

# 2011 Annual Accounts



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*Renewable energy for the future*

## Board of Directors' Report for 2011

### Introduction

Vardar AS is an energy group that works towards its long-term goal of maximising value through a development strategy.

The company has the following vision:

*Vardar AS – Seeking value through active ownership.*

The company's ownership interests can be divided into the following segments:

- \* Hydropower
- \* Energiselskapet Buskerud (EB)
- \* Wind Power in Norway
- \* Wind Power Abroad
- \* Bioenergy/District Heating
- \* Real Estate and Property Management

The company has the following business concept:

*Vardar AS shall contribute to increasing the supply of clean, renewable energy*

The **Hydropower** segment consists of the wholly owned subsidiary Uste Nes AS. Uste Nes AS owns two-seventh of the co-owned Uste and Nes power stations in Hallingdal. Uste Nes AS has also acquired the right to withdraw the County Administration's concession power for a period of 40 years from 2001.

Vardar owns 50 per cent of the shares in the regional energy group **Energiselskapet Buskerud (EB)**. EB has substantial operations in the Buskerud region in the areas of hydropower production, power grids, contracting and fibre optic broadband.

**Wind Power in Norway** consists of the wholly owned subsidiary Vardar Boreas AS. The object of the company is to invest in and own wind power projects in Norway. Vardar Boreas has a number of associated companies in Norway, and through these companies, it has ownership interests in a project portfolio consisting of operative wind power plants, projects under construction and a project portfolio in development.

**Wind Power Abroad** consists of the subsidiary Vardar Eurus AS. Vardar owns 90 per cent of the company and Nordic Environment Finance Corporation (NEFCO) owns the remaining 10 per cent. The company's object is to invest in and own production plants for renewable energy in the Baltic countries and Northwest Russia. Vardar Eurus AS has a number of subsidiaries and associated companies in the three Baltic countries. Vardar Eurus has ownership interests in a project portfolio consisting of operative wind power plants, projects under construction and projects in development through these companies. Vardar Eurus also has ownership interests in two projects that develop installations for the production of electric power and district heating based on biogas from manure.

In the area of **Bioenergy**, Vardar AS owns 100 per cent of the shares in Hønefoss Fjernvarme AS. The plant uses raw wood chips as its main source of energy. The infrastructure linked to the plant will be expanded in the future, and new customers will be connected as the system grows. Vardar AS also owns 50 per cent of the shares in Øvre Eiker Fjernvarme AS, which runs a modest-sized district heating plant in Vestfossen. The district heating is produced in a biofuel-fired plant that is designed for various types of biofuel.

The **Real Estate and Property Management** segment consists of the subsidiary Vardar Eiendom AS, and it represents the Group's tool for development of the property portfolio.

The registered office of Vardar AS is located in Drammen Municipality.

In accordance with section 3-3 of the Norwegian Accounting Act, the Board of Directors confirms that the prerequisites for continued operations are present. The annual report and accounts have therefore been prepared under this assumption, which is based on the company's earnings forecast for 2012 and the following years. The company has a healthy economic and financial position.

Vardar AS has prepared its consolidated accounts in accordance with IFRS. The Vardar Group has a risk management system that covers its power portfolio, foreign currencies and interest rates to increase the predictability of its cash flows. In the IFRS accounts the company has chosen to recognise changes in the value of power and financial derivatives through profit or loss. This may result in significant fluctuations in the consolidated earnings from year to year.

## **Principles and practice concerning business management**

Reference is made to the Corporate Governance document, which is part of the Annual Report and Accounts for the Vardar Group for 2011 and available on the company's website, [www.vardar.no](http://www.vardar.no).

## **Important events in 2011**

In 2011 all of the wind power operations in Norway were combined into a wholly owned subsidiary Vardar Boreas AS, which provides a uniform structure. Vardar Boreas acquired an interest in the company Midtfjellet Vindkraft AS during the year and started the construction of a 52 MW wind power farm at Midtfjellet in Fitjar Municipality.

In the Wind Power Abroad segment, the Vanaküla wind power station in Estonia was approved during the year, with retroactive force from September 2010. In addition, the construction of several farms started, and farms were connected to the grid in both Estonia and Lithuania

Vardar issued a new bond loan of MNOK 250 with a term of six years during the year, in addition to two bank loans totalling MNOK 300, which mature in 2016. Vardar has itself acquired a portion of the new bond loan, and the loan is listed in note 14 with a balance of MNOK 110. The recapitalisation was an element in the financing of future investments and the refinancing of maturing loans. Changes in the loan portfolio have also contributed to a great extent to a more long-term financial foundation for our business activities, at the same time as a more appropriate maturity structure has been achieved.

The year 2011 has also been important for the development of Hønefoss Fjernvarme AS. The infrastructure has been developed further, and a heating plant was constructed at Follum. This enables the connection of new customers and strengthens our delivery reliability.

## **Uste Nes AS**

This company owns two-sevenths of the power stations Uste and Nes in Hallingdal, which are jointly owned by E-CO Vannkraft AS (four-sevenths), Øvre Hallingdal Kraftproduksjon (Akershus Kraft) (one-seventh) and Uste Nes AS.

Uste Nes AS reported a profit of MNOK 54.5 in 2011, and the company's equity was MNOK 871.4 at the end of the year. Uste Nes AS hedges the price of its future production through the use of forward contracts. A significant proportion of the production is hedged in 2012 and 2013, and a smaller proportion is hedged in 2014. This risk management serves to increase the predictability of the cash flows despite fluctuations in the market prices throughout the year. The Board of Directors is satisfied with the profit reported by Uste Nes AS.

## **Energiselskapet Buskerud AS**

Vardar AS owns 50 per cent of the shares in Energiselskapet Buskerud AS, which is a regional energy group. The group consists, for example, of the subsidiaries EB Kraftproduksjon AS, EB Nett AS, EB Kontakt and EB Energimontasje AS. The Energiselskapet Buskerud Group reported a profit of MNOK 254.8, and the majority's share amounted to MNOK 235.6. The Board of Directors is satisfied with the results and performance of Energiselskapet Buskerud.

## **Vardar Eurus AS**

The Vardar Eurus Group has significant investments in renewable energy in the Baltic countries. The scope of the operative activities has increased in 2011, and a new wind farm in Estonia started ordinary operations. An increase in operative activities is also expected for 2012. Vardar Eurus AS reported a profit of MNOK 40.9 in 2011, and the equity was MNOK 536.3 at the end of the year. The year 2011 was close to a normal year with a view to wind resources. Since a significant portion of the equity is invested in projects that are in test operation or under construction, the company has a somewhat lower return on equity than expected in the years to come. During test operation the revenue is capitalised so that no profit is shown. The Board of Directors is satisfied with the results and the performance of Vardar Eurus.

