



Statkraft Energi AS

2015

Annual Report



Statkraft

Report from the Board of Directors

Statkraft Energi's activities

Statkraft Energi AS is a company in the Statkraft Group. Statkraft is Europe's largest producer of renewable energy. The Group produces and develops power and district heating, and is a significant player on the European energy exchanges, with specialist expertise within physical and financial energy trading. The Statkraft Group also invests significantly in innovation, and has assumed a leading position as provider of market access for producers of renewable energy in Scandinavia, Germany and the UK.

Statkraft Energi is engaged in power production and trading with power and related products. Statkraft Energi also delivers services within market access, operation and maintenance to other units in the Statkraft Group in the Nordic countries. Statkraft Energi has its activities within the Statkraft Group's segments Nordic hydropower and Continental energy and trading. The majority of the company's operating revenues are generated in Norway. Statkraft Energi's head office is located in Oslo.

Statkraft Energi owns 100% of the shares in Baltic Cable AB. Baltic Cable AB is located in Malmö, Sweden and operates a subsea power cable between Sweden and Germany. Further, Statkraft Energi owns 60.17% of AS Tyssefaldene, which operates power plants in Tyssedal, as well as 100% of Statkraft Varme AS, the district heating activities in the Group and 100% of Statkraft Tofte AS owning a former industrial area in Tofte. Statkraft Energi also has other shareholdings in Norwegian power production and related activities.

Strategy

Statkraft has developed and managed Norwegian hydropower since the business was established in 1895. The Group is well positioned to participate in Europe's transition to cleaner power production and to contribute with new, clean production in emerging markets. The following five strategic areas will be prioritised:

- European flexible power generation
- Market operations
- Hydropower in emerging markets
- Wind power
- District heating

The operations of Statkraft Energi are within the areas European flexible power generation and Market operations. With 128 power stations in Norway and 900 full time equivalents employed, the

Company has developed a strong position within these two strategic areas.

The Statkraft Group's strategy is described in more detail in the Group's annual report.

Important events in 2015

Statkraft decided to invest NOK 280 million in a full refurbishment of Øvre Røssåga power plant in Northern Norway. All major electromechanical components will be refurbished, and annual production will increase by 50 GWh.

Statkraft Energi (51%) has along with Södra Skogägarna Ekonomisk Förening (Södra), established the company Silva Green Fuel AS, 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.

Elkem and Statkraft entered into a new long-term power agreement for a period after year 2020. The new volumes will be delivered to Elkem's smelters in Thamshavn in Nord-Trøndelag County and in Salten in Nordland County.

Haugaland Tingrett has concluded that AS Saudefaldene is the owner of Sønnå Høy for tax purposes, upholding the April 2014 ruling. AS Saudefaldene has appealed the verdict. The parties have previously accepted that Statkraft Energi participates as intervention, as a positive outcome in favor of AS Saudefaldene will have negative consequences for Statkraft Energi.

Naturkraft AS, whom Statkraft Energi has a tolling agreement with, has been granted permission by the Norwegian Water Resources and Energy Directorate to dismantle the gas-fired power plant at Kårstø in Norway. The decision can be appealed to the Ministry of Petroleum and Energy.

The operational structure is amended by that the Region East and West have been merged into a joint Region Southern Norway. The main purpose behind this change is to leverage economies of scale to a greater extent. Further changes were made in the organisational structure for energy management, finance function and other support functions.

Market and production

Power market

Power prices in the Nordic region in 2015 were affected by higher-than-normal temperatures and inflow. Temperatures in Norway and Sweden were on average 1.2 and 1.4 degrees above normal respectively and inflow was 120% above normal in Norway and 122% above normal in Sweden.

The average system price on Nord Pool was 21.0 EUR/MWh, 29% lower than in 2014 and 46% below the average for the 2010-2014 period. This was the lowest average yearly price since 2000.

Power consumption in the Nordic region is relatively high per capita compared with other European countries, as a result of the combination of cold winters, high percentage of electrical heating and a relatively large percentage of power intensive industry. The demand for power in 2015 was slightly higher than in 2014, both in Norway and the Nordic region. Total production was 144.7 TWh in Norway and 393.8 TWh in the Nordic region, an increase of 2% in both markets compared with 2014.

Production

The demand for power varies throughout the day and year, and the power markets are dependent on capacity that can be adjusted according to demand. Statkraft Energi has a large percentage of flexible production capacity, and combined with extensive analysis and production expertise, this contributes to consistent, sound management of the water resources. The company has an advanced energy management process and aims to have production capacity available in periods with high demand. Statkraft Energi's large reservoir capacity with a combination of seasonal and multiple-year reservoirs enables the company to manage the water resources in a perspective spanning more than one year. Accordingly, production can be kept high in peak price periods, but can be kept lower in low-price periods. In 2015 Statkraft Energi held back production due to the low prices.

The Nordic hydrological resource situation was relatively robust throughout the year and at year-end (week 52) the overall reservoir water levels in the Nordic region were 118% of the normal level. This corresponded to 98 TWh, which is 81% of the maximum reservoir capacity of 121 TWh. Statkraft Energi's reservoir levels were somewhat higher than this due to relatively low Norwegian hydropower production in 2015.

The production of Statkraft Energi takes place in Norway. The company had a power production of 37,8 TWh, a reduction of 5% compared to 2014.

Financial Performance

Statkraft Energi's 2015 result was characterised by lower Nordic power prices compared to 2014, and lower production.

Net operating revenues totaling NOK 10 365 million are significantly reduced, 19% lower than in 2014. Operating profit amounted to NOK 6338 million, a reduction of 29%. As a result, the company's recorded profit before tax amounted to NOK 6119 million. Net profit amounted to NOK 3404 million, a reduction of 26%.

Operating revenues

Statkraft Energi's revenues are generated by spot sales, contractual sales to the industry and financial trading. In addition, Statkraft Energi delivers concessionary power to Norwegian municipalities. The fundamental basis for Statkraft Energi's revenues is power prices, water management and production. The production revenues are optimised through financial power trading, and the company is also engaged in trading activities.

Spot sales are trading of electric energy with production and physical delivery taking place simultaneously at market price. The price is typically stipulated for a short time interval, for example for every hour of the day in the Nordic region. In 2015, Statkraft Energi sold 16.5 TWh (19.8 TWh) in the spot market.

In Norway, Statkraft Energi is required to cede a share of the power production to counties and municipalities where the power is produced, so-called concessionary power. Explained briefly, the price for such power corresponds to the average production cost, which is significantly lower than the market price for power. In 2015, the revenues from concessionary sales amounted to NOK 297 million (NOK 297 million).

Statkraft Energi is a major supplier to the power-intensive industry. In 2015, the volume delivered under long-term contracts to the industry in the Nordic region amounted to 16.4 TWh (16.5 TWh). The high contract coverage has a stabilising effect on Statkraft Energi's revenues. Most of the contract volume to Nordic industry runs until 2020. Statkraft Energi has in addition established a special portfolio with the objective of reducing market risk for physical sales contracts.

Statkraft Energi optimises production revenues through financial power trading. Statkraft Energi's analysis activities have a key position in this trading activity. The analysis activities are based on collection and processing of hydrological data and other market data. The data are used to estimate market prices and optimise the flexible production.

The Nordic management portfolio is important to optimise future revenues without increasing the risk. The profit from the management portfolio was NOK 260 million (NOK 805 million).

Statkraft Energi is also engaged in relatively short-term positioning with financial standard contracts (trading) and structured products and customised agreements for industry, power stations and business (origination). Revenues can vary substantially between periods and years. In 2015, the revenues from Trading & Origination amounted to NOK 54 million (NOK 263 million).

Other operating revenues amounted to NOK 804 million (NOK 938 million); a reduction of 14% mainly because an accounting gain was included in 2014.

Energy purchases amounted to NOK 3283 million (NOK 1487 million), and are related to purchase of power in connection with market activities, as well as purchase of gas for gas fired power production. Some of the increase is due to a change from net to gross presentation of purchase of power from a Swedish sister company, following changes in the agreement.

Transmission costs associated with the transport of power totalled NOK 701 million, a reduction of 17%. The reduction is mainly due to lower average system prices and volume.

Operating expenses

Operating expenses for 2015 amounted to NOK 4027 million, an increase of 3% from 2014.

Total salaries and payroll expenses show isolated an increase of 18% compared to 2014. However, for 2014 these expenses were lower as a result of plan changes related to actuarial assumptions, which amounted to 107 million. Salaries and payroll expenses increased by 3% exclusive of the pension changes.

