

Annual Report 2017



Skagerak
Energi

Our values

Competent

We will use our knowledge and experience to reach ambitious goals and be recognised as a leader in our industry.

Responsible

We will create value while showing consideration for our employees, customers, society and the environment.

Innovative

We will think new thoughts, develop opportunities and create solutions.

Our vision

We shall be a forward-looking supplier of clean energy that contributes to social welfare, economic growth and development

Key figures

Operating revenues:

2,800

12 per cent increase from 2016

Operating profit:

1,134

100 per cent increase from 2016

Net profit for the year:

552

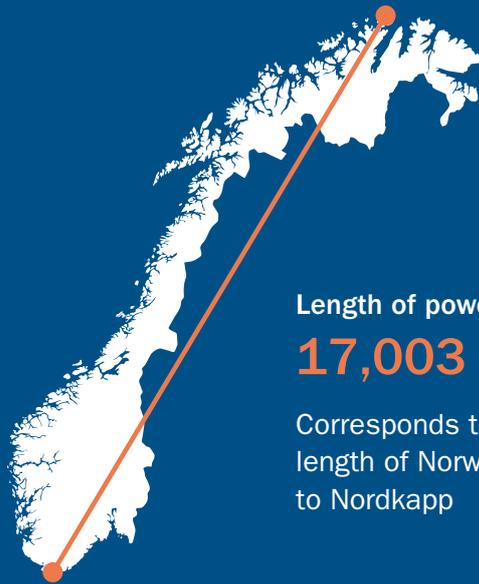
46 per cent increase from 2016

(figures in NOK million)

Operating margin:



22.8 per cent in 2016



Length of power grid:
17,003 km

Corresponds to ten times the length of Norway, from Lindesnes to Nordkapp

Enough electricity to power

371,000

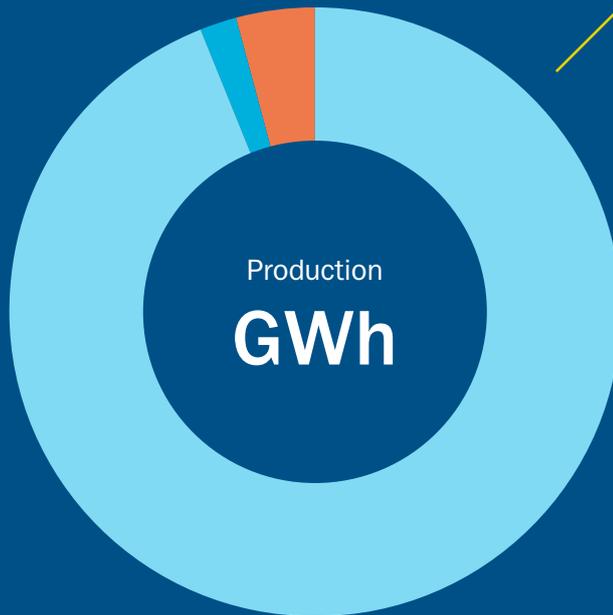
households



Sickness absence rate

2

Personal injuries



5,949

Power production

120

District heating

255

Gas



Employees

457/154

Managers

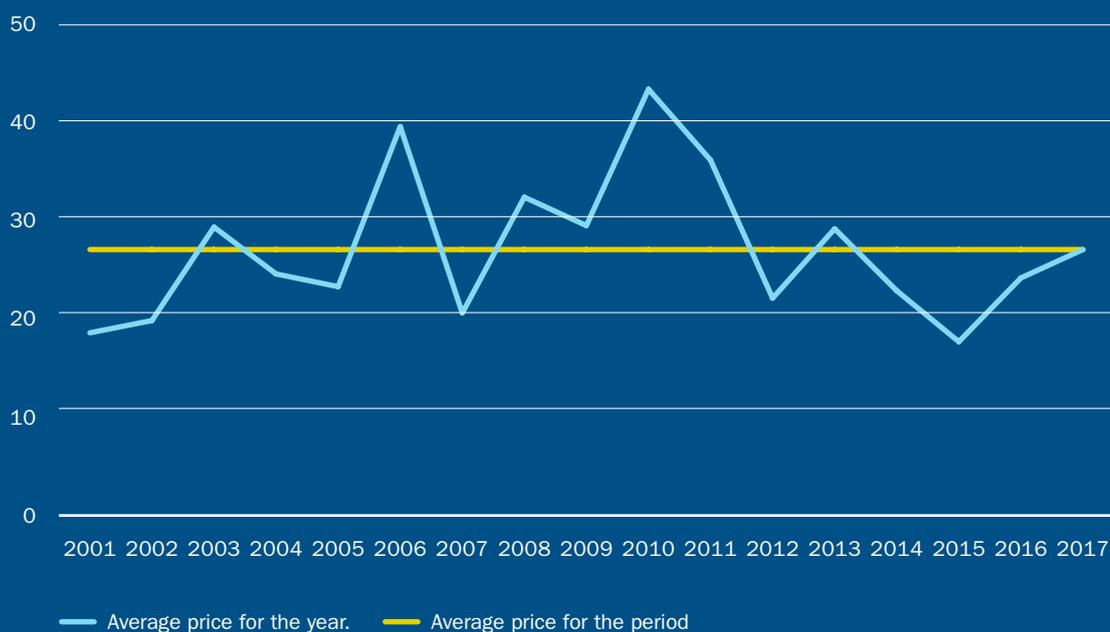
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Board of Directors

5/4



Power price development 2001–2017 (NOK/kWh)



Power prices in 2017

Power prices were low throughout the summer of 2017 due to heavy precipitation. During the autumn, prices rose as a result of higher consumption and higher prices for coal, gas and oil. In addition, the price of CO₂ quotas rose. Increased commodity prices for power producers in Europe produced higher power prices in Europe, which also led to higher power prices in Norway.

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Well equipped for the future

INTERVIEW WITH CEO KNUT BARLAND



Two to three years ago, the sentiment in the power industry was somewhat despondent, with low power prices and declining profitability. How do things look now?

Prices have strengthened slightly over the last two years. In 2015, prices were at their lowest levels since the turn of the millennium – less than NOK 0.18/kWh. Prices gradually began to rise in 2016 and continued to do so in 2017, but we are still far from the levels we saw from 2006 to 2013. At that time, the system price at Nord Pool was on average NOK 0.31/kWh. Over the past two years, the price has been around NOK 0.25, which has certainly helped the bottom line. Of course, low power prices are great for our customers. But Skagerak has also benefited.

Because lower prices place new demands on efficiency and cost awareness in the organisation?

Yes, exactly. We realised early on that the prices we had previously achieved would not last because the subsidy schemes initiated by Norwegian and Swedish authorities would generate a major power surplus in the Nordic region. We therefore implemented programmes to reduce costs and improve profitability. That is a manager's constant duty, but it is clearly easier for the organisation to understand the need to target improvements when prices are halved in a short period of time.

Now it appears that the Nordic power surplus will have less of an effect on prices due to the construction of increased transmission capacity to Europe. Consequently, the European market could exert greater influence on prices in Norway.

What do you see happening in terms of European price levels?

The latest major report from the Norwegian Water Resources and Energy Directorate on the power market towards 2030 was published in the autumn of 2017. This suggests that a number of factors will combine to result in a price that is about NOK 0.05 higher than today, around NOK 0.30 per kWh in 2030. The most important single factor behind this increase is the assumption of higher prices for CO₂ emissions – effectively the price of CO₂ quotas in the EU Emissions Trading System. The quota price strongly affects power prices.

What does that mean for Skagerak Energi?

A price increase of NOK 0.01 per kWh would improve earnings by NOK 55–60 million, depending on how much we produce. If electricity prices were to increase by NOK 0.05, that would increase our annual revenues by NOK 275–300 million. At that price, new major power investments could prove profitable. And we have licences and projects that we can develop.

However, the average price is not the only thing that matters. Larger volumes of variable energy in the Nordic countries, in the UK and on the continent mean that we will have to learn to operate in a completely different market than a few years ago. It will be important to be able to produce large volumes when prices are good and store the water when prices are low. We may also find that the ability to deliver balancing and regulating services into a power grid with a lot of unregulated production proves more profitable in the future.

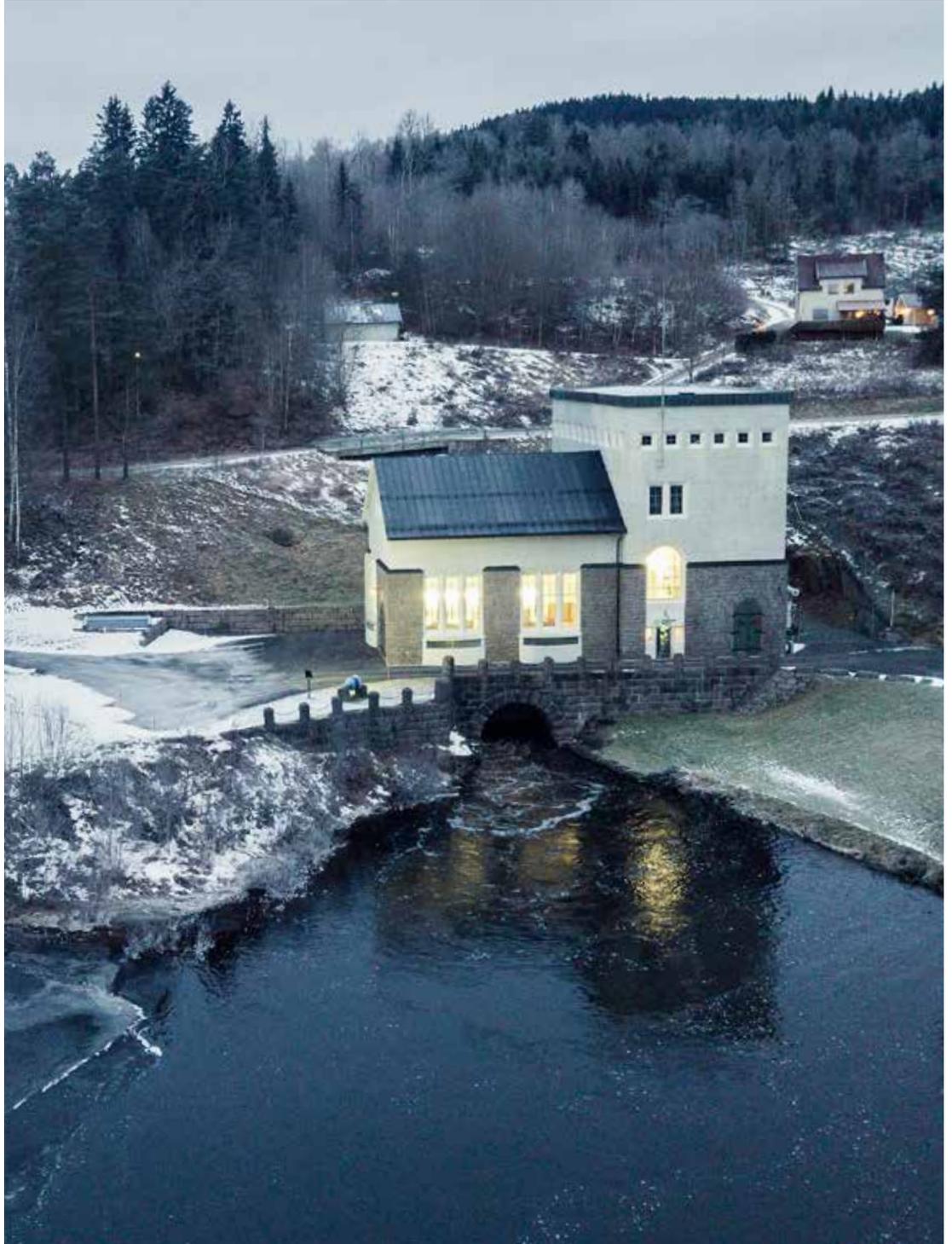
You are one of the power companies that have not invested in wind power, isn't that so?

We have focused on more hydropower. Hydropower produced from dams is the technology that will best be able to withstand increased competition because water is put into production when prices are highest. Coal and gas power are penalised due to their CO₂ emissions, nuclear power is inflexible, and wind and solar power depend on the weather.

The growth of new wind power is most taxing for existing wind farms, because everyone produces the most when it's windy, which means that new wind turbines contribute to lower prices when conditions are optimal for producing wind power. At the same time, most of the profitable hydropower projects have already been developed, so wind power may also become an interesting area for Skagerak.

What does new technology and digitalisation mean for Skagerak Energi?

Solar power production will take a certain market share in Norway as well, and we must be prepared to serve customers who both produce and buy power. We are not used to dealing with “prosumers”, but we can do that with the new smart meters. So far, we have already installed 100,000 smart meters, and almost 90,000 will be installed in 2018. One important question is whether we will be able to use new



technologies and new markets to handle the extreme consumption peaks. Currently, we are managing consumption peaks through large investments in the power grid, but this capacity is often unnecessary.

Parallel to this, digitalisation is developing at break-neck speed. Sensors are becoming cheaper and better, power meters and other equipment can communicate over the Internet and we now have computers with even greater computing power that enable us to make use of this information. Both Skagerak Nett and Skagerak Kraft have initiated programmes to take advantage of the opportunities this presents.

What about robots?

That too. We will eventually develop software that will be able to take over some of our trading activity in the power market. We now use drones to inspect power lines instead of helicopters. But we must not forget that much of the work is still performed by people and that we must have people to control the robots.

Like when thousands are left without power after a heavy snowfall?

Yes, in emergency situations, we are at our best. Our experienced installation engineers, dedicated managers and support staff work around the clock in deep snow, often in hazardous situations. It upsets us greatly when our customers are without power. You could say that we take it personally.

And you have managed without a single injury?

Yes, and it shows how good we can be when situations are at their most precarious and our HSE culture is seriously put to the test. Ironically, it's not when people are hanging 20 meters above the ground that injuries happen, but rather during routine work. We stumble and twist our ankle walking down the stairs, our fingers get caught in the door or we cut ourselves with a knife opening packaging. But unfortunately, while it's only human to make mistakes, this can have fatal consequences when working on high-voltage installations.

We know that zero injuries is attainable and I'm not going to give up until we reach a point where a year without injuries is the norm and not the exception.

“Hydropower produced from dams is the technology that will best be able to withstand increased competition because water is put into production when prices are highest.”

Knut Barland, CEO

Fjordkraft has been one of Skagerak Energi's most profitable companies for several years. The company was listed on the stock exchange in March 2018. Why?

The most important reason is that it gives the company even greater freedom to grow by raising new equity on the stock exchange. We and BKK have committed to continue being major owners, but we will have a much lower ownership interest than the 48 per cent we have today. BKK has 49 per cent and Statkraft 3 per cent.

In many ways, Fjordkraft is already completely independent from us and BKK. At the outset, we thought we could realise significant cost savings by collaborating on customer service, billing and so on. That was wrong. The decision to list the company on the stock market is based on the realisation that this company manages best standing on its own two feet. Fjordkraft is at the top of most rankings.

You have had discussions about a merger with Agder Energi, isn't that right?

Yes, there has been attempts to rise this discussion several times the last couple of years. However, after Statkraft clearly announced that they would like to contribute to sound structures for the future, and took the initiative to contact the municipal owners in Agder and Grenland to discuss the possibility of a merger, that work really took off. Now it is clear that the owners are not interested in a merger at this time.

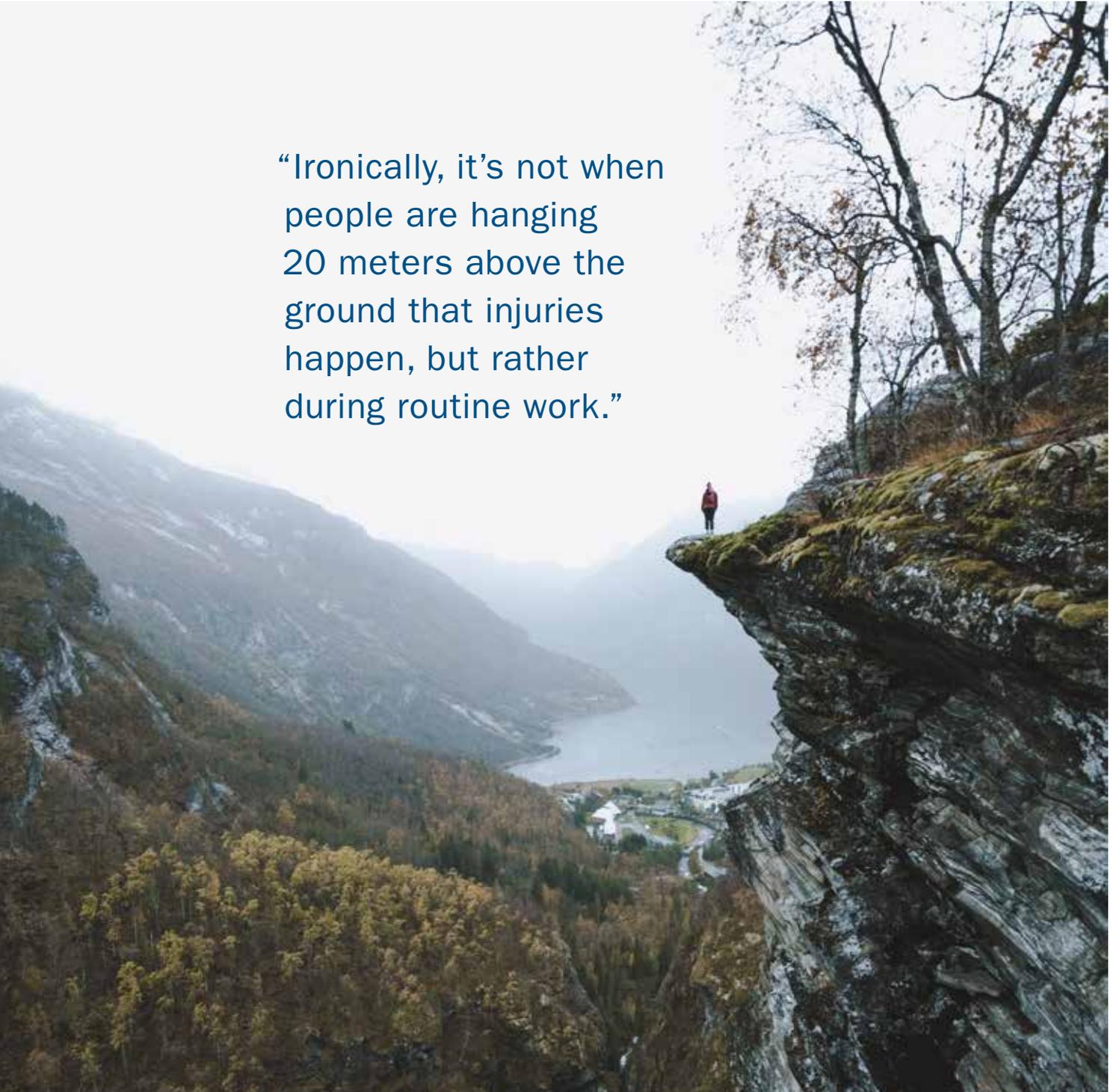
Our three municipal owners, the municipalities of Porsgrunn, Skien and Bamble, have developed a joint ownership strategy, where the keyword is a "proactive ownership". Our task is to answer the questions asked by our owners and to conduct the studies and surveys they want done. Skagerak Energi represents a great asset, and the owners expect a return on this capital. The company also generates significant activity and demand both for goods and for skilled labour in the local community. Different approaches must therefore be carefully considered. The decision on a possible merger is an ownership issue and, for the municipalities, also a political issue, which will ultimately be decided by the elected representatives in Grenland.

Knut Barland

CEO



“Ironically, it’s not when people are hanging 20 meters above the ground that injuries happen, but rather during routine work.”



Corporate governance

Skagerak Energi is governed by its owners through the requirements set out by the Annual General Meeting and the Board.

Ownership

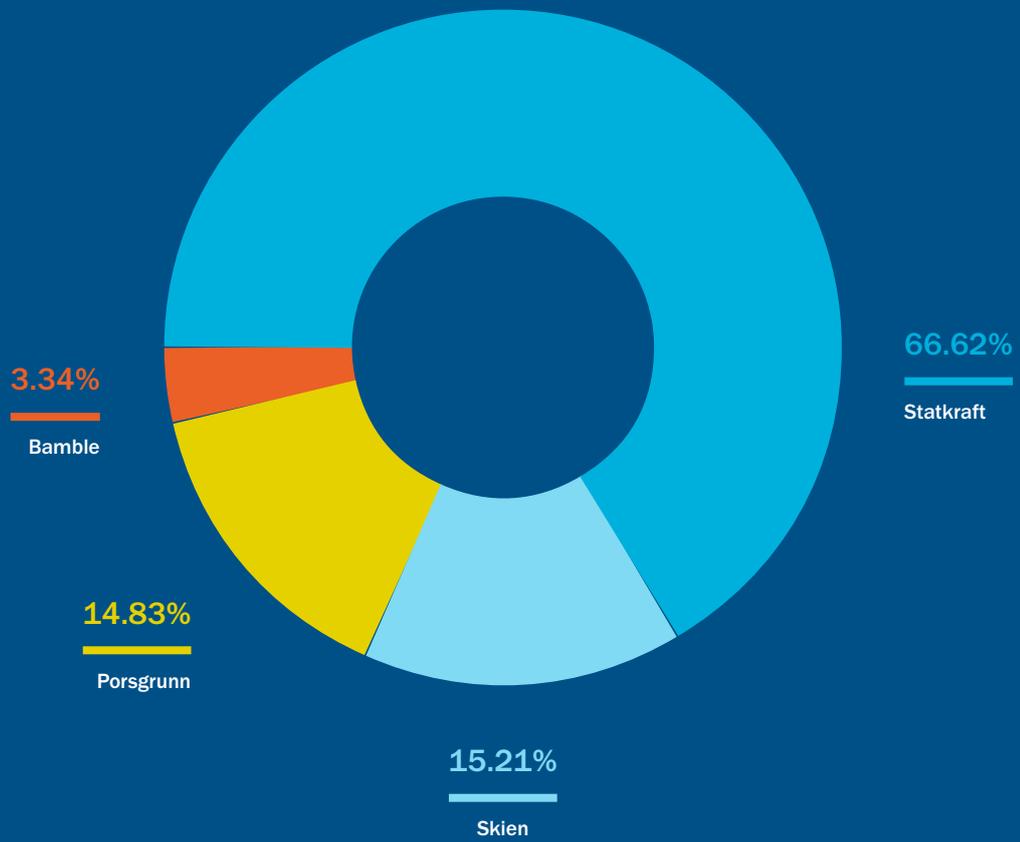
Ownership in Skagerak Energi is divided into three share classes, where class A shares give shareholders additional influence on issues related to selecting locations. The class A shares constitute 33.38 per cent of the shares and are owned by the three Grenland municipalities: Porsgrunn, Skien and Bamble. Statkraft Industrial Holding owns the class B and C shares. In addition, a shareholder agreement has been adopted which gives each share class veto rights in certain other matters of strategic importance, including the appointment of the CEO. The shares in Skagerak Energi can only be acquired by the state, Statkraft, municipal and county authorities or companies owned by them. There is a mutual right of pre-emption for the shares.

