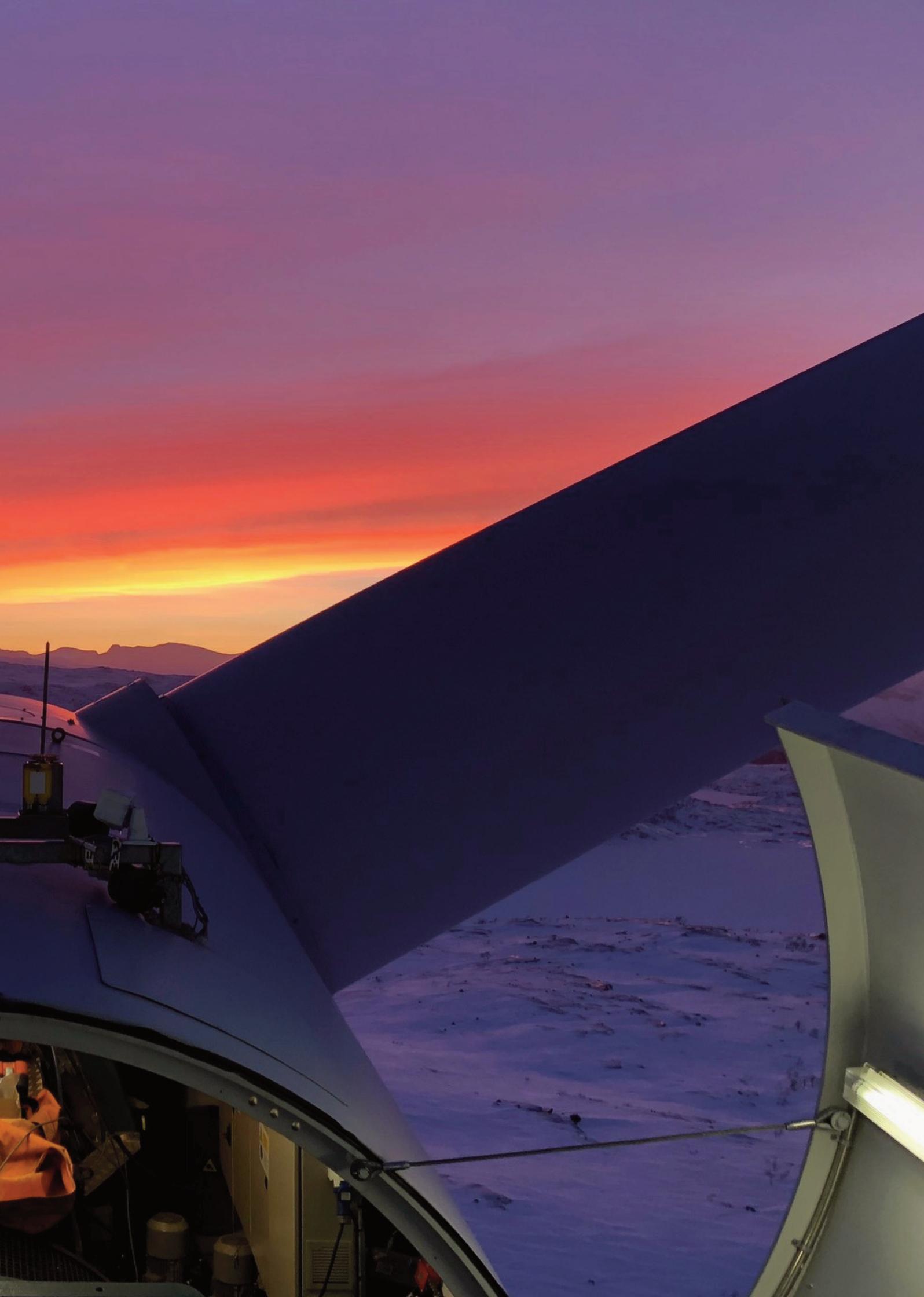


Annual Report 2018



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Ove Jøran Fossheim and Kristian Johansen at Nygårdsfjellet.



Key Events 2018

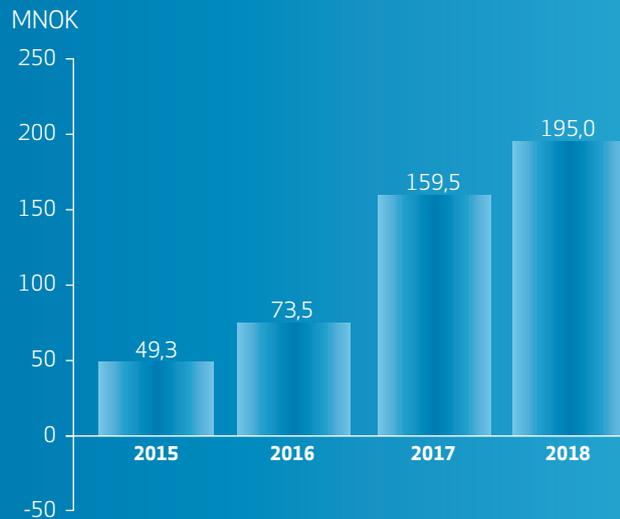
Profitable operations

Good underlying operations have resulted in a significant improvement in earnings and all business areas reported good results in 2018.

An increased focus on efficiency helped to reduce costs per kWh to a historic low.

Profit before tax was NOK 195 million, an increase of NOK 121 million on 2017.

Profit before tax



In position to seize opportunities

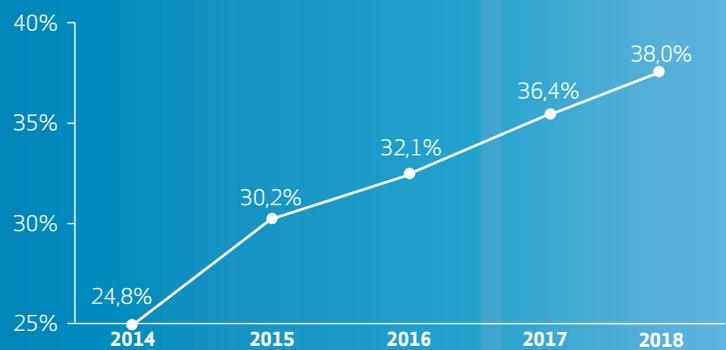
Growth in project development and operator activities with no increase in staffing or cost base is providing the Group with new revenues with a high margin. At the same time, a reduced balance sheet and halving of debt provides financial flexibility for future expansion.

Diversification

Nordkraft has strong industrial ambitions that encompass growth through its own investments and development as well as the operation of third-party owned power plants.

The Group has diversified its business within its core areas and in recent years has expanded within power grid operations, operator activities and project development, thereby securing growth which makes the Group less vulnerable to changes in power prices.

Share of equity



5

Achieving a higher power price than the market

Nordkraft is achieving better power prices than the market through production optimisation, with the Group achieving a power price 3 per cent higher than the NO4 price.

At the same time, the reservoirs reduce operating risk.

Achieved power price and reservoir level 31 Dec



Hedging contracts

The value of the hedging contracts falls as the power price increases and vice versa. For 2018 the portfolio of long-term power contracts reduced in value by NOK 46.4 million, while a loss of NOK 69.5 million was realised on hedging transactions.

NIBD/EBITDA



NIBD



Sound capital structure

The capital structure improved further in 2018. The equity ratio increased to 38.2 per cent and net debt/EBITDA changed from 3.7 in 2017 to 3.2 in 2018. Interest-bearing liabilities fell by NOK 80 million in 2018 to NOK 980 million.



Report from the Board of Directors for 2018

Nordkraft is an energy group that focuses on the development, construction, production and distribution of renewable energy and energy consultancy.

Our vision is “in position to seize opportunities”, and we strive to achieve this by focusing on efficient operations and an appropriate capital structure for the business. Nordkraft has a stable and solid business base that includes reservoir-fed hydropower plants that it owns itself as well as the operation and management of energy distribution grids. Operator activities create new revenue streams without the Group itself making investments.

In 2018 we achieved higher power prices and power production than in the previous year. Production excluding power trading tripled its profit before tax compared with 2017. Futures prices increased, however, resulting in a negative change in value of the Group's portfolio of power contracts. The Power Grid and Project business areas are delivering stable contributions to profit.

Nordkraft completed the development of the Ånstadblåheia wind farm for Fortum in autumn 2018 and is responsible for development of the Sørfjord wind farm for Fortum, which is expected to be completed in autumn 2019. Nordkraft is the long-term operator of the new wind power plant, as well as of the Nygårdsfjellet wind farm that was sold to Fortum in 2017. In hydropower, in addition to the seven power plants that it owns itself, Nordkraft has operated small-scale power plants since 2015. In total, Nordkraft operates 25 hydropower plants.

On 1 January 2018 the grid operations at Ballangen and Narvik were merged into one grid area. A shared grid provides the opportunity for more efficient operation, and among other things Nordkraft has implemented measures such as a single operating centre and local electricity monitoring, as well as coordination of its IT systems.

Kraftinor, formerly owned by Nordkraft and Lofotkraft, and SKS Kraftsalg were merged with effect from 1 January 2018. The merged company, Polar Kraft AS, is a strategic venture within electricity sales for its owners. Polar Kraft has a customer base of around 60,000 customers and aims to become the largest electricity supplier in Northern Norway.

Nordkraft sees data processing centres and other energy-intensive industry in Northern Norway as a business opportunity for utilising surplus energy in our price area. The region can offer the key framework conditions needed for establishing data processing centres and other energy-intensive industry, in the form of a good supply of renewable energy at low prices. With its expertise in renewable energy Nordkraft can play an active part in facilitating such business, thereby contributing to increased demand for power in the region.

Financial results

At NOK 99.0 million, Nordkraft's profit after tax for 2018 was down NOK 21.4 million on the previous year. This is equivalent to a return on equity of 9.2 per cent (2017: 12.1 per cent). Operating profit before depreciation and amortisation was NOK 276.2 million, an increase of NOK 29.2 million from 2017. Profit before tax increased by NOK 35.5 million compared with 2017, while profit after tax fell by NOK 21.4 million compared with the previous year. 2018 was a year of good underlying operations, high energy prices and production volumes, but earnings were reduced by losses on price hedging and a high tax burden.

The group's operating revenues for 2018 were NOK 568.6 million (2017: NOK 497.2 million). Gains on the sale of non-current assets amounted to NOK 5.3 million (2017: NOK 43.9 million). An increased production volume and high prices contributed to a NOK 55.7 million increase in sales. Revenues from operator activities increased by NOK 4.1 million, and the development of fibre-optic networks in Narvik contributed to a NOK 30.7 million increase in revenues from project development.

Earnings were negatively affected by a change in value associated with energy contracts of NOK 46.4 million (2017: NOK +13.4 million). Just over half of the production volume in 2018 was hedged at a price lower than the spot price. Realised losses on price hedging amounted to NOK 69 million. At the end of 2018 Nordkraft had hedged 36 per cent of its expected 2019 volume at a price of 36.8 øre/kWh. The average forward price for Nordkraft's hedging portfolio at the end of 2018 was 47.8 øre/kWh.

Net financial expenses of NOK 24.3 million (2017: NOK 36.8 million) includes a negative effect associated with changes in currency hedging contracts of NOK 1.7 million (2017: NOK -11.8 million). Net repayment of long-term loans amounted to NOK 80.0 million and at the end of 2018 the Group had interest-bearing debt totalling NOK 980 million. A reduction in interest-bearing debt combined with improved results further strengthened the Group's debt servicing capacity. The net debt/EBITDA ratio was 3.2 in 2018 compared with 3.7 in 2017. The EBITDA/net interest expense ratio improved from 10.2 in 2017 to 12.0 in 2018.

The Board confirms that conditions exist for continued operation of the enterprise on a going concern basis and that the annual financial statements have been prepared on this basis.

Cash flow and capital

Consolidated cash flow from operations came in at NOK 136.0 million (2017: NOK 215.0 million). EBITDA amounted to NOK 276.2 million (2017: NOK 247.1 million), which is NOK 140.2 million higher than cash flow from operating activities. This is mainly related to the change in working capital and the share of profits of associates.

Net cash flow from investing activities totalled NOK -68.4 million (2017: NOK 146.0 million). The Group sold operating assets to a value of NOK 15.7 million. New investments in property plant and equipment totalled NOK 42.5 million (2017: NOK 37.3 million) and reinvestments totalled NOK 39.1 million (2017: NOK 27.4 million).

The Group's net interest-bearing debt was NOK 877.8 million (2017: NOK 934.0 million) and the equity ratio at the end of 2018 was 38.2 per cent (2017: 36.3 per cent). Nordkraft's financial strength is satisfactory.

