

Extract of

Annual Report 2018

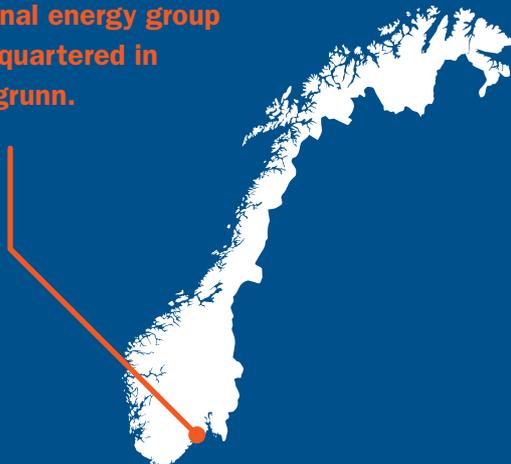


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This is Skagerak

Skagerak Energi is a regional energy group headquartered in Porsgrunn.



Core activities



Skagerak Kraft

Produced 5,820 GWh



Skagerak Nett

7,463 GWh supplied to 198,666 customers



Skagerak Varme

Supplied 141 GWh of heat

Our vision

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

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.

Skagerak Energi's other shareholdings



Air Liquide Skagerak

Natural gas and biogas supplier



Laugstol

Electrical contractor



Fjordkraft

Power sales

* In 2019, Skagerak Energi reduced its shareholding in Fjordkraft and, as of 29 March 2019, owns 14.9 per cent of the company's shares.

Key figures

	Unit	2018	2017	2016	2015	2014
Financial performance						
Gross operating revenues	NOK million	3,450	2,773	2,489	2,381	2,521
Operating profit (EBIT)	NOK million	1,432	1,107	568	894	712
Net profit for the year	NOK million	1,070	531	378	692	158
Operating margin ¹	per cent	41.5	39.9	22.8	37.6	28.2
Return on equity ²	per cent	18.7	10.4	8.0	16.5	4.1
Balance sheet						
Total assets	NOK million	13,032	12,586	11,599	11,946	11,492
Total liabilities	NOK million	6,894	7,274	6,710	7,343	7,735
Equity	NOK million	6,138	5,312	4,889	4,603	3,758
Liquidity						
Cash flow from the year's operating activities	NOK million	1,465	1,103	1,013	663	604
Total investments	NOK million	973	852	660	659	810
No. of employees						
Women		156	154	159	160	172
Men		477	457	451	457	600
Total		633	611	610	617	772
Production						
Power production	GWh	5,820	5,949	5,993	6,071	6,216
Grid customers	No.	198,666	194,327	190,496	188,700	186,700
Grid	km	17,100	17,003	16,933	16,772	16,732
Electrical energy delivered to end users	GWh	7,463 ³	7,282	7,110	7,008	6,888
Heat deliveries	GWh	141	120	114	88	78
Other matters						
Purchase of goods and services	NOK million	845	591	615	545	688
Tax and public charges paid	NOK million	997	690	564	397	636
Sickness absence rate	per cent	3.6	4.3	3.1	3.8	3.7
Total number of injuries per million working hours (H2)	#	2.1	2.2	4.2	6.8	5.7

¹ (Operating profit * 100) / Gross operating revenues ² (Net profit for the year * 100) / Average equity ³ Preliminary calculation

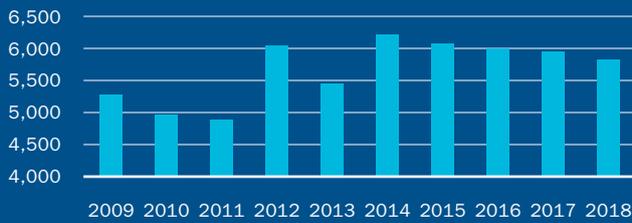
Power prices in the Oslo area (NO1)

NOK/kWh



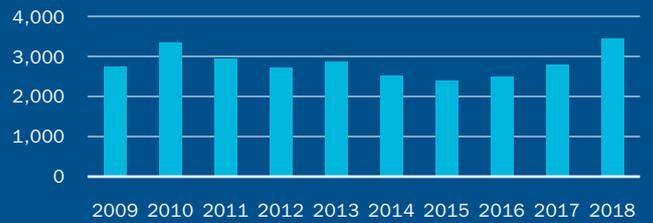
Power production

GWh/year



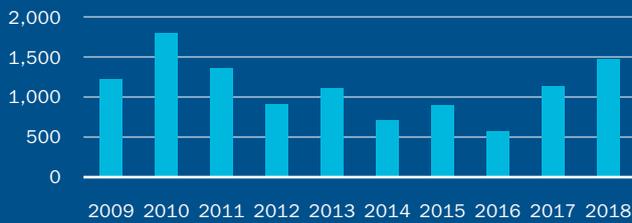
Operating revenues

NOK million



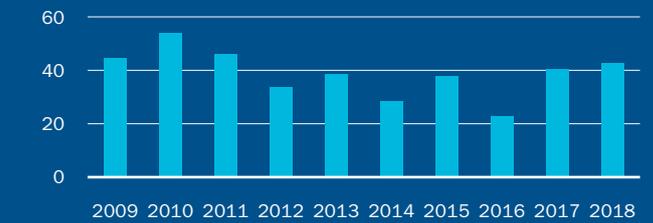
Operating profit (EBIT)

NOK million



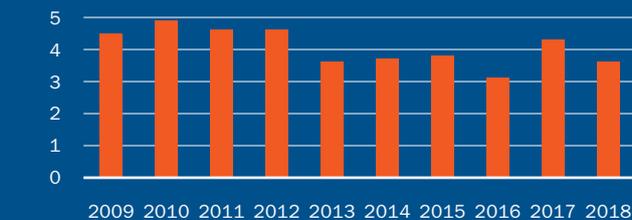
Operating margin

Per cent



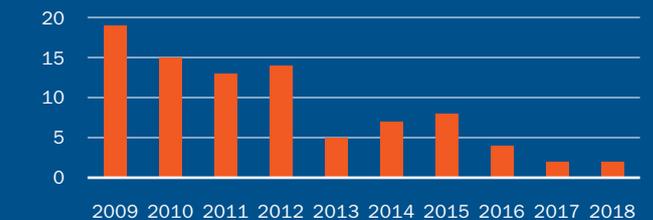
Sickness absence rate

Per cent



Injuries

No.



Important events 2018

(Figures for 2017 in parentheses)

High average power price:

0.42 NOK/kWh (0.27 NOK/kWh)

Best annual result ever:

NOK 1,070 million (NOK 531 million)

The company paid the most tax ever:

NOK 997 million (NOK 690 million)

The number of injuries is still at a very low level:

2 (2)

Sickness absence is at a low level and decreased in 2018:

3.6% (4.3%)

The company is in a major investment phase:

NOK 973 million (NOK 852 million)

Profit deriving from the Fjordkraft IPO:

NOK 515 million



INTERVIEW WITH CEO KNUT BARLAND

Investing in new business

You have expended a lot of resources in 2018 on creating a new strategy for 2019–2021. What is the conclusion?

It is twofold: We will increase profitability in what we do today and we will develop new business activities in areas where we have expertise and competitive advantage. Here, it is natural to start with opportunities that contribute to the green shift in our region. Projects must not only meet our profitability requirements, they should preferably also enable us to expand our operations to a market outside the region. In that way, they can become commercially lucrative ventures.

What are you going to invest in?

We don't know that yet, but we have some good ideas. We strongly believe that the technology we are testing out at Skagerak Arena offers business opportunities. We have solar energy production on the roof of the stadium, with a battery bank and connection to the grid. We have good data that shows exactly how much power we are producing, how it is stored in batteries, how it is drawn off and how it is combined with the rest of the grid. Many people are interested in this kind of a solution.

Another area is the maritime sector. Electrification still has a long way to go there. We have entered into a partnership with the Port of Grenland with the goal of electrifying the docks, first with shore power, but eventually also with battery-charging facilities as more ships become fully electric.

Skagerak Energi is not known to be a driving force for wind projects?

No, our strength is hydropower. Hydropower is efficient compared to most other power sources, but now we see that the costs of wind power production have come down far enough to make it interesting. Wind power had a 10 per cent share of power production in the Nordic region in 2018, a two-fold increase since 2013. In the Nordic region, 38.5 TWh of wind power was produced in 2018.

We must recognise that most major hydropower projects have already been developed, and that companies wanting to expand their renewable energy production must therefore consider wind. We plan to do just that, based on our region and a constructive dialogue with stakeholders who have views on these types of projects.

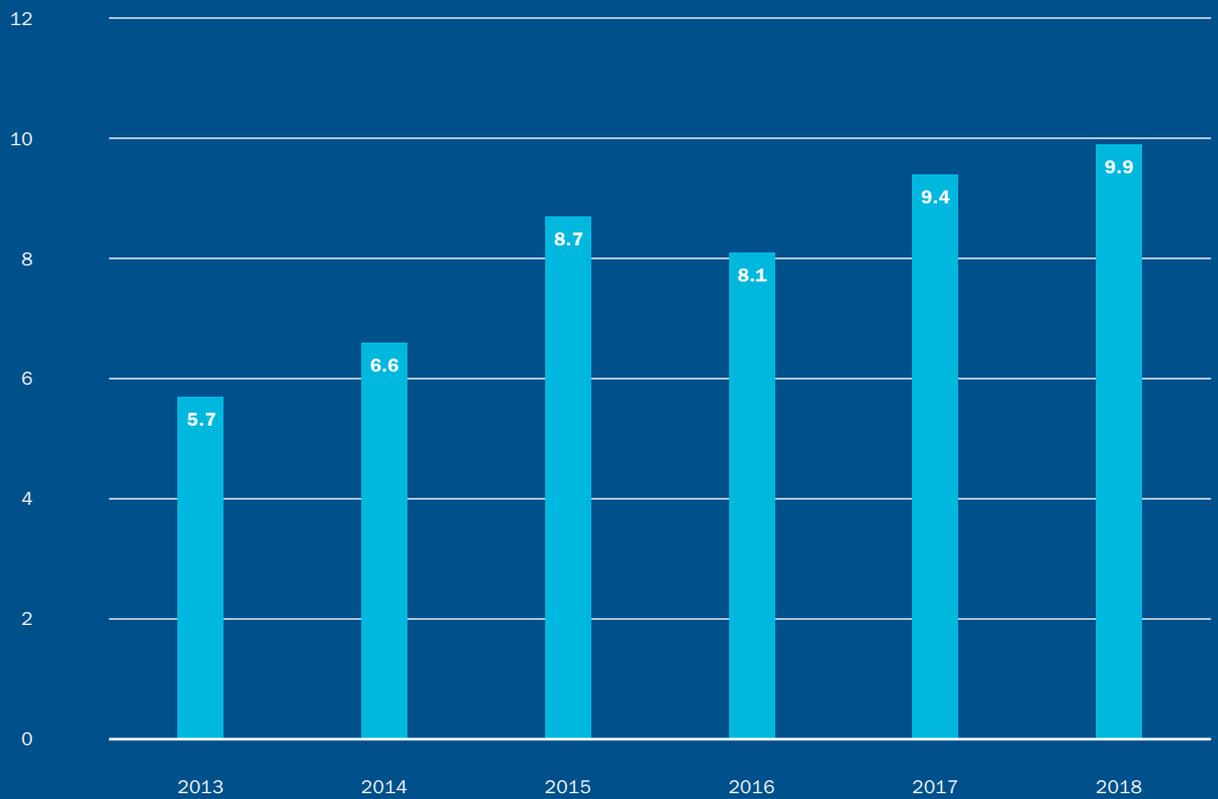
At the same time, we will be investing to upgrade our existing hydropower facilities and build some new, smaller power plants. In total, this will also provide adequate growth.

You are going to create a new spearhead: Skagerak Energipartner

Yes, we must be able to exploit our expertise in the energy industry. A professional developer or customer wants an end-to-end solution: Electricity, a smart grid, waterborne heating, cooling, possibilities for own production of both electricity and heat, and storage of energy. All this must happen in a seamless, sustainable and forward-thinking way. None of our three subsidiaries is currently able to offer this by themselves, but together we will do so through Skagerak Energipartner.

Wind power's share of power production in the Nordic region

Per cent



Source: The Norwegian Water Resources and Energy Directorate (NVE)

For such an old company, there are a lot of new things happening. Do you have the culture of innovation you need?

It doesn't come of its own accord. We will cultivate it through concrete initiatives. We have already established the projects Smart Grid and Smart Power, now we are launching a project we call Smart Staff. We have also started a programme to promote working methods that will increase the pace of innovation throughout our organisation.

We will learn to evaluate business opportunities one by one, develop good decision gate criteria and ensure solid progress on a given number of projects. We need to work more in dedicated groups – without a silo mentality – to increase idea creation and our capacity to implement projects.

After more than 100 years of experience, we now have operations down pat. One of Skagerak Energi's forerunners, SKK, was founded in 1912, but some houses in Skien, as the first in Norway's history, had been illuminated by filament light bulbs since as far back as 1885, with the power coming from Laugstol Bruk. We want to recreate that spark.

Did 2018 give high power prices and good earnings?

Yes, power prices were at their highest level since 2010 and at the second highest level in Norway in modern times. With our normal output of 5.7 TWh, we earn almost NOK 60 million extra per NOK 0.01/kWh increase in price. With a power price of almost NOK 0.42/kWh, this gave us the best result in the Group's history. However, we must remember that much of the bottom-line result is due to a gain of NOK 0.5 billion as a result of the Fjordkraft IPO in March 2018.

What is happening with the Sauland project?

It is a good project that we have been working on for ten years and have finally been awarded a licence to start construction, albeit with a somewhat lower rate of flow than we had hoped for. At the prices we see in the future, the project is socio-economically profitable. But not commercially profitable.

Why not?

The Norwegian government has turned the tax screw even tighter for hydropower projects. For us, Sauland would have been a great addition to Norwegian power

production, with approximately 205 GWh of new renewable power, but with the current tax regime, the project would have been taxed at a rate of more than 100 per cent, resulting in losses in the first few years. We cannot invest in projects that are taxed to death.

Skagerak Energi has a goal of zero injuries. Is that realistic?

The goal is zero, and we will achieve it. The entire organisation must have a strong focus on safety and injury prevention. We had two injuries in 2018, and both led to lost time. What we learned from these incidents is that we still have equipment which can be hazardous to operate and that we must improve how we conduct risk assessments and implement risk reduction measures before work starts.

Does Skagerak Energi plan to become climate neutral?

Yes, that is included in our new strategy. Our most important contribution in terms of climate and the environment is to produce as much clean energy as possible. At the same time, we must be ambitious and do what we can to reduce the burden on the environment and our surroundings from this production. Greenhouse gas emissions are linked to two factors: emissions from vehicles and emissions from our district heating production. Despite being 97 per cent renewable, our district heating facilities use gas to cover peak loads in special situations, and that produces CO₂ emissions. Now we are going to look at how to phase out the sources of emissions that we still have.

We take our social mission and corporate social responsibility seriously, both in our own operations and in our contracts for the purchase of goods and, not least, services.

Corporate governance

Skagerak Energi AS has chosen, as far as possible, to follow the Norwegian Code of Practice for Corporate Governance published by the Norwegian Corporate Governance Board (NUES). Where there are deviations, these are explained in the text. See also the table on page 20 for a summary.

The company has no listed instruments on any stock exchange, and has thus voluntarily introduced the NUES Code of Practice.

1 REPORT ON CORPORATE GOVERNANCE

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

Ownership

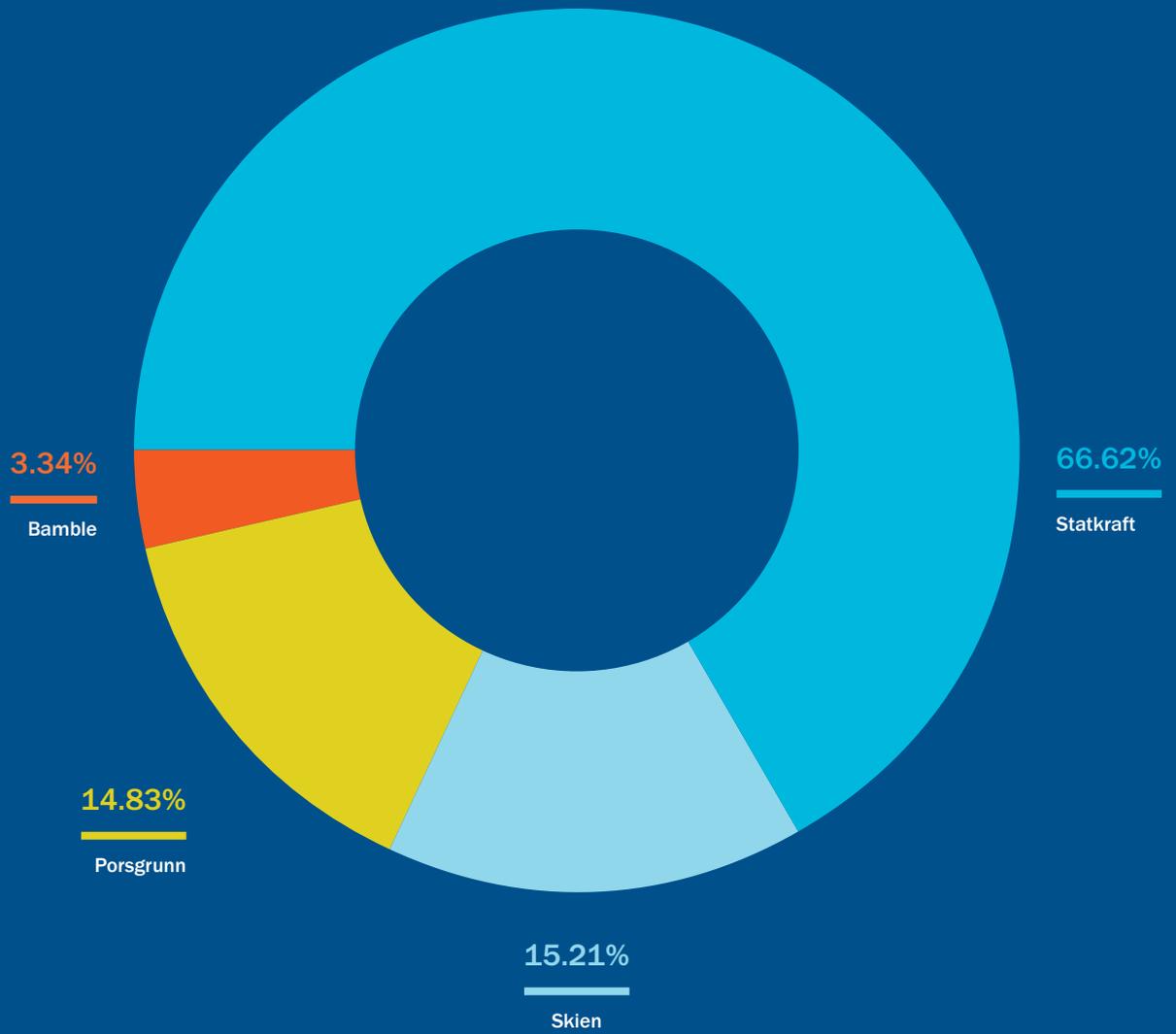
Ownership of Skagerak Energi is divided into three share classes, where class A shares give shareholders additional influence on issues related to selecting locations. The class A shares constitute 33.38 per cent of the shares and are owned by the three Grenland municipalities: Porsgrunn, Skien and Bamble. Statkraft Industrial Holding owns the rest of 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 | → Strategy, action plans and balanced scorecards |
| → Vision and Values | |
| → Management and employee responsibility | → Risk management |
| | → Group principles and policies |
| → Authority | → Work processes and procedures |

Ownership



Ethical responsibility

Skagerak's business principles contain a description of its obligation to act in a sustainable, ethical 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 strengthen 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, which 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 business conduct and for their employees' conduct and compliance. 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.