Depreciation increased by 10% from 2014. The increase is primarily due to new fixed assets.

Property tax and licence fees increased by 1.5% from 2014.

Other operating expenses primarily include purchase of third party services, materials and costs of power plants operated by third parties. In addition, compensation payments, rent, IT expenses, marketing, travel and insurance expenses among others are included. Other operating expenses were reduced by 10%, mainly due to changes in provisions for onerous contracts.

R&D activities are expensed as incurred. The expensed amount in 2015 is NOK 27.1 million. The company's research activities are related to development of new methods within hydrology, power optimisation and maintenance activities.

Financial items

Net financial items amounted to NOK -218 million (NOK -122 million).

Financial income amounted to NOK 98 million (NOK 287 million). The decrease is due to lower interest rates, dividend and currency gains than in 2014. Financial expenses amounted to NOK 316 million, which entails a reduction of 23% from 2014. This is mainly due to lower interest costs.

Taxes

The recognised tax expense was NOK 1500 million lower than in 2014, and amounted to NOK 2715 million. The reduction in tax expense is primarily due to reduced profit before tax. The resource rent tax is reduced by NOK 253 million compared to 2014, due to lower power prices and production. The resource rent tax for the year amounts to NOK 1368 million, and constitutes a main part of the total tax expense of the company.

Cash flow and capital structure

Net liquidity change from operations amounted to NOK 5720 million (NOK 6099 million).

For the year as a whole, a gross total of NOK 1831 million was invested (NOK 2010 million). The largest investment items in 2015 regard investments in new capacity and hydropower plant upgrades. The largest projects are related to the power plants Nedre Røssåga, Øvre Røssåga, Kjensvatn and Ringedalen.

The net liquidity change from financing amounted to NOK -3182 million in 2015 (NOK -3940 million). Net long term debt of NOK 1818 million was raised in 2015. Paid group contribution amounted to NOK 5000 million (NOK 3940 million).

The net liquidity change in 2015 was NOK 488 million (NOK 17 million). The company's cash and cash equivalents totalled NOK 610 million, compared with NOK 122 million at the beginning of the year.

At the end of 2015, interest-bearing short-term and long-term debt amounted to NOK 10 800 million, compared with NOK 8982 million at the beginning of the year. The interest-bearing debt-equity ratio was 25%, approximately 4 percentage points higher than in the previous year.

At the end of 2015, current assets, except cash and cash equivalents, totalled NOK 3819 million and current interest-free debt amounted to NOK 9238 million.

At the end of 2015, Statkraft Energi's equity totaled NOK 15 756 million, compared with NOK 17 196 million at the start of the year. This corresponds to 35.9% of total assets.

Risk management

Statkraft Energi is exposed to risk throughout the value chain. The most important risks are related to market operations, financial management, project execution, operating activities and framework conditions. Growth and increased internationalisation together with dramatic changes in the energy sector set stricter requirements for risk management in the investment portfolio. Statkraft Group has a central Investment Committee to improve risk handling in relation to individual investments and across the project portfolio. The risk management is an integrated part of other governance through a

risk-based system for the Corporate management's follow-up of the business areas. The Group's overall risk profile is concluded by the Corporate Management and is reported to the Board of Directors.

Market risk in energy markets

Statkraft Energi 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.

Statkraft Energi manages market risk in the energy markets by trading physical and financial instruments in multiple markets. Increased integration of the energy markets is having a significant impact on business models and risk management. Consequently, Statkraft Energi places significant emphasis on the interrelationship between the various markets. The Group's hedging strategies are regulated by limits on the positions' volume and value, and by criteria for evaluating new contracts against expected revenues and downside risk. The portfolio is constantly adjusted in relation to our current perceptions of future prices and the company's own production capacity.

Statkraft Energi's activities in energy trading and services consist of both trading with standard products on energy exchanges and sale of services or products adapted to the individual customer. New products and services typically have a short lifetime compared with other activities before profitability is reduced as a result of competition from other players or regulatory amendments. Risk is handled through mandates covering raw materials, geographical areas and duration. An independent risk management function ensures objectivity in the assessment and handling of risk.

Financial risk

The central treasury department in the Group coordinates and manages the financial risk associated with foreign currencies, interest rates and liquidity, including refinancing and new borrowing. Statkraft Energi is exposed to interest risk through internal financing. Statkraft Energi is exposed to currency risk through the company's energy trading in Euro.

Statkraft Energi is exposed to credit and counterparty risk through energy trading and investment of surplus liquidity. The credit rating of all counterparties is evaluated before contracts are signed, and exposure vis-à-vis individual counterparties are limited by mandates based on their credit rating.

Market risk in the energy markets and other financial risk, as well as exposure in connection with the issued mandates, are followed up by independent middle office functions and regularly reported to the management.

Operational risk

All processes throughout the value chain are exposed to operational risk, especially during implementation of investment projects and operational activities which may result in injury to the company's employees, contractors or third parties, environmental damage, damage and loss of own and third-party production plants and other assets, as well as reputational and financial losses.

The first priority of Statkraft Group and Statkraft Energi is to execute development activities and operations in a responsible manner. Risk management at early stages of the development for an investment project has turned out to be an important success factor. Statkraft Group has insurance coverage for all significant types of damage or injury, in part through the Group's own insurance company Statkraft Forsikring.

Statkraft Energi manages operational risk through detailed procedures for activities in all operational units and various types of contingency plans. Furthermore, Statkraft Group has a comprehensive system for registering and reporting hazardous conditions, undesirable incidents and damage and injuries. Such cases are analysed continuously to prevent and limit any consequences, and to ensure that we can follow up causes and implement the necessary measures. Systematic risk assessments are carried out for all projects above a certain size.

Other risk

Statkraft Energi's activities in Norway are influenced by framework conditions such as taxes, fees, regulations, grid regulations, changes in mandatory minimum water level and other requirements stipulated by the Norwegian Water Resources and Energy Directorate (NVE), as well as general terms and conditions stipulated for the energy industry. These framework conditions can influence Statkraft Energi's production, costs and revenues. Risk management in Statkraft is further described in the Group's annual report on Statkraft's website.

Internal control

The overall management system, «The Statkraft Way», ensures a good control environment and contributes to achieving the Group's goals and intentions. Internal control requirements have been incorporated into the relevant internal control areas, for instance HSE, ethics, ICT, corporate responsibility and financial reporting.

The system for Internal Control over Financial Reporting (ICFR) contributes to ensuring reliable and timely financial information in the reporting of Statkraft Group. It is based on the COSO 2013 framework for internal control, published by the Committee of Sponsoring Organizations of the Treadway Commission.

Statkraft Energi complies with the ICFR requirements as described in «The Statkraft Way» and in Statkraft's finance manual.

Internal control in Statkraft is further described in the Group's annual report on Statkraft's website.

Corporate Responsibility

Statkraft Group is committed to act in a sustainable, ethical and social responsible manner. The goal is to have safe operations where people, communities, the environment and our assets are protected.

In order to operationalise these commitments, Statkraft takes guidance from globally recognised initiatives and standards, including the OECD's Guidelines for Multinational Enterprises and IFC's Performance Standards on Social & Environmental Sustainability. Statkraft is a member of the UN Global Compact and complies with its ten principles relating to human rights, labour rights, environment and anti-corruption.

Further information is available in the Group's annual report.

Environment and climate

Statkraft's environmental ambition is to support a global transition towards a low-carbon economy by providing renewable and sustainable energy solutions. Continued growth based on

international good practice for environmental management is a key element to achieve this ambition. It is decided that future investments in Statkraft should be based on renewable energy only.

In 2015, Statkraft Group has worked strategically with the Water Framework Directive in order to enhance coordination of the company's actions related to water management in Norway, Sweden and Germany. This work is on-going and will continue in 2016.

There were no serious environmental incidents in 2015. Some minor environmental incidents were registered related to short-term breaches of river management regulations and minor oil spills. These incidents had little or no impact on the environment.

Employees and organisation

Statkraft Energi had 900 full time equivalents in 2015 (902).

The Statkraft Group strives to attain an even gender distribution in the Group, and more women in managerial positions. In 2015, 18.4% (18.9%) of Statkraft Energi's employees were women and the percentage of women in management positions was 20% (19%). The percentage of women in the Board of Directors is 43%. Statkraft Group and Statkraft Energi want a diverse working environment and consider equal treatment as tenet in the recruitment and HR policy.

Health and safety

Statkraft is focusing on health and safety in every workplace, and the overall target is zero accidents with serious injuries. Leadership commitment, a proactive attitude towards health and safety, robust planning of projects and clear safety expectations are crucial to achieve this objective.