Business areas

Nordkraft is an energy group with core operations within development, production and distribution. Nordkraft was established on 21 December 1913 under the name Narvik Kommunale Elektrisitetsverk, and has many years' experience of operating and building energy production and in the distribution of electric power. The Group has three business areas:

- Production
- Power Grid
- Project

The Group's operations are mainly in Northern Norway, but the Group also operates power plants across Norway. The company is headquartered in Narvik. Nordkraft AS is owned by Narvik Municipality (50.01%), Jämtkraft AB (28.0%), Troms Kraft AS (5.33%) and Hålogaland Kraft AS (16.66%).

Key ratios, Production:

	2018	2017	2016	2015	2014	2013
Power generation						
Installed capacity (MW)	392,9	329,6	326,6	319,7	314,7	281,2
Self-owned	240,1	240,1	240,1	233,2	314,7	281,2
As operator	152,8	89,5	86,5	86,5	-	-
Production (GWh)	1 223,2	1 198,2	1 117,2	921,7	933,4	890,6
Self-owned	956,1	978,5	1 001,7	840,1	933,4	890,6
As operator	267,1	219,7	115,5	81,6	-	-
Average production (GWh) (self-owned)	811,5	892,0	823,8	815,1	810,7	804
Power market						
System price, Nord Pool (øre/kWh)	42,1	27,5	25,0	18,7	24,8	29,7
NO4 price (øre/kWh)	41,6	23,7	23,3	17,5	26,3	30,1

Produksjon

The Production business area comprises the Group's power plant operations, which include asset management, maintenance services and energy trading. The operations focus on the efficient operation of power plants in the areas of hydropower, small-scale power plants and wind power. Physical energy trading takes place in the spot market and various intraday markets. In addition, the business area engages in bilateral buying and selling of electricity certificates, and financial instruments are used for price hedging. The business area employs 62 people.

Production runs Nordkraft's own production portfolio of seven hydropower plants, as well as two wind farms and 18 small-scale power plants that are covered by operator agreements. Nordkraft's co-ownership rights to the Kobbely power plant and the Group's concessionary power contracts are also administered by this business area.

Demand for energy varies both at different times of day and at different times of the year, and the energy markets are dependent on capacity that can be adjusted according to demand. A high proportion of the production capacity is flexible. Efficient operation of the power plants and pro-

duction optimisation enable higher average prices to be achieved than in the spot market.

Nordkraft's hydropower plants produced 956.1 GWh in 2018 (2017: 978.5 GWh), which is a 2 per cent decrease from the previous year. Production from operator-run power plants was 267.1 GWh, with 94.4 GWh from wind power (2017: 96.8 GWh) and 172.7 GWh from hydropower (2017: 122.9 GWh). In 2018 operations were good and there was a high level of uptime. Inflow to the reservoir-fed power plants in 2018 was 790 GWh compared with the usual 750 GWh.

EBITDA for the Production business area was NOK 230.8 million kroner in 2018 compared with NOK 116.2 million in 2017. The area price in NO4 increased from 23.7 øre/kWh in 2017 to 41.6 øre/kWh in 2018. Energy prices were volatile in 2018, with an increase in the last part of the year. By optimising production Nordkraft achieved an average spot price for reservoir-fed power that is 3 per cent better than the NO4 price. 53 per cent of production owned by the Group in 2018 (2017: 54 per cent) was hedged by advance sales of financial forward contracts. The average hedged price was 32.4 øre/kWh and the realised result from hedging in 2018 was NOK -69.5 million (2017: NOK 4.0 million).



Ånstadblåheia Wind Power Plant.

Project

The Project business area designs and builds wind farms and small-scale power plants for the Group and for external partners, and is responsible for upgrading of the company's own production facilities as well as production facilities that Nordkraft operates for external parties.

Nordkraft owns waterfall rights and options to develop and build small-scale hydropower plants that are not subject to the requirements of public ownership. The projects are assessed on an ongoing basis. Projects that are deemed to have poor viability (due to licences, finances, technical feasibility) are terminated to avoid unnecessary investments and resource utilisation.

In 2018 Nordkraft developed and project-managed Fortum's developments of the Ånstadblåheia wind farm in Sortland Municipality and the Sørfjord wind farm in Tysfjord Municipality. Ånstadblåheia wind farm was completed in autumn 2018 and delivered power to the grid from 19 September. Sørfjord wind farm is expected to be completed in autumn 2019.

Nordkraft sold the Tokagjelet hydropower project to Clemens Kraft in February 2018, at the same time signing a contract to operate the power plant. In June 2018 Nordkraft was awarded a final licence for the development of the Ritaelva and Sveingard plants in Ullsfjord, and in December the Group signed a contract to sell the completed power plants to Småkraft. The power plants are planned to be commissioned in autumn 2020 and will be handed over to Småkraft AS in September 2021.

Key ratios, Power Grid:**Key financial ratios**

Amounts in NOK million	2018	2017	2016	2015	2014
Accumulated income surplus/shortfall (+/-)	20,4	17,1	5,1	-6,3	-12,2
Change in income surplus/shortfall balance	3,3	12,0	11,4	5,9	-19,4
Grid capital	317,4	314,7	224,8	212,2	203,4
Return on monopoly operations	5,1%	4,9%	6,7%	0,9%	-3,3%

Key operating ratios

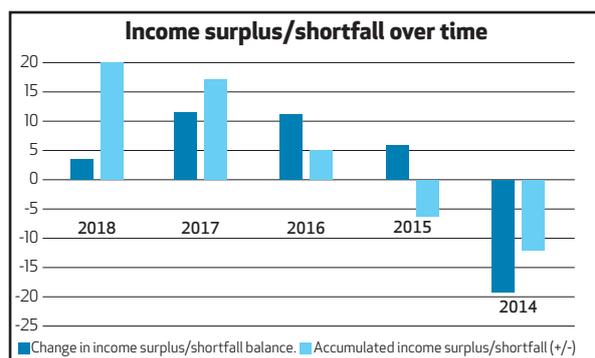
Km high voltage cables, distribution grid	640	382,9	355,4	352,5	347,9
Number of substations	704	698	462	448	444
Number of meters	15 523	15 500	12 333	12 249	12 090
Power distributed in MWh	466 619	456 550	411 973	403 098	407 381
Value supply interruptions (KILE)	3,2	4,4	3,4	3,7	4,0
Grid losses %	5,1%	6,0%	5,7%	6,0%	6,7%
NVE interest	6,1%	6,1%	6,4%	6,3%	6,6%

Power Grid

The Power Grid business area consists of the monopoly business related to the operation and management of the Group's own energy grid. The overall aim is to ensure a secure power supply without interruptions or other variations in quality. Nordkraft purchased the grid operations in Ballangen Municipality in 2017; following the acquisition, it has around 15,500 meters with end-user customers.

For 2019 a revenue ceiling of NOK 94.2 million has been notified. Of the recognised net revenues of NOK 134.4 million, the revenue ceiling accounts for NOK 93.2 million. Nordkraft has net surplus income at the end of 2018 of NOK 20.4 million, which means that grid tariffs charged to customers are higher than the permitted revenue set by the Norwegian Water Resources and Energy Directorate (NVE). From 2020 onwards the Group will have harmonising revenue of around NOK 20 million in connection with the merger of the grid operations in Narvik and Ballangen. The harmonising revenue is to be regarded as compensation for future loss of income as a result of the merger and reduces the net surplus income accordingly.

From 1 January 2019 the grid tariff in the area of Nordkraft's Grid will change. In line with guidelines from the NVE, there will be an increase in the fixed element and a decrease in the energy element. The grid tariff for Nordkraft's grid is still low and in 2018 was the second lowest in the country. However, a major need for reinvestment in the grid will result in increased grid tariffs in the future.



The grid operations' largest investment project in recent years, the rollout of AMS, was completed in 2018. Around 60 customers declined to have new meters. To streamline meter reading it is key that Elhub is implemented, and this was completed in February 2019. In 2019 the focus is on investments to reinforce the power supply.

A number of future regulatory changes are expected to be made to the framework conditions from NVE. The rules relating to plant contributions have changed, and the possibility of utilising base deductions was removed with effect from 1 January 2019. In addition, the NVE interest rate is expected to be lower in future years. Other changes in the model of regulation with consequences for Nordkraft and its grid operations are being assessed. Nordkraft works continually to adapt the business to changed framework conditions.

Risk Management and International Control

In addition to operational risk, Nordkraft's business is exposed to regulatory, legal, licensing, financial, political and market risks.

Our web-based management system "Nordkraft Standard" ensures a good control environment and contributes to fulfilling the Group's aims and goals. The Group sets frameworks and guidelines for internal control, and has policies to ensure a common approach to how the business is run. Responsibility for risk management lies with the individual business areas and is an integral part of business activities to help ensure the achievement of strategic and operational objectives. The Group follows up internal control at Group level via the Group's controllers.

The market price of electricity is one of several important factors affecting the Group's financial performance. Nordkraft manages market risk by trading in standardised financial instruments. Signature authority and limits have been established for the hedging strategy, which is reported to management on an ongoing basis.

Within power sales the Group is exposed to currency risk, because all buying and selling on the power exchange takes place in euros. Net daily cash flows in euros are exchanged on an ongoing basis for Norwegian kroner. The Group has hedging strategies for currency hedging of power trading, and mainly uses forward contracts.

The activities of the Production and Power Grid business areas require licences and are subject to public regulation. The Power Grid operations are a natural monopoly with publicly regulated revenue, and there can be unforeseen fluctuations due to changes in the regulatory model.

Nordkraft is exposed to interest rate risk through changes in interest rates on its interest-bearing loans; in addition, the swap rate with a credit mark-up is one of the factors used to set the revenue ceiling for the grid operations. There is also significant risk associated with business conditions and the impact of political decisions, especially in relation to the Power Grid business.

The Group is exposed to a certain amount of liquidity risk. Low energy prices reduce the Group's profitability and liquidity. In recent years there has been considerable focus on liquidity management and cost-cutting measures. The Group has satisfactory equity and stable cash flows from operating activities. In March 2017 Nordkraft signed a five-year loan agreement with a consortium made up of DNB, Swedbank and Sparebanken Narvik.

Employees

Personell

Nordkraft employed 132 people at the end of 2018, amounting to 130.7 full-time equivalents.

Key ratios 31 Dec	2018	2017	2016
Full-time equivalents	131	126	113
of which apprenticeships	6	7	5
Women %	20 %	22 %	23 %

Equality and discrimination

other working conditions regardless of gender, age, ethnicity, beliefs and other factors that could have a discriminatory effect. At the end of 2018 the average age of Nordkraft employees was 44 years. Generational change is taking place at a rapid rate, and we are particularly working to achieve a better balance of age groups. In total, 20 percent of the Group's employees are women. Group management comprises one woman and seven men. The Board of Directors of Nordkraft AS consists of two women and six men.

The Group is working according to plan in the short and long term to secure the right skills. It is particularly important that we maintain the right balance between experienced personnel and new recruits in line with the challenges facing the Group.

HSE

Working environment

Nordkraft is to have a good physical and psychosocial working environment. Among the ways that this is achieved is to create a workplace characterised by wellbeing, participation, trust, responsibility, personal and professional development, social activities and a shared positive culture. Key to this work are the Group's core values: *open, proactive, smart – as a team.*

Sickness absence

In 2018 sickness absence was 5.1 per cent, compared with 5.5 per cent in 2017. Short term absence of up to 16 days (doctor-certified and self-certified) amounted to 0.8 per cent (2017: 0.9 per cent), while sickness absence beyond the employer's period was 2.7 per cent (2017: 2.7 per cent). The target is for sickness absence to be less than 4.0 per cent. Nordkraft has an agreement as an inclusive workplace (IA) and follows up employees on sick leave closely, with a strong focus on preventive measures. The Group's employees are affiliated to an occupational health service (Stamina Health) and covered by the Group's health insurance plans. In addition, the Group works actively to reduce sickness absence through various measures focusing on good health and facilitating increased physical activity.

Key ratios	Mål	2018	2017	2016
Sickness absence	4%	5,1%	5,5%	4,1%
of which short-term absence (1-16 days)		2,1%	2,3%	1,9%
of which long-term absence (>16 days)		3,0%	3,2%	2,2%
Injury rate (H1)	zero vision		5,0%	5,0%

Safety

Nordkraft adopts a systematic approach to health, safety and the environment in order to ensure a healthy workplace for all employees, with the goal of creating an inclusive environment that fosters employee development. All employees must return home safely after working at Nordkraft. Responsibility is given high priority, and Nordkraft has a zero vision for injuries and losses suffered by people, facilities and the environment. The strategy for achieving the objective of zero serious work-related injuries involves establishing the right attitudes and a good safety culture at every level of the organisation. Safety has the highest priority. Nordkraft focuses on prevention of accidents and personal injuries, and has procedures for follow-up of unwanted incidents. Guidelines and principles are laid down in the company's HSE policy.