Management system

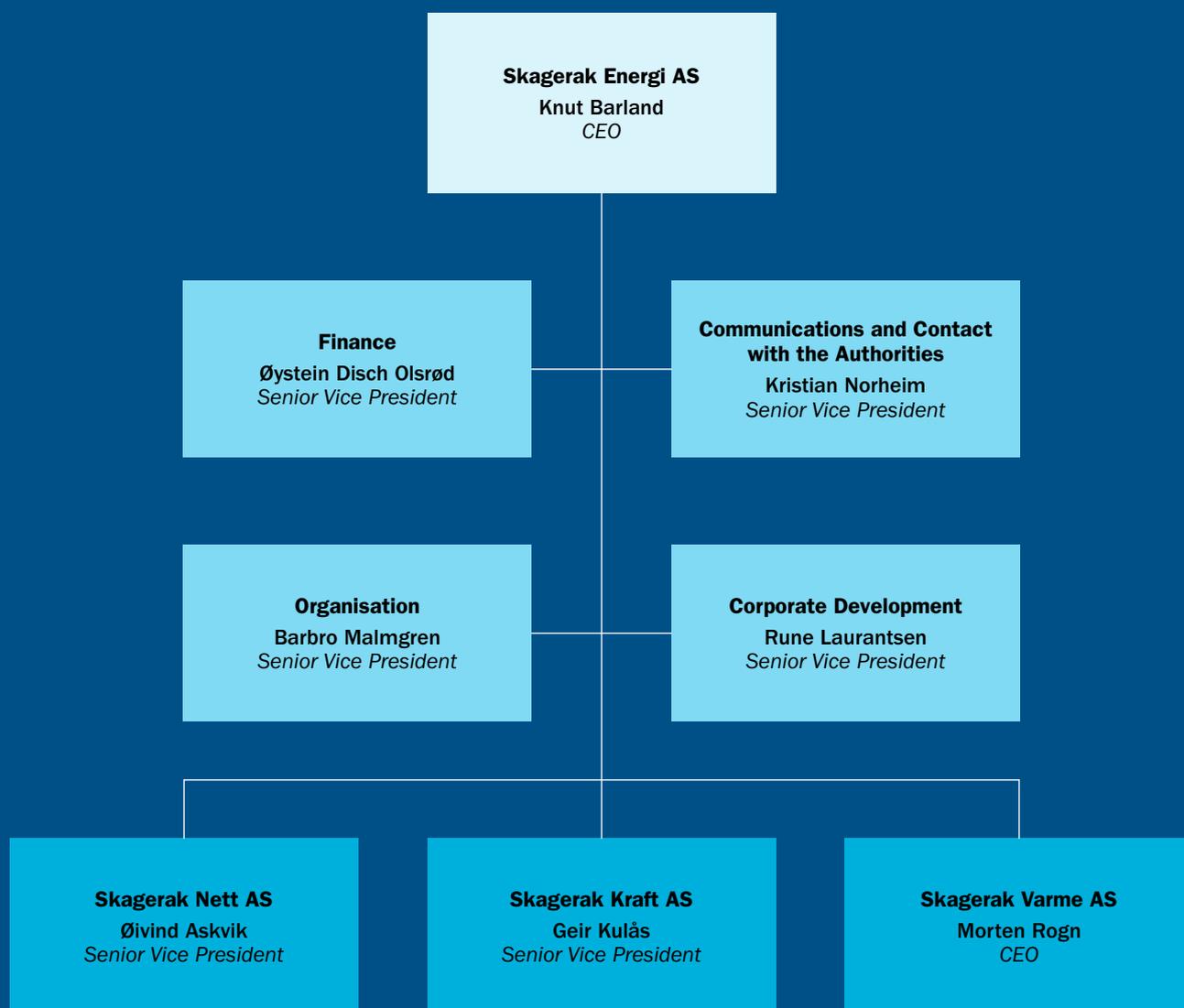
The main elements of Skagerak's overarching management system are:

- Articles of Association
- Vision and Values
- Management and employee responsibility
- Mandates
- Strategy, action plans and balanced scorecard
- Risk management
- Group principles and policies
- Work processes and procedures

Ownership



Organisational structure



Group management



Knut Barland
CEO



Barbro Malmgren
Senior Vice President
Organisation



Rune Laurantsen
Senior Vice President
Corporate Development



Kristian Norheim
Senior Vice President,
Communications and
Government relations



Øystein Disch Olsrød
Senior Vice President
Finance



Øivind Askvik
Senior Vice President
Skagerak Nett AS



Geir Kulås
Senior Vice President
Skagerak Kraft AS

Ethical responsibility

Skagerak's business principles contain a description of Skagerak's obligation to act in a sustainable, ethically and socially responsible way and comply with all applicable legal requirements wherever Skagerak operates. The Group has established a Code of Conduct that applies to the entire Group, and which also includes expectations for the Group's suppliers. Ethics and integrity are created through corporate culture, and the conduct of managers at all levels guides the direction of the company. Skagerak places particular emphasis on leadership training and the importance of having managers lead by example and strengthening the positive culture and values that the Group stands for.

Management and employee responsibility

Clear and defined roles and responsibilities, in addition to having the right competence and qualifications, are important prerequisites for good corporate governance and internal control. Good leadership, an effective organisational structure, job descriptions and development plans are also important elements in this context. Skagerak has focused on extensive management training, and in recent years has concentrated on clarity in the leadership role. Managers are responsible for ensuring that activities within their area of responsibility are performed in accordance with the management system and applicable laws and regulations. Managers are responsible both for their own conduct and for their employees' conduct, as well as compliance with regulations and expectations. All employees are responsible for familiarising themselves with and performing their duties in accordance with the requirements set out in Skagerak's management system and applicable laws and regulations.

Authority

The Group has a mandate structure which regulates authority and describes the tasks and responsibilities that have been assigned to the Group's Board of Directors, the CEO, the boards of directors and management in subsidiaries.

Strategy, action plans and balanced scorecards

The Board adopts corporate and business strategies. High investment needs and uncertain prices make strategy and long-term planning an ongoing process requiring flexibility to optimally adapt to changing assumptions. Annual strategy discussions can

alternate between selected topics or a more comprehensive consideration of the Group's strategic target profile and direction. To put the strategy into practice, action plans and balanced scorecards are used at Group, company and department level. The scorecards contain key figures and indicators for the most important drivers for achieving set goals. Employees' goals are set during the annual goal and development meeting.

Risk management

Skagerak Energi aims to actively assess risk in all parts of the value chain. Our risk management work is based on the company's business goals. At all levels, we ask: What could go wrong, causing us not to achieve our goals? Once a year, we perform a full review of risk factors in the Group. The Board of Directors is presented with a report twice a year, where various risk factors are identified and discussed. We prepare an action plan to reduce the risk of something going wrong or increase the likelihood of achieving a benefit. Risk management should be a natural consideration for all decision-makers and anyone striving to achieve a goal. For major projects, we conduct a mandatory risk assessment before start-up.

Group principles and policies

Group principles and policies are applied across the Group and describe how Skagerak employees should relate to a number of areas where professional responsibility largely rests with the staff. The principles are adopted by the CEO, while Group policies are adopted by the relevant director. Group principles are largely coordinated with Statkraft's group policies.

Work processes

A good description of work processes is important for ensuring the safety and quality of the work being carried out. Our work processes are built up using a graphical interface (LOSEN) directed at employees, and in recent years, we have performed a lot of work to gain a better overview of this field. An important point when working on these processes is that the descriptions should serve as a basis for further improvements, both in terms of assessing reported nonconformities and in terms of improvement work in groups. Competent process owners must be motivated to streamline and improve the main processes at Skagerak, as well as to ensure compliance with our processes.

Control activities

Control activities in Skagerak's management system are set at three levels (first, second and third lines).

- *The first line* includes staff and managers in the line (daily management and control). Employees have a continuous responsibility for implementing established internal control routines through their daily tasks. Skagerak's management is responsible for designing, implementing and monitoring internal control routines within their areas of responsibility, such as revising and designing authority structures and governing documents as well as following up scorecards and action plans, performing spot checks etc.
- *The second line* mainly includes staff functions such as HSE, the controller function and corporate governance, as well as process owners. Process owners facilitate and monitor the implementation of the internal control routines performed by the first line. Among other things, this takes the form of risk assessments, follow-up of governing documents and processes, as well as internal monitoring. Non-conformance reporting and the registration of improvement proposals are an important part of control activities in the first and second line. In the past, Skagerak's non-conformance reporting has been largely confined to HSE issues, but the company will extend this practice to cover all processes moving forward.
- *The third line* includes functions that are completely independent of the line, typically internal and external auditing. In some cases, we also use external consultants to assess the quality of our management system. A third line responsibility involves assessing whether all or parts of the management system are appropriate and working according to set assumptions.

Corporate democracy

In accordance with the Norwegian Limited Liability Companies Act, three representatives of the employees sit on the Group's Board of Directors. At Skagerak Energi, elected employee representatives perform their union duties at the Forum for Employee Representatives (*Tillitsvalgtform*), where the Group employee representative and representatives from the five employee organisations at Skagerak meet, as well as in the Group Committee, where the employee representatives meet the Group Management. (The five employee organisations at Skagerak Energi are the Electrician and IT Workers Union, NITO – the Norwegian Society of Engineers and Technologists, Tekna – the Norwegian Society of Graduate Technical and Scientific Professionals, Delta and the Norwegian Union of Municipal and General Employees.)

“Ethics and integrity are created through corporate culture, and the conduct of managers at all levels guides the direction of the company.”

Platform for growth in new markets

INTERVIEW WITH SENIOR VICE PRESIDENT RUNE LAURANTSEN,
HEAD OF CORPORATE DEVELOPMENT



Energy markets are profoundly changing as a result of changes in political framework conditions, rapid technological improvements in renewable energy production and digitalisation of the entire value chain. The time has come to prepare Skagerak Energi for new growth and new business opportunities.

You have reduced your ownership interest in both Skagerak Elektro and Skagerak Naturgass, and now Fjordkraft, where you own 48 per cent, is going to be listed on the stock exchange. What growth areas do you see for the company in the years to come?

The disposals of parts of Skagerak Elektro and Skagerak Naturgass were motivated by the desire to increase value creation and give the companies even better growth opportunities in partnership with new owners with strong knowledge of the market and of technology. The continued growth generated by Skagerak Naturgass with industrial giant Air Liquide as majority owner is a good example of this. Skagerak will continue to contribute capital and knowledge with a 49 per cent shareholding.

When Fjordkraft is listed on the stock market, it will improve the company's growth opportunities and we will continue to hold a substantial ownership interest.

Although most of our investments and value creation will still be in hydropower and power networks, we believe that partnership models will facilitate new business activity within a changing and exciting energy market.

Is Skagerak Energi geared to grow and participate in these new developments?

Despite a demanding market in recent years, featuring low power prices, we have managed to strengthen our financial position and maintain a healthy relationship between our cash flow and interest-bearing liabilities. This has been possible thanks to significant cost improvements, a prudent investment strategy and patient owners, whose dividend policy has aimed to strengthen company. So, from a financial perspective, we are prepared to take on greater challenges.

In recent years, the strategy has also been to boost competence, both by employing many young and skilled employees and by implementing extensive supplementary training for our more experienced employees. It's motivating to see how new knowledge can interact so well with solid experience.

In addition to injecting capital and competence, our owners must be motivated to leverage emerging new commercial opportunities in the energy market. As we move beyond the safe and established, we know that not all the seeds we sow will bear fruit.

You are in a locked ownership structure, with three municipal companies on one side (33.34 per cent) and Statkraft on the other side. Could that hinder realignment and growth?

Our majority shareholder has made it clear in the past year that they want consolidation at the regional level and that Statkraft will consider withdrawing as an owner as a result of this desired consolidation. Our municipal owners have stated in their recently adopted ownership strategy that they want long-term ownership with a goal of continued good value development of the company.

Now that it has been clarified that there will be no merger with Agder Energi, which was largely motivated by better development opportunities, it is important that we quickly adopt a unified strategy, focusing in particular on innovation – whether other consolidation opportunities or cooperation with partners.

What growth areas do you see for the future?

To answer that, we must understand what is happening in the energy markets right now. There are several important factors to consider. The price of wind and solar power is falling rapidly. Today, prices for new energy production are becoming so low in southern Europe that the advantage which Norway has enjoyed, with low power prices attracting business, is ebbing away. Power generation based on wind and sun will continue to increase strongly in the European market, including in the Nordic countries. This could have major consequences for prices, with a substantial risk of lower average prices in the longer term. We are already seeing the significant effect that large volumes of wind and solar power can have on prices.

“Despite a demanding market in recent years, featuring low power prices, we have managed to strengthen our financial position and maintain a healthy relationship between our cash flow and interest-bearing liabilities. So, from a financial perspective, we are prepared to take on greater challenges.”

Rune Laurantsen, Senior Vice President, Head of Corporate Development



At the same time, it appears that storage technologies other than water reservoirs will become more efficient and profitable. The development of battery and hydrogen technology will continue at full speed because it is absolutely necessary to optimally utilise the variable wind and solar power. The successful development of alternative storage media would prove very profitable for society.

In parallel with this, we are in the midst of a rapid digitalisation made possible by cheaper technologies such as sensors, the Internet of Things and massive computing power. This makes it possible to integrate production, transmission, storage and consumption of energy much more efficiently than before. Here, there will be new needs that must be fulfilled, and Skagerak wants to participate on that front.



So, are you planning to invest in storage media?

Yes, I believe that we should keep a close eye on where new value creation in the power market may arise and where it may deteriorate. The hydropower system in Norway today is very competitive and climate-friendly, but costs and framework conditions in relation to other technologies will be important for future development.

It is not unnatural that the power industry, which has built its business on old storage technology – water in large and efficient reservoirs – should also consider investing in the storage media of the future. Hydrogen could prove to be a promising storage medium. Hydrogen is made using electricity in an electrolysis process that splits water molecules into oxygen and hydrogen. The hydrogen can either be used in a reverse process in a fuel cell to generate power, which is returned to the grid, or used to run an electric car engine. Our cooperation with Air Liquide may be interesting in this context.

Another storage medium is batteries. Large batteries can be placed in strategic locations to relieve the network during peak times, and may be a profitable alternative to network reinforcements. We will have to examine the commercial potential of the knowledge that we gain from the Energilab project at Skagerak Arena, where we plan to install solar cells and large batteries to service the consumption peak when the floodlights are turned on.

Is hydrogen production a type of process industry?

Yes, and it would not be the first time we joined forces with the process industry. SKK (Skiensfjorden kommunale kraftselskap), the predecessor of Skagerak Energi, was the majority owner of Porsgrunn Metallurgiske Aktieselskab (PEA, currently owned by Eramet). It would make sense to consider cooperating more closely with industry again, we are in the process industry's core business area after all.

Does Skagerak have any plans to get into wind power?

Per Sanderud, Director General of the Norwegian Water Resources and Energy Directorate (NVE), has asked why Norwegian power companies are not more active in land-based wind power. I think this is a legitimate question to ask in a market dominated by foreign capital. The costs of wind power are falling rapidly, and wind power will soon be profitable without subsidies. New wind maps should be used to investigate this opportunity, so that Skagerak can assess its role in this field.

You have not managed to sell Skagerak Varme yet, have you?

Our heating business has improved its volumes and profitability a lot over the last year, and we are continuing to see progress. The heating business will be an interesting development platform for the Group and will allow us to provide various heating, cooling and energy solutions for our customers. With integrated concepts, in which Skagerak Varme is included, Skagerak will be able to play an even more important role for our customers.

Our priority now is to further develop Skagerak Varme, but we are still interested in finding partners that will enable us to deliver good, end-to-end solutions for our customers.

Are you investing more in research?

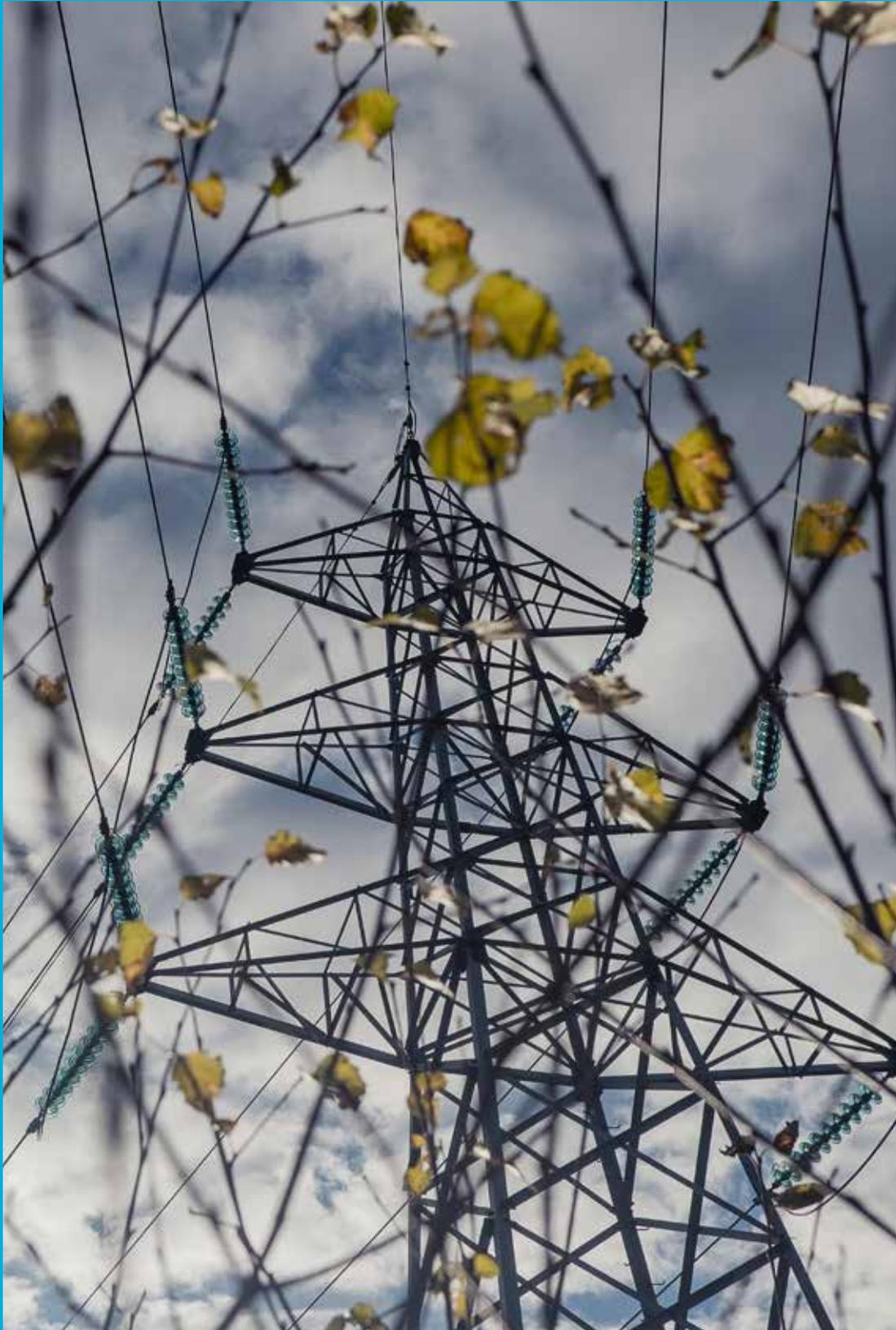
Yes, all of the Group's R&D projects will be coordinated at Group level. We currently have a substantial R&D portfolio in both Skagerak Nett and Skagerak Kraft, in addition to the projects that are initiated at Group level. Among other things, we are planning several projects in cooperation with the University of Southeast Norway. A keyword here is cooperation – with others in the same industry, with suppliers and with academia. Nobody has a monopoly on the truth, everyone makes important contributions. Then the task will be to evaluate how we can use this competence to generate profitable growth.

That means there is room to take some commercial risks to explore new opportunities. It could propel Skagerak onto a more long-term growth path.



“The costs of wind power are falling rapidly, and wind power will soon be profitable without subsidies. New wind maps should be used to investigate this opportunity, so that Skagerak can assess its role in this field.”





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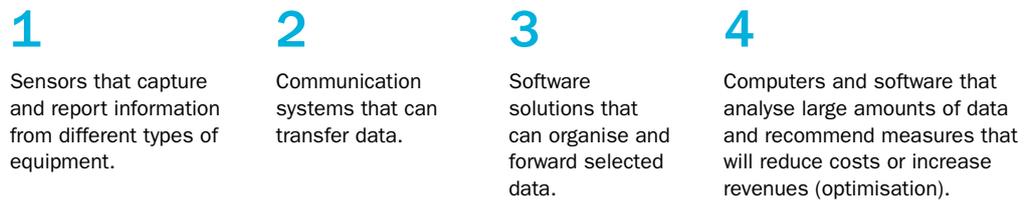
Digitalisation is changing the energy industry

Digitalisation is continuing at full speed in the energy industry. Smarter solutions can substantially reduce costs and provide significant revenue opportunities, both within existing production and through new, innovative products.