Correct and adequate health and safety expertise among employees, contractors and sub-contractors is the key in the Group's health and safety work. The Statkraft Group's management and follow-up of health and safety is based on the requirements in the OHSAS 18001 standard and international good practice.

The injury indicators for own employees increased slightly. However, the efforts to prevent work related injuries is progressing in a long-term perspective. In total, 6 (4) lost-time injuries and 11 (12) injuries in total (with and without absence) were registered among own employees. Among contractor employees, 7 (6) lost-time injuries and 6 (7) injuries without absence were registered.

Sick-leave in Statkraft Energi was 3.4% in 2015 (3.1%), which is within the goal of a sick-leave lower than 3.5%. All the Norwegian companies in the Group have entered into Inclusive workplace (IA) agreements, with active follow-up of absence and close cooperation with the business health service.

Going concern

In accordance with the provisions of the Norwegian Accounting Act, the Board of Directors confirms that the annual financial statements have been prepared on the assumption that the company is a going concern.

Profit allocation

The net profit for the year is NOK 3404 million. The board of directors proposes the following allocation of the annual profit for Statkraft Energi:

Profit allocation

NOK million

Group contribution payable	4,956
To (+) / from (-) retained earnings	-1,552
Total allocated	3,404

Outlook

Low European power prices and a power surplus in the Nordic region have resulted in low Nordic power prices. Statkraft Energi's large reservoir capacity with both seasonal and multiple-year reservoirs provides the company with ample flexibility to manage water resources efficiently. Long-term power contracts also contribute to stabilise the company's revenues. The company will continue to make investments in order to modernise its ageing hydropower plants in Norway.

The board of Directors of Statkraft Energi AS

Oslo, 10 March 2016

Christian Rynning-Tønnesen
Chairman of the Board

Steinar Bysveen
Director

Kristin Steinfeldt-Foss
Director

Arne Einungbrekke
Director

Olav Rabbe
Director

Marit Bjørkum Aven
Director

Torgunn Oldeide
Director

Hilde Bakken
Man. Dir.

Statkraft Energi Financial Statements

Income Statement

Statkraft Energi

NOK million	Note	2015	2014
Sales revenues	1	13,544	14,196
Other operating revenues	3	804	938
Gross operating revenues		14,349	15,134
Energy purchase	4	-3,283	-1,487
Transmission costs		-701	-841
Net operating revenues		10,365	12,806
Salaries and payroll costs	5, 6	-916	-779
Depreciation, amortisations and impairments	13	-1,043	-951
Property tax and licence fees	7	-1,055	-1,039
Other operating expenses	8, 9	-1,012	-1,119
Operating expenses		-4,027	-3,888
Operating profit		6,338	8,918
Financial income	10	98	287
Financial expenses	10	-316	-409
Net financial items		-218	-122
Profit before tax		6,119	8,796
Tax expense	11	-2,715	-4,215
Net profit		3,404	4,581
Allocation of net profit for the year			
Group contribution payable		4,956	3,650
Transferred from/to retained earnings		-1,552	931
Total allocated		3,404	4,581

Balance sheet

Statkraft Energi

NOK million	Note	31.12.2015	31.12.2014
ASSETS			
Intangible assets	12	518	371
Property, plant and equipment	13	35,393	34,744
Investments in subsidiaries and associates	14	2,820	2,575
Other non-current financial assets	15	676	835
Non-current assets		39,407	38,525
Inventories	16	574	799
Receivables	17	3,245	2,896
Cash and cash equivalents	18	610	122
Current assets		4,429	3,817
Assets		43,836	42,342
EQUITY AND LIABILITIES			
Paid-in capital	19	13,874	13,874
Retained earnings	19	1,882	3,322
Equity		15,756	17,196
Provisions	20	4,931	5,842
Deferred tax	11	1,205	1,455
Long-term interest-bearing debt	21	10,800	4,971
Long-term liabilities		16,936	12,268
Short-term interest-bearing debt	22	-	4,011
Taxes payable	11	1,906	2,178
Other interest-free liabilities	23	9,238	6,688
Short-term liabilities		11,144	12,877
Equity and liabilities		43,836	42,342

The board of Directors of Statkraft Energi AS

Oslo, 10 March 2016

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Chairman of the Board

Steinar Bysveen
Director

Kristin Steinfeldt-Foss
Director

Arne Einungbrekke
Director

Olav Rabbe
Director

Marit Bjørkum Aven
Director

Torgunn Oldeide
Director

Hilde Bakken
Man. Dir.

Cash Flow Statement

Statkraft Energi

NOK million	2015	2014
CASH FLOW FROM OPERATING ACTIVITIES		
Profit before tax	6,119	8,796
Profit/loss on sale of non-current assets	-22	-207
Unrealised changes in value	296	-759
Recognised dividend with no cash effect	-22	-53
Depreciation, amortisation and impairments	1,043	951
Taxed paid	-2,218	-2,758
Change in long-term items	70	-2,849
Change in short-term items	-11	2,948
Dividend from associates	465	30
Net cash flow from operating activities	A	
	5,720	6,099
CASH FLOW FROM INVESTING ACTIVITIES		
Investments in property, plant and equipment	-1,831	-2,010
Proceeds from sale of non-current assets	28	368
Investments in other companies	-247	-500
Net cash flow from investing activities	B	
	-2,050	-2,142
CASH FLOW FROM FINANCING ACTIVITIES		
New interest-bearing debt	10,800	-
Repayment of debt	-8,982	-
Dividend and group contribution paid	-5,000	-3,940
Net cash flow from financing activities	C	
	-3,182	-3,940
Net change in cash and cash equivalents for the year	A+B+C	
	488	17
Cash and cash equivalents 01.01	122	105
Cash and cash equivalents 31.12	610	122

Statkraft has organised the liquidity of the group in a group account scheme. The main part of the company's liquidity is thus formally a receivable against the parent company Statkraft AS.

Summary of significant accounting principles

BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

The annual financial statements for Statkraft Energi AS have been prepared in accordance with the Norwegian Accounting Act and generally accepted accounting principles in Norway (Norwegian GAAP). Statkraft Energi does not prepare consolidated accounts as the sub-group is consolidated in Statkraft AS' consolidated accounts. The Statkraft Group prepares its accounts in accordance with the International Financial Reporting Standards (IFRS).

VALUATION AND CLASSIFICATION PRINCIPLES

Uncertainties in estimates The financial statements are based on assumptions and estimates that affect the book value of assets, liabilities, revenues and expenses. The best estimates available at the time the financial statements were prepared have been used, but actual figures may differ from the original estimates.

Principles for recognition of revenues and expenses Recognition of revenues from sale of goods and services takes place when the revenues are earned, while costs are recognised in accordance with the matching principle. Revenues from energy trading are recognised net. Dividends and contributions from subsidiaries are recognised as income in the year earned, while dividends from other companies are recognised in accordance with the cash principle. Profit/loss from the sale of ordinary non-current assets is treated as operating revenues or expenses.

RECOGNITION OF POWER REVENUES

Physical spot sales Power production is sold through power exchanges. Power production is recognised as sales revenues as produced volume multiplied by sales price.

Concessionary power Each year concessionary sales are made to local authorities at regulated prices stipulated by the Norwegian Stortinget (the parliament). For some of the 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. Delivery and financial settlement of concessionary power are classified as sales revenues at delivery.

Long term contracts Statkraft Energi as a power producer has entered into physical power sales agreements with industrial customers. Produced/delivered volume multiplied with achieved contract price is recognised as sales revenues. Further, Statkraft Energi has established a portfolio with financial power contracts with the aim of reducing the market risk, and this portfolio is valued at the lower of cost and fair value.

Portfolio management Statkraft Energi is entering into physical and financial contracts in order to optimise future power sales revenues. The portfolio management is recognised in accordance with the lower value principle at a portfolio level. Forward currency exchange contracts in the portfolio are valued at fair value. The portfolios are further described in note 26. Net realised income and losses on financial energy trading are included in revenues.

Trading and origination The company has separate portfolios for trading and origination that are managed independently of the company's expected power production. The portfolios are recognised at fair value when the criteria in Section 5-8 of the Accounting Act are fulfilled. One of the trading portfolios trades in contracts which are not traded in a marketplace, and is therefore recognised in accordance with the lower value principle. The origination portfolio does not meet the criteria for accounting at fair value in accordance with Norwegian GAAP, and is therefore recognised in accordance with the lower of cost and fair value at a portfolio level. The portfolios are further described in note 26.