Two non-serious injuries were recorded involving our own employees, one of which resulted in an absence of one day. This equates to an injury rate for the Group of five lost-time injuries per million working hours (H1 indicator). One of the injuries recorded did not result in absence.



Matthew Homola at project Sørfjord Wind Power Plant. Photo: Punsvik foto.

Reporting of unwanted incidents is a particularly important tool in initiatives to achieve the company's vision of zero injuries (used as an early warning system). The Group has a web-based HSE portal for recording unwanted incidents. A total of 29 incidents were reported in 2018. The reporting is used in preventive work and for increased focus on learning from unwanted incidents.

The external environment

Looking after the external environment is a natural part of Nordkraft's corporate social responsibility remit, and an important means of securing efficient resource utilisation and operations. Some of Nordkraft's operations are also subject to strict environmental requirements through laws and regulations, as well as through conditions attached to granted licences. The hydropower plants and wind farms produce environmentally friendly renewable energy, and it is in everyone's interests that the resources are exploited in the most efficient manner possible. Nordkraft mainly impacts the external environment through activities associated with the development, operation and maintenance of hydropower, grid operations and wind power. There is a focus on procedures to prevent and minimise direct environmental damage. When planning new plants the greatest possible consideration is given to nature and the environment.

In 2018 there were no incidents with consequences for the external environment.

Corporate social responsibility

Nordkraft is responsible for the social consequences of the Group's activities and aims to run the business in a sustainable, ethically responsible way. Human rights, workers' rights, the external environment and anti-corruption are important aspects and there is a focus on ensuring that projects have sound and effective procedures, and that ethical and environmental requirements are made both of suppliers and of the Group's own operations.

Nordkraft's goals are for the Group to act as a responsible corporate citizen, to generate trust and credibility with regard to its activities, and to remain attractive to stakeholders. Nordkraft owns, builds and runs infrastructure that is critical for society, and has a responsibility to ensure a secure and reliable supply of renewable energy for its customers. Nordkraft takes a broad approach to corporate social responsibility which goes beyond the minimum requirements. We contribute to industrial development in the region and work in partnership with schools and the University of Northern Norway to increase interest in our sector and secure long-term recruitment. By supporting the local sports and cultural offering Nordkraft contributes to making the local community attractive to both existing and potential employees.

Nordkraft has a long and proud tradition as a force for good in the community and works hard to administer its mandate in a responsible and sustainable manner.

The work of the Board of Directors

Nordkraft's Board works in accordance with the adopted rules of procedure for the Board. The Board carries out its supervision through quarterly reporting of economic and financial status, as well as governance parameters associated with operations.

The Board carries out an annual appraisal of its working practices, competence and working relationship with Group management.

At the annual general meeting on 11 June 2018 Hugo Storø was re-elected to the Board and Deputy Chairman Anders Ericsson was replaced by Erik Brandsma, serving until the 2020 Annual General Meeting. The Board comprises eight people, including two women.

Net profit and appropriation of the profit for the year

The Group made a net profit for the year of NOK 99.0 million. Nordkraft AS is the parent company of the Nordkraft Group. Nordkraft AS provides group functions for the business areas. The company's operating revenues for 2018 were NOK 54.5 million (2017: NOK 50.8 million), while net profit for the year came in at NOK 64.9 million in 2018 (2017: NOK 63.0 million). The Board proposes that the profit is appropriated as follows by Nordkraft AS:

Dividend	NOK 30,000,000
Transferred to other equity	NOK 131,393,202
Total net profit for the year	NOK 161,393,202

Outlook

Nordkraft's financial results are impacted by strategic, market, regulatory, financial and operational conditions.

Earnings in the Production business area are directly impacted by changes in power prices. Power prices are at all times affected by the hydrological situation and by supply and demand for power. Price forecasts by different power analysts vary widely, but in general analysts expect the market to be characterised by a surplus of power in the Nordic region in the coming years. At the end of 2018 the listed system price for power delivered in 2018 was 47 øre/kWh, while over a five-year horizon the power price is expected to be around 36 øre/kWh. Assuming full spot price exposure and normal production, an increase/decrease in the power price over the year of 1 øre/kWh would increase/decrease operating profit respectively by NOK 7.7 million. In order to secure cash flows and utilise market prospects, sales of produced energy are hedged within set limits.

Long-term earnings in the Power Grid business area are influenced by its relative efficiency compared with the rest of the power grid industry, interest rate fluctuations and changes in public regulations. A five percentage point change in relative efficiency or a one percentage point change in the NVE interest rate would impact the revenue ceiling for Power Grid operations by around NOK 3 million.

To secure adequate profitability and positive cash flows in a challenging power market, Nordkraft is focusing on cost control in order to deliver good results in the future even with low power prices. Further growth will be capital-intensive and there will be a need to secure the company's financing capacity and assess whether development projects should be deferred or developed in cooperation with financial partners.

Narvik, 7 May 2019


Kristin Melsnes
Chair Board Member

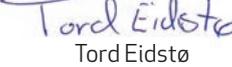

Erik Brandsma
Deputy


Rolf Inge Roth
Board Member


Semming Semmingsen
Board Member


Kirsti Hienn
Board Member


Hugo Storø
Board Member


Tord Eidstø
Board Member


Preben Kristensen
Board Member


Eirik Frantzen
CEO



Key financial ratios

Amounts in NOK million	2018	2017	2016	2015	2014
Income statement					
Operating revenues	568,6	497,2	398,6	372,4	433,0
Depreciation and amortisation	57,0	57,0	56,4	63,6	82,7
Impairment	0,0	-6,2	2,9	-	23,2
Other op. expenses excl. depr./amortis. and impairment	292,4	250,2	241,6	204,5	335,8
Operating profit	219,3	196,3	100,6	104,3	-8,8
Financial items	-24,3	-36,8	-27,1	-55,0	-79,8
Profit before tax	195,0	159,5	73,5	49,3	-88,6
Profit after tax	99,5	120,4	36,7	46,8	-66,5
Attributable to majority shareholders	94,4	113,9	27,9	43,3	-56,0
Non-controlling interests' share	5,1	6,5	8,8	3,5	-10,4
Items excluded from underlying operations					
Unrealised changes in value of power contracts	-46,4	13,4	-60,7	30,4	-18,2
Income surplus/shortfall	20,4	17,1	5,1	-6,3	7,2
Profit from underlying operations					
Operating revenues	635,4	500,9	403,7	366,1	440,2
Operating profit	286,0	200,0	166,4	67,6	16,6
Profit before tax	261,8	163,2	139,3	12,6	-63,2
Profit after tax	166,3	124,1	102,5	10,1	-41,1
Balance sheet as of 31 Dec					
Non-current assets	2 587,6	2 587,5	2 577,7	2 546,6	3 086,7
Current assets	302,2	329,0	398,4	473,3	222,8
Equity	1 097,8	1 060,1	954,2	910,3	820,6
Provisions	508,2	428,0	400,4	396,4	402,5
Non-current liabilities	980,0	1 061,8	1 429,8	1 574,2	1 988,7
Current liabilities	303,7	366,5	191,8	138,9	97,7
Total assets	2 889,8	2 916,5	2 976,2	3 019,8	3 309,5
Key financial ratios					
EBITDA	276,2	247,1	160,0	167,9	97,2
NIBD	877,8	934,0	1 304,4	1 425,4	1 854,9
NIBD/EBITDA	3,2	3,8	8,2	8,5	19,1
EBITDA/Net interest expense	12,0	10,0	3,1	2,6	1,6
EBIT margin (%)	38,6 %	39,5 %	25,2 %	28,0 %	-2,0 %
Cash flow from operating activities	120,8	215,0	170,2	83,9	-67,7
Return on equity	9,2 %	12,0 %	3,9 %	5,4 %	-16,2 %
Equity ratio %	38,0 %	36,3 %	32,1 %	30,1 %	24,8 %
Liquidity ratio 1	0,99	0,90	2,08	3,41	2,28
Total return	5,4 %	4,8 %	2,4 %	2,4 %	0,3 %
Working capital	-1,5	-37,5	206,7	334,4	125,1
Investments					
Investments in increased capacity, property, plant and equipmen		72,3	31,4	125,8	114,8
Reinvestments	81,4	62,7	30,6	32,2	21,6

EBITDA: Earnings Before Interest, Taxes, Depreciation and Amortization. EBITDA defineres som resultat før skatt, finansposter, avskrivninger og nedskrivninger, og er en tilnærming til kontantinntjening fra driften før finansposter og skatt.

$$\text{Equity ratio: } \frac{\text{Equity 31.12.} \times 100}{\text{Total assets 31.12.}}$$

$$\text{Liquidity ratio 1: } \frac{\text{Current assets 31.12.}}{\text{Current liabilities 31.12.}}$$

$$\text{Total return: } \frac{(\text{Operating profit} + \text{Financial income}) \times 100}{\text{Average total assets}}$$

$$\text{working capital: Current assets 31.12} \div \text{Current liabilities 31.12.}$$

Income statement

Nordkraft konsern

Amounts in NOK thousand	Note	2018	2017
Operating revenues			
Sales of power		299 952	244 252
Grid revenues		134 378	122 508
Gain on sale of non-current assets		5 294	43 936
Other operating revenues	5	129 001	86 549
Total operating revenues		568 625	497 244
Operating expenses			
Purchases of power		66 568	29 106
Electricity transmission charges		75 169	68 659
Employee benefit expenses	6, 19	117 943	105 128
Depreciation and amortisation	11, 12	56 965	56 968
Impairment	11	-	-6 226
Loss on sales of non-current assets		40	17
Other operating expenses	7	52 863	60 233
Share of profit from associates	9	-20 200	-12 979
Total operating expenses		349 347	300 908
OPERATING PROFIT		219 278	196 337
Financial income and expenses			
Financial income	8	16 265	14 145
Financial expenses	8	40 528	50 960
Net financial items		-24 263	-36 815
ORDINARY PROFIT BEFORE TAX		195 014	159 522
Tax on ordinary profit	10	95 498	39 132
NET PROFIT FOR THE YEAR		99 517	120 389
Non-controlling interests' share		5 093	6 503
Attributable to equity holders of the parent		94 423	113 887



Skarstad in Ballangen. Ruben Olaussen, Mikal Kristensen, Tommy Johansen and Kristian Eriksen.

Summary of total recognised expenses and revenues of Nordkraft Group

Amounts in NOK thousand	Note	2018	2017
Årsresultat		99 517	120 389
Items that cannot subsequently be reclassified to profit or loss			
Change in estimate deviation pensions	19	-23 273	-14 728
Tax	10	5 585	3 535
Total		-17 687	-11 193
Other comprehensive income for the year		-17 687	-11 193
Total comprehensive income for the year		81 829	109 196
Attributable to:			
Equity holders of the parent		76 446	102 403
Non-controlling interests		5 384	6 793
Total comprehensive income for the year		81 829	109 196

Balance sheet

Nordkraft konsern

Amounts in NOK thousand	Note	31.12.2018	31.12.2017
Assets			
Non-current assets			
Intangible assets			
Waterfall rights/concessionary power rights	12	424 173	425 968
Total intangible assets		424 173	425 968
Property, plant and equipment			
Land, buildings and other property	11	120 639	123 577
Grid facilities	11	363 319	328 784
Projects under development	11	37 179	40 104
Production sites	11	1 527 057	1 539 783
Plant and machinery	11	38 167	38 515
Total property, plant and equipment		2 086 360	2 070 763
Non-current financial assets			
Investments in associates	9	45 950	62 368
Investments in shares and interests	3, 13	30 690	27 924
Other non-current receivables	13	410	444
Total non-current financial assets		77 050	90 735
Total non-current assets		2 587 584	2 587 466
Current assets			
Trade receivables	3, 14	55 384	39 068
Derivatives	3, 13	9 671	9 761
Other receivables	13, 14	134 958	154 180
Cash in bank and at hand	13, 15	102 164	126 004
Total current assets		302 177	329 012
TOTAL ASSETS		2 889 761	2 916 478