Skagerak Energi has a long history of adopting various digital solutions as they have presented themselves and we have gradually phased out paper and manual solutions. Now we are facing a digital shift that is more extensive than those that came before. To exploit this situation, Skagerak Energi, together with its subsidiaries Skagerak Kraft and Skagerak Nett, is developing a dynamic digitalisation strategy.

Digitalisation can be described as a value chain where different functions interact with each other and reinforce each other:



What makes digitalisation possible along the entire value chain possible is that the cost of sensors, transmission systems and computers is falling rapidly while performance is improving exponentially. These performance improvements also make it possible to create self-learning software, which paves the way for computer systems with artificial intelligence. The scope of the potential benefits that this will produce is something we are only now beginning to understand.

An example of this is how sensors in a distribution network can capture data from all consumers (automatic meter reading) and all technical components in the network. The data is automatically sent to a computer that eventually learns the best route for sending the power and can make automatic decisions about how to route the power in the event of a fault in the system.

Self-learning software and artificial intelligence depend on computers that have the capacity to receive, process and analyse huge amounts of data.

Sensors, the Internet of Things, big data, artificial intelligence and machine learning are now really making their presence felt. That will significantly change how work currently performed by people will be carried out in the future.

Organisational challenge

For a medium-sized regional energy company, this creates both challenges and opportunities. What is certain is that none of the benefits can be achieved without people controlling and directing development.

There is a need for a general competence boost for all our employees with regard to digitalisation. Skagerak is in a fortunate position because many of our employees either know how to program or understand the principles quickly, thanks to their insight into mathematics and statistics.

Our field specialists must learn to use new and simpler programming tools to be able to “talk to” the machines. Programming tools that will reduce the need for complex and time-consuming coding are currently under development. One example is the development process for a new trading platform in Skagerak Kraft. Hydrologists and engineers are working together to optimise the value of Skagerak’s water resources. The models are being developed in collaboration with researchers at SINTEF, among others.

Digitalisation will make new demands of our managers. They must acquire new knowledge of the potential inherent in digitalisation and lead the development work. No one currently has the answers to all the questions. That means there must be room for trial and error. Of ten projects, perhaps only one may be successful. But if there is a great potential, it will more than outweigh the costs of the projects that fail. At the same time, we must have overall financial control and a clear direction.

“Of ten projects, perhaps only one may be successful. But if there is a great potential, it will more than outweigh the costs of the projects that fail.”



Clear benefits

There are some obvious benefits to using digitalisation to increase value creation within Skagerak's business model:

Operations and maintenance. Through constant monitoring of the network and analyses of relevant data, we will be able to predict when a component must be replaced. Computers will also be able to learn to automatically implement corrective actions. This will reduce losses for all parties in case of a power failure.

Increased uptime Better prediction of maintenance needs through analysis of all relevant data produces benefits in terms of increased production time.

Better equipment Through collaboration with suppliers, data capture can be used to improve equipment.

Optimising water assets. Water volume in the reservoir, inflow of water, water in rivers with power stations, temperature forecasts, wind, sun, and observed prices in various markets are input into computers which can learn how the company can earn the most money.

Network optimisation Determine how power can be transmitted with the lowest possible loss to consumers – at the lowest cost of development.

Fewer employees Many operations will require fewer people.

Virtual power stations

One of the greatest costs in relation to the benefit is the extra network capacity that must be built to meet the need at peak power consumption times on cold winter days.

Smart meters and other digital solutions can, in principle, reduce the peak load in the network by drawing power from batteries placed within a given network area. These may be batteries set out by the power companies to cover peak consumption times, but also batteries in electric cars.

The key is to charge the batteries when prices are low (and demand is low) and “produce” power by draining the batteries when prices are high (and demand is high). This reduces the burden on the network while at the same time keeping prices at a steady level; this will enable us to have a simpler and cheaper power network.

Keeping track of assets (power, network services and money) and ensuring correct recording and transfer of these assets requires a system. This becomes even more complicated in a situation where you have local production, for example, from rooftop solar cells or wind turbines in private gardens. There are a number of examples of this type of production, both from private households and from companies. If these can supply power to the grid, it will make local production more profitable. Digitalisation can turn local network areas into “virtual power stations”, where the power “produced” from batteries is controlled along with the locally produced power and power supplied externally from the network.

These kinds of new solutions can be combined with household consumption reductions. An analysis of home automation performed for the Norwegian Water Resources and Energy Directorate (NVE), concluded that power usage peaks in households could be reduced by up to 23 per cent with automation and transmission solutions.

These conditions will require regulatory clarifications. For example, it is unclear whether a network operator should be permitted to own batteries.

“Sensors, the Internet of Things, big data, artificial intelligence and machine learning are now really making their presence felt in the energy industry, and that will significantly change how work currently performed by people will be done in the future.”

Smart power projects

Skagerak Kraft has started a programme to monitor the Group’s digitalisation strategy. The goal is to increase value creation by using digital technology, leveraging the company’s digital capital and being prepared to meet an energy market in change.

Specific smart power projects:

Predictive maintenance: Optimal maintenance planning based on state monitoring. Entails the use of big data and machine learning.

Automated production planning and trading: Umbrella term for a series of projects aimed at the real-time linking of long-term and short-term optimisation models with trading solutions. Includes automatically updating production plans.

Smart-Hydro: The project contains development activities within hydrological modelling and collecting and collating hydrological and meteorological data.

Smart grid projects

Skagerak Nett has led Skagerak’s digitalisation development and has carried out its own R&D projects under the umbrella of SmartNett for two to three years.

Network control. Taking advantage of the flexibility of end customers and new technologies as a means to balance out the large fluctuations in consumption, thus contributing to a reduced need for major network reinforcement projects.

Predictive maintenance: Understanding when old network components will fail by deploying sensors in all components. Data from these sensors is fed into computers, which gradually learn where failures are most likely to occur. This will greatly enhance our ability to replace components at the right time, resulting in lower maintenance costs and fewer faults in the network.

Fault prediction in the high-voltage cable network: Improving the decision-making criteria to achieve a more efficient and accurate prioritisation of repairs and reinvestments. Build expertise and networks based on data analysis. Document the potential for data models in state estimation. Cable faults result in annual costs of NOK 50 million.

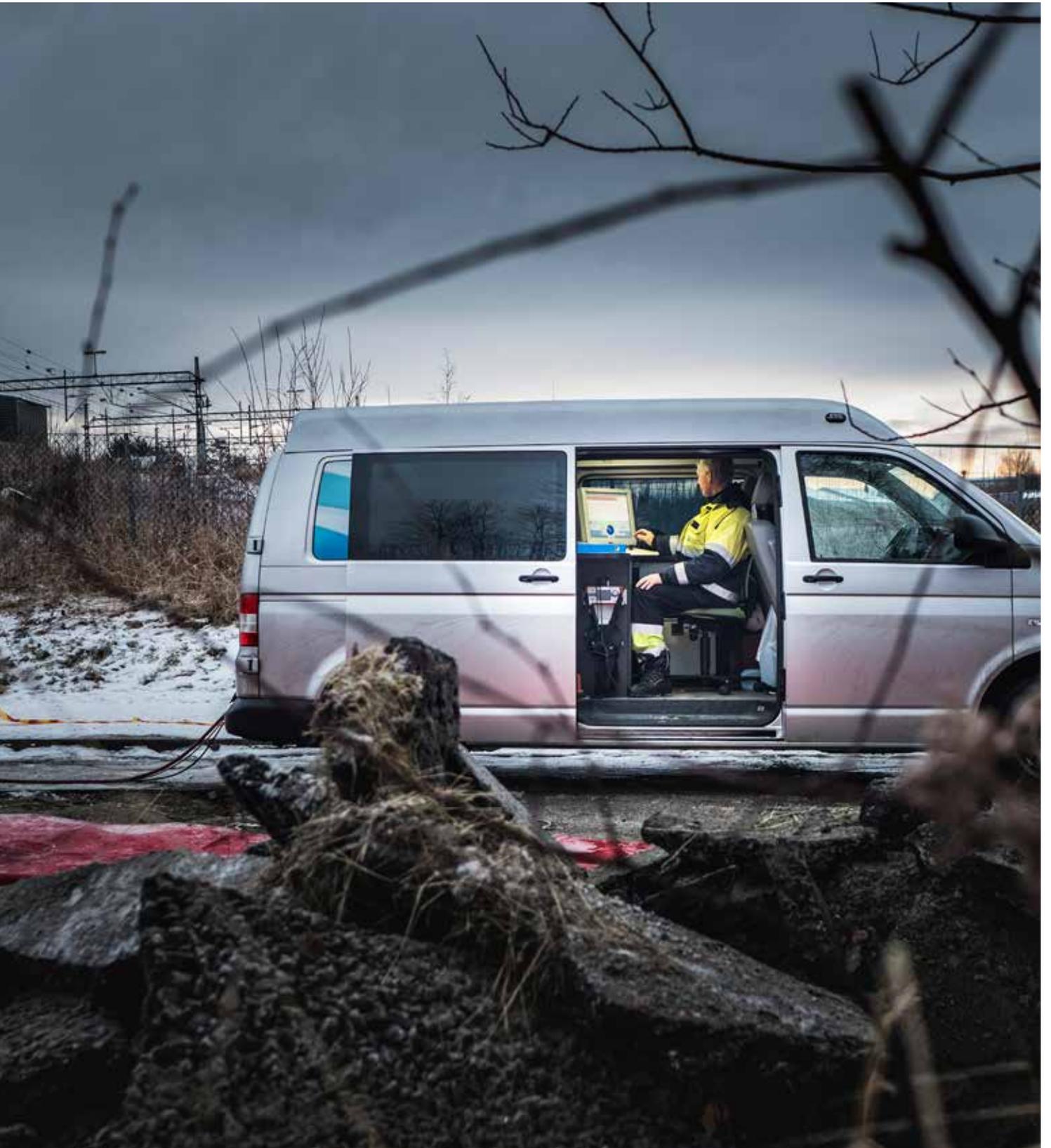
Robotisation: Automated customer receipt and distribution of incoming e-mails.

Automation: Automatic retrieval of data for weekly and monthly reports from all network operations and automatic production of reports. This will simplify things significantly procedures and both save many full-time equivalents and reduce the likelihood of reporting errors.

Remote control. Closing and opening of power access. By utilising the new AMS meters, it is possible to remotely open and close customer connection points. This is relevant both in situations where customers fail to pay and when customers move to a new location. This reduces the need to send out engineers, and we can reduce losses by closing access earlier. It will also be possible to restore power supplies more quickly, which will benefit both the company and our customers.

Visualisation. Easier access and more intuitive presentation of complex information using visualisations. This project provides a direct benefit because faster and easier access to information can be implemented directly in our operations. The project has resulted in a number of individual measures, such as clearing of available space in distribution cabinets, as well as more advanced data analysis and collation, including calculation and visualisation of spare capacity throughout the entire network.





Skagerak Kraft





Skagerak Kraft

Key information



Sickness absence rate
(2.6 in 2016)

5,949

GWh produced in 2017
(5,993 in 2016)



Geir Kulås (48)

CEO of Skagerak Kraft since February 2017 and joined the Group as CEO of Skagerak Nett in 2012. Geir started his career with Norsk Hydro Magnesium in 1993 and continued on to Hydro's offshore business, where he worked until 2007 when he joined Bilfinger Industrial Service with responsibility for customers offshore. Geir was a keen amateur footballer (goalkeeper) and coached the teams of both of his sons. He is married and lives in Langesund.

“Employee involvement and ‘the suggestion box’ are our most important tools for improvement. Improvement work generated NOK 13.9 million in 2017.”

Sold Steinsvik
(29 GWh, Skagerak's share 5.8 GWh)

Investment decision at Grunnåi
(11.5 GWh, Skagerak's share 6.3 GWh)

0

Injuries
(2 in 2016)

Agreed purchase of power stations Eidet 1 and 2 in Skien 3 July 2017

	2017	2016	2015
Revenues (net) NOK million	1,571	1,145	1,577
Revenues (net) underlying*	1,567	1,375	1,219
EBITDA NOK million	1,157	727	1,126
EBITDA NOK million underlying*	1,153	956	767
Investments NOK million	100	104	113
Employees	123	123	116

*“underlying” means adjusted figures for unrealised changes in value in power contracts.

What were your most important investments in 2017?

For Skagerak Kraft, there were no major individual investments in 2017. As part of a programme for upgrading our dam facilities, the dam at Bonsvatn was rebuilt to meet new statutory requirements. The project was completed on time and well below the budget of NOK 12 million. Bjordalen power station underwent renovations. All working parts were replaced and the entire facility was fully serviced, and is now ready for a further 15 years of operation.

We entered into an agreement with Skien Aktiemølle ASA and Broene 6 AS to purchase the power stations Eidet 1 and 2 in Skien city centre, giving us an increase in production of 13 GWh. Skagerak already owns the third power station in the same waterfall.

What achievements can you list for 2017?

We had no injuries in 2017 (two in 2016) and we experienced a significant increase in reporting: there was a 55 per cent increase in reporting on hazardous conditions and a 250 per cent increase in improvement proposals.

We have experienced positive effects from establishing our own power control centre and from trading in the intraday market. We experienced high production levels in 2017, and there was no flooding in our watercourses. We are also making good progress with cost reductions at Skagerak Kraft.

How does new technology affect development?

New technology is changing the way we monitor our facilities. It is easier to optimise maintenance operations. Better models for calculating water values at our various facilities make it easier to know when to generate power, and digitalisation is moving rapidly towards more robotic trading.

Skagerak Nett





Skagerak Nett

Key information



Sickness absence rate
(3.2 in 2016)



Injuries
(2 in 2016)

Rebuilding the Roligheten transformer substation, NOK 19 million in 2017



Øivind Askvik (43)

Started as CEO of Skagerak Nett in December 2017. He attended the Norwegian Army Officer Candidate School and then the Royal Norwegian Naval Academy. Among his commissions, he spent two years as electrical engineering officer on board submarines. After seven years in the Norwegian Armed Forces, he spent 15 years at ABB, both in Norway and in Switzerland. His last appointment at ABB was as Global Head of Service for Power Grid Automation with responsibility for employees in 50 countries. Øivind enjoys scuba diving and climbing to stay fit. He is married and has two children.

“We are constantly working on digitalisation and advanced models to provide customers with a high level of security of supply. In combination with a strong focus on efficient operations, Skagerak Nett is one of the most reasonably priced distribution network operator in Norway.”

Completion of the distribution system to the Solum transformer substation, NOK 93 million in 2017

194,327

Customers
(190,496 in 2016)

	2017	2016	2015
Revenues NOK million	1,002	855	806
EBITDA NOK million	541	396	344
Investments NOK million	670	470	471
Employees	375	373	376

What were your most important investments in 2017?

During 2017, Skagerak Nett installed almost 100,000 new, advanced power metres for our customers. The AMS project will be completed in 2018 and is the network operator's largest-ever project, with a cost framework of NOK 613 million.

A distribution system has been built up to the Solum transformer substation, which will supply the new railway line with power. The installation has come in on schedule and within a budget of NOK 170 million. The company invested NOK 93 million in 2017 and has so far spent NOK 135 million.

The Roligheten transformer substation, which supplies the Herøya Industrial Park with power, is being rebuilt within a framework of NOK 45 million to improve safety conditions and increase security of supply. The project will be completed in 2018.

What achievements can you list for 2017?

The company experienced two personal injuries in 2017, against our target of zero personal injuries. That is two too many, and our goal is again to achieve zero injuries by implementing the Green Zone Programme in 2018.

The AMS roll-out represents a massive boost for the entire organisation, and when it is completed, it will provide better insight into the entire network. This will make it easier to prevent, find, and correct faults. Advanced meters contribute to increased efficiency and will eventually provide cheaper network services for our customers.

Skagerak Nett also collaborates with other network operators when appropriate, where the goal is to achieve increased security and lower costs for network customer.

How does new technology affect development?

Development is taking place in several areas. Solar panels are coming down in price, which is allowing customers to transition from being consumers to "prosumers" who also produce and deliver power. If we can develop incentives within certain geographic areas to reduce consumption during periods when consumption normally spikes, the network operator will not have to make new investments to handle peak consumption, which will in turn benefit our customers. The development of power stores as part of network management, such as large batteries, could further reduce network costs.

Skagerak Varme





Skagerak Varme

Key information



Sickness absence rate
(3.2 in 2016)



Injuries
(0 in 2016)

New district heating loop at Herøya Industrial Park opened

120 GWh

Delivered heat
(114 GWh in 2016)

	2017	2016	2015
Revenues NOK million	85.4	76.0	61.8
EBITDA NOK million	20.4	10.2	2.2
Investments NOK million	68.5	48.6	38.9
Employees	16	17	17



Svein Morten Rogn (49)

CEO of Skagerak Varme since 2016. Joined the Skagerak Group in 1997, Group Finance Manager from 2000 to 2009. He holds a Master of Business from BI Norwegian Business School and qualified as an agronomist at Sjøve Agricultural College. Rogn has held a number of directorships in agriculture, forestry, district heating and the in trade union Econa. He is focused on people, natural resource management and the climate. He runs the farm Brekke Gaard with his wife Synne Vahl Rogn and has two sons, Martin and Kristian.

“We are constantly thinking about the next battle. We celebrate when we win and learn when we lose. This will enable us to achieve our goal of profitability by 2020.”

What were your most important investments in 2017?

We have run pipes to the office buildings at Herøya Industrial Park, to exploit an additional 16–20 GWh waste heat from Yara's plants. It is an investment of NOK 60 million, which is now in the final phase, and for Skagerak Varme, this is a very important investment that provides even better utilisation of past investments. We look at all our investments from a 50-year perspective.

What achievements can you list for 2017?

Skagerak Varme aims to be a profitable company by 2020. Based on our results from 2015, we had five years to turn the tide, with an improvement of NOK 8 million each year – which have achieved for two consecutive years. Every penny counts. With a volume of more than 100 GWh, an improvement of NOK 0.01 per kWh will result in an additional NOK 1 million on the bottom line. Improved margins combined with rational operations and increasing volumes will yield profitability.

We work as a team, where development managers liaise closely with those who will be in charge of operating the facilities.

How does new technology affect development?

We will be dealing with “prosumers”, households, developers and real estate investors who will increasingly be demanding energy from various renewable energy sources and preferably combinations of these. In cities it may be interesting to offer comprehensive packages of energy from solar cells and solar collectors. District heating can be used for both heat and cooling, and heat pumps with water from rivers or the sea can provide both. Closer cooperation with distribution network operators, digital control systems, new technology and new markets will ensure that the energy is recycled and costs are as low as possible. At the same time, comfort will be kept as high as possible.

Skagerak Naturgass





Skagerak Naturgass

Key information



Sickness absence rate
(0.1 in 2016)



Injuries
(0 in 2016)

**Air Liquide new majority shareholder
(51 per cent) from 31 July 2017**

255 GWh

Energy sales
(231 GWh in 2016)



Frode Halvorsen (43)

Started as CEO of Skagerak Naturgass in May 2015. He had previously worked for 15 years in various positions at Shell in Norway, Denmark and the Netherlands. He has worked with the commercial aspects of purchasing, sales and optimising the gas portfolio in the North Sea. Frode holds an MSc in Offshore Technology from the University of Stavanger. He is married and has two children. Frode was a keen amateur footballer and now coaches his daughter's football team.

“With Air Liquide as our new majority owner, we have become part of a global heavyweight with high expertise.”

	2017	2016	2015
Revenues NOK million	143.2	105.8	98.6
EBITDA NOK million	19.3	14.2	6.5
Investments NOK million	12.5	34	18
Employees	7	7	6

What were your most important investments in 2017?

The most significant event for Skagerak Naturgass was that the French company Air Liquide came in as the majority shareholder, acquiring a 51 per cent shareholding in Skagerak Naturgass AS effective 31 July 2017. Air Liquide is a global leader in gas, technology and services for the industrial and health sectors and has a presence in 80 countries. The company has approximately 65,000 employees and is listed on the Paris stock exchange.

What achievements can you list for 2017?

We entered into an agreement for the supply of biogas to Tine's bulk and distribution vehicles, and we have signed a letter of intent to increase the volume to more than 50 vehicles by 2022. Biogas based on, among other things, cow manure dovetails neatly with Tine's commitment to sustainable solutions.

We have signed a letter of intent to deliver biogas to at least 100 of Litra's lorries over the next five years. We also plan to build a chain of filling stations for both liquid and compressed biogas, initially in Eastern Norway, to deliver the fuel.