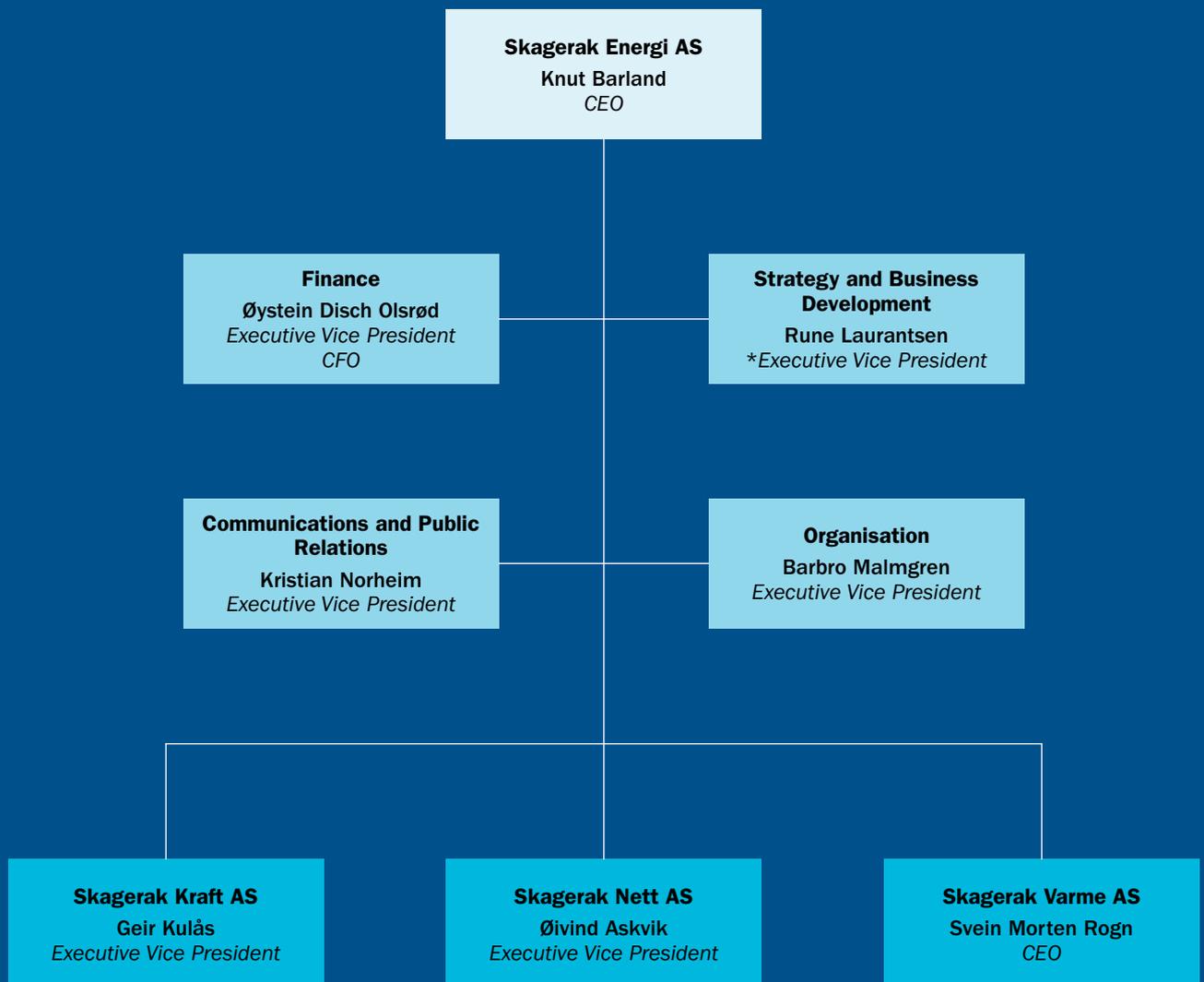
Authority

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 that requires flexibility to optimally adapt to changing conditions. 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

Organisational structure



*Acting Executive Vice President from 1 January 2019

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 appraisal and development meeting.

Group principles and policies

Group principles and policies describe how Skagerak employees should relate to a number of areas, responsibility for which rests largely with central staff units and applies across the Group. 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 worked hard 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 them.

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 (day-to-day management and control). Employees are responsible for implementing established internal control routines through their daily tasks. *The second line* includes Skagerak's managers who are 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 third line* is responsible for ensuring that control activities are established and followed up.

2 BUSINESS

Skagerak Energi's operations are concentrated on the production, sale and transmission of electric power and other energy, as well as related activities. The Group has approximately 630 employees, an average power production of approximately 5.7 TWh, about 199,000 grid customers and sales revenues of approximately NOK 3 billion. Skagerak does not sell power to end users, but is a co-owner of the power sales company Fjordkraft.

The company is organised as a group with core activities gathered in the three wholly owned subsidiaries Skagerak Nett, Skagerak Kraft and Skagerak Varme. Skagerak Energi holds sizeable shareholdings in Air Liquide Skagerak, Fjordkraft and Laugstol.

The company's strategy is adopted by the Board at Group level and applies to the entire Group and its subsidiaries.

3 EQUITY AND DIVIDENDS

At the close of 2018, the Group had equity of NOK 6,138 million, which corresponds to an equity ratio of 47 per cent. The Board of Directors has proposed that a dividend of NOK 226 million be distributed in 2019. This is not deducted from equity until the final decision is made at the company's Annual General Meeting on 13 June 2019.

The Group's dividend policy shall, among other things, reflect the need to maintain a reasonable level of equity and liquidity in relation to the scope of the business and its appurtenant risk. In recent years, one third of the dividend basis has been distributed. The dividend basis is defined as profit for the year, adjusted for unrealised changes in value and gains/losses on sales.

4 EQUAL TREATMENT OF SHAREHOLDERS AND TRANSACTIONS WITH RELATED PARTIES

The company has three different classes of shares, which are described in more detail under "Ownership". This is not in line with the NUES Code of Practice. The deviation is explained by the provisions of the shareholder agreement to give the individual owners additional influence in certain matters. For all other matters, all shares have equal votes. All shares have the same right to dividends.

5 SHARES AND NEGOTIABILITY

The negotiability of the shares is limited to the Norwegian State, Statkraft, municipal and county authorities or companies owned by these. This is stated in the company's Articles of Association. This is a deviation from the NUES Code of Practice. There is a mutual right of pre-emption for the shares.

6 GENERAL MEETING

The company holds a general meeting in accordance with the Norwegian Limited Liability Companies Act. The company facilitates conditions such that all shareholders can attend the general meeting. The general meeting considers the matters described in legislation and the company's Articles of Association.

7 NOMINATION COMMITTEE

The company does not have a nomination committee. This is a deviation from the NUES Code of Practice. The shareholders' agreement stipulates that each shareholder group chooses its board members, making a nomination committee unnecessary. Beyond this, there are three employee representatives, elected by and among the employees.

8 THE BOARD OF DIRECTORS, COMPOSITION AND INDEPENDENCE

The Board consists of four members appointed by the majority owner (Statkraft), two representatives from each of the two largest municipal owners and three employee-elected board members. Of Statkraft's four board members, at least one must be independent of the majority owner. This is a deviation from the NUES Code of Practice.

9 THE WORK OF THE BOARD OF DIRECTORS

The work of the Board is regulated by the Norwegian Limited Liability Companies Act, other relevant laws, the company's Articles of Association and rules of procedure for the Board.

No separate compensation committee or audit committee have been established. The entire Board fills these tasks.

10 RISK MANAGEMENT AND INTERNAL CONTROL

Skagerak Energi aims to actively assess risk in all parts of the value chain. Our risk management 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.

11 REMUNERATION OF THE BOARD OF DIRECTORS

The members of the Board of Directors are remunerated as approved by the general meeting. Board members receive no performance-based remuneration. Statkraft's employees do not receive remuneration for their work on the Board.

12 REMUNERATION OF EXECUTIVE PERSONNEL

The CEO's remuneration is determined by the Board, while executive personnel who report to the CEO are remunerated as determined by the CEO. All remuneration is in accordance with company policy.

Information on remuneration of executive personnel is stated in Note 7 to the financial statements.

13 INFORMATION AND COMMUNICATION

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.

14 COMPANY TAKEOVERS

The shareholders' agreement has provisions on pre-emption rights on the sale of shares in the company. The same agreement also contains limitations on who can own shares in the company.

15 AUDITOR

Deloitte AS is the company's chosen auditor. This is the same auditor as the company's majority owner.

The external auditor attends the Board meeting that adopts the final annual financial statements, where the auditor meets the Board without management present.

Norwegian Code of Practice for Corporate Governance issued by the Norwegian Corporate Governance Board (NUES)	In line with the NUES Code of Practice	Deviations explained in the text
1. Report on corporate governance	X	
2. Business	X	
3. Equity and dividends	X	
4. Equal treatment of shareholders and transactions with related parties		X
5. Shares and negotiability		X
6. General meeting	X	
7. Nomination Committee		X
8. The Board of Directors, composition and independence		X
9. The work of the Board of Directors	X	
10. Risk management and internal control	X	
11. Remuneration of the Board of Directors	X	
12. Remuneration paid to executive employees	X	
13. Information and communication	X	
14. Company takeovers	X	
15. Auditor	X	





The Board of Directors

Jon Vatnaland Chair

Jon Vatnaland, born 1975, chairs the board of Skagerak Energi and represents Statkraft. He is Executive Vice President for Corporate Staff at Statkraft. Prior to joining Statkraft's Group Management, he held the position of Managing Director and Country Coordinator for Statkraft in the UK. He has a PhD and a master's degree from the University of Oslo. Vatnaland has been Board Chair since 2018.

Rolf Erling Andersen Deputy Chair

Rolf Erling Andersen, born 1947, is Deputy Chair of the Board of Skagerak Energi and represents the municipality of Skien. Andersen represents the Norwegian Labour Party on Skien City Council. He was mayor of the city for a short period in 1993, as well as from 1995 to 1999 and from 2003 to 2011. In addition, he has been a member of the Executive Board of the Norwegian Labour Party, head of the Norwegian Labour Party's Municipal Policy Committee and a deputy MP. Rolf Erling Andersen is a qualified electrician, and he started his professional career as a high-voltage electrician at Skiensfjordens Kommunale Kraftselskap (SKK), where he was also head of the Norwegian Electrician and Power Station Association (NEKF). Andersen has been Deputy Chair since 2004.



Bjørn Holsen Director

Bjørn Holsen, born 1967, is a member of the Board of Skagerak Energi and represents Statkraft. He is Senior Vice President of Business Development at Statkraft. Holsen has held several different positions at Statkraft. He has also served as CFO of Naturkraft and Country Manager in the Philippines for SN Power. Bjørn Holsen holds an MSc in industrial economics from the Norwegian University of Science and Technology (NTNU). Holsen has been a director since 2018.

Ida Helliessen Director

Ida Helliessen, born 1947, is a member of the Board of Skagerak Energi and represents Statkraft. She has extensive experience from various management positions at Norsk Hydro, as well as directorships in other large companies. Ida Helliessen holds an MSc from the Norwegian School of Economics and Business Administration (NHH). Helliessen has been a director since 2008.

Øystein Kåre Beyer Director

Øystein Kåre Beyer, born 1947, is a member of the Board of Skagerak Energi and represents the municipality of Porsgrunn. Beyer represents the Norwegian Labour Party on Porsgrunn City Council. He was also the mayor of the city from 2003 to 2015. Øystein Beyer is a qualified teacher and has worked in education, schools and healthcare. Beyer has been a director since 2016.

Kristin Steinfeldt-Foss Director

Kristin Steinfeldt-Foss, born 1964, is a member of the Board of Skagerak Energi and represents Statkraft. She has extensive experience from several leadership roles in Statkraft, and now works as a Senior Adviser. Kristin Steinfeldt-Foss has solid industry experience, including from several board positions in Norwegian power companies. She studied economics at the University of Agder (UiA) and the Norwegian School of Economics and Business Administration (NHH). Steinfeldt-Foss was a director from 2006 to 2009 and has now been a director since 2011.

**Gunnar Møane Director**

Gunnar Møane, born 1959, is an employee representative on the Board of Skagerak Energi. He has long experience of working at Skagerak Energi, and is Group Employee Representative. Møane has been a director since 2001.

Kjersti Haugen Director

Kjersti Haugen, born 1966, is an employee representative on the Board of Skagerak Energi. She has long experience of working at Skagerak Energi, and her current position is as Communications Adviser/Webmaster in the parent company. Haugen has been a director since 2008.

Trond Erling Johansen Director

Trond Erling Johansen, born 1962, is an employee representative on the Board of Skagerak Energi. Trond Erling has long experience as an engineer with Skagerak Nett, and currently works as an energy engineer at the operations control centre. Johansen has been a director since 2018.

Management

Knut Asgeir Barland
 CEO of Skagerak Energi

Knut Barland, born 1958, is the CEO of Skagerak Energi. He has extensive experience from various management positions in Statoil, including as Environmental Director, director of the gas processing plant at Kårstø, and as director of the business area Natural Gas in Statoil/Hydro. Knut Barland holds an MSc in chemical engineering from the Norwegian University of Science and Technology (NTNU), and has completed officer training at the Officer Training School for the Infantry. Barland has been the CEO of Skagerak Energi since 2008.

Øystein Disch Olsrød
 EVP Finance (CFO)

Øystein Disch Olsrød, born 1971, is Skagerak Energi's Executive Vice President for Finance. Prior to joining the company, he held the position of CFO Group at Reno Norden ASA. He has previously been the CFO of Green Reefers ASA and Tide ASA. Earlier in his career, he held key positions in various companies within the areas of finance, business and tax accounting, as well as business development and management. Øystein Disch Olsrød is a state authorised public accountant. Disch Olsrød has been EVP Finance since 2017.



Barbro Malmgren
 EVP Organisation

Barbro Malmgren, born 1959, is Skagerak Energi's Executive Vice President for Organisation, with responsibility for HR, HSE, ICT and property. She came to Skagerak from the position of Communications Director at the South-Eastern Norway Regional Health Authority. Prior to that, she was Chief Consultant at Cap Gemini Ernst & Young, and Assistant Director at the newspaper Telemarksavisa, where she also worked with management development in the A-pressen group (now Amedia). She holds a degree in economics and business administration from BI Norwegian Business School. Malmgren has been an Executive Vice President since 2005.

Øivind Askvik
 EVP Skagerak Nett

Øivind Askvik, born 1975, is Executive Vice President for Skagerak Nett. He was previously the Global Service Manager for Power Grid Automation at ABB. He held several key positions within ABB for 15 years, both nationally and internationally, and has extensive experience in the field of power products, power systems and automation. Øivind Askvik received his education in the Norwegian Armed Forces and holds an Executive MBA in economics and business administration. Askvik has been EVP for Skagerak Nett since 2017.

Kristian Norheim**EVP Communications and Public Relations**

Kristian Norheim, born 1976, is Skagerak Energi's Executive Vice President for Communications and Public Relations. He came to Skagerak from a position as Senior Adviser at Gambit Hill + Knowlton Strategies. He has extensive experience from his time as an active politician for the Norwegian Progress Party (2004–2015), including as an MP for 2 years. Kristian Norheim holds an MA in South-East European studies from the National & Kapodistrian University of Athens. In addition, he holds an honours degree in political science from the University of Oslo. Norheim has been EVP Communications and Public Relations since 2017.

Rune Laurantsen**Acting EVP Strategy and Business Development**

Rune Laurantsen, born 1956, is Skagerak Energi's acting Executive Vice President for Corporate Development. He was CEO of Skagerak Varme from 2012 to 2013 and EVP Finance from 2013 to 2017. Rune Laurantsen is a graduate of the Norwegian School of Economics and Business Administration (NHH) and is an authorised financial analyst with an MBA in finance.

**Geir Kulås****EVP Skagerak Kraft**

Geir Kulås, born 1969, is Executive Vice President for Skagerak Kraft. He has extensive experience from various positions within Norsk Hydro. Among other things, he was the Foundry Manager and Production Manager of Magnesium Norway, before becoming Platform Manager for Oseberg C and then the Field Manager for Heimdal, Vale, and Vilje at Hydro Oil & Energy. From 2012 to 2017, he was Executive Vice President for Skagerak Nett. Geir Kulås holds an MSc in industrial chemical engineering from the Norwegian University of Science and Technology (NTNU), and an MBA in economics and business administration from the Norwegian School of Economics and Business Administration (NHH). Kulås has been EVP for Skagerak Kraft since 2017.

Cooperation and innovation are the history of Skagerak Energi



As early as **1885**, six years after Thomas A. Edison produced the first incandescent lightbulb, and three years after the world's first power plant was opened in New York, Laugstol Bruk began producing electricity in Skien. Its goal was first and foremost to create better and less flammable light to use in its own operations. It was here that electric lightbulbs shone for the first time in Norway.

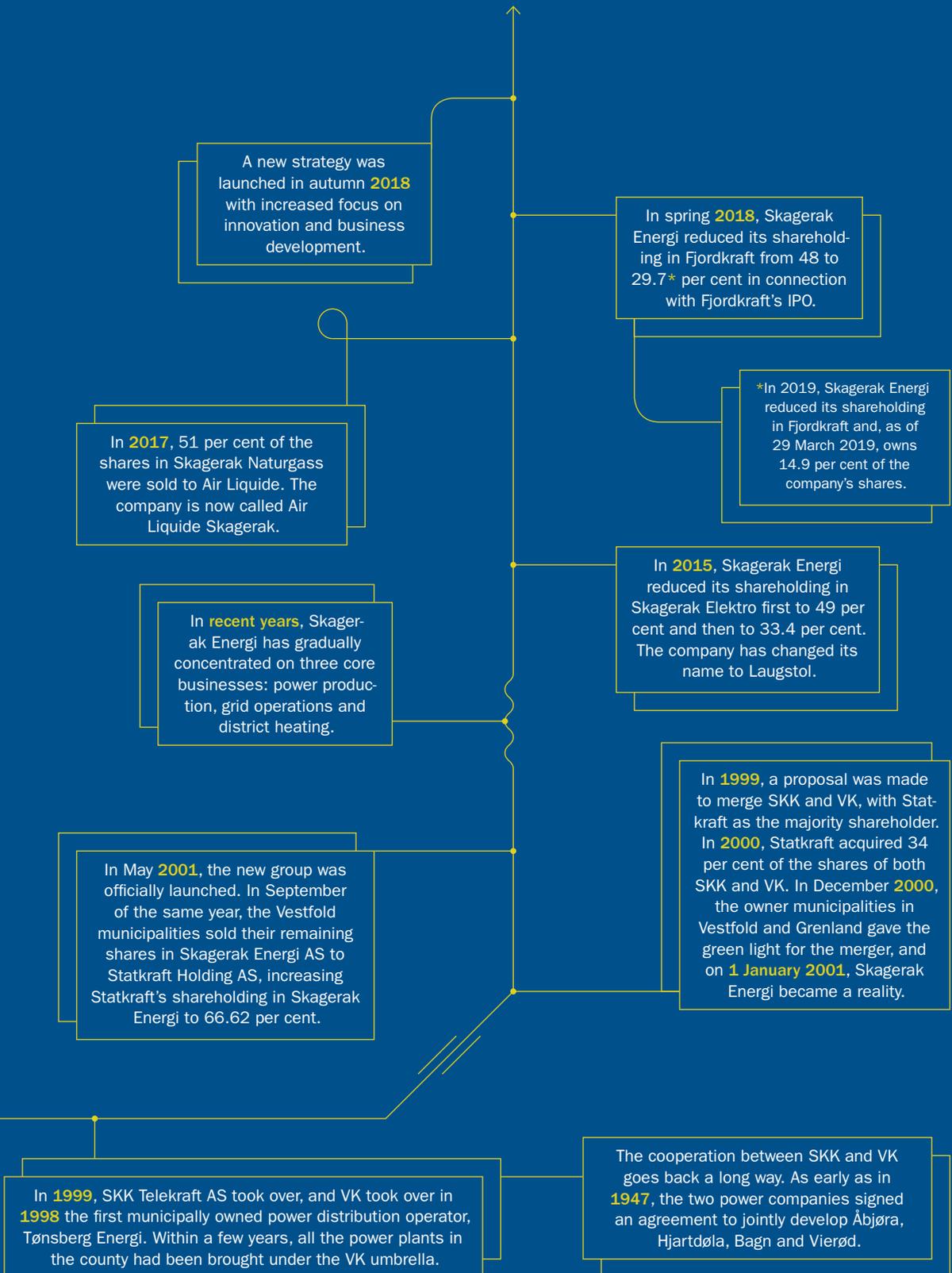
Others quickly followed. In **1886**, the newspaper Sandefjords Blad reported that *“Mr Chamberlain Treschow has recently provided Fritzøe Verks Musikkorps [music band] with a very beautiful venue with electric light.”*

Before **1915**, four power companies had been established in Grenland: Fritzøe verk, Porsgrunn kommunale elektrisitetsverk, Skien Elektrisitetsverk and Langesund Kommunale kraftselskap.

Skienfjordens kommunale kraftselskap (SKK) was founded on 7 June **1912** by Gunnar Knudsen, industrialist and prime minister for two periods, 1908–1910 and 1913–1920. Knudsen, founder of the pioneer company Laugstol Bruk, born in Arendal and resident of Skien, initiated a collaboration between Porsgrunn, Skien, Gjerpen and Solum to develop power generation in Grenland. He wrote to the mayors: *“Skienfjord has many conditions that make it suitable to become a significant industrial centre to an even greater degree than now ... The matter has ... a greater chance to be resolved to the district's advantage if one seeks to bring stakeholders together at a shared facility.”*

Vestfold Kraftelskap (VK) was founded in **1920** after the county council decided to purchase half of Fritzøe Verk/Treschow's waterfall rights and electrical installations.

In **1965**, SKK had become an association of all the power companies in the area, owned by Skien (50 per cent), Porsgrunn (40 per cent) and Bamble (10 per cent).