Vardar Eurus has primarily invested together with the Estonian investment fund Freenergy AS. In March 2012 the ownership of Vardar Eurus, Freenergy and the operating company was restructured, and all of the operations were combined under a single company with the name Nelja Energia. The distribution of ownership in the merged company is based on valuations of the individual owners' interests in the projects. The actual transaction was completed by Vardar Eurus and Nelja Energia placing all of their shares in the various companies in Freenergy in return for consideration shares. Freenergy subsequently changed its name to Nelja Energia. Vardar Eurus is the majority owner of the merged company with an ownership interest of over 60 per cent. This

coordination strengthens Vardar Eurus's investment in renewable energy in the Baltic countries and gives the company a controlling position in the projects. To a certain extent, the transaction will also reduce risk, since Vardar Eurus's assets will be divided more evenly between more projects.

### **Hønefoss Fjernvarme AS**

The accounts for Hønefoss Fjernvarme show a loss of MNOK 8.5 for 2011. Earnings improvements are expected as more heating customers are connected and the various installations are utilised better. At the end of the year the company had equity of MNOK 66.2. The Board of Directors is satisfied with the performance of Hønefoss Fjernvarme, which is following its business model in general, but we are nevertheless concerned that future work should focus on ensuring that the Board of Directors' expectations are satisfied. Future revenue is essentially dependent on factors that cannot readily be influenced. In this connection we can mention the price of district heating and volume fluctuations as a result of the temperature conditions.

### **Vardar Boreas AS**

The year 2011 is the first year in which the company owns all of the operations related to wind power operations in Norway. The ownership interests are primarily related to project development, but there is also some operative wind power. The company reported a profit after tax of MNOK 1.6. Equity was MNOK 15.5 at the end of the year. The results are as expected, and the Board of Directors is satisfied with the performance of Vardar Boreas.

### **Vardar Eiendom AS**

In 2011 the company reported a profit of MNOK 3.6 after tax, and it has equity of MNOK 53.6 at the end of the year. The Board of Directors is satisfied with the performance of Vardar Eiendom.

### **Financial results**

The Vardar Group reported a profit after tax of MNOK 156.3 for 2011, compared with MNOK 182.0 for 2010.

The Board is pleased with these results.

The Board of Directors proposes that the profit after tax of MNOK 146.5 for Vardar AS be allocated as follows:

<i>Allocated to dividends</i>	<i>MNOK 53.7</i>
<i>Transferred from other reserves</i>	<i>MNOK 29.7</i>
<i>Transferred to the reserve for valuation variances</i>	<i>MNOK 63.1</i>

The company's distributable equity was MNOK 234.0 as at 31 December 2011.

The cash flow from operating activities in the Vardar Group totalled MNOK 105, compared with MNOK 36 in 2010. It is expected that the company has the capacity to finance future investments with equity.

### **Capital structure**

At year end the Vardar Group had total assets of MNOK 4,269 and equity of MNOK 1,821. The corresponding figures for 2010 were MNOK 3,910 and MNOK 1,634, respectively.

Vardar has no loans that mature in 2012 and has adequate financing in place to carry out the adopted investments. We have focused on establishing a loan portfolio with an appropriate maturity structure in order to reduce our refinancing risk. Our loan portfolio includes a credit facility of MNOK 300. Around MNOK 100 of this facility has been used as a guarantee in connection with power trading.

The Board of Directors considers the company's equity and liquidity to be good.

### **Liquidity risk**

Vardar has limits for the management of its liquidity risk that have been determined by the Board of Directors. In brief, this means that the company has adequate liquidity at any given time to service the Group's loans and maturities one year into the future. In addition, net cash flow, excluding investments, shall be sufficient at any given time to service the interest on all debt.

## **Financial risk**

For Vardar market risk is essentially linked to changes in the market price of electric power, changes in the NOK/EUR exchange rate and changes in interest rates. Vardar employs a price hedging strategy for power production to ensure a predictable cash flow related to future power revenues. This hedging strategy does not meet the requirements for hedge accounting in accordance with IFRS, which is why changes in the value of power derivatives are recognised through profit or loss.

Vardar has substantial assets denominated in euros. Furthermore, most of Vardar's revenue is in euros through the sale of generated power on Nord Pool Spot and NASDAQ OMX. Vardar balances its euro-denominated assets with corresponding liability items, so that the assets on Vardar's balance sheet are not affected by fluctuations in the NOK/EUR exchange rate. In addition, cash flows related to future power revenue are hedged through forward exchange contracts.

Vardar has operations in Estonia and Lithuania through Vardar Eurus. The revenues from the operations in Lithuania are in a local currency that is pegged to the euro. There is no hedging of these revenues against the euro. Vardar's ownership interest in Vardar Eurus is included as part of Vardar's balance sheet hedging.

Vardar is exposed to interest rate changes. An interest rate hedging strategy has been introduced to counteract this.

Vardar has credit risk through a number of loan receivables, primarily from companies that Vardar owns directly or indirectly. A substantial portion of this risk is a subordinated loan to Energiselskapet Buskerud, which has a healthy financial position in the view of the Board of Directors. In addition, Vardar finances construction loans in connection with the execution of projects in some cases. These loans must be refinanced when the projects have been carried out and normal operations start.

Reference is made otherwise to note 1 to the accounts with regard to risk.

## **Remuneration of senior executives**

The Vardar Group has five senior executives, Vardar AS has its Managing Director and four senior executives, Vardar Eurus AS has its Business Development Manager and Hønefoss Fjernvarme has its General Manager.

Remuneration of the Managing Director is assessed and determined by the Board of Directors once a year, and any adjustments are made effective from 1 January every year. The Chairman of the Board has an annual salary assessment interview with the Managing Director, at which remuneration is reviewed and assessed in relation to salary developments in general, executive salary developments in the industry and the Managing Director's performance in relation to the expectations of the Board of Directors. After the interview the Chairman of the Board submits a remuneration proposal that is discussed by the Board of Directors.

The remuneration of the Managing Director of Hønefoss Fjernvarme is determined based on guidelines similar to those described above by the Board of Directors of Hønefoss Fjernvarme.

Remuneration of other senior executives in the Vardar Group is reviewed and determined by the Managing Director, who conducts a salary assessment interview with each individual employee before his salary assessment. In connection with setting individual remuneration, an assessment should be made of salary developments in general for corresponding positions, salary developments in other companies in which Vardar has ownership interests and individual performance in relation to the expectations. The effective date for any salary adjustments is 1 November of every year.

The executive pay policy described above is the policy that has been in effect in 2011, and it is also the policy that will be used in the coming financial year.

With regard to additional benefits beyond the ordinary salary, all of the employees of Vardar are covered by a defined-benefit pension plan. In addition, all of the employees are covered by collective accident insurance and group life insurance. The Managing Director also has a pension agreement funded through operations that covers his pensionable salary in excess of 12G [G = National Insurance basic amount]. The pension plan funded through operations also gives entitlement to early retirement from age 65.

Senior executives at Vardar have a company phone/mobile phone, one to two newspaper subscriptions and Internet for a home office, which is covered by the employer.