Balance sheet

Nordkraft konsern

Amounts in NOK thousand	Note	31.12.2018	31.12.2017
Equity			
Paid-in equity			
Share capital	16	175 242	175 242
Share premium	16	404 020	404 020
Total paid-in equity		579 262	579 262
Retained earnings			
Other equity		434 973	398 108
Total retained earnings		434 973	398 108
Non-controlling interests		83 588	82 751
Total equity		1 097 823	1 060 121
Liabilities			
Provisions			
Pension liabilities	19	53 017	17 205
Deferred tax	10	445 801	400 541
Other provisions		9 398	10 297
Total provisions		508 216	428 043
Other non-current liabilities			
Liabilities to credit institutions	13, 18	980 000	1 060 000
Derivatives	13	-	1 784
Total non-current liabilities		980 000	1 061 784
Current liabilities			
Financial instruments	13	4 226	9 845
Trade payables	13	16 464	13 548
Tax payable	10, 13	43 918	18 876
Public duties payable	13	45 850	38 209
Other current liabilities	13, 17, 20	193 264	286 053
Total current liabilities		303 722	366 531
Total liabilities		1 791 938	1 856 357
TOTAL EQUITY AND LIABILITIES		2 889 761	2 916 478

Narvik, 7 May 2019


Kristin Melsnes
Chair Board Member


Erik Brandsma
Deputy


Rolf Inge Roth
Styremedlem


Semming Semmingsen
Board Member


Kirsti Hienn
Board Member


Hugo Storø
Board Member


Tord Eidstø
Board Member


Preben Kristensen
Board Member


Eirik Frantzen
CEO

Statement of cash flows

Amounts in NOK thousand	Note	2018	2017
Profit before tax		195 014	159 522
Adjusted for:			
- depreciation, amortisation and impairment		56 965	50 742
- difference pension costs and paid premium/pension		3 915	10 080
- gains (-)/losses (+) on sale of non-current assets and operations		-5 255	-43 919
- result financial assets at fair value through profit or loss		-	-13 396
- other items with no cash flow effect		-29 114	-20 378
- tax paid	10	-18 876	-14 394
Change in working capital:			
- trade and other receivables		18 214	-65 252
- trade payables, other current liabilities and provisions		-84 826	152 042
Cash flow from operating activities		136 037	215 046
Investments in property, plant and equipment	11	-81 382	-63 746
Purchased businesses, shares, interests etc.		-2 767	-49 144
Sold businesses, shares, interests etc.		15 739	175 153
Sales of property, plant and equipment		-	83 762
Cash flow from investing activities		-68 409	146 025
New borrowings	18	20 000	100 000
Repayment of borrowings	18	-100 000	-460 000
Dividend received		33 533	9 312
Dividend paid		-45 000	-
Cash flow from financing activities		-91 467	-350 688
Change in cash and cash equivalents		-23 839	10 382
Cash and cash equivalents as of 1 January	15	126 003	115 621
Cash and cash equivalents as of 31 December		102 164	126 003

Consolidated statement of changes in equity

Amounts in NOK thousand	Share capital	Share premium	Retained earnings	Equity attributable to owners of the parent	Non-controlling interests	Total equity
Equity as of 31 December 2016	175 242	404 020	296 299	875 562	78 674	954 236
Net profit for the year			113 887	113 887	6 503	120 390
Other comprehensive income			-10 709	-10 709	290	-10 419
Total comprehensive income for the year			103 177	103 177	6 793	109 971
Transactions with owners						
Change in non-controlling interests			-616	-616	-265	-881
Ordinary dividend for 2016					-2 451	-2 451
Other changes in equity			-753	-753		-753
Equity as of 31 December 2017	175 242	404 020	398 107	977 370	82 751	1 060 121
Net profit for the year			94 423	94 423	5 093	99 517
Other comprehensive income			-17 978	-17 978	290	-17 687
Total comprehensive income for the year			76 446	76 446	5 384	81 829
Transactions with owners						
Change in non-controlling interests			5 420	5 420	-4 547	873
Ordinary dividend for 2017			-45 000	-45 000		-45 000
Equity as of 31 December 2018	175 242	404 020	434 973	1 014 236	83 588	1 097 823

Notes 1 to 21 are an integral part of the consolidated financial statements.





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Notes to the consolidated financial statements

Note 1 » General information

Nordkraft AS including its subsidiaries (referred to below as Nordkraft) is an energy group in Northern Norway headquartered in Narvik. Nordkraft's core business consists of the development, construction and production of renewable energy, as well as distribution (power grid operations), power sales and other energy-related activities. The company is owned solely by publicly owned companies.

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) and interpretations issued by the IFRS Interpretation Committee (IFRIC), as adopted by the EU.

The consolidated financial statements were adopted by the company's Board on 7 May 2019.

Note 2 » Summary of significant accounting policies

The principal accounting policies applied in the preparation of the consolidated financial statements are described below. These policies have been consistently applied to all the periods presented, unless otherwise stated. The consolidated financial statements have been prepared using the historical cost principle, with the exception of certain financial instruments and derivatives, which are measured at fair value at the balance sheet date.

New and amended standards and interpretations of existing standards implemented by the Group

The Group adopted the following standards in 2018

- **IFRS 15 Revenue from Contracts with Customers** introduces a new model for the recognition of revenue from contracts with customers. This standard replaces IAS 18 Revenue and IAS 11 Construction Contracts. The Group's revenues consist of power sales, grid revenues, operator revenues, consultancy revenues and contracting services. The amendment specifies when revenues are to be recognised, but has had no impact on the consolidated financial statements.
- **IFRS 9** deals with classification, measurement and derecognition of financial assets and liabilities, and introduces new rules for hedge accounting and the impairment of financial assets. The Group is implementing a new calculation model for estimating expected credit losses. The change is not expected to affect the amounts in the consolidated financial statements.

Other amendments to IFRSs applicable from 2018 have no effect on the consolidated financial statements.

2.1 Consolidation principles

The consolidated financial statements show the overall financial results and financial position of the parent company Nordkraft AS and its subsidiaries.

2.1.1 Subsidiaries

A subsidiary is defined as an entity over which Nordkraft exercises control. Control exists when an investor is exposed to variable returns as a result of ownership in or agreements entered into with the company. Nordkraft must be able to affect the return through its control over the company. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method is applied to business acquisitions. The consideration paid is measured as the fair value of the assets transferred, liabilities assumed and issued equity instruments. All identifiable assets and liabilities are recognised at fair value at the date of acquisition. Non-controlling interests in the acquired company are measured on an acquisition-by-acquisition basis, either at fair value, or at their proportionate share of the acquired company's net assets. Costs relating to acquisitions are expensed as incurred.

When a business is acquired in stages the shareholding from previous purchases is revalued at fair value at the time control is established, with changes in value recognised in profit or loss. Contingent consideration is measured at fair value at the acquisition date. Subsequent changes in the fair value of the contingent consideration are recognised in profit or loss if the contingent consideration is classified as an asset or liability. Contingent consideration classified as equity is not revalued, and subsequent settlement is recognised in equity.

If the transaction price (including any non-controlling interests and the fair value of previous assets) exceeds the fair value of identifiable net assets acquired and liabilities assumed, this is recognised as goodwill. If the transaction price (including any non-controlling interests and the fair value of previous assets) is less than the fair value of net assets in the subsidiary due to the fact that the purchase has been concluded on favourable terms, the difference is recognised as a gain in the income statement.

Intragroup transactions, intragroup balances and unrealised intragroup gains or losses are eliminated. Reported figures from the subsidiaries are restated when this is necessary to achieve consistency with the Group's accounting policies.

2.1.2 Associates

Associates are all entities over which Nordkraft has significant influence but not control. Significant influence will generally exist when the Group has a shareholding of between 20 and 50 per cent of the voting rights. Interests in associates are consolidated according to the equity method and presented in the income statement as "Share of profit from associates" and in the balance sheet as "Investments in associates".

2.2 Foreign currency

The consolidated financial statements are presented in Norwegian kroner (NOK), which is both the functional currency of all the companies consolidated and the Group's presentation currency. Transactions denoted in foreign currencies are translated into NOK using the transaction rate, while balance sheet items are measured using the exchange rate in effect on the balance sheet date.

2.3 Property, plant and equipment

Investments in production facilities and other property, plant and equipment are measured at cost, less accumulated depreciation and impairment. They are depreciated from the time the assets are ready for use. The cost of property, plant and equipment includes expenses for acquiring or developing the asset for use. Directly attributable borrowing costs are added to cost. Expenses incurred after an operating asset has been taken into use, such as repairs and maintenance, are expensed as incurred, while other expenses that increase future production capacity are capitalised. Provisions are recognised for restoration obligations for non-perpetual licences.

Land is not depreciated. Other property, plant and equipment items are depreciated on a straight-line basis over the expected useful life, which is:

- Power facilities 5–100 years
- Grid facilities 30–50 years
- Buildings 25–50 years
- Operating equipment, fixtures and fittings 5 years

Residual values are taken into account when calculating annual depreciation. The depreciation period is adapted to the licence period. The estimated useful life and residual value are assessed annually.

2.4 Intangible assets

2.4.1 Waterfall rights

Waterfall rights have arisen in connection with business acquisitions and are capitalised at historical cost. Waterfall rights are considered to be perpetual and are not amortised.

2.4.2 Concessionary power rights

The purpose of concessionary power is essentially to secure the provision of electrical power to local authorities at cost price. Nordkraft has purchased Narvik Municipality's rights to concessionary power (128 GWh/year) up until 31 December 2050, and through this purchase agreement is entitled to buy power at cost price from third parties. In accounting terms, the rights are amortised based on the estimated cash flow in the lease period.

2.5 Impairment of property, plant and equipment and intangible assets

Goodwill and perpetual intangible assets are not amortised, but are tested for impairment each year. Property, plant and equipment and intangible assets that are subject to depreciation or amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may no longer be recoverable. An impairment is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's value in use and fair value less costs to sell. For the purposes of assessing impairment, assets are grouped at the lowest level for which there are separately identifiable cash flows, known as cash-generating units. Impairment losses applied to property, plant and equipment and to intangible assets other than goodwill are reviewed for possible reversal of the impairment at each reporting date.

2.6 Non-current assets held for sale

Non-current assets are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. They are measured at the lower of carrying amount and fair value less costs to sell.

2.7 Financial assets

Financial assets and liabilities are recognised when Nordkraft becomes party to contractual provisions relating to the instrument. On initial recognition, financial assets and liabilities are measured at fair value. Transaction costs are added to or subtracted from the financial asset or financial liability unless the instrument is measured at fair value through profit or loss, in which case transaction costs are expensed as they occur. Nordkraft classifies financial assets

in the following categories, based on the nature and purpose of the instruments: debt instruments, derivatives and equity instruments. The classification depends on the purpose for which the asset is held. Management determines the classification of financial assets on initial recognition.

2.7.1 Trade receivables

Trade receivables are initially recognised at fair value in the balance sheet. Trade receivables are subsequently measured at amortised cost using the effective interest method less provision for losses estimated on the basis of historical loss rates.

2.7.2 Bank deposits, cash and cash equivalents

Bank deposits, cash and cash equivalents comprise cash in hand, bank deposits and other short-term liquid investments with an original term of three months or less.

2.8 Inventories

Inventories are measured at specific cost where possible. Replaceable items are measured at cost according to the first in, first out (FIFO) principle.

2.8.1 Electricity certificates

Nordkraft does not receive electricity certificates through power it produces itself, but buys electricity certificates from operator-run power plants. Purchased electricity certificates are classified as inventories/goods purchases and measured at the lower of cost or net realisable value. Sales of electricity certificates are included in other operating income. To the extent that holdings of electricity certificates cover the liability to the power grid operations, the liability is measured at the book value of the electricity certificates held. Liabilities that are not covered are measured at the fair value of the electricity certificates at the balance sheet date.

2.8.2 Reservoir inventory

Reservoir inventories and changes in this are not recognised in the consolidated financial statements. The reservoir inventory held at year-end will be of significance for future revenues and production.

2.9 Loans

Loans are recognised at fair value less transaction costs at the time they are paid out. In subsequent periods, loans are recognised at amortised cost, calculated using the effective interest rate. The difference between the loan amount disbursed and the redemption value is expensed over the term of the loan as part of the effective interest rate. Expenses relating to the establishment of drawdown facilities are recognised in the balance sheet if it is probable that the

facility will be utilised. If utilised, the costs are subsequently recognised as deductions from the facility. If it is not deemed probable that all or part of the drawdown facility will be utilised, the fee is recognised in the balance sheet under prepaid liquidity services and expensed over the period for which the right applies.

2.10 Tax

The Group's hydropower production operations are subject to special rules governing taxation of power companies. In addition to regular income tax, the Group's tax expense also includes natural resource tax and resource rent tax.

Income tax

Income tax is calculated according to ordinary tax rules, applying the tax rate enacted at the time. The tax expense is based on the profit/loss recognised in the income statement, and comprises tax payable for the period and changes in deferred tax liabilities/tax assets. Tax payable is calculated based on the taxable profit for the year. Deferred tax liability/tax assets are calculated on the basis of temporary differences between the tax and book values of assets and liabilities and the tax effects of loss carryforwards. Deferred tax assets are capitalised to the extent that it is likely that the asset will be realised in the future. Tax on items recognised in the statement of comprehensive income is also recognised in other comprehensive income, while tax on items relating to equity transactions is recognised in equity.

