 1 940 | 1 842 | 298 | 316 |
| Total | 2 478 | 2 499 | 875 | 845 |
| | | | | |
| **Inventories measured at the lower of cost price and net realisable value:** | | | | |
| Spare parts | 115 | | 100 | |
| Other | 60 | | 68 | |
| Total inventories are measured at the lowest of cost price and net realisable value | 175 | | 169 | |
| | | | | |
| Total | 2 653 | | 1 044 | |

# Note 27 Receivables

| NOK million | 2016 | 2015 |
|---|---|---|
| Accounts receivable | 7 335 | 5 903 |
| Short-term loans to associates | 381 | 335 |
| Prepaid tax | 99 | 42 |
| Natural resource tax carryforwards | - | 520 |
| Receivables related to cash collateral | 1 226 | 2 477 |
| Other receivables | 1 178 | 1 398 |
| Total | 10 219 | 10 675 |
| Of which interest-bearing | 1 607 | 2 812 |

# Note 27 continued

**Maturity analysis of receivables**

| **2016** NOK million | Not yet due | Receivables overdue by: Less than 90 days | More than 90 days | Receivables overdue and impaired | Total |
|---|---|---|---|---|---|
| Accounts receivable | 6 787 | 400 | 163 | -15 | 7 335 |
| Other receivables | 2 781 | 20 | 131 | -49 | 2 883 |
| Total | 9 567 | 420 | 294 | -63 | 10 219 |
| | | | | | |
| Recognised as loss for the year | | | | | 78 |

| **2015** NOK million | Not yet due | Receivables overdue by: Less than 90 days | More than 90 days | Receivables overdue and impaired | Total |
|---|---|---|---|---|---|
| Accounts receivable | 5 608 | 218 | 79 | -2 | 5 903 |
| Other receivables | 4 372 | 201 | 200 | - | 4 772 |
| Total | 9 979 | 419 | 279 | -2 | 10 675 |
| | | | | | |
| Recognised as loss for the year | | | | | 5 |

# Note 28 Derivatives

SIGNIFICANT ACCOUNTING POLICIES

Derivatives not relating to hedging arrangements are recognised on separate lines in the balance sheet under assets or liabilities. Derivatives with respect to positive and negative values are presented gross in the balance sheet. Derivatives are presented net provided there is legal right to the off-set of different contracts, and such off-set rights will actually be used for the current cash settlement during the terms of the contracts. All energy contracts traded via energy exchanges are presented net in the balance sheet. Changes in the fair value of energy derivatives are recognised in the income statement as sales revenues and energy purchases, respectively.

Changes in fair value of currency and interest rate derivatives are recognised in the income statement as currency effects and other financial items, respectively.

| NOK million | 2016 | 2015 |
|---|---|---|
| Generation | 845 | 1 164 |
| Sales and trading | 2 063 | 2 150 |
| Customers | -29 | 970 |
| Total | 2 879 | 4 285 |
| | | |
| Of this: | | |
| - Non-current assets | 1 439 | 2 833 |
| - Current assets | 5 829 | 5 753 |
| - Long-term liabilities | -299 | -875 |
| - Current liabilities | -4 090 | -3 427 |
| Total | 2 879 | 4 285 |

**Currency and interest rate derivatives - net position**

| NOK million | 2016 | 2015 |
|---|---|---|
| Interest rate swaps | 216 | -129 |
| Forward exchange rate contracts | -733 | -2 231 |
| Combined interest rate and currency swaps | 381 | 275 |
| Total | -137 | -2 084 |
| | | |
| Of this: | | |
| - Non-current assets | 1 608 | 1 841 |
| - Current assets | 808 | 898 |
| - Long-term liabilities | -1 506 | -2 862 |
| - Current liabilities | -1 047 | -1 961 |
| Total | -137 | -2 084 |

**Derivatives - net position group**

| NOK million | 2016 | 2015 |
|---|---|---|
| Energy derivatives | 2 879 | 4 285 |
| Currency and interest rate derivatives | -137 | -2 084 |
| Total | 2 742 | 2 201 |
| | | |
| Of this: | | |
| - Non-current assets | 3 047 | 4 675 |
| - Current assets | 6 637 | 6 651 |
| - Long-term liabilities | -1 805 | -3 736 |
| - Current liabilities | -5 137 | -5 388 |
| Total | 2 742 | 2 201 |

# Note 29 Cash and cash equivalents

SIGNIFICANT ACCOUNTING POLICIES

Cash and cash equivalents include certificates and bonds with short residual terms at the time of acquisition. 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, not 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 balance sheet as either receivables or liabilities. Bank deposits, cash and similar from joint operations are also presented under this line item.

| NOK million | 2016 | 2015 |
|---|---|---|
| Cash and cash deposits [1)] | 7 288 | 8 506 |
| Money market funds, certificates, promissory notes, bonds | 20 | 550 |
| Total | 7 308 | 9 056 |

[1)] Includes NOK 110 million and NOK 420 million respectively in 2016 and 2015 from companies reported as joint operations.

