Statkraft AS

Annual Report

2016

Statkraft

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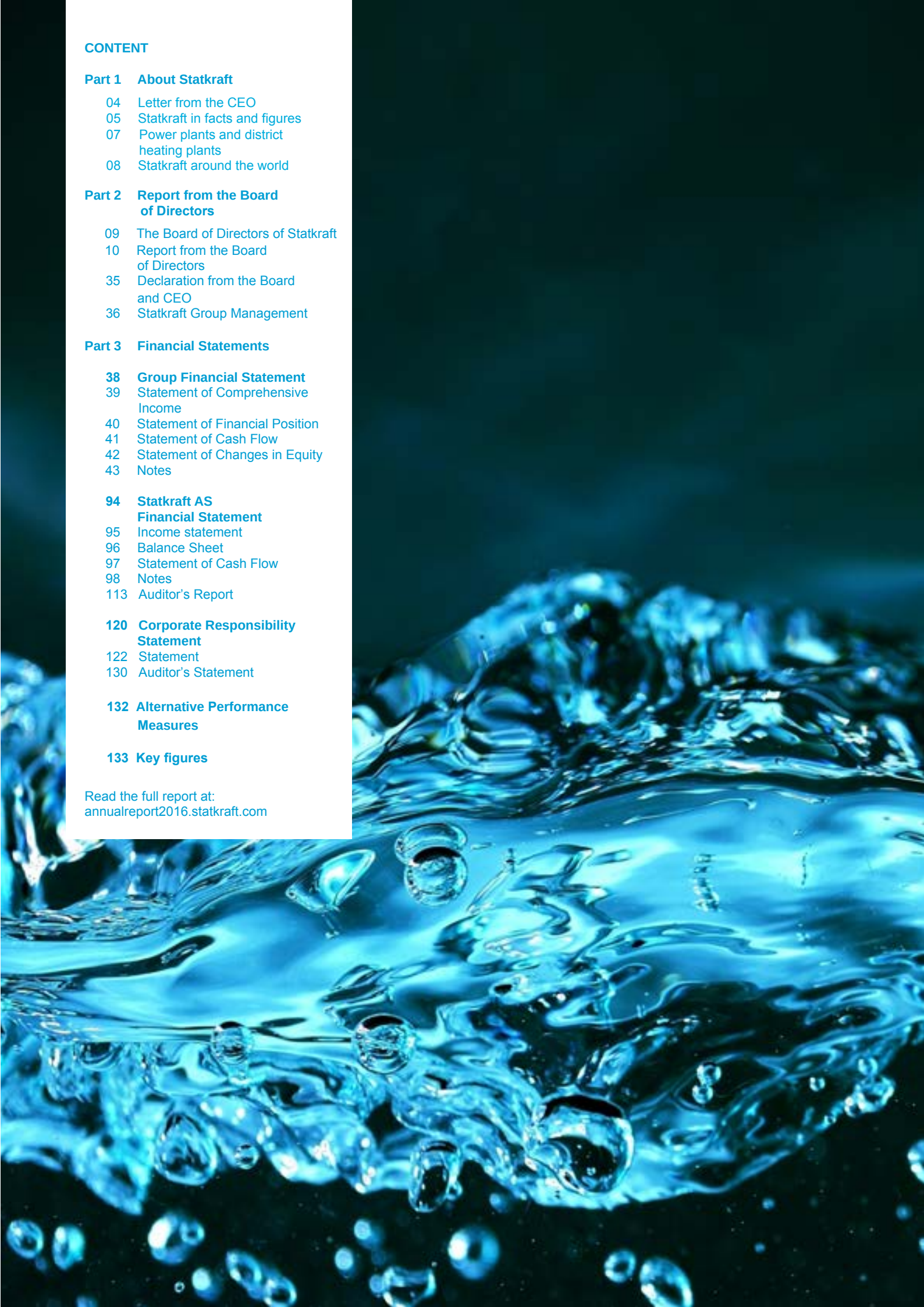
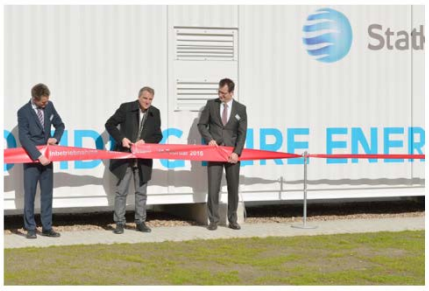


Providing pure energy

Statkraft is a leading company in hydropower internationally and Europe's largest generator of renewable energy. The company generates power from hydro, wind, gas-fired power plants and district heating. Statkraft is an international player in energy market operations and is present in more than 20 countries.



Highlights of 2016: Banja hydropower plant in Albania, the renovated and expanded Nedre Røssåga hydropower plant, and Årvollskogen district heating plant in Norway, were all officially opened in 2016. Another major event was the decision to invest in the 1000 MW Fosen wind power project. Statkraft is also taking steps to participate in developing new technologies, and in February 2016 put into operation the first multi-megawatt battery in Germany. Statkraft's high level Climate Roundtable gathered scientists, business leaders and politicians to explore new business solutions to the climate challenge.

Letter from the CEO

Powerful forces are changing and shaping the energy sector. There is a transition towards a low-carbon economy all around the world. The change is spurred by the climate agreement in Paris, with a commitment from all countries to contribute to reduce greenhouse gas emissions.

As a result, carbon pricing mechanisms and support schemes for renewable energy are being deployed in an increasing number of countries. Market designs are being changed, technology costs are falling, fuel prices are low, energy efficiency targets are increased and new business models are emerging.

Based on these factors the power prices have been trending downwards in recent years, reducing profitability for many energy companies. The Nordic power prices have stabilized somewhat and in the last few months of 2016 there was a recovery. This cautious increase was mainly driven by short term development in fuel prices, reduced nuclear availability and hydrology.

The operating result from the Statkraft group was on a solid level, due to effective operations and successful energy management. Statkraft's updated long term price forecasts are nevertheless down compared to what was previously expected. This has led to impairments of asset values which have led to a negative result for Statkraft in 2016.

Statkraft needs to improve profitability in light of the external challenges, and is conducting a performance improvement programme with the target of strengthening competitiveness and reduce annual costs by NOK 800 million by the end of 2018. Based on a strong commitment among our employees I am confident that this target will be met. This will enable Statkraft to become one of the most competitive companies in our industry and lead to a strengthened position for further growth.

Statkraft has put two new power plants into operation in 2016: Nedre Røssåga in Norway and Banja in Albania. Both will contribute to strengthen Statkraft's position as Europe's largest generator of renewable energy. In 2016, Statkraft also decided together with partners to invest in the 1000 MW Fosen project consisting of six wind farms. These wind farms will gradually start production between 2018 and 2020.

Maximizing the long-term value of the Nordic hydropower assets through maintenance and upgrading remains core for Statkraft. Project execution and business development will be prioritized. Complying with the highest safety, security and integrity standards is of great importance and requires high management attention. Systematic work is needed in order to ensure continuous improvement within these areas.

Statkraft will remain in a consolidation phase through 2017, and will establish a solid platform for future expansion. We have the people, experience and know-how to create value by investing in renewable energy. That is what the world needs to fight climate change and stimulate sustainable growth.

Christian Rynning-Tønnesen
President and CEO

Statkraft in facts and figures

Statkraft in facts and figures shows that the Group delivered strong results from operations. Record high production from Statkraft's power generation in combination with higher Nordic power prices led to a solid underlying EBITDA.
Statkraft invested NOK 5.7 billion in 2016 and two thirds were related to investments in new generating capacity. Investments in new capacity were mainly related to construction of Europe's largest onshore wind park in Central-Norway, the Andershaw onshore wind farm in the UK and two large scale hydropower plants in the valley of Devoll in Albania. With a total production of 66 TWh and total installed capacity of about 19 300 MW, Statkraft is the second largest producer of electric power in the Nordics and the largest supplier of renewable energy in Europe.

Power generation (TWh)

66.0 (2016) ↑ 56.3 (2015)

Statkraft's production is determined by production capacity, demand, access to resources (hydrological balance and wind), spark spread (margin between power and gas price) and energy management. In 2016 the Group's power production totalled 66.0 TWh, plus 1.1 TWh of district heating. Statkraft had a record high production in 2016 due to increased capacity and good energy management.

Serious environmental incidents

0 (2016) – 0 (2015)

There were no serious environmental incidents in the Group in 2016. However, 233 minor environmental incidents were registered (228 for 2015). Most of the minor environmental incidents in 2016 were related to short-term breaches of river management regulations and minor oil spills with little or no impact on the environment.

Injuries (per million hours worked)

4.9 (2016) ↓ 5.9 (2015)

One fatal accident was recorded in Statkraft in 2016. In addition, 40 serious incidents (incidents with, or with the potential for, serious consequences) were registered (0 and 39 for 2015, respectively). The indicator for total recordable injuries (TRI) per million hours worked was 4.9 in 2016, a decrease of 17% compared to 2015.

ROACE, underlying (NOK billion)

11.1 (2016) ↑ 7.8 (2015)

The Group had a return on average capital employed (ROACE) of 11.1% in 2016, 3.3% points higher than in 2015. The increase was primarily related to higher underlying operating profit, mainly due to higher Nordic power prices and higher Norwegian hydropower production combined with successful energy management.

EBITDA, underlying (NOK billion)

13.9 (2016) ↑ 10.9 (2015)

EBITDA (operating profit before interest, tax, depreciation and amortisation) was NOK 13.9 billion in 2016, an increase of NOK 3.0 billion compared to 2015. The increase in EBITDA from 2015 was primarily related to higher Nordic power prices and higher contribution from both Norwegian hydropower production and the Group's international operations.

Capital employed (NOK billion)

83.2 (2016) ↓ 91.1 (2015)

Capital employed was NOK 83.2 billion in 2016 and decreased by NOK 7.9 billion compared to 2015. Impairments in 2016 led to a reduction in the Group's fixed assets and was the main driver for the change in capital employed.

Profit/loss before tax (NOK billion)

5.2 (2016) ↑ -0.8 (2015)

The Group's financial result was NOK 5.2 billion in 2016, an increase of NOK 6.0 billion compared to 2015. Increased Norwegian hydropower production, higher contribution from the Groups' international operations and a positive net financial result were the main drivers of the increase.

Investments (NOK billion)

5.7 (2016) ↓ 13.6 (2015)

In total, the Group invested NOK 5.7 billion in 2016. Maintenance investments were primarily related to Nordic hydropower. Investments in new capacity were mainly related to wind power projects in Norway and in the UK in addition to construction of hydropower plants in Albania. The Group's investment level has been adjusted down in accordance with reduced investment capacity.

Cash flow from operations (NOK billion)

8.4 (2016) ↓ 8.6 (2015)

The Group generated a cash flow from operating activities of NOK 8.4 billion in 2016. Despite an increase in EBITDA, the Group's cash flow from operations decreased by 3% mainly due to changes in short-term items related to working capital.

Net interest bearing debt (NOK billion)

32.5 (2016) ↓ 35.0 (2015)

Net interest bearing debt totalled NOK 32.5 billion at the end of the year compared to NOK 35.0 billion at the beginning of the year. The decrease in 2016 was related to a reduction in investments in combination with small changes in cash flows from operations.

Power plants and district heating plants

	Pro-rata[1]		Consolidated power plants	
	No. of plants	Capacity (MW)	No. of plants	Capacity (MW)
POWER GENERATION				
Hydropower	**346**	**15 747**	**263**	**14 075**
Norway	237	12 881	171	11 586
Sweden	60	1 268	60	1 268
Germany	10	262	10	262
UK	3	49	3	49
Albania	1	72	1	72
Turkey	2	122	2	122
Brazil	10	194	5	183
Peru	9	362	9	442
Chile	3	185	1	56
Nepal	1	28	1	34
Philippines	3	146	-	-
India	2	112	-	-
Laos	2	50	-	-
Panama	1	9	-	-
Zambia	2	8	-	-
Wind power	**18**	**881**	**14**	**703**
Norway	3	245	3	245
Sweden	6	338	6	338
Brazil	4	69	4	84
UK	5	230	1	36
Gas power	**6**	**2 600**	**6**	**2 600**
Norway	1	210	1	210
Germany	5	2 390	5	2 390
Bio power	**2**	**40**	**2**	**40**
Germany	2	40	2	40
Total power generation	**372**	**19 269**	**285**	**17 418**

DISTRICT HEATING				
Norway	25	611	25	657
Sweden	4	164	4	164
Total district heating	**29**	**774**	**29**	**820**

[1] Statkraft equity share in all power plants (pro-rata share of direct and indirect ownership), including those in partly-owned companies

Statkraft around the world

TOTAL NUMBER OF POWER PLANTS/ FACILITIES

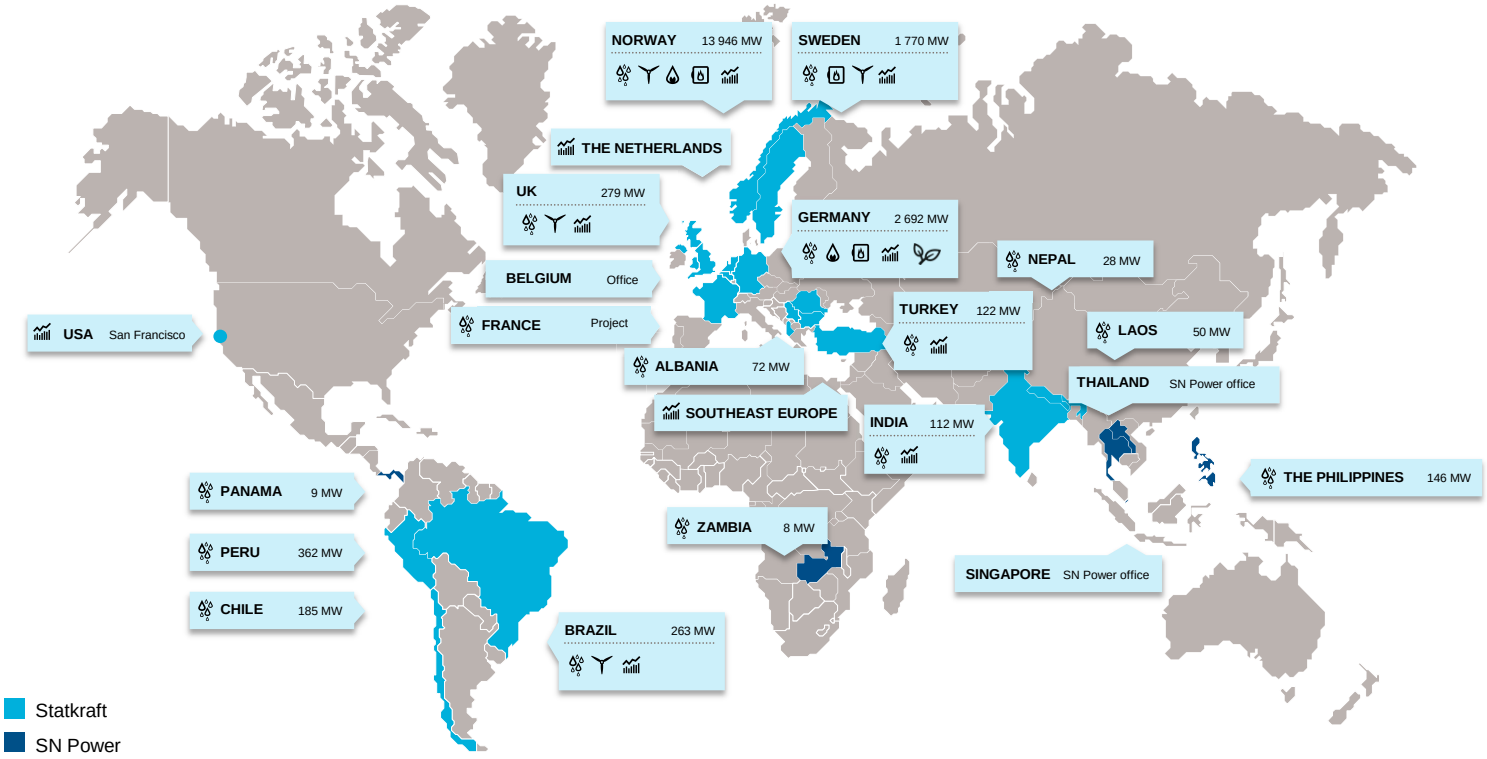
Power generation	372
District heating	29

STATKRAFT'S CAPACITY

Power generation	19 269 MW
District heating	774 MW

SYMBOLS:

= Hydropower
= Wind power
= Gas power
= Bio power
= District heating
=Trading and origination



Since the founding of the company in 1895, Statkraft has developed from a national company, focused on developing Norwegian hydro power resources, into an international company diversifying also into other sources of renewable energy. Today, with a total consolidated power generation of 66 TWh in 2016, Statkraft is the second largest power generator in the Nordics and Europe's largest supplier of renewable energy.

The Group's 372 power plants have a total installed capacity of 19 269 MW (Statkraft's share). Hydropower is still the dominant technology, followed by natural gas and wind power. Most of the installed capacity is in Norway. Statkraft also owns shares in 29 district heating facilities in Norway and Sweden with a total installed capacity of 774 MW.

The overview of consolidated plants shows the capacity of the plants that Statkraft fully consolidates in its financial reporting according to IFRS. The difference between consolidated capacity and direct ownership (the pro-rata columns in the table) is mainly due to Statkraft's investments in the companies BKK, Agder Energi and SN Power, all classified as equity accounted investments according to IFRS.

The Board of Directors of Statkraft

From the left: Vilde Eriksen Bjerknes, Halvor Stenstadvold, Helene Biström, Asbjørn Sevlejordet, Thorhild Widvey, Peter Mellbye, Bengt Ekenstierna, Hilde Drønen and Thorbjørn Holøs

Thorhild Widvey
Born 1956, Norwegian

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

Halvor Stenstadvold
Born 1944, Norwegian

Member since: 2003, vice chair of the board
Chair of the Audit Committee
Main work experience: Orkla: EVP. Oslo Stock Exchange, Borregaard and Orkla Media: chair. The Ministry of Government Administration and Consumer Affairs: State secretary.

Hilde Drønen
Born 1961, Norwegian

Member since: 2014, board member
Member of the Audit Committee
Current board positions: Board member: DOF Subsea and various subsidiaries in the DOF ASA Group
Main work experience: DOF: CFO (present). Bergen Yards: CFO. Møgster Group: various positions.

Peter Mellbye
Born 1949, Norwegian

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

Bengt Ekenstierna
Born 1953, Swedish

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

Helene Biström
Born 1962, Swedish

Member since: 2016, board member
Member of the Audit Committee
Current board positions: Chair: Sveaskog, Cramo PLC, Gasnätet Stockholm. Board member: Pöyry PLC, KTH.
Main work experience: Norrenergi & Miljö: MD. Norrenergi: MD. Vattenfall: Group executive mgmt.

Vilde Eriksen Bjerknes
Born 1975, Norwegian

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

Thorbjørn Holøs
Born 1957, Norwegian

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

Asbjørn Sevlejordet
Born 1960, Norwegian

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

Report from the Board of Directors

Statkraft's power generation reached a record-high 66 TWh in 2016. The average Nordic system price was also 28% higher than the very low level in 2015. Combined with successful energy management and higher contribution from International hydropower, this led to a solid underlying EBITDA of NOK 13.9 billion. 2016 was negatively influenced by impairments, mainly caused by reduced market expectations, and partly offset by positive currency effects. Net profit before tax was NOK 5.2 billion and net profit after tax ended at NOK -179 million.

Changing market conditions and technological development are resulting in increased competition. Statkraft is adapting to this development through an extensive performance improvement programme and a revised strategy. The performance improvement programme is progressing according to plan. The aim is to strengthen performance and reduce annual costs by NOK 800 million, measured against the actual costs for 2015.

Responsible and effective operations have first priority in all markets. In the revised strategy, optimising the value creation in Statkraft's Nordic hydropower fleet will continue to be prioritised.

An adjustment of the strategy is that Statkraft will broaden the technology scope in selected international markets to include onshore wind and solar power, in addition to hydropower. Furthermore, Statkraft will strengthen its focus on business development in Norway in order to explore new opportunities arising from the energy transition.

The revised strategy shall enable Statkraft to become one of the most competitive companies in the industry and strengthen the position for further growth.

Key points

- Record-high Norwegian hydropower generation and successful energy management
- Construction started for Europe's largest onshore wind project in Central Norway
- The strategy has been revised. Performance improvement programme introduced to strengthen competitiveness and reduce costs

Health, safety and environment

There was one fatal accident in Statkraft in 2016. A contractor employee lost his life in connection with repair work at the La Oroya hydropower plant in Peru. The investigation has identified root causes related to the implementation and understanding of risk mitigation systems and tools in maintenance activities, and contract management and follow-up of HSE requirements in the procurement processes. Statkraft works systematically to avoid injuries and damage in all activities. All serious incidents are subject to investigation and results from these are used to facilitate and transfer learning across the organisation. Statkraft has ensured that the learnings from the tragic incident in Peru are incorporated in the HSE programme.

Sick leave due to illness or injuries was 3.0% in 2016, and this is considered satisfactory.

The Group experienced no serious environmental incidents in 2016.

Values

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

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

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

Strategy

From being a supplier of energy to Norwegian industry and general consumption, Statkraft has become Europe's largest generator of renewable energy with a presence in several international markets. Statkraft has established hydropower generation positions in Europe, Asia and South America, wind power in the Nordic market and in the UK and gas power capacity in Germany. Statkraft has also established a strong position within market operations in Europe, and has market activities in Brazil and India. As the most important provider of long-term contracts, Statkraft is also an important partner for the Norwegian power-intensive industry.

The current market conditions are challenging – with low power prices in most markets and increased competitiveness of solar and wind power. Energy markets are also characterised by an increasingly competitive environment where new players and new business models are entering the sector. In order to adapt to new market conditions and provide a basis for further growth, Statkraft's short- term focus will be consolidation of activities to improve performance and competitive strength.

Consolidation as a foundation for new growth

Reduced power prices have put pressure on Statkraft's profitability and financial robustness. A performance improvement programme is currently being undertaken to maximise value creation for the owner and strengthen competitiveness. A key objective is to strengthen performance and reduce controllable costs by 15%, compared with actual costs in 2015, by the end of 2018. A substantial portfolio of cost reduction initiatives has been identified, giving confidence that the target of NOK 800 million will be reached.

Planned staff reductions have been identified as a result of the new activity level and revised organisation. This leads to planned reductions of 530-580 employees, of which 200-240 in Norway, in addition to the reduction of close to 90 employees that has already taken place in 2016.

While some initiatives have already been implemented, the main effort will take place in 2017 and 2018, and the programme will be finalised by the end of 2018.

Changing markets

The global demand for electricity is growing, primarily driven by economic growth in emerging markets. Traditionally, fossil fuels have dominated the electricity sector in most countries. However, the share of renewables is growing, and more than half of the new capacity is expected to be based on renewable technologies in the coming decade. A key driver is reduced costs for solar and wind power which make these technologies increasingly competitive compared with conventional ones. In 2015, the process towards a global response to climate change took a major step forward with the Paris Agreement, which introduced greenhouse gas emission obligations for most countries, including emerging economies. Meeting these obligations will require more use of renewable energy. While a few industrialised countries dominated the renewables scene up to a few years ago, we are now seeing a larger share of the investments coming in emerging markets.

At the same time market conditions in the power sector are becoming more challenging, making it increasingly difficult to remain competitive. Competitive auctions are more frequently used to contract new capacity, and the modular nature of solar energy is increasingly paving the way for distributed power generation. Around 50% of the global solar capacity added over the next five years is expected to be distributed. In addition, low cost IT systems have accelerated the pace of innovation related to consumer-centric business models, and more specialised players have emerged within the distributed energy value chain. This is challenging the business model of traditional utilities, which need to increase cost efficiency and adapt to the new market conditions in order to remain competitive. The trend within distributed energy has been more prevalent in developed countries up to now, but is expected to play an increasingly important role also in emerging markets.

Statkraft's competitive position

Unique hydropower assets

Statkraft's power plants have low variable costs, long lifespans and low carbon emissions. The average production cost for the European hydropower assets is well below the cost of conventional technologies. The plants are highly flexible and have a total reservoir capacity of about 40 TWh, 23% of the total European reservoir capacity. Based on solid market knowledge and integrated business processes, the plants enable Statkraft to optimise power generation in relation to short, medium and long-term price fluctuations in the power market.

Statkraft is a major hydropower generator and has expertise in key technical disciplines, especially within operation and maintenance. The Group is a large buyer of electro-mechanical hydropower equipment, providing opportunities for economies of scale. Statkraft has considerable upgrading activities, where the company has broad experience and comprehensive expertise.

Integrated business model and market expertise

Statkraft has extensive experience from deregulated European power markets and has developed cutting-edge expertise within market analysis, production optimisation of flexible power plants and energy trading. Statkraft has a comprehensive system for collection and processing of hydrological and other market data in the European power market. Efficient data collection, models, systems and processes to prepare forecasts and utilise market variations are important competitive advantages. Statkraft has an integrated business model where the market analyses form the basis for maintenance planning, power optimisation and market operations, both in the short and the long term. The purpose of this is to utilise Statkraft's market expertise in combination with the flexibility of the power plants to maximise generation when power prices are high.

Statkraft's market presence in Continental Europe and the UK provides valuable market information to aid in understanding future price formation in the Nordics. This is also important when it comes to managing Norwegian and Swedish hydropower plants in the best possible manner.

Statkraft has developed a market-oriented organisation with broad experience from deregulated markets. Within market operations, Statkraft has shown that the company is able to adapt to changes in market conditions. Statkraft has established a significant position within market access services for wind and solar generators and is currently a leading player within this field in Germany, the UK and the Nordic market.

Attractive positions in growth markets

Statkraft has succeeded in establishing positions in several markets with high power consumption growth, and where renewable energy is expected to cover a major part of this growth.

Strategic focus areas

Statkraft's ambition is to strengthen its position as a leading international supplier of renewable energy. The revised strategy for each strategic focus area is outlined below.

European flexible generation

European flexible generation consists of the majority of the Group's hydropower business in the Nordic region, in Continental Europe and the UK, as well as gas power plants. Statkraft will operate, maintain and develop its existing hydropower portfolio to maximise the long-term value of the assets. A considerable share of the Nordic hydropower plants are ageing, and large reinvestments are planned to safeguard the value of these plants.