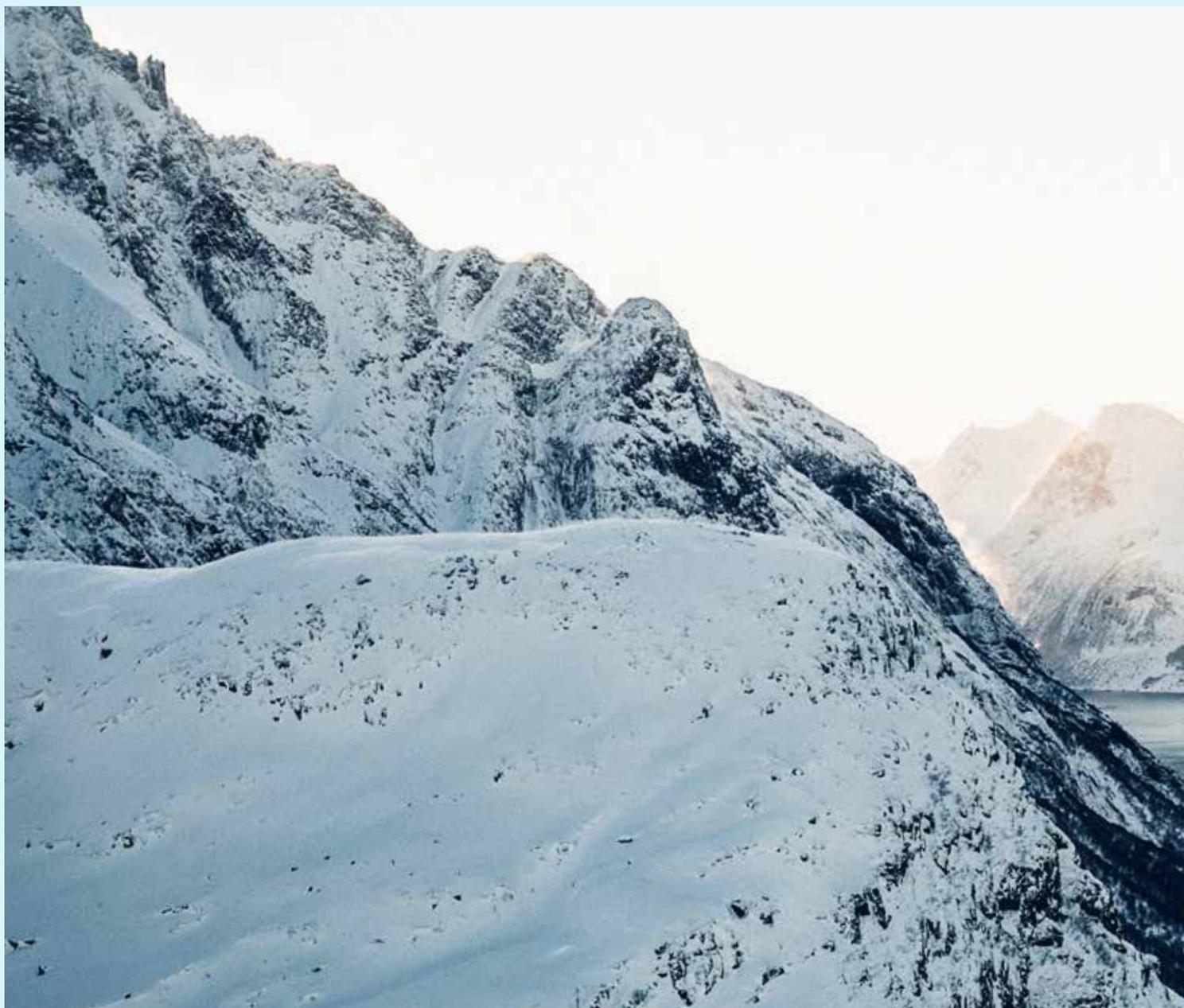
We began delivering biogas to Nettbuss in Moss in the summer of 2017.

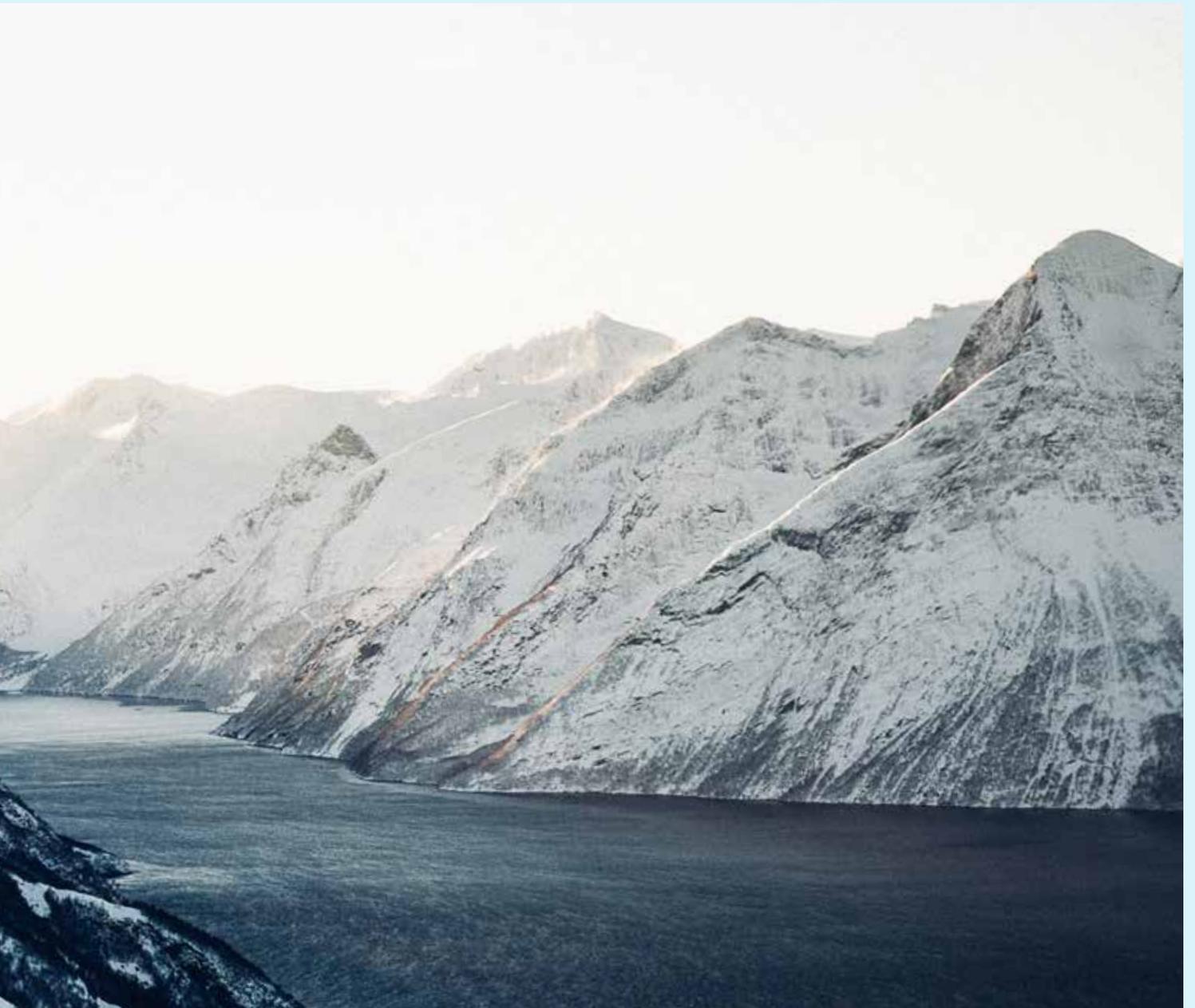
How does new technology affect development?

The development of both battery and fuel cell technology are green alternatives, but more of a future solution than a genuine alternative to biogas, which is available for all types of vehicles today. Right now, biogas can be used for buses, heavy transport vehicles, construction machinery and ships.

For long-haulage, refrigerated (and thus liquid) biogas is most relevant as it provides more energy, and has a range of up to 1,600 km. From vans below this range, compressed gas is sufficient.

Fjordkraft





Fjordkraft

Key information



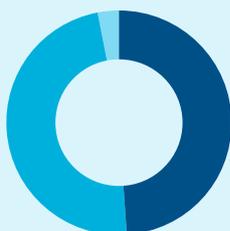
Sickness absence rate
(4.4 in 2016)

Provides services to 32 energy companies



Injuries
(0 in 2016)

IPO in March 2018



Shareholding before IPO:

BKK (49%)
Skagerak Energi (48%)
Statkraft (3%)

530,000

Number of electricity customer

	2017	2016
Revenues NOK million	4,453	3,925
EBITDA NOK million	354	325
Investments NOK million	36	27
Employees	215	172



Rolf Barmen (54)

Started as CEO of Fjordkraft and Chairman of Trondheim Kraft in February 2013. Barmen has long experience as a CEO in the telecommunications industry. He has been a football player and football coach for Fyllingen Football at the elite level, and Chairman of Brann football club in Bergen. He has also been an Alpine skiing coach. Barmen holds a Master of Business and Economics from the Norwegian School of Economics (NHH).

“Our customers call the tune. That is something we see every single day. The money we will make tomorrow comes from the customers we have today.”

What were your most important investments in 2017?

In recent years, the Group has invested heavily in digital solutions for efficiency improvement purposes. The object is to further develop cost-effective and customer-friendly processes for internal operations and for business purposes. In 2017, the Group invested a total of NOK 36 million in intangible assets. A total of NOK 28 million relates to projects, including mobile telephony and software solutions, while the remaining NOK 8 million relates to the purchase of the customer portfolio from BKK Energitjenester and acquisition of the rights to Ladestasjoner.no.

What achievements can you list for 2017?

As with previous years, 2017 was yet another year of customer growth and solid financial performance. The Group posted a profit before tax of NOK 331 million in 2017.

“Fjordkraft Factory”, a process and IT system for settlement and billing customers developed by Fjordkraft, gained its first external customers. Four local power companies and power suppliers buy their settlement and billing services from Fjordkraft.

Fjordkraft enjoys a high profile among Norwegian power customers. Over 50 per cent of Norwegians mention Fjordkraft when asked to name a power supplier, and 95 per cent of the population has heard of Fjordkraft.

How does new technology affect development?

ENOVA and the Norwegian Water Resources and Energy Directorate (NVE) want the new AMS meters to usher in smart solutions that encourage consumers to save power. Fjordkraft is one of seven companies to have received funding from ENOVA for a pilot project. We are now moving into the next phase, which aims to develop commercial solutions for the private market.

Fjordkraft has entered into an agreement with local network operators for through-invoicing, and the vast majority of Fjordkraft's customers now pay for electricity and distribution charges on the same invoice.



Corporate social responsibility

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Our social corporate responsibility

Skagerak Energi's vision is to be a forward-looking supplier of clean energy that contributes to social welfare, economic growth and development. Our social responsibility is to create values and help to fund growth and welfare in the region in an ethical and sustainable manner. This means that we must prioritise and manage our resources in such a way that we generate growth for society and our owners without jeopardising the prosperity of future generations.

Skagerak's mission is to ensure the sustainable and environmentally friendly production of clean energy and the safe and stable distribution of electricity to industrial, commercial and private customers. We administer critical infrastructure, and power outages can have serious consequences. Protecting people's lives and health, biodiversity and the climate is the foundation of all our decisions and activities.

Some of the most important things that Skagerak Energi can do for local communities is to ensure that we have healthy finances, that we follow ethical and responsible business practices and that our employees enjoy themselves at work and are not exposed to health risks. Skagerak is a profitable company that creates good jobs and purchases large amounts of goods and services, and we pay taxes and fees as well as dividends to our owners.





For Skagerak Energi, corporate social responsibility means that we:

- Safeguard human rights and workers' rights and combat all types of financial crime.
- Integrate social and environmental considerations into our daily operations, comply with Norwegian legislation and recognised international conventions.
- Protect the environment and the climate, choose sound technical and environmental solutions and implement projects and construction work in accordance with laws and licences.
- Collaborate with schools, colleges and universities and various research institutes.
- Have apprentices and trainees and cooperate with employers' and workers' organisations and sheltered workshops to help workers transition to new jobs.
- Support local organisational and cultural life, as well as both elite sports teams and grass-roots clubs.
- Support NGOs so that they can contribute to awareness and knowledge of important environmental and social issues, and provide direct financial support for a number of socially beneficial measures in the local communities where we operate.

Materiality assessment

The Skagerak Group's activities depend on a variety of natural resources and human resources that are valuable to society. There are also many important social functions that depend on Skagerak's deliveries.

Skagerak Energi has carried out a materiality assessment of the Group's activities. This means that we have considered which areas are essential for us to fulfil our social mission and properly manage our resources. The assessment is based on compliance with legal requirements and licences, an understanding of the most important stakeholder requirements and expectations, as well as the Group's risk assessment and strategy.

Skagerak Energi's priority areas are:

- Safeguarding life and health, ethics and integrity
- A secure and stable energy supply
- Information and IT security
- Sustainable production
- Motivated and competent employees
- Research and technology development
- Production and network development
- Communication with stakeholders
- Responsible supplier management
- Economic contributions to the region through taxes, fees, jobs, procurements and support for organisational and cultural life

We work systematically and thoroughly in all of our priority areas. Emphasis is placed on a good understanding of best practices, risk understanding and the continuous development of competence and technology. There must be a balance between value creation and avoiding loss of or harm to life, biodiversity or other assets. We set specific annual goals for critical areas, and results are regularly evaluated by management teams and boards. Through active follow-up and evaluations, we can ensure good governance and socially responsible decisions, characterised by the needs and expectations of the Group's most important stakeholders.

The following pages provide a more in-depth look into selected areas. We describe how the Group works with these areas and what are the most important results. In addition, we have compiled a detailed report according to the Global Reporting Initiative (GRI), which is included as an appendix to the annual report.



Stakeholders and stakeholder dialogue

Having roots in the region and positive cooperation with all our stakeholders is important for Skagerak Energi. Three of the municipalities in the region have shareholdings in the Group, and Skagerak Energi is one of the region's major employers.

Skagerak is a major player and a driver of value creation in the region. Our financial contribution to society is primarily made through jobs, taxes and charges. In addition, we are a significant client for local businesses. The economic ripple effects of our business are substantial and we take full account of the mutual dependence that exists between a large company and the local communities where we operate. We are committed to sound and socially responsible business practices, and we actively apply our Code of Conduct to procurement processes and other assessments and decisions. We wish to influence our suppliers and other partners by being a responsible client. At the same time, we greatly respect our partners' knowledge and experience, and seek to learn and continuously improve ourselves based on an open and positive dialogue.

The way in which society is developing is contributing to increasing people's dependence on electricity. Climate change and technological developments are changing the way power is produced and used. In the coming years, an increasing number of our customers are likely to produce and sell – and buy – energy. Watercourses also have an important social function during both droughts and

How is value creation distributed?

Skagerak Energi's value creation for distribution in 2017 was NOK 1,797 million. It was distributed as follows:

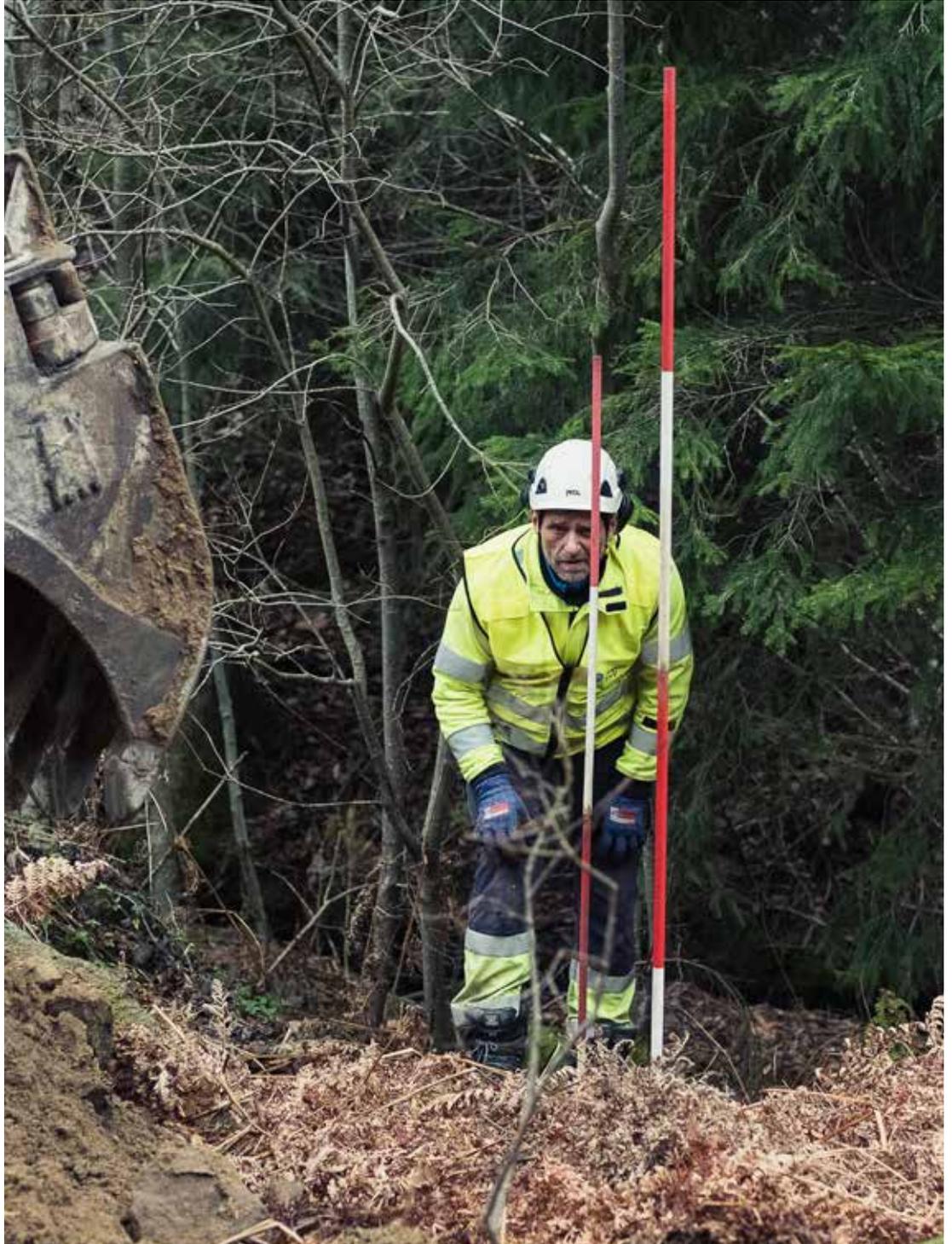


floods, and have great value for the population in terms of recreation, transport and water supply. Skagerak's activities are extensively regulated by the authorities and are largely governed by licensing processes that can take several years. We must therefore take many things into consideration. Our activities are of great importance to many. We emphasise understanding changes in consumer patterns and staying ahead of developments. We must understand trends in the development of roads, railways, industry and private housing before decisions are actually made. And we must interact with and influence suppliers, schools and research institutions to ensure the continued development of expertise and technology.

The development of hydropower and power grids entails interventions in ecosystems and landscapes. In order to make good decisions and to guarantee a knowledge-based management of natural resources, we emphasise having high competence in important areas, as well as engaging in constructive partnerships with the authorities, our owners, employees, customers, business partners and other stakeholders.

Skagerak Energi has in recent years strengthened efforts to understand all stakeholders' requirements, needs and expectations. In an ever more complex world, opportunities and expectations change rapidly, and the need for information and dialogue increases. Communication, dialogue and cooperation with stakeholders will continue to be highly prioritised. Information activities, various events and meetings, informative web sites and external reporting will give stakeholders the best possible insight into our work.

Skagerak Energi carries out a number of information activities which are important both for the construction industry and for private customers. Skagerak Kraft has strong knowledge of the natural conditions in our region and seeks to influence the planning of skiing and hiking trails to ensure that they are routed outside of regulated water sources and areas vulnerable to landslides and avalanches. We also provide funding for ski trail grooming and the printing of hiking and skiing trail maps in conjunction with regulated watercourses, and ensure that trail maps contain information about unsafe areas.



“The economic ripple effects of our business are substantial and we take full account of the mutual dependence that exists between a large company and the local communities where we operate.”

The Local Electrical Safety Inspection Authorities (DLE) work actively to provide information on how to prevent fire hazards in connection with the use of electrical equipment. The DLE also assists the police and fire service in the investigation of fires, and inspects more than 10,000 homes, cabins and businesses each year. The DLE is part of the public oversight apparatus. It reports to the Norwegian Directorate for Civil Protection (DSB) but is part of Skagerak Nett.

Our websites contain a lot of important and socially useful information, including descriptions of all our power stations and watercourses, in addition to important projects. Here you will find useful information about what to keep in mind when felling trees, performing excavation work or building near power lines, electricity pylons or Skagerak's other facilities. Skagerak Nett keeps updated maps with an overview of faults and planned power outages. We ask the general public to notify us of power failures or if they observe damage or hazardous conditions related to power lines or facilities, and the telephone number of the company's 24-hour fault-reporting hotline is listed on our website. Regular enquiries and complaints are directed to Skagerak Nett's customer service department.

At Skagerak Energi, we do not tolerate any form of corruption, bribery, embezzlement, price-collusion, social dumping, discrimination or harassment. Our Code of Conduct and overall requirements for suppliers are also displayed on our websites. In addition, we have a dedicated whistleblowing channel, where both employees and partners can report censurable conditions.

Stakeholder group	What are they concerned about?	Arena for dialogue
Authorities	<ul style="list-style-type: none"> → A secure and stable energy supply → Safe and secure facilities → Safe and responsible operation and development in line with regulations and permits 	<ul style="list-style-type: none"> → Inspections → Systematised in connection with audits and new licences → Formalised meetings and ad hoc dialogue on a case-by-case basis
Owners (Statkraft and the municipalities of Skien, Porsgrunn and Bamble)	<ul style="list-style-type: none"> → Safe, efficient, profitable and responsible production and distribution of climate-friendly and renewable energy. 	<ul style="list-style-type: none"> → Owner meetings, board meetings and other formal meetings Reporting and ongoing dialogue with the Statkraft Group
Employees	<ul style="list-style-type: none"> → Workplace safety → Co-determination → Job security → Competence development → Reputation 	<ul style="list-style-type: none"> → Employee representatives on the Board of Directors → Various Group committees → Internal information meetings → Surveys within the organisation → Performance appraisal interviews
Customers	<ul style="list-style-type: none"> → A secure and stable energy supply → Price levels 	<ul style="list-style-type: none"> → Customer service centre → Information letters, advertisements → Formalised meetings and ad-hoc dialogue on a case-by-case basis → Social media → Websites
Host municipalities	<ul style="list-style-type: none"> → Safe, efficient and responsible operations → Careful environmental interventions and conservation of biodiversity 	<ul style="list-style-type: none"> → Systematised in connection with audits and new licences → Formalised meetings and ad-hoc dialogue on a case-by-case basis
Local population	<ul style="list-style-type: none"> → Safe and secure facilities → Careful environmental interventions → Safe and secure workplaces 	<ul style="list-style-type: none"> → Systematised in connection with audits and new licences → Formalised meetings and ad-hoc dialogue on a case-by-case basis
Nature conservation interests and organisations	<ul style="list-style-type: none"> → Safe and secure facilities → Careful environmental interventions 	<ul style="list-style-type: none"> → Dialogue during audits and new licences → Formalised meetings and ad-hoc dialogue on a case-by-case basis
Schools, universities and research institutions	<ul style="list-style-type: none"> → Competence and technology development → Internships, career and job opportunities → Opportunities for collaboration and assignments → Reputation 	<ul style="list-style-type: none"> → Formalised and informal meetings, information initiatives and career days → Trainee programme, internships → Guest lecturers → Collaborative projects
Trade organisations	<ul style="list-style-type: none"> → HSE, environment/climate, emergency preparedness and corporate social responsibility → Profitability and framework conditions Expertise and technology development Information and reputation 	<ul style="list-style-type: none"> → Formalised and informal meetings → Conferences, courses and industry forums → Collaborative projects
Suppliers and business partners	<ul style="list-style-type: none"> → Business ethics in procurements → Reputation → Competence and prestige projects → Ability and willingness to pay 	<ul style="list-style-type: none"> → Formalised procurement processes → Formalised meetings and ad hoc dialogue for follow-up during the contract period → Conferences, trade fairs, courses

Climate-friendly production

Economic growth is contributing to increased demand for energy both in Norway and globally. At the same time, climate change and global warming are among the greatest challenges of our time, and greenhouse gas emissions must be rapidly reduced. The Paris Agreement on Climate Change contains commitments for changes that Norway and Norwegian businesses must meet. Key priority areas are increased resource and energy efficiency, reduced consumption of fossil fuels and electrification of the transport sector.