Our facilities

Key power stations:

Åbjøra power plant

The Åbjøra power plant is located in the Bægna watercourse. The power station is located in Valdres, south of Fagernes and west of the Aurdalsfjord. The power plant was commissioned in 1951. In 2002, a new power station 250 metres further into the mountain went into operation.



Production: 550 GWh



Power output: 95 MW



Operating since: 1951/2002



Fall height: 442 m



Municipality: Nord-Aurdal



Shareholding: 100%

Hjartdøla power plant

The Hjartdøla power plant is located in the municipality of Hjartdal and is Skagerak Kraft's second largest wholly owned power plant.



Production: 500 GWh



Power output: 120 MW



Operating since: 1958



Fall height: 555 m



Municipality: Hjartdal



Shareholding: 100%

Brokke power plant

The Brokke power plant is located in the municipality of Valle in Aust-Agder and is one of Norway's largest power stations.



Production: 1,563 GWh



Power output: 328 MW



Operating since: 1964



Fall height: 303 m



Municipality: Valle



Shareholding: 31.4%

Tonstad power plant

The Tonstad power plant is located at the north end of the Sirdalsfjord, near the town of Tonstad in Vest-Agder. The Tonstad power plant is Norway's largest, measured by production.



Production: 3,800 GWh



Power output: 960 MW



Operating since: 1968



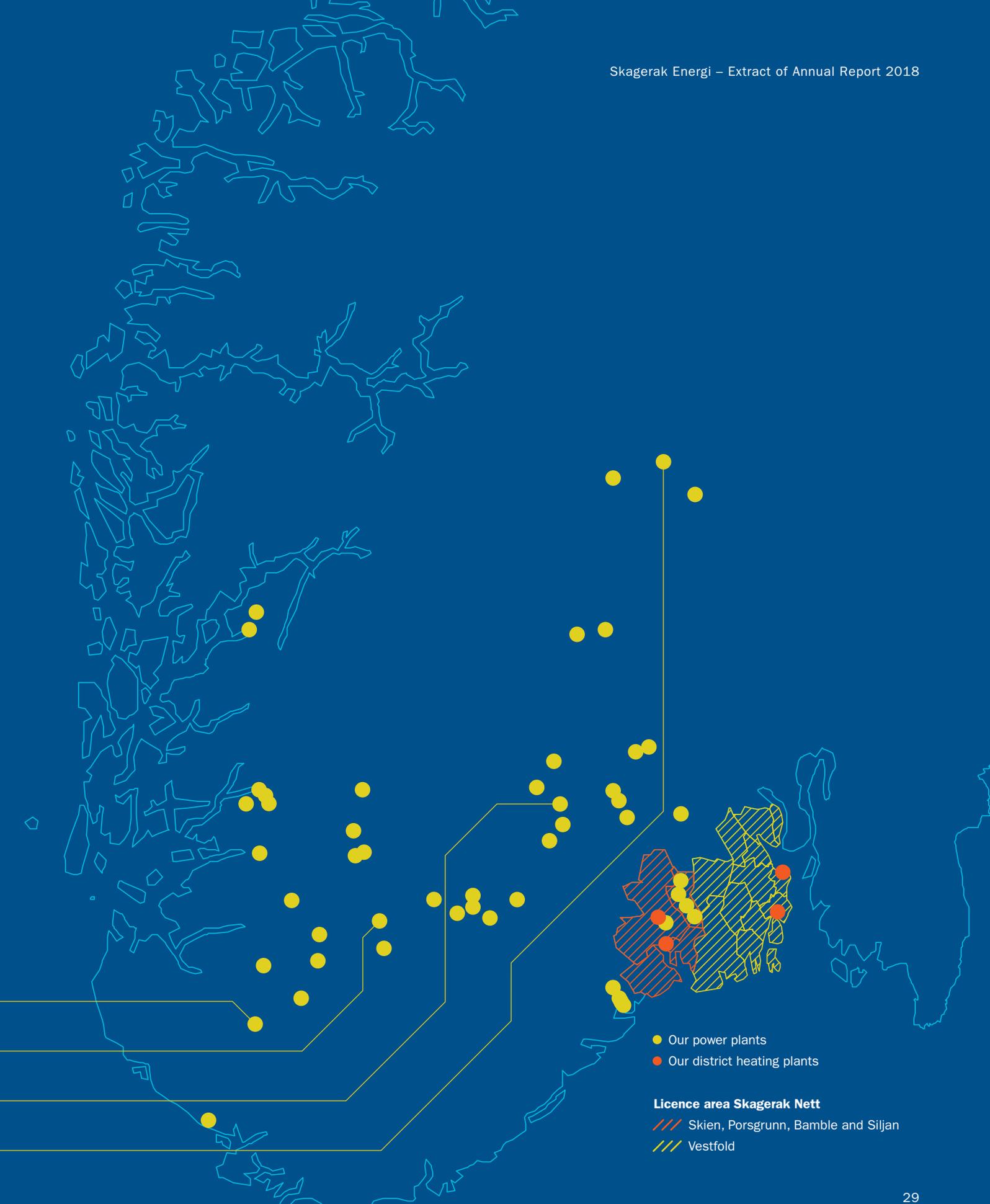
Fall height: 450 m



Municipality: Sirdal



Shareholding: 14.6%



- Our power plants
- Our district heating plants

Licence area Skagerak Nett
// Skien, Porsgrunn, Bamble and Siljan
// Vestfold



Operational performance in 2018

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Skagerak's strategy

The energy market is changing dramatically both in Europe and globally. The seriousness of climate challenges and rapid technological developments will require us to make substantial investments, but will also create new opportunities. The electrification of society will increase the need for new renewable production in order to support our customers' needs, not least in road and maritime transport as well as in industry. This will require the construction of new infrastructure with a smarter grid and new control systems.

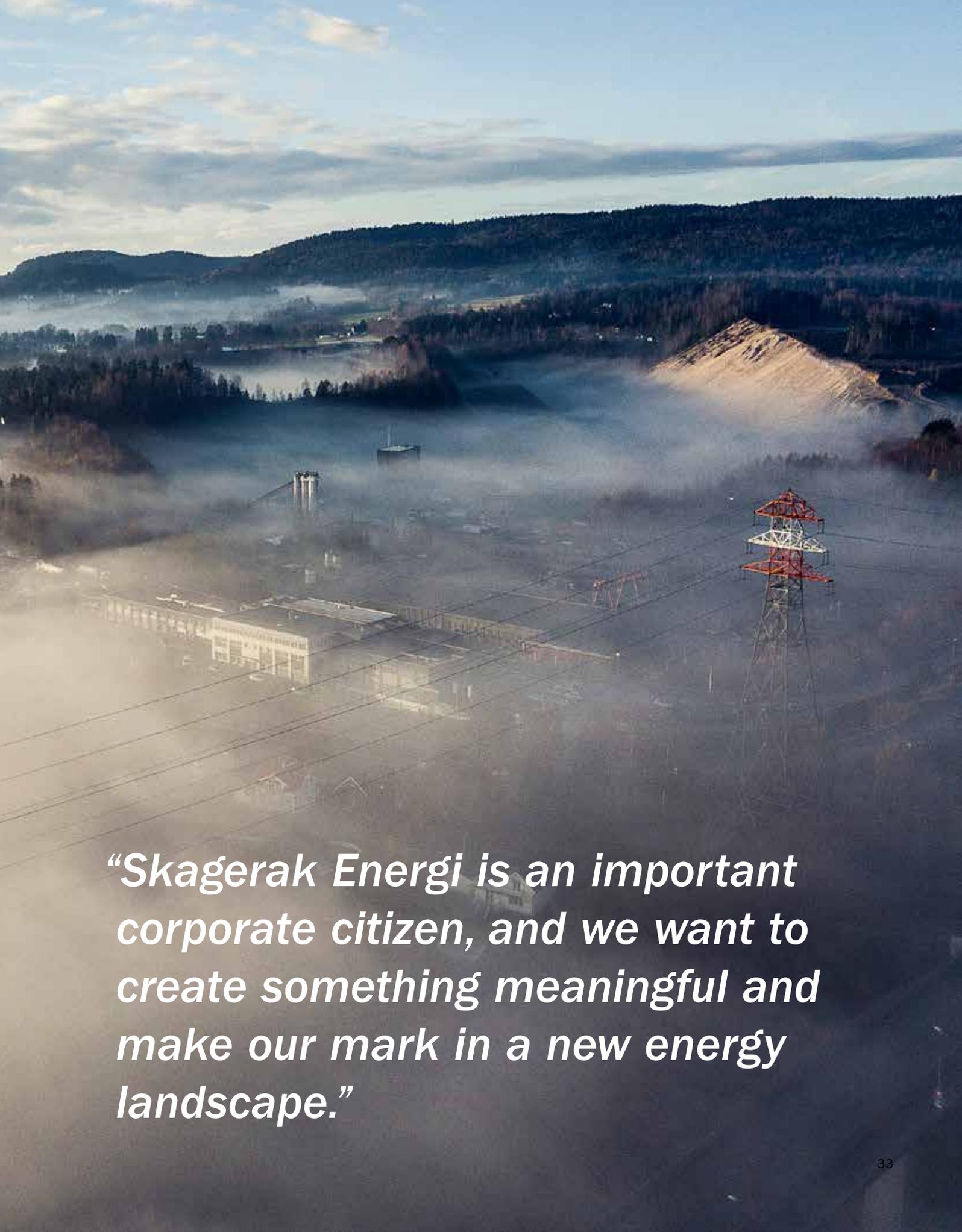
Skagerak Energi is an important corporate citizen, and we want to create something meaningful and make our mark in a new energy landscape.

Skagerak Energi is well positioned within renewable energy, and we will be investing approximately NOK 1 billion annually in the grid, hydropower, district heating and biogas areas. The company is centrally located, with industry, ports and major cities all nearby. Our employees have substantial expertise with respect to facilities development and operations, and the company has built up a strong financial position to be able to take on new challenges.

The Group's main priorities are as follows:

- Skagerak will achieve real growth in sales and profit going forward. This growth will be in our existing core business, but new business activities should also contribute to the realisation of our growth goals.
- Skagerak will be an energy partner for our customers. This means that the company will act as a single supplier, providing one delivery put together from several business areas. The company must be coordinated, both in the development of new business activities and its marketing to customers. This development will also include seeking partnerships with other companies.
- In order to promote innovation and improve our business, we will adapt our work processes and the way we are organised to become more flexible, with the emphasis on teams and projects. Our strength in putting people with different backgrounds and experience together in groups should be exploited.





“Skagerak Energi is an important corporate citizen, and we want to create something meaningful and make our mark in a new energy landscape.”

Skagerak Kraft

Skagerak Kraft is the Group's most important revenue generator, and after two years of good prices, that role has been strengthened. The company has a production capacity of 5,732 GWh in a normal year and has grown by 207 GWh since 2006.

Strategic goals for Skagerak Kraft

- Be a leading power company in terms of utilising new technology and expertise.
- Achieve growth through hydropower projects and, potentially, wind power.
- Maximise green values.
- Maximise the value we derive from our water sources.

Over the past year, Skagerak Kraft has established a Smart Power programme, to speed up the company's work on digitalisation and the use of new technology. The company aims to be among the leaders in this area in Norway. New models and digital tools now determine when and how the power plants are run.

“In addition to achieving growth through several smaller hydropower projects, the company will carry out an assessment of wind power.”

We will increase our capacity within power production through the development of projects, both alone and with partners. We will be making significant reinvestments in existing power plants, while actively exploiting the opportunities within balance markets and green power trading.



The increased interconnection of the European electricity market will enable us to make more money by selling hydropower when there is less solar and wind power available in Europe. This is called the balance market. One variant is to sell virtual storage space in reservoirs when there is a lot of solar and wind power available but demand is low.

Trading in green certificates and guarantees of origin will provide increased profit from renewable energy production, and further development of trade in these products must be given priority.



Skagerak Nett

In 2018, Skagerak Nett supplied 7,463 GWh and had 198,666 grid customers at year-end, placing the company among the four largest grid operators in Norway.

Skagerak Nett's overarching goal is to secure the power supply and ensure safe operations without harm to employees, customers and others in the Skagerak Energi's grid area, and we aim to achieve this at a reasonable price for our customers.

To reach Norway's climate targets, the grid must be built such that it is ready for increased production of renewable energy and promote progress towards a fully electrified society. Local production of solar energy and wind power must be fed into the grid and controlled in an optimal manner.

The need to handle peaks in demand resulting, for example, from battery charging in the transport and the maritime sectors is growing. The transition to more climate-friendly industrial processes also requires a more robust grid.



Strategic goals for Skagerak Nett

- Have the highest customer satisfaction among Norwegian grid operators.
- Be the preferred partner for other Norwegian grid operators.
- Be one of the top three comparable grid operators in the Norwegian Water Resources and Energy Directorate's efficiency survey.

“Skagerak Nett will promote progress towards a fully electrified society and facilitate local production of solar and wind energy.”

The introduction of smart meters and advanced metering systems (AMS) will provide benefits for customers, the grid operator and for society at large. It is important that these benefits be realised in the form of lower electricity bills and a more efficient utilisation of the grid, with a reduced need for future grid investments.

More efficient investment and maintenance programmes should be developed through more systematic use of available data in the planning phase, and by conducting more thorough cost/benefit assessments to determine when it is more appropriate to reinvest than to continue performing maintenance.

We will use more than 60 per cent of our research and development capacity on projects that provide a profit for the grid operator in the short term.

In order to influence our role in the future, the company intends to be an attractive partner in initiatives undertaken with the industry organisation Energy Norway and other grid operators.

Skagerak Varme

In 2018, Skagerak Varme supplied 141 GWh and generated revenues of NOK 108 million.

Skagerak Varme uses energy that would otherwise be lost, such as waste heat from industry and wood chips from the forest. Reducing the use of primary energy resources both cuts greenhouse gas emissions and limits environmental interventions. Skagerak Varme's energy sources are 97 per cent renewable, with 60 per cent of that coming from bioenergy, 24 per cent from waste heat, with the rest from seawater heat exchangers and electricity.

Strategic goals for Skagerak Varme

- Increase the energy volume to 171 GWh by 2020.
- Achieve an EBITDA of NOK 46 million and make a profit after tax by the end of 2020.
- Reinforce market and product development within Skagerak Energipartner.

Growth is an important aspect of strengthening profitability. Urban development in our licence areas in Skien, Porsgrunn, Tønsberg and Horten continues to offer an interesting potential for expansion. In addition to this construction activity, customer growth will be affected by heating systems that are chosen for larger buildings.

“District heating is an important part of our new concept, with Skagerak Energipartner bringing together the Group's resources under one umbrella to offer customers a complete energy solution.”

In cooperation with our customers, Skagerak Varme will examine opportunities for integrating solar collectors, solar cells and heat storage in connection with our district heating plants. Seasonal storage leads to increased flexibility for the district heating network, as saving surplus heat from the summer months can to some extent relieve demand peaks in the winter. Relieving the electricity grid during periods of high load will reduce the need for grid investments.



Developments in electricity prices and grid tariffs will affect profitability, in that they will have a direct impact on heating prices. This is not something over which the company has any influence.

Margins will also be affected by the cost of bioenergy, which could rise due to increasing demand. We will enter into long-term alliances with partners on the bioenergy side and test biomass alternatives other than wood chips.

Skagerak Varme will help to develop a more efficient value chain in the bioenergy market, which will reduce risk and benefit both our suppliers and our customers.

New business activities

Skagerak Energi's owners are looking to develop new business activities.

The parent company will be a hub for the development of new business activities, in collaboration with the business areas and external partners where appropriate.

New business activities will be geared towards the following priorities:

- Areas that are central to the development of our own region.
- The proposed investments must demonstrate profitability and should be able to grow beyond the region.
- Be based on the Group's competitiveness and competitive advantage.

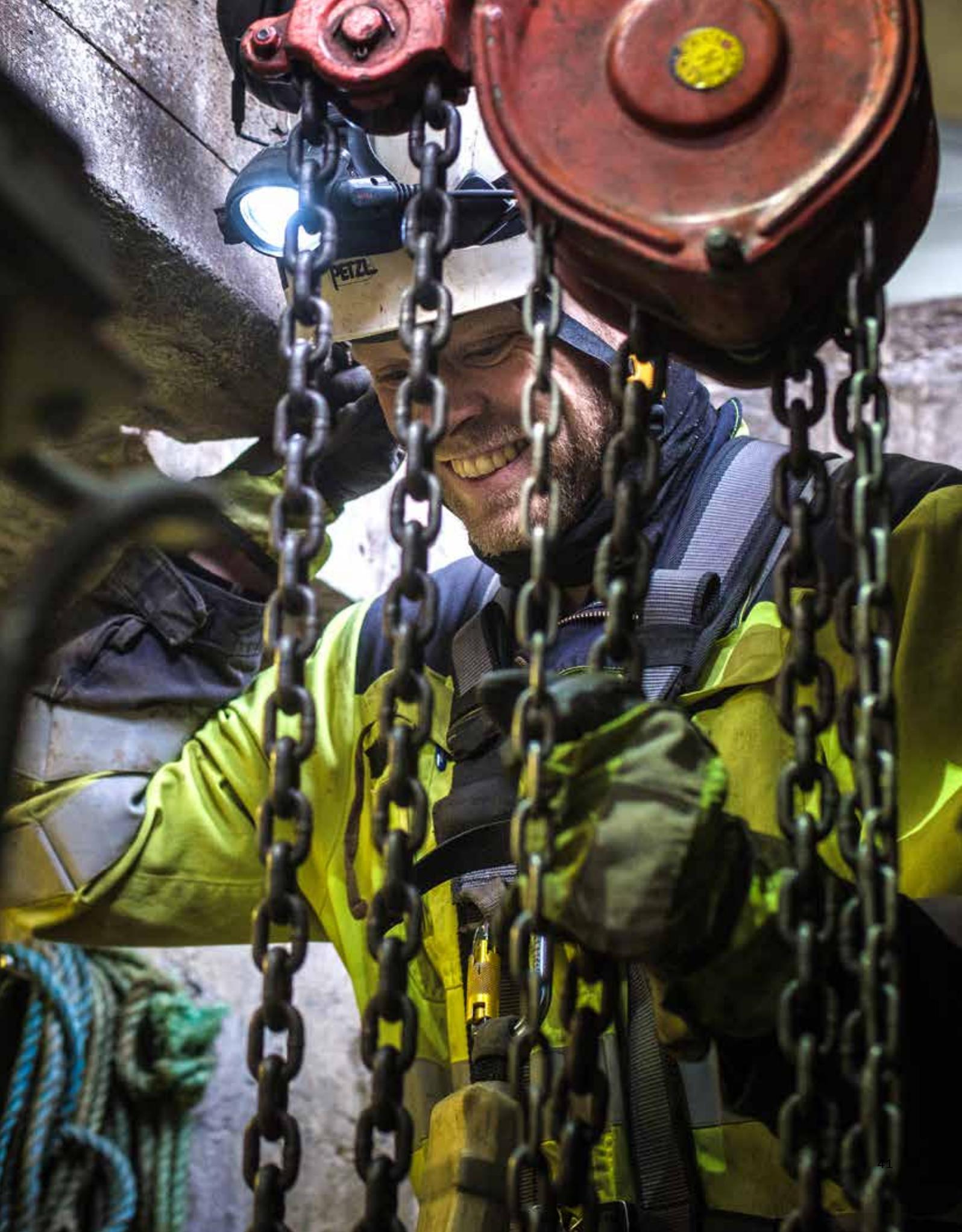
In addition to developing new business activities, it may be appropriate to invest in companies that are in an early commercialisation phase, where this can provide competitive advantages and/or provide valuable insights into new technologies, business models and markets.

Associates

Our shareholding in *Air Liquide Skagerak* (49 per cent) allows for further business opportunities within bioenergy (biogas) and cooperation on the use of hydrogen and other green technology.

Our 29.7* per cent shareholding in the listed company *Fjordkraft ASA* and 33.4 per cent shareholding in *Laugstol AS* will be assessed regularly with respect to their prospects for future returns and the companies' needs for further growth and consolidation.

* In 2019, Skagerak Energi reduced its shareholding in Fjordkraft and, as of 29 March 2019, owns 14.9 per cent of the company's shares.



The power market

Power prices rose significantly in 2018. The average price for the year ended at NOK 0.42 per kWh for Southern Norway, which is NOK 0.15 more per kWh than in 2017. The increase was primarily attributable to major hydrological variations, in addition to increased costs for the production of coal and gas power on the Continent.

In terms of the weather, 2018 was an extraordinary year, with major hydrological variations throughout. This has a strong impact on how we plan and execute production.

From historically dry ...

At the beginning of the year, there was more snow in the mountains than normal. However, the period from mid-February to the end of July was characterised by low levels of precipitation. In total, Norway only received about half the normal amount of precipitation.