Market operations

The European power market is undergoing major changes. In addition, new specialised companies are entering other parts of the value chain with new value propositions to the customer. Going forward, Statkraft expects to see changes in the value chain and increasing requirements to remain competitive. Statkraft will gradually increase the company's energy trading activities and explore new business opportunities in a changing European market. In addition, Statkraft aims to develop market operations in selected international markets where Statkraft owns assets.

International power

Statkraft has restructured the Group's international hydropower activities and established integrated operations for the activities in South Eastern Europe, South America and South Asia. The objective of this is to exploit the Group's competitive advantage in operations, maintenance, power optimisation and energy trading. Statkraft will focus on achieving scale in selected markets which will enable effective deployment of Statkraft's core capabilities. Investments in hydropower, onshore wind and solar power will be evaluated on equal terms.

Wind power

Statkraft has developed a competitive position within onshore wind power in the Nordics and in the UK, with a track-record of delivering construction projects on cost and time. A key priority is to successfully deliver the construction of the Fosen project, Statkraft's largest onshore wind project to date, on cost and time. The focus going forward is to ensure operational excellence in operations and maintenance for wind farms.

Statkraft has decided not to invest further in offshore wind projects and to prepare for divestment of the existing offshore wind portfolio in the UK.

District heating

Statkraft provide more than 1 TWh per year at ten locations in Norway and four in Sweden. Statkraft will continue to develop the profitability of the existing portfolio and expand deliveries in connection with existing plants in Norway and Sweden.

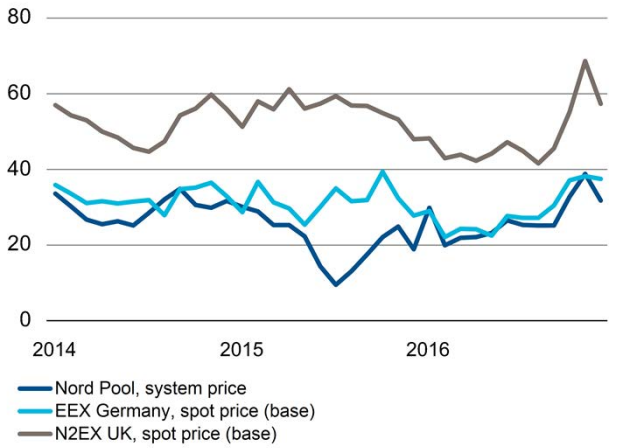
New business development in Norway

Statkraft is exploring commercial opportunities that emerge in the energy transition to reduce greenhouse gas emissions in Norway. Transport sector emissions will have to be reduced significantly, and two of Statkraft's initiatives are within this area. Statkraft and Agder Energi hold the majority in the fast charger operator Grønn Kontakt, and in a partnership with Södra, Statkraft is developing production processes for industrial scale production of second generation biofuels. Statkraft is also facilitating large scale data centre development in Norway.

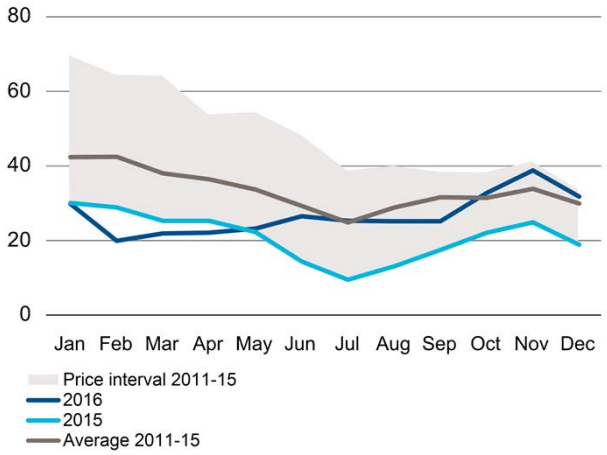
In addition to these focus areas, Statkraft is supporting the partly owned regional companies in Norway within environment-friendly power.

Power markets and generation

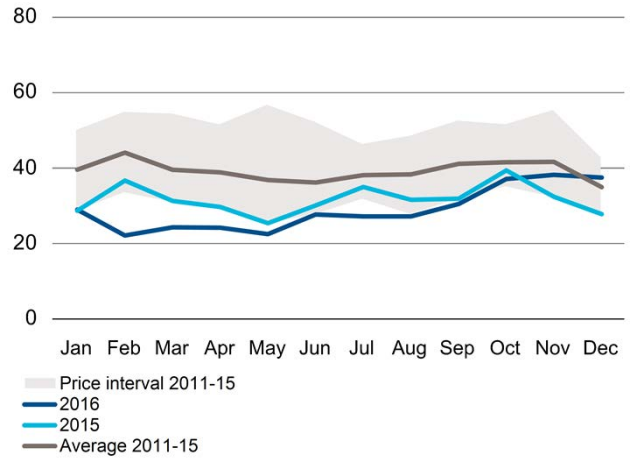
Market prices for power, monthly averages
EUR/MWh



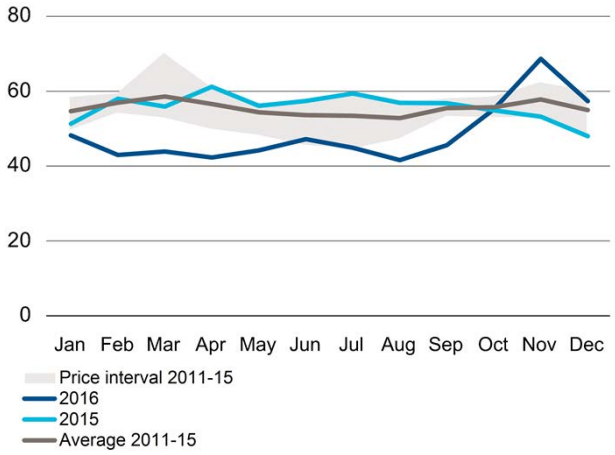
Nord Pool, system price
EUR/MWh



EEX Germany, spot price (base)
EUR/MWh



N2EX UK, spot price (base)
EUR/MWh



Most of Statkraft's power generation is in the Nordic region and 89% of the generation took place in this market in 2016. In addition, the Group has consolidated generation (the generation from investments which Statkraft fully consolidates in the financial statements) in Germany, the UK, Turkey, Albania, Brazil, Peru, Chile and Nepal. Statkraft is also involved through associated companies and joint ventures in these and other countries.

All these markets are influenced by global trends such as fuel prices, climate policies and climate change, lower costs for solar and wind power and increasing potential for distributed energy.

The European power market

Power markets in Europe are influenced by stagnating demand and subsidy schemes across Europe. This has triggered considerable new renewable capacity in markets where the demand has stagnated. This has caused power prices in Continental Europe to fall to a relatively low level.

Power prices in the ***Nordic*** region in 2016 were affected by relatively mild weather and higher than normal reservoir filling at the start of the year, amplified by falling fuel prices in the beginning of the year. Temperatures in Norway and Sweden were on average 1.0 and 1.2 degrees above normal respectively, while inflow was 98% of normal level in Norway and 84% of normal level in Sweden. The system price was at a relatively low level for most of 2016 from a historical point of view, but saw an increase towards the end of the year together with increasing coal prices. The average system price on Nord Pool for the year was 26.9 EUR/MWh, 28% higher than the very low prices seen in 2015, but 20% below the average for the 2011-2015 period. With the exception of 2015, this was the lowest average yearly price since 2002.

German power prices were affected by falling fuel prices at the beginning of the year. The last half of 2016 there was increasing power prices, as a tighter Asian market pulled international coal prices upwards and several continental countries experienced problems with their nuclear generation. Still, the average spot price (base) for 2016 was 29.0 EUR/MWh, 9% lower than in 2015 and 26% below the average for the 2011-2015 period.

Power prices in ***the UK*** were also influenced by volatile fuel prices and low nuclear generation in continental countries. An additional element was a general tightening of the generation stack

throughout 2016 as around 4 GW of capacity was decommissioned during the year. The average spot price (base) was 48.5 EUR/MWh, 13% lower than in 2015 and 12% below the average for the 2011-2015 period. A weaker British Pound compared to the Euro influenced the price development measured in euros.

Power consumption in the Nordic region is relatively high per capita compared with other European countries, due to a combination of cold winters, high share of electrical heating and a relatively large percentage of power intensive industry. The demand for power in 2016 was slightly higher than in 2015, both in Norway and the Nordic region. Total generation was 148.6 TWh in Norway and 389.3 TWh in the Nordic region, an increase of 3% and a decrease of 1% respectively, compared with 2015. Norway had a net export of power corresponding to about 11% of generation, while the Nordic region overall had a net export of about 1%.

Other power markets

The power prices in ***Turkey*** are mainly determined by the natural gas price, as gas-fired generation accounts for almost half of the country's power generation. Hydrological conditions in the country also contribute to the pricing. The average spot price (base) was 42 EUR/MWh, a decline of 8% from the preceding year. Due to a weakening of the local currency, the power price denominated in Turkish Lira was, however, strengthened by 2.4%. Statkraft assets received a higher feed-in tariff than spot price in 2016.

While the launch of the ***Albanian*** power market is scheduled for 2017, power prices in neighbouring countries in the south-eastern region of Europe have decreased from 2015 to 2016. Hungary and Romania, the main indicators in the south-eastern region of Europe, had a decrease 13% in price (35.4 EUR/MWh in 2016) and 9% (33.3 EUR/MWh in 2016), respectively. The main drivers for the price decline are hydrological conditions and European natural gas price.

In ***Brazil***, a continued return to normal hydrology and stagnating demand has led to significantly reduced spot prices to an average of 94 BRL/MWh in 2016 (27 USD/MWh), from an average of 288 BRL/MWh (86 USD/MWh) in 2015. Statkraft assets are relatively unaffected by these low spot prices since they are contracted through long-term PPAs at higher price levels.

Peruvian spot prices continued at relatively low levels due to overcapacity. The average price in 2016 of approximately 21 USD/MWh was, nevertheless, an increase of about 40% from 2015 (15 USD/MWh). Statkraft has entered into various contracts with different maturities with higher prices than current levels. Economic growth expectations for Peru are more optimistic than in other Latin American markets; however, demand expectations have been reduced due to a decline in mining activity.

In ***Chile***, the hydrology situation has worsened during the second half of 2016, and reservoir contents for 2017 are expected to be below average historical levels. Despite dry hydrological conditions, increasing penetration of solar and wind power, grid congestion and lower fuel price levels have pushed average spot price levels for the Central Interconnected System down 33% to about 61 USD/MWh in 2016, from 91 USD/MWh in 2015. Statkraft's generation is partially sold through long-term contracts at higher price levels.

Power prices in ***India*** fell almost 20% to around 34 USD/MWh in 2016, from 40 USD/MWh in 2015. The market faces increasing overcapacity from new plants coming online, both from a pipeline of conventional coal plants and subsidised renewables.

Statkraft's power generation

Statkraft is the largest power generator in Norway and the second largest in the Nordic region. Statkraft is also Europe's largest supplier of renewable energy.

Statkraft's generation is determined by capacity, demand, access to resources (hydrological balance and wind), spark spread (margin between power and gas price) and energy management. At the end of 2016, the consolidated installed capacity (the capacity that Statkraft fully consolidates in the financial statements) was 18 238 MW, with hydropower contributing 14 075 MW, gas power 2600 MW, wind power 703 MW, bio power 40 MW and district heating was 820 MW. Statkraft also has ownership interests in associated companies and joint operations with generation capacity, and, overall, the Group has ownership interests in plants with a total installed capacity of 19 269 MW power generation and 774 MW district heating (Statkraft's pro-rata share of direct and indirect ownership).

The demand for power varies throughout the day and year, and the power markets are dependent on capacity that can be adjusted according to the demand. Statkraft has a large percentage of flexible generation capacity, and combined with extensive analysis and generation expertise, this contributes to consistent management of the Group's water resources. The Group has an advanced energy management process and aims to have generation capacity available in periods with high demand. Statkraft's large reservoir capacity with a combination of seasonal and multiple-year reservoirs enables the Group to manage the water resources in a perspective spanning more than one year. Accordingly, generation can be kept high in peak price periods and lower in low-price periods. In 2016, Statkraft had record high generation, with high generation when the prices were relatively high.

The Nordic hydrological resource situation was relatively robust at the start of the year, but fell somewhat throughout 2016. At year-end (week 52) the overall reservoir water levels in the Nordic region were 91% of the normal level. This corresponded to 75 TWh, which is 62% of the maximum reservoir capacity of 121 TWh.

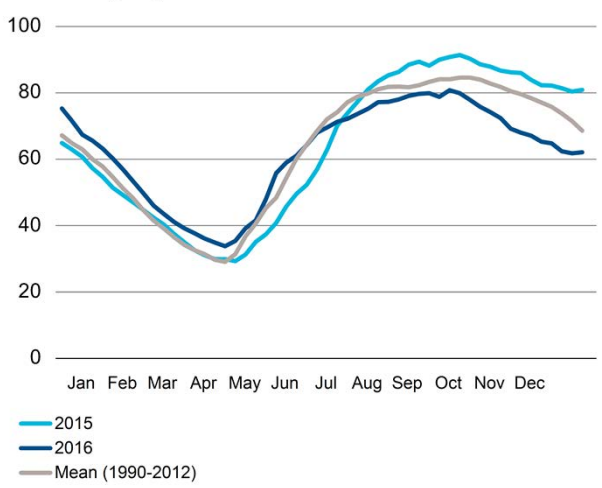
In 2016, the Group's power generation totalled 66.0 TWh (56.3 TWh), plus 1.1 TWh of district heating (1.1 TWh). Hydropower generation totalled 61.2 TWh, which was 15% higher than in 2015. Wind power generation fell by 5% from the preceding year. Improved market conditions led to an increase in running hours for Statkraft's gas power plants. In the second half of the year there were longer periods with positive spark-spreads and the gas power generation for the year was at the highest level since 2011.

40.2 TWh (31.6 TWh) of the power generation was sold in the spot market. This corresponds to 61% of the total generation in 2016 (56%).

Statkraft is a major supplier to the power intensive industry. In 2016, the volume delivered under long-term contracts amounted to 22.3 TWh, of which the majority went to industries in the Nordic region. The high contract coverage has a stabilising effect on Statkraft's revenues. Most of the contract volume for Nordic industries runs until 2020.

In Norway, Statkraft is required to cede a share of the power generation to counties and municipalities where the power is produced, so-called concessionary power. Explained briefly, the price for this power corresponds to the average production cost with a small margin, which is significantly lower than the market price for power. The concessionary power volume amounted to 7% of the Group's Norwegian hydropower generation in 2016.

Reservoir water levels in the Nordic region

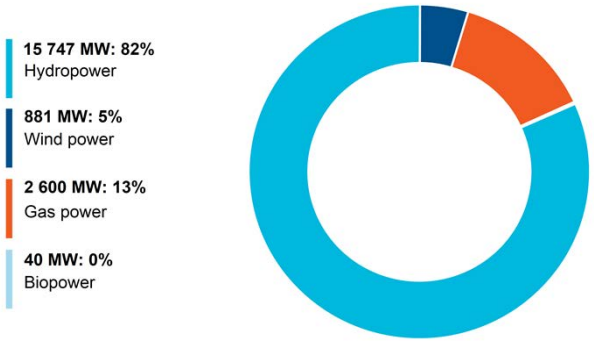


Statkraft-owned generation capacity

- direct and indirect ownership shares

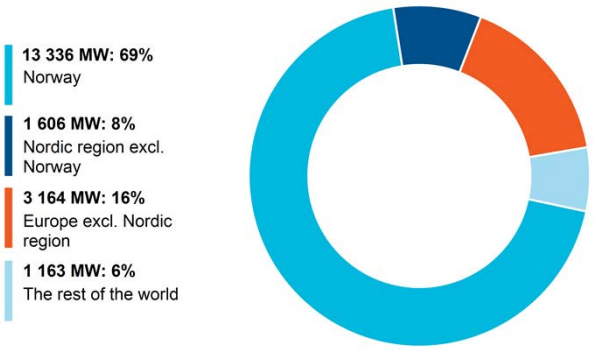
Technology 2016

(19 269 MW)



Geography 2016

(19 269 MW)



Statkraft's activities

Key figures - consolidated operations

	Statkraft Group	European flexible generation	Market operations	International hydropower	Wind power	District heating	Industrial ownership	Other activities	Group items
Power production									
Installed capacity (MW) [5]	17 509 [1), 2), 3), 4)]	14 461 [1), 2), 3)]	-	1 086	619	-	1 344 [2), 4)]	-	-
Production (TWh) [5]	66.0	54.4	-	4.3	1.9	-	5.5	-	-
District heating									
Installed capacity (MW)	820	-	-	-	-	682.8	138 [4)]	-	-
Delivered volume (GWh)	1 062	-	-	-	-	948	114	-	-
End-user sales									
Energy delivered, through grid to end-user (TWh)	7.0	-	-	-	-	-	7.0	-	-
Volume delivered, to electricity customers (TWh)	14.6	-	-	-	-		14.6	-	-
Income statement (NOK mill.)									
Net operating revenues, underlying	23 033	14 865	1 238	2 234	759	552	3 602	938	-1 155
EBITDA, underlying	13 863	10 131	414	1 195	192	279	2 041	-343	-46
Operating profit/loss, underlying	10 240	8 380	400	517	-196	107	1 496	-418	-46
Operating profit/loss	3 086	4 529	-758	-819	-781	89	1 259	-381	-52
Balance sheet (NOK mill.)									
Total assets	166 630	57 240	179	33 756	12 660	3 521	25 360	24 060	9 854
Investments	5 657	1 736	62	1 443	1 489	155	688	83	-

[1)] Excluding Baltic Cable (600 MW).
[2)] Excluding pumped-storage hydropower.
[3)] Including Emden 4, Robert Frank and Kårstø which are in cold reserve.
[4)] Skagerak Energi's share.
[5)] Includes the share of consolidated companies.

Statkraft changed the segment structure in 2016. The two former segments Nordic hydropower and Continental energy and trading were replaced by European flexible generation and Market operations. The reason for changing the segments was to better align the reporting structure 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 Group's operating segments are in accordance with how the corporate management makes, follows up and evaluates its decisions. The operating segments are based on the internal management information that is periodically reviewed by the corporate management and used as a basis for resource allocation and key performance review.

The other segments, International hydropower, Wind power, District heating and Industrial ownership, are not changed compared to previous years.

Areas not shown as separate segments are presented under the heading Other activities.

The comparable figures are restated for the new segments.

Based on the revised strategy, International hydropower will change its name to International power from the first quarter of 2017. There will be no changes in the segment's financial figures.

European flexible generation

European flexible generation is by far the largest segment measured by installed capacity and assets, as well as net operating revenues and results. The assets are largely flexible and the majority of the capacity is related to hydropower in Norway and Sweden. In addition, the segment includes gas power plants in Germany and Norway, hydropower plants in Germany and the UK and bio-based power plants in Germany. Baltic Cable, the interconnector between Sweden and Germany, is also included.

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

The volume sold in the spot market can vary significantly between years, depending on the hydrological situation, e.g. inflow and reservoir filling, and generation optimisation decisions. The management of multi-year reservoirs and flexible power plants normally enable Statkraft to achieve a higher average price for the power produced than other companies in Norway. The energy management is measured through the key performance indicator «Realised price margin Norwegian Hydropower», which measures the volume weighted average price achieved by Statkraft compared to the other producers in Norway. The results have historically shown energy management performance around 5% better than the competitors over a rolling five-year period.

Production costs in connection with hydropower are relatively low in comparison with other types of power generation facilities. The low production costs are partly offset by higher tax rates for Norwegian hydropower generation through resource rent taxation of 33% in 2016 and high property taxes in Sweden. To ensure that Statkraft maintains its long-term competitiveness, costs are followed up through benchmarking and key performance indicators measuring cost per kWh. In 2016, the operating cost / seven-year average generation was 13 øre/kWh.

Availability is an important factor in optimising hydropower revenues, and Statkraft uses the key performance indicator «Market-adjusted availability»[1] to measure whether Statkraft's power plants are available to produce when it is most profitable to do so. The most critical factor affecting this KPI which can be influenced is how effectively plant maintenance is planned and executed, while inflow and market prices are important external factors affecting the results. The market adjusted availability for the hydropower in the segment generally varies between 96 and 99%.

Important events in 2016

- In 2016, both the Norwegian and Swedish Government decided on their energy policy towards 2030. The Norwegian policies highlight the fact that flexible hydropower will continue to be the backbone of the Norwegian energy system. The Swedish long-term energy policy provides a common roadmap for a controlled transition to a fully renewable electricity system, with the ambition of 100% renewable electricity by 2040. A favourable outcome of the Swedish policy is to reduce property tax on hydropower from 2.8% to 0.5% during the period 2017-2020. In addition, the Certificate System will continue in Sweden and expand by another 18 TWh of renewable electricity generation to be built in the period up to 2030, while the current period for new capacity in Norway ends in 2021.
- In 2016, Statkraft completed the new Nedre Røssåga hydropower station in Northern Norway, thus increasing capacity by 100 MW to 350 MW and the annual mean generation by 200 GWh to 2150 GWh. Furthermore, Statkraft started the full refurbishment of the Øvre Røssåga hydropower plant in Northern Norway.
- The Norwegian Water Resources and Energy Directorate (NVE) granted Naturkraft permission to shut down the Kårstø gas-fired power plant.
- Changing market conditions have led to impairments in 2016. German gas-fired power plants were impaired by NOK 1947 million, mainly due to Statkraft's expectations to when the capital expenditures will be recovered through the Capacity Remuneration Mechanism. In addition, some Norwegian and Swedish hydropower plants and other segment assets were impaired by NOK 441 million, NOK 132 million and NOK 282 million, respectively. The main indicators were lower market expectations and a verdict in Gulating Court of Appeal implying that Statkraft is the taxable owner of Sønnå Høy, which increases property tax. The case was referred to the Supreme Court.

Financial performance

Successful energy management and good availability impacted the segment's underlying EBITDA which increased by 36% compared with 2015, to NOK 10 131 million.

The segment's underlying net operating revenues increased by NOK 3229 million, or 28%, compared with 2015. The revenue growth was driven by record-high Norwegian hydropower generation and an increase in Nordic power prices, particularly towards the end of the year as well as 2.2 TWh of gas-fired power generation.

The volume sold in the spot market was 33.0 TWh. This was 42% higher than in 2015. The average Nordic system price, in EUR/MWh, was 28% higher than in 2015.

A large share of the segment's generation is sold on long-term contracts and this has a stabilising effect on the revenues over time. In 2016, contracted volume was 18.4 TWh, on par with 2015 and corresponding to approximately one-third of total generation.

Underlying operating expenses were 9% higher than in 2015. The main reasons for the increase were higher level of expensed maintenance project costs, higher expenses related to corporate services and exchange rate effects.

The segment showed an operating profit for the year of NOK 4529 million, negatively impacted by impairments of assets of NOK 2802 million and unrealised changes in value of energy contracts amounting to NOK 1048 million.

[1] Market adjusted availability: $1-(\sum \text{lost production}_i\ [\text{MWh}]/\sum \text{installed capacity}_i\ [\text{MWh}])\times(1/\text{reporting period [h]})$

Market operations

Market operations is Statkraft's interface to international markets where energy and energy-related products are traded. The segment is also responsible for developing new customer-oriented business models in Europe and in selected countries where Statkraft owns assets. Market operations include trading, origination and market access activities, as well as a dynamic asset management portfolio holding a varying amount of asset-backed positions for profit. Business has grown over the last few years and has led to a significant geographical expansion with presence in many European countries, Brazil and India. Revenues can vary substantially between periods and years.

Trading and origination activities include trading with standard financial contracts, structured products and customised agreements for industry and commerce (origination). Statkraft monitors performance in trading and origination through the key performance indicator «Trading and origination ROCE». For the first time, the target for this indictor was not reached in 2016.

The dynamic asset management portfolio is monitored on Group level and the portfolio outperformed the added value target for 2016. The contribution, however, was at a lower level than in 2015.

The segment provides market access services for Statkraft's own assets in Europe, as well as external generators of renewable energy. The aim of these activities is generation and revenue optimisation.

Statkraft's analysis activities play an important role for Market operations. The analysis activities are based on collection and processing of hydrological, meteorological and market data. This data is used to estimate future market prices.

Market operation is also responsible for exploring and developing new business models primarily targeting customer solutions in the distributed energy market.

Important events in 2016

- Statkraft entered into several new power purchase agreements, including a 25-year agreement for solar leasing in India and a 20-year agreement for 309 MW offshore wind in the Belgian North Sea.

Financial performance

The segment's underlying EBITDA was 414 MNOK, which was 648 MNOK lower compared to 2015. The 2016 result stayed below expectation, as many activities were impacted by the volatility of power and commodity prices throughout the year. The main reason for the decrease was lower contribution from the market access and origination activities.

The segment's operating costs decreased compared with 2015, due to a provision for an onerous contract recorded in the second quarter of 2015. This provision was reversed in the fourth quarter of 2016.

The segment showed an operating loss for the year of NOK 758 million, negatively impacted by unrealised changes in value of energy contracts of NOK 1158 million.

International hydropower

International hydropower operates in markets with anticipated high growth and increasing need for energy. Statkraft is focusing on selected markets where the Group's hydropower expertise can create value. The operations include hydropower activities in Southeast Europe, South America and South Asia, as well as the 50% shareholding in SN Power. Some investments are made together with local partners or international investors.

Production costs are followed up through the key performance indicator «Total cost per kWh»[2]. In 2016, the cost was within the target.

Important events in 2016

- Statkraft completed its first power plant in Albania. The 73 MW Banja power plant is the first of two being constructed as part of the 256 MW Devoll hydropower project.
- In 2016, the Devoll project was impaired by NOK 1071 million due to lower expected long-term prices and updated market assessment. In Brazil, NOK 160 million was impaired, mainly related to restructuring of the business in certain operations, a wind farm where lower generation is expected and reduced value of some land areas. There was also an increase in provisions for the Çetin project of NOK 105 million.
- Statkraft launched a process to sell the partly built Çetin hydropower plant. Construction of the 517 MW plant is currently suspended.