Increased renewable energy production and increased production of Norwegian renewable hydropower will be key drivers of the necessary conversion. Skagerak Energi's production and distribution of electricity from renewable hydropower, district heating and biogas all contribute to reducing direct and indirect emissions of CO₂, nitrogen oxide (NO_x), sulphur dioxide and particulate matter. Efficient routines for sorting and treatment of waste, both at permanent locations and temporary construction sites, contribute to recycling of resources. Skagerak Energi's products are therefore an important part of the green shift, and the company's facilities and production generate significant values and a major benefit for society.

The production and distribution of energy produced from renewable hydropower helps secure the energy supply for people's daily lives and critical societal functions. Skagerak Energi delivers around 6,500 GWh of energy annually. Skagerak's energy production is based on around 95 per cent renewable hydropower, around 2 per cent biogas and renewable district heating. The remaining three per cent of our energy deliveries are in the form of liquid natural gas (LNG) or district heating produced by non-renewable input factors. Our renewable district heating is produced from burning wood chips, heat pumps and waste heat from industry. When the district heating





network is expanded, some production must be delivered from non-renewable energy until new heat pumps or other fossil-free production has been built. Biogas is produced from organic waste from households and agriculture and is a good example of the circular economy in which food waste is recycled and reused. Biogas replaces diesel in the transport industry.

Water reservoirs provide both flexibility and high security of supply. Production can be adapted to demand. This flexibility is essential for the security of supply for critical infrastructure and power-intensive industry. At the same time, hydropower complements variable renewable energy by producing more when solar and wind power plants produce less.

The regulation of water reservoirs is an important flood mitigating measure during periods of high rainfall, which will be even more important in a future where there will probably be more extreme weather. Hydropower can also help propel Norway into a new industrial age. Skagerak Energi wants to become a supplier to large data centres, the world's fastest-growing power-intensive industry.

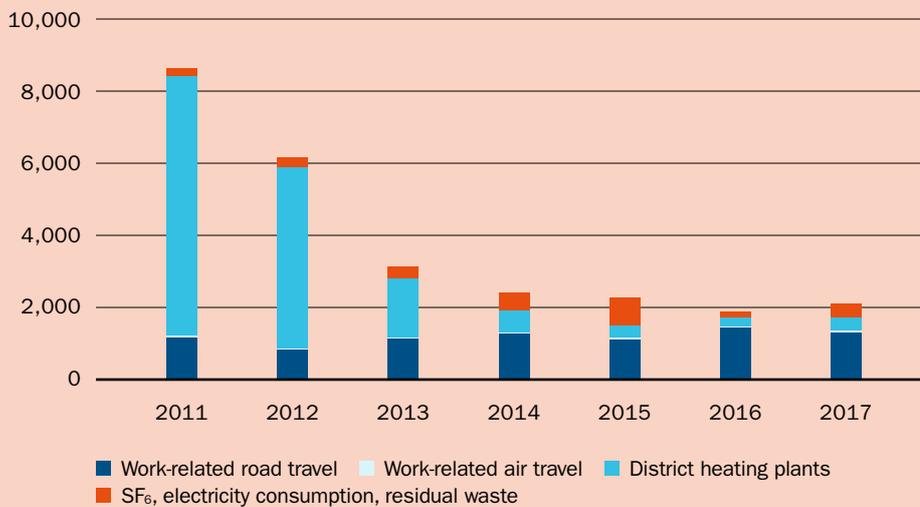
Water power is renewable and produces no greenhouse gas emissions, but it is not without environmental impact. Both operation and development entail interventions in ecosystems and the landscape. Such interventions are minimised through systematic environmental management and various mitigating measures. We emphasise responsible and knowledge-based management of our facilities, and a precautionary approach to environmental challenges. We continuously work to avoid, minimise, mitigate or compensate for the negative environmental impacts that may result from our activities.

Our overall goal

Our overall goal is that all development and operation should be in accordance with the principle of sustainable development:

- Responsible management of water resources and conservation of biodiversity
- Good standards for operation, inspections and systematic maintenance of facilities
- Good working methods and technology to prevent emissions and discharges of pollutants
- Responsible supplier management

Total CO₂ emissions 2011–2016
Tonnes of CO₂ equivalents



“There were no breaches of licensing terms relating to regulation of watercourses in 2017. None of the Group’s companies experienced other incidents with serious consequences for the environment in 2017.”

Priority areas include preventing emissions and discharges, safeguarding biodiversity and ensuring proper waste sorting and recycling practices. In 2017, the Group's companies focused primarily on improvements in their own operations and development projects. Our ambition in the coming years is to reduce the environmental impact of our products throughout the entire life cycle. We will accomplish this by asking our suppliers to achieve improvements along the entire supply chain.

Results

There were no breaches of licensing terms relating to regulation of watercourses in 2017. None of the Group's companies experienced other incidents with serious consequences for the environment or which resulted in involvement or orders from the Norwegian Environment Agency in 2017.

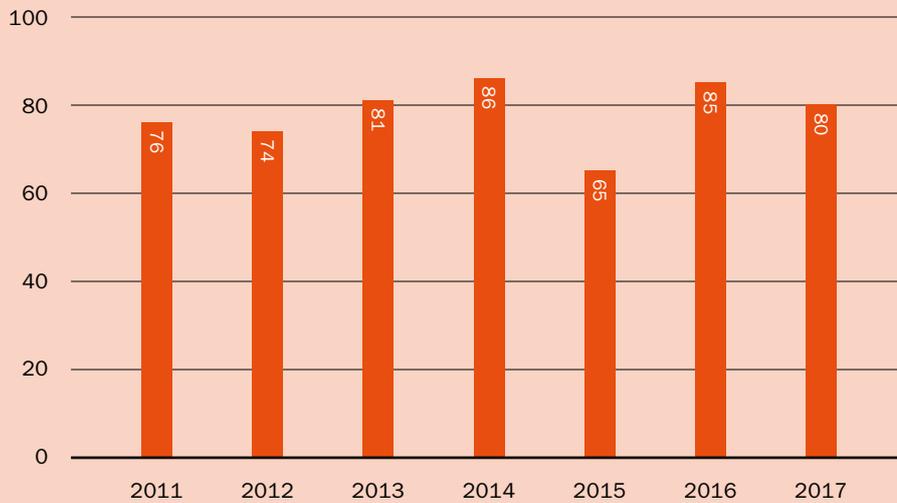
In the year under review, total waste volumes were reduced to 855 tonnes from 973 tonnes in 2016. Our waste separation rate was 80 per cent in 2017, which is somewhat poorer than the previous year, when we achieved 85 per cent.

Total CO₂ emissions, including diffuse emissions of SF₆ and indirect emissions from residual waste incineration, amounted to 2,104 tonnes of CO₂ in 2017. This is somewhat higher than in 2016, when the result was 1,885 tonnes. The difference is due to higher emissions of SF₆, which were unusually low in 2016. The Group's total CO₂ emissions have decreased from about 8,600 tonnes in 2011 to approximately 2,100 tonnes in 2017.

Heating centres also release nitrogen oxides (NO_x) and particulate matter. Skagerak Varme is subject to a strict control regime. Emission requirements are stipulated by the authorities, and emission measurements are verified by an independent third party and reported and followed up by the authorities. Skagerak Varme's emissions of NO_x and particulate matter are significantly below permitted levels.

Source separation rate of waste

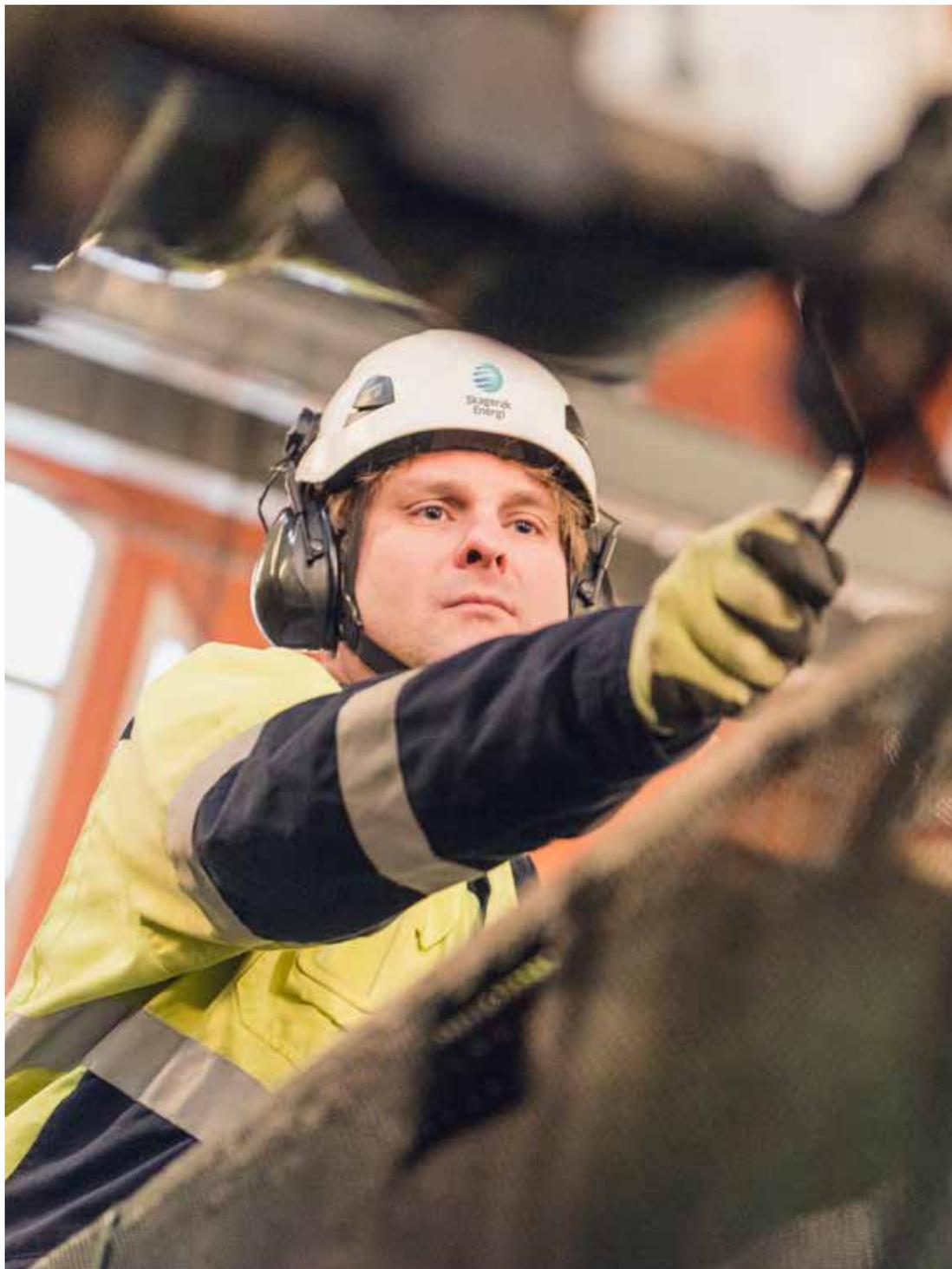
Per cent



Total waste

Tonnes





Assessment

We attained our target of zero breaches of licence and zero serious environmental incidents in 2017. These are good and important results. Skagerak Kraft, Skagerak Nett and Skagerak Varme achieved our target of a waste separation rate of more than 85 per cent.

The Group meets its overall ambition to contribute to a society with fewer greenhouse gas emissions. Although total emissions of CO₂ increased slightly in 2017, the Group's emissions have decreased from about 8,600 tonnes in 2011 to approximately 2,100 tonnes in 2017. In addition, Skagerak's energy deliveries contribute to a significant reduction in the total emissions of CO₂ in the region compared with the use of fossil energy sources. The delivery of district heating and biogas results in annual reductions in environmental emissions of more than 40,000 tonnes of CO₂, compared to corresponding heat production based on oil-fired boilers and the use of diesel fuel.

Targets for 2018

Key Group targets for 2018 are:

- Zero breaches of licences
- Zero serious environmental incidents
- Waste separation rate of more than 85 per cent
- Realise new renewable hydropower
- Increased sales of guarantees of origin
- Increased renewable district heating production
- Network development that reinforces the grid, ensures good security of supply and reduces network losses.

The companies' environmental work

Skagerak Kraft AS is certified according to the ISO 14001 standard for environmental management. This makes the company's environmental work, in the form of follow-up of licence requirements and self-imposed requirements a natural element of our daily work. The company emphasises sound management of the watercourses to comply with Norwegian legislation and licences and to ensure efficient operations and value creation. Our goal is to conduct the environmentally friendly production of electricity using renewable hydropower, while acting responsibly and considerately towards the local communities and users of the natural areas in and around the company's facilities.

There were no breaches of licences in 2017. Skagerak Kraft attaches importance to contributing to the conservation of biodiversity in connection with our facilities within the requirements and guidelines set out by the authorities. Typical instructions from the authorities relate to the regulation of the highest and lowest water levels (HRV and LRV) and mitigation measures in relation to endangered species.

Sustainable water management implies that we must implement environmental measures in and around our facilities in watercourses. Examples of such measures include the environmentally friendly operation of our power stations, providing suitable substrates for spawning and young fish, actively increasing fish stocks, facilitating conditions for fish to migrate up and down rivers, and improving thresholds and obstacles to fish migration. The overall goal is to achieve sustainable and self-recruiting fish stocks. Every year, we set out juvenile fish in accordance with licence requirements, and in the Kragerø watercourse, we are taking active steps to ensure the conservation of endangered eels.

In connection with the construction and operation of our facilities, Skagerak Kraft facilitates natural re-vegetation. When there is a need for active re-vegetation, this is done using natural indigenous seeds. In 2017, Skagerak Kraft also implemented activities aimed at combating invasions of lupine, which is a blacklisted species. This is coordinated with routine operational tasks. Similarly, all our operating areas have good routines for the disposal of waste in and along the watercourses, and all waste is delivered to approved waste disposal facilities. Collected waste mainly comes from the general public and natural biological waste from nature such as trees, shrubs and other organic matter.

“Water power is renewable and produces no greenhouse gas emissions, **but it is not without environmental impact.** Both operation and development entail interventions in ecosystems and the landscape. Such interventions are minimised through systematic environmental management and various mitigating measures.”



A particularly important contribution is the collection of plastic and other floating inorganic material. By collecting this waste, the company helps to prevent plastic from reaching the sea.

Skagerak Kraft is also working on revising relevant terms and conditions. The forthcoming revisions are governed by the authorities, and the aim is to achieve better environmental conditions in regulated watercourses in accordance with the EU Water Framework Directive. Most of the company's larger facilities in watercourses are located in areas covered by ongoing audit cases, and the company is directly involved in seven such cases. Skagerak Kraft expects that in 2018 and the coming years it may be necessary to carry out additional environmental studies of the watercourses and that the authorities will decide on further mitigating measures or new lower limits for water flow levels. Accordingly, the company attaches importance to working systematically to assess, document and communicate which measures are best both environmentally and from a corporate and socio-economic perspective.

Skagerak Nett has a strong focus on strengthening our expertise to understand future needs and technological opportunities in terms of the power supply. The development of the network is largely regulated by the authorities and governed by licensing processes that may take several years. In a future energy system, we will most likely see an interaction between the company and traditional power generation, new producers of renewable solar and wind power and customers who also produce their own energy. At the same time, customers' consumption patterns are changing, and the electrification of society will affect future network needs. In order to be prepared for different future scenarios, the company is therefore participating in and leading a number of research and development projects.

The power grid is continuously under development so as to both maintain security of supply and cause the least possible harm to the environment and society. We make comprehensive risk assessments that take into account environmental and climate challenges for all network renovation and development work. One example is areas where there are large numbers of eagle owls, where we install special perches on pylons to prevent the birds from getting too close and being killed by live power lines.

We work continuously to reinforce the network, placing emphasis on choosing optimal power line corridors and reducing overhead lines in favour of buried cables. In the spring of 2017, we concluded our major project “Network Reinforcement Grenland”, which has created a better network structure and higher capacity, and completed dismantling more than 50 km of high-voltage lines and masts in built-up areas in the region. There is an ongoing project between Porsgrunn and Larvik to construct a new switching substation, in order to supply the new dual-track railway, which will be put into service in 2018. By 2020, Skagerak Nett’s goal is to have automatic, environmentally-friendly drainage equipment or oil separators installed in all of the company’s outdoor transformer pits. Skagerak Nett was the first Norwegian company to use a monitoring system for continuous oil measurements and to maintain complete documentation of emptying history.

In 2017, Skagerak Nett achieved both a reduction in residual waste and an improvement in waste separation. The company has started testing environmentally friendly composite pylons to replace impregnated wooden pylons. Impregnated wooden pylons contain either creosote or heavy metals. Although the use of impregnated wooden pylons is permitted by the Norwegian Environment Agency, Skagerak Nett has decided to reduce the use of these to an absolute minimum in 2018. Furthermore, we have decided to work actively to transition to switchgear that does not contain the greenhouse gas SF₆. The company’s vehicle fleet will also be made more environmentally friendly by using electric vehicles.

Skagerak Varme has reduced emissions of CO₂ significantly in recent years, and has an ambition to achieve fossil-free heat production in all our plants by 2020. CO₂ emissions have been reduced from more than 7,000 tonnes in 2011 to less than 400 tonnes in 2017. District heating production entails annual reductions in environmental emissions of more than 30,000 tonnes of CO₂, compared with corresponding heat production based on oil-fired boilers.

Skagerak Naturgass contributes to the green shift by supplying biogas, which is a climate-neutral fuel produced from organic waste from households and agriculture.

The use of biogas contributes to the reuse of waste resources and to significantly reduced emissions of greenhouse gasses, nitrogen oxide (NO_x), sulphur dioxide (SO₂) and particulate matter. Biogas primarily replaces the use of diesel fuel in the transport industry. In 2017, Skagerak Naturgass delivered 48 GWh of biogas, which replaced approximately 4.2 million litres of diesel. This means that greenhouse gas emissions were reduced by about 13,000 tonnes of CO₂.

Skagerak Naturgass is a pioneer in the establishment of biogas distribution and filling stations in the region. The company has a long-term ambition to increase deliveries in line with developments in the biogas market. Biogas is primarily produced at the Greve plant in Tønsberg, but there are also a number of other sources in Norway that could potentially accelerate this reduction in greenhouse gas emissions.



Secure power supply

Skagerak Energi administers critical infrastructure. Our most important social mission is to provide a secure power supply so that critical functions such as hospitals, the fire service, the police, the water supply and mobile and data communications are able to work as they should. Power outages can have major consequences for our customers and for society. Outages or poor quality of the energy supply to industry can be very expensive if production must be stopped as a result. Many private households have electricity as their sole source of heat and are especially vulnerable to prolonged power outages. For Skagerak, security of supply means that our 194,000 end customers experience as few outages as possible. At the same time, it is important that all of society is well prepared and has the necessary solutions in place to tackle emergency situations.

The role of the power system will become more important

Society is in the midst of great change in terms of energy. In addition, rapid technological developments are contributing to changing needs and expectations. An increasing number of social processes are being digitalised and thus becoming dependent on stable access to electricity. At Skagerak, we take our responsibility for providing a secure and stable power supply seriously, and we constantly work to develop and modernise the distribution grid. Technological development also provides new opportunities for network development, and Skagerak Energi is preparing for the future by bringing in strong expertise and investing in modern infrastructure.

Rapid change requires strong expertise

Our industry is subject to strict requirements and guidelines, and Skagerak Energi has a good dialogue with the authorities to ensure compliance with regulations. The Group has highly qualified employees who ensure good network planning, stable operations and sound decisions for the development or refurbishment of our facilities. We develop analysis methods and competence through internal research and development projects, and in collaboration with recognised research and education institutions.





When we select new power line corridors for the distribution of electricity, we always take environmental and climate challenges into consideration. Skagerak Nett has, despite all our network reinforcement and development work, reduced the overall length of overhead power lines (high-voltage and low-voltage) by nearly 300 kilometres in the last five years. During the same period, the length of buried cable and sea cable has increased by almost 700 kilometres.