**Book value of cash and cash equivalents pledged as security to counterparties**

The following amounts in cash and cash equivalents are pledged as security to counterparties:

| NOK million | 2016 | 2015 |
|---|---|---|
| Deposit account in connection with power sales on energy exchanges | 49 | 32 |
| Total | 49 | 32 |

**Cash collateral**

Cash collateral comprises mostly of payments made to/from counterparties as security for the net unrealised gains and losses that Statkraft has on interest rate swaps, combined interest rate and currency swaps and forward exchange contracts. The table below shows net payments at year end from counterparties who will eventually be repaid. See notes 27 and 31.

| NOK million | 2016 | 2015 |
|---|---|---|
| Cash collateral for financial derivatives | 473 | -753 |

# Note 30 Provisions

SIGNIFICANT ACCOUNTING POLICIES

**Provisions, contingent assets and contingent liabilities** Provisions are only recognised where there is an existing obligation as a result of a past event, and where it is more than 50% probable that an obligation has arisen. It must also be possible to reliably measure the provision. With lower probability the conditions will be stated in the notes of the financial statements unless the probability of payment is very low. Provisions are recognised in an amount that is the best estimate of the expenditure required to settle the present obligation at the balance sheet date.

**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 (Stortinget). 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 34.

| NOK million | Note | 2016 | 2015 |
|---|---|---|---|
| Deferred tax | 21 | 9 446 | 9 435 |
| Pension liabilities | 16 | 2 247 | 2 125 |
| Decommissioning [1)] | | 566 | 502 |
| Other provisions [2)] | | 6 936 | 9 166 |
| Total provisions | | 19 195 | 21 228 |

2016

| | Decommissioning [1)] | Other provisions [2)] | Sum |
|---|---|---|---|
| Booked value 01.01. | 502 | 9 166 | 9 668 |
| Provisions booked during the year | 82 | 371 | 452 |
| Provisions used/reversed during the year | -18 | -1 090 | -1 108 |
| Currency rate effect | - | 82 | 82 |
| Reclassifications to/from other balance sheet items | - | -1 594 | -1 594 |
| Other movements | - | - | - |
| Booked value 31.12 | 566 | 6 936 | 7 501 |

## Note 30 continued

2015

| | Decommissioning [1] | Other provisions [2] | Sum |
|---|---|---|---|
| Booked value 01.01. | 342 | 7 620 | 7 962 |
| Provisions booked during the year | 179 | 2151 | 2330 |
| Provisions used/reversed during the year | -27 | -604 | -631 |
| Currency rate effect | - | -1 | -1 |
| Reclassifications from other balance sheet items | - | - | - |
| Other movements | 8 | - | 8 |
| Booked value pr 31.12 | 502 | 9 166 | 9 668 |

[1] Decommissioning provisions typically arise when Statkraft has the right to time-limited concessions, and is mainly related to gas power plants in Germany and wind power plants in Sweden.
[2] Included in other provisions are liabilities in connection with equity instruments. In addition to this, a provision of NOK 789 million was made in 2015 due to the situation in Turkey. In 2016, the provision is NOK 720 million. The changes in the provision is related to an expense of NOK 105 million due to a prolonged process to find an acceptable solution in Turkey. The provision was reduced due to payments and currency effects of NOK 174 million.

## Note 31 Interest-bearing debt

| NOK million | 2016 | 2015 |
|---|---|---|
| **Short-term interest-bearing debt** | | |
| First year's instalment on long-term debt | 6 126 | 4 508 |
| Debt connected to cash collateral | 1 408 | 1 614 |
| Credit facilities | - | 1 000 |
| Debt to Statkraft SF | 304 | 11 |
| Other short-term debt | 569 | 63 |
| Total | 8 407 | 7 196 |
| | | |
| **Long-term interest-bearing debt** | | |
| Debt to Statkraft SF | 400 | 400 |
| Bonds issued in the Norwegian market | 7 050 | 7 050 |
| Debt issued in non-Norwegian markets | 21 673 | 27 166 |
| External debt in subsidiaries and other debt | 2 762 | 2 794 |
| Total | 31 886 | 37 410 |
| | | |
| Total interest-bearing debt | 40 293 | 44 606 |

The Group's net repayment in 2016 amounted to NOK 2990 million. Other changes are mainly explained by the changes in exchange rates on foreign currency loans.