Resource rent tax

Resource rent tax depends on profits and comprises 34.3 per cent of the power stations' standardised profit in excess of the tax-free allowance. Negative resource rent income for a power plant can be offset against positive resource rent income for other power plants, and negative resource rent income can also be carried forward and utilised to reduce later positive resource rent income, including interest. Deferred tax is calculated for power plants with net tax-increasing differences.

Natural resource tax

Natural resource tax is a profit-independent tax that is calculated on the basis of individual power plants' average power production over the last seven years. The tax rate is 1.3 øre/MWh. The natural resource tax can be set off against general income tax, while non-settled natural resource tax plus interest can be carried forward. Non-settled natural resource tax is classified as an interest-bearing receivable.

Property tax

Property tax comprises up to 0.7 per cent of the official property valuation. General income tax and resource rent tax are recognised as ordinary taxes. Property tax is recognised as an operating expense in the income statement.

2.11 Pensions

Nordkraft mainly covers its pension liabilities through occupational pension schemes with life insurance companies. The Group currently has a defined contribution plan as well as a defined benefit plan that was closed as of 1 June 2013.

Defined benefit plan

A defined benefit pension plan is a pension scheme that defines the benefit an employee will receive on retirement. The pension is normally a set percentage of the employee's salary. Full pension entitlement requires 30–40 years' earnings. Employees without full entitlement have their pensions reduced proportionately. The liability recognised in the balance sheet for the defined benefit plans is the present value of the defined benefits at the balance sheet date less the fair value of the fund assets. The present value of future benefits in the pension plans earned at the balance sheet date is calculated using the accrued benefits method.

Positive and negative estimate deviations attributable to changes in actuarial assumptions or the base data are recognised in equity via other comprehensive income.

Plans with net pension assets are recognised at fair value in the balance sheet under non-current assets. Net pension liabilities for unfunded plans and non-fund-based plans covered through operations are classified as non-current liabilities.

The net pension cost for the period is included in employee benefit expenses, and comprises the sum of pension entitlements for the period, the interest expense on the calculated liability and the estimated return on the fund assets.

Defined contribution plan

A defined contribution plan is a pension plan where the Group pays a fixed contribution to a fund manager. The Group has no legal or other obligation to pay further contributions should the entity have insufficient funds to pay all employees their benefits in line with their entitlements for current and past periods. The contributions are recognised as employee benefit expenses as they fall due.

2.12 Provisions

Nordkraft recognises provisions for any present legal or constructive obligation as a result of past events where it is more than 50 per cent probable that an outflow of resources will be required to settle the obligation and the amount of the liability can be reliably estimated. If the probability is less than this, the circumstances are disclosed in the notes to the financial statements unless the probability of payment is very low. Provisions are recognised in the amount that expresses the best estimate of the expenses that will be required to settle the existing obligation at the balance sheet date.

2.13 Revenue recognition

Revenue is recognised when it is probable that transactions will generate future economic benefits that will flow to the company and the amount can be reliably estimated. Sales revenues are recognised net of value added tax and discounts.

2.13.1 Sales of power

The Group produces and sells energy to the Nordic Power Exchange. Revenue from power sales is recognised when the energy is supplied to the power exchange. Realised revenues and unrealised gains and losses associated with financial power trading are presented as sales of power.

2.13.2 Grid tariffs

Grid tariff revenues correspond to the volume supplied during the year billed at the tariff set for the supply year. The Power Grid business area is subject to a revenue ceiling set by the Norwegian Water Resources and Energy Directorate (NVE). Each year NVE sets a revenue ceiling for each grid owner. Grid tariff revenues may deviate from the level of income allowed by NVE. Revenues recognised in the income statement are the actual tariff revenues for the year. The difference between the revenue ceiling and actual tariff revenues gives rise to an income surplus or shortfall, which is not recognised in the balance sheet.

2.13.3 Operator revenues

Nordkraft provides customers with services related to the day-to-day operation and maintenance of power plants. The price of these services varies and depends on production, and accords with when the customer receives the benefits of the services provided. Revenue is recognised at the invoicing date.

2.13.4 Energy consultancy

The Group sells energy consultancy services. Revenue is recognised on delivery, at the fair value of the consideration received for the services.

2.13.5 Grid-related work

Nordkraft carries out construction and facilitation work relating to infrastructure that connects the customer to the electricity distribution grid. The costs associated with this work are billed to the customer that requested changes to the grid in accordance with Section 1-4 of the Control Regulations, and are invoiced on the basis of time spent. Revenue is recognised on completion.

2.13.6 Power plant development

The Group sells services associated with the development of power plants. Revenue from the sale of such services is recognised according to the percentage of completion

method, which corresponds to hours spent. The share of sales revenues relating to future services is recognised in the balance sheet as unearned income at the time of the sale and is thereafter recognised as revenue in line with delivery of the services.

2.14 Leases

Leases where a material portion of the risk and return associated with ownership still resides with the lessor are classified as operating leases. Payments for operating leases are expensed on a straight-line basis over the term of the lease. When the Group has substantially assumed all the risks and rewards of ownership of the underlying lease object, leases are classified as finance leases. The Group has no finance leases.

2.15 Standards, amendments and interpretations of existing standards that are not yet effective and have not been early-adopted by the group

Several new standards, amendments to standards and interpretations are mandatory in future annual financial statements. The most important of those that the Group has chosen not to early-adopt are listed below.

- **IFRS 16 Leases** specifies principles for the recognition, measurement and presentation of leases and for disclosures concerning leases in the notes to the financial statements. The standard requires lessees to recognise assets and liabilities for most leases in the balance sheet. There are two exceptions to this requirement of recognition: leases for low-value assets and short-term leases with a term of up to 12 months. The standard enters into force on 1 January 2019 and will result in the recognition of assets of NOK 9.3 million and liabilities of NOK 8.9 million.
- **IAS 19 Employee Benefits** clarifies the accounting treatment of changes in pension plans. The amendment means **xxxx**
- **IFRS 3 Business Combinations** clarifies the accounting treatment of step acquisitions. The amendment is not expected to have a material impact on the consolidated financial statements.

Note 3 » Financial risk management

The aim of Nordkraft's risk management is to identify risks and opportunities facing the Group, and manage these in the best possible way within the Group's risk appetite with the aim of achieving the Group's objectives. Risk management should be an integral part of all major decision-making processes in the Group and is the responsibility of the business area concerned. Limits and guidelines for risk

management are given in policies approved by the Board and controls built into the Group's business processes.

Nordkraft's business is exposed to various types of financial risk. There is inherent financial risk associated with the power market, but the Group is also exposed to foreign exchange risk, interest rate risk, liquidity risk and to a lesser extent credit risk. Nordkraft uses financial derivatives to hedge certain financial risk exposures. Financial risk factors that are common to the various business areas are managed centrally.

3.1 Power price and volume risk

Nordkraft is exposed to risk in the power market in relation to its activities as a producer and operator. The Group owns eight hydropower stations and operates a wind farm and 14 small-scale power plants, where operator revenue is dependent on production volume. Power price fluctuations, together with factors (primarily weather conditions) that affect production volumes, are of significance for the profitability of the production activities.

The Group has mean production of 0.9 TWh. The volume comes entirely from reservoir-fed hydropower plants, which allows for a good degree of regulation. With a power price of 20.9 øre/kwh, a 10 per cent increase/decrease in the production volume would result in an increase/decrease in operating revenues of NOK 20 million. Nordkraft buys financial instruments to reduce its power price risk. In year 1 a maximum of 80 per cent of the expected production volume may be hedged, while a maximum of 50 per cent and 20 per cent may be hedged in years 2 and 3 respectively. There is no minimum hedging requirement. Standardised derivatives such as futures are used to achieve the desired risk-reducing effect for power portfolios. All hedging instruments are traded on and cleared through the Nordic power exchange, Nasdaq OMX Commodities. Financial hedging is carried out in relation to the system price, and the Group remains exposed to price risk in that physical production and sales of power are settled according to the area price for NO4. In periods when the area prices deviate significantly from the system price, this will impact the effectiveness of the hedging. There is no liquid market for hedging this risk using contracts for area price differences. Power derivatives are recognised at fair value through profit or loss. All other factors remaining constant, a 1 øre/kwh change in the forward curve would increase/decrease profits by NOK 2.4 million as of 31 December 2017 (2016: NOK 2.7 million).

3.2 Currency risk

Nordkraft operates on the European Power Exchange and Nasdaq OMX, where all trading is in EUR. Currency risk arises from financial trading transactions and from settlement of physical sales and purchases of power. Nordkraft reduces currency risk by entering into forward contracts within set

limits derived from the expected production volume. In year 1 a maximum of 30 per cent of the expected production revenues may be currency-hedged, while a maximum of 20 per cent of the volume may be currency-hedged in years 2 and 3. Forward exchange contracts are used to reduce currency risk. The currency derivatives are recognised at fair value through profit or loss. All other factors remaining constant, a 50 point change in the EUR/NOK exchange rate would have an effect on pre-tax profits of around NOK 7 million as a result of changes in the value of the currency derivatives as of 31 December 2018.

3.3 Interest rate risk

Nordkraft's operating revenues and cash flow from operating activities are largely independent of interest rate fluctuations. The exception is the Power Grid business area, where the revenue ceiling established by the authorities contains an interest element linked to the return on invested

capital. The permitted return in the Power Grid operations is partly based on the year's average effective interest rate for 5-year swap contracts plus a mark-up. The operating revenues for the Power Grid operations in a particular financial year correspond to the company's tariff income, while changes in the revenue ceiling will result in changed tariff income over time. A one percentage point change in the interest rate would result in a NOK 2 million increase/decrease in the revenue ceiling (supplement for BEAS).

The Group is exposed to interest rate risk associated with its interest-bearing liabilities. In the case of loans with variable interest, changes in interest rates will impact the Group's cash flow. The loans are recognised in the balance sheet at amortised cost in accordance with IAS 39. Interest rate derivatives can be used to reduce fluctuations in cash flow associated with financial expense. As at 31 December 2018 the Group had no interest hedges. A 1 per cent change in interest rates would affect net profit for the year by around NOK 8 million.

3.4 Liquidity risk

Liquidity risk is the risk that cash flows from the business do not correspond with financial liabilities. Liquidity risk management at Nordkraft involves maintaining a sufficient level of liquid assets and ensuring the availability of sufficient funding from drawdown facilities. The cash flows from the business areas will vary according to a number of factors including market price levels. Unused drawdown facilities as of 31 December 2018 were NOK 5 million. See also Note 18.

Maturity profile for non-derivative financial items:

Amounts in NOK thousand	0-6 months	6-12 months	1-3 years	3-5 years	Total
2018	83 629	12 786	51 142	916 393	1 063 950
2017	11 850	10 235	210 940	895 118	1 128 143

Maturity profile for derivative financial liabilities: 2018

Amounts in NOK thousand	0-3 months	3-6 months	6-9 months	9-12 months	1-3 years	Total
Foreign exchange contracts	-26 929	-16 572	-17 092	-22 719	-64 334	-147 646
of which currency buybacks	25 692	15 941	16 388	21 599	63 801	143 420
Total book values	-1 237	-631	-704	-1 120	-534	-4 226

2017

Amounts in NOK thousand	0-3 months	3-6 months	6-9 mnd	9-12 mnd	1-3 years	Total
Interest rate swaps	-	-1 784	-	-	-	-1 784
Power contracts	-2 262	1 694	544	-	-44	-68
Foreign exchange contracts	-36 972	-10 877	-10 659	-39 292	-57 740	-155 539
of which currency buybacks	34 612	10 121	9 921	36 738	54 302	145 694
Total book values	-4 622	-846	-194	-2 554	-3 482	-11 697

3.5 Credit risk

Nordkraft has no significant concentration of credit risk due to the main debtors being private individuals and companies invoiced for grid tariffs. Physical power sales take place via Nord Pool. Counterparty risk relating to power trading activities is minimised by the fact that all contracts are cleared through Nasdaq OMX Commodities. All electricity certificates are traded as bilateral agreements, either directly or through brokers. Nordkraft is now more active as an operator of third-party power plants and the receivables associated with this role can be significant. When a contract is signed Nordkraft assesses the counterparty's credit risk and any payment defaults can be offset against power revenues from the power plants.