PENSIONS

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. 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. The present value of future benefits in the pension schemes accrued at the balance sheet date is calculated by accrued benefits method.

Remeasurement gains and losses attributable to changes in actuarial assumptions or base data are recognised directly in equity.

Net pension fund assets for overfunded schemes are classified as noncurrent 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.

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.

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 for Statkraft once the payment has been made. The payments are expensed as salaries and payroll costs.

RESEARCH AND DEVELOPMENT EXPENSES

Research expenses are expensed as incurred. Development costs are capitalised to the extent that a future financial benefit can be identified from the development of an identifiable intangible asset.

PUBLIC SUBSIDIES

Public subsidies are included on a net basis in the income statement and balance sheet. Where subsidies are connected to activities that are directly recognised in the income statement, the subsidy is treated as a reduction of the expenses connected to the activity that the subsidy is intended to cover. Where the subsidy is connected to projects that are recognised in the balance sheet, the subsidy is treated as a reduction of the amount recognised in the balance sheet.

COMPENSATIONS

The company pays compensation to landowners for the right to use waterfalls and land. In addition, compensation is paid to others for damage caused to forests, land, telecommunications lines, etc. Compensation payments are partly non-recurring and partly recurring, and take the form of cash payments or a liability to provide compensational power. The present value of liabilities related to annual compensation payments and free power is classified as provisions for liabilities. The corresponding amount is recognised as part of acquisition costs for fixed assets. Annual payments are recognised as other operating expenses, while non-recurring items are offset against the provision.

PROPERTY TAX AND LICENCE FEES

Property tax is presented as an operating expense.

Licence fees are paid annually to central and local government authorities for increased generating capacity that is obtained from regulated watercourses and transfers between catchment areas. These licence fees are recognised as expenses as incurred. The present value of future licence fees is not recognised in the balance sheet, but is estimated and disclosed in Note 7.

TAXES

Companies engaged in power generation in Norway, are subject to the special rules for taxation of energy companies. Accordingly, the tax expense of Statkraft Energi include natural resource tax and resource rent tax, in addition to the ordinary income tax.

Income tax Income tax is calculated in accordance with ordinary tax rules, so that the tax rate applied is at any time the adopted. 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. Deferred tax assets are recognised in the balance sheet to the extent that it is probable that the assets will be realised. Tax related to equity transactions is recognised in equity.

Natural resource tax 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. Any natural resource tax that exceeds income tax can be carried forward with interest to subsequent years, and is recognised as a receivable.

Resource rent tax Resource rent tax is a profit-dependent tax that is calculated at a rate of 31% of the net resource rent revenue generated by each power plant. From 2016, the rate for resource rent tax is set at 33%. Actual operating expenses, depreciation and a tax-free allowance are deducted from the calculated revenue in order to arrive at the net resource rent revenue tax base. Negative and positive resource rent tax from different power plants are presented net as far as the tax rules allow pooling of the positions for tax purposes. Deferred tax assets linked to loss carryforwards and deferred tax linked to other temporary differences are calculated on the basis of power plants where it is probable that the deferred tax asset will be realised within a time horizon of ten years. Provisions for deferred resource rent tax are made at a nominal tax rate of 33%. The tax-free allowance is treated as a permanent difference in the year it is calculated, and therefore does not affect the calculation of deferred tax related with resource rent tax.

Deferred tax liabilities and deferred tax asset Deferred tax liabilities and deferred tax assets regarding income tax 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 regarding resource rent tax. Deferred tax positions related to income tax cannot be offset against exposed tax positions related to resource rent tax.

CLASSIFICATION AND MEASUREMENT OF ASSETS AND LIABILITIES

Assets intended for lasting ownership or use are classified as non-current assets. Other assets are classified as current assets. Receivables due within one year are classified as current assets. Similar criteria are applied to the classification of short-term and long-term liabilities.

Non-current assets are recognised at cost and are written down to fair value for any impairment in value not considered to be temporary in its nature. Non-current assets with a limited useful economic lifetime are amortised according to plan. Long-term liabilities are recognised in the balance sheet at their nominal value, adjusted for any unamortised premium or discount. Current assets are valued at the lower of cost or fair value. Short-term liabilities are recognised in the balance sheet at the nominal amount received at the time the liability was incurred.

Intangible assets Intangible assets are carried at cost less accumulated amortisation and impairment losses. Intangible assets with an indefinite useful life are not amortised, but are tested annually for impairment. Costs relating to intangible assets are recognised in the balance sheet provided that the criteria have been met.

Property, plant and equipment Investments in production facilities and other property, plant and equipment are recognised at cost less accumulated depreciation and impairment losses. Depreciation is charged from the time the assets are available for use. The cost of property, plant and equipment includes expenses for acquiring or bringing assets into a condition in which they can be used. Directly attributable borrowing costs are added to cost. Expenses incurred after the asset has been put to use, such as ongoing maintenance expenses, are recognised in the income statement as incurred, while other expenses that are expected to generate future economic benefits are recognised in the balance sheet. In the case of time-limited licenses, provisions are made for decommissioning costs, and the recognised value of the relevant asset is increased correspondingly. The increased book value is depreciated over the license period.

Depreciation is calculated on a straight-line basis over asset's expected useful economic lifetime. Residual values are taken into account in the calculation of annual depreciation. Periodic maintenance is recognised in the balance sheet and depreciated until the next maintenance round. Estimated useful lives, depreciation methods and residual values are assessed annually.

Land, including waterfall rights, is not depreciated, as the assets are deemed to have perpetual life if there is no right of reversion to state ownership.

Impairment Property, plant and equipment are assessed for impairment when there are indications that future earnings do not justify the book value. Impairments are recognised as the difference between book value and its recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and its value in use. 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.

For the purposes of assessing impairment losses, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). At each reporting date, possible reversals of previous impairments are considered.

Subsidiaries/associates Subsidiaries are companies where the company has controlling influence on financial and operational principles. Controlling influence is normally achieved when the company owns more than 50% of the voting shares. Investments are recognised at cost for the shares unless impairment has been necessary. Dividends and group contributions received are recognised as income in the same year as allocated by the subsidiary. If the dividend exceeds the share of the retained earnings after the purchase, the excess part is deemed to represent a repayment of the invested capital and the disbursements are deducted from the book value of the investment.

Associate companies are companies where Statkraft Energi has significant influence. Significant influence is normally considered to exist where the company owns or controls 20% to 50% of the voting shares.

Investments in joint ventures are valued at acquisition cost.

Co-owned power plants Co-owned power plants, which are those power plants in which Statkraft Energi owns shares, regardless of whether they are operated by Statkraft Energi or one of the other owners, are accounted for in accordance with the gross method in line with Statkraft Energi's share-holding.

Long-term shareholdings All long-term investments are accounted for using the cost method in the company's financial statements. Dividends received are treated as financial income.

Inventories CO2 quotas and el-certificates held for trading purposes are recognised as inventory. Purchased standard goods and spare parts in connection with the operation are classified as current assets. Inventories are measured in accordance with FIFO at the lower of cost and net realisable value.

Water in reservoirs Water in reservoirs is not recognised.

Receivables Accounts receivable and other receivables are recognised at nominal value less provision for expected losses. Provision for losses are recognised on the basis of an individual assessment of each receivable.

Short-term financial investments Shares, bonds, certificates and equivalents classified as current assets are recognised at market value.

Prepayments Prepayments received are classified as long term liabilities, and recognised as income over the period delivery takes place. An annual interest expense is calculated and recognised as financial expenses.

Contingent liabilities Contingent liabilities are recognised if settlement is more likely than not. Settlement value is calculated based on best estimate.

Long-term debt Borrowing costs and early redemption penalty or discount are recognised in accordance with the effective interest rate method (amortised cost) for fixed interest debt.

CURRENCY AND FORWARD CURRENCY EXCHANGE CONTRACTS

Monetary items in foreign currencies are measured at the exchange rate on the balance sheet date. Transactions denominated in foreign currency are converted using the exchange rate at the transaction date. Currency effects are recognised as financial expenses or income. Forward currency exchange contracts are measured at fair value as of the balance sheet date.

CASH FLOW STATEMENT PRINCIPLES

The cash flow statement has been prepared using the indirect method. The statement starts with the company's profit before tax in order to present cash flow generated by ordinary operating activities, investing activities and financing activities, respectively.

Note 1 Subsequent events

There are no subsequent events that are considered to be of significance to the 2015 financial statements.