Senior executives are covered by a scheme that offers a combination of termination pay and a salary guarantee, which provides financial security in connection with the termination of their employment. For the Managing Director this entails termination pay for 12 months and a salary guarantee for an additional 12 months. For other senior executives the total limit is 18 months, and termination pay is for three of these months. It is only in the event of the employer's termination of employment or extensive structural changes that these schemes apply.

The Managing Director has a company car within a cost limit corresponding to NOK 655,822 for 2011.

Vardar has granted loans to some senior executives, and these loans carry an interest rate corresponding to the rate that the Storting stipulates for loans from employers.

Two of the senior executives at Vardar AS, who work in part for the wind power company Zephyr, participate in Zephyr's bonus scheme. This bonus scheme has a maximum limit of 20 per cent of the share of their salary proportionate to their work for Zephyr. Both the ordinary salary and bonus are refunded by Zephyr.

Senior executives at Vardar participate to some extent on the boards of subsidiaries and associated companies. No directors' fees are paid to employees of Vardar who participate on the boards of subsidiaries.

There are no other additional benefits for senior executives, nor variable elements in their remuneration.

### **Personnel, health, safety and the environment**

At year end there was a total of eleven employees in the Vardar Group, i.e. in Vardar AS, Uste Nes AS, Hønefoss Fjernvarme AS and Vardar Euris AS. Three of these eleven employees are women. The Group has a collaboration agreement with Energiselskapet Buskerud AS with regard to administrative services.

The Board of Directors considers the company to have a good working environment, and it does not consider it necessary to implement any special measures. The aim of the company's personnel policy is to provide a workplace that conforms to the principles of full gender equality. The company's goal is to eliminate discrimination based on gender with regard to pay, advancement, recruitment, personal development, etc.

On the Board of Vardar AS, three of the five board members, all of whom are elected by the shareholders, are women. Three of the six board members of Uste Nes AS are women. One of the three board members of Vardar Euris AS is a woman. In the subsidiaries and associated companies of Vardar Euris, one out of four board members elected by the shareholders is a woman. There is one woman among the three board members in both Vardar Eiendom AS and Hønefoss Fjernvarme AS.

Absence due to illness in the Vardar Group was 65 days in 2011. This represents 2.67 per cent of the total working hours during the year. A major portion of this absence is related to a single case. There were no accidents or serious injuries during the financial year.

The company's operations do, in general, not pollute the external environment to any great extent. In addition, the company does not have any projects planned or under execution that would impact the environment beyond what occurs naturally with similar businesses.

### **Outlook**

In the view of the Board of Directors, Vardar AS has an excellent position for further growth and creation of value. The company is working actively in the area of renewable energy production. New investments are primarily in the wind power and bioenergy business areas.

Wind power is garnering increasing attention, and Vardar AS is involved in a substantial portfolio of projects in various stages, both in Norway and the Baltic countries.

In the years to come, the production that Vardar owns in the Baltic countries through Vardar Euris AS will increase, and the Wind Power Abroad business area will become increasingly more important to the Group. In the future the Board of Directors expects that further expansion will be financed to a greater extent through the balance sheet of Vardar Euris, and it also aims for a greater share of the value created to be realised in the form of dividends to ensure the future financing of the Group.

In Norway the Act on a Joint Norwegian/Swedish Market for Green Electricity Certificates was introduced in 2011. Vardar Boreas is through its ownership interest in Zephyr, for example, very well-positioned to participate in profitable investments in wind power onshore in Norway, and it is expected that a significant portion of Vardar's growth in the future will be from the Wind Power in Norway segment.

In the Bioenergy segment, Vardar will focus on the development of Hønefoss Fjernvarme and Øvre Eiker Fjernvarme, and there are expectations for further development at Follum now that Norske Skog has discontinued the production of paper.

The Group's results are affected to a great deal by the development of power prices, foreign exchange rates and interest rates. Based on the market prices at the end of 2011, a positive development is expected for the Group's

earnings in the years to come. Since the company recognises changes in value through profit or loss, there may on the other hand be fluctuations from year to year due to our hedging strategies.

The Board would like to emphasise that forward-looking assessments are normally subject to a level of uncertainty.

The Board would like to thank the management of the Group for a job well done in 2011.

Drammen, 27 April 2012

Svein Marfi  
Chairman

Mette Lund Stake  
Deputy Chairman

Linda Verde  
Board Member

Nils Peter Undebakke  
Board Member

Lise Løff  
Board Member

Johannes Rauboti  
Managing Director

Vardar AS  
Organisation number 977 028 442

# INCOME STATEMENT, VARDAR GROUP

(Amounts in NOK 1000)	Note	IFRS	
		2011	2010
Sales revenues	3	344 664	322 731
<b>Total operating income</b>		<b>344 664</b>	<b>322 731</b>
Purchase of energy/cost of goods sold		96 143	98 820
Payroll expenses	18	12 576	13 434
Depreciation	5	29 376	25 404
Other profits (losses) - net	17	19 122	-31 962
Other operating expenses	19	60 172	60 644
<b>Total operating expenses</b>		<b>217 389</b>	<b>166 340</b>
<b>Operating result</b>		<b>127 275</b>	<b>156 391</b>
Financial items	20	-54 499	-47 021
Income from investment in joint venture and associates	7	128 903	134 997
<b>Net financial items</b>		<b>74 404</b>	<b>87 976</b>
<b>Result before tax expense</b>		<b>201 679</b>	<b>244 367</b>
Tax expense	21	45 342	62 319
<b>Result for the year</b>		<b>156 337</b>	<b>182 048</b>
<b>Result for the year attributable to:</b>			
- Owners of the parent		154 564	180 985
- Non-controlling interest		1 773	1 062
<b>Other comprehensive income</b>			
Share of other comprehensive income in joint venture		102 658	-92 451
Currency translation differences		-14 228	-23 186
<b>Total result for the year</b>		<b>244 767</b>	<b>66 411</b>
<b>Total result attributable to:</b>			
- Owners of the parent		244 079	66 348
- Non-controlling interest		688	62