## Note 32 Other interest-free liabilities

| NOK million | 2016 | 2015 |
|---|---|---|
| Accounts payable | 1 730 | 2 560 |
| Indirect taxes payable | 974 | 1 362 |
| Debt to Statkraft SF | 2 | 2 |
| Other interest-free liabilities [1] | 9 211 | 6 857 |
| Total | 11 918 | 10 781 |

[1] Of other interest-free liabilities NOK 5931 million are accrued interest-free liabilities in 2016. In 2015 this amounted to NOK 3952 million.

# Note 33 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 as shown in the table below is recognised in future periods.

**Excess/shortfall of revenue distribution grid operations, closing balance**

| NOK million | 2016 | 2015 |
|---|---|---|
| Cumulative excess revenue transferred to subsequent years | 53 | 281 |
| Cumulative revenue shortfall transferred to subsequent years | -63 | -26 |
| Net excess/shortfall of revenue | -10 | 255 |

DISPUTES
The Group is involved in a number of legal proceedings in various forms. While 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 material adverse effect individually or in the aggregate 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 16 December 2015 Statkraft AS received a notice of reassessment from Norwegian tax authorities regarding the income tax returns for the fiscal years 2008-2014 related to its investment in the Statkraft Treasury Centre SA in Belgium. The notice was of a preliminary nature with a number of reservations, and it is therefore not possible to quantify and potential exposure. There has been no development in 2016 that has an impact on Statkraft's assessment. Statkraft disagrees that there is a legal basis for any reassessment, and has made no provision for potential tax liabilities.

**Taxable ownership of Sønnå Høy Hydropower plant**
On 25 August 2016 AS Saudefaldene, an external company for Statkraft, won against the Norwegian Tax authorities in the Gulating Court of Appeal. AS Saudefaldene was found not to have the taxable ownership of the Sønnå Høy hydropower plant. This conclusion would imply that Statkraft is the owner of the power plant for tax purposes.

Statkraft disagrees with the conclusion which can lead to additional property tax, income tax and resource rent tax for the Group. The case was was referred to the Supreme Court by the Appeals Selection Committee in the fourth quarter of 2016. Statkraft estimated and expensed NOK 107 million in the third quarter of 2016 related to historic property tax, income tax and resource rent tax.

**Brazil**
On 13 July 2015, Statkraft acquired a 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 is currently 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. FUNCEF, which invested in Desenvix (now SKER) in 2009 and 2010, and now owns 18.7% of SKER, is one of these pension funds. 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 cases could have potential negative effects on SKER.

**Turkey**
The civil works contract for the Cetin hydro power project in Turkey was terminated in April 2016. There are a number of issues still unresolved in relation to the termination. At this stage it is not possible to estimate the financial outcome of these matters.

The contractor has filed a writ in the Oslo District Court against members (current and previous) of the Board of Directors, the CEO and the SVP of Corporate Communication of Statkraft AS in relation to certain issues connected to the termination of the contract. In Statkraft's view, there is no legal basis for the claim.

# Note 34 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 1460 million in pledged assets. As of 31 December 2016, the carrying value of the pledged As of 31 December 2016, the carrying value of the pledged assets in Statkraft Energi AS totalled NOK 5016 million, and a total of NOK 5806 million in other subsidiaries, mainly Statkraft IH Invest Group. Pledged assets in Statkraft IH Invest Group consist of property, plant and equipment to ensure compliance of long term debt. Fjordkraft has available overdraft facilities amounting to NOK 1000 million, being pledged in trade receivables at a maximum of NOK 600 million. No funds were drawn at 31 December 2016.

## GUARANTEES

The Statkraft Group has the following off-balance-sheet guarantees:

| NOK million | 2016 | 2015 |
|---|---|---|
| Parent company guarantees [1)] | 21 663 | 29 773 |
| Other | 1 766 | 2 328 |
| Total guarantees in Statkraft AS | 23 429 | 32 101 |

[1)] Whereof the most material guarantees are regarding energy purchase of NOK 14 895 million and liabilities to suppliers of NOK 3 267 million.

| | | |
|---|---|---|
| Parent company guarantees | 1 266 | 1 479 |
| Guarantees in NASDAQ OMX Stockholm AB and other energy exchanges | 850 | 1 067 |
| Other | 1 788 | 1 616 |
| Total guarantees in subsidiaries | 3 904 | 4 162 |
| Total guarantees | 27 333 | 36 263 |

## CONTRACT OBLIGATIONS

The Statkraft Group has the following off-balance-sheet obligations:

- A license agreement relating to the development, construction and operation of one hydropower plant which involves a responsibility estimated at NOK 1790 million.
- Obligation regarding service agreements and similar related to gas power plants of NOK 857 million.
- A power purchase agreement with a 15 year horizon. The purchase obligation is NOK 1313 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 2016, the contracts with financial settlement had a total volume of around 82,1 GWh and an average price from the Ministry of Petroleum and Energy of 11,42 øre/kWh. For the remaining contracts with financial settlement, the estimated fair value at 31 December 2016 is around NOK 852 million.