Financial performance

The underlying EBITDA more than doubled compared with 2015. The increase was mainly due to new capacity and full-year effect of the consolidation of Statkraft Energias Renováveis (SKER) in Brazil. In July 2015, Statkraft increased its share-holding in SKER, a transaction that represented a change of control from an investment in an associated company to an investment in a subsidiary.

The segment's net operating revenues increased by NOK 855 million to NOK 2234 million, primarily due to full-year effect of the Cheves hydropower plant in Peru, which came into operation to-wards the end of 2015, and full-year effect of the consolidation of SKER. The power generation was 4.3 TWh in 2016, an increase of 19% compared with 2015. More than 80% of the generation was sold on long-term contracts. The large share of contracted volume has a stabilising effect on the segment's revenues.

Share of profit from associates and joint ventures saw an improve-ment from 2015. This was to a large extent related to India where the result in 2015 was impacted by impairments of NOK 384 million. The contribution in 2016 was negatively impacted by an impairment and lower estimated value of deferred tax assets in Chile of NOK 203 million in total and an impairment in SN Power of NOK 76 million. Both impairments in 2016 were mainly due to lower expected long term prices.

The increase in underlying operating expenses of NOK 519 million were mainly due to a full-year effect of the acquisition of Empresa Eléctrica Pilmaiquén in Chile in 2015 and full-year effect of the consolidation of SKER.

The segment showed an operating loss for the year of NOK 819 million, negatively impacted by impairments of assets and related costs in consolidated subsidiaries of NOK 1336 million.

[2] Total cost per kWh: Production costs/normalised production volume.

Wind power

Wind power includes Statkraft's investments in onshore and offshore wind power. The segment has onshore wind farms in operation in Norway, Sweden and the UK, as well as an offshore wind farm in operation and one under construction in the UK. The revenues are derived from sale of power at spot prices as well as revenues from support schemes.

The production costs associated with wind power are followed up through the target figure «Variable cost per kWh»[3]. The cost in 2016 was within the target for both onshore and offshore wind.

Availability is followed up through the target figure «Market-adjusted availability»[4]. The availability for offshore wind power was within the target, while availability for onshore wind power was below target.

Important events in 2016

- Statkraft, TrønderEnergi and the European investor consortium Nordic Wind Power decided to build the 1000 MW Fosen onshore wind power project in Central Norway. Construction has started and the programme consists of six projects. The first project, Roan Wind Farm, will be in commercial operation in 2018. When all six projects are commissioned in 2020, the projects are expected to generate 3.4 TWh annually.
- Statkraft completed construction of Andershaw Wind Farm in Scotland in the fourth quarter. The onshore wind farm has a total installed capacity of 36 MW.
- Due to lack of financial capacity, Statkraft has decided to halt new investments in offshore wind and has started preparations for the divestment of offshore wind assets in the UK.
- Changing market conditions have led to impairments within the segment, and in 2016, Swedish wind farms were impaired by NOK 585 million due to lower expected long-term prices.

Financial performance

The segment had an underlying EBITDA of NOK 192 million in 2016, an increase of NOK 117 million compared with 2015. The EBITDA was influenced by lower generation than normal despite new installed capacity in Sweden. Higher prices and lower operating expenses offset low generation and had a positive impact on EBITDA.

The underlying net operating revenues were NOK 759 million in 2016, 7% higher than in 2015. While the Nordic wind farms had higher than normal generation in 2015, the generation was significantly lower than normal in 2016 due to lower wind resources. However, new capacity in Sweden and higher Nordic power prices compensated for the relatively low generation. The UK wind farms had lower production in 2016 than in 2015 due to lower wind resources.

Operating expenses decreased compared with 2015, mainly due to reduced activity related to project development.

The segment showed an operating loss for the year of NOK 781 million, negatively impacted by impairment of assets of NOK 585 million.

[3] Variable cost per kWh: All variable production costs/normalised production volume.
[4] Market Adjusted Availability is calculated as the reduction from 100% availability that the estimated lost production relative to the maximum theoretical production represents.

District heating

District heating operates in Norway and Sweden. The revenues in Norway are influenced by power prices, grid tariffs and taxes. In Sweden, they are determined by the alternative energy price to the customers, and prices are either fixed or index-regulated. Waste, biomass, electricity, oil and gas are important input factors in the production of district heating.

At Group level, performance is measured through the key performance indicator «Realised price margin»[5]. In 2016, the margin was exceeded the target.

Important events in 2016

- The district heating plant in Årvollskogen was opened in September. When fully developed, Statkraft will produce 63 GWh of district heating in Moss/Rygge.
- Statkraft entered into an agreement with Rockwool for the delivery of 7.5 GWh. Excess heat from Rockwool's factories in Trondheim and Moss will be used as district heating in the two cities.
- Statkraft completed the reconstruction of peak load supply in Åmål in Sweden. After this, Statkraft's heating production in Sweden is fossil-free in normal years.
- The small heating plant in Klæbu was sold to Klæbu Bioenergi. The plant has an installed capacity of 7.1 MW and produced 4.9 GWh in 2016. Statkraft also sold the small heating plant in Levanger to Innherred Biovarme. The plant has an installed capacity of 4 MW and produced 4.3 GWh in 2016.

Financial performance

The segment's underlying EBITDA continued the growth seen over the past few years and the underlying EBITDA for 2016 ended at NOK 279 million, an increase of 31% compared with 2015. The increase was due to a combination of higher volume, better prices on heating and waste handling as well as high availability and a good fuel mix. In addition, a full-year effect of the acquisition of Gardermoen heating plant and new customers in existing activities had a positive impact.

Operating expenses were slightly higher than in 2015, primarily due to higher expenses related to corporate services.

The segment showed an operating profit for the year of NOK 89 million, negatively impacted by an impairment of assets of NOK 18 million.

[5] Realised price margin: (Sales revenues + waste handling revenues – energy purchase cost)/delivered volume.

Industrial ownership

Industrial ownership includes management and development of Norwegian shareholdings, and includes the companies Skagerak Energi, Fjordkraft, BKK, Agder Energi and Istad. The first two companies are included in the consolidated financial statements, while the other three companies are reported as associated companies. Skagerak Energi's activities are concentrated around the power generation, distribution grid operations, district heating operations, electrical entrepreneur activities and natural gas distribution. Fjordkraft's activities are primarily sale of electricity to private households and companies.

Important events in 2016

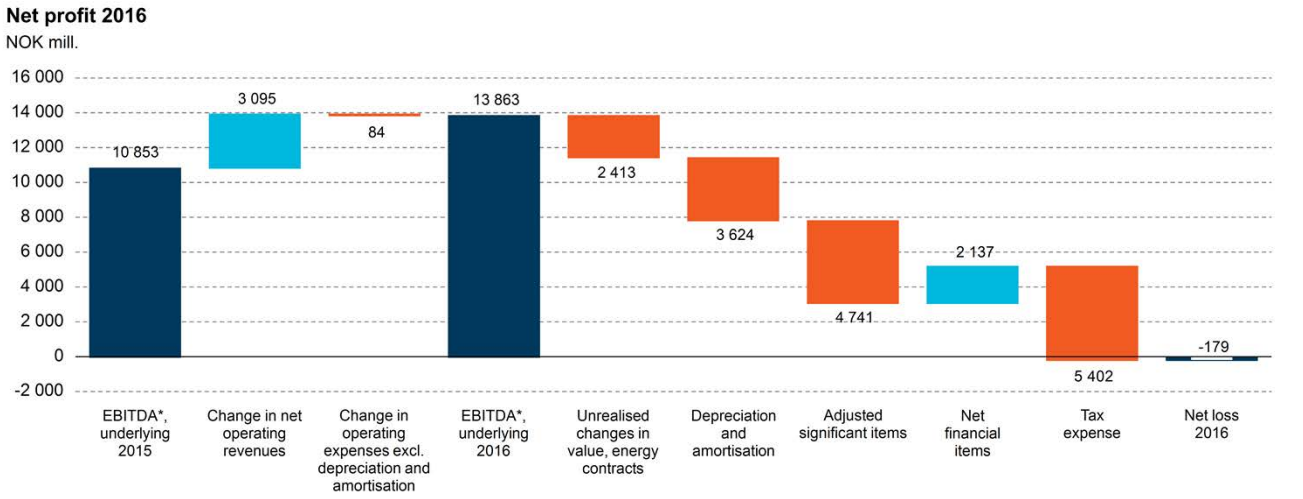
- BKK completed the refurbishment of the Matre Haugsdal hydropower plant. The capacity has been doubled to 180 MW and the mean generation has been increased by 72 GWh to 612 GWh. BKK also entered into an agreement to sell its central grid assets to Statnett.
- BKK put the new 300 (420) kV Kollsnes-Mongstad power line into operation in the fourth quarter.
- Agder Energi completed the Iveland 2 hydropower plant. The installed capacity is 44 MW and the average annual generation is 150 GWh.
- Agder Energi decided to invest in a second generator in the Skjerka hydropower plant. The power plant has an average generation of 650 GWh per year. The new generator will increase the generation value in the waterway.
- The power supplier LOS, a 100% owned subsidiary of Agder Energi, acquired the Swedish power supplier Telge Kraft, in order to strengthen its presence in the Nordic market. The total volume supplied will increase from 10 TWh to 23 TWh per year.
- The natural gas distributor Skagerak Naturgass, a 100% owned subsidiary of Skagerak Energi, opened filling stations for biogas and entered into agreements for deliveries of biogas for public buses and refuse collection vehicles in the area of Grenland and Vestfold.

Financial performance

The segment's underlying EBITDA of NOK 2041 million was 6% lower than in 2015. The decline was primarily due to negative unrealised changes in energy contracts in Agder Energi.

The net operating revenues from the consolidated operations increased compared with 2016, mainly due to higher power prices and higher revenues from the grid operations in Skagerak Energi. The segment's power generation was 5.5 TWh, on par with 2015.

The segment showed an operating profit for the year of NOK 1259 million, negatively impacted by unrealised changes in value of energy contracts in consolidated subsidiaries of NOK 237 million.



* Adjusted for unrealised changes in value of energy contracts (excluding trading and origination) and adjusted significant items..

Financial performance[6]

Record-high Norwegian hydropower generation and an increase in Nordic power prices, combined with successful energy management, led to an improvement in the Group's EBITDA. A positive development for International hydropower further contributed to the increase. All segments showed a positive EBITDA for the year. Operating expenses were on par with 2015.

Impairments and negative unrealised changes in value of energy contracts impacted the result for the year and 2016 ended with a net profit after tax of NOK -179 million. At the end of 2016, the Group's equity was NOK 4821 million lower than at the end of 2015. The decrease was primarily related to currency translation effects.

In the following, the emphasis will be on presentation of the result from the underlying operations for items up to and including the operating profit. Unrealised changes in value of energy contracts and adjusted significant items in consolidated activities are explained in the section "Items excluded from the underlying operating profit". Income statement elements after the operating profit are analysed in accordance with the recorded result.

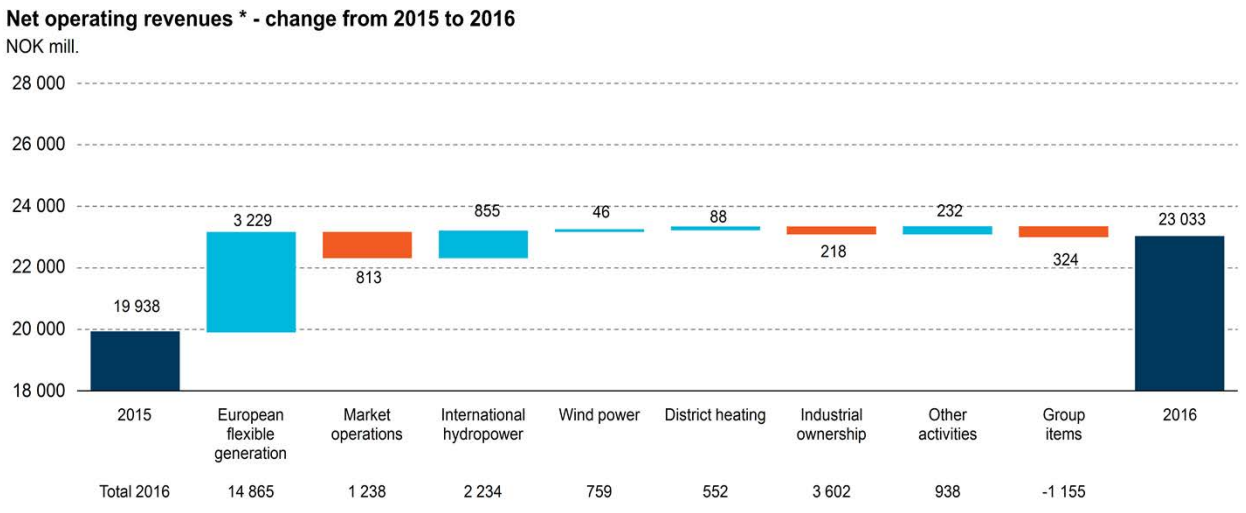
Return on investments

Measured as ROACE[7], the Group achieved a return of 11.1% in 2016, which was 3.3 percentage points higher than in 2015. The improvement was primarily related to higher operating profit, mainly due to higher Nordic power prices and higher Norwegian hydropower generation.

Underlying operating revenues

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

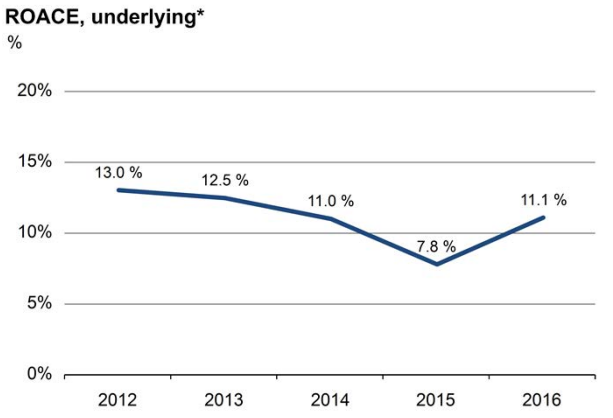
Net operating revenues totalled NOK 23 033 million in 2016, 16% higher than in 2015. The European flexible generation segment saw a substantial increase on the back of record high Norwegian hydropower generation and significantly higher Nordic power prices, whereas the Market operation segment's revenues



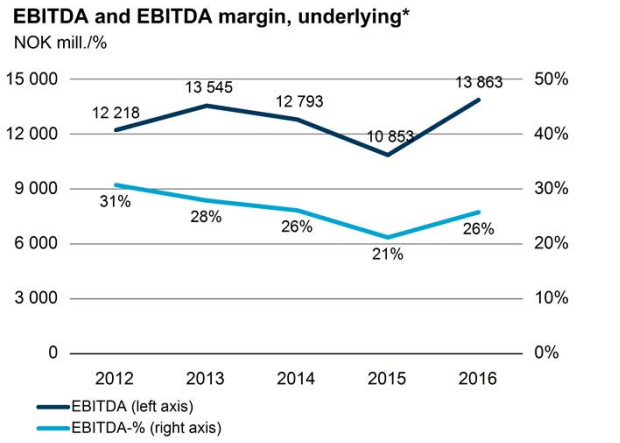
* Adjusted for unrealised changes in value of energy contracts (excluding trading and origination) and adjusted significant items.

[6] Figures in parentheses show comparable figures for 2015

[7] ROACE (%): (Operating profit adjusted for unrealised changes in the value of energy contracts and adjusted significant items x 100 / average capital employed.



* Adjusted for unrealised changes in value of energy contracts (excluding trading and origination) and adjusted significant items



* Adjusted for unrealised changes in value of energy contracts (excluding trading and origination) and adjusted significant items.

dropped as many activities were impacted by the volatility of power and commodity prices throughout the year. International hydropower experienced a significant increase, primarily due to full-year effect of the Cheves hydropower plant in Peru and full-year effect of the consolidation of Statkraft Energias Renováveis (SKER) in Brazil. The other segments had smaller changes in net operating revenues.

Underlying operating expenses

In total, the Group's operating expenses increased by 3% compared with 2015. The increase related primarily to depreciations for SKER and Cheves.

Underlying EBITDA and underlying operating profit

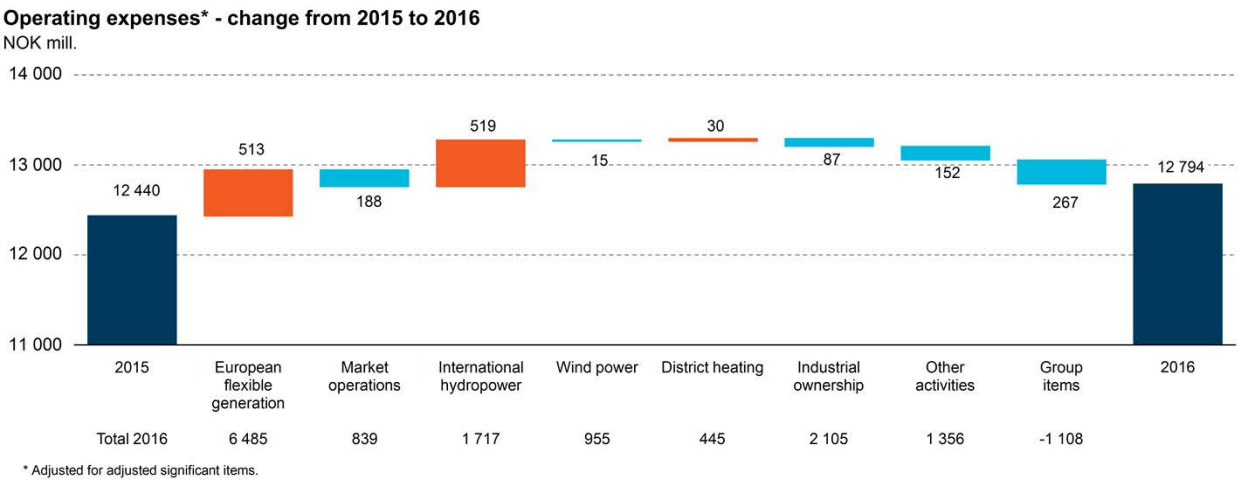
Underlying EBITDA increased 28% from 2015 and operating profit increased 37%, to NOK 13 863 million and NOK 10 240 million, respectively. The Group's EBITDA and operating profit are to a large degree generated by European flexible generation segment, which contributed 73% (68%) and 82% (76%) of the total, respectively.

Items excluded from the underlying operating profit

In total, unrealised changes in value of energy contracts and adjusted significant items had a negative effect in 2016 of NOK 7154 million (NOK -3002 million).

Unrealised changes in value of energy contracts adjusted for in the underlying operating profit amounted to NOK -2413 million (NOK 609 million). The primary contributors to the negative effect were embedded derivatives for bilateral industry contracts, which showed negative development as a result of a stronger NOK against EUR, and the financial risk reduction portfolio, which showed negative development mainly due to profit realisation during 2016.

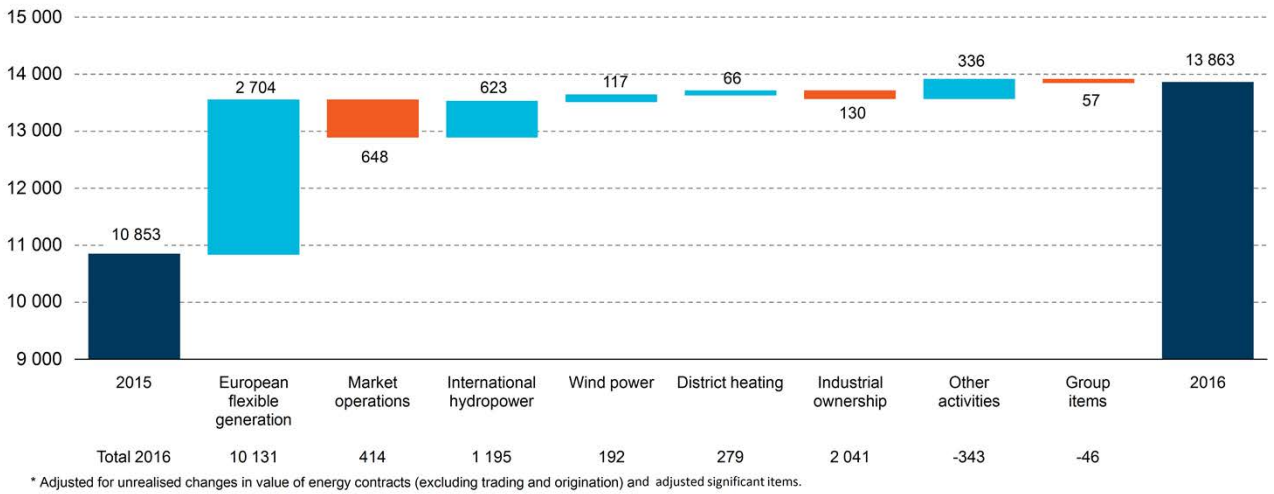
Adjusted significant items excluded from the underlying profit amounted to NOK -4741 million in 2016 (NOK -3610 million). These were mainly related to impairments for gas fired power plants and other assets in Germany of NOK 2229 million, a hydropower project in Albania of NOK 1071 million, wind farms in Sweden of NOK 585 million and hydropower assets in the Nordics of NOK 573 million. The impairments were primarily connected to Statkraft's lower market expectations. NOK 161 million was impaired in Brazil, mainly related to restructuring of the business in certain operations, a wind farm where lower generation is expected and reduced value of some land areas. In addition, a Norwegian heating plant was impaired by NOK 18 million. There was also an increase in provisions for the Çetin project of NOK 105 million, due to the prolonged process to find an acceptable solution.



* Adjusted for adjusted significant items.

EBITDA * - change from 2015 to 2016

NOK mill.



* Adjusted for unrealised changes in value of energy contracts (excluding trading and origination) and adjusted significant items.

Unrealised changes in value of energy contracts

NOK mill.	2016	2015
Generation	-426	-790
Sales and trading	-1 434	-1 143
Customers	-956	-357
Other	-1	-
Total sales revenues	-2 817	-2 290
Generation	-	-86
Sales and trading	338	1 754
Customers	66	12
Other	-	-
Total energy purchase	404	1 680
Unrealised changes in value not included in underlying profit	-2 413	609
Unrealised changes in value included in underlying profit	1 049	-260
Unrealised changes in value presented in the profit and loss statement	-1 364	348

Adjusted significant items

NOK mill.	2016	2015
Gain from sale of assets	-	226
Impairments and related expenses	-4 741	-3 836
Adjusted significant items	-4 741	-3 610

Financial items

NOK mill.	2016	2015
Interest income	323	378
Other financial income	58	43
Financial income	380	421
Interests expense	-1 301	-1 322
Other financial expenses	-110	-736
Financial expenses	-1 411	-2 058
Net currency effects	2 847	-3 445
Other financial items	321	-237
Net financial items	2 137	-5 318

Net currency effects

NOK mill.	2016	2015
Currency hedging contracts and short term currency positions	1 600	-1 794
Realised	110	-1 675
Unrealised	1 490	-119
Loans in foreign currency	939	-838
Realised	964	-306
Unrealised	-25	-532
Internal loans, joint ventures and associates	308	-813
Realised	1 216	-2 635
Unrealised	-908	1 822
Net currency effects	2 847	-3 445
Realised	2 290	-4 616
Unrealised	557	1 171

Financial items

The decrease in financial income was primarily related to lower average liquidity in 2016 than in 2015.

Financial expenses were lower, mainly due to the fact that there was a loss in 2015 in relation to a step-up acquisition in Brazil. Lower interest rates in 2016 had a positive impact on interest expenses, but this was largely offset by lower capitalisation of borrowing costs in projects.

Net currency effects amounted to a gain of NOK 2847 million (loss of NOK 3445 million), mainly as a result of a stronger NOK against EUR and GBP.

Taxes

The recorded tax expense was NOK 5402 million (NOK 1548 million). The increase in tax expense was mainly related to an improvement in profit before tax, which was NOK 5223 million in 2016 compared with a net loss of NOK 821 million in 2015. A better result from net financial items, higher Nordic power prices and higher Norwegian power generation were the main drivers behind the increase in tax expense.

Income tax payable amounted to NOK 2762 million, an increase of NOK 2333 million compared with 2015. Resource rent tax payable increased by NOK 768 million due to the higher power prices and

Norwegian hydropower generation, and at NOK 2249 million it constitutes a major part of the Group's tax expense. The majority of the tax expense was related to Norway.

The high effective tax rate was mainly caused by impairments without recognising deferred tax assets, and resource rent tax levied on Norwegian hydropower production.

Cash flow

The Group generated a cash flow from operating activities of NOK 8371 million in 2016 (NOK 8639 million).

Net income[8], adjusted for non-cash effects, was NOK 10 390 million (NOK 11 167 million), including changes in short and long-term items. The changes in short and long-term items had a negative effect of NOK 1680 million (positive effect of NOK 4651 million), of which short-term items were NOK -1312 million (NOK 4241 million). These were mainly related to working capital, cash collateral and changes in clearing deposit accounts. Taxes paid were NOK -2564 million (NOK -3062 million) and cash effects from dividend from equity accounted investments were NOK 545 million (NOK 534 million).

Net investments[9] amounted to NOK -6817 million (NOK -9834 million). This was primarily investments in property, plant and equipment totalling NOK -5331 million (NOK -8720 million), net cash outflow related to loans to third parties of NOK -933 million (NOK 221 million) and deconsolidation of the cash and cash equivalents in Dudgeon Offshore Ltd of NOK -404 million.

The net liquidity change from financing amounted to NOK -3217 million (NOK -2603 million). New debt totalled NOK 4642 million (NOK 14 409 million), while repayment of debt was NOK -7632 million (NOK -11 864 million). Dividend and group contribution paid amounted to NOK -226 million (NOK -5157 million). Currency exchange rate effects on cash and cash equivalents amounted to NOK -85 million.

Statkraft monitors its ability to meet future liabilities through the target figure "Short-term liquidity"[10], and at the end of 2016, the target figure was within the target range of 1.5 to 4.0.

Financial structure

The main objectives of the Group's capital structure management are to maintain a reasonable balance between solidity and the ability to expand, and to maintain a strong credit rating. The most important target figure for the Group's management of capital structure is the long-term credit rating.