Note 2 Sales revenues

Statkraft Energi optimises its hydropower generation based on an assessment of the value of available water in relation to actual and expected future spot prices. This is done irrespectively of contracts entered into. In the event that Statkraft Energi has physical contractual obligations to supply power that deviate from actual output, the difference is either bought or sold on the spot market. Such spot purchases are recognised as power sales. Physical and financial contracts are used to hedge underlying production in the form of purchase and sales positions. Short positions are

taken to hedge the price of a specific share of the planned future output. Long positions are taken to adjust the hedging level if assumptions change. All contracts are recognised as sales revenues based on the margin between the contract price and the spot price.

NOK million	2015	2014
Physical spot sales	6,127	6,400
Concessionary sales at statutory prices	297	297
Long term contracts	6,871	6,372
Nordic dynamic asset management portfolio	260	805
Trading and Origination	54	263
Provision/reversal loss power purchase agreements	-65	58
Total	13,544	14,196

Statkraft Energi has obligations to supply power to local authorities at concessionary prices.

Price and volume for concessionary power at statutory prices

	2015	2014
Concessionary power - Volume (TWh)	2.7	2.7
Concessionary power - Price (øre/kWh)	11.0	11.2

Note 3 Other operating revenues

NOK million	2015	2014
Leasing and service revenues	712	584
Other operating revenues	92	354
Total	804	938

A minor part of Statkraft Energi AS' activities are related to distribution grid activities. Distribution grid activities are subject to a regulatory regime established by the Norwegian Water Resources and Energy Directorate (NVE). NVE has stipulated a temporary revenue ceiling for the grid operations for the company in 2015 at NOK 1.6 million. The final revenue ceiling will be determined in the 2016 spring. Actual grid rental charges amount to NOK 3.1 million in 2015. The difference between the revenue ceiling and the actual tariff revenues for the year; NOK 1.5 million, comprises the revenue surplus for the year. Accumulated revenues shortfall amount to NOK 17 million as of 31.12.2015 (31.12.2014: NOK 18 million). The amount is recognised as current assets.

NOK 529 thousand of Statkraft Energi's operating profit, comprise operating profit related to the grid operations. The return basis for the grid operations is 6 million, representing a return of 8%.

Note 4 Energy purchase

NOK million	2015	2014
Gas purchase	621	337
Energy purchase	2,662	1,150
Total	3,283	1,487

Note 5 Salaries and payroll costs

NOK million	2015	2014
Salaries	618	591
Employer's national insurance contribution	123	110
Pension costs	142	33
Other benefits	33	45
Total	916	779

Pension costs are presented in further detail in Note 6.

The company's managing director is a member of Statkraft's Group management and is employed by Statkraft AS. Her services are purchased from Statkraft AS.

Members of the board elected by employees received NOK 62 500 in fees (per board member). No fees were paid to other members of the board in 2015, nor were any loans or pledges granted with respect to board members.

The company had the equivalent of 900 full-time employees as of 31.12.2015 (2014: 902).

Note 6 Pensions

DEFINED CONTRIBUTION SCHEMES

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.

FUNDED DEFINED BENEFIT SCHEMES

The pension benefit scheme in the National Pension Fund (SPK) was closed for new employees 1 January 2014. The defined benefit schemes cover retirement, disability and survivor pensions. At maximum accrual, the retirement schemes provide pension benefits amounting to 66% of pensionable salary, up to 12G. The company also offers early retirement from the age of 62 under the Norwegian early retirement pension scheme (AFP). Pension benefits from the SPK are guaranteed by the Norwegian state (Section 1 of the Pension Act). Statkraft Energi pays an annual premium to SPK and is responsible for the financing of the scheme. The SPK scheme is not asset-based, but management of the pension fund assets is simulated as though the assets were invested in government bonds. In this simulation it is assumed that the bonds are held to maturity.

UNFUNDED DEFINED BENEFIT SCHEMES

In addition to the above, Statkraft Energi has entered into a pension agreement providing 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 scheme was closed 30 April 2012. Members of the scheme maintain their agreements. Existing members of the closed agreement who leave before pensionable age receive a deferred pension entitlement for the scheme above 12G, provided they have at least three years' pension entitlements.

ACTUARIAL CALCULATIONS

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 actuarial gains/losses is mainly due to changes in the discount rate. Statkraft Energi is obliged to have, and meets the requirements of, an occupational pension scheme under the Mandatory Occupational Pension Act ("Lov om obligatorisk tjenestepensjon").

Note 6 continued

The following assumptions are used	31.12.15	31.12.14
Discount rate and projected yield	2.50%	2.20%
Salary adjustment	2.50%	2.75%
Adjustment of current pensions	1.50%	1.75%
Adjustment of the National Insurance Scheme's basic amount (G)	2.25%	2.50%
Demographic factors for mortality and disability	K2013/IR73	K2013/IR73

Number of employees and pensioners covered by benefit schemes	31.12.15	31.12.14
Employees covered by defined benefit schemes	723	751
Employees covered by defined contribution schemes	236	205
Pensioners covered by defined benefit schemes	486	465

Pension cost recognised in the income statement

NOK million	2015	2014
Present value of accrued pension entitlements for the year	100	107
Interest costs	51	87
Projected yield on pension assets	-30	-53
Employee contributions	-10	-11
Scheme changes	-	-107
Employers' national insurance contribution	16	3
Net pension costs	127	26

Defined contribution schemes

Employers payments	15	7
Total pension costs	142	33

Breakdown of net defined benefit pension liability

NOK million	2015	2014
Present value of accrued pension entitlements for funded defined benefit schemes	2,159	2,288
Fair value of pension assets	-1,483	-1,432
Net pension liability for funded defined benefit schemes	676	856
Present value of accrued pension entitlements for unfunded defined benefit schemes	77	87
Employers' national insurance contribution	106	133
Net pension liabilities	859	1,076

Actuarial gains and losses recognised directly in equity

NOK million	2015	2014
Accumulated actuarial gains and losses recognised directly in equity before tax as of 31.12	614	866

Note 7 Property tax and licence fees

NOK million	2015	2014
Property tax	759	767
Licence fees	296	272
Total	1,055	1,039

Licence fees 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 future licence fee obligations in relation to the power plants is estimated at NOK 7506 million, discounted at an interest rate of 3.95% in accordance with the regulations relating to the adjustment of licence fees, annual compensations and funds, etc.

The interest rate is based on a risk free interest rate and a premium for risk, reflecting a perpetual obligation. In 2014, the amount was NOK 8421 million (interest rate 3.2%).

Note 8 Other operating expenses

NOK million	2015	2014
Materials	108	115
Purchase of third-party services	539	547
Cost of power plants operated by third parties	321	376
Compensations	83	52
Other operating expenses	-39	29
Total	1,012	1,119

FOU-activities are expensed as incurred. An amount of NOK 27.1 million was recognised in 2015 (NOK 27.8 million in 2014). The company's research activities are intended to provide further knowledge and develop new methods within hydrology, energy optimisation and maintenance activities.

Other operating expenses include a reversal of previous write-downs of the tolling agreement of NOK 270 million in 2015. In 2014, previous write-downs of NOK 137 million were reversed.

Note 9 Fees to external auditor

Deloitte AS is the elected auditor of Statkraft Energi. Deloitte AS also audits the subsidiaries Baltic Cable AB, Statkraft Varmer AS, AS Tyssefaldene and Statkraft Tofte AS. The total fees to auditor for auditing and other services were as following:

NOK million ¹⁾	2015	2014
Statutory auditing	2,607	1,565
Other attestation services	137	168
Tax consultancy services	397	103
Total	3,141	1,836

¹⁾ Exclusive of VAT

Note 10 Financial items

Financial income

NOK million	2015	2014
Interest income from group companies	17	29
Interest income other	10	60
Dividends	22	84
Net currency gains	49	114
Total	98	287

Financial expenses

NOK million	2015	2014
Interest expenses to group companies	-202	-266
Imputed interest expenses long-term energy contracts	-111	-136
Other financial expenses	-37	-38
Capitalised borrowing costs	34	31
Total	-316	-409

Note 11 Taxes

The tax expense comprises the following

NOK million	2015	2014
Income tax	1,833	1,907
Resource rent tax	1,368	1,621
Previous years' taxes	58	8
Change in deferred tax, resource rent	-198	307
Change in deferred tax	-346	371
Withholding tax	-	1
Tax expense in the income statement	2,715	4,215

Taxes payable in the balance sheet

NOK million	2015	2014
Natural resource tax	520	532
Resource rent tax	1,368	1,621
Income tax	1,833	1,375
Effect of group contributions	-1,833	-1,350
Net taxes payable from previous years	18	
Taxes payable in the balance sheet	1,906	2,178

Reconciliation of nominal tax rate and effective tax rate

NOK million	2015	2014
Profit before tax	6,119	8,796
Expected tax expense at a nominal rate of 27 %	1,652	2,374
Effect on taxes of		
Resource rent tax including changes in deferred tax	1,169	1,928
Tax-free income	-	-104
Change in tax rates	-98	-
Previous years taxes	-11	8
Other permanent difference, net	3	8
Tax expense	2,715	4,215
Effective tax rate	44%	48%

Breakdown of deferred tax

The following table provides a breakdown of the net deferred tax liability. Deferred tax assets are recognised in the balance sheet to the extent that it is probable that these will be utilised. Deferred tax assets and liabilities connected with various tax regimes are presented separately in the balance sheet.