Trade receivables as of 31 December, maturity profile:

Amounts in NOK thousand	Not yet due	<30 days	30-60 days	60-90 days	90-120 days	>120 days	Total
2018	48 721	4 274	601	777	632	379	55 385
2017	33 109	2 491	522	381	206	2 359	39 068

3.6 Measurement of fair value

Financial instruments

The table below shows financial instruments at fair value according to their level in the measurement hierarchy. The different levels are defined as follows:

1. Quoted price in an active market for an identical asset or liability (level 1)
2. Valuations based on observable factors other than quoted prices (level 1), either directly (prices) or indirectly (derived from prices), for the asset or liability (level 2).
3. In cases where it is not appropriate to use the quoted price or the transaction value, discounted future cash flows are used as well as the Group's own estimates.

The following table presents the Group's financial assets and liabilities measured at fair value:

2018

Amounts in NOK thousand	Level 1	Level 2	Level 3	Total
Power derivatives	1 053	-	-	1 053
Shares and interests	-	-	30 690	30 690
Total financial assets at fair value through profit or loss	1 053	-	30 690	31 744
Currency derivatives	-	4 226	-	4 226
Total financial liabilities at fair value through profit or loss	-	4 226	-	4 226

2017

Amounts in NOK thousand	Level 1	Level 2	Level 3	Total
Shares and interests	-	-	27 924	27 924
Total financial assets at fair value through profit or loss	-	-	27 924	27 924
Power derivatives	68	-	-	68
Currency derivatives	-	9 845	-	9 845
Interest rate derivatives	-	1 784	-	1 784
Total financial liabilities at fair value through profit or loss	68	11 629	-	11 697

Financial instruments at level 1

The fair value of financial instruments that are traded in active markets is the market price at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, broker, industry group, pricing service or regulatory authority, and these prices represent actual and regularly occurring market transactions on an arm's length basis. Power derivatives are traded on the Nordic power exchange Nasdaq OMX Commodities and measured based on current prices on Nasdaq OMX Commodities at the balance sheet date.

Financial instruments at level 2

The fair value of financial instruments that are not traded in an active market. The value is determined using valuation techniques. These valuation techniques maximise the use of observable data where available and are based to the least possible extent on the Group's own estimates. The fair value of interest rate swaps is calculated as the present value of estimated future cash flows based on quoted swap rates at the balance sheet date. The fair value of forward exchange contracts is calculated based on rates quoted in the forward market at the balance sheet date.

Financial instruments at level 3

Shares and interests classified as available for sale are measured based on discounted future cash flows.

Other financial instruments

For other financial instruments the carrying amount is considered to be a reasonable approximation of fair value. This applies to lending, receivables, trade receivables, bank deposits, interest-bearing liabilities and trade payables.

Note 4 » Accounting estimates and judgements

Preparation of the consolidated financial statements requires the company's management to make assessments, estimates and assumptions that affect the amounts reported in the income statement, balance sheet and notes. Estimates and assumptions are based on historical experience and other factors, including expectations of future events that are regarded as reasonable. Estimates and assumptions may change over time and are reviewed on an ongoing basis. Actual figures may differ from accounting estimates, however. The effect on earnings of any deviations or changed estimates and assumptions are recognised in the period in which these occur, or in the periods to which such deviations relate. The following estimates and assumptions are of material significance for the consolidated financial statements:

Estimated impairment of intangible assets and property, plant and equipment

The Group has recognised significant carrying amounts for property, plant and equipment, intangible assets and invest-

ments in associates and joint ventures. These assets are tested for impairment where there are indications of a possible reduction in value such that there is a risk that the carrying amount may exceed the recoverable amount. The recoverable amount from cash-generating units is established using calculations of value in use. These calculations require the use of estimates (see Note 12). The carrying amounts of perpetual intangible assets are tested for impairment each year. Impairment testing could result in significant losses having to be recognised in connection with capitalised assets.

Property, plant and equipment

Property, plant and equipment is depreciated over its expected useful life. Expected useful lives are estimated based on experience, history and discretionary judgements, and are adjusted to reflect any changes in expectations. When determining depreciation, account is taken of residual values. Residual values are also assessed on the basis of estimates.

Deferred tax assets

Deferred tax assets are recognised in the balance sheet where it is probable that they will be utilised, which involves the exercise of judgement. The Group has deferred tax assets for negative resource rent income carried forward, and these are recognised net against deferred tax. Deferred tax assets relating to resource rent income carried forward are recognised in the balance sheet in the amount that is expected to be utilised within a time horizon of 10 years. The timing of utilisation of negative resource rent income is estimated based on expected future revenues.

Fair value of derivatives and other financial instruments

The fair value of financial instruments that are not traded in an active market, such as over-the-counter derivatives, is determined using valuation techniques. As far as possible the Group assesses and selects techniques and assumptions that are based on market conditions at the balance sheet date. For financial assets classified as available for sale that are not traded in an active market, the Group uses a valuation model involving discounted future cash flows.

Pensions

The net pension liability is estimated by an actuary. The estimates are based on the company's specific circumstances and on the recommendations in the guidance from the Norwegian Accounting Standards Board on the determination of pension assumptions according to IAS 19 Employee Benefits. Any change in such assumptions will affect the carrying amount of the pension liability, and could have a material impact on the pension liability and equity. Note 19 shows the assumptions used by the Group. A 0.5 percentage point change in the discount rate would result in a 5 per cent change in gross pension liabilities.

Note 5 » Operating revenues

Other operating revenues by category:

Amounts in NOK thousand	2018	2017
Operator revenues	32 339	28 250
Energy consultancy	15 674	12 343
Fibre	44 480	9 411
Grid-related work, external	8 106	16 879
Development wind and small-scale power plants	12 691	17 067
Other operating revenues	15 711	2 598
Total other operating revenues	129 001	86 549

Note 6 » Employee benefit expenses

Amounts in NOK thousand	2018	2017
Employee benefit expenses		
Salaries	94 900	79 223
Employer's national insurance contributions	4 179	7 063
Pension costs, defined contribution	6 266	3 051
Pension costs, defined benefit	7 530	8 244
Board fees	1 003	1 040
Other employee benefit expenses	4 066	6 507
Total employee benefit expenses	117 943	105 128
Employees and full-time equivalents		
Number of employees	132	129
Number of full-time equivalents	131	126
Of which apprenticeships	6	7

No agreements concerning stock options have been made with employees, the Board of Directors or related parties. Employees may be granted interest-free personal loans within the rules set by the Norwegian Tax Administration. The maximum loan is 3/5 of the National Insurance Scheme's basic amount, to be repaid within one year. In addition, a loan scheme has been established for amounts of up to six times monthly salary, to be repaid over a maximum of five years, with interest calculated in accordance with the standard interest rate for loans from an employer.

Receivables from employees totalled NOK 8.7 million at year-end, compared with NOK 8.6 million as of 31 December 2017.

Nordkraft is organised into three business areas and three group-wide support functions. Each of these is led by a section manager who reports to the CEO; together with the CEO, they make up the Group management team.

Amounts in NOK thousand	Salaries	Other benefits	Pension costs
Remuneration to senior executives			
CEO	2 499	142	685
Other Group management	8 112	119	108
Total	10 611	261	793

The CEO is covered by the Group's collective service-based occupational pension plan and also has an agreement concerning supplementary pension focusing mainly on early retirement. The CEO has a right and an obligation to take early retirement between the ages of 60 and 67. The pension upon early retirement will equal his fixed salary at the time of his 60th birthday less any other paid work. A pension fund has been established into which an annual premium is paid to cover early retirement. Nordkraft bears the risk for returns associated with the pension fund. In the event of termination of employment by the Board of Directors, the CEO is entitled to his salary for a further year following the notice period, less any salary or other remuneration that he receives from third parties.

Note 7 » Other operating expenses

Amounts in NOK thousand	2018	2017
Other operating expenses		
Property tax, licence fees etc.	17 500	17 402
Purchase of materials	10 401	8 321
Maintenance costs	12 497	9 689
Purchase of services	8 040	14 841
ICT costs	12 517	9 630
Rent, electricity etc.	6 095	4 181
Travel expenses	3 119	2 882
Sales and marketing costs	3 037	3 257
Insurance	2 717	3 173
Other operating expenses	4 361	12 180
Own investment activities capitalised	(27 420)	(25 324)
Total	52 863	60 233

Amounts in NOK thousand	2018	2017
Auditor's remuneration		
Audit fees	1 015	979
Certification services	10	24
Other assistance	515	124
Total	1 540	1 127

Note 8 » Financial income and expenses

Amounts in NOK thousand	2018	2017
Financial income		
Interest income	3 397	3 486
Other financial income	208	188
Change in fair value, currency/interest rate derivatives	7 403	-
Return on equities	-	1 514
Foreign exchange gains	5 222	8 947
Dividend	34	9
Total financial income	16 265	14 145
Financial expenses		
Interest expenses	26 410	28 298
Change in fair value, currency/interest rate derivatives	1 734	11 803
Loss on realisation of shares	40	-
Foreign exchange losses	9 338	6 955
Other financial expenses	3 007	3 904
Total financial expenses	40 528	50 960
Net financial items	(24 263)	(36 815)

Note 9 » Investments in associates and joint ventures

The Group's associates and joint ventures as of 31 December 2018 are specified below. All the companies have only ordinary shares.

Amounts in NOK thousand	Year of acquisition	Cost	Carrying amount	Registered office	Shareholding	Voting share
Polar Kraft AS	17.11.1998	37 263	42 950	Narvik	33,33 %	33,33 %
Narvik Kapital AS	07.10.2004	6 015	1 500	Narvik	30,53 %	30,53 %
Ågskarkraft AS	01.01.2008	3 125	1 500	Mo i Rana	34,10 %	34,10 %
Total investments in associates			45 950			

Polar Kraft (formerly Kraftinor) AS supplies electricity to end-users both locally and nationally, and is owned jointly with Lofotkraft Holding AS and Salten Kraftsamband AS. Ågskarkraft AS is a small power company with power plants in operation. The company Narvik Kapital AS focuses on industrial development in the Narvik region. The shares in Futurum AS were sold to Narvik Municipality in June 2018.

There are no contingent liabilities associated with the Group's investments in associates.

Amounts in NOK thousand	2018	2017
Carrying amount 1 January	62 368	56 139
Additions/disposals	-3 121	-
Share of profit	20 942	14 047
Amortisation of goodwill for the year	-742	-1 068
Dividend	-33 499	-6 750
Carrying amount 31 December	45 950	62 368
Goodwill as of 31 December	3 091	5 563

The Group's share of profit of associates:

Amounts in NOK thousand	Net profit for the year
Polar Kraft AS	21 200
Narvik Kapital AS	-1 000
Ågskarkraft AS	-
Sum	20 200

Note 10 » Tax

Amounts in NOK thousand	2018	2017
Tax expense for the year can be broken down as follows		
General income tax payable	12 668	10 272
Adjustment of previous years' tax	-2 025	2 414
Resource rent tax	33 920	8 374
Change in deferred tax, temp. differences	50 935	18 072
Total tax expense	95 498	39 132
Tax payable in the balance sheet		
	31.12.2018	31.12.2017
Tax payable on net profit for the year	12 668	9 930
Resource rent tax	33 920	8 374
Natural resource tax	9 999	9 868
Offset natural resource tax for previous years	-12 669	-8 360
Tax effect of Group contributions paid	-	-936
Tax payable in the balance sheet	43 918	18 876

The tax expense differs from the amount that would have resulted had the nominal tax rate for general income been applied to the profit before tax. The difference is reconciled below:

Amounts in NOK thousand	2018	2017
Calculation of tax expense for the year		
Profit before tax	195 014	159 522
Tax calculated at nominal tax rate	44 853	38 285
Resource rent tax	68 935	20 526
Adjustment for previous years	-2 766	2 414
Increase in resource rent tax carryforward from increased tax rate	-4 660	-5 830
Change in deferred tax liability from reduced tax rate	3 438	-1 630
Sales and change in value of shares	-4 330	-10 545
Dividend received	-8	2
Other permanent differences	-419	66
Share of profit of associates	-4 646	-3 115
Effect of deferred tax recognised in equity	-3 865	-
Other differences	-1 035	-1 042
Total tax expense	95 498	39 132
Effective tax rate	49 %	25 %

Change in deferred tax:

	Property, plant and equipment and intangible assets	Current assets	Gains and losses account	Pensions	Loans and liabilities	Tax loss carryforward	Total
Deferred tax as of 31 December 2017	609 762	-17 136	-6 579	-2 774	-27 849	-154 973	400 451
Recognised in income in the period	20 948	-8 262	1 462	-3 482	5 011	35 258	50 935
Recognised in other comprehensive income in the period				-5 585			-5 585
Deferred tax as of 31 December 2018	630 710	-25 398	-5 117	-11 841	-22 838	-119 715	445 801

Deferred tax is recognised in the balance sheet when the Group has a legal right to offset deferred tax assets against deferred tax liabilities. Deferred tax assets associated with negative resource rent income meet the requirements for offsetting.