Tools for long-term management of capital structure are primarily comprised by the drawdown and repayment of long- term liabilities and payments of share capital from/to the owner. 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.

The Group endeavours to obtain external financing from different capital markets. When raising loans, Statkraft seeks to ensure an even repayment profile, and the current maturity profile is in line with this objective. New loans are planned in accordance with the liquidity forecast, investment decisions and sale of assets.

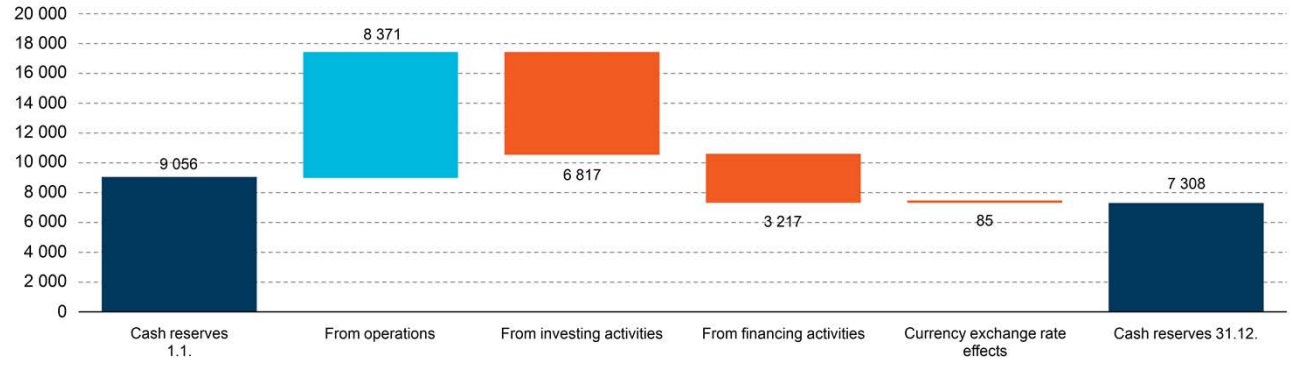
At the end of 2016, net interest-bearing debt[11] amounted to NOK 32 453 million, compared with NOK 35 036 million at the beginning of the year. The decrease was related to lower investments. The net interest-bearing debt-equity ratio was 28.0%, compared with 28.4% at year-end 2015.

Long-term interest-bearing debt from Statkraft SF to Statkraft AS amounted to NOK 400 million at the end of the year.

Current assets, excluding cash and cash equivalents, amounted to NOK 20 041 million (NOK 18 883 million) and short-term interest-free debt was NOK 21 819 million (NOK 18 994 million) at the end of 2015.

At the end of the year, Statkraft's equity totalled NOK 83 519 million, compared with NOK 88 340 million at the start of the year. This corresponds to 50.1% of total assets (49.9%).

Cash flow 2016



[8] Net income: Cash flow from operations excluding taxes paid and cash effects from equity accounted investments.
[9] Net investments include investments paid at the end of the year, payments received from sale of non-current assets, net liquidity out from the Group upon acquisition of activities and repayment and disbursement of loans.
[10] Short-term liquidity: (OB liquidity capacity + forecast incoming payments next 6 months) / (debt due and dividend next 6 months + (limit x forecast disbursements from operations / Investments next 6 months).

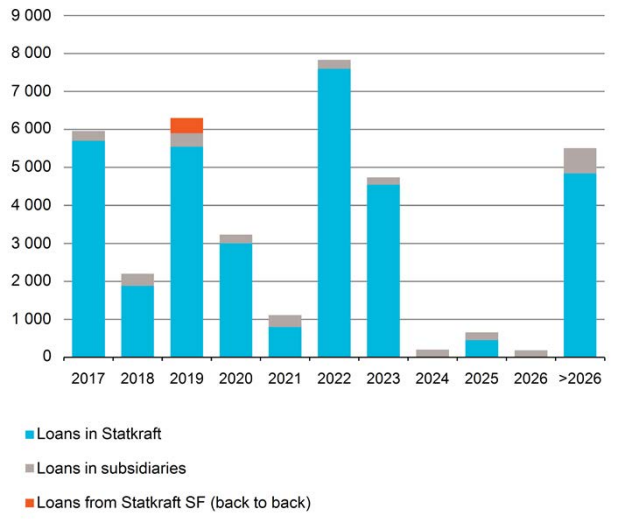
[11] Net interest-bearing debt: Gross interest-bearing liabilities – bank deposits, cash in hand and similar excluding restricted funds – short-term financial investments.

Financial strength and rating

It is important for Statkraft to maintain its credit rating with the two major rating agencies Standard & Poor's and Moody's. An important key figure monitored by Statkraft in relation to credit rating is the cash flow from operations in relation to net interest-bearing debt. Statkraft AS has a current credit rating of A- (negative outlook) from Standard & Poor's and Baa1 (stable outlook) from Moody's. See note 6.

Long-term liabiltities, debt redemption profile

NOK mill.



Debt and interest rates

%	Share 31.12.2016	Interest rate 2016
NOK	35%	4.4 %
EUR	46%	2.6 %
GBP	13%	0.7 %
BRL	3%	8.4 %
USD	2%	5.9 %
CLP/CLF	1%	6.4 %
Floating rate	58%	
Fixed rate	42%	

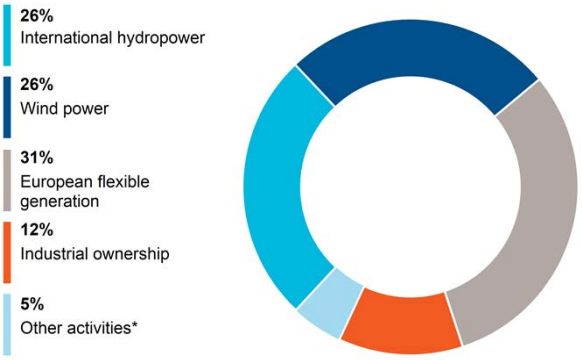
Investments

In accordance with the Group's strategy, the project activity level has been scaled down in 2016.

In total, Statkraft invested NOK 5657 million in 2016 (NOK 13 557 million), of which approximately half was invested in Norway. Approximately two-thirds of the total investments were made in new generating capacity. Maintenance investments were primarily made in connection with hydropower in the Nordic region. Investments in new capacity were mainly related to the Fosen onshore wind farms and the Nedre Røssåga and Ringedalen hydropower plants in Norway, the Devoll hydropower plants in Albania and the Dudgeon offshore and the Andershaw onshore wind farms in the UK.

Investments (5657 NOK mill.)

NOK mill./%



* Includes Market operations, District heating and Other activities.

Risk management

Statkraft 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.

Corporate risk process

Growth and increased internationalisation, together with fundamental changes in the energy sector, set stricter requirements as regards risk management. Risk management is an integrated part of Statkraft's governance model through a risk-based approach to target setting, prioritisations and follow-up of the business and staff areas. The Group's overall risk profile is determined by the Corporate Management and is reported to the Board of Directors. Statkraft has a central Investment Committee that ensures an appropriate quality assessment of risks prior to investment decisions.

Market risk in energy markets

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 price risk:

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

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

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

Sales activities are exposed to uncertainty in the sales price to retail customers and companies, as well as the purchase price in the wholesale market. Statkraft limits the net exposure by securing symmetry between customers and purchases in the wholesale market and by using financial instruments. District heating operations are also exposed to market risk through uncertain fuel prices (waste, oil, gas, electricity and others) and prices to customers. However, the fact that prices to customers are linked to fuel prices means that net exposure to price changes is limited.

Financial risk

The central treasury department coordinates and manages the financial risk associated with foreign currencies, interest rates and liquidity, including refinancing and new borrowing. The Group is exposed to currency risk through:

- Integration between the Nordic and the Continental power markets
- The Group's energy trading in EUR
- Financing
- Other cash flows related to foreign subsidiaries and associated companies

Risk exposure through the value chain

RISK ACROSS THE VALUE CHAIN	REGULATORY FRAMEWORK AND COUNTRY ASPECTS	PEOPLE	MANAGEMENT	FINANCIAL
	• Taxes and competition legislation • EU and EEA regulatory framework • National laws and regulations • Licences, concessions • Support regime • Government, parliament • Country culture	• Roles and responsibilities • Skills and knowledge	• Leadership • Strategy, policy and procedures • Organisation and resources • Partnership • Company culture	• Interest rate and currency • Funding/liquidity • Counterparty (energy trading and excess liquidity) • Guarantees

RISK IN THE VALUE CHAIN	Development	Construction	Production	Energy optimisation and trading	Distribution/retail customer
Market risk	• Currency risk	• Currency and interest rate risk		• Hydrology • Power prices, fuel prices, carbon quota prices	• Power and fuel prices • Volume risk associated with consumption • Interest rate risk for distribution grid revenues
Operational and project risk	• Compliance breach and weakened reputation • Financial loss (claims for compensation)	• Injury to employees, contractors or third parties • Harm to the environment • Compliance breach and weakened reputation • Damage and losses related to own and third-party production plants and other assets • Financial loss	• Injury to employees, contractors or third parties • Harm to the environment • Damage and losses related to own and third-party production plants and other assets • Financial loss	• Compliance breach and weakened reputation • Financial loss (fines and claims for compensation)	• Injury to employees, contractors or third parties • Damage and losses related to own and third-party production plants and other assets • Financial loss

Currency and interest risk are regulated by means of mandates. Forward currency contracts, interest rate swaps, forward interest rate agreements and debt in foreign currency are the most important instruments. The liquidity risk in Statkraft is related to the deviation between the maturity profile of financial liabilities and the cash flows generated by the assets. The liquidity risk can mainly be handled through good borrowing sources, credit facilities and minimum requirements for the Group's cash and cash equivalents.

Statkraft 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 is 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 Corporate Management and the Board of Directors.

Operational risk

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

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

Statkraft's first priority is to execute development activities and operations in a responsible manner. Statkraft does not tolerate and works actively against any act of economic crime. A series of corruption and fraud prevention activities are being implemented to build a strong compliance culture and high ethical standards. Risk management at early stages of the development for an investment project is an important success factor. Statkraft has insurance coverage for all significant types of damage or injury, in part through the Group’s own insurance company Statkraft Forsikring. Statkraft manages operational risk through detailed procedures for activities in all operational units and various types of contingency plans. Furthermore, Statkraft has a comprehensive system for registering and reporting risks, 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.

All projects in Statkraft carry out systematic risk assessments. This takes place through each project:

- Having an allocated project reserve for larger investments
- Implementing follow-up and reporting of factors of importance for project development and execution
- Evaluating and planning measures to manage risk in the project

Major attention is devoted to development of sound systems for learning, establishing barriers and ensuring compliance to avoid delays, cost overruns and undesirable incidents during project planning and execution.

Estimates of the possible financial consequences of the total operational risk, as well as significant individual risks that are central drivers to the Group's overall risk profile, are included in the reporting of overall risk at Group level.

Regulatory, country and partner risk

Statkraft'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's generation, costs and revenues.

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

Furthermore, Statkraft is exposed to significant country risk, especially in emerging countries, as well as partner risk. Statkraft assesses risk for each country individually and compares countries in each region. Partner risk is assessed at an early stage in order to confirm the necessary integrity and management structure. Statkraft is committed to ensuring that all parts of the Group comply with the Group’s policy and procedures. The standards have been set out and made available in the Statkraft Way management system. The standards are also communicated to all partners and suppliers. Corruption is a risk in several of the countries where Statkraft is present. Statkraft strives to ensure compliance in all activities and has zero tolerance for corruption.

Changing environment

Climate change, technology development and changed consumer behaviour is of importance for all the risks described above and are important drivers for changes in framework conditions and political decisions. The increased uncertainties of the energy markets represent both threats and opportunities. To exploit these opportunities, Statkraft strives to adapt to the changing environment by developing skilled leaders, having sufficient flexibility and adaptability in our business models and decision processes, and continuously monitoring technology development and identifying potential business opportunities or threats. To address the challenges related to changing market conditions and technological developments Statkraft has introduced a performance improvement programme and revised the strategy.

Internal control

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

Internal control over financial reporting

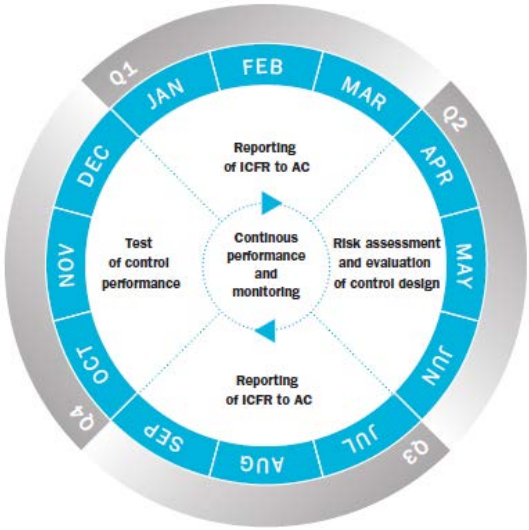
Statkraft has a system for Internal Control over Financial Reporting (ICFR) to ensure reliable and timely financial information in the monthly, quarterly and annual reports. The ICFR is based on the COSO 2013 framework for internal control, published by the Committee of Sponsoring Organizations of the Treadway Commission.

The ICFR system shall ensure reliable and timely financial information. All subsidiaries are required to comply with the ICFR requirements as described in «The Statkraft Way» and in Statkraft's finance manual. The same applies for associated companies, joint operations and joint ventures where Statkraft is responsible for the bookkeeping and financial reporting. If a third party is responsible for the bookkeeping and the statutory reporting of the partly owned company, the responsible segment shall perform compensating controls.

The Board of Directors has the overall responsibility for a well-functioning ICFR system in the Group. The activities related to ICFR are performed in the Group's Governance, Risk and Compliance (GRC) system, BWise, which was implemented in 2015. BWise makes it possible to efficiently monitor real time status of control performance throughout the etire organisation. In 2016, Statkraft decided to implement a fraud prevention system to prevent and detect fraud in processes related to procurement, accounting, tax and treasury. The system will have a risk-based approach and make use of methodology already in place in the ICFR system.

The main elements of the ICFR system are risk assessment and evaluation of control design, continuous performance and monitoring, test of control performance and reporting of ICFR to the Audit Committee constituted by the Board of Directors.

Annual process for internal control over finanical reporting



Innovation and new business development

Statkraft runs innovation and new business development activities across the company with the clear goal of further strengthening our competitive advantages in core operations and to identify and develop new business. During the last years, Statkraft has on average spent about NOK 150 million per year in this field, with NOK 200 million in 2016. Efforts are carried out in the following dimensions:

Shorter time horizon

Operational improvement projects addresses daily challenges and efforts usually yield quick results. These projects are run by line management and focus on existing plants and equipment.

Market innovation activities are focused on exploiting new business opportunities that arise in a dynamic energy market. These activities have a relatively short time perspective and are related to development of products and services.

Longer time horizon

Statkraft Ventures is a growth tool focusing on new downstream business models with an annual investment capacity of EUR 10 million. To date, Statkraft Ventures has invested in three start-up firms: tado° (smart thermostats), DEPsys (monitoring and optimizing the distribution grid) and Greenbird (software integration for energy data-streams). In addition to making profitable investments, Statkraft Ventures connects new innovative firms with various business units in Statkraft.

Research and development (R&D) programmes are multi-year and span across all business areas. Statkraft has had R&D programmes within hydropower, wind power, bio-energy and climate change. From 2017, these will be combined into one common R&D programme.

New Business Development activities are focused towards opportunities where Statkraft can take an industrial role. Given the strong transformative trends across the energy system, Statkraft is exploring many options. The focus is naturally on core markets, Norway in particular, and Statkraft intends to put additional emphasis on this field going forward. The largest current business development initiative is biofuel. Statkraft and Södra have together established Silva Green Fuel with the objective of producing second generation biofuel from forest feedstock. The ambition is to develop a demonstration plant at Tofte, Norway, and then a commercial scale plant. If constructed, the commercial scale plant is expected to have an annual production of approximately 100 million litres of biodiesel based on Norwegian feedstock. Such a plant, and subsequently others, would represent a significant contribution towards Norway's ambition of reducing transportation-related greenhouse gas emissions.

Corporate Responsibility

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

In order to fulfil 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, and the company's reporting also relates to the UN Sustainable Development Goals. Statkraft's external reporting on initiatives and performance within corporate responsibility is based on the Global Reporting Initiatives guidelines (GRI G4). As part of the corporate responsibility reporting process, Statkraft has completed a materiality analysis where the following aspects were identified as most significant:

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

In Statkraft's work and reporting on corporate responsibility issues, the above aspects are the main focus of attention. Below is a summary of Statkraft's work and results in the corporate responsibility area in 2016.

Management of corporate responsibility

Corporate responsibility is an integral part of Statkraft's decision-making at all levels. The Board of Directors sets the direction and follows up on performance. The Board has adopted a Code of Conduct which describes fundamental principles for sustainable, ethical and socially responsible behaviour. The Code of Conduct applies to all companies in the Statkraft Group and to all individuals who work for Statkraft, regardless of location.

Statkraft's business partners are expected to adhere to equivalent corporate responsibility standards as Statkraft. Statkraft's corresponding requirements for the Group's suppliers are described in Statkraft's Supplier Code of Conduct.

Corporate responsibility is a line and managerial responsibility in Statkraft, and systems are in place to provide employees and managers with necessary guidance and advice to uphold desired behaviour. Principles and requirements related to corporate responsibility are included in Statkraft's management system. The system facilitates a structured and uniform handling of the Group's corporate responsibility, and it is regularly reviewed so as to tailor it to new expectations and challenges. Aspects of corporate responsibility performance are followed up through scorecards at group and business area levels and in regular business reviews. Corporate responsibility issues are also included in the Corporate Audit's scope of work.

Statkraft's employees are requested to report concerns or breaches of the rules through the line organisation or to the group's independent whistle-blowing channel, which is managed by Corporate Audit. Reporting can be made anonymously, and the whistle-blower channel is also available for externals via Statkraft's web site. In 2016, out of the total number of 46 reported concerns, 18 concerns (12) were reported to Corporate Audit. These concerns mainly covered the areas of business ethics and labour rights. Of the reported concerns some are closed after an initial evaluation by Corporate Audit, some are returned to the line organisation for further follow-up, while in some cases a corporate investigation is needed. Corporate Audit is responsible for performing such investigations in Statkraft. In addition to reacting to reported concerns, Corporate Audit can also proactively initiate preventive investigations to enhance compliance. In 2016, Corporate Audit initiated four investigations.

Health and safety

Caring for people is at the heart of Statkraft's culture and we work continuously towards our goal of zero injuries. Leadership commitment, a proactive attitude towards health and safety, robust planning of projects and clear safety expectations are crucial to achieving this objective.

In 2016, Statkraft's activities resulted in one fatal accident in which one of our contractors' employees lost his life. The deceased was doing repair work on a siphon in La Oroya hydropower plant in Peru. La Oroya is 100% owned by Statkraft IH Invest AS, where Statkraft holds an ownership of 81.9%. The investigation has identified root causes related to the implementation and understanding of risk mitigation systems and tools in maintenance activities, and contract management and follow-up of HSE requirements in procurement processes. Statkraft ensures learning from the tragic incident when further rolling out the Statkraft HSE program.

In addition, 40 (39) serious incidents (incidents with, or with the potential for, serious consequences) were registered. The serious incidents resulted in the fatality in Peru and five serious injuries (6). Serious incidents are investigated according to defined procedures to ensure learning across the organisation. Most of the serious accidents and near-accidents in 2016 were associated with driving, operation of heavy machinery, work performed at height and lifting operations.

In 2015, a step change programme was launched to improve and develop a proactive approach to health and safety. The HSE improvement program, named "Powered by Care", has several components that were rolled out in 2016 and will be further implemented in 2017. Activities in 2016 include:

- A statement signed by Statkraft's Corporate Management making their health and safety commitment clear and visible.
- New key performance indicators with increased focus on serious incidents were rolled out as of January 2016, and additional leading indicators to increase management and

employee engagement in health and safety activities were introduced in April 2016.
- Life-saving rules have been designed with the aim of avoiding serious and fatal injuries and will be implemented in 2017. These rules are based on experience of high risk activities in Statkraft's operations and global knowledge from similar industries.
- The CEO's HSE Award was awarded for the first time to inspire activities that contribute to improved health and safety results. The initiative resulted in an engagement in health and safety issues throughout the organisation.
- HSE training programmes for operation and projects are being developed through the Statkraft Academy. The first modules were launched in 2016 and the development will continue in 2017.

The rate of lost-time injuries (LTI) was 3.1 (3.5) among Statkraft's employees and contractors, while the rate for all types of injuries (TRI) was 4.9 (5.9). In total 128 (176) injuries were registered, of which 80 (104) were lost-time injuries among the Group's employees and contractors.

Sick leave in Statkraft is at a stable low level and was 3.0% in 2016 (3.0%).

Security

Security refers to the ability to keep people, operations, information and systems secure from intentional harm or damage. Statkraft has a comprehensive approach to security topics and follows international good practice for security management.

An initiative was launched in 2016 to strengthen continuous efforts within the field of security in Statkraft. Initial measures include enhanced group alignment within security management and improved reporting of security incidents and observations. A total of 39 security incidents were reported in 2016. This includes 15 IT security incidents, which were all detected and blocked, and two serious security incidents related to street crime. Countries with Statkraft interests are followed up on security matters through a risk-based approach.

Jointly with other energy companies, Statkraft has established the company KraftCERT. KraftCERT co-operates with NorCERT and other security authorities, and its main objective is to strengthen the utility sector's ability to resist cyberattacks. Internally, Statkraft has improved its operational abilities to detect and handle security incidents.

Updated and improved processes for emergency response management were approved in 2016, including strengthening and clarification of emergency response functions in core organisational areas. The continuous strengthening of Statkraft's emergency preparedness, in particular through the implementation of the updated management processes, will remain a priority in 2017.

Environment and climate

Statkraft supports 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 key to achieving this ambition. Since 2015, Statkraft is only investing in renewable energy. Statkraft also supports a precautionary approach to environmental challenges and strives to avoid, minimise, mitigate or compensate negative environmental impacts from its activities.

Statkraft works strategically with the EU's Water Framework Directive and the Norwegian Framework for Water Regulations in order to enhance coordination of the company's activities related to water management in Norway, Sweden and Germany. The implementation of the EU Water Framework Directive provides important guidance for the on-going Revision of Terms projects where environmental terms will be updated to current standards, based on cost/benefit analysis. In Norway, about 20 revisions involving Statkraft assets, representing 35 TWh annual of production, are on-going or will start up in the period between 2017 and 2021.

Statkraft's core activities take into consideration a long term perspective. The effects of climate change will influence both operations and business opportunities significantly. The possible effects of climate change on Statkraft's Nordic hydropower assets have been thoroughly analysed. Statkraft has adapted regional climate models to assess future changes in precipitation and temperature, which affect water values and generation possibilities. Climate change impacts outside the Nordics are addressed through hydrological impact studies related to future water availability for energy generation, ecosystem services and the environment. Operational and investment decisions in all regions are based on assessments that include climate change considerations.

There were no serious environmental incidents in the Group in 2016. However, 233 minor environmental incidents were registered (228). Most of these were related to short-term breaches of river management regulations and minor oil spills with little or no impact on the environment.

In 2016, Statkraft's electricity consumption was 918 (1031) GWh. In geographies where it is applicable, the electricity consumed is certified as renewable in accordance with RECS (Renewable Energy Certificate System). Statkraft's emissions of greenhouse gases were 773 400 (258 600) tonnes of CO_2 equivalents. The increase in 2016 was due to more gas power in the energy mix. Statkraft's operations generated 17 000 (18 900) tonnes of hazardous waste, which was treated in accordance with applicable regulations.

Human rights and social issues

Statkraft's work on human rights is based on the internationally recognised United Nation's Guiding Principles on Business and Human Rights.

Alongside a policy commitment on human rights enshrined in its Code of Conduct, Statkraft's approach to human rights management is based on the principles of integration and mainstreaming of human rights considerations into existing governing documents, processes and systems, for instance those related to procurement, social issues, human resources or security.

Statkraft's salient human rights include indigenous rights, rights related to local community acceptance, labour rights, health and safety and security. As a result of consultations, a number of agreements with indigenous communities were reached in 2016. In July 2016, a long-term agreement concerning compensation for mitigation measures and land access for the operation phase of affected wind farms was signed with the Jijnjevaerie Sami Village in Sweden. A corresponding long-term agreement was signed with the Ohredahke Sami Village in Sweden in September 2016. In June 2016, Statkraft also entered into an agreement with the Northern Group of the Fosen Reindeer Grazing District regarding compensation and mitigation measures related to the construction of the Fosen wind farm. Dialogue is on-going with the Southern Group.

In 2016, Statkraft engaged in discussions with rights holders and other stakeholders relating to the planned projects in Chile (Osorno and Los Lagos), which included meetings in Chile and Norway with representatives of the Mapuche, as well as with NGOs and other institutions. Indigenous communities have expressed concerns about the projects in Chile. Statkraft aims to obtain a better understanding of the potential impacts, and is undertaking further analysis, alongside stakeholder engagement.

Statkraft works to enhance direct and indirect benefits and development opportunities for stakeholders. Interventions are a result of consultations with all affected stakeholders in accordance with good international practices and standards, based on the International Finance Corporation Performance Standards on Social & Environmental Sustainability.

In 2016, core activities have included the completion of resettlement, compensation and livelihood development programs for the Devoll project in Albania. This was especially relevant in light of the filling of the reservoir and commencement of operations of the Banja hydropower plant. At the Kargi hydropower plant in Turkey, a mitigation programme to improve efficiency in irrigation systems downstream of the power plant has been initiated in order to optimise power production and reduce potential releases of water during the rice-growing season.

Business ethics and anti-corruption work

A strengthened Compliance unit was established in Corporate Legal and Compliance in 2016. The Compliance unit covers the areas of corruption, fraud, money-laundering, sanctions and export control, as well as personal data protection and competition law. Statkraft works actively to build a strong ethical culture and secure robust types of internal controls. The work is tailored to the company's risk profile and responds to applicable laws and requirements, as well as relevant international standards.