Good outage statistics and well-planned maintenance

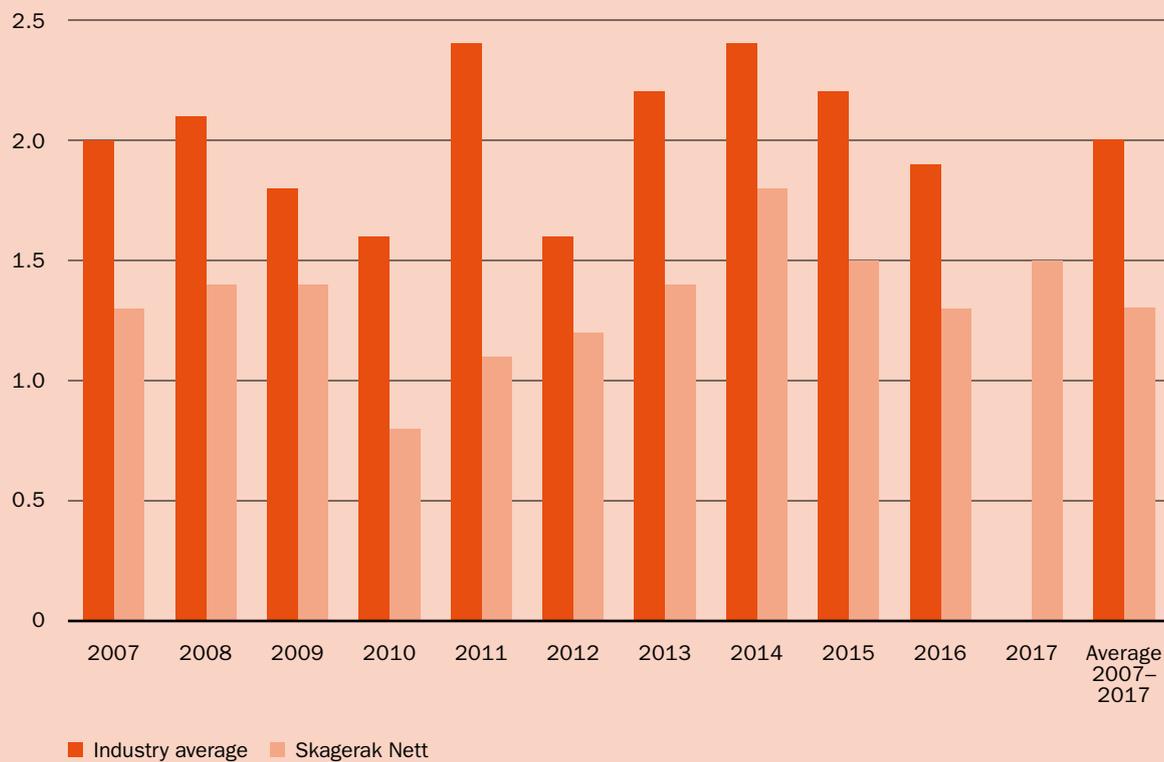
Security of supply means that Skagerak Nett's 194,000 end customers should experience as few outages as possible. Any faults should be detected and corrected and quickly. The number and duration of outages are actively used in goal management. Skagerak Nett's average number of customer outages lasting longer than three minutes has been stable over the last 10 years.

Skagerak Nett's regional network facilities are in good condition throughout the entire area, and we are also conducting continuous development and improvement work, which improves the network structure and provides higher capacity. Skagerak Nett has improved the company's maintenance systematics. We have changed the intervals for inspections and introduced shorter deadlines for correcting nonconformities. The Norwegian Directorate for Civil Protection (DSB) conducts annual inspections. Any findings are systematically processed within the deadlines set by the DSB.

Constant preparedness

Skagerak Energi has incorporated systematic risk management for all critical areas. In addition to working preventively in all areas, all companies and Group management are also prepared to handle serious incidents and situations. Skagerak Nett and Skagerak Kraft have control centres that continuously monitor our facilities and initiate and coordinate necessary emergency response actions. Agreements have been established with suppliers that ensure we have access to the necessary resources and equipment in emergency situations. We conduct training drills on a regular basis to ensure that our emergency response plans are up to date and that emergency response management and on-call personnel are best prepared to handle difficult situations.

Number of interruptions per end user (SAIFI)



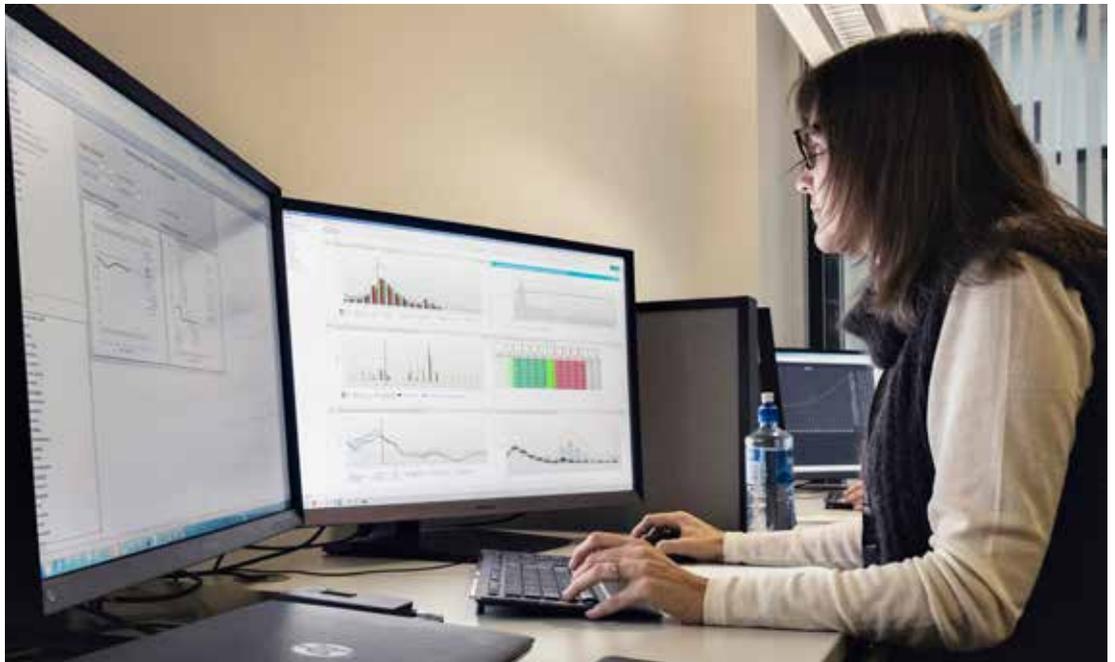
ICT security is high priority

Increasing digitalisation also increases the risk of information being compromised or someone infiltrating our ICT systems. At worst, such an infiltration could have dramatic consequences for a company that controls both large amounts of water and supplies nearly 200,000 households and businesses with electricity.

In 2016 and 2017, we conducted extensive work to identify vulnerabilities, propose measures and then implement those measures to strengthen the Group's ICT security. Sensitive information that is collected, transported, stored and made available in various systems poses a risk of misuse, attack and harm. In addition, digitalisation means that we are increasingly dependent on the availability of ICT services and that these function as intended.

In its threat assessment for 2017, the Norwegian Police Security Service (PST) wrote: *“Power supply systems and electronic communications services are critical infrastructure that is especially likely to be targeted by intelligence activity. A secure electricity supply is vital for Norwegian society, and electricity produced in Norway is important for the stability of the power markets in the Nordic countries and other parts of Europe. Given the increasing and ever closer European cooperation on power supplies, the intelligence and sabotage threat to Norwegian critical infrastructure should be viewed in a wider European context.”*

Good ICT security is not just a matter of good technology; it is also crucial that all employees have an understanding of risk and responsibility to ensure that our vigilance and internal routines are good enough.



In 2017, the company conducted an internal campaign to sharpen attitudes and increase the competence of all employees, so that they better understand the threat level, how it affects us and how individuals should relate to this. Each year, we conduct one or more emergency response exercises where we practise handling ICT-related events.

In 2017, we updated our risk and vulnerability analyses for critical ICT systems. Our analyses identify measures that need to be implemented and contribute to a proactive and systematic working method regarding improvements. Analyses are followed up through an annual audit and are subsequently updated.

All improvement measures contribute to increased accessibility to our ICT systems, and to reducing the risk of us being exposed to undesirable security incidents or malicious attacks.

Working environment and safety

People are Skagerak Energi's most important resource. No activity shall be initiated if there is a danger to human life or health, and we believe that job mastery and well-being facilitate efficiency. Skagerak Energi has participated in the government's inclusive working life (IA) scheme since 2002, and the Group's most important HSE goals are zero personal injuries, a low sickness absence rate and a working environment characterised by high job satisfaction. The Group has experienced a downward trend in the reduction of personal injuries in recent years. In 2017, there were a total of two injuries, one of which was a lost-time injury. Our sickness absence rate was 4.3 per cent in 2017, and the Group's working environment survey reveals high levels of job satisfaction.

Skagerak Energi requires that the Group's decisions and the implementation of activities be characterised by responsibility for everyone involved. We work systematically to develop the organisation's corporate culture, so that it is characterised by trust, transparency and the will to ensure compliance and make improvements. Our most important success factor is that our managers and employees at all levels and in all units in the organisation collaborate well and that we continuously implement improvement measures.

We greatly emphasise managerial presence and open and good communication, in addition to systematic risk assessments and working environment surveys. Our high implementation rate of action plans and reported improvement measures, the rapid correction of nonconformities and facilitating conditions to adapt to special needs all contribute to trust and prevent absences. Skagerak's working environment committees contribute to the adoption of good action plans and ensuring that planned measures are implemented and have an effect. We have working environment committees in Skagerak Nett, Skagerak Kraft and Skagerak Energi, where there are more than 50 employees. In addition, there is a working environment committee for the Group.





Working environment and sickness absence

The Group's sickness absence rate closed on 4.3 per cent in 2017, compared with 3.1 per cent the previous year. The average sickness absence rate in the industry was 3.9 per cent in 2016 and the average sickness absence in Norwegian employment market over the last three years has been about 6.3 per cent. We are disappointed that our sickness absence rate has risen from 2016 to 2017. In 2017, there were many absences due to seasonal flu, as well as several cases of non-work-related illnesses. We recognise that an average employee age of about 50, coupled with the fact that employees are working longer before they retire, contribute to an increased likelihood of illness and absence. This places great demands on the organisation and requires good follow-up and the ability to adapt working conditions as necessary.

The Group has an agreement with an authorised occupational health service, and we conduct annual workplace surveys and surveys of the physical working environment. The occupational health service also participates in relevant meetings of the working environment committees and ensure that our companies receive professional assistance when needed. Skagerak Energi also conducts an annual working environment survey which, in combination with other surveys and studies, provides a basis for the next year's improvement measures related to health and the working environment.

Skagerak Energi offers a wide range of welfare services, where employees can choose to be physically active, attend various welfare events or make use of company cabins. In order to help the company's employees find a good balance between work and leisure, we also offer a scheme for flexible working hours.

HSE

	Unit	2015	2016	2017
Sickness absence rate	%	3.8	3.1	4.3
Personal injuries resulting in lost time or medical treatment	Number	7	4	2
Injury frequency rate (H2)	#	6.8	4.2	2.2
Number of occupational health surveys	Number	205	213	222
Number of own employees who took the FSE course ¹	Number	524	375	361
Number of external employees who took the FSE course ¹	Number	215	250	275
Number of first aid courses	Number	474	408	344

1) FSE: The Regulation relating to safety in maintenance and operation of electrical installations

“The Group had two personal injuries among its own employees in 2017. We did not achieve our goal of zero injuries, but it is still the best result in Skagerak’s history.”



Personal safety

The company's most important risk areas related to life and health have been identified and serve as the basis for choosing working methods, setting requirements for training and the use of protective and safety equipment. Examples of hazardous work at Skagerak Energi include work at or near electrical installations, working at height or on dams and regulated watercourses and in the wilderness. Several of the Group's facilities are in areas used by people for recreation and outdoor activities and must be properly secured. The Group had two personal injuries among its own employees in 2017. We did not achieve our goal of zero injuries, but it is still the best result in Skagerak's history.

Analyses of the underlying causes of accidents have shown that all injuries can be prevented. A high activity level in terms of HSE prevention work at all levels in the organisation has produced results. Managers and employees have gained a better understanding of the risks; we now have better equipment, better procedures and safer working methods. Naturally, for Skagerak Energi, our goal is to have good

personal safety and ensure the well-being of everyone who carries out assignments on behalf of the Group or any of its subsidiaries. No activity shall be initiated if there is a danger to human life or health.

Skagerak Energi requires all contractors to have a strong focus on HSE to ensure that the working conditions for everyone who performs work for the Group comply with applicable legislation. This will be an important focus area in 2018.

Line responsibility

HSE is a line responsibility. Important measures for reducing risk and preventing injuries include annual safety training, regular updating of procedures and instructions and a strong focus on suitably adapted protective and safety equipment – and ensuring that this equipment is used. In addition, Skagerak requires all managers to regularly practise dealing with ethical dilemmas and that everyone be involved in improvement work. The Group believes that a high level of activity in terms of reporting and processing nonconformities and improvement proposals is an important preventive indicator, and in this way, all employees contribute to continuous improvement. The quality of this work is constantly improving. We are achieving measurable effects in the form of increased safety as undesirable conditions are quickly corrected and in the form of reduced costs. In 2017, we had reports of 1,600 nonconformities and received 800 improvement proposals. All nonconformities are corrected, while improvement proposals are evaluated on a cost-benefit basis. Around 50 per cent of all improvement proposals were implemented in 2017.

Managers with responsibility for personnel who handle construction projects and installation and fault repair work are frequently present at work sites in the field. We improve risk awareness and competence by observing and discussing working methods and safe and unsafe actions. Frequent communication also facilitates trust and transparency.

Skagerak Energi complies with Norwegian HSE legislation and the line is responsible for monitoring day-to-day compliance. In addition, we conduct regular internal control activities and more extensive Group audits, and the authorities conduct one or more inspections annually. We investigate all serious incidents and near-misses with serious potential consequences.

New times require new thinking

Skagerak Energi recruits the best people to meet a new reality, where digital solutions require flatter structures, faster decisions and collaboration across the organisation.

“Everything that can be digitalised will be digitalised.”

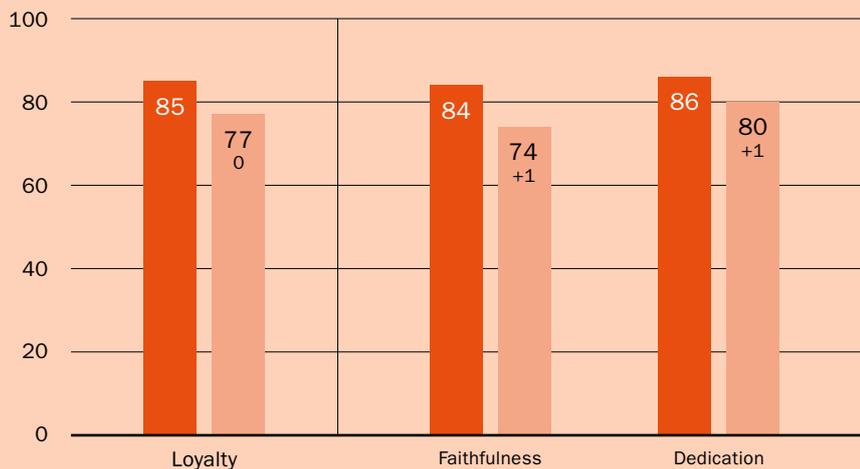
This statement has gained more weight after the cost of using new digital tools has fallen sharply, and because processing power has dramatically improved in recent years.

Twenty years ago, you were called a “superuser” if you could turn on a computer and find the e-mail program without ICT support. Today, professionals and specialists need to be able to program and develop digital solutions and put them into practice themselves. In recent years, Skagerak has recruited young people with high levels of expertise, and we work with the Norwegian University of Science and Technology (NTNU) and the University of Southeast Norway to attract more graduate engineers and computer scientists.

Skagerak also needs skilled professionals. Both Skagerak Kraft and Skagerak Nett are members of the Electrical Trades Training Office (Opplæringskontoret for Elektrofag) in Telemark. The training office is tasked with facilitating good and quality assured training of apprentices placed at companies. Our power business has apprentices from the electrical operator trade, while our distribution network business has apprentices from the energy installer trade.

Skagerak Energi is one of 26 member companies in Trainee Vestfold and Telemark, which aims to attract newly qualified master’s graduates to the region. Skagerak has had three trainees through this scheme, and the feedback has been positive. One of the three is now permanently employed by the company, and the other two are in the final phase of their trainee periods.

Employee opinion survey



■ Skagerak Energi AS – Group ■ GELx Norway

The Global Employee and Leadership Index (GLEx) is the Nordic region's largest job satisfaction survey. It is based on 40,000 responses from 42 countries and issued annually by Ennova in cooperation with HR Norge.

New requirements for management

Equally as important as recruiting is building on the internal competence we already possess. A number of R&D projects at both Skagerak Nett and Skagerak Kraft have a twofold effect: They will increase value creation for our owners and boost competence in the organisation.

Complicated digital challenges are demanding. This means that it is not possible to decide to either solve the challenge internally or to outsource it to others. The best new solutions come about through the cooperation of different environments, both internally and with external partners. This also increases the pace at which Skagerak Energi can build competence.

Digitalisation and more R&D projects impose new requirements on managers. Managers must cultivate new creative solutions, while being able to guide development towards increased value creation within given time and budget frameworks. Managers must also be able to see the strategic potential of digital solutions.

Our annual employee opinion survey shows that we are an organisation where employees experience high levels of job satisfaction and well-being and are highly motivated compared to the Global Employee and Leadership Index (GELx) customer base in Norway. The same is true for loyalty, faithfulness and dedication.

It is also interesting that it is the employees who have been with the company for between one and three years who score the highest on job satisfaction and learning and development. This is a signal that we are recruiting the right people and that our new employees feel that they are useful and evolving.

At the end of 2017, Skagerak Energi had 611 employees, 457 men and 154 women. This makes the proportion of women 25 per cent.

At the reporting date, 18 (24 per cent) of the Group's 74 managers and 4 of the Board's 9 members, were women, 2 of which were shareholder-elected and 2 employee-elected.





“Complicated digital challenges are demanding. The best new solutions come about through the cooperation of different environments, both internally and with external partners.”

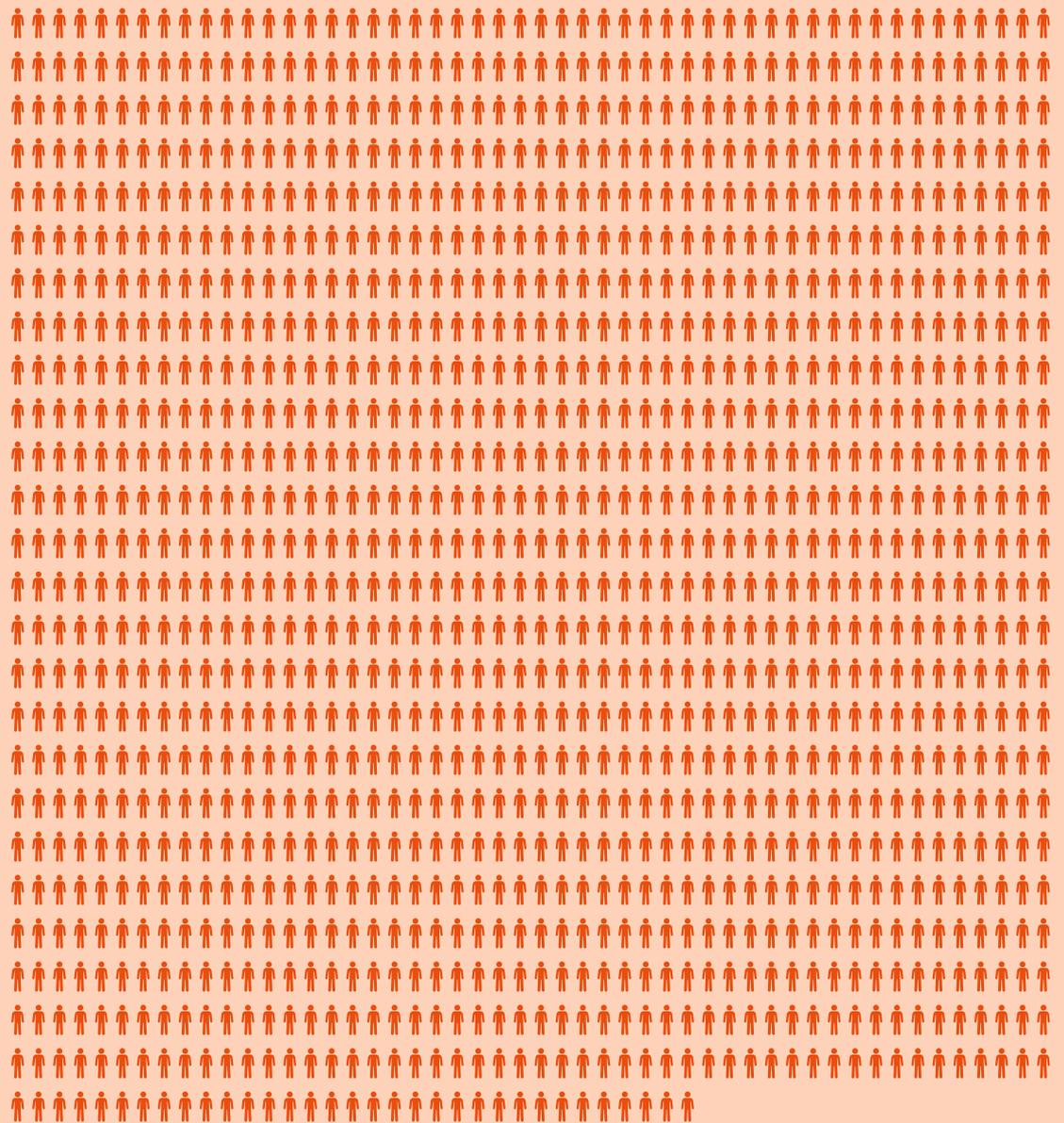
Paid taxes equivalent to 1,300 teacher salaries

Skagerak Energi is an important contributor to local welfare. In 2017, the company and employees paid more than NOK 800 million in taxes. This is enough to pay the salaries of nearly 1,300 teachers or 1,650 police officers.

Skagerak Energi's vision is to create welfare, growth and development in the region by delivering clean energy.

We can safely say that we successfully achieved this in 2017. The company's total value creation amounted to NOK 1,797 million, which will be distributed between our employees, our owners and the authorities in the form of taxes. In addition, the company retained some capital to ensure that we have the financial muscle for continued growth. Since Skagerak Energi was formed in 2001, we have created value for distribution totalling NOK 26,790 million. Value creation is defined as income less intermediate consumption and technical impairment of facilities.

It is the public that receives the largest portion of the values we create. In 2017, the Group paid NOK 690 million in taxes and charges, which is 38 per cent of the Group's value creation. This money goes to the state and to the municipalities in which Skagerak Energy has offices and power stations. If we add the tax paid by employees, tax payments in 2017 amounted to approximately NOK 815 million. By comparison, the municipality of Porsgrunn spent NOK 723 million on the operation of all its kindergartens and primary schools in 2017.