# Note 35 Leases

SIGNIFICANT ACCOUNTING POLICIES

**Leases** are recognised as finance lease agreements when the risks and returns incidental to ownership have been substantially transferred to Statkraft.  Finance leases are capitalised at the commencement of the lease at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. When calculating the lease's present value, the implicit interest cost in the lease is used if it is possible to calculate this. If this cannot be calculated, the company's marginal borrowing rate is used. Direct costs linked to establishing the lease are included in the asset's cost price.

The same depreciation period as for the company's other depreciable assets is used. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

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.

ACCOUNTING JUDGEMENTS

**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.

The total of future minimum lease payments in relation to non-cancellable leases for each of the following period 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 | 144 | 553 | 1 151 | 1 848 |
| Vehicles | 13 | 16 | - | 29 |
| Other leases | 2 | 30 | 7 | 39 |
| Total | 159 | 599 | 1 158 | 1 916 |

Lease-related rent expensed in the period and specified in the following manner:

| NOK million | Minimum lease | Variable lease | Sublease payments |
|---|---|---|---|
| Property rental agreements | 170 | - | 17 |
| Vehicles | 18 | - | - |
| Other leases | 10 | 12 | - |
| Total | 197 | 12 | 17 |

Statkraft is offering market access to smaller renewable energy producers. Some of these contracts are defined as operating leases with variable lease payments, and are presented as energy purchases, see note 12. The lease agreements have durations ranging from 1 to 17 years and the rent paid for 2016 was NOK 4529 million whereas the corresponding amount for 2015 was NOK 6120 million.

Statkraft has no financial lease agreements by year end 2016.

# Note 36 Fees paid to external auditors

Deloitte AS is the Statkraft Group's auditor and audits all subsidiaries subject to auditing requirements, except from Brazilian subsidiaries. Fees paid to external auditors for audit of the Brazilian subsidiaries for 2016 amounts to NOK 2.2 million.

The total fees (excluding VAT) paid for auditing and other services were as follows:

| NOK thousand | 2016 | 2015 |
|---|---|---|
| Statutory auditing | 17 810 | 19 050 |
| Other attestation services | 1 044 | 1 815 |
| Tax consultancy services | 2 702 | 3 240 |
| Other services [1] | 1 624 | 2 874 |
| Total | 23 180 | 26 980 |

[1] The main items in the fees for other services in 2016 and 2015 mainly relate to assistance to map various existing processes and procedures, and the attestation of the sustainability report.

# Note 37 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**

**2016**

| NOK | Salary | Bonus [1)] | Benefits in kind | Salaries and other benefits |
|---|---|---|---|---|
| Christian Rynning-Tønnesen, President and CEO | 4 978 414 | 677 875 | 173 511 | 5 829 800 |
| Hallvard Granheim, Executive Vice President | 2 542 616 | 552 500 | 193 630 | 3 288 746 |
| Steinar Bysveen, Executive Vice President | 2 647 150 | 539 500 | 213 598 | 3 400 248 |
| Hilde Bakken, Executive Vice President | 2 616 080 | 474 500 | 189 585 | 3 280 165 |
| Jürgen Tzschoppe, Executive Vice President [2)] | 3 219 510 | 420 375 | 166 915 | 3 806 800 |
| Irene Egset, Executive Vice President [3)] | 2 062 868 | 369 600 | 180 154 | 2 612 622 |
| Asbjørn Grundt, Executive Vice President [4)] | 2 930 022 | 360 000 | 193 057 | 3 483 079 |
| Jon Brandsar, Executive Vice President [5)] | 2 208 380 | - | 72 369 | 2 280 749 |

1) Bonus earned in 2016, but disbursed in 2017.
2) Jürgen Tzschoppe was appointed Executive Vice President on 8 June 2015.
3) Irene Egset was appointed Executive Vice President on 4 February 2016.
4) Asbjørn Grundt resigned as Executive Vice President on 16 November 2016.
Jon Vatnaland was appointed Executive Vice President on 24 January, 2017.

5) Jon Brandsar resigned as Executive Vice President on 4 February 2016.