Compliance related risk assessments are conducted regularly, with the most frequent updates for higher risk units. In 2016, a separate assessment of fraud risks in CFO processes across the company was conducted and Statkraft decided to implement a fraud prevention system related to these processes. Statkraft also established a new corporate framework for integrity due diligence reviews of third parties, suppliers and business partners.

Statkraft has rolled out mandatory business ethics and anti-corruption training to all staff in the Group, with the exception of Skagerak Energi and Fjordkraft. Training has been focused on laws and internal rules, as well as dilemma training specifically adapted to likely risks in the relevant unit's area of work. By the end of 2016, 100% (92%) of Statkraft's staff had completed tailored training on business ethics and anti-corruption over the last two years. Moreover, 100% of people in senior management positions have received specialised anti-corruption training over the last two years.

Statkraft has prepared practical guidelines that advise employees on how to handle ethical challenges. The guidelines are a supplement to governing documents, the existing anti-corruption handbook and the anti-corruption e-learning programme.

Statkraft works continuously to strengthen the culture of reporting concerns and breaches. In 2016, Statkraft registered 23 reported concerns related to ethics and anti-corruption. Some of those concerns were reported to Corporate Audit.

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.

Employees and organisation

Having a competent and engaged workforce is strategically important for Statkraft. The Statkraft Academy lays the foundation for an improved and targeted approach to training, and makes all Statkraft training available at one point of contact globally. Statkraft Academy offers training in core business processes such as operations and maintenance, energy management and project management, as well as in general areas such as business ethics, safety, and leadership.

There is a close link between Statkraft's business goals and goals for individual leaders and employees. The overall goals for the company are structured and cascaded down to individuals and discussed in the regular goal and development dialogues.

Statkraft has a focused and systematic approach to recruitment and remains an attractive employer both among graduates and experienced employees.

Statkraft has a structured collaboration with local employee representatives and represented trade unions. In addition to national cooperation with trade unions, Statkraft has established a European works council (Statkraft European Works Council, SEWC), with employee representatives from Norway, Sweden, Germany and the UK. For other countries, the collaboration with employee representatives is structured and managed by the relevant country office.

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

Statkraft aims at having a diverse working environment and considers equal treatment to be a tenet of its recruitment and HR policy. Statkraft strives to attain a balanced gender distribution in the Group, including managerial positions. Statkraft's recruitment policy requires diversity among the candidates for all leadership positions, with both sexes represented in final evaluations. To further develop the pipeline of female leaders, Statkraft prioritises the participation of women in leadership and talent development measures.

At the end of 2016, 25% (23%) of the Group's employees were women, and the percentage of women in management positions was 22% (23%). The percentage of women among new employees in 2016 was 24% (26%). The percentage of women in Statkraft's Board of Directors is 44% (50%). The average salary for women compared to men in Statkraft was 0.90 (0.97), and the corresponding figure for managers was 0.90 (0.91).

At the end of 2016, the Group had 3484 (3795) full-time equivalent employees. The Group had employees in 16 (15) countries and 40% (43%) of the employees were located outside of Norway. The average length of service was 11.6 (10.8) years and the employee turnover was 6.6% (4.6%).

Corporate Governance

Efficient and transparent management and control of the business form the basis for creating long-term values for the owner, employees, other stakeholders and society in general, and as a result, contribute to sustainable and lasting value creation. The distribution of roles between the Norwegian state as the owner, the Board of Directors and the Management of the company shall inspire confidence among stakeholders through predictability and credibility. Open and accessible communication from the company will ensure that the Group maintains a good relationship with society in general and the stakeholders affected by the company's activities in particular.

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

Reference is also made to the separate description of corporate governance in the annual report on Statkraft's website.

Corporate Audit

Corporate Audit is an important part of the organisation in terms of evaluating and improving the effectiveness of the organisation's governance, risk management and internal control. The Head of the Corporate Audit reports functionally to the Board of Directors, the Audit Committee and the CEO, and administratively, i.e. day-to-day operations, to the CFO. Corporate Audit's responsibilities are defined by the Board of Directors and its activities are performed with the following objectives:

- Increase awareness related to governance, risk management and control issues
- Provide recommendations based on cost-benefit evaluations
- Anchor responsibility and ownership in such a way that agreed solutions are implemented
- Share experience across the organisation
- Follow-up implementation of audit recommendations

Corporate Audit is authorised to obtain full, free, and unrestricted access to any of Statkraft records, physical properties and personnel pertinent to carrying out audit engagements. All employees are requested to assist Corporate Audit in fulfilling its roles and responsibilities. The Head of Corporate Audit has free and unrestricted access to the Board of Directors and the Audit Committee. The Audit Committee and the Head of Corporate Audit hold a minimum of one meeting per year without the presence of the Group Administration. The Head of Corporate Audit is responsible for Statkraft's whistle-blowing system and is the first recipient of all concerns reported directly through the Whistle-blower Channel. In cases where a formal investigation is required, this is the responsibility of the Head of Corporate Audit.

The work of the Board of Directors

Thorhild Widvey succeeded Olav Fjell as the chair of the Board in June. Peter Mellbye, Bengt Ekenstierna and Helene Biström joined the Board as new members, replacing Berit Rødseth and Elisabeth Morthen, and Harald von Heyden who left the Board earlier. Halvor Stenstadvold was elected the new deputy chair.

The Board of Statkraft AS held eleven board meetings in 2016. The Board has a strong focus on operations and ongoing development projects. A significant part of the work of the Board of Directors in 2016 was discussions and alignment of the Group's strategy.

The Board has an Audit Committee consisting of four board members. The Audit Committee held seven meetings in 2016. The Audit Committee acts as a preparatory and advisory working

committee in respect of the Board's administrative and supervisory tasks in the areas of:

- Preparation of the Board's follow-up of the account reporting process and external financial reporting
- Monitoring of the systems for internal control and risk management related to financial reporting, including the financial reporting consequences of the major risk exposures in the company
- Monitor that the Company has adequate compliance processes and procedures to prevent and detect violations of laws, regulations and internal requirements within areas such as fraud and corruption and/or other areas which may have financial reporting consequences.

The Board also has a Compensation Committee consisting of the chair of the Board and two of the board members. The Compensation Committee held three meetings in 2016. 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

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 parent company Statkraft AS had a net profit of NOK 1371 million in 2016 (net loss of NOK 832million).

The Board of Statkraft SF proposes that no dividend be disbursed from Statkraft SF for 2016. The Board of Statkraft AS proposes the following allocation of the annual profit in Statkraft AS:

Profit allocation

Amounts in NOK mill.	
Net annual profit in Statkraft AS' company accounts	1 371
Appropriation of profit for the year and equity transfers:	
Allocated dividend from Statkraft AS to Statkraft SF	4 350
Transfer from retained earnings	-1 648
Tranfer from other paid-in capital	-16
Transfer from share premium account	-1 315

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

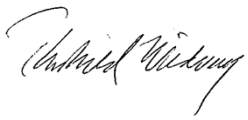
Outlook

There is increased focus on climate challenges globally and the majority of countries are now making commitments to reduce greenhouse gas emission levels through the Paris Agreement. For the energy sector, changing framework conditions and technological development are resulting in increased competition, but also offer new business opportunities.

Statkraft's performance improvement programme will strengthen competitiveness and reduce costs. Long-term contracts are stabilising the Group's revenues and Statkraft will continue to utilise the large hydropower reservoir capacity to optimise production. The Group's investment level has been adjusted down in accordance with reduced investment capacity.

A key priority is to operate and develop the Norwegian and Swedish hydropower portfolio effectively. After a consolidation period, Statkraft will invest in selected growth markets and explore new business development opportunities in Norway. The ambition is to strengthen the position in renewable energy and be a competitive supplier in all markets where Statkraft has operations.

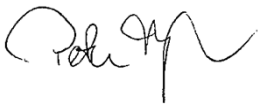
The Board of Directors of Statkraft AS
Oslo, 15 February 2017



Thorhild Widvey
Chair of the Board

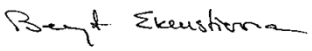
Halvor Stenstadvold
Deputy chair

Hilde Drønen
Director



Peter Mellbye
Director

Helene Biström
Director



Bengt Ekenstierna
Director

Vilde Eriksen Bjerknes
Director

Thorbjørn Holøs
Director

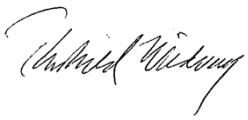
Asbjørn Sevlejordet
Director

Christian Rynning-Tønnesen
President and CEO

Declaration from the Board and CEO

We confirm to the best of our knowledge that the consolidated financial statements for 2016 have been prepared in accordance with IFRS as adopted by the EU, as well as additional information requirements in accordance with the Norwegian Accounting Act, and that the financial statements for the parent company for 2016 have been prepared in accordance with the Norwegian Accounting Act and generally accepted accounting practice in Norway, and that the information presented in the financial statements gives a true and fair view of the Company's and Group's assets, liabilities, financial position and result for the period viewed in their entirety, and that the board of directors' report gives a true and fair view of the development, performance and financial position of the Company and Group, and includes a description of the key risks and uncertainties the companies are faced with.

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



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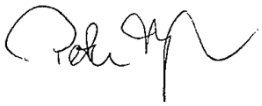
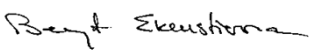


Peter Mellbye
Director

Helene Biström
Director



Bengt Ekenstierna
Director

Vilde Eriksen Bjerknes
Director

Thorbjørn Holøs
Director

Asbjørn Sevlejordet
Director

Christian Rynning-Tønnesen
President and CEO

Statkraft Group Management

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

Christian Rynning-Tønnesen
Born 1959, Norwegian

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

Irene Egset
Born 1966, Norwegian

Group management since 2016
Position: CFO
Employee in Statkraft since 2008
Education: MSc NHH, Bergen
Former positions: Statkraft: EVP Corporate Staff, SVP Financial Reporting and Strategic Finance, SVP Finance Wind Power and Technologies.
Statoil: various positions.
Current board positions: Board member: Energi Norge.

Hallvard Granheim
Born 1976, Norwegian

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

Hilde Bakken
Born 1966, Norwegian

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

Jon Vatnaland
Born 1975, Norwegian

Group management since 2017
Position: EVP Corporate Staff
Employee in Statkraft since 2009
Education: Cand. polit. sociology and Ph.D. innovation studies, UiO.
Former positions: Statkraft: SVP Strategy in Wind Power and Technologies, MD Statkraft UK ltd, Senior advisor Corporate Strategy. McKinsey: Engagement mgr.
Current board positions: Board Member: TIK Centre at UiO.

Jürgen Tzschoppe
Born 1968, German

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

Steinar Bysveen
Born 1958, Norwegian

Group management since 2010
Position: EVP Wind Power, District heating and Projects
Employee in Statkraft since 2010
Education: MSc NTH, Trondheim. Business studies BI.
Former positions: Statkraft: EVP Wind, Technology and Strategy, EVP Production and Industrial Ownership, EVP Corporate Development. Energi Norge: CEO. Industrikraft Midt-Norge: MD.
Current board positions: Chair: Skagerak Energi, Fosen Vind DA. Deputy chair: BKK. Board member: Agder Energi.

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

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
Chair of the Board

Halvor Stenstadvold
Deputy chair

Hilde Drønen
Director

Peter Mellbye
Director

Helene Biström
Director

Bengt Ekenstierna
Director

Vilde Eriksen Bjerknes
Director

Thorbjørn Holøs
Director

Asbjørn Sevlejordet
Director

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	Accumulated 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 profit/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	International 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	International 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		"Norwegian hydropower" from:				
NOK million	Statkraft AS Group	Statkraft Energi AS	Skagerak Kraft Group	Sum "Norwegian hydropower, excluding related business"	Associated regional companies	Sum "Norwegian hydropower and related business"
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. CO2 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

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)		Depreciation period (years)
Regulation plants		Properties, mountain halls, buildings, roads, bridges etc.	
- riprap dams, concrete dams	75	- land	perpetual
- other dams	30	- underground facilities	75
- tunnel systems	75	- roads, bridges and quays	75
		- control equipment	15
Turbines, generators etc…		- operating centre	15
- pipe trenches	40	- communication equipment	10
- generators (turbine, valve)	40		
- other mechanical installations	15	Other	
- transformer/generator	40	- transformer (grid)	35
- wind turbines (onshore)	20-22	- switchgear, high voltage (grid)	35–40
- wind turbines (offshore)	25	- buildings (admin etc.)	25–50
- gas and steam generators	20–25	- other fixed installations	10-20
- gas power plant transformers	20–25	- miscellaneous fixtures	5
		- office and computer equipment	3
Waterfall rights	perpetual	- 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		Receivables overdue by			
NOK million	Not yet due	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		Receivables overdue by			
NOK million	Not yet due	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 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.

Statkraft AS Financial Statements

Income statement

Statkraft AS parent company

NOK million	Note	2016	2015
Operating revenues	22	1 052	783
Payroll and related cost	5, 6	-768	-727
Depreciation	10	-61	-68
Other operating expenses	7, 20, 22	-757	-825
Operating expenses		-1 585	-1 620
Operating profit		-532	-837
Revenues from investments in subsidiaries and associates	8, 22	3 403	7 133
Financial income	8, 22	598	577
Financial costs	8, 22	-1 127	-1 355
Net realised and unrealised securities	8, 22	-4 971	-1 969
Net realised and unrealised currency and derivatives	8	4 926	-4 020
Net financial items		2 829	367
Profit before tax		2 296	-470
Tax expense	9	-926	-362
Profit for the year		1 371	-832
Appropriation of profit for the year and equity transfers			
Dividends payable	15	4 350	1 604
Transfer from retained earnings	15	-1 648	-2 436
Transfer from other paid-in capital	15	-16	-
Transfer from share premium account	15	-1 315	-

Balance Sheet

Statkraft AS parent company

NOK million	Note	31.12.2016	31.12.2015
Assets			
Deferred tax asset	9	790	1 245
Property, plant and equipment	10	300	319
Investments in subsidiaries, associates and joint arrangements	11	78 017	101 019
Derivatives	19, 22	48	110
Other non-current financial assets	12, 22	20 824	19 140
Non-current assets		99 979	121 833
Receivables	13, 22	12 039	11 188
Derivatives	19, 22	428	633
Cash and cash equivalents	14	5 201	5 471
Current assets		17 668	17 292
Assets		117 647	139 125
EQUITY AND LIABILITIES			
Paid-in capital	15	54 261	54 293
Retained earnings	15	-	1 629
Equity		54 261	55 922
Provisions	16	771	766
Long-term interest-bearing debt	3, 17, 22	29 140	34 641
Derivatives	19, 22	1 657	2 652
Long-term liabilities		31 569	38 060
Short-term interest-bearing debt	3, 17, 22	23 843	40 552
Taxes payable	9	49	-
Derivatives	19, 22	1 241	2 192
Other interest-free liabilities	18, 22	6 684	2 399
Short-term liabilities		31 817	45 143
Equity and liabilities		117 647	139 125

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

Thorhild Widvey
Chair of the Board

Halvor Stenstadvold
Deputy chair

Hilde Drønen
Director

Peter Mellbye
Director

Helene Biström
Director

Bengt Ekenstierna
Director

Vilde Eriksen Bjerknes
Director

Thorbjørn Holøs
Director

Asbjørn Sevlejordet
Director

Christian Rynning-Tønnesen
President and CEO

Statement of Cash Flow

Statkraft AS parent company

NOK million	Note		2016	2015
CASH FLOW FROM OPERATING ACTIVITIES				
Profit before tax			2 296	-470
Profit/loss on sale of shares	23		20	-119
Depreciation	10		61	68
Unrealised changes in value	8		-1 679	-1 137
Taxes paid			-	-3
Write-downs/reversal of write-downs from previous years	8		4 962	2 069
Changes in long-term items			-1 652	-9 017
Booked income from dividend and group contribution with no cash effects			-3 397	-7 126
Group contribution and dividend received			7 127	4 290
Changes in other short-term items			-99	258
Cash flow from operating activities		A	7 639	-11 187
CASH FLOW FROM INVESTING ACTIVITIES				
Investments in property, plant and equipment	10		-42	-92
Investments in subsidiaries and associates			-3 082	-35 126
Capital reduction in subsidiaries and associates			15 196	28 975
Divestments of shares			5	450
Cash flow from investing activities		B	12 077	-5 793
CASH FLOW FROM FINANCING ACTIVITIES				
Changes in cash pool			-16 810	10 421
Proceeds from new debt			4 413	14 921
Repayment of debt			-7 589	-7 611
Dividend and Group contribution paid			-	-4 840
Cash flow from financing activities		C	-19 986	12 891
Net change in cash and cash equivalents		A+B+C	-270	-4 089
Cash and cash equivalents 01.01	14		5 471	9 560
Cash and cash equivalents 31.12	14		5 201	5 471
Unused commited credit lines			11 000	13 000
Unused overdraft facilities			1 000	1 000

SIGNIFICANT ACCOUNTING POLICIES

The cash flow statement has been prepared using the indirect method. The statement starts with the company's result for the year in order to show cash flow generated by regular operating, investing and financing activities respectively.

Notes
Statkraft AS parent company

Index of notes to the consolidated financial statements

Note 1 Significant accounting policies

GENERAL INFORMATION

The annual accounts for Statkraft AS have been prepared in accordance with the Accounting Act and generally accepted accounting principles in Norway (Norwegian GAAP).

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

- Statement of cash flow
- Pensions Note 6
- Research and development costs Note 7
- Taxes Note 9
- Property, plant and equipment Note 10
- Investments in subsidiaries, associates and joint arrangements Note 11
- Receivables Note 13
- Cash and cash equivalents Note 14
- Long-term debt Note 17

VALUATION AND CLASSIFICATION PRINCIPLES

Uncertainties in estimates The accounts are based on assumptions and estimates that affect the book value of assets, liabilities, income and costs. The best estimate at the time when the accounts are rendered form the basis, but the actual figures may deviate from the initial estimates.

Principles for recognition of income and expensing of costs
Recognition of revenues from sale of goods and services takes place when earned, while expensing of costs takes place in accordance with the accrual principle.

Gains/losses from sale of property, plant and equipment are treated as operating revenues or expenses.

Classification and valuation of assets and debt Assets intended for lasting ownership or use are classified as fixed assets. Other assets are classified as current assets. Receivables that will be repaid within 12 months are classified as current assets. Corresponding criterias are used to classify current and long-term liabilities.

Fixed assets are valued at cost, but are impaired when the reduction in value is not expected to be transitory. Impairment is reversed when the basis for the impairment no longer exists. Fixed assets with limited useful economic life are depreciated according to schedule.

Current assets are valued at the lower of cost and fair value. Short-term loans are recognised in the balance sheet at nominal received amount at the time of establishment.

Long-term share investments and shareholdings All long-term investments are treated in accordance with the cost method.

Contingent liabilities Contingent liabilities are recognised if settlement is more likely than not. Best estimates are used when calculating settlement value.

Foreign currency Money items denominated in foreign currency are valued at the exchange rate on the balance sheet date. Realised and unrealised currency effects are presented as net in the financial statements as financial income or financial cost. Transactions denominated in foreign currency are translated using the exchange rate at the transaction date.

Note 2 Market risk

RISK AND RISK MANAGEMENT OF FINANCIAL INSTRUMENTS IN GENERAL

Risk management is about assuming the right risk based on the Statkraft Group's ability and willingness to take risks, expertise, solidity and development plans. The purpose of risk management policy is to identify threats and opportunities for the Group, and to manage the risk towards an acceptable level. The central treasury function in Statkraft AS coordinates and manages the financial risks relating to currency, interest rates, credit and liquidity of the Group. A more detailed explanation of how these are managed will be provided in the following.

FOREIGN EXCHANGE AND INTEREST RATE RISK

Statkraft AS uses interest rate and foreign currency instruments to manage the company's interest rate and foreign exchange exposure. Interest rate and currency swaps are used to achieve the desired currency and interest rate structure for the company's loan portfolio. Forward exchange rate contracts and debt in foreign currency are used to hedge cash flows denominated in foreign currency.

Foreign exchange risk Statkraft AS incurs foreign exchange risk in the form of transaction risk in connection with investments and other cash flows in foreign currencies. Balance sheet risk is related to shareholdings in foreign subsidiaries.

Statkraft AS hedges its currency exposure related to cash flows from physical power sales and financial trading on energy exchanges, investments, dividends and other currency exposures in accordance with the company's financial strategy. Exposure is hedged by using financial derivatives and debt in foreign currencies as hedging instruments. Few of the hedging relationships fulfil the requirements of hedge accounting.

Interest rate risk
Statkraft AS' 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 AS 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.

LIQUIDITY RISK

Statkraft AS assumes a liquidity risk because the terms of its financial obligations are not matched to the cash flows generated by its assets. Statkraft AS has good borrowing opportunities from the Norwegian and international money markets and from the banking market. Drawdown facilities have been established to secure access to short-term financing.

Liquidity forecasts are prepared as an important part of the daily liquidity management and for planning future financing requirements. The liquidity reserve is a tool for risk management and functions as a buffer in relation to the liquidity forecast.

CREDIT RISK

Credit risk is the risk of a party to a financial instrument inflicting a financial loss on the other party by not fulfilling its obligations. Statkraft AS assumes credit risk when placing surplus liquidity and when trading in financial instruments.

Placement of surplus liquidity is mainly divided among institutions rated BBB (Standard & Poor's) or better. There are established exposure limits with individual counter-parties, which are used for short-term placements.

For financial derivatives, credit risk is reduced by using cash collateral. Cash collateral is settled on a weekly basis and will therefore not always be settled on 31 December. Therefore there could be an outstanding credit risk at year-end.

Note 3 Analysis of market risk

Specification of debt by currency [1)]

NOK million	2016	2015
Debt in NOK	11 778	12 809
Debt in EUR	18 047	19 059
Debt in GBP	5 306	6 542
Total	35 131	38 410

[1)] The specification includes long-term interest-bearing debt, the first-year installment 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 company's debt portfolio.

Specification of interest by currency	2016	2015
Nominal average interest rate, NOK	4.40%	4.90%
Nominal average interest rate, EUR	2.60%	2.90%
Nominal average interest rate, GBP	0.70%	0.80%

Fixed interest rate debt portfolio [1)]

	Future interest rate adjustments				
NOK million	0-1 year	1–3 years	3–5 years	5 years and later	Total
Debt in NOK	4 317	1 110	1 101	5 250	11 778
Debt in EUR	12 262	1 350	12	4 423	18 047
Debt in GBP	5 306	-	-	-	5 306
Total fixed interest 2016	21 885	2 460	1 113	9 673	35 131
Total fixed interest 2015	24 276	-1 909	6 533	9 510	38 410

[1)] The specification includes long-term interest-bearing debt, first-year installment on long-term interest-bearing debt, certificate loans, interest rate swaps and combined interest rate and currency swaps. Interest rate swaps and combined interest rate and currency swaps must be seen in connection with debt, since Statkraft uses interest rate derivatives to adapt interest rate exposure to the company's debt portfolio. Negative figures reflect that Statkraft receives fixed interest from interest rate swaps.

Repayment schedule

NOK million	0-1 year	1–2 years	2–3 years	3–4 years	4–5 years	5 years and later	Total
Instalments on debt to Statkraft SF (back-to-back agreement)	-	-	400	-	-	-	400
Bonds issued in the Norwegian market	500	-	2 600	800	2 250	1 400	7 550
Debt issued in non-Norwegian markets	5 892	1 816	-	-	15 326	4 531	27 565
Other debt	1	-	14	-	-	2	17
Currency effect of combined interest rate and currency swaps	-195	60	-	-	-	-266	-401
Total repayment schedule 2016	6 198	1 876	3 014	800	17 576	5 667	35 131
Total repayment schedule 2015	4 191	6 201	-	6 204	3 000	18 814	38 410

Note 4 Hedge accounting

Fair value hedging Statkraft AS treats some loan arrangements as fair value hedges. Issued bond loans have been designated as hedging objects in the hedging relationships, and the associated interest rate swaps have been designated as hedging instruments.

The hedging objects are issued fixed-interest bonds with a total nominal value of EUR 780 million and NOK 2900 million. The hedging instruments are interest rate swaps with a nominal value of respectively EUR 780 million and NOK 2900 million, entered into with major banks as the counterparties. The agreements swap interest rate from fixed to floating 3-month and 6-month EURIBOR or NIBOR. The critical terms of the hedging object and hedging instrument are deemed to be approximately the same, and 90–110% hedging efficiency is assumed. The inefficiency is recognized in the income statement. The hedges expire during the period 2017-2022.

Fair value of hedging instruments

NOK million	2016	2015
Hedging instruments used in fair value hedging	504	1 175

Other information on fair value hedging

NOK million	2016	2015
Net gain (+)/loss (-) in income statement on hedging instruments	-229	-572
Net gain (+)/loss (-) in income statement on hedging objects, in relation to the hedged risk	229	572
Hedge inefficiency	-	-

Note 5 Payroll costs and number of full-time equivalents

NOK million	2016	2015
Salaries	512	491
Employers' national insurance contribution	89	87
Pension costs [1)]	107	114
Other benefits	60	35
Total	768	727

[1)] Pension costs are described in further detail in note 6.

Remuneration to the Chairman and the Board of Directors are disclosed in note 37 in the Group accounts.

	2016	2015
Average number of full-time equivalents	500	492
Number of full-time equivalents as of 31.12	489	510

Note 6 Pensions

GENERAL INFORMATION

Statkraft AS is obligated to and does fulfil the requirements of the act regarding mandatory occupational pension scheme ("Lov om obligatorisk tjenestepensjon").

Defined contribution schemes A defined contribution scheme is a retirement benefit scheme where Statkraft AS pays fixed contributions to a fund manager without incurring further obligations for the company once the payment has been made. The payments are expensed as salaries and payroll costs.

Statkraft AS' pension scheme for new employees from 1 January 2014 is a defined contribution scheme. The contributions are 6% of the pensionable salary up to 7.1 of the National Insurance Scheme's basic amount (G), and 18% of the pensionable salary between 7.1G and 12G. In addition to retirement pensions, the contribution scheme also entails risk covers.