It was especially dry from the middle of May, when it hardly rained for 10 weeks, making it a historically dry period.

... to historically wet!

Starting at the beginning of August, there was a 10-week period with lots of rain. The rainfall during this period was enough to produce an incredible 47 TWh of power. It was historically wet.

The wet autumn was still not enough to prevent 2018 from entering the history books as drier than normal. According to the Norwegian Water Resources and Energy Directorate (NVE), precipitation for the year was equivalent to 120.5 TWh, which is 13 TWh less than normal and 35.8 TWh less than in 2017.



The spring thaw also differed from the norm. We had a lot of snow for a long time both in the mountains and in the lowlands, but when the spring thaw started in earnest in April, it went very quickly. In a normal year, the snow often melts high in the mountains throughout the summer. In 2018, the snow was mostly gone by the end of May. For the most part, it had melted, but the warm weather also led to considerable evaporation according to the NVE's calculations.

Why did the power price increase so much?

Norway is linked to the European power market through transmission cables. These cables allow power to be both exported and imported between Norway and abroad throughout the day. During periods of low water reserves, Norwegian power plants will import power from abroad.

By water reserves, or *the total water resource* as we often say, we mean the water already in reservoirs plus the total amount of water that will accumulate in reservoirs from rain, snow, groundwater and subsurface water.

“In terms of the weather, 2018 was an extraordinary year, with major hydrological variations throughout.”

In a normal year, Norway exports overall more power than it imports, but power can flow both into and out of the country throughout the day. In a dry year, Norway will import power for more hours than in a normal year or a wet year.

In dry years, the Norwegian price, especially in Southern Norway, is affected by the prices in continental Europe for more hours than in a wet year. This means that the price in Norway often – but not always – follows the price on the Continent. Very simply, we can say that:

- When the total water resource in Norway is normal or greater than normal, the annual price in Southern Norway will be below the price on the Continent.
- When the total water resource in Norway is considerably less than normal, the annual price in Southern Norway will be equal to or higher than the price on the Continent.

Since 2018 was a dry year, the Norwegian price largely followed the price on the Continent.

Producers experienced a significant increase in the costs of thermal power production in 2018, primarily coal and gas power. According to the NVE, the average cost increase from 2017 to 2018 was 35 per cent for coal power, while gas power increased by 40 per cent.

Aside from the increase in fuel prices, this was due to a tripling of the price of CO₂ emission allowances. This drove up power prices throughout Europe – including in Norway.

How the CO₂ emission allowance system works

When gas and coal power plants increase production, their emissions of CO₂ also increase. In Europe, all power plants, power-intensive industry (process industry) and oil and gas producers must cover their emissions of CO₂ by an equal number of emission allowances.

Emission allowances are an important instrument in climate policy and are controlled at the political level. In order to reduce greenhouse gas emissions, the number of allowances available is reduced by 1.74 per cent every year from 2013 to 2020. That means a 38-million-tonne reduction in annual CO₂ emissions. From 2021 to 2030, emission allowances will drop even faster, by 2.2 per cent each year. In addition, other changes were made to the emission allowance system at the end of 2017, which means that there are fewer allowances available. This explains why the price of emission allowances rose so steeply in 2018.

Price of CO₂ emission allowances

Euro/tonne



Source: Montel

Climate awareness means billions in revenue

Guarantees of origin are intended to increase the profitability of renewable energy and stimulate the green shift. The price of guarantees of origin has increased markedly in 2018. The main reason is that the EU agreed on a new directive from 2020, which states that everyone who wants to document the carbon footprint of the electricity they use must use the official calculation. The NVE is responsible for performing this calculation in Norway. The product declaration for electricity indicates the number of grams of CO₂ per kWh. In the European market, this mix is influenced by all forms of power, as well as the purchase and sale of power and guarantees of origin. Those who want to document that the electricity they use is cleaner than the national product declaration, must purchase guarantees of origin.

The price for guarantees of origin has risen from approximately NOK 0.002/kWh in 2017 to a peak of NOK 0.0235 in 2018. On average, the price of a guarantee of origin for hydropower was NOK 0.0124/kWh in 2018. In February 2019, the price was about NOK 0.014/kWh. Norwegian power plants, which produce 135 billion kWh of hydro- and wind power, can thus earn around NOK 2 billion extra if the price remains unchanged. At this price, Skagerak Kraft can earn more than NOK 60 million annually in this way.

New renewable energy provides additional revenue

In addition to guarantees of origin, power companies earn additional revenue on the output from power plants that started new renewable production after 2012. A support scheme was introduced to ensure that Norway and Sweden will reach their renewal targets in line with the EU Energy Efficiency Directive. It is designed so that the value of the support (electricity certificates) decreases as we approach these targets. In 2018, the market price was boosted by the authorities requiring electricity retailers, such as Fjordkraft, to increase the proportion of new renewable energy. This raised the price of electricity certificates to a peak of about NOK 0.27/kWh.

As early as 2020, the price of these certificates will drop to NOK 0.01–0.02/kWh, as Norway and Sweden reach their renewable targets. The target is 28.4 TWh in the joint Norwegian–Swedish scheme.

Price of guarantees of origin for production in 2018

Euro/MWh



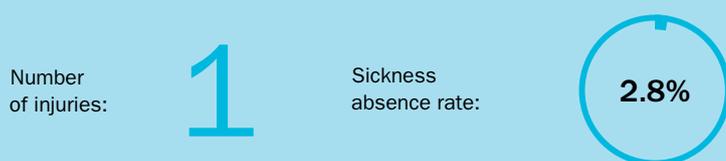
Source: Icap

“Climate policy has given us instruments that affect both supply and demand, as well as prices. Together, the effect of CO₂ emission allowances, guarantees of origin and electricity certificates represents several hundred million Norwegian kroner in Skagerak Energi’s accounts.”

Skagerak Kraft

Strategic goals

- Be a leading power company in terms of utilising new technology and expertise.
- Achieve growth through hydropower projects and, potentially, wind power.
- Maximise green values.
- Maximise the value we derive from our water sources.

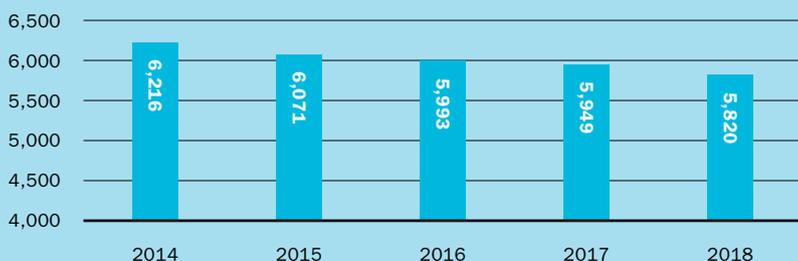


Amounts in NOK million	2014	2015	2016	2017	2018
Revenues (net)	1,231	1,577	1,145	1,571	2,009
Revenues (net) underlying*	1,300	1,219	1,375	1,567	2,044
EBITDA	812	1,126	727	1,157	1,564
Investments	248	113	104	100	130
Employees (No.)	120	116	123	123	128

*Underlying revenue (net) adjusted for unrealised changes in value of power contracts

Power production

GWh



Geir Kulås
Executive Vice President

CEO of Skagerak Kraft since February 2017, he joined the Group as CEO of Skagerak Nett in 2012. Geir started his career with Norsk Hydro Magnesium in 1993. Later, he transferred 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 currently the coach for the junior team in Langesund. He is married and lives in Langesund.

"For us, the environment is important. Clean energy must be produced with the least possible environmental impact."

What did you achieve in 2018?

We spent a lot of time formulating a strategy for Skagerak Kraft, which is adapted to the developments we see in the European power market, and we have continued to develop digital models and tools to ensure our success. Good power prices have contributed to a strong result. We had an operationally good year, with low sickness absence, but unfortunately one injury.

In connection with our audits of terms and conditions, we have established a good dialogue with a number of stakeholders to assess whether we can operate our power plants in a way that causes less harm to the environment. These audits of terms and conditions are very important to us, and we devote a lot of resources to them.

What were your most important investments in 2018?

The business invested NOK 130 million in property, plant and equipment. We have installed new control systems at Sundsbarm and Vrenga.

Partly owned plants and regulation associations continued to be busy, mainly refurbishing dams.

We also conducted preparatory works for Grunnåi unit 2, the new Dalsfos power plant and new power plants at Ala, Gjuvåa and Føssaberge.

What does the new Group strategy mean for Skagerak Kraft?

We have put a lot of effort into understanding what the future power market will be like, and we have developed a strategy that is best suited to that future. We believe that price fluctuations will be greater in the period ahead, because wind and solar power will make up a larger part of the total production capacity in Europe. This will in turn affect power prices. When the sun shines and the wind blows, a lot of electricity is produced and prices are low. When the wind is calm and the sky is cloudy and production is near zero, coal and gas power plants must be run, which means increased prices.

We must learn to adapt to these variations in every aspect of our organisation – not only when we produce power, but also when we carry out planned operational stoppages. Choosing the right time to replace a generator can mean the difference between millions in losses and millions in profits.

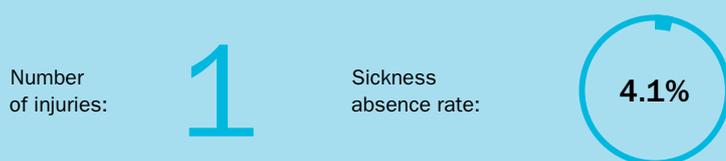
In addition to exploiting the fact that water can be stored, we must exploit the fact that hydropower production is climate and environmentally friendly. Since we have a market for guarantees of origin, the green value of the water in our reservoirs constitutes an additional NOK 50–100 million. Environmentally friendly operation is increasing this value for us.

We should also give careful consideration to whether or not we should get into wind power.

Skagerak Nett

Strategic goals

- Have the highest customer satisfaction among Norwegian grid operators.
- Be the preferred partner for other Norwegian grid operators.
- Be one of the top three comparable grid operators in the Norwegian Water Resources and Energy Directorate’s efficiency survey.



Amounts in NOK million	2014	2015	2016	2017	2018
Revenues (net)	814	806	855	976	1,022
EBITDA	405	344	396	514	456
Investments	502	471	470	671	747
Employees (No.)	380	376	373	375	374

Electrical energy delivered to end users

GWh



Øivind Askvik
Executive Vice President

Øivind Askvik became the CEO of Skagerak Nett in December 2017. He attended the Norwegian Army Officer Candidate School, but switched to the Royal Norwegian Naval Academy and served as an electrical engineering officer on board submarines for two years. After eight 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.

“Safety and security are all important: Security of supply for our customers and personal safety for our employees, our customers and everyone in our grid areas.”

What did you achieve in 2018?

In 2018, we reorganised Skagerak Nett. We now have fewer departments and more teams with their own managers who will make their own decisions based on the goal of having a stable power supply at the right price.

We experienced two emergency situations due to the weather: In January, poles and wires were brought down by heavy snow. In September, we had Storm Knud (called Storm Bronagh in the UK). In January, a total of 34,000 customers were affected by outages and more than 4,000 customers experienced outages of more than 12 hours. In September, 15,000 customers were affected, 500 of whom experienced outages of more than 12 hours.

Midt-Telemark Energi, with customers in Nome, Sauherad and Bø, will cooperate in a joint systems control centre with Skagerak Nett.

In 2018, EPSI Rating named Skagerak Nett the company in Norway with the most satisfied private grid customers. Having the highest customer satisfaction is one of our strategic goals for the period.

What were your most important investments in 2018?

The Solum switching substation, which provides electricity to the new train line from Larvik to Grenland, was completed in February 2019 at a cost of NOK 152 million.

The Roligheten transformer substation, which

ensures a stable power supply to the industrial park at Herøya, was finished in 2018 at a cost of NOK 44 million.

The Veggbakken transformer substation for Horten is being upgraded and expanded at a cost of NOK 45 million and will stand completed in June 2019.

We will be replacing many aging components at our facilities. They will be replaced with modern equipment that can be monitored centrally.

What does the new Group strategy mean for Skagerak Nett?

The development of our grid business is determined by two “shifts”: the digital shift and the green shift. The digital shift includes artificial intelligence, the Internet of Things, big data, machine learning, robotics and mobile solutions. The green shift involves large-scale electrification of the transport sector, including shipping, but also households that install solar cells and buy electric cars.

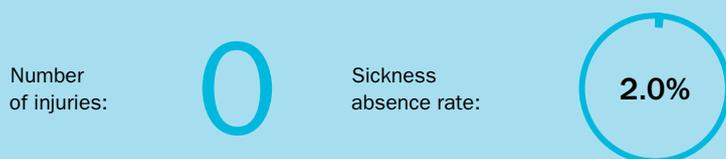
For us, the customer is the focus of everything we do. The more efficiently we operate, the less our customers pay in grid tariffs. For example, we will utilise digitalisation to help us replace components in the power grid at the right time.

The installation of smart meters and associated systems, called AMS, will enable our customers to steer their consumption to times of the day with lower prices. With AMS, the grid operator will be able to detect faults in customers’ systems, which in turn provides increased security for our customers.

Skagerak Varme

Strategic goals

- Increase the energy volume to 171 GWh by 2020.
- Achieve an EBITDA of NOK 46 million and a profit after tax by the end of 2020.
- Reinforce market and product development within Skagerak Energipartner.



Amounts in NOK million	2014	2015	2016	2017	2018
Revenues	52	62	76	85	108
EBITDA	-2	2	10	20	28
Investments	35	38	50	68	68
Employees (No.)	17	17	17	16	17

Volume of heat supplied



Svein Morten Rogn
CEO

CEO of Skagerak Varme since 2016. Joined the Skagerak Group in 1997, Group CFO from 2000 to 2009. He holds a Master of Business and Economics from the Norwegian School of Business and Economics (BI) and qualified as an agronomist at Sjøve Agricultural College. For Rogn, people, natural resource management and the climate are important issues. He runs the farm Brekke Gaard with his wife Synne Vahl Rogn and has two sons, Martin and Kristian.

“Hunting small margins: A NOK 0.01 per kWh increase in price or reduction in costs will have an impact on the bottom line to the tune of NOK 1.4 million. This is how everyone at Skagerak Varme stays focused on profitability – always and everywhere.”

What did you achieve in 2018?

We exceeded NOK 100 million in revenue in 2018. For Skagerak Varme, our most important priority is to grow, because more customers and more heat delivered will improve the profitability of the major investments we have made in our heating plants and underground feeder pipes.

We had an operating profit (EBITDA) of NOK 28 million. That is an improvement of 40 per cent on the previous year. We are not yet profitable on the bottom line, but we are following the plan we made three years ago to reach a positive net result in 2020.

What were your most important investments in 2018?

We have run pipes to the office buildings at Herøya Industrial Park, owned by Oslo Pensjonsforsikring, to exploit an additional 16–18 GWh waste heat from Yara's plants. That was an investment of NOK 60 million, which started in 2017 and was completed in 2018.

A third heat pump was installed at the Moloveien heating plant in Horten to cover the growing demand there.

We have made investments in all four licence areas to meet increased demand. We invested a total of NOK 68 million, of which NOK 8 million was support from Enova.

What does the new Group strategy mean for Skagerak Varme?

Skagerak Varme has now been given a key role within what is defined as Skagerak Energipartner. Together with the rest of the Group, we must take a leading role in meeting the needs of professional property developers for complete energy solutions. This means providing solutions that are energy efficient, modern, and environmentally and climate friendly. We can offer a combination of energy solutions that will benefit both our customers and Skagerak Nett within our licence areas in Vestfold and Telemark.

The future will require deliveries of heat, cooling and electricity, but solutions must also accommodate customers' desire to produce and save energy themselves. Skagerak Varme will take a leading role in this regard.

Uncertainty relates to the temperature, the price of power – which is linked to our heat deliveries – and the price of wood chips, an important input factor. Skagerak Varme will help to develop a more efficient value chain in the bioenergy market, which will lower risk and benefit both our suppliers and our customers.



Corporate social responsibility

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Our corporate social 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 value and help to fund growth and welfare in the region in an ethical and sustainable manner. This means that we prioritise and manage our resources in such a way that we generate growth for society and our owners.

Skagerak's social 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.

Among 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 public charges as well as dividends to our owners.

Goals and results

	2014	2015	2016	2017	2018	Goal
Production capacity	+69	0	+2.5	0	+13	+52 GWh
hydropower GWh, normal year	5,717	5,717	5,719	5,719	5,732	by 2021
No. of power outages per end user	1.8	1.5	1.3	1.5	2.3	
Heat GWh (renewable share)	78 (94%)	88 (95%)	115 (93%)	120 (93%)	141 (93%)	171 in 2020 (100% in the longer term)
No. of injuries	3	7	4	2	2	0
Sickness absence rate %	3.7	3.7	3.1	4.3	3.6	3.2 or lower
Waste separated at source %	86	65	85	80	87	85 or more
Emissions of CO ₂ equivalents (tonnes)	2,244	1,987	1,763	2,104	2,266	0
Licence breaches or serious environmental non-compliances	0	0	0	0	0	0



Stakeholder dialogue

Having roots in the region and positive cooperation with 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 Energi is an engine for value creation in the region.

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 substantial expertise in important areas, as well as engaging in constructive dialogue with the authorities, our owners, environmental organisations, our customers, local businesses and other stakeholders.

Skagerak Energi has 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 licence terms and conditions, an understanding of the most important stakeholder requirements and expectations, as well as the Group's risk assessment and strategy.

In 2018, the Skagerak Energifrokost breakfast meeting was introduced as a meeting place for learning and discussions about issues related to energy, the environment, climate and sustainability. The leader of the Center for International Climate Research (Cicero), Kristin Halvorsen, and the Secretary General of WWF Norway, Bård Vegar Solhjell, were speakers at the two breakfast meetings that were arranged in 2018.

Skagerak Energi was also among the organisers of a two-day seminar on former Norwegian PM and local businessman Gunnar Knudsen at the Ibsen House in connection with Research Days 2018.

Skagerak Energi's priority areas are:

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

The following pages provide a more in-depth look into selected areas. In addition, we have compiled a detailed report in accordance with the Global Reporting Initiative (GRI), which is included as an appendix to the annual report.

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 → Organisational surveys → 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 → Newsletters, 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 → Sensitive 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 → Sensitive 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 → Sensitive 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 → Competence 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

Increased renewable energy production and increased production of Norwegian renewable hydropower will be key drivers to reduce emissions of greenhouse gases. Skagerak Energi's production and distribution of electricity from renewable hydropower and district heating contribute to reducing direct and indirect emissions of CO₂.

Efficient routines for the sorting and treatment of waste, both at permanent locations and temporary construction sites, contribute to the recycling of resources.

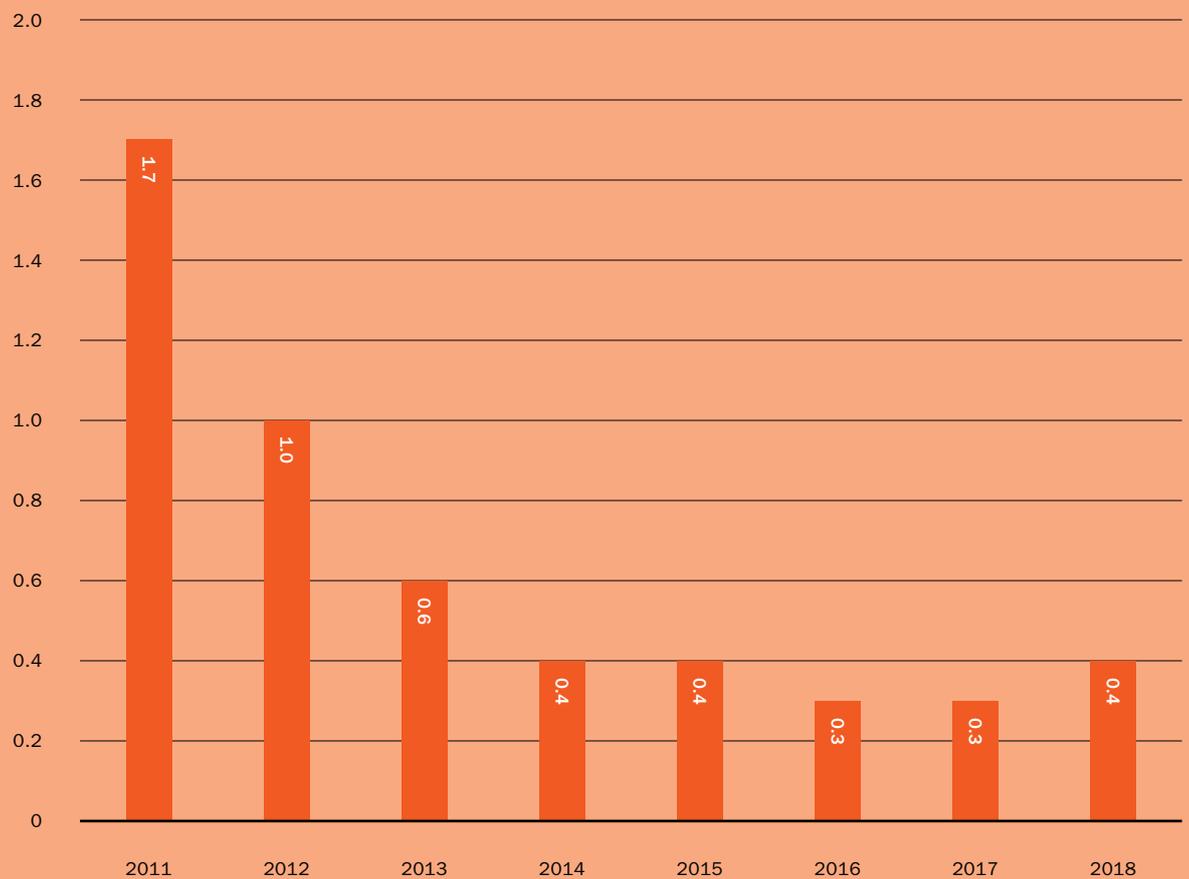
Skagerak Energi's annual energy production has averaged around 6,100 GWh over the past five years. Power production depends on the water resource situation and market conditions for power. Of this, district heating comprised 141 GWh in 2018. Only 10 GWh was produced using gas, which is employed in district heating systems when demand is particularly high. This means that 99.8 per cent of our total energy production is renewable and climate-neutral. When we divide our total emissions of CO₂ by the amount of energy produced, we get 0.4 grams of CO₂ per kWh for 2018, down from 1.7 grams/kWh in 2011. By comparison, a German coal-fired power plant emits about one kilogram of CO₂ per kWh and a gas power plant emits 500 grams of CO₂ per kWh.