Note 11 » Property, plant and equipment

Amounts in NOK thousand	Production sites	Machinery, equipment etc.	Buildings and land	Grid facilities	Projects under development	Total
As of 31 December 2016						
Cost	2 933 671	89 590	181 797	437 137	64 604	3 706 798
Accumulated depreciation	-1 307 428	-58 190	-56 047	-210 275		-1 631 941
Accumulated impairment					-38 426	-38 426
Carrying amount 31 December 2016	1 626 243	31 400	125 750	226 861	26 178	2 036 432
2017 financial year						
Additions during the year	198		820	54 096	7 626	62 740
Acquisitions		12 274		59 969	75	72 318
Disposals during the year	-52 341	-835	-101			-53 277
Disposals – accumulated depreciation	1 057	428	58			1 543
Depreciation 2017	-35 374	-4 752	-2 950	-12 143		-55 219
Impairment 2017					6 226	6 226
Carrying amount 31 December 2017	1 539 783	38 515	123 577	328 784	40 105	2 070 763
As of 31 December 2017						
Cost	2 881 540	100 644	182 617	550 262	64 584	3 779 647
Accumulated depreciation	-1 341 757	-62 129	-59 040	-221 478		-1 684 405
Accumulated impairment					-24 479	-24 479
Carrying amount 31 December 2017	1 539 783	38 515	123 577	328 784	40 105	2 070 763
2018 financial year						
Additions during the year	22 033	898		46 738	11 713	81 382
Transferred from projects under development		4 035			-4 035	
Disposals during the year		-612			-10 604	-11 216
Disposals – accumulated depreciation		601				601
Depreciation 2018	-34 759	-5 270	-2 938	-12 203		-55 170
Impairment 2018						
Carrying amount 31 December 2018	1 527 057	38 167	120 639	363 319	37 179	2 086 360
As of 31 December 2018						
Cost	2 903 573	104 965	182 617	597 000	44 985	3 833 140
Accumulated depreciation	-1 376 516	-66 798	-61 978	-233 681		-1 738 973
Accumulated impairment					-7 806	-7 806
Carrying amount 31 December 2018	1 527 057	38 167	120 639	363 319	37 179	2 086 360
Depreciation rate	0-20%	3,3-33,3%	0-10%	2,9-6,7%		

Several of Nordkraft's assets have a long useful life. This applies to both property, plant and equipment and intangible assets. Valuation and useful life are based on forward-looking information that is subject to uncertainty. The greatest uncertainty is associated with the value of intangible assets. Intangible assets are primarily measured and recognised in the balance sheet based on the company's own valuations, and generally derive from the company's acquisition of new operations. The sum total of all added value from acquisitions is deemed to represent the market value (fair value) of the total assets, and the allocation to different types of assets is derived from this. Property, plant and equipment are recognised in the balance sheet at cost, and if they have a limited useful life they are systematically depreciated over their useful life. The disposal value is taken into account.

The carrying amounts of perpetual intangible assets are tested for impairment each year. If there are indications of a possible fall in value, both intangible assets and property, plant and equipment are subject to immediate impairment testing. If the impairment tests indicate that the carrying amounts are no longer recoverable, assets are written down to their recoverable amounts. Impairment testing is carried out by identifying and discounting the cash flows linked to the cash-generating units (recoverable amount/value in use). See Note 5 Segment reporting for a breakdown of intangible assets and property, plant and equipment by segment.

The table below shows forecast assumptions for the impairment testing performed:

	Discount rate before tax	Terminal year	Growth in terminal year
Production	6,5 %	2024	2,5 %
Power Grid	5,0 %	2024	2,5 %
Other	6,5 %	2024	2,5 %

The impairment testing performed is based on budgets for 2018, forecasts for the subsequent three years and thereafter projections of the cash flows up until the terminal year. Future cash flows are based on a number of assumptions. The level and development of power prices are key to the profitability of the Production business area. Impairment testing is based on the system forward price for power quoted on Nasdaq OMX up to 2027, and thereafter on power analysts' price forecasts. Normal production is assumed, based on 10 years of historical hydropower data. The discount rate used is based on the Group's cost of capital and uses a weighted average required rate of return for equity and loan capital (WACC) for the Group. The calculations for 2017 indicate that no impairment need be applied to assets. The recoverable amounts are significantly higher than the carrying amounts and a reasonable change in the assumptions applied in impairment testing would not have resulted in the recognition of any impairment losses.

As of 31 December 2018 Nordkraft's total future lease liabilities associated with buildings, means of transport and equipment totalled NOK 12.1 million.

Amounts in NOK thousand	Total lease liabilities	>2024	2023	2022	2021	2020	2019
Lease liabilities							
Buildings	6 819	3 422	684	684	684	684	660
Means of transport	4 348	652	782	877	896	896	244
Fixtures, fittings and other equipment	902				199	327	377
Total lease liabilities	12 070	652	782	877	1 095	1 223	621

The leases are operating leases and have varying payment dates, price-regulation clauses and lease extension rights. In 2018 lease payments amounting to NOK 0.9 million were recognised in the income statement for the lease of office premises and equipment.

Note 12 » Intangible assets

Amounts in NOK thousand	Waterfall rights	Concessionary power rights	Other intangible assets	Total
As of 31 December 2016				
Cost	360 387	125 511	2 591	488 489
Accumulated amortisation	-2 464	-31 696	-2 052	-36 211
Carrying amount 31 December 2016	357 923	93 815	539	452 277
2017 financial year				
Disposals during the year	-27 024			-27 024
Amortisation of disposals	2 464			2 464
Amortisation		-1 749		-1 749
Carrying amount 31 December 2017	333 363	92 066	539	425 968
As of 31 December 2017				
Cost	333 363	125 511	2 591	461 465
Accumulated amortisation		-33 445	-2 052	-35 497
Carrying amount 31 December 2017	333 363	92 066	539	425 968
2018 financial year				
Amortisation		-1 795		-1 795
Carrying amount 31 December 2017	333 363	90 271	539	424 172
As of 31 December 2018				
Cost	333 363	125 511	2 591	461 465
Accumulated amortisation		-35 240	-2 052	-37 292
Carrying amount 31 December 2018	333 363	90 271	539	424 173
Depreciation rate		1,4 %		

Note 13 » Financial instruments

The following principles for the subsequent measurement of financial instruments have been applied to financial assets and liabilities recognised in the balance sheet:

Amounts in NOK thousand	Assets at fair value through profit or loss	Available for sale	At amortised cost	Total
Assets as of 31 December 2018				
Non-current receivables	-	-	410	410
Shares and interests	-	30 690	-	30 690
Derivatives	9 671	-	-	9 671
Trade and other receivables	-	-	190 342	190 342
Cash and cash equivalents	-	-	102 164	102 164
Total financial assets as of 31 December 2018	9 671	30 690	292 917	333 278
Assets as of 31 December 2017				
Non-current receivables	-	-	444	444
Shares and interests	-	27 924	-	27 924
Derivatives	9 761	-	-	9 761
Trade and other receivables	-	-	193 248	193 248
Cash and cash equivalents	-	-	126 004	126 004
Total financial assets as of 31 December 2017	9 761	27 924	319 696	357 380

Amounts in NOK thousand	Liabilities at fair value through profit or loss	Other financial liabilities	Total
Liabilities as of 31 December 2018			
Liabilities to credit institution	-	980 000	980 000
Derivatives	4 226	-	4 226
Trade and other current payables	-	283 885	283 885
Total financial liabilities as of 31 December 2018	4 226	1 263 885	1 268 111
Liabilities as of 31 December 2017			
Liabilities to credit institutions	-	1 060 000	1 060 000
Derivatives	11 629	-	11 629
Trade and other current payables	-	356 686	356 686
Total financial liabilities as of 31 December 2017	11 629	1 416 686	1 428 315

Changes in financial assets at fair value through profit or loss are recognised in the income statement as Other losses/(gains) – net, and also in financial items. See also Note 6 and Note 9.

Nordkraft hedges some of its production volume to reduce power price risk. Power derivatives are recognised at fair value through profit or loss.

Interest rate swaps have been used to replace variable interest rates with fixed rates. As at 31 December 2018 there are no interest rate swaps. The nominal principal of outstanding interest rate swaps as of 31 December 2017 was NOK 310 million. The variable interest rates were NIBOR-based.

In 2018 and 2017 Nordkraft entered into forward exchange contracts. The nominal amount outstanding as of 31 December 2018 is NOK 143.4 million (2017: NOK 145.7 million).

Forward contracts and interest rate swaps are recognised at fair value through profit or loss.

Note 14 » Trade and other receivables

Amounts in NOK thousand	31.12.2018	31.12.2017
Trade receivables		
Grid tariff receivables	23 599	23 542
Other trade receivables	32 375	16 266
Bad debt provision	-590	-740
Trade receivables – net	55 384	39 068
Other receivables		
Loans and advances to employees	8 728	8 629
Consideration for sale of shares, not yet due	-	70 404
Natural resource tax carryforward	56 566	59 168
Other current receivables	69 664	9 772
Sum andre kortsiktige fordringer	134 958	147 973

The fair value of trade and other receivables corresponds to their carrying amount.
See Note 3 for further details.

Note 15 » Cash and cash equivalents

Amounts in NOK thousand	31.12.2018	31.12.2017
Cash and cash equivalents, group account	81 558	108 039
Cash and cash equivalents, non-group account	20 607	17 965
Total cash and cash equivalents	102 164	126 004

Of cash and cash equivalents, the following have been pledged to counterparties as security:

Amounts in NOK thousand	31.12.2018	31.12.2017
Custodian account in connection with sales of power on power exchange	41 030	11 974
Restricted bank deposits, tax deductions	6 528	4 930
Other restricted bank deposits	13	611
Total restricted bank deposits	47 571	17 516

The Group has a group account scheme in which the participating companies have joint and several liability. Nordkraft AS is the only company to have direct balances with the bank, while deposits and withdrawals on the subsidiaries' accounts are regarded as intra-group balances. The group account scheme allows the companies in the Group to draw on the Group's collective bank deposits.

The Group's undrawn overdraft facilities totalled NOK 5 million at year-end.



Sildvik Hydropower Plant. Marius Larsen and Torbjørn Sneve.

Note 16 » Share capital and share premium account

Amounts in NOK thousand	Number of shares	Par value	Share capital	Share premium	Total
Per 31 desember 2017	43 810	4	175 242	404 020	579 262
Per 31 desember 2018	43 810	4	175 242	404 020	579 262

Nordkraft AS's share capital consists of one class of share. All shares confer equal voting rights.

List of shareholders in Nordkraft AS as of 31 December 2018:

	Shares	Shareholding
Narvik Municipality	21 910 044	50,01 %
Jämtkraft AB	12 266 930	28,00 %
Hålogaland Kraft AS	7 298 309	16,66 %
Troms Kraft AS	2 335 181	5,33 %
Total	43 810 464	100,00 %

A shareholder agreement exists between the owners. There were no changes to the ownership structure in 2018.

Note 17 » Other current liabilities

Amounts in NOK thousand	31.12.2018	31.12.2017
Accrued interest expenses not yet due	4 998	5 551
Accrued holiday pay	9 720	8 290
Deferred income	157 748	175 937
Purchase consideration, not yet due	-	71 365
Other accrued costs	20 798	24 911
Total other current liabilities	193 264	286 053

Note 18 » Borrowings

2018

Amounts in NOK thousand	Loans 1 Jan 2018	Repayments during the year	New borrowings	Loans 31 Dec 2018	Accrued interest	Repayments 2019	Loan maturity profile
Nordkraft AS	70 000	-	-	70 000	408	-	27.03.2019
Nordkraft Magasin AS	750 000	-	-	750 000	3 448	-	27.03.2022
Nordkraft Magasin AS	100 000	100 000	-	-	-	-	-
Nordkraft Nett AS	140 000	-	20 000	160 000	1 102	-	27.03.2022
Total non-current interest-bearing liabilities	1 060 000	100 000	20 000	980 000	4 958	-	

The Group refinanced its long-term borrowings on 27 March 2017. The loan agreements were entered into with DNB, Swedbank and Sparebanken Narvik jointly.

2017

Tall i 1 000 NOK	Loans 1 Jan 2018	Repayments during the year	New borrowings	Loans 31 Dec 2017	Accrued interest	Repayments 2018	Loan maturity profile
Nordkraft AS	180 000	110 000	-	70 000	348	-	27.03.2019
Nordkraft Magasin AS	1 100 000	350 000	-	750 000	2 958	-	27.03.2022
Nordkraft Magasin AS	-	-	100 000	100 000	497	-	27.03.2019
Nordkraft Nett AS	140 000	-	-	140 000	832	-	27.03.2022
Sum langsiktig rentebærende gjeld	1 420 000	460 000	100 000	1 060 000	4 635	-	

The Group's borrowings are exposed to interest rate changes in the market associated with the term of the loan portfolio.