# BALANCE SHEET, VARDAR GROUP

		IFRS	
(Amounts in NOK 1000)	Note	31.12.2011	31.12.2010
Goodwill	4	25 973	25 311
Waterfall rights	4	3 142	3 142
<b>Total intangible assets</b>		<b>29 115</b>	<b>28 453</b>
Investment property	6	85 000	82 020
Machinery/fixtures and fittings etc.	5	6 032	6 101
Power stations	5	1 183 864	1 023 648
Work in progress	5	-	96 772
<b>Total property, plant and equipment</b>		<b>1 274 896</b>	<b>1 208 541</b>
Investment in joint venture and associates	7	1 632 689	1 436 733
Subordinated loan	10	468 237	467 167
Available-for-sale financial assets	8	9 680	7 569
Concession power right	8	163 249	252 273
Other non-current receivables	10	242 726	134 726
<b>Total financial fixed assets</b>		<b>2 516 581</b>	<b>2 298 468</b>
<b>Total non-current assets</b>		<b>3 820 592</b>	<b>3 535 462</b>
Inventories	11	1 595	2 045
Trade receivables	9	20 944	63 587
Other receivables	9	101 747	105 649
Derivatives	17	62 195	36 789
Cash and bank deposits	12	261 999	166 877
<b>Total current assets</b>		<b>448 480</b>	<b>374 947</b>
<b>Total assets</b>		<b>4 269 072</b>	<b>3 910 409</b>
Paid-in equity	13	617 061	617 061
Retained earnings/other equity	24	1 192 631	1 006 553
Non-controlling interest		11 403	10 715
<b>Total equity</b>		<b>1 821 095</b>	<b>1 634 329</b>
Pension obligations	16	6 040	5 971
Deferred tax	15,21	178 807	177 108
Non-controlling interest with option	26	124 057	124 085
Debt to credit institutions	14	1 491 542	1 121 421
Subordinated loan capital	14	507 500	507 500
<b>Total non-current liabilities</b>		<b>2 307 946</b>	<b>1 936 085</b>
Certificate loan	14	-	40 000
Debt to credit institutions	14	-	104 000
Trade payables	12	29 288	24 573
Current tax		42 562	42 505
Public duties owing	21	8 101	19 310
Derivatives		33 100	74 617
Other current liabilities	17	26 980	34 990
<b>Total current liabilities</b>		<b>140 031</b>	<b>339 995</b>
<b>Total equity and liabilities</b>		<b>4 269 072</b>	<b>3 910 409</b>

Drammen 27.04.2012

Svein Marfi  
Chairman of the Board

Mette Lund Stake  
Deputy Chairman of the Board

Lise Løff  
Board member

Nils Peter Undebakke  
Board member

Linda Verde  
Board member

Johannes Rauboti  
CEO



## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Equity attributable to shareholders of the parent company								
(Amounts in NOK 1000)	Note	Share capital	Share premium	Other equity	Retained earnings	Total	NCI*	Total equity
<b>Equity 1 January 2010</b>		<b>268 561</b>	<b>348 500</b>	<b>124 966</b>	<b>898 740</b>	<b>1 643 024</b>	<b>9 591</b>	<b>1 650 359</b>
Result for the year					180 985	180 985	1 062	182 047
<b>Comprehensive income</b>								
Available-for-sale financial assets								
Share of comprehensive income from joint venture				-92 451		-92 451		-92 451
Translation differences				-23 186		-23 186	62	-23 124
<b>Total result</b>				<b>-115 637</b>	<b>180 985</b>	<b>65 348</b>	<b>1 124</b>	<b>66 472</b>
<b>Transactions with owners</b>								
Dividends for 2009	25				-40 000	-40 000		-40 000
Extraordinary dividends	25				-42 500	-42 500		-42 500
<b>Total transactions with owners</b>					<b>-82 500</b>	<b>-82 500</b>		<b>-82 500</b>
<b>Equity 31 December 2010</b>		<b>268 561</b>	<b>348 500</b>	<b>9 329</b>	<b>997 224</b>	<b>1 623 614</b>	<b>10 715</b>	<b>1 634 330</b>
Result for the year					154 564	154 564	1 773	156 337
<b>Comprehensive income</b>								
Available-for-sale financial assets								
Share of comprehensive income from joint venture				102 658		102 658		102 658
Translation differences				-13 143		-13 143	-1 085	-14 228
<b>Total result</b>				<b>89 515</b>	<b>154 564</b>	<b>244 079</b>	<b>688</b>	<b>244 767</b>
<b>Transactions with owners</b>								
Dividends for 2010	25				-58 000	-58 000		-58 000
<b>Total transactions with owners</b>					<b>-58 000</b>	<b>-58 000</b>		<b>-58 000</b>
<b>Equity 31 December 2011</b>		<b>268 561</b>	<b>348 500</b>	<b>98 844</b>	<b>1 093 788</b>	<b>1 809 692</b>	<b>11 403</b>	<b>1 821 095</b>

\*Non-controlling interest

## CONSOLIDATED STATEMENT OF CASH FLOWS

(Amounts in NOK 1000)	Note	1. January - 31. December	
		2011	2010
<b>Cash flows from operating activities</b>			
Cash generated from operations	22	251 054	156 222
Income tax paid		-42 505	-39 276
Interest paid		-103 610	-81 145
<b>Net cash generated from operating activities</b>		<b>104 939</b>	<b>35 801</b>
<b>Cash flows from investing activities</b>			
Purchases of property, plant and equipment		-94 914	0
Proceeds from sale of property, plant and equipment		0	12 471
Payment non-current loan receivables		-165 488	-8 320
Proceeds from non-current loan receivables		35 872	0
Payment of dividends from associates/joint ventures		77 861	126 391
Purchases of shares and investments in other companies		-31 269	-91 548
<b>Net cash used in investing activities</b>		<b>-177 938</b>	<b>38 994</b>
<b>Cash flows from financing activities</b>			
Proceeds from loan raising		370 000	670 000
Repayment loan		-143 879	-506 649
Redemption of non-controlling interest with option		0	-75 580
Dividends		-58 000	-40 000
<b>Net cash used in financing activities</b>		<b>168 121</b>	<b>47 771</b>
<b>Net cash flows for the period</b>		<b>95 122</b>	<b>122 566</b>
Bank deposits at the beginning of the period		166 877	44 311
<b>Bank deposits at the end of the period</b>	12	<b>261 999</b>	<b>166 877</b>

## Notes to the IFRS financial statements for 2011

### General accounting principles

- Note 1.** Financial risk
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- Note 27.** Events after the balance sheet date

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## General information

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Vardar AS and its subsidiaries invest in and own energy related activities and property. The company concentrates its attention exclusively on renewable energy sources. Besides the activity in Norway investments are made through Vardar Eurus in renewable energy sources in the Baltic States.

The company is a limited liability company, registered and domiciled in Norway with main offices in Øvre Eikervei 14, 3048 Drammen.

The company is quoted on Oslo Stock Exchange through bond loans.

The consolidated financial statements and the company accounts were adopted by the Board of Directors 27 April 2011.

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## Basic principles

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The consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of land and buildings, available-for-sale financial assets and financial assets and liabilities (including financial derivative instruments) at fair value through profit or loss.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 2.

### *((a) New and amended standards adopted by the group*

There are no new or amended IFRS standards or IFRIC interpretations effective for the 2011 financial statements that are assumed or expected to have material impact on the group's financial statements.

### *((b) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the group*

No new or amended IFRS standards or IFRIC interpretations have been early adopted by the group.

IAS 19 "Employee Benefits" was amended in June 2011. The amendment involves that all estimate deviations are recognised in the statement of comprehensive income as they occur (no corridor approach), an immediate recognition in the income statement of all past service cost and that interest expenses and assumed return on plan assets are replaced by a net interest amount calculated by using the discount rate on net pension liability (asset). The group has not yet completed the analysis of the consequences of the amendments in IAS 19.