NOK million	2015	2014
Current assets/short term liabilities	312	74
Long-term items	238	335
Property, plant and equipment	-1,969	-2,155
Pension liabilities	214	291
Total deferred tax liability	-1,205	-1,455
NOK million	2015	2014
Property, plant and equipment	-2,600	-2,474
Pension liabilities	241	284
Resource rent carried forward ¹⁾	2,527	2,202
Total deferred tax asset, see note 12	168	12
Total deferred tax (-)/ Deferred tax asset (+) 01.01	-1,443	-777
Recognised in income	544	-678
Previous years' deferred taxes	-	-42
Recognised directly in equity	-138	54
Total deferred tax (-)/ Deferred tax asset (+) 31.12	-1,037	-1,443

¹⁾ Tax assets related to negative resource rent tax carryforward in power plants where the future taxable profit for the next ten years can be expected, are recognised in the balance sheet. Normal production and price path expectations for the next ten years form the basis for the calculation of expected future taxable profit. Off-balance sheet deferred tax assets related to negative resource rent tax carryforward amounted to NOK 973 million in 2015, compared to NOK 1226 million in 2014.

The table below presents negative resource rent revenues carried forward and deferred tax asset per power plant, where it is probable that these will be utilised within a time horizon of 10 years. Statkraft Energi will in its daily operations, as far as possible, try to utilise these positions.

Power plant

NOK million	Losses carried forward in the resource rent tax regime	Deferred tax asset
Adamselv	80	26
Alta	951	314
Aurland II H	13	4
Aurland II L	8	3
Aurland IV (Vangen)	14	5
Aurland V (Reppa)	3	1
Brattset	103	34
Byrte	5	2
Båtsvatn	12	4
Duge prod.	47	15
Grana	216	71
Gråsjø	94	31
Hakavik	21	7
Hogga	77	25
Hove	101	33
Jostedal	1,701	561
Kjela	57	19
Kobbelv	603	199
Kvinen	40	13
Lio	158	52
Litjefossen	120	40
Målset	137	45
Nedre Nea	315	104
Osbu	40	13
Roskrepp	44	14
Saurdal	786	259
Stølsdal	76	25
Svartisen	1,444	477
Svorka	91	30
Svorkmo	206	68
Ulset	96	32
Total	7,658	2,527

Note 12 Intangible assets

NOK million	2015	2014
Deferred tax asset	168	12
Intangible assets	350	359
Total	518	371

Deferred tax asset are presented in more detail in Note 11.

Intangible assets relate to the lessee development in Sauda I-IV and Tysso II.

Note 13 Property, plant and equipment

	Regulation facilities	Turbines, generators etc.	Shares in power plants operated by third parties	Land, mountain halls, buildings, road bridges and quay facilities	Plants under construction	Other ²⁾	Total
2015							
NOK million							
Aquisition cost as of 1.1.2015	22,000	16,378	3,234	8,066	2,379	1,549	53,606
Additions 2015 ¹⁾	122	90	-	166	1,411	42	1,831
Transfer between asset classes	351	466	-	167	-1,158	174	-
Disposals 2015	0	-41	-	-136	-26	-11	-214
Acc. depreciation/impairments as of 31.12.2015	-7,508	-8,235	-1,846	-1,107	-	-1,133	-19,829
Book value as of 31.12.2015	14,965	8,658	1,388	7,156	2,605	621	35,393
Ordinary depreciation for the year	-364	-437	-54	-96	-	-92	-1,043

	Regulation facilities	Turbines, generators etc.	Shares in power plants operated by third parties	Land, mountain halls, buildings, road bridges and quay facilities	Plants under construction	Other ²⁾	Total
2014							
NOK million							
Aquisition cost as of 1.1.2014	20,764	14,905	3,197	7,425	3,626	1,299	51,216
Additions 2014 ¹⁾	442	300	37	144	1,055	32	2,010
Transfer between asset classes	870	1,339	-565	518	-2,289	126	-
Disposals 2014	-77	-66	-	-22	-13	-7	-185
Acc. depreciation/impairments as of 31.12.2014	-7,143	-7,833	-1,228	-1,042	-	-1,051	-18,296
Book value as of 31.12.2014	14,857	8,645	1,441	7,024	2,378	399	34,744
Ordinary depreciation for the year	-350	-393	-53	-76	-	-78	-951

Depreciation period	30–75 years	15–40 years	5–50 years	0–75 years	-	3–40 years
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¹⁾ Capitalised borrowing costs amounts to NOK 34 million (NOK 31 million in 2014).

²⁾ The item Other mainly includes buildings, office and computer equipment, electrotechnical installations and vehicles.

A more detailed specification of the useful economic lifetime of the various assets is provided below:

	Depreciation period (years)		Depreciation period (years)
Dams		Buildings (admin. etc.)	50
– riprap dams, concrete dams	75	Buildings (power station building body)	75
– other dams	30	Other fixed installations	
Tunnel systems	75	- permanent	20
Mechanical installations		- less permanent	10
– pipe trenches	40	Miscellaneous fixtures	5
– generators (turbine, valve)	40	Land	perpetual
– other mechanical installations	15	Office and computer equipment	3
Underground facilities	75	Furnishings and equipment	5
Roads, bridges and quays	75	Vehicles	8
Elektrotechnical installations		Construction equipment	12
– transformerr/generator	40	Small watercraft	10
– switch gear (high voltage)	35		
– control equipment	15		
– operating centre	15		
– communication equipment	10		

Note 13 continued

The following waterfall rights held by Statkraft Energi, are leased by others:

Waterways	Municipality	Lessee	Agreement entered into	Duration	Comments
Guolasjåkka	Kåfjord	Troms Kraft	1972/ 2012	As long as the concession runs	In 2021, Statkraft Energi is committed to either transfer the ownership to Troms Kraft or to receive a lumpsum payment of future rent
Bjoreio	Eidfjord	Hardanger Energi AS	1989	May be terminated with two years notice. Termination by Statkraft can at the earliest be effective from 2019	All technical equipment at Statkraft Energi's sites shall be removed at expiry of the rental period
Skorgeelva	Rauma	Småkraft AS	2014	40 years after the power plant is put in commercial operations. Can be terminated with two years' notice	Statkraft Energi gives Småkraft AS the right to construct and operate power plants

The figures stated for power plants under co-ownership, or where other parties have the right to appropriate a proportion of output in return for a share of the costs, represent the company's relative share.

County authorities and publicly owned energy companies have the following appropriation rights with respect to the output of power plants operated by Statkraft Energi:

Power plants	Third-party shares
Eidfjord	35.00%
Folgefonn ¹⁾	14.94%
Grytten ²⁾	12.00%
Kobbelv	17.50%
Svartisen	30.00%
Svorka	50.00%
Ulla-Førre	28.00%
Vikfalli	12.00%
Stegaros	50.00%

¹⁾ The appropriation right in Folgefonn applies to a fixed volume of 170 GWh. Statkraft Energi has a right to purchase the other parties' shares of Folgefonn in 2030.

²⁾ Statkraft Energi has a right to purchase the other parties' shares of Grytten in 2035.

Statkraft Energi has the following shares of power plants operated by others:

NOK million	Share	Share of property, plant and equipment
Aurlandsverkene ¹⁾	7.00%	272
Mørkfoss-Solbergfoss	33.33%	10
Røldal-Suldal Kraft AS ²⁾	8.74%	-
I/S Sira-Kvina kraftselskap	32.10%	1,159
Kraftverkene i Orkla DA	48.60%	698
Total		2,139

¹⁾ E-CO Energi has a right to acquire Statkraft Energi's share of Aurlandsverkene in 2029.

²⁾ Statkraft Energi AS owns 8.74% of the shares in Røldal-Suldal Kraft AS, which in turn owns 54.79% of the IS Røldal-Suldal Kraft power plant. Statkraft's indirect share of the co-ownership is therefore 4.79%.