Defined benefit schemes A defined benefit scheme is a retirement benefit scheme that defines the retirement benefits that an employee will receive on retirement. The retirement benefit is normally set as a percentage of the employee's salary. To be able to receive full retirement benefits, contributions will normally be required to be paid over a period of between 30 and 40 years. Employees who have not made full contributions will have their retirement benefits proportionately reduced.

Funded defined benefit schemes The defined benefit schemes cover retirement, disability and survivor pensions. The retirement schemes provide pension benefits amounting to 66% of pensionable income, up to 12G, with maximum accrual. Statkraft AS also offers early retirement from the age of 62 under the Norwegian early retirement pension scheme.

Statkraft AS pays an annual premium and is responsible for the financing of the scheme in the National Pension Fund (SPK). Pension benefits from the SPK are guaranteed by the Norwegian state (Section 1 of the Pension Act). The SPK scheme is not asset based, but management of the pension fund assets is simulated as though the assets were invested in Norwegian government bonds. In simulations it is assumed that bonds are held to maturity.

The pension benefit scheme in SPK was closed for new employees 1 January 2014.

Unfunded defined benefit schemes In addition to the above, Statkraft AS has entered into an additional pension agreement that provides all employees whose pensionable incomes exceed 12G with a retirement and disability pension equivalent to 66% of that portion of their pensionable income exceeding 12G. The agreement was closed 30 April 2012.

Existing members of the closed agreement who leave the company before pensionable age receive a deferred pension entitlement for the scheme above 12G, provided they have at least three years' pension entitlements.

SIGNIFICANT ACCOUNTING POLICIES

The liability recognised in the balance sheet which relates to the defined benefit scheme is the present value of the future retirement benefits that are reduced by the fair value of the plan assets.

Net pension fund assets for overfunded schemes are classified as non-current assets and recognised in the balance sheet at fair value. Net retirement benefit liabilities for underfunded schemes and non-funded schemes that are covered by operations are classified as long-term liabilities.

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

The net retirement benefit cost for the period is included under salaries and payroll costs, and comprises the total of the retirement benefits accrued during the period, the interest on the estimated liability and the - projected yield on pension fund assets.

ESTIMATES AND ASSUMPTIONS

Present value of accrued pension entitlements for defined benefit schemes and present value of accrued pension entitlements for the year are calculated using the accrued benefits method. Net pension liabilities in the balance sheet are adjusted for expected future salary increases until retirement age. Calculations are based on staff numbers and salary data at the end of the year. The discount rate is based on high-quality corporate bonds (covered bonds – OMF).

The actuarial gain recognised directly in equity during the year is mainly due to changes in assumptions for discount rate and salary adjustments.

Note 6 continued

The following assumptions are used	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

Members of defined benefit schemes	2016	2015
Employees	321	332
Pensioners and people with deferred entitlements	425	415

Pension cost recognised in the income statement

Defined benefit schemes

NOK million	2016	2015
Present value of accrued pension entitlements for the year	67	80
Interest costs	31	26
Projected yield on pension assets	-15	-10
Employee contributions	-5	-6
Employers' national insurance contribution	11	8
Net pension cost defined benefit schemes	89	98

Defined contribution schemes

Employers payments	18	16
Total pension costs	107	114

Breakdown of net defined benefit pension liability

NOK million	2016	2015
Present value of accrued pension entitlements for funded defined benefit schemes	1 040	933
Fair value of pension assets	737	634
Net pension liability for funded defined benefit schemes	303	299
Present value of accrued pension entitlements for unfunded defined benefit schemes	336	326
Employers' national insurance contribution	90	88
Net pension liabilities	729	713

Actuarial gains and losses recognised directly in equity

NOK million	2016	2015
Accumulated actuarial gains and losses recognised directly in equity before tax 31.12	182	211

Note 7 Other operating expenses

SIGNIFICANT ACCOUNTING POLICIES

Principles for expensing of costs Expensing of costs takes place in accordance with the accrual principle, while own research and development expenses are expensed as and when they are incurred.

NOK million	2016	2015
Purchase of third-party services [1]	286	448
Materials	15	18
Rent	121	110
IT expenses	138	139
Marketing	28	38
Travel expenses	32	42
Insurance	5	7
Other operating expenses	132	23
Total	757	825

[1] Purchase of third-party services mainly includes consultants and other services.

Note 8 Financial items

Revenues from investments in subsidiaries and associates

NOK million	2016	2015
Dividend from group companies	3 403	503
Group contribution	-	6 630
Total	3 403	7 133

Financial income

NOK million	2016	2015
Interest income from group companies	436	312
Interest income	51	122
Other financial income	111	143
Total	598	577

Financial costs

NOK million	2016	2015
Interest expense to group companies	-209	-167
Interest expenses external debt	-899	-1 160
Other financial costs	-20	-27
Total	-1 127	-1 355

Net realised and unrealised securities

NOK million	2016	2015
Write-downs/reversal of write-downs from previous years [1]	-4 962	-2 068
Gain on sale of shares in Småkraft	-	119
Gains and losses on securities, realised and unrealised	-9	-20
Total	-4 971	-1 969

[1] The write-downs are related to the shares in Statkraft Enerji A.S. and Statkraft Germany GmbH.

Based on an updated assessment of all the assets, investments and liabilities of the Turkish subsidiary Statkraft Enerji A.S., as well as currency effects, the shares have been written down with NOK 1079 million in 2016.

The fair value of the shares in the subsidiary Statkraft Germany GmbH has been assessed. Considering the impact of the Q2 2016 impairment loss in German gas powered power plants, an updated valuation the trading activities, and currency effects, the shares have been written down with NOK 3883 million in 2016.

Net realised and unrealised currency and derivatives

NOK million	2016	2015
Currency gains and losses, realised	1 892	-3 614
Currency gains and losses, unrealised	2 963	-1 109
Gains and losses derivatives, realised	-186	24
Gains and losses derivatives, unrealised	257	680
Total	4 926	-4 020

Net financial items	2 829	367

Note 9 Taxes

SIGNIFICANT ACCOUNTING POLICIES

Statkraft AS is subject to tax on profits that is calculated in accordance with ordinary tax rules. The tax charge in the income statement comprises taxes payable and changes in deferred tax liabilities/assets. Taxes payable are calculated on the basis of the taxable income for the year.

Deferred tax liabilities/assets are calculated on the basis of temporary differences between the accounting and tax values and the tax effect of losses carried forward. Deferred tax assets are only recognised in the balance sheet to the extent it is probable that the assets will be realised in the future. Tax related to equity transactions is recognised in equity.

The tax expense comprises the following

NOK million	2016	2015
Income tax payable	474	-
Withholding tax	5	6
Previous years payable tax expense	-	3
Change in deferred tax	446	353
Tax expense in the income statement	926	362

Taxes payable in the balance sheet

NOK million	2016	2015
Income tax payable on profit for the year	474	-
Tax effect of group contribution	-425	-
Taxes payable in the balance sheet	49	-

Reconciliation of nominal tax rate and effective tax rate

NOK million	2016	2015
Profit before tax	2 296	-470
Expected tax expense at nominal rate of 25% (27%)	574	-127
Effect on taxes of:		
Tax-free income	-854	-168
Changes relating to previous years	-76	3
Withholding tax	5	6
Impairment/reversal of impairment previous years	1 241	558
Changes in tax rates	31	92
Other permanent differences, net	5	-2
Tax expense	926	362
Effective tax rate	40%	-77%

Breakdown deferred tax

The following table provides a breakdown of the net deferred tax:

NOK million	2016	2015
Current assets/current liabilities	-1 738	-109
Derivatives	-877	-4 222
Other long term items	102	104
Property, plant and equipment	-49	-42
Pension liabilities	-728	-712
Total temporary differences and tax loss carry forward	-3 290	-4 981
Total deferred tax (+)/deferred tax asset (-)	-790	-1 245
Applied tax rate	24%	25%
Deferred tax (+)/deferred tax asset (-) as of 01.01	-1 245	-1 641
Recognised in income	446	353
Recognised directly in equity	9	43
Deferred tax (+)/deferred tax asset (-) as of 31.12	-790	-1 245

Note 10 Property, plant and equipment

SIGNIFICANT ACCOUNTING POLICIES

Property, plant and equipment are recognised in the balance sheet and depreciated on a straight-line basis from the time the property, plant or equipment starts regular operations. The acquisition cost consists solely of directly attributable costs. Indirect administration costs are excluded when recognising own hours in the balance sheet.

NOK million	Buildings, office equipment and other	Plants under construction	Total
Balance at 01.01	270	49	319
Additions	39	4	43
Transferred from plants under construction	49	-49	-
Disposals	-1	-	-1
Depreciation and impairment	-61	-	-61
Balance at 31.12	297	4	300
Cost 31.12	552	4	556
Accumulated depreciation and impairment as of 31.12	-256	-	-256
Balance at 31.12	297	4	300
Period of depreciation	3–75 years		

Note 11 Shares in subsidiaries, associates and joint arrangements

SIGNIFICANT ACCOUNTING POLICIES

Investment in subsidiaries, associated companies and joint arrangements Subsidiaries are companies where Statkraft AS has controlling influence over financial and operational principles. Controlling influence is normally achieved when the company owns more than 50% of the voting shares. Associated companies are companies where Statkraft AS has significant influence. Significant influence is normally deemed to exist where the company owns or controls from 20 to 50% of the voting shares. Joint arrangements are where Statkraft shares control of a company together with another party.

The investment is valued at cost for the shares unless impairment has been necessary. Impairment is done when the reduction in value is due to reasons that cannot be considered transitory. Impairment is reversed when the basis for the impairment no longer exists.

Dividends and group contributions from subsidiaries are recorded as income during the year when earned, while dividends from other companies are recognised as income in accordance with the cash basis of accounting. If the dividend exceeds the share of retained profits after the purchase, the excess part represents repayment of invested capital and the disbursements received are deducted from the value of the investment in the balance sheet.

NOK million	Registered office	Shareholding and voting share	Equity 31.12.2016 [1]	Net profit 2016 [1]	Carrying value
Shares in subsidiaries					
Hitra Vind AS	Oslo	100.00%	130	-3	95
Kjøllefjord Vind AS	Oslo	100.00%	92	-1	102
Renewable Energies and Photovoltaics Spain S.L. [2]	Malaga	70.00%	-2	-	-
Smøla Vind 2 AS	Oslo	100.00%	268	-4	150
Statkraft Asset Holding AS	Oslo	100.00%	21 393	-118	15 705
Statkraft Carbon Invest AS	Oslo	100.00%	24	-	4
Statkraft Elektrik Enerjisi Toptan Satış¸ Ltd. Sirketi [2]	Istanbul	100.00%	39	7	44
Statkraft Energi AS	Oslo	100.00%	15 935	4 185	14 295
Statkraft Enerji A.S. [2]	Istanbul	100.00%	3 406	24	737
Statkraft Financial Energy AB	Stockholm	100.00%	25	5	1
Statkraft Forsikring AS	Oslo	100.00%	359	19	80
Statkraft Germany GmbH [2]	Düsseldorf	100.00%	4 736	-339	3 847
Statkraft Industrial Holding AS	Oslo	100.00%	14 321	497	19 297
Statkraft IH Invest AS	Oslo	81.90%	15 322	287	14 284
Statkraft Treasury Centre SA [2]	Brussels	100.00%	31 161	764	2 642
Statkraft UK Ltd. [2]	London	100.00%	4 274	-135	5 759
Statkraft Vind Holding AS	Oslo	100.00%	730	-1	715
Statkraft Western Balkans d.o.o. [2]	Belgrade	100.00%	14	1	28
Steinsvik Kraft AS [2] [3]	Bergen	40.00%	111	-1	50
Total subsidiaries					77 834

Associates and joint arrangements					
Fosen Vind AS [4]	Oslo	50.10%	22	157	9
Grønn Kontakt AS	Kristiansand S	42.00%	16	-8	16
Naturkraft AS [2]	Tysvær	50.00%	659	7	76
Statkraft Agder Energi Vind DA [4]	Kristiansand	62.00%	40	16	83
Total associates and joint arrangements					184
Total					78 017

[1] Based on preliminary unaudited financial statements 2016. See footnote 2) for exceptions.

[2] Based on annual accounts for 2015.

[3] Steinsvik Kraft AS is owned 20% by Skagerak Kraft AS, Agder Energi AS and BKK AS. Statkraft AS owns 40% directly. On 20 of January 2017 (after the balance sheet date) Statkraft AS has sold its holding in the company. The valuation of the transaction has not been finalised, but preliminary assessment indicates a loss of NOK 15 million.

[4] Shareholders' agreements indicate joint control.

Note 12 Other non-current financial assets

NOK million	2016	2015
Loans to Group companies	20 740	19 050
Other shares and loans	84	90
Total	20 824	19 140

Note 13 Receivables

SIGNIFICANT ACCOUNTING POLICIES

Accounts receivable and other receivables are recognised at nominal value after the deduction of expected loss. Loss allocations are made on the basis of individual evaluations of each receivable.

NOK million	2016	2015
Accounts receivable	17	16
Receivables related to cash collateral	935	2 477
Group cash pooling receivable	17	1 008
Short-term receivables from group companies [1]	11 013	7 582
Other receivables	58	105
Total	12 039	11 188

[1] Short-term receivables from Group companies comprise dividends and group contribution from subsidiaries.

As of 31 December 2016 no provision for bad debt has been identified.

Note 14 Cash and cash equivalents

SIGNIFICANT ACCOUNTING POLICIES

The line item cash and cash equivalents also includes certificates and bonds with short residual terms at the time of acquisition. Market settlements for derivatives connected with financial activities (cash collateral) are recognised in the balance sheet as receivable or short-term debt. Cashpool deposits and loans to subsidiaries are net reported, and the corresponding item is classified either as receivables or short-term debt (note 13 and 17).

NOK million	2016	2015
Cash and cash deposits	5 181	4 921
Money market funds, certificates	20	550
Total	5 201	5 471

Cash collateral

Cash collateral is a payment to/from counterparties as security for the net unrealised gains and losses that Statkraft AS has on interest rate swaps, combined interest rate and currency swaps and forward exchange contracts. The table below shows net payments at year end from counterparties, who will eventually be repaid. See notes 13 and 17.

NOK million	2016	2015
Net cash collateral for financial derivatives	357	-863

Statkraft AS has unused committed credit lines of NOK 11 000 million and unused overdraft facilities of NOK 1 000 million.

Note 15 Equity

	Paid-in capital				
NOK million	Share capital	Share premium account	Other paid-in capital	Retained earnings	Total equity
Equity as of 01.01.15	33 000	20 527	16	3 979	57 522
Profit for 2015	-	-	-	-832	-832
Actuarial gains/losses pensions	-	-	-	86	86
Dividends 2015	-	-	-	-1 604	-1 604
Capital contribution [1]	200	550	-	-	750
Equity as of 31.12.15	33 200	21 077	16	1 629	55 922
Profit for 2016	-	-	-	1 371	1 371
Actuarial gains/losses pensions	-	-	-	19	19
Dividends 2016	-	-1 315	-16	-3 019	-4 350
Capital contribution [1]	200	1 100	-	-	1 300
Equity as of 31.12.16	33 400	20 862	-	-	54 261

[1] The capital contributions were partly settled against receivables Statkraft SF had

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.

Note 16 Provisions

NOK million	2016	2015
Pension liabilities [1]	729	713
Other provisions	42	53
Total	771	766

[1] Pension liabilities are described in further detail in note 6.

Note 17 Interest-bearing debt

SIGNIFICANT ACCOUNTING POLICIES

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. The first year's repayments relating to long-term debt are presented as current liabilities.

NOK million	2016	2015
Short-term interest-bearing debt		
First year's instalment of long-term debt	5 892	4 297
Credit facilities	-	1 000
Group cash pooling debt	15 802	33 603
Debt related to cash collateral	1 292	1 614
Certificate loans	500	-
Short-term debt to Group companies	304	11
Other short term debt	53	26
Total	23 843	40 552
Long-term interest-bearing debt		
Debt to Statkraft SF (back-to-back agreement)	400	400
Bonds issued in the Norwegian market	7 050	7 050
Debt issued in non-Norwegian markets	21 673	27 166
Other debt	17	25
Total	29 140	34 641
Total interest-bearing debt	52 983	75 193

Statkraft's net debt repayment in 2016 amounted to NOK 3176 million. Other changes are mainly explained by the changes in group cash pooling debt and changes in exchange rates on foreign currency loans.

Note 18 Other interest-free liabilities

NOK million	2016	2015
Accounts payable	42	140
Indirect taxes payable	42	44
Dividends payable	4 350	1 604
Debt to Group companies	1 746	52
Other interest-free liabilities	504	559
Total	6 684	2 399

Note 19 Derivatives

GENERAL INFORMATION

Statkraft AS trades in financial derivatives for different purposes, and accounts will depend on the purpose as described below.

SIGNIFICANT ACCOUNTING POLICIES

Interest rate derivatives Statkraft AS uses interest rate derivatives to adapt interest rate exposure to the Group's debt portfolio. Recognition of gains and losses depends on whether the interest rate derivative has been classified as a hedging instrument. Interest rate derivatives that are not hedging instruments are recorded in accordance with the lowest value principle. Unrealised losses or gains are included in the financial result. Interest rate derivatives that are defined as hedging instruments are accrued in the same way as interest on hedged debts or receivables. Interest rate derivatives are classified as long-term financial assets or long-term financial liabilities if the remaining term is longer than one year. Gains and losses are recognised in the income statement when settling loans before maturity. Interest rate derivatives in connection with loans that have been repaid are normally cancelled. Gains and losses from cancelled interest rate swaps are accrued together with underlying loans.

Currency derivatives In order to hedge against fluctuations in the foreign currency rates, Statkraft AS uses currency derivatives in line with approved financial policy. Forward exchange rate contracts are valued at fair value. Changes in value are recorded in the income statement as net realised and unrealised currency and derivatives. Combined interest rate and currency swaps are recorded in accordance with the lowest value principle.

Hedging The accounting treatment of financial derivatives designated as hedging instruments is recorded in line with the principles for fair value hedging. In the event of hedging of assets or liabilities in the balance sheet, the derivative is recognised at fair value.

The carrying value of the hedged asset or liability is adjusted for the value of the financial derivative's change in value which is related to hedged risk. More information about hedge accounting can be found in note 4.

ESTIMATES AND ASSUMPTIONS

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

The interest rate swaps, including the interest portion of combined interest rate and currency swaps, are part of risk management and are accounted for as hedging or at the lowest value principle, depending on whether the requirements for hedge accounting are achieved.

Currency and interest rate agreements

Accounting value and fair value of currency and interest rate derivatives:

	31.12.2016		31.12.2015	
Derivatives – non-current assets	Carrying	Fair	Carrying	Fair
NOK million	Value	value [1]	Value	value [1]
Currency and interest rate derivatives				
Interest rate swaps	-	837	-	485
Forward exchange rate contracts	48	48	110	110
Combined interest rate and currency swaps	-	340	-	470
Total	48	1 225	110	1 064
Derivatives – current assets				
NOK million				
Currency and interest rate derivatives				
Interest rate swaps	-	3	-	-
Forward exchange rate contracts	428	428	633	633
Combined interest rate and currency swaps	-	413	-	449
Total	428	844	633	1 082
Derivatives – long-term liabilities				
NOK million				
Currency and interest rate derivatives				
Interest rate swaps	791	791	1 323	1 323
Forward exchange rate contracts	353	353	1 116	1 116
Combined interest rate and currency swaps	513	513	212	212
Total	1 657	1 657	2 652	2 652

Note 19 continued

Derivatives – current liabilities

NOK million				
Currency and interest rate derivatives				
Interest rate swaps	30	30	33	33
Forward exchange rate contracts	864	864	1 793	1 793
Combined interest rate and currency swaps	347	347	367	367
Total	1 241	1 241	2 192	2 192

[1] Fair value does not include accrued interests.

Note 20 Fees paid to external auditors

Deloitte AS is the Statkraft Group's auditor. The total fees paid for auditing and other services for Statkraft AS (excluding VAT) were as follows:

NOK thousand	2016	2015
Statutory auditing	2 986	3 876
Other attestation services	451	422
Tax consultancy services	451	684
Other services [1]	1 236	2 753
Total	5 124	7 735

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

Note 21 Obligations and guarantees

Statkraft AS has guarantees and off-balance-sheet obligations totaling NOK 23 429 million. Of this, NOK 21 663 million concerns parent company guarantees.

Statkraft AS leases office buildings in Lilleakerveien 4 and 6 in Oslo and Sluppenveien 17B in Trondheim. The lessors are Mustad Eiendom AS and Kjeldsberg Sluppen ANS respectively. The lease agreements in Oslo expire in 2028 with an option to prolong for ten plus ten years. The annual lease totals NOK 96 million for the Oslo premises. The lease agreement in Trondheim expires in 2030 with an option to prolong for 5 years. The annual lease totals NOK 7 million for the Trondheim premises.

Statkraft AS has committed funding of Cetin and Kargi project in Turkey of TRY 154 million.

Note 22 Related parties

The Company's related parties are considered to be:

- Directly owned subsidiaries, see specification in note 11
- Other group companies, see specification in note 24 and 39 to the Consolidated Financial Statements
- The parent company of the Group, Statkraft SF
- Associated companies and joint arrangements, see specification in note 11
- Group management and the board of directors, see specification in note 37 to the Consolidated Financial Statements

Transactions with subsidiaries, associated companies and joint arrangements mainly relate to the following:

- Statkraft AS sells intra-group services from centralised service centres
- Dividends and group contributions are accrued through Statkraft AS' own shareholdings
- Statkraft AS is also the borrower for the majority of the Group's external borrowings and is the owner of the cash pooling facilities. The central treasury function in Statkraft AS coordinates and manages the financial risks relating to currency, interest rates and liquidity of the Group.

All intra-group transactions are conducted at market terms.

Note 22 continued

Transactions and balances within the Group are presented below:

Income statement - NOK million	2016	2015
Operating revenues		
Statkraft Energi AS	495	345
Statkraft Markets GmbH	62	45
Fosen Vind DA	56	-
Statkraft UK Ltd.	47	52
Statkraft Sverige AB	43	22
Statkraft IH Invest AS	33	56
Other	260	176
Total	996	696
Other operating expenses		
Statkraft Energi AS	89	88
Statkraft Markets GmbH	13	27
Statkraft UK Ltd.	10	7
Total	112	122
Dividend and group contribution from group companies (recognised as financial income)		
Statkraft Energi AS	2 462	6 630
Statkraft IH Invest AS	837	-
Smøla Vind 2 AS	45	5
Statkraft Industrial Holding AS	-	481
Other	59	17
Total	3 403	7133
Financial income from group companies		
Statkraft Energi AS	250	75
Statkraft Asset Holding AS	178	197
Statkraft Markets GmbH	79	80
Other	40	100
Total	547	452
Financial costs to group companies		
Statkraft IH Invest AS	76	9
Statkraft SF	32	44
Statkraft Energi AS	26	17
Total	134	70

Balance sheet - NOK million	2016	2015
Non-current assets		
Loan to Statkraft Energi AS	10 800	10 800
Loan to Statkraft Asset Holding AS	8 250	8 250
Loan to Skagerak Energi AS	1 300	-
Loan to Baltic Cable AB	390	-
Other non-current financial assets	20 740	19 050
Statkraft Markets GmbH	118	17
Statkraft Energi AS	14	37
Derivatives	132	54
Current assets		
Kjøllefjord Vind AS	17	21
Statkraft Asset Holding AS	-	785
Baltic Cable AB	-	202
Group cash pooling receivable	17	1 008
Statkraft IH Invest AS	4 099	12
Statkraft Energi AS	2 613	6 835
Statkraft Industrial Holding AS	2 193	483
Statkraft Asset Holding AS	1 752	1
Other	357	251
Short-term receivables group companies	11 013	7 582

Note 22 continued

Statkraft Markets GmbH	92	31
Statkraft Energi AS	34	42
Statkraft IH Invest AS	-	152
Other	3	9
Derivatives	129	234
Long-term liabilities		
Debt to Statkraft SF (back-to-back agreement)	400	400
Long-term interest-bearing debt	400	400
Statkraft Markets GmbH	43	13
Statkraft Energi AS	13	24
Statkraft Treasury Centre SA	-	212
Derivatives	56	249
Current liabilities		
Statkraft IH Invest AS	5 586	4 947
Statkraft Treasury Centre SA	1 930	13 937
Statkraft Markets GmbH	1 711	4 178
Statkraft Asset Holding AS	1 384	-
Statkraft Sverige AB	994	2 976
Other	4 197	7 565
Group cash pooling debt	15 802	33 603
Debt to Statkraft SF	304	11
Current interest-bearing debt to Group companies	304	11
Statkraft Markets GmbH	63	-
Statkraft Energi AS	38	64
Statkraft IH Invest AS	29	25
Statkraft Treasury Centre SA	-	99
Other	-	29
Derivatives	130	217
Statkraft SF	4 350	1 606
Statkraft Asset Holding AS	1 700	-
Other	46	50
Current interest-free liabilities to Group companies	6 096	1 656

Guarantees related to group companies are listed in note 21.

In 2016 it has been decided to transfer the operations of Statkraft Treasury Centre SA to Statkraft AS. The transfer is expected to take place during the first half of 2017. In 2016 and 2015 the share capital of Statkraft Treasury Centre SA was reduced by respectively NOK 15 196 million and NOK 28 731 million, thereby reducing the cost price of the shares in the company.

Note 23 Transactions

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

In December 2015 Statkraft AS sold its shares in the subsidiary Småkraft AS. The gain from the transaction was NOK 119 million and was booked as a financial item. Statkraft AS 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.

Note 24 Subsequent events

There haven't been any significant events after the balance sheet date.

Auditor's Report

Deloitte.

Deloitte AS
Dronning Eufemias gate 14
Postboks 221 Sentrum
NO-0103 Oslo
Norway

Tel.: +47 23 27 90 00
Fax: +47 23 27 90 01
www.deloitte.no

To the Annual Shareholders' Meeting of Statkraft AS

INDEPENDENT AUDITOR'S REPORT

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Statkraft AS (the Company). The financial statements comprise:

- The financial statements of the parent company, which comprise the balance sheet as at 31 December 2016, and the income statement and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and
- The financial statements of the group, which comprise statement of financial position at 31 December 2016, statement of comprehensive income, the statement of changes in equity and the statement of cash flow for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion:

- The financial statements are prepared in accordance with the law and regulations
- The accompanying financial statements give a true and fair view of the financial position of the parent company as at 31 December 2016, and its financial performance and its cash flows for the year then ended in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway.
- The accompanying financial statements give a true and fair view of the financial position of the group as at 31 December 2016, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Basis for Opinion

We conducted our audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, included International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company as required by laws and regulations, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

The key audit matters identified in our audit are:

- Impairments
- Valuation of energy contracts
- Final purchase price allocation related to the acquisition of additional shares in Desenvix Energias SA (Brazil) (subsequently renamed Statkraft Energias SA)
- Classification of investments made together with third parties.