IFRS 9 "Financial Instruments" regulates classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 was issued in November 2009 and October 2010, and replaces the parts of IAS 39 that deal with recognition, classification and measurement of financial instruments. According to IFRS 9 financial instruments are to be divided in two categories based on measurement method, measured at fair value and measured at amortised cost. The classification assessment is made by initial recognition. The classification depends on the company's business model for handling of financial instruments and the characteristics of the contractual cash flows from the instrument. The requirements are mainly identical to IAS 39 for financial liabilities. The main amendment in the cases where fair value has been chosen for financial liabilities is that the part of a change in fair value that is due to change in the company's own credit risk is recognised in comprehensive income statement instead of the income statement, unless this causes an accruals error in the measurement of the result. The group plans to apply IFRS 9 when the standard becomes effective and is adopted by EU. The standard is effective for accounting periods beginning on or after 1 January 2013, however, IASB has a proposal for postponed effective date till accounting periods commencing on or after 1 January 2015 for consultation.

IFRS 10 "Consolidated Financial Statements" is based on the current principle to use the control concept as the decisive criterion for whether an entity should be included in the consolidated financial statements of the parent company. The standard provides extended guidance for the assessment whether control is present in cases where this is difficult to determine. The group has not considered all possible consequences of IFRS 10. The group plans to apply the standard for accounting periods commencing on or later than 1 January 2013.

IFRS 12 "Disclosures of Interest in Other Entities" includes the disclosure requirements for all forms of interests in subsidiaries, joint ventures, associated companies, special purpose entities "SPE" and other off balance sheet entities. The group has not considered the full impact of IFRS 12. The group is planning to apply the standard for accounting periods commencing on or later than 1 January 2013.

IFRS 13 "Fair Value Measurement" provides a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRS. The standard does not extend the use of fair value accounting but provides guidance on how it should be applied where its use is already required or permitted by other IFRS standards. The group applies fair value as measurement criterion for certain assets and liabilities. The group has not considered the full impact of IFRS 13.

There are no other IFRS standards or IFRIC-interpretations which are not yet effective that are expected to have a significant impact on the financial statements.

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## **Consolidation principles**

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### *(a) Subsidiaries*

Subsidiaries are all entities (including special purpose entities - SPE) over which the group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible at the balance sheet date are considered when assessing whether the group controls another entity.

The group also assesses existence of control where it does not have more than 50% of the voting power but is able to govern the financial and operating policies by virtue of de-facto control. De-facto control may arise in circumstances where the size of the group's voting rights relative to the size and dispersion of holdings of other shareholders give the group the power to govern the financial and operating policies. The fact that the group may choose the board that it wants is given decisive weight in the assessment of de-facto control.

Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are deconsolidated from the date that control ceases.

The group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity instruments issued by the group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the group recognizes any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportional share of the acquiree's net assets.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

Goodwill is initially measured as the excess of the aggregate of the consideration transferred and the fair value of non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss.

Inter-company transactions, balances, income and expenses on transactions between group companies are eliminated. Profits and losses resulting from inter-company transactions that are recognised in assets are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the group.

### *(b) Changes in ownership interests in subsidiaries without change of control*

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of the net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

### *(c) Disposal of subsidiaries*

When the group ceases to have control any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently

accounting for the retained interest as an associate, joint venture or financial asset. Any amounts previously recognised on other comprehensive income in respect of that entity are accounted for as if the group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

#### *(c) Joint ventures and associates*

The group's share in joint ventures is accounted for in accordance with the equity method of accounting. List of companies under joint control appears from note 7.

Associates are all entities over which the group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. The group's investment in associates includes goodwill identified on acquisition.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income is reclassified to profit or loss where appropriate.

The group's share of post-acquisition profit or loss is recognised in the income statement, and its share of postacquisition movements in other comprehensive income is recognised in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. When the group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

Profits and losses resulting from upstream and downstream transactions between the group and its associate are recognised in the group's financial statements only to the extent of unrelated investor's interests in the associates. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the group.

Dilution gains and losses arising in investments in associates are recognised in the income statement.

The group's owner share of 2/7 in the power plants Usta and Nes is considered to be shares in joint ventures and has been recorded line by line in the consolidated financial statements.

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### **Segment reporting**

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Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the group management.

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### **Foreign currency translation**

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#### *(a) Functional currency and presentation currency*

Items included in the financial statements of each of the group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in NOK, which is both the functional currency and the presentation currency of the parent company.

#### *(b) Transactions and balance sheet items*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented (net) in the income statement within 'finance income or expenses'. All other foreign exchange gains and losses are presented in the income statement within 'other (losses)/gains'.

#### *(c) Group entities*

The results and financial position of all the group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(a) Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet.

(b) Income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions).

(c) All resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other financial instruments designated as hedges of such investments, are recognised as part of comprehensive income and as separate item in equity. When a foreign operation is partially disposed of or sold, the related exchange differences are reclassified from comprehensive income and recognised in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

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## **Intangible assets**

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### *(a) Goodwill*

Goodwill represents the excess of the cost of an acquisition over the fair value of the group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in 'intangible assets'. Goodwill on investment in associated company is included in the investment in the associate and tested for impairment as part of the carried value of the investment. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose identified according to operating segment.

### *(b) Waterfall rights*

Waterfall rights are carried at historical cost. There is no reversionary right, as a result the waterfall rights are an unlimited asset and are not amortised.

Licence fee represents a liability to future payments in return for the waterfall rights. Where a liability has been identified, this will represent compensation for the right/concession received. Asset value at the time of investment corresponds to the value of the allocation made for the licence fee liability at the same date.

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## **Property, plant and equipment**

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Power plants and other property, plant and equipment, with the exception of investment property, are valued at the acquisition cost model less accumulated depreciation and any impairment losses. Ordinary depreciations are based on cost price on a straight line basis over the estimated useful life of the assets.

All property, plant and equipment have been subject to decomposition, involving that groups of assets with identical reinvestment and maintenance cycle are depreciated over the same period.

The following depreciation rates have been used:

- Water power plants decomposed 0,66 – 2,5%
- Wind-power plants 5%
- District heating plants 2 - 6,66 %
- Machinery/Fixtures and fittings etc. 10 - 25 %
- Land is not depreciated

This years' ordinary depreciations are recognised as operating expenses in the income statement.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

The assets' useful lives and residual values are reviewed, and adjusted if appropriate, at the end of each reporting period. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is higher than its estimated recoverable amount.

The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

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## **Investment property**

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Investment property is assessed at fair value, with value change through profit or loss. The properties are owned by the group. Owner used share of investment property constitutes less than 5%. Fair value is based on present value of expected future cash flows based on today's lessees and cost level.

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## Hedge accounting and derivative financial instruments

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Vardar does not use hedge accounting. Derivative instruments that do not qualify for hedge accounting are recognised at fair value through profit or loss as other gains/(losses).

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## Interest expenses

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Borrowing expenses directly related to acquisition or processing of a qualifying asset constitute a part of the acquisition cost of the actual asset.