**2015**

| NOK | Salary | Bonus [1)] | Benefits in kind | Salaries and other benefits |
|---|---|---|---|---|
| Christian Rynning-Tønnesen, President and CEO | 4 849 680 | 412 886 | 171 722 | 5 434 289 |
| Hallvard Granheim, Executive Vice President | 2 320 997 | 446 000 | 189 559 | 2 956 557 |
| Jon Brandsar, Executive Vice President | 2 445 655 | 432 000 | 129 248 | 3 006 903 |
| Steinar Bysveen, Executive Vice President | 2 598 084 | 345 000 | 165 965 | 3 109 049 |
| Hilde Bakken, Executive Vice President | 2 483 786 | 438 000 | 153 250 | 3 075 036 |
| Asbjørn Grundt, Executive Vice President | 2 871 795 | 501 000 | 193 756 | 3 566 551 |
| Øistein Andresen, Executive Vice President [2)] | 1 690 577 | - | 65 850 | 1 756 426 |
| Jürgen Tzschoppe, Executive Vice President [3)] | 1 534 901 | 337 000 | 114 594 | 1 986 494 |

1) Bonus earned in 2015, but disbursed in 2016. The principle for disclosing bonus has changed from last year. In the annual report of 2015 the figures were bonus earned in 2014, but disbursed in 2015. The comparable figures are restated.

2) Øistein Andresen resigned as Executive Vice President on 7 June, 2015.

3) Jürgen Tzschoppe was appointed Executive Vice President on 8 June, 2015.

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 2016, total salaries and other benefits paid to the executive management amounted to NOK 27 982 209. The corresponding amount in 2015 was NOK 24 891 305.

**Pension costs – executive management**

| NOK | 2016 | 2015 |
|---|---|---|
| Christian Rynning-Tønnesen, President and CEO | 2 413 137 | 2 537 708 |
| Hallvard Granheim, Executive Vice President | 254 496 | 314 048 |
| Steinar Bysveen, Executive Vice President | 926 091 | 1 029 604 |
| Hilde Bakken, Executive Vice President | 1 035 227 | 1 030 759 |
| Asbjørn Grundt, Executive Vice President | 1 032 592 | 1 242 989 |
| Jürgen Tzschoppe, Executive Vice President [1)] | 117 804 | 38 528 |
| Irene Egset, Executive Vice President [2)] | 849 380 | - |
| Jon Brandsar, Executive Vice President [3)] | 91 192 | 1 142 185 |
| Øistein Andresen, Executive Vice President [4)] | - | 411 871 |

1) Jürgen Tzschoppe was appointed Executive Vice President on 8 June, 2015.
2) Irene Egset was appointed Exectutive Vice President on 4 February 2016.
3) Jon Brandsar resigned as Executive Vice President on 4 February 2016.
4) Øistein Andresen resigned as Executive Vice President on 7 June 2015.

The year's accounting cost for the pension scheme reflects the period during which the individual has been an executive employee.
For 2016, the total pension costs for executive management were NOK 6 719 919. In 2015 the corresponding amount was NOK 7 747 692.

# Note 37 continued

**Remuneration to the Board, Audit Committee and Compensation Committee as well as participation in Board meetings**

**2016**

| NOK | Board remuneration | Audit Committee | Compensation Committee | Participation in board meetings |
|---|---|---|---|---|
| Thorhild Widvey, chair [1] | 242 000 | - | 24 950 | 6 |
| Halvor Stenstadvold, deputy chair [2] | 311 000 | 93 300 | - | 11 |
| Hilde Drønen, director | 281 000 | 67 600 | - | 10 |
| Peter Mellbye, director [1] | 140 500 | - | 15 500 | 6 |
| Helene Biström, director [1] | 140 500 | 33 800 | - | 5 |
| Bengt Ekenstierna, director [1] | 140 500 | - | - | 6 |
| Thorbjørn Holøs, employee-elected director | 281 000 | 67 600 | - | 10 |
| Vilde Eriksen Bjerknes, employee-elected director | 281 000 | - | - | 11 |
| Asbjørn Seveljordet, employee-elected director | 281 000 | - | 31 000 | 10 |
| Olav Fjell, chair [3] | 242 000 | - | 24 950 | 5 |
| Berit J. Rødseth, deputy chair [3] | 170 500 | 33 800 | - | 5 |
| Elisabeth Morthen, director [3] | 140 500 | - | - | 5 |

[1] Was appointed board member in June 2016.

[2] Was appointed depuy chair in June 2016. Prior to this, Halvor Stenstadvold was director.

[3] Left the Board in June 2016.