Water reservoirs provide both flexibility and increased security of supply in combination with wind and solar power production.

Hydropower is renewable and produces next-to-no greenhouse gas emissions, but it is not without environmental impact. Both their construction and operation entail interventions in ecosystems and the landscape. Such interventions are minimised through systematic environmental management and various mitigating measures. Skagerak emphasises 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. The regulation of water reservoirs is an important flood mitigating measure during periods of high rainfall.

Greenhouse gas emissions

Grams/kWh CO₂ equivalents



Our overall goal

Our overall goal is that all facilities construction and operations should fulfil our requirements for:

- Responsible management of water resources and conservation of biodiversity.
- High standards for the operation, supervision and systematic maintenance of facilities.
- Good working methods and technology to prevent emissions and discharges of pollutants.
- Our suppliers to meet the same standards as we set ourselves.

Results

There were no breaches of licensing terms relating to the regulation of watercourses in 2018. None of the Group's companies experienced incidents with serious consequences for the environment or which resulted in involvement or orders from the Norwegian Environment Agency in 2018.

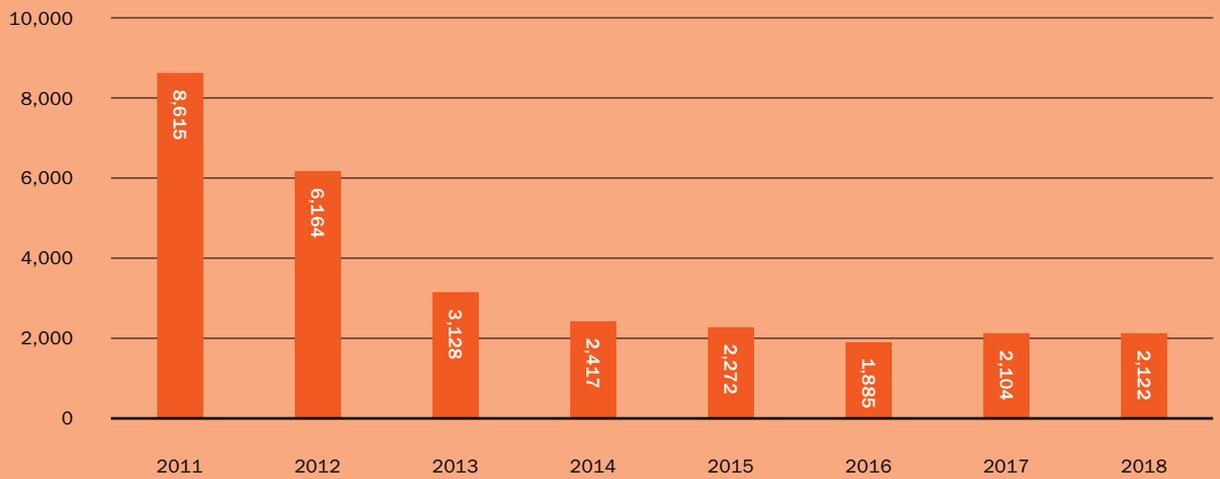
In 2018, the total volume of waste rose to 946 tonnes from 855 tonnes in 2017. Our waste separation rate was 87 per cent in 2018, compared with 80 per cent in 2017. The amount of waste varies depending on the projects we are working on. Therefore, we place emphasis on proper sorting, so that the waste can be recycled to the greatest possible extent.

Since 2011, we have reduced our emissions of CO₂ by about three-quarters due to more climate-friendly district heating production. In 2018, the sum of the Group's direct CO₂ emissions from production (scope 1) and CO₂ emissions from the use of cars and aircraft for business travel (scope 3) was 2,122 tonnes, compared with 2,104 tonnes in 2017. Our own consumption of electricity (scope 2) is zeroed out by the company purchasing guarantees of origin for the entire amount consumed. The increase in CO₂ emissions is due to a higher production of district heating than in 2017. Where district heating replaces fuel oil or gas, increased production from Skagerak Varme will result in lower climate emissions for society.

Skagerak Energi aims to become climate neutral, and in 2019 the Group will draw up plans to achieve this goal.

Greenhouse gas emissions

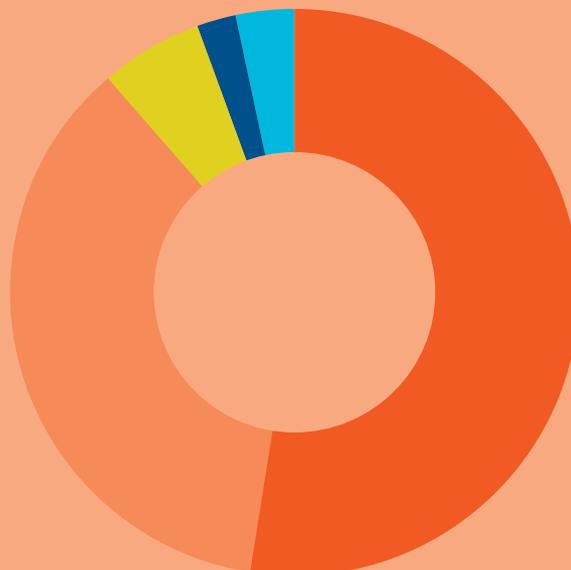
Tonnes of CO₂ equivalents



Emissions of greenhouse gases per source 2018

Tonnes of CO₂ equivalents

- Work-related travel by car 1,120
- District heating plants 764.6
- SF₆: 125.4
- Work-related travel by plane: 45.3
- Incineration of residual waste: 67



Skagerak Kraft

Skagerak Kraft produces clean energy and wants to do so as sensitively as possible. Skagerak Kraft has an environmental management system in accordance with ISO 14001:2015.

Skagerak Kraft sells guarantees of origin, which are issued under a voluntary electricity labelling scheme that gives consumers a choice between renewable and non-renewable power. All our power stations are approved for guarantees of origin.

The summer of 2018 was very dry, which led to low water levels in rivers and streams. Skagerak Kraft implemented extraordinary measures to meet the requirements for minimum water flow, so that fish and other life along the watercourses would not be harmed:

- **Hjartdøla:** Maintained minimum water flow requirements, and released some additional water to prevent the streams from drying out.
- **Kragerø:** Power production stopped in June. Water was drawn off solely to maintain a minimum water flow downstream of the power plants.
- **Sundsborn:** The Sundsbarn power plant was run every second or third day to replenish Seljordsvatn and comply with the minimum water flow requirement for Bøelva. Additional water was also drained from Sandsetvatnet in addition to other measures to maintain the water flow in rivers and streams.

Skagerak Nett

Skagerak Nett prepares an annual environmental action plan. The company focuses on the correct disposal of waste. The company has two meeting places for electricians, and in addition, we have a number of projects spread over a relatively large geographical area. Skagerak Nett is therefore dependent on facilitating proper waste sorting at each individual project location. In 2018, the company achieved a separation rate of 88 per cent.

Impregnated wooden poles contain either creosote or heavy metals. In our efforts to find a more environmentally friendly substitute for impregnated wooden poles, Skagerak Nett has tested various composite poles, and the company has now found an environmentally friendly pole that we will start using in 2019.

Skagerak Nett has decided to phase in electric cars in our car pool. In 2018, three fossil-fuel cars were replaced by electric cars. In 2018, vehicle use produced CO₂ emissions of 1,062 tonnes, or about 50 per cent of Skagerak Nett's total CO₂ emissions.

Skagerak Varme

Skagerak Varme's emissions of CO₂ totalled 765 tonnes in 2018, up from 346 tonnes in 2017. The increase was due to higher production and use of gas in Tønsberg. Skagerak Varme has put a lot of effort into reducing its CO₂ emissions from more than 7,000 tonnes in 2011 to the current level. The company's deliveries of district heating contribute to reduced CO₂ emissions compared with similar heat production based on oil-fired boilers. The company's emissions of nitric oxide (NO_x) amounted to 24.5 tonnes in 2018.

Skagerak Varme wants to be able to offer more green solutions in our projects, and we are involved in research projects related to solar collectors and thermal wells. The object is to learn about new renewable energy solutions.

Universally designed fish ladder

Beautifully situated at the head of Bryggevannet in Skien city centre, a new fish ladder was opened in 2018 to allow fish to bypass the Eidet power station and swim further up the Skien watercourse. The fishway has been designed to allow not only salmon and trout, but also eel and black sea bream to get past the power station.

The original fish ladder from 1976 was damaged in the autumn flood of 2015, so fish that tried to get upstream risked being injured.

The new ladder is a so-called vertical-slot fishway, where the water velocity is reduced down along the bottom, while large stones break down the energy in the water even further. The water collects in pools where the fish can rest before moving on. The fishway also has a gentle slope that allows species on the Norwegian Red List, such as eel and black sea bream, to travel upstream.

It is important for Skagerak Energi to facilitate an environment where fish, animals, plants and other life can thrive. Every year, we release juvenile fish and keep the watercourses around the power plants tidy.

Cost: NOK 8 million

Funded by the municipality of Skien, Skagerak Energi, Broerne 6, Skiens Aktiemølle and the Norwegian Environment Agency.

Height (metres): 5

Levels: 15

Water flow: Up to 1 m³/s

The Grenland anglers association (Grenland Sportsfiskere) contributed a considerable amount of volunteer effort.





The fishway runs parallel with stairs where people can stand and look for the fish swimming upstream at the old power station.

Secure power supply

An increasing number of social processes are being digitalised, making them dependent on a stable electricity supply. Power outages can have major consequences for individual customers and for society at large. Skagerak Energi is working continuously to develop and modernise the power grid. Increasing digitalisation and the use of sensors means Skagerak Nett can quickly detect and correct faults in the grid or at the end user. We are also testing grid systems that will correct faults automatically.

For Skagerak Energi, security of supply means ensuring that our 199,000 end users experience as few outages as possible and that district heating is delivered as agreed in those areas where Skagerak Varme has a licence.

Our industry is subject to strict requirements and guidelines, and Skagerak Energi has a good dialogue with the authorities to ensure regulatory compliance. The Group has highly qualified employees who ensure good network planning, stable operations and sound decisions for the development or refurbishment of our facilities.

Due to their relatively high age, the facilities and components in Skagerak Nett's licence area will undergo major replacements over the next few years.

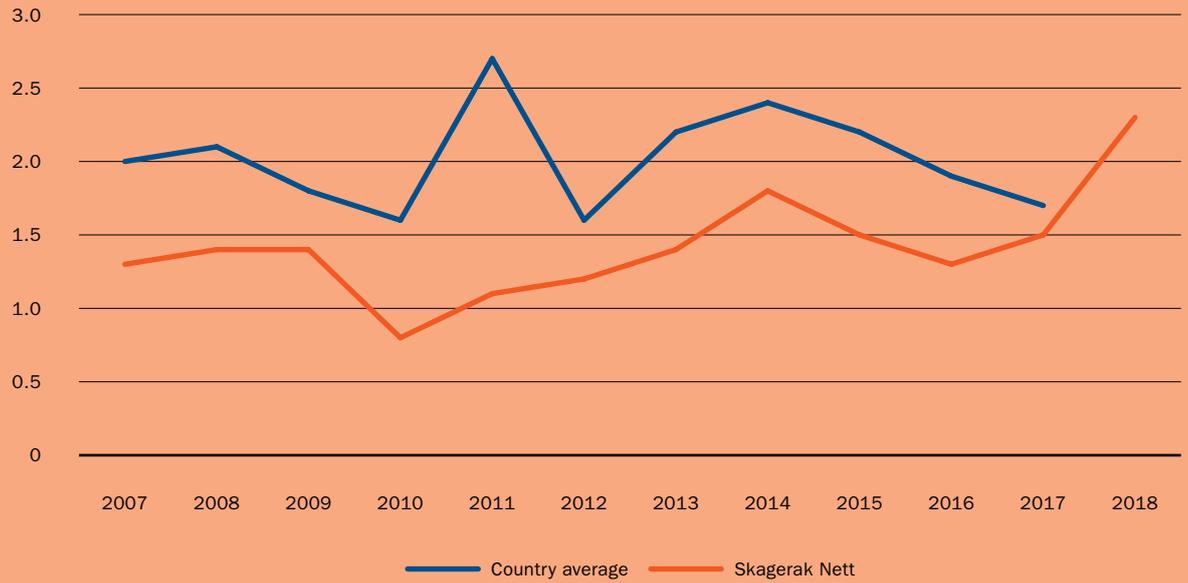
Skagerak Energi has incorporated systematic risk management for all critical areas. Skagerak Nett and Skagerak Kraft have control centres that continuously monitor our facilities and initiate and coordinate necessary emergency response actions.

More outages in 2018 than in a normal year

In 2018, we experienced more power outages than usual. In January, there was a lot of heavy, wet snow, which toppled trees and brought down power lines. In September, we were hit by Storm Knud (Bronagh in the UK). In January, a total of 34,000 customers were affected by outages, with more than 4,000 customers experiencing outages of more than 12 hours. In September, 15,000 customers were affected, 500 of whom experienced outages of more than 12 hours.

Outages lasting longer than three minutes per customer

No.



Every year, the Local Electrical Safety Inspection Authority (DLE) teaches Grade 6 and 9 students in Grenland and Vestfold about electrical safety and fire prevention measures.

Together with the replacement of electricity meters, this meant that the number of outages lasting longer than three minutes per customer increased to 2.3 in 2018, compared to an average of 1.4 over the previous 12 years. Since 2007, Skagerak Energi has performed significantly better than the national average.

The Local Electrical Safety Inspection Authority (DLE) is part of the public supervisory system and subject to the Norwegian Directorate for Civil Protection (DSB), but is part of Skagerak Nett. The DLE works 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, holiday homes and businesses each year.

Skagerak Energilab

Skagerak Arena, the home ground of Odds Ballklubb, Telemark's premier football club, is also the full-scale proving ground for new, high-tech energy solutions for the benefit of our customers.

The roof of the stadium is covered by 4,300 square metres of solar cells. The electricity generated is stored in a large battery housed in a shipping container at the stadium. This battery is connected to the stadium's electrical system and will be used for several purposes, including:

- **Power production:** The power surplus at the stadium is stored in the battery.
- **Grid component:** The battery will be used by the grid operator for various grid services such as voltage support and reactive power regulation.
- **Customer:** Odds Ballklubb and Kontorbygg AS can reduce the amount of power drawn from the grid when the huge floodlights are switched on, by using the battery bank.

The final point will be of interest to corporate customers who pay a load-based tariff. By reducing their peak load, corporate customers pay lower grid rental tariffs. The stadium's power consumption doubles when the floodlights are turned on. The battery bank should reduce this.

The installation will produce approximately 660 MWh/year, which corresponds to the energy consumption of more than 30 homes.





Technical solutions, operating issues and regulatory conditions must all be tested and assessed. The project is part of the company's focus on new grid technology and smart grids, and is one of the areas where Skagerak Energi hopes to develop new business opportunities.

The project has attracted considerable attention both in Norway and internationally. Project Manager Henrik Landsverk is contacted every week by people asking for information, and he regularly gives lectures about Skagerak Energilab.

The project is arousing the interest of football enthusiasts, the climate conscious and technologists alike. The project involves many disciplines and requires a great deal of expertise. The installation will be fully operational in the spring of 2019.

Skagerak Energilab is supported by Enova. Partners in the project are ABB, Kontorbygg AS and Odds Ballklubb.

Health, safety and the working environment

Skagerak Energi aims to be a leader in preventive health, safety and working environment (HSE). Our goal is zero injuries, low sickness absence and high job satisfaction.

The company achieved a sickness absence rate for 2018 of 3.6 per cent. This is a clear improvement from the previous year. We work systematically to encourage attendance throughout the organisation. The average sickness absence rate in Norway over the last three years has been approximately 6.4 per cent.

In 2018, Skagerak Energi reported two personal injuries, both involving lost time. This resulted in H1 and H2 indicators of 2.1. By comparison, the H1 and H2 indicators for the entire energy industry in 2017 were 4.9 and 11.1, respectively. 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.

A working environment survey conducted by the agency Ennova shows that Skagerak Energi has a good working environment. It shows that we have high job satisfaction and high loyalty among our employees. Skagerak Energi has participated in the government's inclusive working life (IA) scheme since 2002.

Good organisation

We place great emphasis on managers' presence and on open and constructive communication. The Group effectively implements action plans and reported improvement measures, rapidly corrects nonconformities and provides appropriate workplace adaptations to accommodate special needs.

Skagerak's working environment committees contribute to the adoption of good action plans and help ensure that planned measures are implemented and effective. 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.

The Group has an agreement with an authorised occupational health service, and we conduct annual workplace surveys and surveys of the physical working environment. Skagerak Energi 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.

Personal safety

The Group's HSE work is guided by our "zero vision". Our goal is to achieve zero injuries. Injuries and near misses do not happen by themselves, they are caused. The Group attaches great importance to preventing injuries and near misses. A high activity level in terms of HSE prevention work at all levels in the organisation has produced results. We have reduced the number of injuries over time, given managers and employees a better understanding of risk, improved equipment, improved procedures and implemented safer working methods. Achieving our zero vision will require us to implement a large number of preventive HSE measures and demonstrate strong management commitment to HSE.

The Green Zone project was implemented in 2018 as a preventive measure throughout the Group. The path to being in "the green zone" starts with identifying risk, then assessing and communicating risk and, finally, making the right choices.

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.

Constant focus on HSE at work

HSE is a line responsibility. In 2018, we conducted 793 observation rounds related to behaviour-based safety (BBS) and 169 job safety dialogues (JSD). These take place on site. We improve risk awareness and competence by observing and discussing working methods and safe and unsafe actions. Frequent communication also facilitates trust and transparency.

The Group believes that the number of nonconformities reported and dealt with, and the number of improvement proposals received, are important indicators of the organisation's focus on accident prevention. It is in this way that all employees contribute to continuous improvement. The quality of this work is constantly improving. In 2018, we had reports of 1,400 nonconformities and received 920 improvement proposals. All nonconformities are corrected, while improvement proposals are evaluated on a cost-benefit basis.