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## Financial assets

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The group classifies its financial assets in the following categories: a) at fair value through profit or loss, b) loans and receivables, and c) available-for-sale. The classification depends on the purpose for which the financial asset was acquired and is determined at initial recognition.

### *a) Financial assets at fair value through profit or loss*

This category has two sub-categories:

i) Financial assets held for trading, and ii) financial assets that the management initially has chosen to classify at fair value through profit or loss. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term or the management chooses to classify it in this category. Derivatives are also classified as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if they are held for trading, or they are expected to be realised within 12 months from the balance sheet date.

### *b) Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. The group's loans and receivables are classified as trade receivables and other receivables in the balance sheet.

### *c) Available-for-sale financial assets*

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the end of the reporting period.

### *Recognition and measurement*

Regular purchases and sales of financial assets are recognised on the trade-date – the date on which the group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the income statement. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

Profit or loss from changes in fair value of assets classified as "financial assets at fair value through profit or loss", including interest income and dividends, are included in the income statement as "other (losses) gains" in the period in which they occur. Dividends from financial assets at fair value over profit or loss have been included in other income when the group has a legal claim for dividends.

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in comprehensive income are reclassified through profit or loss as 'gains and losses from investment securities'.

Interest on available-for-sale securities calculated using the effective interest method is recognised in the income statement as part of other income. Dividends on available-for-sale equity instruments are recognised in the income statement as part of other income when the group's right to receive payments is established.

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## Inventories

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Inventories are stated at the lower of acquisition cost and net realisable value. Acquisition cost is determined using the first-in, first-out (FIFO) method. The cost of finished goods and work in progress comprises design costs, raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). Borrowing costs are included for qualifying assets. Net realisable value is the estimated selling price less applicable variable selling expenses. Acquisition costs of inventories include the transfer from equity of any gains/losses on qualifying cash flow hedges in purchases of raw materials.

Water in reservoirs is not considered as part of the group's inventories.



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**Bank deposits**

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Bank deposits include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet. The cash flow statement is prepared using the indirect method.

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**Trade receivables**

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Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and recoverable amount, being the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the trade receivables is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement within 'selling and marketing costs'. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against 'selling and marketing costs' in the income statement.

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**Trade payables**

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Trade payables are recognised initially at fair value and subsequently measured at amortized cost using the effective interest method.

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**Borrowings**

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Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are classified as current liabilities unless the group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

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**Share capital and premium**

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Ordinary shares are classified as equity. The company's shares are divided into share class A and B, see note 13.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Where any group company purchases the company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the company's equity holders until the shares are cancelled or reissued. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the company's equity holders.

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**Employee benefits**

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**Pension obligations**

The parent company and the subsidiaries Uste Nes AS, Hønefoss Fjernvarme AS and Vardar Eurus AS have a defined benefit pension plan which include early retirement scheme (AFP) at Buskerud Fylkeskommunale Pensjonskasse (BFP). A defined benefit plan is a pension plan that is not a defined contribution plan. Typically defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation and which is funded through payments to insurance companies or trustee-administered funds. The liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets, together with adjustments for unrecognised past-service costs.

The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds with approx. 10 years maturity. Average remaining service period for employees with defined benefit schemes is calculated to approx. 10 years. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions, when the accumulated effect exceed 10 percent of the higher of pension obligations and pension plan assets, the excess amount is recognised over the estimated average remaining service period. Past-service costs are recognised immediately in income, unless the changes to the pension plan are conditional on

the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortised on a straight-line basis over the vesting period.

Pension assets are recognised at fair value and deducted in the net pension liability in the balance sheet. Excess payments are recognised in the balance sheet to the extent that the excess payment may be utilized or repaid

In addition to the defined benefit plan, the General Director has an early retirement pension. See note 16 for further details.

The group does not have any defined contribution plans.

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#### **Current and deferred tax**

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The tax expense for the period comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised directly in equity. In this case the tax is also recognised directly in equity.

The current income tax expense is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the company's subsidiaries and associates operate and generate taxable income. Management evaluates for each period positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the group and it is probable that the temporary difference will not reverse in the foreseeable future.

#### *Taxation of the power production activity*

In addition to general income tax the power production activity will be charged with property tax, natural resource tax and economic rent tax. Natural resource tax is a profit independent tax calculated on the basis of average power production in the last seven years for each generating station. The tax rate is NOK 0.013 per kWh. The natural resource tax can be settled NOK to NOK against general income tax, and non-assessed natural resource tax can be carried forward including interest. Non-assessed natural resource tax is classified as an interest-bearing receivable. The economic rent tax is 30 percent of the power stations' regulated result in excess to the estimated free income. Any negative economic rent income of a power station calculated for the fiscal year 2007 or later may be deducted from positive economic rent income after deduction of negative economic rent income accumulated before 2007 for another power station owned by the taxpayer. Negative economic rent income constitutes a part of the basis for calculation of deferred tax/deferred tax asset related to temporary differences regarding operating assets in the power production. The power production activity will also be charged with property tax making up to 0.7 percent of appraised value. General income tax and economic rent tax are recorded in the income statement as ordinary taxes. Property tax is recorded as an operating expense.

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#### **Dividends**

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Dividend distributions to the company's shareholders are classified as liabilities as from the time when the dividends are approved by the general meeting.

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#### **Provisions**

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Provisions for environmental restoration, restructuring costs and legal claims are recognised when: a) the group has a present legal or constructive obligation as a result of past events; b) it is probable that an outflow of resources will be required to settle the obligation; and c) the amount has been reliably estimated. Provisions for restructuring expenses comprise lease termination penalties and employee termination payments. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax discount rate reflecting present market situation and the risks specific to the obligation. The increase of the obligation due to changed value of time is recognised as interest expense.

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## Revenue recognition

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Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the group's activities. Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminating sales within the group. The group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and when specific criteria have been met for each of the group's activities. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

### *a) Sale of energy*

The Group produces and sells energy to the Nordic energy exchange and end-users. Sale of energy includes district heating and electricity. Sales are recognised when delivery has taken place and the meter is read by the customer. Sales are recognised based on obtained prices that are either contract- or spot prices. The price can also be subject to hedging over the delivery period. The sales are considered not to have financing elements. Payment terms coincide with regular markets terms.

### *b) Rental income*

Income from rent is recognised over the lease term.

### *c) Sale of services*

The Group sells services related to development and operation of water/wind power production activities and district heating. These services are provided on a time and material basis or as a fixed-price contract, with duration three – four years.

### *d) Interest income*

Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted with the original effective interest rate. Interest income is recognised in the income statement based on amortised cost and original effective interest rate after impairment.

### *e) Dividend income*

Dividend income is recognised when the right to receive payment is established, which is after ordinary resolution in ceding company.

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## Cost of goods

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The segment water power has sold all physical production through E-CO Energi AS in the last few years, while the physical liability related to the segment has been covered by purchase of power from Nord Pool Spot. Expenses of NOK 55.4 million of the segment's total cost of goods of NOK 87.2 million relate to expenses involved in the organising of the sales. Other cost of goods in the segment include purchase of concession power and other power to fixed price, balance sheet expenses and other expenses connected to the sales of power physically and financially.