Note 14 Shares in subsidiaries and associates

Investments in subsidiaries and associated companies are recognised at cost of the investment.

Shares in subsidiaries

NOK million	Registered office	Shareholding and voting rights	Share capital	Book value	Equity 12/31/2015	Profit 2015
Baltic Cable AB	Malmö	100%	3	939	226	150
Statkraft Varme AS	Trondheim	100%	253	1,582	1,739	22
AS Tyssefaldene	Tysseidal	60%	5	52	38	2
Statkraft Tofte AS	Tofte	100%	163	220	149	-5
Total 31.12.2015				2,793		

Baltic Cable AB owns and operates a subsea power transmission cable between Sweden and Germany. The company European Market Coupling Company (EMCC) has been responsible for the market coupling of the cable.

Statkraft Varme AS is the Statkraft Group's expertise centre for energy recovery and district heating in Norway and Sweden. The company has a licence for development and operation of a number of district heating plants in Norway, as well as four different plants in Sweden.

Shares in associated companies and joint ventures

NOK million	Shareholding and voting rights	Book value
Aursjøveien AS	33.00%	-
Silva Green Fuel AS	51.00%	25
KraftCert AS	33.33%	2
Total		27

Along with Södra Cell (49%), Statkraft Energi (51%) has established a company with the goal of establishing future production of biofuel based on forest raw material. The company is called Silva Green Fuel and is accounted for as a joint venture, with a total investment from the owners of NOK 50 million.

During the establishment of Silva Green Fuel AS, Statkraft acquired all shares in Statkraft Tofte AS, previously Södra Cell Tofte AS. The cost price for the shares in Statkraft Tofte AS was NOK 220 million. Net assets in the company totalled NOK 153 million at the takeover, in addition to the identified excess value of fixed assets at NOK 67 million.

Note 15 Other non-current financial assets

NOK million	2015	2014
Long-term receivables	231	244
Long-term power purchase agreements	439	585
Other shares and ownership interests	6	6
Total	676	835

Note 16 Inventories

NOK million	2015	2014
Spare parts	35	38
CO ₂ quotas held for trading purposes	10	119
EI-certificates held for trading purposes	529	641
Gas inventories	-	1
Total	574	799

Note 17 Receivables

NOK million	2015	2014
Accounts receivable - external	1,271	1,746
Accrued revenues etc.	232	266
Group account scheme - receivables	1,011	-
Current receivables from Group companies	3	541
Other receivables	728	343
Total	3,245	2,896

Note 18 Cash and cash equivalents

The main part of the company's liquidity is organised in a group account scheme. This implies that parts of the cash holdings formally are considered to be receivables due from the parent company.

Withholding taxes for employees are secured by guarantee, see Note 24.

Note 19 Equity

NOK million	Paid-in capital			Retained earnings	
	Share capital	Share premium reserve	Other paid-in capital	Other retained earnings	Total equity
Equity as of 31 Dec. 2013	6,105	6,340	1,429	2,439	16,313
Profit for the year	-	-	-	4,581	4,581
Actuarial gains/losses pensions	-	-	-	-47	-47
Group contribution paid	-	-	-	-3,650	-3,650
Equity as of 31 Dec. 2014	6,105	6,340	1,429	3,322	17,196
Profit for the year	-	-	-	3,404	3,404
Actuarial gains/losses pensions	-	-	-	112	112
Group contribution paid	-	-	-	-4,956	-4,956
Equity as of 31 Dec. 2015	6,105	6,340	1,429	1,882	15,756

The company has a share capital of NOK 6.105 billion, divided on 55 million shares, each with a par value of NOK 111. All shares have the same voting rights and all are owned by Statkraft AS. The company's registered office is in Oslo, Norway (P.O. Box 200 Lilleaker).

Note 20 Provisions

NOK million	2015	2014
Pension liabilities	859	1,076
Provision for annual compensation payments	533	488
Provision for onerous contracts	952	1,239
Other provisions	2,587	3,039
Total	4,931	5,842

Pension liabilities are described in further details in note 6. The item Other provisions includes prepayments of NOK 1692 million received in connection with future power sales agreements (NOK 1990 million). The largest of these are the agreement with Dong and the contract related to the Rana power plant. Other provisions also include future commitments to take over lessee developments in the leased power plants Sauda I-IV and Tysso II at tax values after expiry of the lease period on 31 December 2030.

Note 21 Long-term interest bearing debt

NOK million	2015					2014
Debt to Group companies	10,800					4,971
Total	10,800					4,971
Nominal average interest rate NOK	2.14%					2.43%
The loans are denominated in NOK						
	2016	2017	2018	2019	after 2019	
Maturity schedule, long-term debt	-	-	3,000	-	7,800	

Note 22 Short-term interest bearing debt

NOK million	2015	2014
Group account scheme	-	1,162
Debt to Group companies	-	2,849
Total	-	4,011

Note 23 Other interest-free liabilities

NOK million	2015	2014
Accounts payable - external	605	460
Accounts payable - Group	168	55
Indirect taxes payable	329	450
Other non-interest bearing liabilities	1,193	543
Short-term liabilities to Group companies	6,943	5,180
Total	9,238	6,688

Short-term liabilities to Group companies include accrued Group contributions for 2015 amounting to NOK 6789 million (2014: 5000). Other non-interest bearing liabilities include items in the trading portfolio with negative fair value and provision for portfolios in accordance with the lower of cost and fair value principle. See also note 25.

Note 24 Pledges, contractual obligations and guarantees

PLEDGES

Under certain circumstances, county authorities and publicly owned energy utilities are entitled to a share of the output from power plants belonging to Statkraft Energi in return of paying a share of the construction costs, cf. note 13.

In order to finance the acquisition of such rights, the county 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 1065 million. As of 31 December 2015, the book value of the pledged assets in Statkraft Energi AS totalled NOK 5150 million.

CONTRACTUAL OBLIGATIONS

Statkraft Energi has a commitment concerning a financial power exchange agreement of NOK 535 million. Statkraft Energi has a gas purchase agreement of 9 TWh in the period up to 2017.

GUARANTEES

Statkraft Energi has total off-balance-sheet guarantees amounting to NOK 262 million, of which NOK 192 million relates to Nasdaq and NOK 70 million to other guarantees including tax withholdings.

Note 25 Derivatives

Statkraft Energi trades in financial instruments for various purposes. The treatment of these instruments in the financial statements will depend on the purpose, as described in the accounting policies.

Currency derivatives

NOK million	31.12.2015		31.12.2014	
	Book values	Fair value	Book values	Fair value
Total	9	9	91	91

The fair value of forward currency contracts is determined by discounting expected future cash flow to current value. The valuation of forward currency contracts is based on observable currency exchange rates from European Central Bank (ECB), from which the forward exchange rate is extrapolated. Estimated present values is subject to a test of reasonableness against calculations made by the counterparties to the contracts.

Energy trading

Commodity derivatives measured at fair value

NOK million	2015	2015	2014
	Fair value	Recognised changes	Fair value
Trading portfolio	-584	-616	32

With respect to power trading, the trading portfolios are measured at fair value in accordance with Section 5-8 of the Norwegian Accounting Act. The portfolios mainly comprise short-term financial forward and option contracts for power and carbon derivatives traded via energy exchanges. The portfolios also comprise bilateral financial contracts normally with identical terms to standardised contracts traded via energy exchanges. Closing prices on energy exchanges are used to calculate fair value. The swap interest rate is used as a discounting factor

Contracts in the trading portfolios are traded with a short time horizon. As of 31 December, fair value is distributed as follows per future time period

NOK million	
2016	-581
2017	-15
2018	-19
2019	9
2020	21
Total fair value 31.12.2015	-584

Statkraft Energi has ten portfolios that are measured in accordance with the lowest of cost and fair value at a portfolio level. Forward currency exchange contracts in the portfolios are measured at fair value. For a more detailed description of the policies, reference is made to the accounting principles.

Note 26 Market risk

MARKET RISK IN GENERAL

Statkraft Energi is engaged in activities that entail risk in many areas and has a unified approach to the company's market risks. The purpose of risk management is to assume the right risk based on the company's ability and willingness to take risk, expertise, financial strength and development plans. In Statkraft Energi, 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 THE VARIOUS PORTFOLIOS AND THE RISK MANAGEMENT OF THE PORTFOLIOS

As a power producer, Statkraft Energi is exposed to market risk related to price on energy and commodities. Within energy trading, Statkraft has portfolios that reduce market risk, as well as portfolios within decided mandates where Statkraft accepts a degree of market risk in order to generate profit. 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.