**2015**

| NOK | Board remuneration | Audit Committee | Compensation Committee | Participation in board meetings |
|---|---|---|---|---|
| Olav Fjell, chair | 477 000 | - | 49 150 | 11 |
| Berit J. Rødseth, deputy chair | 336 000 | 66 600 | - | 11 |
| Halvor Stenstadvold, director | 277 000 | 91 900 | - | 9 |
| Harald von Heyden, director [1] | 277 000 | - | 30 550 | 10 |
| Elisabeth Morthen, director | 277 000 | - | - | 11 |
| Hilde Drønen, director | 277 000 | 66 600 | - | 10 |
| Thorbjørn Holøs, employee-elected director | 277 000 | 66 600 | - | 11 |
| Vilde Eriksen Bjerknes, employee-elected director | 277 000 | - | - | 11 |
| Asbjørn Seveljordet, employee-elected director | 277 000 | - | 30 550 | 11 |

[1] Harald von Heyden left the Board of Directors on 1 December, 2015.

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 2016 was NOK 2 651 500, NOK 296 100 and NOK 96 400, respectively. The respective amounts in 2015 were NOK 2 752 000, NOK 291 700 and NOK 110 250.

THE BOARD'S STATEMENT REGARDING SALARIES AND OTHER REMUNERATIONS TO SENIOR EXECUTIVES – 2016

The board of Statkraft will contribute to a moderate, but competitive development of executive remuneration in Statkraft. Principles and guidelines for salary and other remuneration to executive management are designed accordingly. There were no significant policy changes with regard to salaries and other remunerations in 2016.

Statkraft AS and subsidiaries where Statkraft has 90 % ownership and more follow 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 conditions, 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 internal reward practices 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.

**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.

# Note 37 continued

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 disbursement 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.

**Position change agreements**
The CEO and certain corporate executives 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 certain corporate executives, 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 2017 is NOK 5 043 000, with other terms as set out in this statement.

# Note 38 Related parties

All subsidiaries, associates and joint arrangements stated in note 24 and note 39 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 37 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 | 2016 | 2015 |
|---|---|---|
| Revenues | 324 | 409 |
| Expenses | 1 518 | 1 528 |
| Receivables at the end of the period | 7 207 | 5 409 |
| Liabilities at the end of the period | 16 | 40 |

**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 | 2016 | 2015 |
|---|---|---|
| **Gross operating revenues include:** | | |
| Concessionary sales at statutory prices | 348 | 346 |
| | | |
| **Net operating revenues includes:** | | |
| Energy purchases from Statoil | 409 | 749 |
| Transmission costs to Statnett | 1 120 | 852 |
| | | |
| **Operating expenses include:** | | |
| Property tax and licence fees to Norwegian authorities | 1 259 | 1 230 |
| | | |
| **Financial expenses include:** | | |
| Interest expences to Statkraft SF | 32 | 44 |
| | | |
| **Tax expenses include:** | | |
| Taxes payable to Norwegian authorities | 4 694 | 1 798 |
| | | |
| Dividend and Group contribution from Statkraft AS to Statkraft SF | 4 350 | 1 604 |

The energy purchase from Statoil 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 31, there are no other significant balance items between Statkraft AS and Statkraft SF.