The segment bioenergy has expenses connected to the purchase of raw materials for production of district heating, mainly involving expenses for chips but also for some current and oil that are used in peak load hours. The segment's total cost of goods for 2011 is NOK 8.5 million.

We also refer to note 3.

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## Leases

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Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

The group leases certain property, plant and equipment. Leases of property, plant and equipment where the group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments.

Each lease payment is allocated between the liability and finance charges in order to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in other long-term payables. The interest element of the finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the useful life of the asset and the lease term.

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## Non-controlling interest with option

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In cases where non-controlling interest is granted an option for the shares to the parent company it involves that the group as such can not itself determine whether this equity class is to be kept. The liability thus established is accounted for in accordance with IAS 39, which implies recognition at present value of expected future cash flow in the agreement. Changes in expected future cash flow is recognised in the income statement as a financial item. The impact on the result comprises three elements, change in expectation to fair value of the release amount, interest element and and profit/loss on exchange as debt is denominated in euro.

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## **Concession power**

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### *Concession power rights*

Vardar has purchased concession power rights from the county municipality for a period of approx. 40 years. The rights are assessed in accordance with the principles for financial instruments.

### *Concession power, licence fees and property compensations*

As public power enterprise the Vardar group has perpetual concessions. Concession power and licence fees are liabilities connected to the concessions.

Concession power liabilities that are settled financially are considered to come under IAS 39 and will be assessed and recognised in the balance sheet at fair value as a liability, with recognition of value changes in the income statement. Concession power liabilities that are settled through physical delivery from own power plant do not come under IAS 39 and are accounted for as ordinary sales contracts.

Licence fee is considered to come under the provision in IAS 37 regarding mutually unfulfilled contracts. Accordingly no liability connected to licence fee has been recognised in the balance sheet .

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## **Public grants**

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Public grants are recognised at fair value when there is reasonable certainty that the grant will be received and the group is able to meet the requirements connected to the grant,

Public grants related to future expenses are recognised in the balance sheet and recognised in the income statement in the period providing the best matching with the expenses they are meant to compensate.

Public grants connected to purchase of property, plant and equipment are recognised in the balance sheet as deferred public grants under non-current liabilities and are recognised in the income statement linearly over expected useful life of the assets comprised by the grant.

**Note 1. Financial risk and risk management**

The Group is exposed to a variety of risks through its activities. The Group has divided its risks into four main categories: market risk, financial risk, operational risk and other risk areas. Financial risk is related to foreign currencies, interest rates, liquidity risk, credit risk and risks associated with capital management. The Group's policy is to reduce its risk factors to a minimum, while taking the hedging expenses into account. The Board of Directors has set clear limits for risk management, and strategies, systems and reporting routines have been established for the Group's overall risk management. Vardar's risk management should support the Group's creation of value and ensure a solid financial platform. The purpose of risk management is to create a greater degree of predictability for cash flows in the coming years.

**Market risk**

In connection with the Group's production of power, there is a risk related to the development of prices in the power market and the future production volume. The risk related to power prices is primarily associated with the sale of power produced in Norway, where the free production of power is traded on the power exchange NASDAQ OMX. Production in the Baltic countries is less exposed to market fluctuations. In Lithuania, the production is sold at the adopted feed-in tariff. In Estonia, portions of the revenues are related to power that is normally sold on contracts with a horizon of 1 to 2 years, and these contracts may have some variable pricing elements. Production aid is received based on known parameters in addition to the market price.

To reduce the risk related to power price fluctuations for production in Norway, Vardar practices active portfolio management, and it has board-approved limits for price hedging. The degree of hedging is reduced over time, and there is a rolling time horizon of three years. In order to achieve a risk-reducing affect, standardised derivative products are used, such as forward contracts. Hedging trades are executed primarily through NASDAQ OMX, which is also responsible for settlement. Counterparty risk is very limited as a result of their routines.

Vardar does not practice hedge accounting, so changes in the value of derivatives are recognised through profit or loss. The table illustrates the potential outcome for the hedged portfolio for a +/- 10 per cent change in the market price for power, in addition to the value as at 31 December 2011 and comparison figures for the 2010 financial year:

[NOK 1000]	2011			2010		
	-10 %	market value	+10%	-10 %	market value	+10%
Year 1	26 863	19 077	11 292	-32 056	-44 004	-55 951
Year 2	7 663	4 144	626	-2 796	-7 310	-11 823
Total result pre tax	34 526	23 222	11 918	-34 852	-51 313	-67 774
Result after tax	24 859	16 720	8 581	-25 094	-36 945	-48 797

Vardar also has rights related to the purchase of concession power. This is recognised at fair value on the balance sheet. A change in the power prices of +/- 10 per cent will result in a change in the book value of the rights corresponding to just under +/- NOK 17 million after tax. The change in the book value will be recognised through profit or loss.

The volume risk applies to the entire production portfolio. The production volume for hydropower will vary according to the hydrological conditions from year to year, and the production of wind power will vary according to the mean wind speed, which can vary a great deal from year to year. Vardar does not have any instruments to hedge the volume risk. As a long-term owner, we will achieve an average production volume over time that corresponds to the annual mean production. Variations in volume will result therefore in variations in the financial results from year to year. The capitalisation of the Group takes into account that the results in an individual year may be weaker as a result of fluctuations in the production volume.

**Assessment of fair value**

With effect from 1 January 2009, the Group implemented changes in IFRS 7 regarding financial instruments measured at fair value on the balance sheet date. These changes require the presentation of fair value measurements for each level, with the following categorisation of levels for the measurement of fair value:

- The listed price in an active market for an identical asset or liability (level 1)
- Valuation based on observable factors, either directly (price) or indirectly (derived from prices), other than the listed price (used in level 1) for the asset or liability (level 2)
- Valuation based on factors not obtained from observable markets (unobservable assumptions) (level 3)

The following table presents the Group's assets and liabilities measured at fair value as at 31 December 2011.

[NOK 1000]				
Assets	Level 1	Level 2	Level 3	Total
Concession power rights			163 249	163 249
Financial assets available for sale				
-Equity instruments			9 680	9 680
Derivatives		62 195	-	62 195
Total assets	-	62 195	172 929	235 124
Liabilities				-
Non-controlling interest with option			124 057	124 057
Derivatives used for hedging		33 100	-	33 100
Total liabilities	-	33 100	124 057	157 157

The following table presents the Group's assets and liabilities measured at fair value as at 31 December 2010:

[NOK 1000]	Level 1	Level 2	Level 3	Total
<b>Assets</b>				
Concession power rights			252 273	252 273
Financial assets available for sale				
-Equity instruments			7 569	7 569
Derivatives		36 789		36 789
<b>Total assets</b>	-	36 789	259 842	296 631
<b>Liabilities</b>				
Non-controlling interest with option			124 085	124 085
Derivatives used for hedging		74 617		74 617
<b>Total liabilities</b>	-	74 617	124 085	198 702

The fair value of financial instruments that are traded in active markets is based on the market prices on the date of the balance sheet. A market is regarded as active if the market prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and these prices represent actual and regularly occurring market transactions on an arm's length basis. The market price used for financial assets is the current bid price, and the price used for financial liabilities is the current asking price. These instruments are classified as level 1.