Nordkraft has loan covenants prohibiting the pledging of assets as loan security. The agreements contain provisions stating that no material assets are to be purchased or sold except with consent. Changes in the ownership of Nordkraft must be approved by the lender.

The loan agreements contain certain financial covenants, including a minimum of 28 per cent of recognised equity in the Group and an EBITDA/net interest expense ratio of at least 1.75. As of 31 December 2018 the Group had an equity ratio of 38 per cent and the EBITDA/net interest expense ratio was 1.2.

Project Sørfjord Wind Power Plant. Photo: Punsvik Foto.

Carrying amount of assets pledged as security:

Amounts in NOK thousand	31.12.2018	31.12.2017
Production sites	1 527 057	1 539 783
Grid facilities	363 319	328 784
Other non-current assets	195 984	202 197
Pledged in custodian account as security for power trading balance	41 030	11 974
Total book value as of 31 December	2 127 390	2 082 737
Pledged assets		
Bank accounts	11 974	11 974
Mortgages	980 000	1 060 000
Total pledged assets	991 974	1 071 974

Note 19 » Pension costs, liabilities and assets

Nordkraft currently has a defined contribution plan and also has a defined benefit plan that was closed as of 1 June 2013. The Group's various pension plans are arranged by pension funds and insurance companies. All employees are included in the collective pension plan in accordance with the Norwegian Mandatory Occupational Pensions Act. The pension plans are generally funded through contributions made by the companies at levels largely determined on the basis of actuarial calculations. Fund assets are measured at fair value at the end of the year. Pension liabilities (net present value of pension benefits accrued at the reporting date adjusted for expected future salary increases) are valued in accordance with best estimates based on assumptions at the reporting date. The actuarial calculations of pension liabilities have been prepared by an independent actuary. 79 employees were covered by defined benefit plans in Nordkraft's pension fund as of 31 December 2018.

Amounts in NOK thousand	31.12.2018	31.12.2017
Liability recognised in the balance sheet		
Present value of earned pension liabilities, defined benefit plans	310 413	285 613
Fair value pension assets	-267 661	-274 760
Net pension liability, defined benefit plans	42 751	10 853
Present value of pension liabilities for unfunded plans	10 266	6 351
Net pension liabilities in balance sheet (incl. employer's national insurance contributions)	53 017	17 205
Change in defined benefit pension liabilities during the year:		
Pension liabilities as of 1 January	285 613	237 361
Present value of accrued pension entitlements for the year	5 335	4 135
Employer's national insurance contributions	272	391
Interest expenses	6 617	6 077
Estimate changes	19 402	28 261
Pension benefits disbursed	-6 826	-7 514
Acquisitions	-	16 903
Pension liabilities as of 31 Decembe	310 413	285 613
Changes in fair value of pension assets over the year:		
Fair value of pension assets as of 1 January	274 760	249 839
Projected return on plan assets	6 741	6 401
Estimate changes	-3 871	13 533
Total contributions	-	982
Total payments from fund	-9 968	-6 942
Acquisitions	-	10 947
Fair value of pension assets as of 31 December	267 661	274 760

The minimum pension liability, which is the net present value of the pension liability based on current pensionable earnings accrued as of the reporting date of 31 December 2018, was NOK 270.1 million (2017: NOK 245.0 million). Expected contributions in 2019 total NOK 17.9 million.

The following financial assumptions have been applied:

	31.12.2018	31.12.2017
Financial and actuarial assumptions		
Discount rate	2,60 %	2,64 %
Projected return	2,60 %	2,64 %
Estimated annual salary increase	2,75 %	3,16 %
Adjustment of the National Insurance Scheme's basic amount	2,50 %	3,10 %
Adjustment of current pensions	1,75 %	2,35 %
Employer's national insurance contribution rate	5,1 %	5,1%/14,1 %



André Olsen, Raymond Kristensen and Arne Laborg at Taraldsvik Hydropower Plant.

The discount rate is calculated on the basis of a comprehensive interest rate curve that takes into account the fact that pension payments will fall due at various times in the future. The curve is calculated based on prices from the Norwegian Covered Bonds market as of 31 December 2018, as calculated by the Norwegian Accounting Standards Board.

The actuarial assumptions are based on the normal assumptions applied in the insurance industry: incapacity rates IR 73 and mortality table K2013.

The CEO has a separate pension agreement; see Note 7. The pension liability is shown in the line present value of unfunded pension liabilities.

The actual return on fund assets in 2018 was NOK -1.1 million (2017: NOK 23.3 million).

Amounts in NOK thousand	2018	2017
Pension costs		
Accrued pension benefits for the year	5 335	4 135
Interest expense on accrued pension liability	6 617	6 077
Projected return on plan assets	-3 598	-2 878
Employer's national insurance contributions	272	391
Recognised liabilities, acquisitions	-	519
Pension costs, defined benefit plans	8 625	8 244
Pension costs, defined contribution plans	5 170	3 051
Total pension costs	13 795	11 294

Note 20 » Contingent liabilities

Sale and development of Sørfjord wind farm

Nordkraft has sold the rights to construct Sørfjord wind farm to Fortum, which is project-managing the wind power development. To allow for any latent liabilities Nordkraft has set aside NOK 95 million.

Note 21 » Companies included in the scope of consolidation

Company	Registered office	Ownership/voting rights %
Nordkraft AS	Narvik	100,0
Nordkraft Magasin AS	Narvik	100,0
Nordkraft Produksjon AS	Narvik	100,0
Nordkraft Nett AS	Narvik	51,0
Nordkraft Vind AS	Narvik	100,0
Enerconsult AS	Narvik	100,0
Nordkraft Prosjekt AS	Narvik	100,0
Nordkraft Energidrift AS	Narvik	100,0
Skognes og Stordalen Kraftlag AS	Narvik	100,0
Arctic Renewables AS	Narvik	76,0



Auditor's report



BDO AS
Storåkeren 11
9411 Harstad

Uavhengig revisors beretning

Til generalforsamlingen i Nordkraft AS

Uttalelse om revisjonen av årsregnskapet

Konklusjon

Vi har revidert årsregnskapet til Nordkraft AS.

Årsregnskapet består av:

- Selskapsregnskapet, som består av balanse per 31. desember 2018, resultatregnskap og kontantstrømoppstilling for regnskapsåret avsluttet per denne datoen og noter, herunder et sammendrag av viktige regnskapsprinsipper, og
- Konsernregnskapet, som består av balanse per 31. desember 2018, resultatregnskap, oppstilling over endringer i egenkapital og kontantstrømoppstilling for regnskapsåret avsluttet per denne datoen og noter, herunder et sammendrag av viktige regnskapsprinsipper.

Etter vår mening:

- Er årsregnskapet avgitt i samsvar med lov og forskrifter
- Gir selskapsregnskapet et rettvise bilde av den finansielle stillingen til Nordkraft AS per 31. desember 2018 og av selskapets resultater og kontantstrømmer for regnskapsåret som ble avsluttet per denne datoen i samsvar med regnskapslovens regler og god regnskapsskikk i Norge
- Gir konsernregnskapet et rettvise bilde av den finansielle stillingen til konsernet Nordkraft AS per 31. desember 2018 og av konsernets resultater og kontantstrømmer for regnskapsåret som ble avsluttet per denne datoen i samsvar med International Financial Reporting Standards som fastsatt av EU.

Grunnlag for konklusjonen

Vi har gjennomført revisjonen i samsvar med lov, forskrift og god revisjonsskikk i Norge, herunder de internasjonale revisjonsstandardene International Standards on Auditing (ISA-ene). Våre oppgaver og plikter i henhold til disse standardene er beskrevet i Revisors oppgaver og plikter ved revisjon av årsregnskapet. Vi er uavhengige av selskapet slik det kreves i lov og forskrift, og har overholdt våre øvrige etiske forpliktelser i samsvar med disse kravene. Etter vår oppfatning er innhentet revisjonsbevis tilstrekkelig og hensiktsmessig som grunnlag for vår konklusjon.

Annen informasjon

Ledelsen er ansvarlig for annen informasjon. Annen informasjon består av årsberetningen, men inkluderer ikke årsregnskapet og revisjonsberetningen.

Vår uttalelse om revisjonen av årsregnskapet dekker ikke annen informasjon, og vi attesterer ikke den andre informasjonen.



I forbindelse med revisjonen av årsregnskapet er det vår oppgave å lese annen informasjon identifisert ovenfor med det formål å vurdere hvorvidt det foreligger vesentlig inkonsistens mellom annen informasjon og årsregnskapet, kunnskap vi har opparbeidet oss under revisjonen, eller hvorvidt den tilsynelatende inneholder vesentlig feilinformasjon.

Dersom vi, på bakgrunn av arbeidet vi har utført, konkluderer med at disse andre opplysningene inneholder vesentlig feilinformasjon, er vi pålagt å uttale oss om dette. Vi har ingenting å rapportere i så henseende.

Styret og daglig leders ansvar for årsregnskapet

Styret og daglig leder (ledelsen) er ansvarlig for å utarbeide årsregnskapet i samsvar med lov og forskrifter, herunder for at det gir et rettvise bilde for selskapsregnskapet i samsvar med regnskapslovens regler og god regnskapskikk i Norge, og for konsernregnskapet i samsvar med International Financial Reporting Standards som fastsatt av EU. Ledelsen er også ansvarlig for slik intern kontroll som den finner nødvendig for å kunne utarbeide et årsregnskap som ikke inneholder vesentlig feilinformasjon, verken som følge av misligheter eller utilsiktede feil.

Ved utarbeidelsen av årsregnskapet må ledelsen ta standpunkt til selskapets og konsernets evne til fortsatt drift og opplyse om forhold av betydning for fortsatt drift. Forutsetningen om fortsatt drift skal legges til grunn for årsregnskapet så lenge det ikke er sannsynlig at virksomheten vil bli avvirket.

Revisors oppgaver og plikter ved revisjonen av årsregnskapet

Vårt mål er å oppnå betryggende sikkerhet for at årsregnskapet som helhet ikke inneholder vesentlig feilinformasjon, verken som følge av misligheter eller utilsiktede feil, og å avgi en revisjonsberetning som inneholder vår konklusjon. Betryggende sikkerhet er en høy grad av sikkerhet, men ingen garanti for at en revisjon utført i samsvar med lov, forskrift og god revisjonsskikk i Norge, herunder ISA-ene, alltid vil avdekke vesentlig feilinformasjon som eksisterer. Feilinformasjon kan oppstå som følge av misligheter eller utilsiktede feil. Feilinformasjon blir vurdert som vesentlig dersom den enkeltvis eller samlet med rimelighet kan forventes å påvirke økonomiske beslutninger som brukerne foretar basert på årsregnskapet.

For videre beskrivelse av revisors oppgaver og plikter vises det til:
<https://revisorforeningen.no/revisjonsberetninger>

Uttalelse om øvrige lovmessige krav

Konklusjon om årsberetningen

Basert på vår revisjon av årsregnskapet som beskrevet ovenfor, mener vi at opplysningene i årsberetningen om årsregnskapet, forutsetningen om fortsatt drift og forslaget til anvendelse av overskuddet er konsistente med årsregnskapet og i samsvar med lov og forskrifter.

Konklusjon om registrering og dokumentasjon

Basert på vår revisjon av årsregnskapet som beskrevet ovenfor, og kontrollhandlinger vi har funnet nødvendig i henhold til internasjonal standard for attestasjonsoppdrag (ISAE) 3000 «Attestasjonsoppdrag som ikke er revisjon eller forenklet revisorkontroll av historisk finansiell informasjon», mener vi at ledelsen har oppfylt sin plikt til å sørge for ordentlig og oversiktlig

Revisjonsberetning



registrering og dokumentasjon av selskapets og konsernets regnskapsopplysninger i samsvar med lov og god bokføringskikk i Norge.

BDO AS

Knut Haugen
statsautorisert revisor
(elektronisk signert)

Penneo Dokumentnøkkel: MTCUJH-M4INT-XCBL1-ZCC18-6BDXW-A3ONW

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Revisjonsberetning

"Med min signatur bekrefter jeg alle datoer og innholdet i dette dokument."

Knut Aksel Haugen

Partner

Serienummer: 9578-5998-4-1983293

IP: 188.95.xxx.xxx

2019-05-14 12:24:36Z



Penneo Dokumentnøkkel: MTCUJH-M4INT-XCBL1-ZCC18-6BDXW-A3ONW

Uavhengig revisors beretning Nordkraft AS - 2018

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NORDKRAFT

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