NOK 815 million in paid tax = 1,283 teachers

Based on the average salary for a teacher or police officer, the taxes paid by the company and its employees will be enough to pay 1,283 teachers or 1,672 police officers.

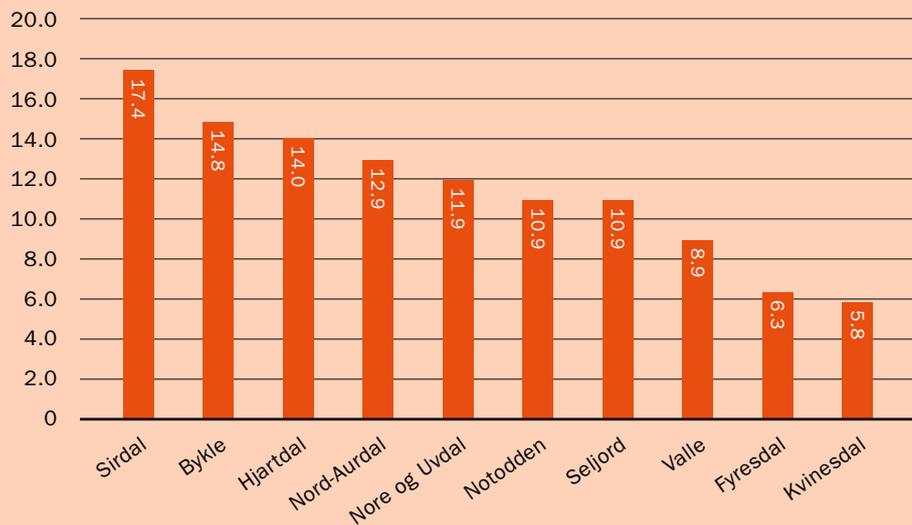
Skagerak Energi generates substantial economic activity in the region. In 2017, the Group purchased goods and services with a value of almost NOK 1.5 billion. If we assume that approximately one third of these were purchased locally, this directly yielded nearly NOK 500 million in demand for goods. In addition, NOK 371 million was paid in salaries, NOK 170 million in taxes to various municipalities and a dividend of NOK 59 million will be distributed to the three owner municipalities Skien (15.21 per cent), Porsgrunn (14.83 per cent) and Bamble (3.34 per cent).

Among the so-called power municipalities, where Skagerak owns facilities, Sirdal municipality received the most tax, totalling NOK 17.4 million. The ten largest host municipalities ranked by tax payments received from Skagerak Energi, received a total of NOK 114 million.



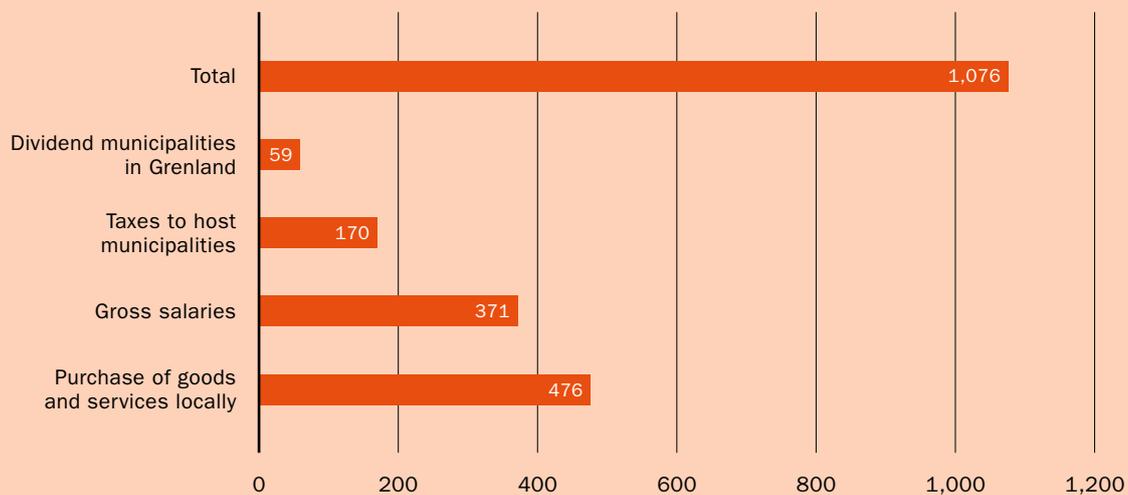
Taxes to host municipalities

NOK million



Local demand created by Skagerak Energi

NOK million



Helping young people back on course

Skagerak Energi wants to help those who help. lyk-z & døtre is a company that helps young people to regain their self-belief, so that they can get back to school or work.

There are few things that are more tragic than when young people end up on the rocks. It is a tragedy for them and their immediate family, as well as a huge socio-economic burden.

lyk-z & døtre's mission is to help young people who find themselves excluded from school and the employment market to find their inherent qualities and abilities and quickly become active again.

Groups of up to 12 young people come together for 25 days over 7 weeks. They progress through five modules on the topics of Vision, Identity, Communication, Impact and The Big Leap. The method is based on theories from neurophysiology, psychology, communication theory from the film profession, management and coaching.

During the seven weeks of training, the participants undergo great positive changes. They gain insight into their own values and unique qualities. Participants draw up their own progress plans and find their own inner motivation and drive to appreciate the value of school or working life.

lyk-z & døtre was named Ferd's social entrepreneur of the year in 2012. The company collaborates with the Norwegian Labour and Welfare Administration (NAV) and other companies and organisations that help young people suffering from mental health issues. Part of lyk-z & døtre's business model is to educate others in their method so that even more people will be able to receive help to get their lives back together.

Skagerak Energi signed a sponsorship agreement with lyk-z & døtre in the autumn of 2017, and we will consider whether our involvement can be extended to include internships for those who have completed training at lyk-z & døtre. The company is located in Skien.

Sponsorships awarded twice per year

Skagerak Energi awards 20 sponsorships of NOK 5,000 twice a year. In spring, our sponsorships go to sports teams and in the autumn to cultural life. This scheme was introduced in 2017 to achieve an easier and fairer allocation of funds to the many good initiatives in Grenland and Vestfold.

In addition to these small sponsorships, Skagerak also has large partnership agreements. The largest is with the football club Odd, which is receiving NOK 20 million over five years for a number of profiling initiatives, the name of the stadium being the most visible. The second-largest is Larvik Handball, Norway's most successful women's team ever.

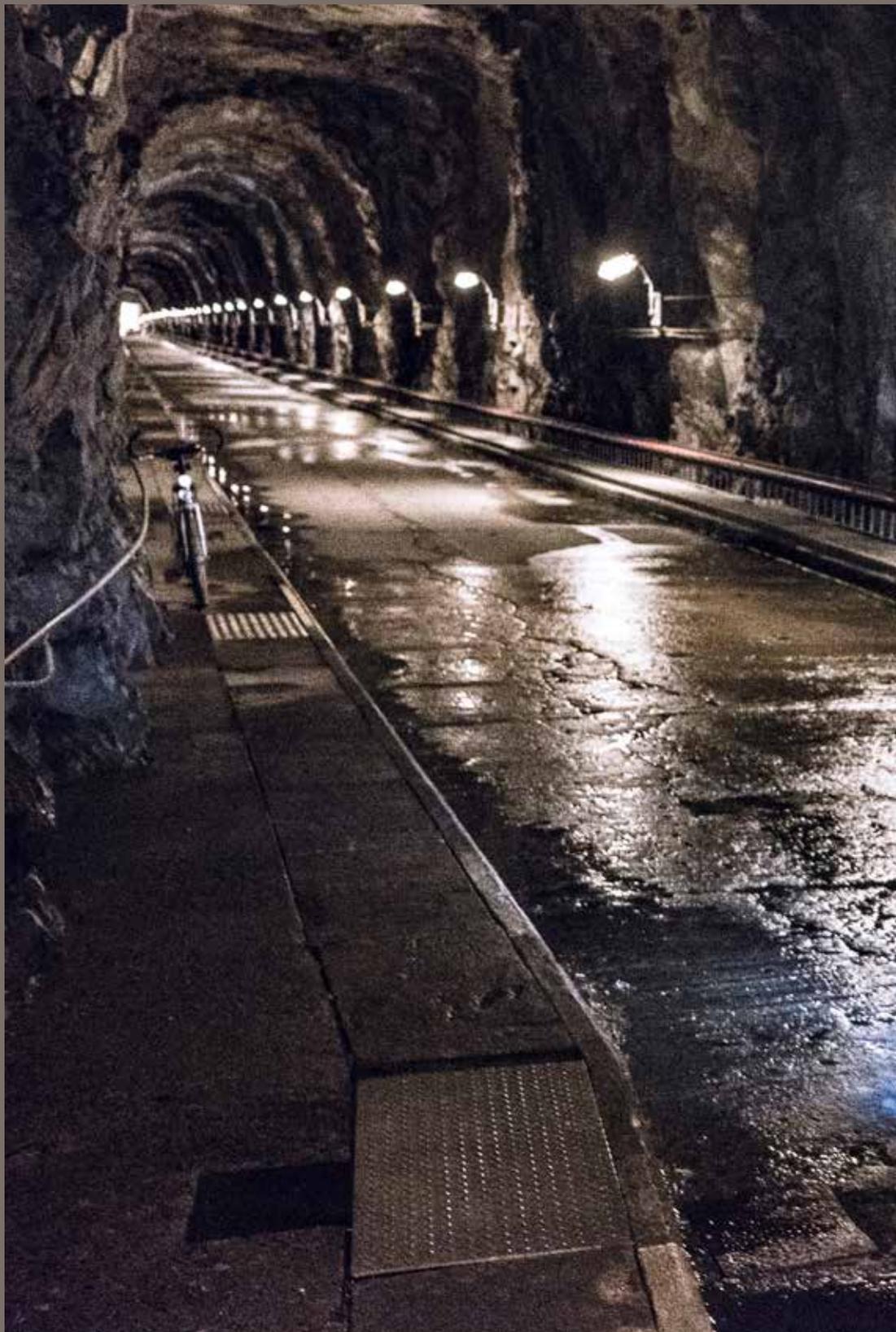
Skagerak Energi was one of the largest financial supporters for Keep Norway Clean (Hold Norge Rent) when our partnership began five years ago. Subsequently, attention has turned to marine pollution and the fact that plastic in the sea has increased dramatically. Keep Norway Clean has become an important national competence centre in this area.

In total, we awarded NOK 10 million in grants and sponsorships in 2017.



Other sponsorships:

- The Skagerak Festivals
- Porsgrunn International Theatre Festival
- Parkjazz
- Du Verden Maritime Museum + Science Centre
- Gjerpen Handball Club Skien



Report from the Board of Directors and financial statements

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Report from the Board of Directors 2017

Skagerak Energi Group

Business

Skagerak Energi is a regional energy group headquartered in Porsgrunn. The company's core activities are performed by the business areas Power production, Power distribution and District heating and are organised through wholly owned subsidiaries owned by Skagerak Energi AS. Skagerak Energi also holds a 49 per cent stake in Skagerak Naturgass, which markets and distributes natural gas and biogas, a 48 per cent stake in Fjordkraft, which sells electricity to consumers, and a 33.4 per cent stake in the electrical installation company Laugstol.

Skagerak Kraft produces hydropower in South Norway. Its 49 wholly or partly owned production facilities have generated an average of 5.9 TWh over the past five years. Skagerak Nett manages and develops the regional and distribution networks in Vestfold and Telemark, and has around 195,000 customers. Skagerak Varme operates district heating facilities in Vestfold and Telemark.

Skagerak Energi's vision is to be a forward-looking supplier of clean energy that contributes to social welfare, economic growth and development, while the Group's business idea is to create value for customers, shareholders and society by producing, transporting and selling electricity, and by developing and delivering energy-related products and services. Our operations are based on our core values – competent, responsible and innovative.



Highlights in 2017

2,800

Gross operating revenues in NOK million
(NOK 2,489 million in 2016).



EBITDA, adjusted for unrealised changes
in value of hedging contracts, amounted to
NOK 1,665 million, up 27 per cent on
the previous year.

552

Net profit after tax in NOK million
(NOK 378 million in 2016).



Fifty-one per cent of the shares in
Skagerak Naturgass were sold to the
French company Air Liquide, which
means the company is now owned
by a major European player in
natural gas, biogas and hydrogen.



Operating expenses continued
to fall in line with the Group's
targets and improvement
programme.

Together with other
owners, we started
work on an IPO of the
end user business of
Fjordkraft AS.



Power prices were higher
than in 2016, while the achieved
average price after hedging rose
by 12 per cent.

2

The number of reported injuries in 2017,
compared with 4 in 2016.

Market conditions

The first quarter of the year was characterised by a mild and relatively dry winter. Areas in south-eastern Norway had very little snow, while snow conditions were closer to normal further west in our catchment area. Low consumption, normal inflow conditions and consistently high nuclear power production kept spot prices relatively low throughout the Nordic winter. South Norway, and in particular more western areas, experienced several periods of high precipitation during the second half of the year, and reservoir levels in price area NO2 closed the year 9.3 percentage points above the historic median.

Higher-than-normal precipitation and inflow put pressure on spot prices in South Norway during the summer. The situation was exacerbated by at times significant reductions in export capacity from South Norway, which resulted in major price differences to neighbouring countries. Spot prices rallied over the autumn on the back of higher consumption and normalised exchange capacity. However, much of the price increase was also attributable to a significant increase in the marginal price of thermal power during the second half of the year caused by a spike in raw material prices (coal, gas and oil) and rising CO₂ prices.

In 2017, precipitation in Norway was around 117 per cent of the normal, while the average temperature was 0.04 degrees Celsius higher than the normal. The average spot price in South Norway (NO2) was 0.269 NOK/kWh (0.233 NOK/kWh). Total power production in Norway amounted to 148.7 TWh.

The Board of Directors



Steinar Bysveen
Chair



Rolf Erling Andersen
Deputy Chair



Ida Helliessen
Director



Arvid Wisløff
Director



Kristin Steinfeldt-Foss
Director



Trond Erling Johansen
Director



Gunnar Møane
Director



Kjersti Haugen
Director



Øystein Beyer
Director



Knut Barland
CEO

Consolidated earnings and financial performance

The Group prepares its financial statements in accordance with the Regulation on simplified application of International Financial Reporting Standards (IFRSs) of 21 January 2008.

In the reporting period, the Group posted gross operating revenues of NOK 2,800 million (NOK 2,489 million), which were up 12 per cent on the previous year. The increase was predominantly due to higher electricity prices and slightly higher power distribution revenues, and it would have been slightly higher had Skagerak Naturgass (which was sold during the year) been consolidated for the whole year. The average price for power sales, including realised losses on price hedging, was up 12 per cent on 2016.

The profit after tax closed on NOK 552 million (NOK 378 million).

The annual increase of NOK 174 million was primarily attributable to higher power sales prices and was achieved despite a higher tax expense.

EBITDA, adjusted for unrealised changes in the value of hedging contracts, closed on NOK 1,665 million, up 27 per cent on the previous year.

Operating expenses fell in line with the Group's targets and improvement programme.

At NOK 106 million, the share of profits from associates remained at the very high level seen the previous year, thanks to strong profitability in the end-user business Fjordkraft.

Consolidated net financial items came in at NOK -171 million, compared with NOK -189 million the previous year. The change is primarily attributable to slightly lower interest rates.

At NOK 517 million, the tax expense for the year was up NOK 409 million on the prior-year figure of NOK 108 million, mainly due to a non-recurring effect in 2016 relating to recognition of a deferred tax asset for resource rent tax of NOK 208 million, and a higher profit before tax in 2017.

The profit after tax, adjusted for unrealised changes in the value of power contracts, was NOK 549 millions

(NOK 342 millions, includes a non-recurring effect from income of the deferred tax assets).

Total investments in property, plant and equipment in the reporting period came to NOK 852 million (NOK 660 million). The bulk of the investments were made in Skagerak Nett (79 per cent) and Skagerak Kraft (12 per cent).

The net consolidated cash flow from operating activities came in at NOK 931 million (NOK 986 million). All investments are financed through operations. Net interest-bearing liabilities fell from NOK 4.8 billion to NOK 4.7 billion.

At the reporting date, total assets amounted to NOK 12.1 billion (NOK 11.6 billion) while the equity ratio closed on 45 per cent (42 per cent). The market value of the production facilities is significantly higher than the book value.

Going concern

The financial statements have been prepared in accordance with the going concern assumption. The business has good financial solvency and sufficient liquidity, and, based on current forecasts, is well placed in the market to achieve long-term value creation.

Appropriation of net profit for the year

The Group and the parent company Skagerak Energi AS posted net profits for the year of respectively NOK 552 million and NOK 251 million. The Board proposes to the Annual General Meeting of Skagerak Energi AS that the parent company's net profit for the year be distributed as follows:

Transferred to other equity:	NOK 251 million
Total appropriated:	NOK 251 million

It is proposed that a dividend of NOK 178 million be distributed for 2017. The Board has assessed the company's equity and liquidity after the proposed dividend and deems this to be reasonable based on the risk and scope of the business.

There have been no events of material importance for an assessment of the financial statements since the end of the accounting year. The Board believes that the annual financial statements fairly present Skagerak Energi's assets and liabilities, financial position and performance.

Earnings, operations and performance in the business areas

Power production (Skagerak Kraft)

Gross operating revenues from the power production business rose by 12 per cent to NOK 1,648 million (NOK 1,468 million) during the reporting period, primarily due to higher power prices.

Operating expenses, including depreciation and amortisation, fell by NOK 2 million against the previous year, mainly on the back of lower property tax. EBITDA, adjusted for unrealised changes in the value of power contracts, amounted to NOK 1,153 million (NOK 956 million). The business invested NOK 100 million (NOK 104 million) in property, plant and equipment during the reporting period.

Major projects implemented by Skagerak in 2017 included the refurbishment of Bjordalen power plant and work on Bonsvatn dam and several control facility projects. The partly owned plants and regulation associations continued to be busy refurbishing dams and control facilities. We performed further work on the preparation of a new generator in Grunnål and the acquisition of Eider power station in Skien.

For 2017 as a whole, Skagerak generated total production of 5,949 GWh compared with 5,993 GWh in 2016. Skagerak's production accounted for 4.0 per cent of Norway's total annual power production. At the start of 2017, Skagerak's reservoir levels were slightly above the normal.

Power plant uptime remained good throughout 2017.

The business is exposed to significant market risk with regard to both volumes and prices. The Group has clear guidelines for the sale of its own power production, and routines for optimising water consumption in relation to expected market prices.

The exploitation of waterfalls is strictly regulated by the Norwegian Water Resources and Energy Directorate's (NVE) licensing terms, and many older licences are due to be revised in the coming years. Skagerak Kraft is currently involved in six such revisions and is busy preparing and

reviewing the relevant documentation and conducting on-site inspections of the relevant watercourses with the NVE.

The NVE also administers the regulations for dam safety. A significant tightening up of the regulations means that many older dams will now have to be modified at considerable cost. Skagerak and its partly owned facilities are making good progress with the necessary upgrades, with these activities due to continue until 2030.

The company is also actively evaluating new hydropower projects. The profitability of new hydropower is being squeezed both by uncertainty surrounding future power prices and a steady increase in resource rent taxation for hydropower production in Norway.

Tax – in the form of property tax, license fees, resource rent tax, natural resource tax and general corporation tax – represents a significant cost element for hydropower. There was a further one percentage point increase in resource rent tax in 2018. While this increase was accompanied by a corresponding decrease in corporation tax, the low tax-free allowance makes this a real hike for hydropower businesses that pay resource rent tax.

Skagerak also sells certificates of origin. This market is expected to expand as more and more attention is paid to climate issues.

Power distribution (Skagerak Nett)

Skagerak Nett posted gross operating revenues of NOK 1,108 million (NOK 961 million) in the reporting period. The increase is attributable to higher network tariffs. Operating expenses totalled NOK 769 million (NOK 743 million). The year-on-year increase is mainly due to higher depreciation and amortisation. EBITDA came in at NOK 541 million (NOK 396 million).

In 2017, total invoiced income was NOK 5 million lower than the income ceiling. At the end of 2017, there was no net income surplus or deficit.

Investments in the year totalled NOK 671 million (NOK 470 million). The largest projects in 2017 involved the roll-out of smart meters, completion of the Solum project to secure the power supply for the double-track rail link between Larvik and Porsgrunn, and a significant upgrade of Roligheten transformer substation, which is an important source of supply for Herøya Industrial Park.

At NOK 3,664 million, Skagerak Nett's capital base (NVE capital) was up NOK 259 million on the previous year at the reporting date. The NVE capital forms the basis on which the return is calculated and in accordance with the NVE's income regulation model is determined using a reference interest rate. The reference interest rate was set at 6.13 per cent in 2017 (6.32 per cent).

There were significantly fewer operational stoppages than in previous years and no emergency response situations during the year under review. During the same period, the company's end users experienced an average power outage of 2 hours and 5 minutes (2016: 1 hour and 44 minutes). The increase in outages in 2017 was primarily attributable to planned stoppages in connection with the roll-out of smart meters (the AMS project).

The power distribution business is regulated by the NVE, which imposes a wide range of requirements relating to activities, technical infrastructure, organisation and competence. The business's earnings are determined by the NVE using a model that rewards efficiency compared with other network operators. Skagerak Nett constantly endeavours to reduce its costs and improve the efficiency of its operations.

Skagerak Nett delivered 7,324 GWh in 2017 (7,045 GWh) and closed the year with 194,327 network customers.

District heating (Skagerak Varme)

Skagerak Varme posted net operating revenues of NOK 85 million (NOK 76 million) in the reporting period, which were up 12 per cent on the previous year. The company achieved further growth in sales volumes in 2017, closing the year on 120 GWh (114 GWh). The company is actively striving to improve its profitability and has set an overarching target of generating an operating profit by the end of 2020. This will be achieved through further volume growth combined with specific measures to improve the company's margins. EBITDA for the year came in at NOK 20 million (NOK 10 million).