Impairments

Key audit matter	How the matter was addressed in the audit
Refer to note 14 to the group financial statements for description of Statkraft's impairment process and key assessments. Refer also to note 2 for a description of Statkraft's process to determine its long-term forecasts for energy prices in the markets in which they operate and the judgements and estimates that are involved in this process. The total carrying value of intangible assets, property, plant and equipment and investments in associates and joint ventures amounted to NOK 127,3 billion at 31 December 2016. To assess recoverability of these non-current assets, management must make assumptions about future energy prices, discount rates as well as future production levels and operating costs. For projects in development, estimates must be made of the total costs to complete the projects and impacts of any delays must be assessed. These assumptions are of particular importance due to the level of uncertainties and judgements involved. The outcome of impairment assessments could vary significantly were different assumptions applied. The forecasts for energy prices are based on observable marked data for the period such data are available. For the period observable market data are not available, Statkraft applies internal models for analysing and estimating the price curve. As outlined in note 2 to the financial statements, the energy markets in which Statkraft operates are rapidly shifting, influenced by cost levels of competing technologies and fuels, regulatory changes such as the global Co2 markets, connectivity across markets, hydrology, general demand and supply, etc. Consequently, significant amount of judgement is applied in forecasting the power prices for the period observable market data are not available, and thus this period was the main area of focus of our audit procedures. Due to the level of complexity in assessing the appropriate accounting for impairment and the level of management judgement involved, this has been identified as a key audit matter.	We assessed Statkraft's impairment process and tested the design and implementation of internal controls established related to the estimates and judgments for the carrying values of intangible assets, property, plant and equipment, associates and joint ventures. We challenged management's assessment as to whether indicators of impairment exist for these assets. Indicators were identified for gas power assets in Germany, wind power assets in Norway, Brazil, Sweden and the UK, hydro power assets in Norway and Sweden, and hydro power assets under construction in Albania. For these assets we obtained the valuation models used to determine the recoverable amount. We evaluated and challenged management's judgements, in particular: • the models used by management to establish its forecasts for energy prices; • the significant assumptions on which the price forecasts are built; • capital expenditure and operating cost forecasts; • the discount rate used; and • the estimated production levels and profiles. For projects under development, we challenged the estimate of total cost to complete and tested that these agreed to project reports and approved budgets. We also assessed if any impact of project delays were considered. We made comparisons to recent analyst forecast commodity price data, reference to third party documentation where available, utilisation of Deloitte valuation specialists and consideration of sensitivity analyses. We also performed audit procedures on the mathematical integrity of the models used to determine the value in use. We also assessed the adequacy of the related disclosures in the financial statements.

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Valuation of energy contracts

Key audit matter	How the matter was addressed in the audit
Refer to note 10 to the group financial statements for description of Statkraft's portfolio of energy contracts, the process and judgments to estimate fair values, presentation in the financial statements and how judgements related to the use of physical energy volumes affect the accounting treatment. The carrying value of energy derivatives measured at fair value amounted to NOK 2,9 billion (net) at 31 December 2016. The nature and risk of the energy contracts vary. The main area of audit focus is on long-term industry contracts, long-term energy purchase contracts and origination contracts, with high degree of estimation uncertainty and judgments, involving management assessments. Key risks relate to; • identification and valuation of embedded derivatives such as currency derivatives in contracts nominated in currencies not commonly used in transactions between the buyer and seller. • judgments applied to assess whether the physical long-term contracts are for own use, • structured power contracts, and • transportation capacity contracts across borders. Due to the level of complexity in assessing the appropriate accounting for energy contracts and the level of management judgement involved, this has been identified as a key audit matter.	We assessed Statkraft's processes for identification, classification and valuation of energy contracts and tested the design and implementation of internal controls. We utilised Deloitte energy valuation specialists to assess the appropriateness of management's valuation models, and tested the mathematical integrity of the models used. We utilised Deloitte financial instrument specialists to assess the accounting treatment of embedded derivatives, particularly related to embedded currency derivatives in long-term industry contracts. We tested that Statkraft's classification of own use contracts comply with the appropriate accounting treatment. We tested a sample of fair value measurements, specifically testing and challenging the evidence supporting unobservable inputs utilised in Level 2 and 3 measurements in the fair value hierarchy as outlined in note 10 to the financial statements. We also assessed the adequacy of the related disclosures in the financial statements.

Final purchase price allocation related to the acquisition of additional shares in Desenvix Energias SA (Brazil) (subsequently renamed Statkraft Energias SA)

Key audit matter	How the matter was addressed in the audit
As disclosed in note 5 to the group financial statements, in July 2015, Statkraft acquired 35% of the shares in Desenvix Energias Renováveis S.A (subsequently renamed Statkraft Energias Renováveis S.A), increasing its total shareholding to 81.3% and by that obtaining control over the company. Refer to note 5 for further details about how the purchase price amounting to NOK 3071 million was allocated and the estimates	We assessed the design and implementation of the controls related to management's process for both the identification and valuation of acquired assets and assumed liabilities and the allocation of the purchase price. We assessed the competence of the external expert that was engaged by Statkraft to assist in the purchase price allocation.

Final purchase price allocation related to the acquisition of additional shares in Desenvix Energias SA (Brazil) (subsequently renamed Statkraft Energias SA) continues

Key audit matter	How the matter was addressed in the audit
and judgements on which the allocation relied. The allocation of the purchase price involved management's judgement and estimates about fair value of the acquired assets and assumed liabilities, and estimates and judgements about the fair value of the contingent consideration to be paid to the seller. Refer to note 33 to the group financial statements related to Statkraft's internal investigation of Statkraft Energias Renováveis, on the background of several corruption cases in the Brazilian market. Any outcome of the investigation was considered by Statkraft not to be possible to predict at the date of the final purchase price allocation. Due to the potential impact on the final purchase price allocation in 2016 from the outcome of the investigation referred to in the paragraph above, this has been identified as a key audit matter.	We used Deloitte valuation specialists to consider and evaluate the appropriateness of the methodologies applied. We challenged and tested the most important inputs to the model, including price forecasts and discount rate to external sources, and our understanding of the future prospects of the business. Forecasted cash flows were benchmarked against prior years performance of the company. We held discussions with management about the progress of the internal investigation of Statkraft Energias Renováveis up to the date of determining the final valuation and allocation of the purchase price. We also assessed the adequacy of the related disclosures in the financial statements.

Classification of investments made together with third parties

Key audit matter	How the matter was addressed in the audit
Statkraft invests in certain projects together with external partners. These investments may be held through separate legal entities or through contractual arrangements. The degree of control over the investments could have significant impact on how such investments are classified and accounted for in the financial statements of the group. In addition to investments classified as subsidiaries and consolidated, Statkraft has investments classified as: • Joint venture and Associate: Recognised in the financial statements of the group in accordance with the equity method. • Joint operation: Recognised in the financial statements of the group in accordance with a method corresponding to the proportionate	We assessed and evaluated Statkraft's processes for analysing and concluding on the classification of investments the Company undertake with partners. In this process, we assessed the design and implementation of established controls. For such investments we obtained the agreements between Statkraft and the partners and other supporting documentation and challenged management's judgements for reasonability and bias. We compared management's conclusions with our assessment of evidence with reference to IFRS. Our procedures did also include analysis of how Statkraft's judgements impacted the financial statements and how alternative classifications would have impacted the financial statements.

Classification of investments made together with third parties continues

Key audit matter	How the matter was addressed in the audit
consolidation method. • Co-owned power plants: Recognised in the financial statements of the group in accordance with a method corresponding to the propionate consolidation method. Refer to note 24 for further information about Statkraft's judgements in this area. Due to the level of complexity in assessing the appropriate accounting for such investments and the level of management judgement involved, this has been identified as a key audit matter.	We challenged management's classification of amended agreements within the Wind power segment. We also assessed the adequacy of the related disclosures in the financial statements.

Other information

Management is responsible for the other information. The other information comprises the information included in the Annual Report and statement on Corporate Governance, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors and the President and CEO for the Financial Statements

The Board of Directors and the President and CEO (management) are responsible for the preparation and fair presentation of the financial statements of the parent company in accordance with Norwegian Accounting Act and accounting standards and practices generally accepted in Norway, and for the preparation and fair presentation of the financial statements of the group in accordance with International Financial Reporting Standards as adopted by the EU, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's and the group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern. The financial statements of the parent company use the going concern basis of accounting insofar as it is not likely that the enterprise will cease operations. The financial statements of the group use the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report

that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, included International Standards on Auditing (ISAs), we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error. We design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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Report on Other Legal and Regulatory Requirements

Opinion on the Board of Directors' report

Based on our audit of the financial statements as described above, it is our opinion that the information presented in the Board of Directors' report and in the statements on Corporate Governance and Corporate Social Responsibility concerning the financial statements, the going concern assumption and the 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, 15 February 2017
Deloitte AS

Ingebret G. Hisdal
State Authorised Public Accountant (Norway)

Corporate Responsibility

Ambitions and goals for corporate responsibility material aspects

All aspects of corporate responsibility are important for Statkraft. However, a materiality analysis was conducted in 2015 with the aim of identifying the most significant corporate responsibility aspects for Statkraft. The materiality analysis was conducted according to the Global Reporting Initiative (GRI G4) standards, including an assessment of stakeholders' expectations. Six material aspects were identified as a result of this analysis. In terms of reporting, these material aspects are given a more detailed and comprehensive review than other aspects – see the full Corporate Responsibility Report posted on www.statkraft.com.

Material aspect	Ambition statement	Goals towards 2020
Safety and safeguarding of people	Statkraft actively prevents harm or injuries to people through a systematic approach and a value-based safety culture	→ Ensure that managers at all levels provide safety leadership → Strengthen the focus on high risk activities and preventative measures → Utilize a balance of leading and lagging indicators to measure and guide performance → Improve processes and capabilities for security management → Ensure that learnings from incidents are applied corporate wide
Human rights	Statkraft acts according to the UN Guiding Principles on Business and Human Rights	→ Follow developments related to increasing international and national expectations related to human rights management (human rights due diligence process) and improve our practices accordingly, starting by major and international projects → Ensure adequate implementation of training program on human rights → Strengthen and make better known our grievance mechanisms, including at project level → Strengthen stakeholder dialogue and communication, including on our salient human rights
Water management	Statkraft is recognised as a company with a responsible and sustainable water management practice	→ Ensure proactive and adequate handling and systematic follow-up of water levels, flow-limits and hydropeaking requirements in our concessions and self-restrictions → Demonstrate sustainable water management based on improved understanding of the effects of climate change on water availability (e.g. scarcity and flood control) in all areas of operation
Biodiversity	Statkraft supports a precautionary approach to biodiversity challenges, and facilitates ecological resilience in our areas of impact	→ Enhanced tracking and communication of performance on systematic handling of biodiversity, e.g. red-list species of flora and fauna, critical habitats and presence in legally protected areas → Increased understanding of our impacts on biodiversity, and adequate handling in project development and operation
Climate change mitigation, adaptation and preparedness	Statkraft contributes to the transition to a more climate friendly and sustainable energy system and seeks continuously to maintain a low climate footprint	→ Further the understanding of the impact of national and international climate policies on our business and, as appropriate, provide Statkraft's perspectives, including on carbon pricing, to relevant stakeholders → Improve our market and strategic analysis in order to incorporate climate change induced changes → Further common understanding how climate change affects all our assets and continue to evaluate new business opportunities accordingly, based on company-wide climate assumptions → Contribute to scientific methods for assessing the climate impact of our business
Business ethics and anti-corruption	Statkraft actively prevents corruption and unethical practices in all business activities	→ All employees complete training in business ethics with focus on anti-corruption → Continue to strengthen the culture of reporting of concerns and breaches → Continue to ensure adequate corporate-wide handling of anti-corruption and business ethics risks, with particular focus on high risk processes → Improve the adequacy of how business ethics is reflected in requirements and controls for key business processes

Corporate Responsibility Statement

Power generation and district heating production

Installed capacity per technology and geography [1]	Unit of measurement	2016	2015	2014
Installed capacity power generation	MW	17 418	16 778	16 401
Of which hydropower	MW	14 075	13 464	13 273
Of which small-scale hydropower [2]	MW	0	0	147
Of which wind power	MW	703	647	488
Of which gas power [3]	MW	2 600	2 600	2 600
Of which bio power	MW	40	67	40
Installed capacity, district heating	MW	820	838	760
Installed capacity per geography, power generation	MW	17 418	16 778	16 401
Norway	MW	12 041	11 711	11 823
Other Nordic countries	MW	1 606	1 587	1 511
Other European countries	MW	2 971	2 863	2 761
Rest of the world	MW	800	617	305
Installed capacity per geography, district heating	MW	820	838	760
Norway	MW	657	675	596
Other Nordic countries	MW	164	164	164

Installed capacity per technology and geography [1]	Unit of measurement	2016	2015	2014
Installed capacity per technology, power generation				
Hydropower	%	80.8	80.2	80.9
Wind power	%	4.0	3.9	3.0
Gas power [3]	%	14.9	15.5	15.9
Bio power	%	0.2	0.4	0.2
Installed capacity per geography, power generation				
Norway	%	69.1	69.8	72.1
Other Nordic countries	%	9.2	9.5	9.2
Other European countries	%	17.1	17.1	16.8
Rest of the world	%	4.6	3.7	1.9
Installed capacity per geography, district heating				
Norway	%	80.1	80.5	78.4
Other Nordic countries	%	19.9	19.5	21.6

Capacity under development per technology and geography [1], [4]	Unit of measurement	2016	2015	2014
Capacity under development, power generation	MW	729	909	1 262
Of which hydropower	MW	207 [5]	873	1 016
Of which small-scale hydropower [2]	MW	0	0	13
Of which wind power	MW	522	36	247
Capacity under development, district heating	MW	0	21	23
Capacity under development per geography, power generation	MW	729	909	1 262
Norway	MW	545	100	158
Other Nordic countries	MW	0	0	126
Other European countries	MW	184 [5]	809	859
Rest of the world	MW	0	0	119
Capacity under development per geography, district heating	MW	0	21	23
Norway	MW	0	21	23
Other Nordic countries	MW	0	0	0

Capacity under development per technology and geography [1], [4]	Unit of measurement	2016	2015	2014
Capacity under development per technology, power generation				
Of which hydropower	%	28,4 [5]	96.0	80.5
Of which wind power	%	71.6	4.0	19.6
Capacity under development per geography, power generation				
Norway	%	74.8	11.0	12.5
Other Nordic countries	%	0	0	10.0
Other European countries	%	25,2 [5]	89.0	68.1
Rest of the world	%	0	0	9.4
Capacity under development per geography, district heating				
Norway	%	-	100.0	100.0
Other Nordic countries	%	-	0	0

Power generation and district heating production per technology and geography [1]	Unit of measurement	2016	2015	2014
Power generation	TWh	66.0	56.3	56.0
Of which hydropower	TWh	61.2	53.1	53.4
Of which small-scale hydropower [2]	TWh	0.0	0.4	0.3
Of which wind power	TWh	2.3	2.5	1.7
Of which gas power [3]	TWh	2.2	0.5	0.5
Of which bio power	TWh	0.3	0.3	0.3
District heating	TWh	1.1	1.1	1.0
Renewable power generation [6]	%	96.7	99.1	99.1
Renewable district heating [6]	%	91.8	94.7	83.6
Power generation per geography	TWh	66.0	56.3	56.0
Norway	TWh	52.8	44.4	46.4
Other Nordic countries	TWh	6.1	7.2	5.6
Other European countries	TWh	3.2	1.3	1.8
Rest of the world	TWh	3.9	3.4	2.2
District heating per geography	TWh	1.1	1.1	1.0
Norway	TWh	0.9	0.8	0.8
Other Nordic countries	TWh	0.2	0.2	0.2

Power generation and district heating production per technology and geography [1]	Unit of measurement	2016	2015	2014
Power generationper technology				
Hydropower	%	92.7	94.3	95.4
Wind power	%	3.5	4.4	3.0
Gas power [3]	%	3.3	0.9	0.9
Bio power	%	0.5	0.5	0.5
Power generation per geography				
Norway	%	80	78.9	82.9
Other Nordic countries	%	9.2	12.9	10.0
Other European countries	%	4.8	2.3	3.2
Rest of the world	%	5.9	6.0	3.9
District heating per geography				
Norway	%	81.8	80.1	79.5
Other Nordic countries	%	18.2	19.9	20.5

[1] Includes Statkraft's shareholdings in subsidiaries where Statkraft has a majority interest.
[2] Installed capacity <10 MW.
[3] Includes the jointly controlled Herdecke (Germany) and Kårstø (Norway) power plants.
[4] Includes projects with an investment decision.
[5] The Cetin project is no longer included in the figures, as it is currently suspended.
[6] Non-renewable production covers gas power and share of district heating based on fossil fuel. From 2015 the waste used in the incineration plant in Trondheim is defined as input for waste heat and therefore counted as renewable.

Climate

Greenhouse gas emissions	Unit of measurement	2016	2015	2014
Emissions of CO_2 equivalents, consolidated activities [1]	Tonnes	773 400	258 600	313 300
Of which from gas power plants	Tonnes	722 700	188 800	197 300
Of which from district heating plants [2]	Tonnes	24 900	13 000	64 000
Of which from SF_6 emissions	Tonnes	2 700	2 300	5 500
Of which from halon emissions	Tonnes	1 000	0	0
Of which from fuel consumption [3]	Tonnes	19 100	50 900	44 500
Of which from business travel [4]	Tonnes	3 000	3 600	2 000
Emissions of CO_2 equivalents [5] from affiliated gas power plants	Tonnes	85 600	26 000	39 600
SF_6 emissions	kg	120	101	267
Halon emissions	kg	140	0	0

[1] Statkraft's ownership is >50%.
[2] Fossil share of emissions. From 2015 the waste used in the incineration plant in Trondheim is defined as input for waste heat and therefore counted as renewable with zero emissions of greenhouse gases.
[3] CO_2 from fuel consumption from the Group's machinery and vehicles.
[4] Comprises air travel and mileage reimbursements for private vehicle use in the Norwegian operations.
[5] Statkraft's share.

Relative greenhouse gas emissions [1]	Unit of measurement	2016	2015	2014
CO_2-equivalent emissions per MWh generated, total	kg/MWh	12	5 [2]	6
CO_2-equivalent emissions per MWh generated, gas power	kg/MWh	367	408	473
CO_2-equivalent emissions per MWh generated, district heating	kg/MWh	23	12 [2]	64

[1] Includes Statkraft's share of production and direct fossil CO_2 emissions from the production process. Includes also Statkraft's share of production and emissions of CO_2 in the jointly controlled power plants Herdecke (Germany) and Kårstø (Norway).
[2] From 2015 the waste used in the incineration plant in Trondheim is defined as input for waste heat and therefore counted as renewable with zero emissions of greenhouse gases.

Allocated CO_2-quotas	Unit of measurement	2016	2015	2014
Allocated CO_2-quotas, consolidated activities [1]	Tonnes	42 400	49 800	59 700
Of which Norway	Tonnes	21 100	23 600	26 200
Of which other Nordic countries	Tonnes	21 300	26 200	33 500

[1] Statkraft's ownership is >50%.

Interventions on nature and biodiversity

Impacts on watercourses [1]	Unit of measurement	2016	2015	2014
Impacted river courses with:				
Anadromous fish	Number	46	46	46
Catadromous fish	Number	5	5	2
Impacted national salmon rivers	Number	13	13	12
Impacted protected rivers	Number	8	8	8

[1] Impact entails change of waterflow, water levels or other living conditions for fish.

Fish cultivation	Unit of measurement	2016	2015	2014
Restocking of fish and smolt [1]	Number	916 700	523 000	1 799 200
Of which in Norway	Number	485 400	139 600	-
Of which in other Nordic countries	Number	403 300	376 400	-
Of which in other European countries	Number	28 000	7 000	-
Of which in the rest of the world	Number	0	0	-
Stocking of fish roe [2]	Number	471 800	1 080 000	936 400

[1] Includes salmon, inland trout, sea trout, grayling and eel.
[2] Includes salmon in Norway and eel in Sweden.

Red list species (fauna) [1, 2]	Unit of measurement	2016	2015
Red list species with habitat in areas impacted by Statkraft's operations in:			
Norway	Number	33	2 [3]
Other Nordic countries	Number	6 [4]	6 [4]
Other European countries	Number	2	0
Rest of the world	Number	23 [5]	61

[1] This indicator was introduced in 2015.
[2] Includes species defines as red list species by either International Union for Conservation of Nature (IUCN) or national authorities.
[3] Includes red list species with habitat areas impacted by Skagerak Energi's operations.
[4] Includes red list species with habitat areas impacted by Power Generation's operations in Sweden.
[5] Reduction from 2015 largely due to revised analysis of red list species impacted by Statkraft's operations.

Operational sites in, or adjacent to, protected areas [1, 2]	Unit of measurement	2016	2015
Operational sites in, or adjacent to, protected areas	Number	21	19
Of which in Norway	Number	16	14
Of which in other Nordic countries	Number	4	4
Of which in other European countries	Number	1	1
Of which in the rest of the world	Number	0	0

[1] This indicator was introduced in 2015.
[2] Limited to natural parks and nature or wildelife reserves.

Energy and resource consumption

Consumption	Unit of measurement	2016	2015	2014
Electricity	GWh	918	1 031	899
Of which pumped-storage power	GWh	566	858	668
Of which electric boilers for district heating	GWh	63	35	76
Of which other operations	GWh	289	138	155
Fossil fuel				
Natural gas, gas-fired power plants	Mill. Nm^3	349	91	95
Fuel gas, district heating plants	Tonnes	6 722	3 506	3 712
Fuel oil, district heating plants	Tonnes	1 556	3 438	1 817
Engine fuel [1]	Tonnes	6 039	14 502	13 223
Other fuel				
Waste for district heating plants	Tonnes	219 400	227 700	205 400
Waste for bio power plants	Tonnes	279 200	110 000	0
Bio fuel	Tonnes	207 700	154 200	409 700
Process water [2]	m^3	1 466 800	349 100	350 000

[1] Includes consumption of fuel for own equipment and machinery.
[2] Includes cooling water in gas fired power plants, bio power plants and district heating plants.

Waste

Waste	Unit of measurement	2016	2015	2014
Hazardous waste	Tonnes	17 000	18 900	19 400
Of which from waste incineration plants [1]	Tonnes	6 800	6 600	6 600
Of which from bio power plants	Tonnes	9 400	8 300	11 200
Of which other hazardous waste	Tonnes	850	3 980	1 750
Other waste	Tonnes	50 000	54 500	48 600
Of which separated waste	Tonnes	48 600	52 500	46 600
Of which residual non-hazardous waste	Tonnes	1 300	2 000	2 000

[1] Consists of filter dust and filter cake.

Environment

Environmental assessment [1]	Unit of measurement	2016	2015	2014
Environmental assessment result, total	Rating	B+	B+	B
Environmental management	Rating	B	B	B
Products and services	Rating	B	B	B
Eco-efficiency	Rating	A	A	A-

[1] Environmental assessement from the rating company Oekom Research AG. Rating from E- to A+ (highest), where rating B- and above is considered as leading by Oekom Research.

Environmental incidents	Unit of measurement	2016	2015	2014
Serious environmental incidents [1]	Number	0	0	0
Less serious environmental incidents [2]	Number	233	228	159

[1] An incident that results in permanent or severe environmental damage (restitution time>1 year).
[2] An incident that causes a negative environmental impact, but without permanent or severe environmental damage (restitution time<1 year).

Most of the less serious environmental incidents in 2016 were related to short-term breaches of the concession terms for water management, and minor oil spills to water and land. The less serious environmental incidents also included situations where birds collided with wind turbines, resulting in 14 dead white-tailed eagles.

Judicial sanctions, environment	Unit of measurement	2016	2015	2014
Material judicial sanctions for non-compliance with environmental legislation	Number	0	0	0
Fines for non-compliance with environmental legislation	NOK million	0	0	0

Contribution to society

Value creation	Unit of measurement	2016	2015	2014
Gross operating revenues	NOK million	50 987	53 094	52 254
Paid to suppliers for goods and services [1]	NOK million	34 261	37 655	29 942
Gross value added	NOK million	16 727	15 439	22 312
Depreciation, amortisation and impairment	NOK million	8 260	6 401	4 071
Net value added	NOK million	8 467	9 038	18 241
Financial income	NOK million	380	421	859
Share of profit from associates	NOK million	0	683	661
Minority interests	NOK million	-62	-598	684
Values for distibution	NOK million	8 909	10 740	19 077

[1] Includes energy purchases, transmission costs and operating expenses.

Distribution of value created	Unit of measurement	2016	2015	2014
Employees				
Gross salaries and benefits	NOK million	3 202	3 107	2 667
Lenders/owners				
Interest	NOK million	-1 757	5 740	7 143
Dividend [1]	NOK million	0	1 604	5 600
Taxes [2]	NOK million	7 581	3 665	6 059
The company				
Change in equity	NOK million	-117	-3 376	-2 392
Total wealth distributed	NOK million	8 909	10 740	19 077

[1] Includes dividend and Group contribution from Statkraft AS to Statkraft SF.
[2] Includes taxes, property tax, licence fees and employers' contribution.

Taxes [1]	Unit of measurement	2016	2015	2014
Total	NOK million	4 764	2 825	3 546
Of which in Norway	NOK million	4 366	2 390	2 959
Of which in other Nordic countries	NOK million	8	100	165
Of which in other European countries	NOK million	293	279	420
Of which in the rest of the world	NOK million	97	56	3

[1] Taxes payable in the balance sheet.