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 39 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% |
| Renewable Energies and Photovoltaics Spania S.L. | OA | Spain | Malaga | Statkraft AS | 70.00% |
| Smøla Vind 2 AS | WP | Norway | Oslo | Statkraft AS | 100.00% |
| Statkraft Asset Holding AS | EF,OA | Norway | Oslo | Statkraft 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% |
| Devoll Hydropower Sh.A. | IH | Albania | Tirana | Statkraft Markets BV | 100.00% |
| Statkraft Sweden AB | EF, WP | Sweden | Stockholm | Statkraft Asset Holding AS | 100.00% |
| Gidekraft AB | EF | Sweden | Stockholm | Statkraft Sweden AB | 90.10% |
| Harrsele AB | EF | Sweden | Stockholm | Statkraft Sweden AB | 50.57% |
| 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 SCA Vind AB | WP | Sweden | Stockholm | Statkraft Vind AB | 60.00% |
| Statkraft SCA Vind Elnät AB | WP | Sweden | Stockholm | Statkraft SCA Vind AB | 100.00% |
| Statkraft SCA Vind II AB | WP | Sweden | Stockholm | Statkraft Vind AB | 60.00% |
| Statkraft Södra Vindkraft AB | WP | Sweden | Stockholm | Statkraft Vind AB | 90.10% |
| Vindpark EM AB | WP | Sweden | Stockholm | Statkraft Södra Vindkraft AB | 90.10% |
| Statkraft Carbon Invest AS | MO | Norway | Oslo | Statkraft AS | 100.00% |
| Statkraft Elektrik Enerjisi Toptan Satıs¸ Ltd. S¸irketi | MO | Turkey | Istanbul | Statkraft AS | 100.00% |
| Statkraft Energi AS | MO, EF, WP | Norway | Oslo | Statkraft AS | 100.00% |
| Baltic Cable AB | EF | Sweden | Malmö | Statkraft Energi 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. | IH | Turkey | Istanbul | Statkraft AS | 100.00% |
| Çakıt Enerji A.S. | IH | Turkey | Istanbul | Statkraft Enerji A.S. | 100.00% |
| Çetin Enerji A.S. | IH | Turkey | Istanbul | Statkraft Enerji A.S. | 100.00% |
| Kargı Kızılırmak Enerji A.S. | IH | 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 Germany GmbH | MO | Germany | Düsseldorf | Statkraft AS | 100.00% |
| Statkraft Markets GmbH | MO | 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 Romania SRL | MO | Romania | Bucuresti | Statkraft Markets GmbH | 100.00% |
| Statkraft South East Europe EOOD | MO | Bulgaria | Sofia | 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% |
| Zonnepark Lange Runde B.V. | MO | Netherlands | Amsterdam | Statkraft Germany GmbH | 100.00% |
| Statkraft IH Invest AS | IH | Norway | Oslo | Statkraft AS | 81.90% |
| Statkraft Brasil AS | IH | Norway | Oslo | Statkraft IH Invest AS | 100.00% |
| Statkraft Investimentos Ltda. | IH | Brazil | Florianopolis | Statkraft Brasil AS | 100.00% |
| Statkraft Energia do Brasil Ltda. | IH, MO | Brazil | Florianopolis | Statkraft Investimentos Ltda. | 100.00% |
| Statkraft Energias Renováveis S.A. | IH | Brazil | Florianopolis | Statkraft Investimentos Ltda. | 81.31% |
| Esmeralda S.A. | IH | Brazil | Florianopolis | Statkraft Energias Renováveis S.A. | 100.00% |
| Enex O&M de Sistemas Elétricos Ltda. | IH | Brazil | Florianopolis | Statkraft Energias Renováveis S.A. | 100.00% |
| Santa Laura S.A. | IH | Brazil | Florianopolis | Statkraft Energias Renováveis S.A. | 100.00% |
| Santa Rosa S.A. | IH | Brazil | Florianopolis | Statkraft Energias Renováveis S.A. | 100.00% |
| Moinho S.A. | IH | Brazil | Florianopolis | Statkraft Energias Renováveis S.A. | 100.00% |
| Macaúbas Energética S.A. | IH | Brazil | Florianopolis | Statkraft Energias Renováveis S.A. | 100.00% |
| Novo Horizonte Energética S.A. | IH | Brazil | Florianopolis | Statkraft Energias Renováveis S.A. | 100.00% |
| Seabra Energética S.A. | IH | Brazil | Florianopolis | Statkraft Energias Renováveis S.A. | 100.00% |
| Energen Energias Renováveis S.A. | IH | Brazil | Florianopolis | Statkraft Energias Renováveis S.A. | 99.99% |
| Monel Monjolinho Energética S.A. | IH | Brazil | Florianopolis | Statkraft Energias Renováveis S.A. | 100.00% |
| Statkraft IH Holding AS | IH | Norway | Oslo | Statkraft IH Invest AS | 100.00% |
| Statkraft Holding Singapore Pte. Ltd. | IH | Netherlands | Amsterdam | Statkraft IH Holding AS | 100.00% |
| Himal Power Ltd. | IH | Nepal | Kathmandu | Statkraft Holding Singapore Pte. Ltd. | 57.07% |