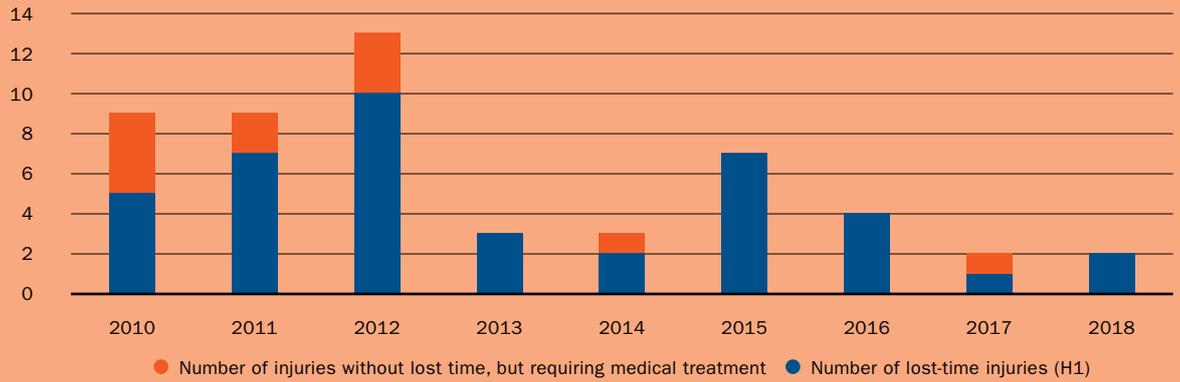
Skagerak Energi complies with Norwegian HSE legislation and line management is responsible for monitoring day-to-day compliance. In addition, we conduct regular internal control activities and more extensive Group audits, and the authorities conduct one or more inspections annually. We investigate all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

	Unit	2016	2017	2018
Sickness absence rate	%	3.1	4.3	3.6
Personal injuries resulting in lost time or medical treatment	No.	4	2	2
Injury frequency rate (H2)	#	4.2	2.2	2.1
Number of occupational health surveys	No.	213	222	195
Number of own employees who took the FSE course ¹	No.	375	361	346
Number of own employees who took the first aid course	No.	408	344	380

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

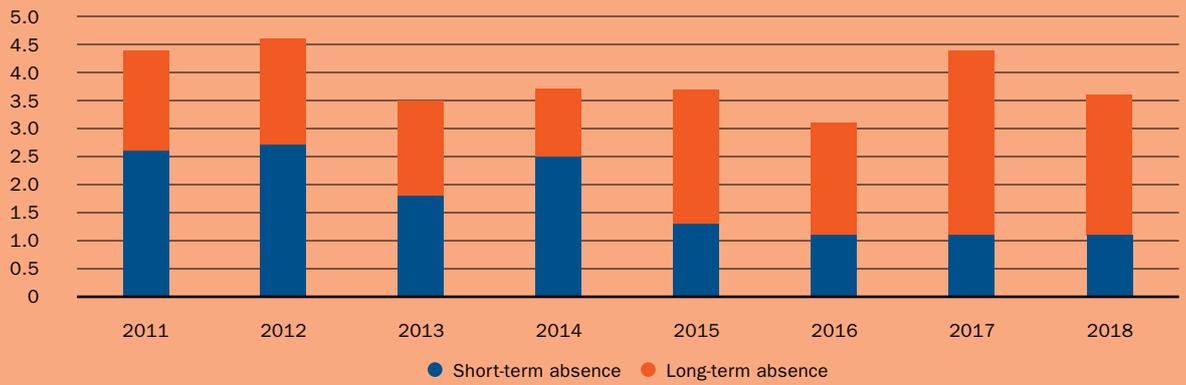
Injuries

No.



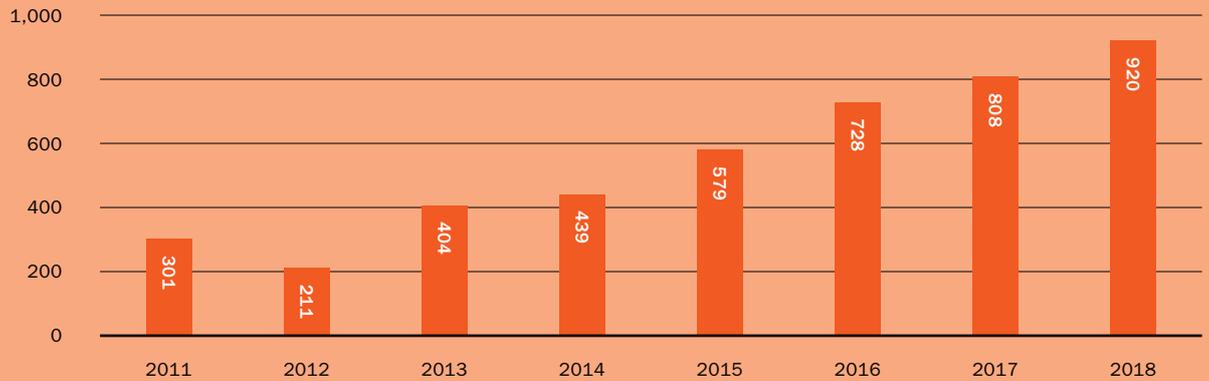
Sickness absence rate

Per cent



Improvement proposals

No.



HR policy

Skagerak Energi hired 45 new employees in 2018, and this high level of recruitment will continue. The challenge is to find the people who meet the company's future competence needs.

Our new business strategy will set new requirements for the recruitment and development of employees. Skagerak Energi will have an increasing need for employees who can combine technology and sustainable solutions with business development.

Of our 630 employees, 120 people are 60 years of age or older. Although Skagerak wants to encourage employees to stay longer in their jobs, this figure does mean that retirement will require us to recruit around 15–20 people per year. General staff turnover and business growth are additional recruitment drivers.

The company aims to be the most attractive employer in the region, to ensure the company's future development.

In order to succeed with new business development and to be at the forefront of the areas in which we already operate, the Group must have managers who unleash their employees' expertise and convert it into profitable new projects and continuous improvement within our core areas. Group executives will complete a management development programme to further improve in their role.

“It doesn't make sense to hire smart people and tell them what to do; we hire smart people so they can tell us what to do.”

Steve Jobs

Some figures for the year from HR:

17

employees retired
with pension.

65.7

Average retirement age.

7

employees were granted
100 per cent disability pension.

57

Average age of employees who
were granted disability pension.

38.5

Average length of service for employees who
retired with pension/disability pension.

45

new permanent employees
recruited to Skagerak
Energi.

6

new apprentices.

8

employees who have changed
companies internally in the
Group.

One quarter of our employees are women, though the proportion is lower among those under the age of 40. We have a small number of staff from other countries. The Group will implement measures to achieve a better gender balance and strengthen diversity in the workforce.

The Group aims to offer equal opportunities for employment, skills development, promotion and other working conditions irrespective of gender, ethnic background, sexual orientation, functional ability or social or cultural background.

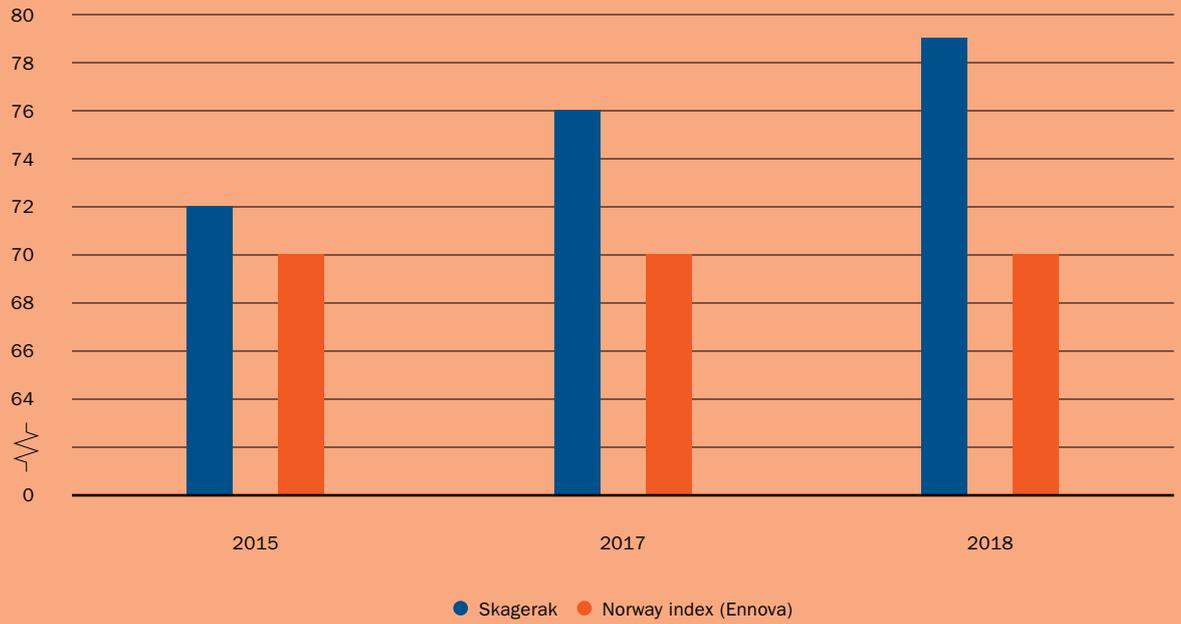
A working environment survey conducted by the agency Ennova shows that we have a high level of job satisfaction and high loyalty among our employees. The job satisfaction index has increased from 70 to 79 since 2015.

At the reporting date, 18 (24 per cent) of the Group's 75 managers and 3 of the Board's 9 members were women, 2 of whom were shareholder-elected and 1 employee-elected.

We also revised and amended our Code of Conduct and whistleblowing guidelines in 2018. Emphasis has been placed on their implementation in order to ensure a high ethical standard, and that any reports of misconduct are handled in a professional and efficient manner. We conduct an annual round of dilemma training to ensure compliance with our high ethical standards.

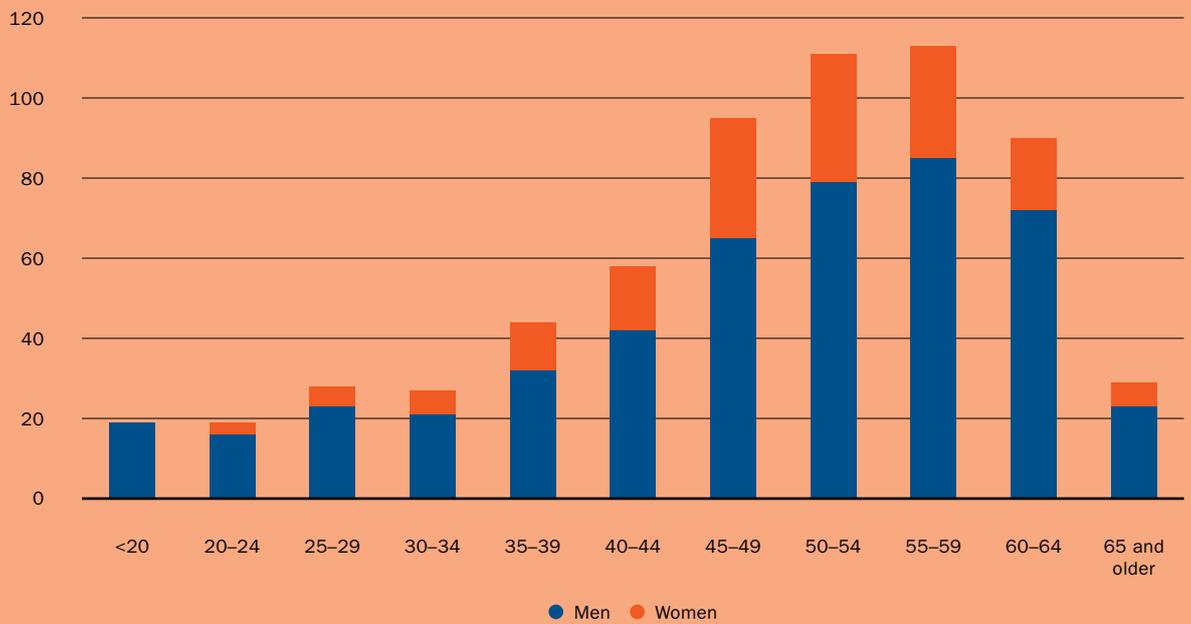
Increasing job satisfaction

Index



Age and gender distribution for all employees

No.



Information security

The digitalisation of Skagerak Energi is in full swing, and we are increasingly using cloud services, artificial intelligence and sensors to perform advanced analysis and optimise the operation of the power grid and power production. Vulnerability and threat levels are constantly changing, meaning that there is still a great demand for information security.

Society imposes strict requirements on how we protect information, including the stable operation of our IT systems. The Norwegian Police Security Service (PST) and the Norwegian National Security Authority (NSM) emphasise in their annual reports that essential services – and in particular the power industry – are targets for espionage and hacking and must ensure that they have good data security and an overview of their own network structure.

Skagerak Energi has a strong focus on information security, and we are continuously improving our efforts to protect information assets in line with the increasing pace of digitalisation.

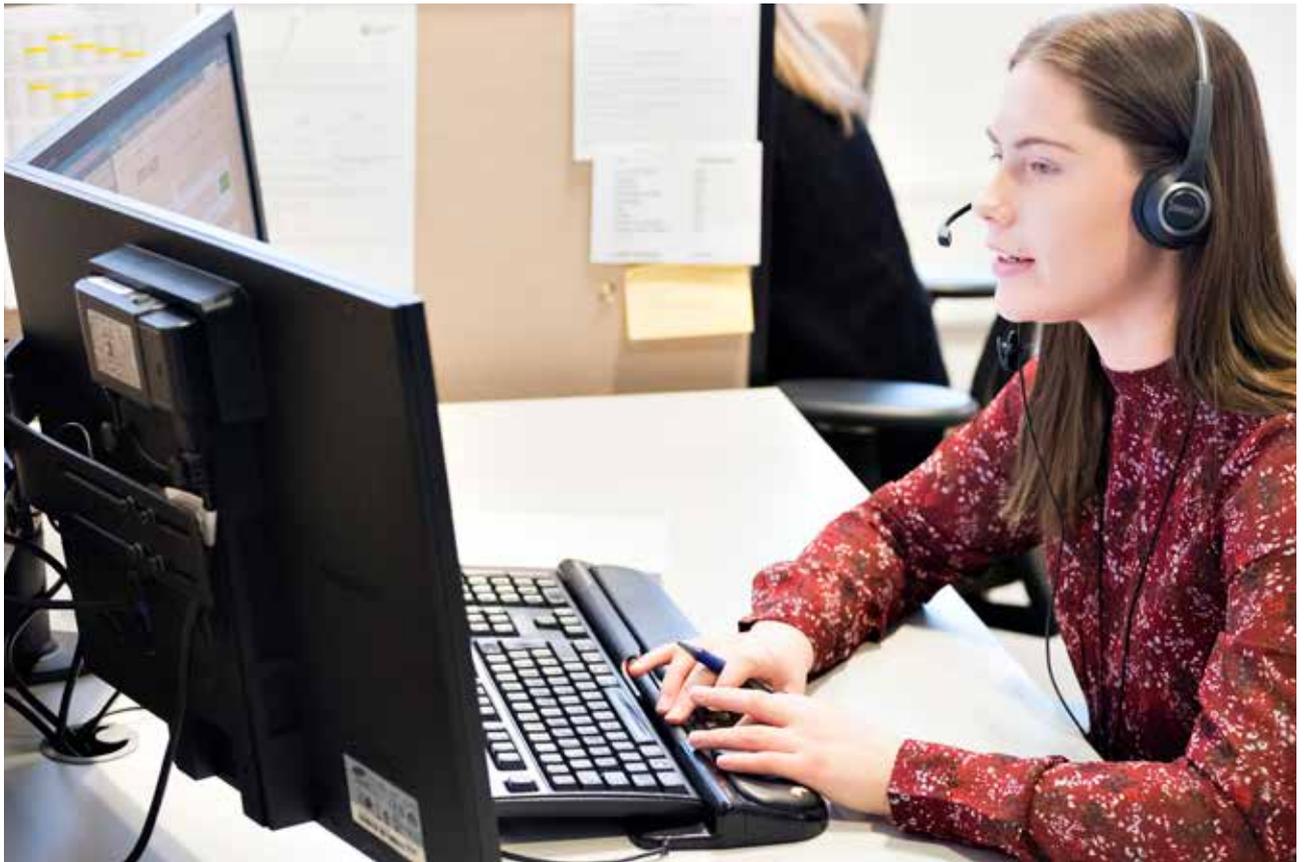
In 2018, we conducted risk assessments of both our IT systems and the personal data that we process in several different and specific areas. Through advanced security monitoring, we are able to detect and respond to abnormal events in our computer network. As part of our preventive safety work, in 2018, we carried out several intrusion tests on our IT systems to verify that security barriers function as intended.

The installation of AMS meters (smart electricity meters) at our customers has been completed. ICT security has been a constant focus during the implementation phase, and Skagerak Nett's requirements specification for suppliers and contractors has been extensive. Security is safeguarded through various security barriers, both technical and organisational in nature.

In 2018, Skagerak Energi completed a major undertaking to ensure that we comply with the new General Data Protection Regulation (GDPR). Employees working with information or information systems are trained in GDPR. A few months after the GDPR came into force, an internal audit confirmed good compliance.

The company provides appropriate training for all new employees in our internal information security requirements. We have improved our strategy, guidelines and procedures in the field of information security, and increased the number of employees on the Group's information security team.

Moving forward, Skagerak Energi will work systematically and continuously to mature and further develop our information security management system.



Social balance sheet

Joint industrial development

Skagerak Energi is an important engine for regional business. The company purchased goods and services worth NOK 1,782 million in 2018. One of our largest suppliers is ABB in Skien, which is also an important partner in joint development projects.

“Our relationship with Skagerak Energi is very important to us. Firstly, we have a framework supply agreement worth approximately NOK 25 million a year. This includes substations and various electrical switchboards, which are absolutely necessary for a grid operator,” says SVP Ken Isaksen, who heads ABB’s *Distribution Solutions BU in Skien*, which is part of ABB Group’s *Electrification Products*.

ABB’s business in Skien has long roots. The company currently employs 600 people and has a turnover of approximately NOK 2 billion, making it a significant business in the industrial region of Grenland.

“In addition to our regular deliveries under the framework agreement, we have been the main supplier for Skagerak Energilab, where solar cells have been installed at Skagerak Arena, Odd’s home ground. We also have a development project in Sande, where we are developing a grid that repairs itself without an operator needing to intervene if a fault occurs,” says Isaksen.

“Our ambition is to be a leading supplier both in Norway and internationally, which makes it very important to have a large and demanding customer in close geographical proximity. I also think Skagerak Energi benefits from our expertise. We have a very good working relationship, which helps us both to grow,” says Isaksen.

Skagerak Energi generates substantial economic activity in the region. In 2018, the Group purchased goods and services worth almost NOK 1.8 billion. If we assume that approximately one-third of these were purchased locally, this constitutes nearly NOK 600 million in demand for goods and services. In addition, salaries and the dividends paid to our three municipal shareholders Skien (15.21 per cent), Porsgrunn (14.83 per cent) and Bamble (3.34 per cent) will be used locally. In total, this represents local demand of around NOK 1,230 million.

Photo: Tom Riis





Ken Isaksen, Director Distribution Solutions, ABB.