Stability of electricity supply

Power outage	Unit of measurement	2016	2015	2014
Power outage frequency (SAIFI) [1] for Skagerak Nett	Index	1.14	1.50	1.75
Average power outage duration (SAIDI) [2] for Skagerak Nett	Index	102.4	92.4	115.8

[1] System average interruption frequency index (measured based on IEEE standard).
[2] System average interruption duration index (measured based on IEEE standard).

Reported concerns (whistleblowing)

Reported concerns (whistleblowing) [1]	Unit of measurement	2016
Total number of reported concerns [2]	Number	46
Of which related to business ethics and anti-corruption	Number	23
Investigations initiated by Corporate Audit in the reporting year	Number	4

[1] The scope of the whistleblowing procedures relates to the full scope of Statkraft's Code of Conduct, e.g. human rights, environment, health and safety, business ethics and anti-corruption.

[2] The format for this indicator was changed in 2016, but historical data related to whistleblowing is available and has been published in Statkraft's annual reports since 2008.

When a reported concern is received, a risk assessment is done in order to decide how to follow up the concern. Most of the reported concerns are handled by the respective business areas according to Statkraft's procedures for handling of reported concerns. Concerns with potentially high consequences for the Statkraft Group are handled by Corporate Audit. In cases where a formal investigation is required, this is the responsibility of the Head of Corporate Audit. The four investigations initiated in 2016 were related to business ethics or anti-corruption.

Business ethics and anti-corruption

Training on anti-corruption [1]	Unit of measurement	2016	2015
Employees that have received training on anti-corruption in the last two years	Percentage	100	92
Employees in senior management positions that have received training on anti-corruption in the last two years	Percentage	100	90
Statkraft's Board members that have received training on anti-corruption in the last two years [2]	Yes/No	Yes	-

[1] This indicator was introduced in 2015 and covers the Group, excluding Skagerak Energi and Fjordkraft.

[2] This indicator was introduced in 2016.

Judicial sanctions, business ethics and anti-corruption [1]	Unit of measurement	2016	2015	2014
Judicial sanctions	Number	0	0	0
Fines	NOK million	0	0	0

[1] Material judicial sanctions for accounting fraud, price cooperation and corruption.

Human rights

Consultations with indigenous peoples [1]	Unit of measurement	2016	2015
Number of projects with ongoing consultations involving rights of indigenous peoples	Number	10 [2]	9 [2]

[1] This indicator was introduced in 2015.

[2] Including ongoing consultations in Norway, Sweden and Chile.

Judicial sanctions, human rights [1]	Unit of measurement	2016	2015	2014
Judicial sanctions	Number	0	0	0
Fines	NOK million	0	0	0

[1] Material judicial sanctions for discrimination, forced labour, child labour or violations of the freedom of association, indigenous peoples rights or labour rights.

Labour practices

Employees	Unit of measurement	2016	2015	2014
Employees 31.12	Number	3 804	4 119	3 731
Of which in Norway	Number	2 297	2 327	2 470
Of which in other Nordic countries	Number	224	222	216
Of which in other European countries	Number	732	725	663
Of which in the rest of the world	Number	551	845	382
Full-time employees 31.12	%	96	97	97
Staff turnover rate [1]	%	6.6	4.6	4.0
Service time				
Average service time	Years	11.6	10.8	11.8
Average service time for employees resigned or dismissed [1]	Years	9.7	6.6	11.4
Apprentices employed 31.12	Number	59	61	75
Trainees employed 31.12	Number	15	15	14
Nationalities represented among Statkraft's employees	Number	43	44	45

[1] Excluding retirements, and not including ENEX in Brazil (2016).

Gender equality	Unit of measurement	2016	2015	2014
Percentage of women				
Total	%	25	23	24
In Norway	%	27	26	25
In other Nordic countries	%	20	20	20
In other European countries	%	24	25	24
In the rest of the world	%	19	14	16
In management positions	%	22	23	22
In Norway	%	25	26	24
In other Nordic countries	%	12	15	12
In other European countries	%	19	20	21
In the rest of the world	%	18	17	16
In Corporate Management	%	29	29	14
In Statkraft's Board of Directors	%	44	50	44
Among employees recruited in the reporting year	%	24	26	25
Among managers recruited in the reporting year	%	19	16	14
Among full-time employees	%	23	22	23
Among part-time employees	%	70	55	57

Equal salary	Unit of measurement	2016	2015	2014
Salary ratio among employees [1]	Ratio	0.90	0.97	0.90
In Norway	Ratio	0.93	0.96	0.93
In other Nordic countries	Ratio	0.96	1.05	0.98
In other European countries	Ratio	0.76	0.85	0.70
In the rest of the world	Ratio	0.94	1.07	1,02
Salary ratio among managers [1]	Ratio	0.90	0.91	0.90
In Norway	Ratio	0.97	0.96	0.94
In other Nordic countries	Ratio	0.84	0.91	0.70
In other European countries	Ratio	0.73	0.77	0.74
In the rest of the world	Ratio	0.93	0.89	1.15

[1] Average salary for women in relation to average salary for men.

Statkraft as employer	Unit of measurement	2016	2015	2014
Organisation and leadership evaluation [1]				
Result	Scale 0-100	[2]	73	74
Response rate	%	[2]	88	87
Employees who have completed the performance and career development review	%	-	81	88
Ranking as preferred employer [3] among				
Business students	Ranking	60	53	48
Technology students	Ranking	6	7	7
Business professionals	Ranking	31	37	28
Technology professionals	Ranking	6	8	18

[1] From Statkraft's internal annual organisation and leadership evaluation survey. Statkraft's score can be compared with the European Employee Index Norway 2015 result of 70.
[2] Evaluation postponed to 2017.
[3] Ranking among final-year students and professionals, as defined and measured in the annual Universum Graduate Survey for Norway and the Universum Professional Survey for Norway.

Health and safety

Fatalities	Unit of measurement	2016	2015	2014
Consolidated operations [1]				
Employees	Number	0	0	0
Contractors	Number	1	0	3
Third party	Number	0	0	0
Associates [2]				
Employees	Number	0	0	0
Contractors	Number	0	0	1
Third party	Number	0	0	0

[1] Activities where Statkraft has > 50% ownership.
[2] Activities where Statkraft has 20 - 50% ownership

The fatal accident in 2016 occurred in the La Oroya hydropower plant in Peru. La Oroya is 100% owned by Statkraft IH Invest AS, where Statkraft holds an ownership of 81.9%.

Serious injuries [1), 2)]	Unit of measurement	2016	2015
Injuries with serious consequences	Number	5	6

[1] Includes activities where Statkraft has ≥ 20% ownership.
[2] This indicator was introduced in 2015.

Serious incidents and hazardous conditions [1), 2)]	Unit of measurement	2016	2015
Accidents with, or with potential for, serious consequences	Number	19	12
Near-accidents with potential for serious consequences	Number	21	27
Hazardous conditions with potential for serious consequences	Number	27	22

[1] Includes activities where Statkraft has ≥ 20% ownership.
[2] This indicator was introduced in 2015.

Injuries [1)]	Unit of measurement	2016	2015	2014
Employees				
Lost-time injuries (LTI) [2]	Number	19	41	43
Lost-time injuries per million hours worked	LTI rate	1.6	3.3	3.0
Total recordable injuries (TRI) [3]	Number	71	70	80
Total recordable injuries per million hours worked	TRI rate	5.6	5.6	5.6
Lost days [4]	Number	491	781	566
Lost days per million hours worked	Lost-days rate	40	63	39
Contractors				
Lost-time injuries (LTI) [2]	Number	61	63	63
Lost-time injuries per million hours worked	LTI rate	4.5	3.6	3.7
Total recordable injuries (TRI) [3]	Number	57	106	90
Total recordable injuries per million hours worked	TRI rate	4.2	6.0	5.4
Third parties				
Injuries [5]	Number	0	0	2
Statkraft, total				
Lost-time injuries per million hours worked	LTI rate	3.1	3.5	3.4
Total recordable injuries per million hours worked	TRI rate	4.9	5.9	5.5

[1] Includes activities where Statkraft has ≥ 20% ownership.
[2] Work-related injuries which have resulted in absence extending beyond the day of the injury.
[3] Work-related injuries, with and without absence. Includes injuries which resulted in absence, medical treatment or need for alternative work assignments.
[4] Number of days of recorded absence due to work-related injuries.
[5] Recorded injuries requiring treatment by a doctor.

Sick leave [1)]	Unit of measurement	2016	2015	2014
Sick leave, total	%	3.0	3.0	2.8
Of which short-term absence (16 days or less)	%	1.5	1.4	1.3
Of which long-term absence (more than 16 days)	%	1.5	1.6	1.5

[1] Sick leave due to illness or injuries, as percentage of normal working hours.

Judicial sanctions, health and safety	Unit of measurement	2016	2015	2014
Material judicial sanctions for non-compliance with health and safety legislation	Number	0	0	0
Fines for non-compliance with health and safety legislation	NOK milion	0	0	0

Auditor's Statement

Deloitte.

Deloitte AS
Dronning Eufemias gate 14
Postboks 221 Sentrum
NO-0103 Oslo
Norway

Tel.: +47 23 27 90 00
Fax: +47 23 27 90 01
www.deloitte.no

To the management of Statkraft AS

INDEPENDENT AUDITOR'S REPORT ON THE STATKRAFT CORPORATE RESPONSIBILITY REPORT 2016

We have reviewed certain aspects of Statkraft's Corporate Responsibility reporting for 2016 ("the Report") and related management systems and procedures. The Report includes the Corporate Responsibility chapter within the Board of Directors Report, the Corporate Responsibility Statement 2016 and the Corporate Responsibility Report 2016, presented under Statkraft Annual Report 2016 on the Internet (www.annualreport2016.statkraft.com). The Report is the responsibility of and has been approved by the management of Statkraft AS ("the Company"). Our responsibility is to draw a conclusion based on our review.

We have based our work on the international standard ISAE 3000 "Assurance Engagements other than Audits or Reviews of Historical Financial Information", issued by the International Auditing and Assurance Standards Board. The objective and scope of the engagement were agreed with the management of the Company and included those subject matters on which we have concluded below.

Based on an assessment of materiality and risks, our work included analytical procedures and interviews as well as a review on a sample basis of evidence supporting the subject matters. We have performed interviews with management and individual resources responsible for corporate responsibility aspects at corporate and at selected reporting units represented by the head offices of the business areas International Power and Power Generation, as well as at the head office of Skagerak Energi AS.

We believe that our work provides an appropriate basis for us to provide a conclusion with a limited level of assurance on the subject matters. In such an engagement, less assurance is obtained than would be the case had an audit-level engagement been performed.

Conclusions

Based on our review, nothing has come to our attention causing us not to believe that:

- Statkraft has established management processes and systems to manage material aspects related to corporate responsibility, as described in the Report.
- Statkraft has applied procedures to identify, collect, compile and validate information for 2016 to be included in the Report, as described in the Report. Information presented for 2016 is consistent with data accumulated as a result of these procedures and appropriately presented in the Report.
- The management systems referred to above have been implemented and locally adopted as necessary at the reporting units that we have visited, as specified above. Information for 2016 from these units has been reported according to the procedures noted above and is consistent with source documentation presented to us.
- Statkraft applies a reporting practice for its corporate responsibility reporting aligned with the Global Reporting Initiative (GRI) Sustainability Reporting Guidelines (version G4) reporting principles and the reporting fulfils in accordance level Core according to the GRI guidelines. The GRI Index presented in the Report appropriately reflects where information on each of the elements and indicators of the GRIs guidelines is to be found within the Statkraft Annual Report 2016.

Oslo, 15 February 2017
Deloitte AS

Ingebret G. Hisdal
State Authorized Public Accountant (Norway)

Frank Dahl
Deloitte Sustainability

In October 2016, Statkraft reopened Nedre Røssåga hydropower plant in Nordland after an extensive renovation and expansion. The power pant is now among Norway's largest and will produce 2.15 TWh of electricity in a normal year, equivalent to 1.6 percent of Norway's total power generation.

Alternative Performance Measures

As defined in ESMAs guideline on alternative performance measures (APM), an APM is understood as a financial measure of historical or future financial performance, financial position, or cash flows, other than a financial measure defined or specified in the applicable financial reporting framework.

Statkraft uses the following APMs:

EBITDA is defined as operating profit before depreciation, amortisation and impairment.

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 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 for periodic performance.

Relevant significant items in the period:

- **Impairment** is excluded from underlying operating profit since they affect 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 from 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.

Equity accounted investments are not adjusted for unrealised value of energy contracts and significant items.

Capital employed and **Net interest bearing debt** are defined in the table below:

ALTERNATIVE PERFORMANCE MEASURES

NOK million	2016	2015
CAPITAL EMPLOYED		
Intangible assets	**4 533**	5 822
Property, plant and equipment	**103 303**	111 207
Inventories	**2 653**	1 044
Receivables	**10 219**	10 675
- Receivables related to cash collateral	**-1 226**	-2 477
- Short-term loans to equity accounted investments	**-381**	-335
Provisions	**-19 195**	-21 228
Taxes payable	**-4 764**	-2 825
Other interest-free liabilities	**-11 918**	-10 781
- Group contribution allocated, not paid	**2**	2
Capital employed	**83 225**	91 104
Average capital employed [1]	**87 757**	87 112
NET INTEREST BEARING DEBT		
Long-term interest bearing liabilities	**31 886**	37 410
Short-term interest bearing liabilities	**8 407**	7 196
Cash and cash equivalents (including restricted cash)	**-7 308**	-9 056
Short-term financial investments	**-532**	-513
Net interest bearing debt	**32 453**	35 036

[1] Average capital employed is based on the average for the last four quarters.

Statkraft has decided to change the definitions of its underlying line items with effect from the first quarter in 2017. The main change relates to unrealised value changes from energy derivatives. From 2017, the only unrealised items that will be adjusted for relate to embedded derivatives in energy contracts and derivatives acquired for risk reduction purposes where the related item is carried at cost.

With regards to significant adjusted items, Statkraft will adjust for:

- impairment charges and reversals of impairment charges
- gain/loss from acquisition/divestment of business activities

Finally, Statkraft has also decided to amend the definition of Capital Employed.

These changes will be implemented in the first quarter, and presented in the first quarterly report for 2017. Comparative figures will be restated. The effects of these changes are not yet calculated.

Financial key figures

Statkraft AS Group	Unit	2016	2015	2014	2013	2012
From the income statement						
Share of profit/loss in equity accounted investments	NOK mill	474	683	661	1 101	871
Gross operating revenues	NOK mill	50 987	53 777	52 915	50 665	38 421
Net operating revenues	NOK mill	20 621	20 773	26 466	25 347	19 223
EBITDA	NOK mill	11 346	10 898	18 292	17 148	11 363
Operating profit	NOK mill	3 086	4 497	14 221	14 103	6 430
Net financial items	NOK mill	2 137	-5 318	-6 283	-11 592	2 341
Profit/loss before tax	NOK mill	5 223	-821	7 937	2 511	8 771
Net profit/loss	NOK mill	-179	-2 369	3 892	208	4 551
Items excluded from underlying business						
Unrealised changes in value energy contracts*	NOK mill	-2 413	609	2 396	3 288	-1 030
Non-recurring items	NOK mill	-4 741	-3 610	2 053	125	-2 224
Underlying business**						
Gross operating revenues	NOK mill	53 804	51 262	49 009	48 559	39 781
Net operating revenues	NOK mill	23 033	19 938	21 263	21 646	20 078
EBITDA	NOK mill	13 863	10 852	12 793	13 545	12 218
Operating profit	NOK mill	10 240	7 498	9 772	10 690	9 684
From the balance sheet						
Property, plant & equipment and intangible assets	NOK mill	107 836	117 029	102 638	104 779	91 788
Investments in associates	NOK mill	19 438	19 388	19 027	16 002	15 924
Other assets	NOK mill	39 357	40 488	46 152	32 906	38 195
Total assets	NOK mill	166 630	176 905	167 817	153 687	145 907
Total equity	NOK mill	83 519	88 340	88 059	71 107	62 350
Interest-bearing debt	NOK mill	40 293	44 606	36 744	40 377	40 625
Capital employed, basic [1]	NOK mill	84 604	91 089	82 244	82 985	71 282
Cash flow						
Net change in cash flow from operating activities	NOK mill	8 371	8 639	6 898	8 106	10 290
Dividend for the year to owner (incl. non-controlling interests)	NOK mill	-226	5 157	74	3 094	4 293
Depreciation, amortisation and impairment	NOK mill	8 260	6 401	4 071	3 045	4 933
Cash and cash equivalents	NOK mill	7 308	9 056	12 663	7 685	5 440
Unused drawing rights	NOK mill	13 031	15 200	14 200	14 200	14 205
Investments						
Maintenance investments [2]	NOK mill	1 763	1 970	2 368	1 980	1 811
Investments in increased capacity, fixed assets [3]	NOK mill	3 736	7 797	7 525	11 303	7 327
Investments in shareholdings [4]	NOK mill	158	3 790	1 287	62	2 583
Financial variables						
Interest-bearing debt ratio [5]	%	32.5	33.6	29.4	36.2	39.5
Equity ratio [6]	%	50.1	49.9	52.5	46.3	42.7
Long-term rating - Standard & Poor's		A-	A-	A-	A-	A-
Long-term rating - Moody's		Baa1	Baa1	Baa1	Baa1	Baa1
Key figures, accounts						
EBITDA-margin, accounts [7]	%	22.3	19.2	33.7	32.4	27.9
EBITDA-margin, underlying [7]	%	25.8	20.1	25.1	26.2	29.2
ROACE before tax [8]	%	11.1	7.9	11.0	12.5	13.0
Net return on investments in associated companies [9]	%	2.4	3.5	3.5	6.9	5.5
Tax rate [10]	%	103.4	-188.5	51.0	91.7	48.1
Key figures, upstream business						
Production cost hydropower*** [11] [12]	Øre/kWh	9.1	8.1	7.8	7.5	7.8
Production capacity****	TWh	61.3	58.7	53.7	51.2	50.4
Production, actual	TWh	66.0	56.3	56.0	55.9	60.0
Installed capacity*****	MW	18 330	17 758	17 161	16 630	16 055
Key figures, downstream business******						
Energy delivered through grid to end-user [13]	TWh	7.0	7.0	6.9	7.3	7.2
Distribution grid capital (NVE capital) [14]	NOK mill	3 456	3 285	2 915	2 743	2 685
Total volume supplied, electricity customers	TWh	14.6	13.3	12.6	13.0	13.2
Distric heating supplied	TWh	0.9	0.8	0.8	1.0	1.0
Market variables						
System price, Nord Pool	EUR/MWh	26.9	21.0	29.6	38.1	31.3
Spot price, European Energy Exchange	EUR/MWh	29.0	31.7	32.8	37.8	42.6
Electricity consumption in the Nordic market	TWh	386	379	375	382	385
Electricity generated in the Nordic market, actual	TWh	389	394	385	380	399
Statkraft`s share of Nordic electricity production	%	15.1	13.1	13.5	13.3	15.0

In the 2016 annual report the line item Share of profit/loss is equity accounted investments is replaced in the profit and loss statement. The line item is now a part of gross operating revenues.
The comparable figures are restated.

* Exclusive of trading and origination

** Adjusted for unrealised changes in values of energy contracts and material non-recurring items

*** Including consolidated companies (not associates) in the Nordics, Germany and the UK

**** Exclusive of gas power and district heating

***** Includes the share of consolidated companies and the associated gas power companies Herdecke and Naturkraft

****** Key figures include consolidated companies (not associates) in the Nordics

1. Property, plant & equipment
+ intangible assets
+ receivables
+ inventories
- provisions for liabilities
- taxes payable
- other interest-free liabilities
+ provisions for dividend payable (NGAAP)

2. Book value of maintenance investments to sustain current generating capacity

3. Book value of investments to expand generating capacity

4. Purchase of shares as well as equity increase in other companies

5. Interest-bearing debt * 100 / Interest-bearing debt + equity

6. Total equity * 100 / Total assets

7. Operating profit before depreciation * 100 / Gross operating revenues

8. Operating profit * 100 / Average capital employed, basic

9. Share of profit/loss in equity accounted investments * 100 / Equity accounted investments

10. Tax expense * 100 / Profit before tax

11. Calculation method for 2015 and previous years.

Production cost, incl. property tax and depreciation, excl. sales costs, overhead, net financial items and tax / Normal output from power plants under own management

12. New calculation method from 2016. This will increase the cost compared to previous calculation.

Production cost, incl. property tax and depreciation, excl. sales costs, net financial items and tax / 7 years average output from power plants under own management

13. Preliminary estimate for the last year.

14. Figures as of 31.12 used to calculate the revenue ceiling. The amount for the last year is preliminary.

Non-financial key figures

The following tables present Statkraft's most significant results within the areas of environmental impact, society, employees, and health and safety for the period 2012-2016. More detailed results can be found in the corporate responsibility statement.

Power generation and district heating production

	Unit	2016	2015	2014	2013	2012
Installed capacity, power generation [1]	MW	17 418	16 778	16 401	16 041	16 257
Of which hydropower	MW	14 076	13 464	13 273	12 886	13 522
Of which wind power	MW	703	647	488	514	528
Of which gas power [2]	MW	2 600	2 600	2 600	2 600	2 178
Of which bio power	MW	40	67	40	40	29
Installed capacity, district heating	MW	820	838	760	674	710
Capacity under development, power generation [1, 3]	MW	729	909	1 262	1 673	1 701
Of which hydropower	MW	207 [5]	873	1 016	1 172	910
Of which wind power	MW	522	36	247	500	361
Of which gas power [2]	MW	0	0	0	0	430
Capacity under development, district heating	MW	0	21	23	8	91
Power generation, actual [1]	TWh	66.0	56.3	56.0	55.9	60.0
Of which hydropower	TWh	61.2	53.1	53.4	52.6	57.6
Of which wind power	TWh	2.3	2.5	1.7	1.4	0.8
Of which gas power [2]	TWh	2.2	0.5	0.5	1.5	1.5
Of which bio power	TWh	0.3	0.3	0.3	0.3	0.1
District heating production	TWh	1.1	1.1	1.0	1.1	1.1
Renewable power generation [4]	%	96.7	99.1	99.1	97.3	97.5
Renewable district heating [4]	%	91.8	94.7	83.6	82.0	80.6

[1] Includes Statkraft's shareholdings in subsidiaries where Statkraft has a majority interest.

[2] Includes the jointly controlled Herdecke (Germany) and Kårstø (Norway) power plants.

[3] Includes projects with an investment decision.

[4] Non-renewable production covers gas power and share of district heating based on fossil fuel. From 2015 the waste used in the incineration plant in Trondheim is defined as input for waste heat and therefore counted as renewable.

[5] The Cetin project is no longer included in the figures, as it is currently suspended.

Emissions and environmental incidents

	Unit	2016	2015	2014	2013	2012
Emissions of CO_2 equivalents, consolidated activities	Tonnes	773 400	258 600	313 300	469 600	483 900
Environmental incidents						
Serious environmental incidents	Number	0	0	0	0	0
Less serious environmental incidents	Number	233	228	159	127	128

Contribution to society

	Unit	2016	2015	2014	2013	2012
Distribution of value created [1]						
Dividend [2]	NOK mill	0	1 604	5 600	0	4 000
Taxes [3]	NOK mill	7 581	3 665	6 059	4 291	5 891
Interest	NOK mill	-1 757	5 740	7 143	11 830	3 123
Employees	NOK mill	3 202	3 107	2 667	2 788	2 720
The company	NOK mill	-117	-3 376	-2 392	-274	321

[1] As from 1 January 2013 Statkraft has implemented IFRS 11 Joint Arrangements. The effect of this is that some companies that prior were using the equity method now are using proportionate consolidation. Figures for 2012 have been restated to reflect Statkraft's financial position and results based on IFRS 11.

[2] Includes dividend and Group contribution from Statkraft AS to Statkraft SF.

[3] Includes taxes, property tax, licence fees and employer's contribution.

Reported concerns (whistleblowing)

	Unit	2016	2015	2014	2013	2012
Total number of reported concerns (whistleblowing) [1, 2]	Number	46	-	-	-	-
Of which related to business ethics and anti-corruption	Number	23	-	-	-	-

[1] The scope of the whistleblowing procedures relates to the full scope of Statkraft's Code of Conduct, e.g. human rights, environment, health and safety, business ethics and anti-corruption.

[2] The format for this indicator was changed in 2016, but historical data related to whistleblowing is available and has been published in Statkraft's annual reports since 2008.

Employees and recruitment

	Unit	2016	2015	2014	2013	2012
Employees 31. 12	Number	3 804	4 119	3 731	3 734	3 615
Percentage of women						
Total	%	25	23	24	23	24
In management positions	%	22	23	22	22	21
Among new employees	%	24	26	25	23	29

Health and safety

	Unit	2016	2015	2014	2013	2012
Fatalities, consolidated operations [1]						
Employees	Number	0	0	0	0	0
Contractors	Number	1	0	3	1	2
Third parties	Number	0	0	0	1	2
Fatal accidents, associated activities [2]						
Employees	Number	0	0	0	0	0
Contractors	Number	0	0	1	0	0
Third parties	Number	0	0	0	0	0
Seious incidents [3]						
Injuries with serious consequences	Number	5	6	-	-	-
Accidents with,or with potential for, serious consequences	Number	19	12	-	-	-
Injury rate [4, 5]						
Employees	Frequency	5.6	5.6	5.6	6.8	6.6
Contractors	Frequency	4.2	6,0	5.4	6.3	6.4
Absence due to illness	%	3.0	3,0	2.8	2.9	3.1

[1] Activities where Statkraft has > 50% ownership.

[2] Activities where Statkraft has 20-50% ownership.

[3] This indicator was introduced in 2015.

[4] Includes activities where Statkraft has > 20% ownership.

[5] Injuries per million hours worked.

In September 2016, Statkraft officially opened its first power plant in Albania. The 73 MW Banja hydropower plant is the first of the two power plants being constructed as part of the 256 MW Devoll hydropower project.

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Statkraft AS

Statkraft AS
PO Box 200 Lilleaker
NO-0216 Oslo
Tel: +47 24 06 70 00
Fax: +47 24 06 70 01
Visiting address:
Lilleakerveien 6

Organisation no:
Statkraft AS: 987 059 699

www.statkraft.com