# Note 39 continued

| Name | Segment [1] | Country | Registered office | Parent company | Shareholding and voting share |
|---|---|---|---|---|---|
| Statkraft Holding Chile Pte. Ltd. | IH | Netherlands | Amsterdam | Statkraft Holding Singapore Pte. Ltd. | 100.00% |
| Statkraft Chile Inversiones Electricas Ltd. | IH | Chile | Santiago | Statkraft Holding Chile Pte. Ltd. | 100.00% |
| Empresa Eléctrica Pilmaiquén S.A. | IH | Chile | Santiago | Statkraft Chile Inversiones Electricas Ltd. | 99.39% |
| Empresa Eléctrica Rucatayo S.A. | IH | Chile | Santiago | Empresa Eléctrica Pilmaiquén S.A. | 100.00% |
| Transrucatayo S.A | IH | Chile | Santiago | Empresa Eléctrica Rucatayo S.A. | 100.00% |
| Eléctrica del Sur S.A. | IH | Chile | Santiago | Empresa Eléctrica Pilmaiquén S.A. | 100.00% |
| Hidrotransmision del Sur S.A. | IH | Chile | Santiago | Empresa Eléctrica Pilmaiquén S.A. | 100.00% |
| Statkraft Chile Tinguiririca SCC | IH | Chile | Santiago | Statkraft Chile Inversiones Electricas Ltd. | 100.00% |
| Statkraft Market Services Chile S.A. | IH | Chile | Santiago | Statkraft Chile Inversiones Electricas Ltd. | 100.00% |
| Statkraft Holding Nepal Ltd. | IH | Nepal | Kathmandu | Statkraft Holding Singapore Pte. Ltd. | 100.00% |
| Statkraft Holding Peru Pte. Ltd. | IH | Netherlands | Amsterdam | Statkraft Holding Singapore Pte. Ltd. | 100.00% |
| Statkraft Peru Holding S.A.C. | IH | Peru | Lima | Statkraft Holding Peru Pte. Ltd. | 100.00% |
| Statkraft Peru S.A. | IH | Peru | Lima | Statkraft Peru Holding S.AC. | 100.00% |
| Inversiones Shaqsa S.A.C. | IH | Peru | Lima | Statkraft Peru S.A. | 100.00% |
| Statkraft India Pvt. Ltd. | IH | India | New Dehli | Statkraft Holding Singapore Pte. Ltd. | 100.00% |
| Statkraft Markets Pvt. Ltd. | MO | India | New Dehli | Statkraft Holding Singapore Pte. Ltd. | 100.00% |
| Statkraft Industrial Holding AS | IH | Norway | Oslo | Statkraft AS | 100.00% |
| Fjordkraft AS [2] | IO | Norway | Oslo | Statkraft Industrial Holding AS | 3.15% |
| Trondheim Kraft AS | IO | Norway | Trondheim | Fjordkraft 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 Naturgass AS | IO | Norway | Porsgrunn | Skagerak Energi AS | 100.00% |
| 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 Treasury Centre SA | OA | Belgium | Brussels | Statkraft AS | 100.00% |
| Statkraft UK Ltd. | WP, MO | United Kingdom | London | Statkraft AS | 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% |
| Statkraft Vind Holding AS | WP | Norway | Oslo | Statkraft AS | 100.00% |
| Statkraft Western Balkans d.o.o. | MO | Serbia | Beograd | Statkraft AS | 100.00% |
| Steinsvik Kraft AS [3] | OA | Norway | Bergen | Statkraft AS | 40.00% |

[1] EF: European flexible generation, MO: Market operations, IH: International hydropower, WP: Wind power, DH: District heating, IO: Industrial ownership, OA: Other activities.
[2] Fjordkraft AS is owned by Statkraft Industrial Holding AS (3.15%), Skagerak Energy AS (48%) and BKK AS (48.85%).
[3] Steinsvik Kraft is AS owned by 20% by Skagerak Kraft AS, 20% by Agder Energi AS and 20% by BKK AS. Statkraft AS owns 40% directly.

**Non-controlling interests' share of the Group's activities**

There are significant non-controlling shareholdings in SKIHI Group and Skagerak Energi Group.

| | SKIHI Group [1] | | Skagerak Energi Group [2] | |
|---|---|---|---|---|
| NOK million | 2016 | 2015 | 2016 | 2015 |
| Gross revenues | 2 297 | 3 223 | 2 489 | 2 381 |
| Total comprehensive income | 1 098 | -784 | 374 | 910 |
| - of which allocated to non-controlling interests | -49 | -38 | -1 | -3 |
| Assets | 34 045 | 33 068 | 11 599 | 11 946 |
| Debt | 7 110 | 6 805 | 6 710 | 7 343 |
| Equity | 26 935 | 26 263 | 4 889 | 4 603 |
| - of which accumulated non-controlling interests | 1 239 | 1 139 | 28 | 30 |
| Dividend disbursed to non-controlling interests | - | - | - | - |
| Net cash flow from operating activities | N/A | N/A | 986 | 602 |

[1] SKIHI Group was established as a part of the restructuring of old SN Power in 2014 and is owned by Statkraft with 81.3% and Norfund 18.7%.
[2] Table based on preliminary figures.

**Fosen:** In February 2016, Statkraft, TrønderEnergi and the European investor consortium Nordic Wind Power DA decided to join forces to realise Europe's largest onshore wind power project in Central-Norway. The project comprises of six onshore wind farms with a combined capacity of 1000MW. Construction commenced in Q2 2016, and commissioning will be completed in 2020.