Distribution of value creation 2018

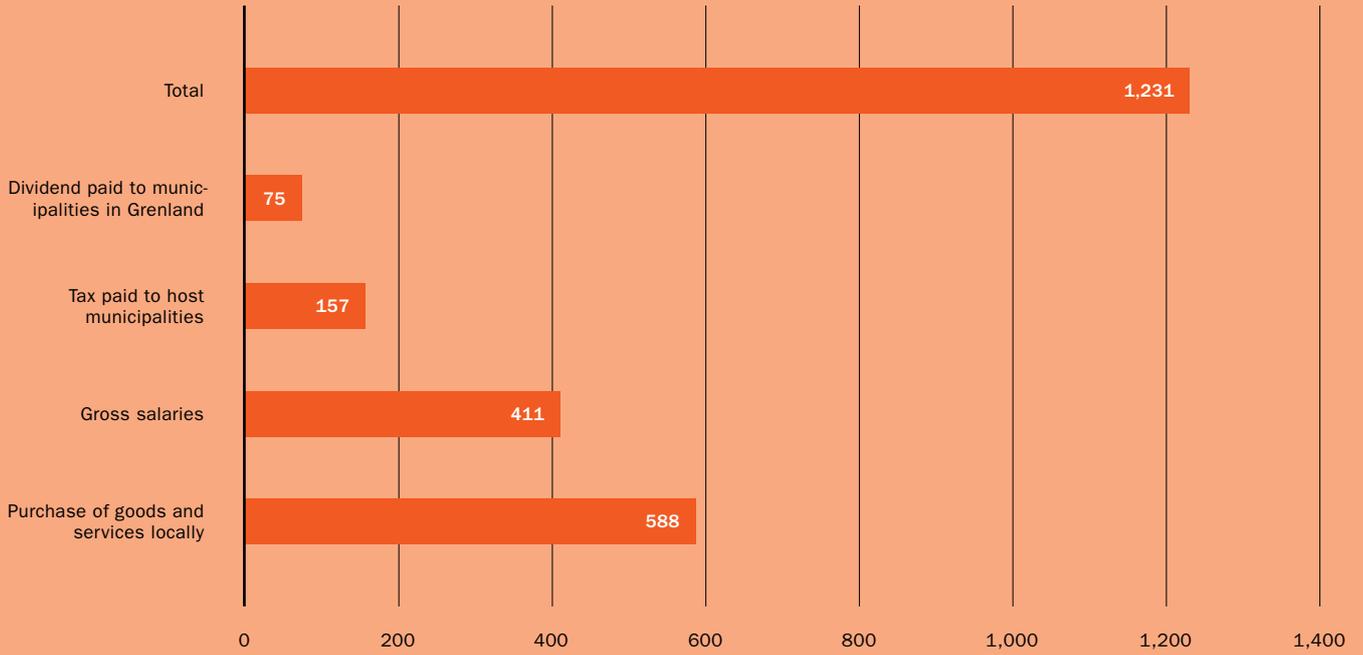
NOK million

- Employees: 411
- Lenders: 170
- Owners: 226
- Tax: 997
- Retained earnings: 870



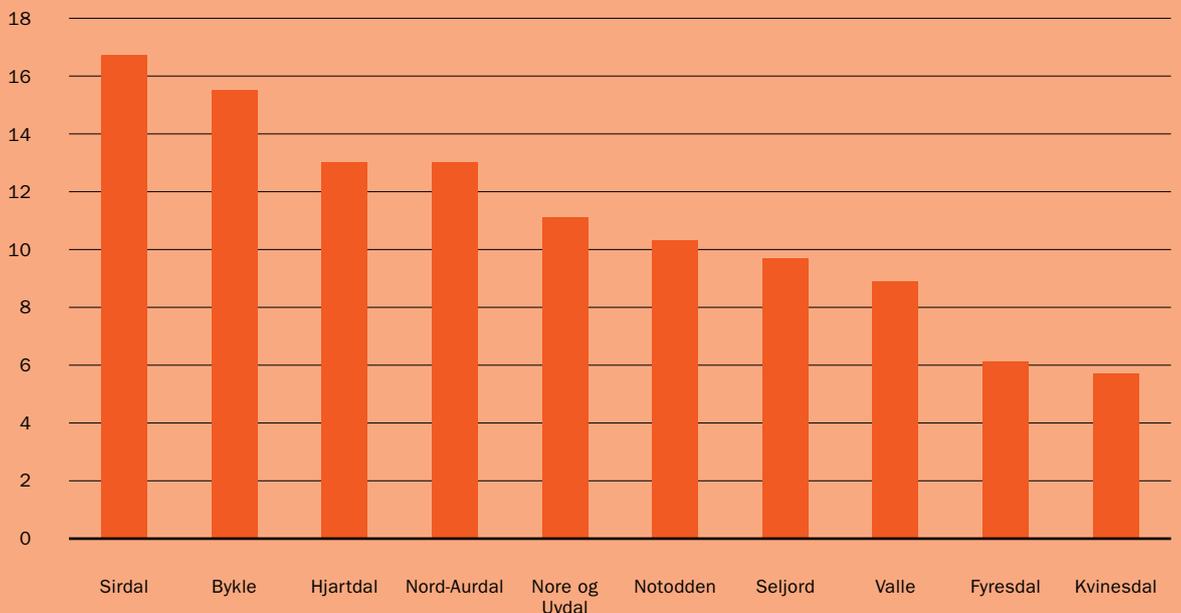
Contributing NOK 1,231 million locally

NOK million



Tax paid to host municipalities 2018

NOK million



Paid enough tax to fund the salaries of 2,265 nurses

In 2018, the company and its employees paid about NOK 1,132.5 million in tax; NOK 997 million was paid by the company and the rest by the employees. The annual salary for a nurse with ten years of seniority is exactly NOK 500,000. This means that the tax paid by Skagerak Energi and our employees helps to pay for 2,265 nurses.

The company's total value creation amounted to NOK 2,673 million, which is distributed between our employees, our owners, lenders and the public authorities in the form of taxes. Value creation is defined as income less intermediate consumption and technical impairment of facilities.

It is the public domain that receives the largest slice of the value we create. In addition, a large part goes back to the company to ensure further growth.

Out of the municipalities in which Skagerak owns facilities, Sirdal received the most in tax, NOK 16.7 million. Together, the ten largest host municipalities ranked by tax payments received from Skagerak Energi, received a total of NOK 110 million.

See the following pages for details.

It is better to light a candle than to curse the darkness

“What made the biggest impression on me is the people I got to know. It was particularly moving to meet my namesake Jane, who was the same age as me,” says Jane Berit Solvi, who works at Skagerak Kraft.

Jane Berit and Jane managed to get to know each other over the course of the trip. Jane showed them parts of Nairobi and allowed them to visit her home in Mathare.

“She only had one room. It was simple and tidy, and had its own atmosphere,” says Jane Berit.

Shortly after they returned to Norway, Jane died.

“She told me she had AIDS, but it was cancer she died of. She didn’t say anything about that. I’m glad she learned before she died that we would make sure her daughter received an education,” says Jane Berit.

In September 2018, Jane Berit travelled with her husband Geir and his colleague Kurt Andreassen and his partner Janne Engebretsen to see what the employees of Skagerak Energi have donated to for many years. Also making the trip was Kristian Norheim, Communications Director at Skagerak Energi. The Strømme Foundation’s partner, Basecamp Foundation Kenya, is in charge of implementing the projects in Masai Mara on behalf of Skagerak Energi. Every year, the company holds a draw to select two employees from among the donors to go on a field trip to follow up our projects in Kenya. The spouses finance their stay themselves.







“We don’t want to impose our values and our way of life on them, but knowledge is important.”

Jane Berit Solvi





“We got to see the talent school for girls (Mara Girls Leadership School), where Skagerak Energi is a major donor. The students live at the school because the walk from home is long and dangerous for many. The girls are only 13 years old when they start boarding at the school. Masai girls are at risk of being married off at a young age, but moving away to go to school helps break down such traditions,” says Kurt.

“Then we saw another newly started school, where the children sat right on an earthen floor without desks or a blackboard. Then you realise they need our donations. The money we donate becomes something concrete and helps those who need it,” says Kurt.

What made the strongest impression on Kurt was their visit to Mathare. Mathare is one of Nairobi’s vast slum areas with more than half a million inhabitants. It is largely controlled by organised criminal gangs.

“It’s all sheds and tin. We would never have dared to drive in or get out of the car, if we hadn’t had a police escort and guards along with us,” says Kurt.

“This is a trip that gives you a real wake-up call.”

Kurt Andreassen



“At the same time, many people were very friendly. I don’t think I have seen so many smiling kids in one place. They loved to look at the pictures we had taken of them,” says Jane Berit.

“This is a trip that gives you a real wake-up call. You realise that it’s no big deal if you’ve forgotten to buy butter, and that what you argue with your kids about is just a trifle,” says Kurt.

“We’re not providing emergency aid, this is development aid. We don’t want to impose our values and our way of life on them, but knowledge is important. It is important to be able to read, write, do arithmetic and gain access to the knowledge that is actually available to everyone,” says Jane Berit.

The purpose and content of the Naboisho project

In order to prevent migration to slum areas and to secure the livelihood of the Masai in Naboisho, a number of measures have been initiated:

- Savings and loan groups. Women have the opportunity to secure their savings and obtain small loans.
- Measures to ensure better health, such as clean water and clinics.
- Renewable energy.
- Knowledge and skills through education for children and adults.

Skagerak's main project is currently Mara Girls Leadership School.

Together, these efforts are producing positive results.

The donor scheme

Employees sign up as donors with an optional amount that is deducted from their salary. The company doubles the amount that the employees give.

Skagerak has been collaborating with the Strømme Foundation in Kenya since 2007. At a rough estimate, the Group and its employees have contributed an average of just over NOK 1 million per year.

New sponsorship moves

In 2018, Skagerak Energi initiated a collaboration with the Grenland Sjakksenter chess centre. Under the guidance of GM Kjetil and IM Espen Lie, young people are given the opportunity to learn chess from the best.

The chess centre is located in the same premises as the science centre Du Verden, which Skagerak already sponsors. Just like the science centre, chess contributes to the development of analytical and strategic abilities, and is therefore a relevant and good activity for the Group to sponsor.

A visible result of this collaboration was that World Champion Magnus Carlsen visited our head office in Porsgrunn in June, where he played simultaneous chess against a selection of employees, customers and partners of all ages. They all achieved the same thing as Fabiano Caruana; they were beaten by Magnus Carlsen.

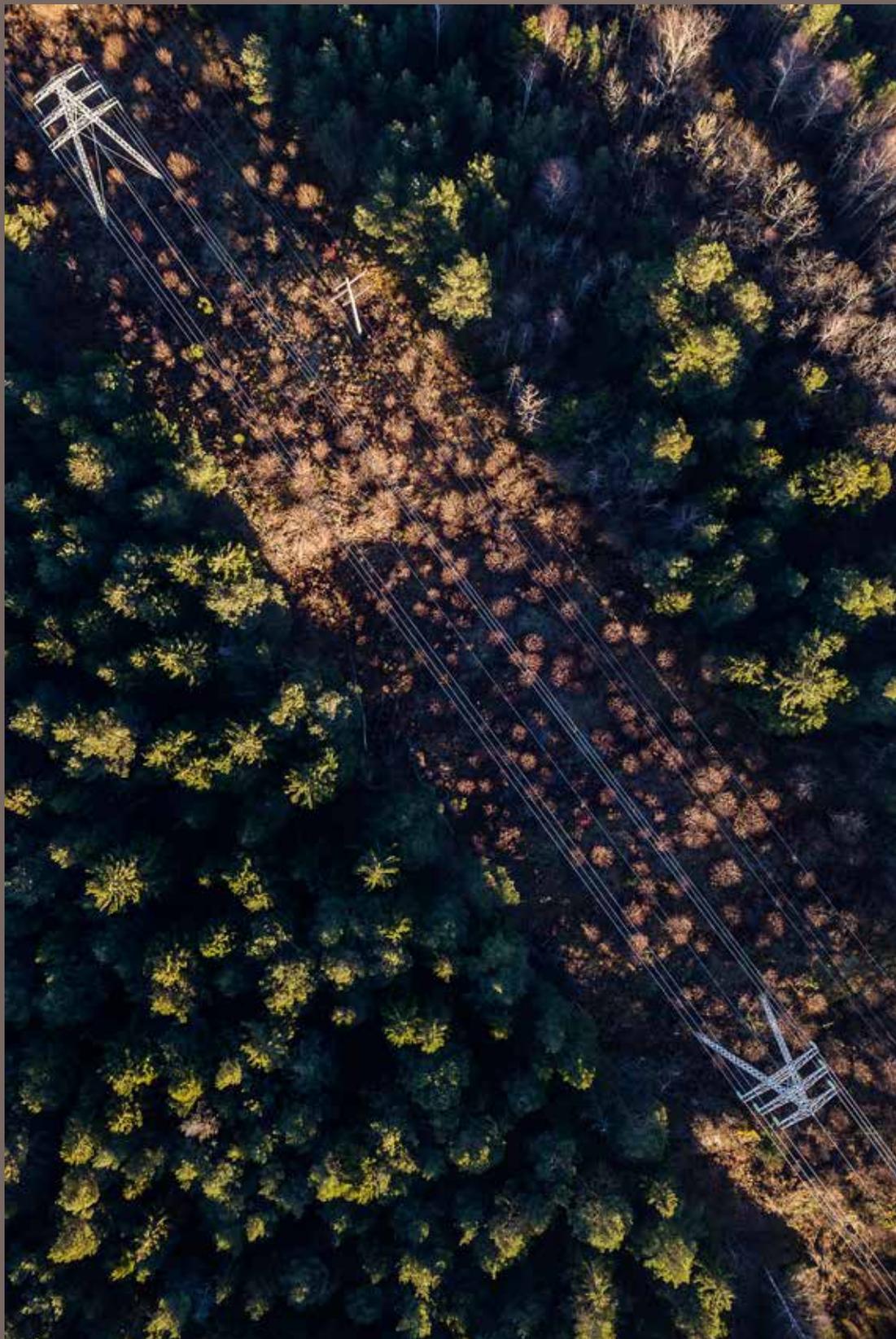
Broad range

Skagerak has partnership agreements in a number of areas. On the sporting front, Odds Ballklubb/Skagerak Arena, Larvik Handball Club and Gjerpen Handball are the biggest. In the field of humanitarian aid/social outreach we work with the Strømme Foundation, Lyk-z & daughters and Hold Norge Rent (Keep Norway Clean), while the science centre Du Verden and the chess centre Grenland Sjakksenter are aimed at young people and science. On the cultural front, we sponsor leading festivals such as Fjordfesten in Sandefjord, the Skagerak Festivals in Bamble, Porsgrunn International Theatre Festival, Parkjazz and Skien Live.

In addition to these major agreements, we distribute smaller amounts in support and sponsorships to sport and culture through a standardised scheme.







Report from the Board of Directors and financial statements

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Report from the Board of Directors 2018 Skagerak Energi Group

(comparative figures for 2017 are presented in parenthesis)

BUSINESS

Skagerak Energi is a regional energy group headquartered in Porsgrunn. The company's core activities comprise power production, distribution of electricity and district heating. These activities are organised through Skagerak Energi AS's wholly owned subsidiaries.

Skagerak Kraft produces hydropower in South Norway. Its 49 wholly or partly owned production facilities have generated an average of 6.0 TWh over the past five years. Skagerak Nett manages and develops the distribution grid in Vestfold and Grenland, and the regional distribution grid in Vestfold and large parts of Telemark. At the end of the year, the company had 198,666 customers. Skagerak Varme operates district heating facilities in Vestfold and Telemark.

Skagerak Energi also has a 49 per cent shareholding in Air Liquide Skagerak which markets and distributes natural gas and biogas, a 33.4 per cent stake in the electrical contractor business Laugstol, along with a 29.7 per cent shareholding in Fjordkraft, which sells electricity to consumers.

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 concept 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 2018

3,450

Gross operating revenues came in at NOK 3,450 million (NOK 2,773 million), up 24 per cent on the previous year.



EBITDA, adjusted for unrealised changes in the value of hedging contracts, closed on NOK 2,022 million, up 23 per cent on the previous year.

1,070

Profit after tax came in at NOK 1,070 million (NOK 531 million), an increase of 102 per cent.



Power prices were higher than in 2017, and the achieved average price after hedging rose by 33 per cent against the previous year.



Operating costs were higher in the previous year, mainly in the power distribution business. This was due to the emergency preparedness situation at the start of the year and higher maintenance activities.



Skagerak's shareholding in the end-user business Fjordkraft was reduced from 48 per cent to 29.7 per cent in connection with the initial public offering of Fjordkraft Holding ASA. The sale generated an accounting profit of NOK 515 million.

2

Two personal injuries were reported in 2018, the same as in 2017.

MARKET CONDITIONS

2018 was characterised by major hydrological variations and a sharp rise in the price of raw materials for thermally produced electricity. At the start of 2018, reservoir levels in Norway as a whole were around normal. Water reserves in the form of snow were well above normal, particularly in areas west of the central watershed in South Norway. Between the middle of February and the middle of July Norway received around half the normal amount of precipitation. A similar picture was seen in Sweden. By the end of July, the Nordic region had combined water and snow reservoirs around 30 TWh below normal. Over the following three months, Norway received significant amounts of precipitation, as a result of which reservoirs returned to normal levels. However, a relatively dry November and December saw levels drop below normal once again. In total, Norway's precipitation was approx. 9 TWh below normal (93 per cent) in 2018, while the average temperature was 0.6 °C higher than normal.

The power price in Norway varies in line with the power price on the Continent. With high levels of precipitation, the price will generally be lower than on the Continent, and with low levels of precipitation it will be the same as or higher than on the Continent.

Prices in South Norway rose during the dry spell from February, fell back during the relatively rapid spring thaw in May, before rising again over the dry summer months. The most important price driver in 2018 was the virtually uninterrupted rise in coal, gas and carbon prices from February until mid-September. During this period, the marginal price of coal and gas-fired electricity rose by around 50 per cent to approx. EUR 55/MWh. Power production from thermal power plants is often price-setting on the Continent and also became a benchmark for Nordic electricity prices through the dry summer. Substantial precipitation and water inflow resulted in lower spot prices through the autumn, though they rose towards the end of the year due to drier weather and a further hike in carbon prices. The average spot price in South Norway (NO2) in 2018 was 41.55 øre/kWh (26.89 øre/kWh). Total power production in Norway amounted to 145.7 TWh (148.2/TWh).

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 3,450 million (NOK 2,773 million), which were up 24 per cent on the previous year. The increase was predominantly due to higher electricity prices and slightly higher power distribution revenues. The average price for power sales, including realised losses on price hedging, was up 33 per cent on 2017.

The profit after tax closed on NOK 1,070 million (NOK 531 million).

The year-on-year increase of NOK 539 million was primarily attributable to a gain on the sale of shares in Fjordkraft and 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 2,022 million, up 23 per cent on the previous year.

The share of profit/loss from associates totalled NOK 94 million. This is NOK 12 million lower than the previous year, primarily due to the reduced shareholding in Fjordkraft.

Consolidated net financial items came in at NOK 360 million, compared with NOK -171 million the previous year. The change is primarily attributable to a gain on the sale of Fjordkraft.

The tax expense for the year was NOK 816 million (NOK 511 million). The increase is primarily due to a higher profit before tax in 2018, and resource rent taxation on the hedged portion of power sales revenues.

The profit after tax, adjusted for unrealised changes in the value of power contracts and the gain on the disposal of Fjordkraft, was NOK 581 million (NOK 528 million).

Total investments in property, plant and equipment in the reporting period came to NOK 973 million (NOK 852 million). The bulk of the investments were made in Skagerak Nett (77 per cent) and Skagerak Kraft (13 per cent).

The net consolidated cash flow from operating activities closed on NOK 1,515 million (NOK 931 million). All investments are financed through operations. Net interest-bearing liabilities were reduced from NOK 4.7 billion to NOK 3.7 billion.

At the reporting date, total assets amounted to NOK 13.0 billion (NOK 12.6 billion), while the equity ratio closed on 47 per cent (42 per cent). The market value of the production facilities is significantly higher than their 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 NOK 1,070 million and NOK 781 million, respectively. 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 781 million
Total appropriated:	NOK 781 million

A dividend of NOK 226 million has been proposed for 2018. 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 BUSINESS AREAS

Power production

Gross operating revenues from the power production business rose by 31 per cent to NOK 2,153 million (NOK 1,648 million) during the reporting period, primarily due to higher power prices.

Operating costs including depreciation and amortisation rose by NOK 32 million against the previous year, mainly due to an increase in costs for partly owned plants, higher activity levels for expansion projects and costs relating to IT security and digitalisation.

EBITDA, adjusted for unrealised changes in the value of power contracts, amounted to NOK 1,599 million (NOK 1,153 million), an increase of 39 per cent.

The business invested NOK 130 million (NOK 100 million) in property, plant and equipment during the reporting period. Major projects Skagerak worked on in 2018 included new control systems at Sundsbarm and Vrenga and the acquisition of the Eidet I and II power plants in Skien. The partly owned plants and regulation associations continued to be busy refurbishing dams and control facilities. Preparatory works were also performed for Grunnåi unit 2, the new Dalsfos power plant and new power plants at Ala, Gjuvåa and Føssaberge.

For 2018 as a whole, Skagerak generated total production of 5,820 GWh, compared with 5,949 GWh in 2017. Skagerak's production accounted for 4.0 per cent of Norway's total annual power production. At the start of 2019, Skagerak's reservoir levels were slightly below the normal level.

Operational uptime at our power plants was generally good in 2018, with the exception of Stundsbar, which was shut for a planned audit for three months, and Fjone power plant, which was out of action for two months due to mechanical failure.

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 eight such revisions and is busy preparing and reviewing the relevant documentation and conducting on-site inspections of the relevant watercourses with the NVE and involved stakeholders.

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, which are due to continue until 2030.

The company is also actively developing new hydropower projects. The profitability of new hydropower and upgrades of existing power plants 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, licence 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 posted gross operating revenues of NOK 1,209 million in 2018 (NOK 1,082 million). The rise of 12 per cent is attributable to both higher tariffs and an increase in the transmitted volume. In 2018, industrial customers consumed 4 per cent more energy than in 2017. The number of local power distribution grid customers rose by 2 per cent.

Net operating revenues climbed by just 5 per cent to NOK 1,022 million (NOK 976 million) on the back of a significant rise in grid losses. The power distribution company must compensate for these losses, which increase in line with higher prices and volumes.

Operating costs totalled NOK 904 million in 2018 (NOK 769 million). The increase mainly relates to extra costs in connection with two periods of red emergency preparedness and high levels of maintenance and development activities. Depreciation and amortisation of NOK 338 million was recognised in income (NOK 308 million). EBITDA for 2018 came in at NOK 456 million (NOK 514 million).

Investments in 2018 totalled NOK 747 million, including NOK 481 million in grid facilities and NOK 229 million in AMS (Advanced Metering and Control Systems). Other investments totalled NOK 39 million.

The investments in the local distribution grid reflect high activity levels in our supply area and more new grid connections than ever before. With a large proportion of facilities and equipment reaching the end of its working life, reinvestments have also been high. These reinvestments

have mainly been made to reduce the risk of component failure and to maintain HSE requirements. A number of major projects are currently underway involving the regional distribution grid. Veggbakken substation is being upgraded and expanded to safeguard the power supply for Horten. The power line between Stangeby and Nes at Nøtterøy is being rebuilt and upgraded. At the Roligheten substation on Herøya, major work is underway to replace facility parts to secure a more stable supply for industry.