Major construction projects in the reporting period included Herøya Industrial Park in Porsgrunn (16–18 GWh/year) and Skien Activity Park (4 GWh/year). The company also implemented various "densification projects" in all four of its licensing areas and is currently connecting a high number of new customers. Total investments in 2017 amounted to NOK 68 million (NOK 49 million), of which NOK 14 million (NOK 12 million) was financed via Enova. In 2017, we also initiated several "construction heat"

projects, in which district heating is used to dry out and heat buildings during the actual construction phase. This results in more environmentally friendly construction sites compared with current diesel and propane-fired solutions.

On the operational front, we continued to work on optimisation of waste heat, bio-heat and heat pump plants and general management of our various heat sources. We will also be establishing an extra heat pump in Horten, which will restore the share of our renewable energy produced from renewable sources to a high level, which had fallen due to strong customer growth in Horten in the previous year. The share of renewable energy for the year closed on 93 per cent (95 per cent).

Associates

At the reporting date, Skagerak Energi held stakes in the following associates: Skagerak Naturgass AS (49%), Laugstol AS (33.4%), Fjordkraft AS (48%), Nape Kraft AS (49%), Energi og Miljøkapital AS (35%) and Viking Varme AS (50%). The cumulative share of profits of these associates recognised in Skagerak Energi's consolidated income statement for 2017 amounted to NOK 106 million (NOK 106 million), while NOK 251 million was recognised in the consolidated balance sheet.

Organisation and HSE

Personnel and organisation

Skagerak Energi is organised as a group comprising three subsidiaries and a parent company, which, in addition to exercising its role as owner, performs corporate and support functions for the subsidiaries. At the reporting date, the Group employed 611 staff, which equates to 579 full-time equivalents.

Company	31.12.2017		31.12.2016	
	Number of employees	Full-time equivalents	Number of employees	Full-time equivalents
Skagerak Nett	375	356	373	354
Skagerak Kraft	123	116	123	115
Parent company	97	92	91	87
Skagerak Varme	15	15	15	15
Skien Fjernvarme	1	1	1	1
Skagerak Naturgass			7	7
Total	611	579	610	579

Skagerak Energi systematically endeavours to retain and develop skilled employees to cater for the company's future requirements and implements various measures with regard to employee and manager development.

In 2016, we revised our employee and manager principles based on the Group's core values. In the year under review, we performed further work on the implementation of our conduct principles.

We have revised and adjusted our Code of Conduct and notification guidelines, attaching significant importance to ensuring that these are implemented in a way that ensures sound ethical standards and that notifications are handled professionally and efficiently.

Skagerak Energi has been a pilot business in a scheme to test implementation of ethical and notification guidelines run by Energy Norway, one of the results of which is a guide that can be used by the entire energy industry.

The framework conditions for our industry are rapidly changing. As a knowledge organisation, Skagerak must

be able to constantly align its employees' expertise with changes in our sector, technology and organisation. With this in mind, we have commissioned a strategic competence survey that is due to be completed in the second quarter of 2018.

The results of the 2017 employee opinion survey revealed a workforce with high levels of job satisfaction and strong engagement. While the Group came in above the average for comparable businesses, variations at company and section level mean that further analyses and measures are required. In addition to analyses and assessments performed by respective line managers and management, HR will review the results, focusing on measures to achieve specific improvements and any joint measures.

In accordance with the EU's General Data Protection Regulation (GDPR), in 2017 we initiated a project to map how we process personal data. Our analyses, including identification of and measures to close gaps will be completed by the EU's implementation deadline of 25 May 2018.

To accommodate employees at various phases in their lives, we facilitate flexible working hours to enable staff to tailor their working hours to their own situations. The Group also places particular emphasis on adapting working conditions for staff with health issues, one of several important measures designed to reduce sickness absence.

We also offer internships to people outside the organisation who require workplace training or the opportunity to test their capacity for work. The Group continued its partnership with Trainee Telemark in 2017.

Health and safety

In 2017, the Group's sickness absence rate closed on 4.3 per cent (3.1 per cent). The increase in sickness absence compared to the previous year is primarily attributable to a rise in long-term sickness absence, and largely unrelated to work-related illness.

One of the Group's key HSE targets is for its employees to experience zero injuries. No one shall be put at risk of injuries or work-related illness due to the Group's operations. In 2017, two (four) injuries were reported, one of which resulted in lost time. This resulted in an H1 indicator of 1.1 and an H2 indicator of 2.2. The H1 indicator records the total number of lost-time injuries per million hours worked, while the H2 indicator records the total number of injuries per million hours worked.

To avoid injuries and serious incidents, managers and employees must have a good understanding of risk and how assignments and projects can be performed safely and efficiently. Working methods, equipment, risk understanding and attitudes must continually be improved, and management and staff at all companies actively contribute to preventive HSE initiatives. The most important tools with regard to improvement work are the performance of risk assessments, dealing with reported incidents and hazardous conditions, and observations of behaviours and attitudes in practice.

We conduct a large number of behaviour-based on-site safety observation rounds, adopt a strong focus on non-conformance reporting (near misses, hazardous conditions and other undesired incidents) and investigate all serious incidents and near misses. We carry out annual safety training, including first-aid instruction for all installation engineers and others who work with or have access to electrical installations. We also arrange other HSE courses as required. The Board will continue to pay close attention to the Group's injury-prevention and attitude-shaping initiatives within HSE.

Equality

The Group is keen to offer equal opportunities for employment, competence development, promotion and other working conditions irrespective of gender, ethnic background, sexual orientation, disability or social or cultural background.

At the reporting date, 18 (24 per cent) of the Group's 74 managers, and 4 of the Board's 9 members, were women, 2 of which were shareholder-elected and 2 employee-elected.

Environment

Skagerak's products are part of the "Green Shift". Our core products, production and distribution of energy from renewable sources, helps to reduce society's emissions of greenhouse gases. In the reporting period, the Group's direct and indirect emissions of CO₂ totalled 2,104 tonnes. In addition to generating low emissions from own activities, Skagerak's district heating and biogas deliveries contribute to an emissions reduction of more than 40,000 tonnes of CO₂ compared with corresponding heat production based on oil-fired boilers and diesel fuel.

The Group's corporate social responsibility mandate is to safeguard the supply of energy for people's daily lives, industry and functions that are critical for society. Changes

in society are contributing to an increase in both our dependency on electrical power and power consumption, while technology and competence development are opening up a wider range of available solutions. To cater for these developments, we must be able to maintain high levels of expertise and good working methods, including high standards for operation, maintenance and expansion, frequent inspection and control activities, and implementation and participation in research and development projects. The Group's overarching goal is that all construction and operations comply with the principle of sustainable development and have as little impact as possible on the environment.

Technical solutions, inspections and maintenance of all facilities are designed to prevent the discharge of polluting chemicals and hazardous substances to the environment. Efficient routines for sorting and treatment of waste, both at permanent locations and temporary construction sites, contribute to recycling of resources. The total waste volume in 2017 amounted to 855 tonnes, of which 203 tonnes related to hazardous waste. All waste is handled by approved waste management companies in accordance with all relevant regulations.

Skagerak Kraft has maintained ISO 14001 environmental certification. Sound management of our watercourses will safeguard effective operations and value creation, as well as help to protect communities through anti-flooding measures in connection with periods of high precipitation. This is particularly important at a time when extreme weather is becoming a more frequent occurrence. There were no breaches of licensing terms relating to regulation of watercourses or any other incidents with serious consequences for the environment in the reporting period. Skagerak Kraft actively participates in and helps finance other research projects initiated by the authorities and a number of leading institutions, such as SINTEF, the Norwegian University of Science and Technology (NTNU), the Norwegian Institute for Nature Research (NINA) and the University of Southeast Norway. In addition, the company takes part in a number of smaller local surveys to learn more about completed and potential measures to safeguard biodiversity.

Skagerak Nett continually develops the power network so as to both maintain security of supply of electrical power and cause the least possible disruption to the environment and society at large. The company has devoted considerable resources to raising its competence levels in order to master future requirements and technological opportunities.

Skagerak Nett participates in and heads a number of research and development projects in order to ensure that we acquire expertise on “smarter use” of electricity moving forward. This includes being prepared for expected greater interplay between the company’s network, producers of renewable solar and wind power and customers who generate some of their own energy.

In 2017, we concluded our major project “Network Reinforcement Grenland” project, which has created a better network structure and higher capacity, and we completed dismantling more than 50 km of high-voltage lines and masts in built-up and recreational areas in the region.

Skagerak Varme aims to achieve fossil-free heat production at all its facilities by the end of 2020. The company’s emissions of CO₂ totalled 346 tonnes in 2017. This represents an increase on the corresponding prior-year figure of 231 tonnes. The higher emissions are due to the fact that more deliveries to customers in Horten are being produced using gas until a third heat pump is ready for production at the Horten heating centre. Nonetheless, Skagerak Varme has now completed a major, long-standing emissions-reduction initiative, which has successfully reduced emissions of CO₂ from more than 7,000 tonnes in 2011 to less than 400 tonnes in 2017.

Corporate governance and risk

Skagerak Energi has established an overarching management system designed to secure a good control environment that helps the Group to achieve its targets. The Group uses a balanced scorecard system to manage strategy and measure performance. The management system also covers risk management, internal control, internal frameworks and guidelines, including the company’s core values, Code of Conduct and corporate social responsibility guidelines.

Skagerak does not tolerate any form of corruption. It is prohibited to offer, give, accept or receive bribes or other unwarranted benefits for commercial or private gain.

Skagerak actively communicates its requirements and expected behaviours through the Group’s governing documents.

We exercise particular vigilance in connection with the procurement and implementation of projects. All agreements entered into must be documented and must describe actual conditions, and agreed compensation must be commensurate with the service performed.

Skagerak’s businesses are exposed to risk in a number of areas and along the entire value chain. Risk management is an integral part of the Group’s business operations and is designed to maintain risk at an acceptable level in a way that helps secure the achievement of strategic and operational goals. The individual business areas are responsible for risk management and internal control.

Market risk

Skagerak Energi is primarily exposed to market risk through its own production of electricity and its power distribution business. In a hydropower system, prices and production capacity will fluctuate significantly and could have a major impact on Skagerak Energi’s results. In light of the major investments and general uncertainty with respect to power prices moving forward, a portion of power sales have been hedged until the end of 2018. In addition, there is normally a natural hedging effect in that substantial inflows of water and high output tend to be accompanied by low prices, and vice versa. Skagerak Varme is exposed to raw material prices, power prices and competing energy solutions.

Regulatory risk

The Group's energy supply activities are subject to licensing requirements and a high degree of public regulation. This applies in particular to Skagerak Kraft, Skagerak Nett and Skagerak Varme. The power distribution business is a natural monopoly with publicly-regulated earnings. Skagerak Nett's annual income ceiling is determined each year by the Norwegian Water Resources and Energy Directorate (NVE) and is impacted by changes in the regulatory model.

Financial risk**Interest and exchange rate risk**

Skagerak is indirectly exposed to fluctuations in exchange rates. Produced power is sold over the Nord Pool power exchange, where prices are quoted in EUR. Settlements in foreign currency are translated to NOK on a daily basis through participation in Statkraft's in-house banking solution. While some purchases and investments are made in foreign currency, under the Group's finance strategy, major purchases and investments must be currency-hedged using the exchange rate at the time of the investment decision. Foreign exchange exposure is thus moderate. The Group operates a capital-intensive business and is, assuming a normal gearing level in relation to its assets, substantially exposed to changes in market rates of interest. Around 64 per cent of the Group's total non-current liabilities are financed using fixed interest rates. The Group is additionally exposed to interest rate risk through the impact of interest rates on Skagerak Nett's income ceiling and the effect of the tax-free allowance on the calculation of resource rent tax for power generation.

Credit risk

Credit risk in connection with the sale of power is linked to counterparty risk with the Nord Pool power exchange, and is deemed to be limited. Credit risk associated with power distribution is spread across multiple small counterparties, which means there are good opportunities to limit any losses.

Liquidity risk

The Group has access to liquid reserves through drawdown agreements with Statkraft. Liquidity risk is deemed to be low.

Operational risk

Skagerak manages its operational risk through its workforce's expertise, operating procedures, controls and emergency response plans.

A key part of the Group's activities involve critical infrastructure that serves many of the population's basic needs. This makes security of supply a cornerstone of Skagerak's operational planning and operations. Risk relating to security of supply is also incorporated in the overall risk scenario at Group level and is subject to review by the Board.

The Group has established a system for recording and reporting censurable conditions, undesired incidents and injuries/damage. All of Skagerak's projects perform risk analyses in order to assess and plan any appropriate required measures.

Outlook

In the year under review, the power market continued to recover from the low point of 2015. However, major uncertainty attaches to the future formation of electrical power prices.

With demand expected to remain largely unchanged, over the next few years power prices could well be impacted by recent years' expansion and production of renewable power in the Nordic region and on the continent. However, the Norwegian market could experience fluctuations in individual years due to weather and precipitation conditions, if exchange capacity is limited. From a slightly longer-term perspective, forecast higher quota prices for CO₂, increased export capacity to mainland Europe and the UK and the phasing out of nuclear power

The income ceiling for the Skagerak Nett will continue to rise on the back of continued high investments.

In 2017, Skagerak strengthened its development resource pools, and is continuing to seek out new opportunities, both within existing core activities and adjoining business areas. In a sector expected to face major changes, Skagerak, on its own or with partners, wishes to actively contribute to the promotion of further development and synergies. We also wish to actively participate in the expected increasing consolidation in the industry where this in the company's interests.

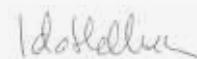
Porsgrunn 22 March 2018
The Board of Directors



Steinar Bysveen
Chair



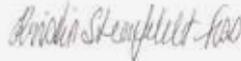
Rolf Erling Andersen
Deputy Chair



Ida Helliesen
Director



Arvid Wisløff
Director



Kristin Steinfeldt-Foss
Director



Øystein Beyer
Director



Gunnar Møane
Director



Trond Erling Johansen
Director



Kjersti Haugen
Director



Knut Barland
CEO

“The Group’s overarching goal is for all construction and operations to comply with the principle of sustainable development and have the least possible impact on the environment.”

Income statement

Skagerak Energi Group		(All figures in NOK '000)	Skagerak Energi AS	
2017	2016		2017	2016
		Operating revenues		
1,458,344	1,290,608	Power sales revenues	0	0
1,084,165	924,665	Power distribution revenues	0	0
257,394	273,830	Other operating revenues	135,051	123,657
2,799,903	2,489,102	Gross operating revenues	135,051	123,657
69,700	87,645	Transmission costs	0	0
3,810	-229,694	Unrealised changes in the value of energy contracts	0	0
2,734,012	2,171,762	Net operating revenues	135,051	123,657
428,546	432,987	Salaries and other personnel expenses	92,485	97,389
114,927	132,756	Property tax and licence fees	0	0
521,718	527,605	Other operating expenses	102,389	94,956
1,668,822	1,078,414	EBITDA	-59,823	-68,689
535,161	510,360	Depreciation and impairments	15,912	15,078
1,133,661	568,054	EBIT	-75,735	-83,767
106,080	106,350	Share of profit/loss from subsidiaries and associates	382,464	358,624
		Financial items		
16,057	27,179	Financial income	162,520	163,129
185,131	204,376	Financial expenses	170,612	186,856
-1,882	-11,316	Unrealised changes in value of interest/currency contracts	-1,882	-11,316
-170,956	-188,513	Net financial items	-9,973	-35,043
1,068,784	485,891	Profit before tax	296,756	239,814
516,517	107,789	Tax expense	45,950	46,876
552,267	378,102	Net profit	250,806	192,938
		Net profit allocated to:		
2,221	-2,292	Non-controlling interests		
550,046	380,394	Controlling interests		
		Information about:		
		Dividend paid	114,000	88,000

Statement of Comprehensive Income

Skagerak Energi Group		(All figures in NOK '000)	Skagerak Energi AS	
2017	2016		2017	2016
552,267	378,102	Net profit	250,806	192,938
		OTHER COMPREHENSIVE INCOME		
		Items in other comprehensive income that will not recycle over profit/loss:		
121,217	13,450	Actuarial gains and losses on defined benefit pension plans	51,593	20,459
-2,861	-6,445	Items recognised in other comprehensive income in associates	0	0
-39,446	-10,752	Tax relating to other comprehensive income	-13,545	-6,793
78,909	-3,748	Other comprehensive income	38,049	13,666
631,176	374,355	Total comprehensive income	288,855	206,604
		Total comprehensive income allocated to:		
2,208	-1,397	Non-controlling interests		
628,968	375,751	Owners of the parent		

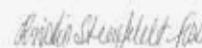
Balance sheet

Skagerak Energi Group		(All figures in NOK '000)	Skagerak Energi AS	
31.12.2017	31.12.2016		31.12.2017	31.12.2016
ASSETS				
Non-current assets				
300,968	378,974	Intangible assets	23,581	40,089
10,308,991	10,125,892	Property, plant and equipment	159,596	171,330
250,518	163,459	Investments in subsidiaries and associates	4,951,707	5,036,915
0	33,407	Derivatives	0	0
531,481	356,835	Other non-current financial assets	6,092,737	5,856,588
11,391,957	11,058,568	Total non-current assets	11,227,620	11,104,922
Current assets				
1,747	2,904	Inventories	0	0
424,145	325,426	Receivables	58,950	20,116
1,625	5,081	Investments	1,625	5,081
693	0	Derivatives	0	0
272,294	207,091	Cash and cash equivalents	14,590	14,234
700,504	540,501	Total current assets	75,165	39,431
12,092,462	11,599,069	TOTAL ASSETS	11,302,785	11,144,353

Skagerak Energi Group			(All figures in NOK '000)		Skagerak Energi AS	
31.12.2017	31.12.2016		31.12.2017	31.12.2016		
EQUITY AND LIABILITIES						
Equity						
1,695,539	1,695,539	Share capital	1,695,539	1,695,539		
399,211	399,211	Share premium fund	399,211	399,211		
2,094,750	2,094,750	Paid-in equity	2,094,750	2,094,750		
3,280,890	2,765,922	Other equity	3,777,675	3,602,821		
3,280,890	2,765,922	Retained earnings	3,777,675	3,602,821		
30,703	28,495	Non-controlling interests	0	0		
5,406,343	4,889,167	Total equity	5,872,426	5,697,571		
Liabilities						
543,234	551,891	Provisions	53,791	48,747		
6,070	5,281	Derivatives	0	0		
4,370,110	4,581,500	Other non-current liabilities	4,175,000	4,375,000		
4,919,413	5,138,672	Non-current liabilities	4,228,791	4,423,747		
616,631	408,800	Interest-bearing liabilities	1,076,034	754,776		
479,607	465,802	Tax payable	52,226	177,606		
886	38,198	Derivatives	0	0		
669,580	658,429	Other non-interest-bearing liabilities	73,309	90,653		
1,766,705	1,571,229	Current liabilities	1,201,569	1,023,035		
6,686,119	6,709,901	Total liabilities	5,430,359	5,446,782		
12,092,462	11,599,069	TOTAL EQUITY AND LIABILITIES	11,302,785	11,144,353		

Porsgrunn 22 March 2018


Steinar Bysveen
Chair

Rolf Erling Andersen
Deputy Chair

Kristin Steinfeldt-Foss
Director

Arvid Wisløff
Director

Øystein Kåre Beyer
Director

Ida Helliesen
Director

Gunnar Møane
Director

Kjersti Haugen
Director

Trond Erling Johansen
Director

Knut Barland
CEO

Statement of cash flow

Skagerak Energi Group		(All figures in NOK '000)	Skagerak Energi AS	
2017	2016		2017	2016
Cash flow from operating activities				
1,068,784	485,891	Profit/loss before tax	296,756	239,814
-11,173	5,383	Gains(-)/losses on sale of non-current assets	-23,877	3,197
535,161	510,360	Depreciation and impairments	15,912	15,078
-2,070	241,010	Other items with no cashflow effect	1,882	11,316
-460,951	-229,210	Tax paid	-168,366	-34,475
1,129,751	1,013,435	Net cash flow from the year's operations	122,307	234,930
-85,295	67,351	Change in inventories and other current items	-56,180	16,661
57,637	79,993	Dividend from associates	57,637	79,993
-106,080	-106,350	Share of profit/loss from associates	-57,637	-75,093
-65,441	-68,808	Change in other non-current items	-260,060	332,102
930,572	985,620	Net cash flow from operating activities	-193,933	588,593
Cash flow from investing activities				
Investments in property, plant and equipment:				
-319,983	-272,992	– relating to increase in capacity	0	0
-531,621	-387,089	– relating to reinvestments	-16,965	-16,128
26,547	1,316	Sale of property, plant and equipment (sales proceeds)	19,078	377
25	25	Payment of loans to other companies	25	25
87,544	7,986	Net proceeds/payments re investments in other companies	184,893	2,184
-737,487	-650,754	Net cash flow from investing activities	187,031	-13,542
Cash flow from financing activities				
-7,969	-679,675	Change in current/non-current receivables and liabilities	121,258	-487,018
-114,000	-88,000	Dividend paid	-114,000	-88,000
-121,969	-767,675	Net cash flow from financing activities	7,258	-575,018
71,116	-432,809	Net change in cash and cash equivalents	356	32
207,091	639,900	Cash and cash equivalents as of 01.01.	14,234	14,202
-5,913	0	Cash withdrawal on sale	0	0
272,294	207,091	Cash and cash equivalents as of 31.12	14,590	14,234

About this report

Skagerak Energi AS' Annual Report is intended to provide as comprehensive and accurate a picture as possible of the Group's operations in 2017. The Report from the Board of Directors and annual financial statements form the core of the report, which reviews both financial and non-financial matters. Reporting on non-financial matters is restricted to companies wholly owned by Skagerak Energi AS. Accounting policies, Notes to the financial statements, Auditor's report is not included in the english version. In an addendum to the Annual Report, which can be viewed at www.skagerakenergi.no, we have provided an overview of the Group's reporting in accordance with the Global Reporting Initiative (GRI), the internationally recognised reporting standard for corporate social responsibility (only in norwegian). Skagerak Energi's Annual Report for the 2017 financial year has been prepared in accordance with GRI-G4. Reports from previous years can be viewed at www.skagerakenergi.no

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