Long term contracts As a power producer, Statkraft Energi has entered into physical power sales agreements with industrial customers in the Nordic region. These contracts stabilise Statkraft's revenues. The long-term contracts have different durations, where the longest runs until 2030. The price of some of these sales obligations are indexed to foreign currency and raw materials such as metals.

Statkraft Energi has also established a portfolio with the objective of reducing market risk. The portfolio consists of financial power contracts with a maturity of less than five years.

Nordic portfolio management is a market activity in which the objective is to optimise sales revenues. Statkraft Energi uses financial trading in order to generate value in the futures and forward market. Mandates are based on volume thresholds related to available production.

Trading and Origination Statkraft Energi has various portfolios for trading and origination that are managed independently of the company's expected power production. Trading teams have been established in Oslo, Trondheim and Stockholm. The portfolios take trading positions in the market with the aim of realising gains on changes in the market value of energy and energy-related products, as well as gains on non-standardised contracts.

The trading activities involve buying and selling standardised and liquid products. Power and CO₂ products, as well as green certificates, gas and oil products are traded. The contracts in the trading portfolio have maturities ranging from 0 to 5 years. The origination activities include buying and selling both standardised and structured products. Structured products are typically power contracts with a specific hourly profile, long-term contracts or power contracts in different currencies. 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 duration of up to five years, though some contracts have a longer duration.

Statkraft Energi has allocated risk capital for the trading and origination business. Clear restrictions have been established for permitted trading products. The mandates for trading and origination activities 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.

FOREIGN EXCHANGE AND INTEREST RATE RISK

Foreign exchange risk Statkraft Energi incurs currency risk in the form of power sales revenues and transaction risk in connection with investments. The settlement currency for energy trading on the power exchange in Norway is EUR, and all contracts that are entered into on the power exchange are thus exposed to EUR. Corresponding currency exposure may arise from energy trading on other exchanges. Statkraft Energi hedges its currency exposure related to cash flows in accordance with the Group's financial strategy.

Interest rate risk The main part of Statkraft Energi's interest rate exposure is related to a long-term floating-rate loan from Statkraft Group. For further information on market risk, please refer to the corresponding information in the Group's annual report. The information there is also relevant for understanding of risk exposures and risk management in Statkraft Energi.

Note 27 Credit risk, liquidity risk and accident risk

CREDIT RISK

Credit risk is the risk of a party in a financial instrument inflicting a financial loss on the other party by not fulfilling its obligations. Statkraft Energi assumes counterparty risk in connection with energy trading, physical sales and trading in financial instruments. The counterparty risk for financial energy contracts being cleared 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. In order to reduce credit risk, bank guarantees are used in some cases when entering into agreements. Statkraft Energi has netting agreements with several of its energy trading counterparties.

Statkraft Energi has good follow-up routines for ensuring that outstanding receivables are paid as agreed. Aged accounts receivables are monitored on a continuous basis. If a counterparty is facing financial issues, special procedures are being followed.

Placement of surplus liquidity is handled by Statkraft AS. More information on this is available in the Group's annual report on Statkraft's web-pages. Potential loss in case of breach of contract by the counterparty, is estimated. The individual counterparty exposure limits are monitored continuously and reported regularly. In addition, the credit risk is quantified by combining exposure with the probability of defaulting for the individual counterparties. The overall counterparty risk is calculated and reported.

LIQUIDITY RISK

Statkraft Energi assumes liquidity risk in that the terms of its financial obligations do not coincide with the cash flows generated by its assets, and by variation in security requirements related to financial contracts in the forward market (energy exchanges). The Statkraft Group has good borrowing opportunities from the Norwegian and European bond and banking markets. Drawdown facilities are used to secure access to short-term financing.

Note 27 continued

Liquidity risk exposure is continuously followed up and reported regularly.

For further information about credit and liquidity risk, please refer to corresponding descriptions in the Group's annual report. The information there is also relevant for risk exposure and management in Statkraft Energi.

ACCIDENT RISK

Statkraft Energi has substantial risk exposure in the operations through potential damage to own assets, reduced production and potential

liability as a result of injury or damage to a third party's person or property. Insurance coverages have been established which limit the negative effect of these significant risk exposures.

All assets in Statkraft Energi are insured according to the reacquisition value. Statkraft Energi also has water loss insurance, where maximum compensation is NOK 500 million per incident within a period of 24 months.

Note 28 Related parties

Statkraft Energi AS has entered into a number of agreements with related parties relating to purchase and sale of power and services.

The Company's related parties are considered to be:

- Directly owned subsidiaries
- Other group companies
- The parent company of the group, Statkraft SF
- Associated companies and joint operations
- Group management and the board of directors

The most important agreements cover the following:

Production management, power optimisation and management of green certificates from the Group's power producers, including Smøla Vind AS, Kjøllefjord AS, Hitra Vind AS, Statkraft Suomi Oy and Statkraft Sverige AB. Statkraft Suomi Oy was sold 15 August 2014.

Statkraft Energi performs services in relation to operation and maintenance of the Group's power stations and plants.

Statkraft Energi handles the portfolio management for Fjordkraft AS. Correspondingly, Statkraft Energi has specific agreements concerning sale of energy and associated services with Skagerak Energi.

The management of the Statkraft Financial Energy portfolio is handled by Statkraft Financial Energy AB on behalf of Statkraft Energi AS.

Buying and selling natural gas on the European market takes place in cooperation with the German sister company Statkraft Markets GmbH, regulated in a separate cooperation agreement.

Statkraft Energi buys administration, accounting services, office services and IT services from Statkraft AS.

The administration of Statkraft Carbon Invest AS is handled by Statkraft Energi AS and Statkraft AS. Statkraft Energi manages market access for CO2 quotas on behalf of Statkraft Carbon Invest AS.

Statkraft Energi represents the Group's expertise within analysis and forecasting in the energy sector. General and specific analysis are made available to Statkraft AS and other companies in the Group in need of this through commercial agreements.

Statkraft Energi has a tolling agreement with Naturkraft AS. Statkraft AS owns 50% of Naturkraft AS.

The agreements have been entered into at market terms.

Balances with group companies are specified in detail in the notes.

The Company's transactions with related parties

NOK million	2015	2014
Sale of goods and services		
Sale of goods:		
Related parties	2,785	1,836
Sale of services:		
Related parties	72	41
Parent company (Statkraft AS)	89	85
Total sale of goods and services	2,946	1,962
Purchase of goods and services		
Purchase of goods:		
Related parties	1,802	254
Purchase of services:		
Related parties	119	140
Parent company (Statkraft AS)	340	321
Total purchase of goods and services	2,261	715

Translation from the original Norwegian version

To the Annual Shareholders' Meeting of Statkraft Energi AS

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

We have audited the accompanying financial statements of Statkraft Energi AS, which comprise the balance sheet as at 31 December, 2015, and the income statement, showing a profit of NOK 3.404 million and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

The Board of Directors' and the Managing Director's Responsibility for the Financial Statements

The Board of Directors and the Managing Director are responsible for the preparation and fair presentation of these financial statements in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway, and for such internal control as the Board of Directors and the Managing Director determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements are prepared in accordance with the law and regulations and give a true and fair view of the financial position of Statkraft Energi AS as at 31 December, 2015, and of its financial performance and its cash flows for the year then ended in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway.

Report on Other Legal and Regulatory Requirements

Opinion on the Board of Directors' report

Based on our audit of the financial statements as described above, it is our opinion that the information presented in the Board of Directors report concerning the financial statements, the going concern assumption and the proposal for the allocation of the profit is consistent with the financial statements and complies with the law and regulations.

Opinion on Registration and Documentation

Based on our audit of the financial statements as described above, and control procedures we have considered necessary in accordance with the International Standard on Assurance Engagements (ISAE) 3000, «Assurance Engagements Other than Audits or Reviews of Historical Financial Information», it is our opinion that management has fulfilled its duty to produce a proper and clearly set out registration and documentation of the company's accounting information in accordance with the law and bookkeeping standards and practices generally accepted in Norway.

Oslo, 10 March, 2016
Deloitte AS

Ingebret G. Hisdal (signed)
State Authorised Public Accountant (Norway)

Translation has been made for information purposes only



Annual Report 2015 Statkraft Energi AS

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The massive expansion of Norwegian hydropower started in the 1950s, and the oldest plants are now in need of upgrades. Statkraft is currently conducting major reinvestment projects in Norway, for example at the Røssåga plants which are undergoing both refurbishment and expansion work.