Skagerak Nett delivered 7,463 GWh of power in 2018 (7,282 GWh) and closed the year with 198,666 (194,327) grid customers.

Heavy snow in January and strong winds in September resulted in extensive power outages for many customers in Skagerak's supply area in 2018. Emergency preparedness was at red during both incidents. In January, a total of 34,000 customers were affected by outages and more than 4,000 customers experienced outages of more than 12 hours. In September, 15,000 customers were affected, 500 of whom experienced outages of more than 12 hours. Fault statistics show that the company's end users experienced average outages of two hours and 53 minutes in 2018, compared with two hours and 5 minutes in 2017. The increase in outages in 2018 was primarily attributable to the emergency preparedness situations and a high number of planned stoppages in connection with the roll-out of AMS meters.

Skagerak's power distribution business is regulated by the NVE (the Norwegian Water Resources and Energy Directorate), 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 power distribution companies. Skagerak Nett constantly endeavours to reduce its costs and improve the efficiency of its operations.

At the reporting date, the capital base for the power distribution business (NVE capital) amounted to NOK 3,991 million (NOK 3,664 million). The NVE capital forms the basis on which the return is calculated, which in accordance with the NVE's income regulation model is determined using a reference interest rate. The reference interest rate for 2018 was 6.05 per cent (6.13 per cent).

District heating

Skagerak Varme achieved its first-ever positive EBIT of NOK 3.2 million (NOK -8.7 million) during the reporting period. District heating posted net operating revenues of NOK 108 million (NOK 85 million), an increase of 26 per cent on the previous year. The company is pursuing its ambition of further volume growth and in 2018 achieved sales of 141 GWh (120 GWh), a rise of 17.5 per cent. We are also continuing to focus on increased profitability through volume growth and margin improvement measures, with the overarching aim of achieving positive EBT by the end of 2020. EBITDA for the year came in at NOK 28 million (NOK 20 million), an increase of 38 per cent.

In 2018, Skagerak Varme completed a major project at Herøya Industrial Park in Porsgrunn (16–18 GWh/year). The company has also completed the construction of a third heat pump at Moloveien heating centre at Horten, which has restored the base load quota following a significant increase in customer connections in recent years. Various “condensation projects” in all four licence areas have also contributed to the increase in customers. The company is also currently connecting several new customers who signed new agreements in 2018. Total investments in 2018 amounted to NOK 68 million (NOK 68 million), of which NOK 8 million (NOK 14 million) was financed via Enova. In 2018, we also initiated four “construction heat” projects, in which district heating is used to dry out and heat buildings during the actual construction phase. This has generated additional sales of around NOK 1.5 million and contributed to more environmentally friendly construction sites.

On the operations side, further work has been performed on optimisation of production. A project for two-way communication with all customer centres has also been initiated.

Associates

At the reporting date, Skagerak Energi held shareholdings in the following associates: Air Liquide Skagerak AS (49 per cent), Laugstol AS (33.4 per cent), and Nape Kraft AS (49 per cent), as well as Viking Varme AS (50 per cent). Skagerak Energi also owns a 29.7 per cent stake in the listed company Fjordkraft Holding ASA. The cumulative share of profits of these associates recognised in Skagerak Energi’s consolidated income statement for 2018 amounted to NOK 94 million (NOK 106 million), while NOK 241 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 626 staff, which equates to 595 full-time equivalents.

Company	31 Dec 2018		31 Dec 2017	
	No. of employees	Full-time equivalents	No. of employees	Full-time equivalents
Skagerak Nett	374	357	375	356
Skagerak Kraft	128	120	123	116
Parent company	107	101	97	92
Skagerak Varme	17	17	16	16
Total	626	595	611	580

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

The Group is currently undergoing a generational shift and has a high percentage of employees approaching retirement age. At the end of 2018, the company had 119 employees over the age of 60. Strategic competence management and future-proof recruitment solutions are important. In 2018, we performed an extensive competence survey including non-conformance analyses and related measures. We also implemented more than 250 competence-enhancing measures during the year. These measures will be continued and further developed during 2019 in line with our adopted corporate strategy for 2019–2021.

We have also revised and amended our Code of Conduct and whistleblowing guidelines and implemented our annual campaign on dilemma training to continue to ensure high ethical standards.

The results of our employee survey in 2018 revealed high levels of job satisfaction and major engagement among Skagerak Energi employees. The Group as a whole is above the Norwegian comparison basis, but there are variations at company and section level. 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), the project, which started in 2017 with a survey of how the company processes personal data, continued and measures have been taken to close the non-conformances. A Group audit was also conducted on compliance with the GDPR, which identified minor non-conformances. These non-conformances have been entered in the Group's system for non-conformance handling (Delta), and deadlines for closing these have been established.

Wherever possible, we facilitate flexible working hours to accommodate employees during various phases of their lives and enable them to tailor their working hours to their own situations. The Group also attaches importance to facilitating work for employees with health challenges.

We also offer internships to people outside the organisation looking for workplace training or the opportunity to test their capacity for work.

Health and safety

The Group wishes Skagerak Energi to be a leader in preventive HSE work and sustainable value creation.

The company's sickness absence rate for 2018 closed on 3.6 per cent (4.3 per cent). This is a significant improvement against the previous year. Systematic work is performed to encourage presence across the organisation.

The zero vision is guiding for HSE work in the Group, and the company believes that it will be possible to achieve zero H1 and H2 injuries over the long term. Injuries and near misses happen for a reason, which means they can also be avoided. In 2018, Skagerak Energi reported two personal injuries (two), both involving lost time. This resulted in H1 and H2 indicators of 2.1. 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.

Achieving our zero vision will require us to implement a high number of preventive HSE measures and demonstrate strong management commitment to HSE. The "green zone" was implemented in 2018 as a preventive measure with a particular focus on risk evaluation, communication and a joint commitment to compliance with requirements

and decisions. Identifying, evaluating and communicating risk so we can take the right choices will play a key role in helping us achieve our objectives in this area.

Non-discrimination

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

At the reporting date, 18 (24 per cent) of the Group's 75 managers and 3 of the Board's 9 members were women, 2 of which were shareholder-elected and 1 employee-elected.

Environment

Skagerak Energi's vision is to be a forward-looking supplier of clean energy that contributes to social welfare, economic growth and development. The company helps reduce society's climate impact by producing and distributing clean energy from renewable sources. In the reporting period, the Group's direct and indirect emissions of CO₂ totalled 2,266 tonnes (2,104 tonnes). The emissions primarily derive from the Group's vehicle fleet and district heating business. The Group wishes to participate in the green shift and aims to be climate neutral. In 2019, the Group will prepare full climate accounts, and identify measures to achieve climate neutrality. The Group ensures its own electricity consumption is sustainable by using guarantees of origin. Skagerak Energi has efficient routines for sorting and treating waste, both at permanent locations and temporary construction sites. The sorting ratio in 2018 was 87 per cent (80 per cent).

Skagerak Kraft has tailored its environmental management system to the requirements of the new standard, and the system is now certified to ISO 14001:2015. Skagerak Kraft attaches importance to helping maintain biodiversity in connection with its facilities within the requirements and guidelines set out by the authorities. The summer of 2018 was unusually dry with very little rain and high temperatures. This resulted in extremely dry ground and rapidly reducing ground water levels, and consequently little water flow to the watercourses. This in turn presented challenges for Skagerak Kraft with regard to licensing and discretionary requirements for minimum water flows and summer water levels in some locations. A number of positive environmental measures have been implemented in the period. The river bed was periodically cleared in

Tinnelva, river beds were thoroughly dredged to improve conditions for fish in Sundsbarm, fish were released in Numedal and Telemark North and we helped construct fish ladders at Eidet in Skien and performed environmental and fish surveys in selected watercourses. Skagerak Kraft contributes to research projects at authorities and a number of renowned institutions. One of the ways we are contributing is by establishing a research station in Grunnåi where students can study hydropower technology.

Skagerak Nett participates in and manages a number of research and development projects to ensure that it acquires competence in future use of electricity, as well as in the expected increasing interplay between the company's distribution grid, producers of solar and wind-based renewable energy and customers who produce their own energy. One such example is Skagerak Energilab, where the roof of Skagerak Arena has been covered with solar panels. The company is actively endeavouring to find an environmentally friendly alternative to impregnated wooden pylons.

Skagerak Varme's emissions of CO₂ totalled 765 tonnes in 2018. This represents an increase from 2017 when the emissions totalled 346 tonnes and is due to higher production and increased use of gas at Horten. Although CO₂ emissions have risen slightly over the last two years, Skagerak Varme has worked hard to reduce emissions of CO₂ from more than 7,000 tonnes in 2011 to their current level.

CORPORATE GOVERNANCE AND RISK MANAGEMENT

For details of Skagerak Energi's concerted focus on efficient routines for corporate governance, please refer to the separate report on page 12 of the Annual Report.

Skagerak Energi has established an overarching management system to help meet the Group's strategy and targets and secure an effective control environment. The Board adopted a new group-wide strategy for the period 2019–2021. You can read more about this on page 32 of the Annual Report.

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 has zero tolerance for all forms of corruption. It is prohibited to offer, give, accept or receive bribes or other unlawful 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 procurement and the 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. The Group conducts annual audits and internal supervision of selected areas.

Market risk

Skagerak Energi is primarily exposed to market risk through its own production of electricity and its power distribution business. Hydropower prices and production capacity will fluctuate significantly and can have a major impact on the company's results. Revenues are normally subject to a degree of intrinsic hedging due to the fact that prices are low in years of high inflow and high production, and high in years of low inflow and low production. 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 NVE and is impacted by changes in the regulatory model.

Political risk

In addition to regulatory risk, Skagerak Kraft and Skagerak Varme are exposed to significant political risk. Climate and energy policies are closely interlinked. Measures are being taken at both European and national level to

reduce emissions of the greenhouse gas CO₂. These have a major impact on the price Skagerak Kraft achieves. This risk also affects Skagerak Varme due to the strong correlation between the price of electricity and the price of district heating.

The most important climate measure in the EEA is the carbon emissions trading scheme which applies to all coal and gas-fired power plants in the area. The price of carbon emission allowances directly affects the cost of producing an extra kilowatt hour of energy in a thermal energy plant. For much of the year, the price of thermal power is price-setting for power on the Continent, and therefore also affects the price of power produced by Skagerak Kraft.

While the price of carbon emission allowances is determined by supply and demand, the supply side is subject to political regulation. This means that politically determined changes in the EU quota market have a major impact on Skagerak Energi's annual earnings.

The same also applies to decisions taken in Norway or other countries, for example, Germany's decision to phase out all coal-fired power production by 2038.

In the Nordic region, the decision to introduce an electricity certificate scheme has triggered a significant increase in renewable energy development in Sweden and Norway.

The price of guarantees of origin, where customers voluntarily pay more for renewable power, is closely related to people's interest in climate issues. Skagerak Energi's revenues from sales of guarantees of origin positively impact the Group's net profit for the year.

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 therefore moderate. The Group operates a capital-intensive business and has, assuming a normal gearing level in relation to its assets, significant exposure to fluctuations

in market interest rates. Around 72 per cent of the Group's total non-current interest-bearing liabilities are financed using fixed interest rates. The Group is additionally exposed to interest rate risk through the impact of interest rates on the power distribution business'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, and with 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 preparedness plans.

A key part of the Group's activities involves critical infrastructure which 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

2018 saw a sharp increase in power prices in both the spot and financial markets, primarily on the back of price changes for coal, gas and CO₂. In addition, the hydrological situation in the Nordic region contributed to high prices during large parts of the year. However, major uncertainty attaches to the future formation of electrical power prices. Development of renewable power production on the Continent increased the supply of electrical power during some periods. The development of new non-flexible wind and solar power, which is naturally highly dependent on

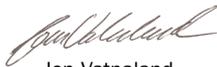
weather conditions, could result in greater volatility in power prices moving forward. Weather and precipitation conditions in Norway will also impact production capacity and price formation whenever exchange capacity is limited. Over the slightly longer term, exchange capacity will be boosted by the completion of the new interconnectors to mainland Europe and the UK that are currently under construction. The phasing out of nuclear and coal power in Europe is expected to result in more non-flexible power production in Europe, which indicates that flexible power production could potentially generate increased value. It is important that future framework revisions allow the Norwegian energy system to retain the intrinsic flexibility of hydropower, which also plays an important role in flood control.

Major investments in the electricity grid are expected to result in slightly higher income ceilings in the power distribution business in the next few years.

Skagerak Energi adopted a new strategy in autumn 2018. This will enable the Group to develop new profitable business opportunities within existing core activities and adjacent business areas. The sector in which Skagerak Energi operates will experience significant changes over the next few years, and the Group wishes to actively participate in these developments. As part of increased sector consolidation, Skagerak Energi will actively contribute to finding forward-looking solutions that serve the interests of the company and its customers.

Porsgrunn, 21 March 2019

The Board



Jon Vatnaland
Chair



Rolf Erling Andersen
Deputy Chair



Ida Helliesen
Director



Bjørn Nikolai Holsen
Director



Kristin Steinfeldt-Foss
Director



Øystein Kåre Beyer
Director



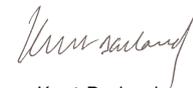
Gunnar Møane
Director



Trond Erling Johansen
Director



Kjersti Haugen
Director



Knut Barland
CEO

Income statement

Skagerak Energi Group			(All figures in NOK '000)		Skagerak Energi AS	
2018	2017		2018	2017		
		Operating revenues				
2,069,139	1,458,344	Power sales revenues	0	0		
1,176,400	1,084,165	Power distribution revenues	0	0		
204,205	230,666	Other operating revenues	152,895	135,051		
3,449,743	2,773,175	Gross operating revenues	152,895	135,051		
275,802	69,700	Transmission costs	0	0		
-35,139	3,810	Unrealised changes in the value of energy contracts	0	0		
3,138,803	2,707,284	Net operating revenues	152,895	135,051		
472,198	428,546	Employee benefits expenses	100,142	92,485		
110,899	114,927	Property tax and licence fees	0	0		
569,087	521,718	Other operating costs	114,092	102,389		
1,986,619	1,642,094	EBITDA	-61,340	-59,823		
554,333	535,161	Depreciation, amortisation and impairments	14,483	15,912		
1,432,286	1,106,933	EBIT	-75,823	-75,735		
93,632	106,080	Share of profit/loss from subsidiaries and associates	389,663	382,464		
		Financial items				
531,769	16,057	Financial income	668,510	162,520		
169,583	185,131	Financial expenses	144,075	170,612		
-2,106	-1,882	Unrealised changes in value of interest/currency contracts	0	-1,882		
360,081	-170,956	Net financial items	524,435	-9,973		
1,885,999	1,042,056	Profit before tax	838,276	296,756		
816,186	511,328	Tax expense	57,560	45,950		
1,069,812	530,728	Net profit for the year	780,716	250,806		
		Net profit for the year attributable to:				
2,761	2,221	Non-controlling interests				
1,067,051	528,508	Controlling interests				
		Information about:				
		Dividend paid	178,000	114,000		

Total comprehensive income

Skagerak Energi Group <i>(All figures in NOK '000)</i>			Skagerak Energi AS	
2018	2017		2018	2017
1,069,812	530,728	Net profit for the year	780,716	250,806
		OTHER COMPREHENSIVE INCOME		
		Items that will not be reclassified to profit or loss in subsequent periods:		
-82,017	121,217	Actuarial gains and losses on defined benefit pension plans	-36,298	51,593
3,460	-2,861	Items recognised in other comprehensive income in associates	0	0
12,834	-39,446	Tax relating to other comprehensive income	6,823	-13,545
-65,723	78,909	Other comprehensive income after tax	-29,474	38,049
1,004,089	609,638	Total comprehensive income for the year	751,242	288,855
		Total comprehensive income for the year attributable to:		
2,751	2,208	Non-controlling interests		
1,001,339	607,430	Owners of the parent		

Balance sheet

Skagerak Energi Group			(All figures in NOK '000)		Skagerak Energi AS	
31 Dec 2018	31 Dec 2017		31 Dec 2018	31 Dec 2017		
ASSETS						
Non-current assets						
266,392	329,144	Intangible assets	24,591	23,581		
10,718,598	10,308,991	Property, plant and equipment	178,643	159,596		
241,159	250,518	Investments in subsidiaries and associates	4,920,064	4,951,707		
540,608	531,481	Other non-current financial assets	5,779,577	6,092,737		
11,766,756	11,420,134	Total non-current assets	10,902,874	11,227,620		
Current assets						
953	1,747	Inventories	0	0		
462,354	424,145	Receivables	58,911	58,950		
0	1,625	Investments	0	1,625		
0	693	Derivatives	0	0		
733,092	651,556	Receivable cash pool	0	0		
68,498	85,726	Cash and cash equivalents	3,186	3,545		
1,264,897	1,165,493	Total current assets	62,097	64,120		
13,031,653	12,585,627	TOTAL ASSETS	10,964,971	11,291,740		

Skagerak Energi Group			(All figures in NOK '000)		Skagerak Energi AS	
31 Dec 2018	31 Dec 2017		31 Dec 2018	31 Dec 2017		
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		
4,009,899	3,186,560	Other equity	4,350,917	3,777,675		
4,009,899	3,186,560	Retained earnings	4,350,917	3,777,675		
33,454	30,703	Non-controlling interests	0	0		
6,138,102	5,312,013	Total equity	6,445,667	5,872,426		
Liabilities						
740,713	660,410	Provisions	70,140	53,791		
12,322	6,070	Derivatives	0	0		
3,536,310	4,370,110	Other non-current liabilities	3,350,000	4,175,000		
4,289,345	5,036,590	Non-current liabilities	3,420,140	4,228,791		
542,069	616,631	Interest-bearing liabilities	525,000	600,000		
461,838	464,989	Current liabilities cash pool	454,392	464,989		
755,366	479,607	Tax payable	51,641	52,226		
31,186	886	Derivatives	0	0		
813,747	674,911	Other non-interest-bearing liabilities	68,131	73,309		
2,604,206	2,237,024	Current liabilities	1,099,164	1,190,523		
6,893,551	7,273,614	Total liabilities	4,519,304	5,419,314		
13,031,653	12,585,627	TOTAL EQUITY AND LIABILITIES	10,964,971	11,291,740		

Porsgrunn, 21 March 2019


Jon Vatnaland
Chair

Rolf Erling Andersen
Deputy Chair

Ida Helliesen
Director

Bjørn Nikolai Holsen
Director

Kristin Steinfeldt-Foss
Director

Øystein Kåre Beyer
Director

Gunnar Møane
Director

Trond Erling Johansen
Director

Kjersti Haugen
Director

Knut Barland
CEO

Statement of cash flows

Skagerak Energi Group			(All figures in NOK '000)		Skagerak Energi AS	
2018	2017		2018	2017		
Cash flow from operating activities						
1,885,999	1,042,056	Profit before tax	838,276	296,756		
-537,901	-11,173	Gains(-)/losses on sale of non-current assets	-560,826	-23,877		
554,333	535,161	Depreciation, amortisation and impairments	14,483	15,912		
37,244	-2,070	Other items with no cash effect	0	1,882		
-474,746	-460,951	Tax paid	-52,332	-168,366		
1,464,929	1,103,023	Net added from the year's activities	239,601	122,307		
101,422	-84,155	Change in inventories and other current items	-5,139	-56,180		
49,098	57,637	Dividends from associates	49,098	57,637		
-93,632	-106,080	Share of profit/loss from associates	-49,098	-57,637		
-6,404	-39,852	Change in other non-current items	293,187	-260,060		
1,515,414	930,572	Net cash flow from operating activities	527,649	-193,933		
Cash flow from investing activities						
Investments in property, plant and equipment:						
-309,458	-319,983	– relating to increase in capacity	0	0		
-658,763	-531,621	– relating to reinvestments	-35,555	-16,965		
11,942	26,547	Sale of property, plant and equipment (sales proceeds)	2,439	19,078		
1,006	25	Payment of loans to other companies	25	25		
593,679	87,544	Net proceeds/payments re investments in other companies	593,679	184,893		
-361,593	-737,487	Net cash flow from investing activities	560,588	187,031		
Cash flow from financing activities						
-84,686	-31,934	Change in cash pooling scheme	-10,597	120,558		
-908,362	-7,969	Change in current/non-current liabilities	-900,000	0		
-178,000	-114,000	Dividend paid	-178,000	-114,000		
-1,171,048	-153,903	Net cash flow from financing activities	-1,088,597	6,558		
-17,228	39,182	Net change in cash and cash equivalents	-359	-344		
85,726	52,457	Cash and cash equivalents as at 1 January	3,545	3,889		
0	-5,913	Cash withdrawal on sale	0	0		
68,498	85,726	Cash and cash equivalents as at 31 December	3,186	3,545		

About the report

Skagerak Energi AS's Annual Report is intended to provide as comprehensive and accurate a picture as possible of the Group's operations in 2018. 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. 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. Skagerak Energi's Annual Report for the 2018 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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