The fair value of financial instruments that are not traded in an active market (such as certain OTC derivatives) is determined by means of various valuation methods. These valuation methods maximise the use of observable data, whenever it is available, and rely as little as possible on the Group's own estimates. If all the significant data inputs that are required to determine the fair value of an instrument are based on observable data, then the instrument will be classified as level 2.

Special valuation methods that are used to assess financial instruments include:

- Quoted market or trading price for corresponding instruments.
- The fair value of interest rate swap contracts is calculated as the present value of the future cash flow based on the observable yield curve.
- The fair value of forward contracts in a foreign currency is calculated as the present value of the difference between the agreed forward price and the forward price on the date of the balance sheet multiplied by the contract volume in a foreign currency. The relevant interest rate on the date of the balance sheet is used for calculation of the present value.

Other methods, such as discounted cash flows, are used to determine the fair value of the remaining financial instruments. See the table in note 8, which illustrates the changes in the instruments classified as level 3 as at 31 December 2011.

### Financial risk

#### Currency risk

Vardar has a substantial portion of its ongoing power revenues in euros. This entails a currency risk. In order to counteract this risk, Vardar has prepared board-approved limits for the future hedging of euros (revenues from power sales) and the hedging of balance sheet items in euros. A time horizon of 10 years has been adopted for currency hedging. Since Vardar does not practice hedge accounting in the context of IFRS, the hedging strategy will only hedge cash flows, and changes in the value of the currency derivatives will have an impact on the results.

Through its investment in Vardar Eurus, Vardar has items on its balance sheet where the value in Norwegian kroner will vary in relation to EUR exchange rate fluctuations. To hedge the value of such items on the balance sheet against currency fluctuations, they will be matched by corresponding euro-denominated liability items. Investments in the Baltic countries are financed in euros, while the ongoing sales revenue in Lithuania is denominated in the local currency. The Lithuanian currency has a fixed exchange rate to the euro, and Vardar Eurus has not made use of currency derivatives to hedge the sales revenue in euros. The price of long-term hedging makes this inappropriate, and an assessment has been made that a possible change in the Lithuanian exchange rate in relation to the euro in the long term will be compensated in full or in part through changes in the power prices. Estonia became a member of the eurozone as of 1 January 2011, and this portion of the investments in Vardar Eurus is thus hedged through the adopted limits.

If the value of the Lithuanian currency depreciates in relation to the euro by 20 per cent without any change in the production support or feed-in tariffs, this will result in an annual loss of revenue corresponding to EUR 0.9 million for Vardar Eurus with regard to the wind farms that were operational as at 1 January 2012.

If all the other factors were constant, and the EUR/NOK exchange rate changed by 10 per cent, this would have an impact on the earnings after tax as a result of the change in the value of the portfolio of NOK +/- 118 million as at 31 December 2011. The corresponding figure as at 31 December 2010 was NOK 126 million.

#### Interest rate risk

The interest rate risk is linked to fluctuations in the future interest rate level, and it affects primarily the level of the Group's future interest expenses. In order to counteract this risk, Vardar has a mixture of fixed and floating interest rates in its loan portfolio. The Group has hedging limits related to the duration. The duration is the average term of a loan when both the interest payments and repayment of the loan are taken into account. The Group's limits for interest rate hedging entail that the loan portfolio should have a duration of 1 to 5 years, and 30 to 70 per cent of the company's total debt should have a duration of one year or more. At the end of 2011, the loan portfolio had a duration of 4.3 years, and 66 per cent of the company's total debt had a fixed interest rate in excess of one year.

The market value of the Group's interest swap contracts has been estimated to increase by NOK 29 million in the event of a one percentage point upward parallel shift and to reduce by NOK 30 million in the event of a one percentage point downward parallel shift for the EUR and NOK yield curves. The corresponding figures as at 31 December 2010 were NOK +12/-11 million for a 1 per cent increase/decrease in the interest rate level.

### Liquidity risk

Liquidity risk arises if the cash flow and ongoing operational and financial liabilities do not coincide. Vardar has good long-term financing of its operations through subordinated loans from an owner and a loan in the bond market. In addition, the Group has a NOK 300 million credit facility to ensure that liquidity is available on a short-term basis. The credit facility makes it possible to exploit the commercial paper market actively as an element in the financing of Vardar. In 2011 Vardar has raised new loans with a view to the future maturity of loans. This has resulted in substantial surplus liquidity at the end of the year.

For investments in renewable energy abroad through Vardar Eurus, project financing solutions are generally used without guarantees from the parent company after the wind farms have been commissioned.

The table below shows the maturity profile for the Group's financial liabilities, not taking into account the financial derivatives related to price hedging of the power production or project financing in the Baltic countries. The interest payments refer to the nominal interest payments in accordance with the interest terms as at 31 December 2011.

#### Maturity profile as at 31 December 2011.

[NOK 1000]	2012	2013	2014-2016	After 2016	Total
Interest bearing loan	-	350 000	455 000	650 000	1 455 000
Interest expense interest bearing loan	72 386	72 386	167 934	295 800	608 505
Subordinated loan				507 500	507 500
Interest expense subordinated loan	31 059	30 958	92 873	278 618	433 507
Interest rate sw ap	-	-	386 843	1 277 753	1 664 596
Accured interest on interest rate sw ap	-	-	1 509	3 116	4 626
Trade payables	29 288				29 288
Other current liabilities	110 743				110 743
<b>TOTAL</b>	<b>243 476</b>	<b>453 343</b>	<b>1 104 158</b>	<b>3 012 787</b>	<b>4 813 764</b>

#### Maturity profile as at 31 December 2010.

[NOK 1000]	2011	2012	2013-2015	After 2015	Total
Interest bearing loan	144 000	-	400 000	675 000	1 219 000
Interest expense interest bearing loan	55 823	53 156	130 767	321 911	561 657
Subordinated loan				507 500	507 500
Interest expense subordinated loan	26 898	26 898	80 693	295 873	430 360
Interest rate sw ap	-	-	194 504	1 143 824	1 338 327
Accured interest on interest rate sw ap	-	-	747	3 652	4 399
Trade payables	24 573				24 573
Other current liabilities	148 118				148 118
<b>TOTAL</b>	<b>399 412</b>	<b>80 053</b>	<b>806 710</b>	<b>2 947 759</b>	<b>4 233 934</b>

Financial derivatives are primarily related to the price hedging of power production, cf. section above concerning market risk, and thus they do not represent a liquidity risk. Guarantees are nevertheless furnished for the future financial settlement with NASDAQ OMX. The guarantee liability is related to the difference between the current market prices and the contract prices, and it is adjusted daily.

The table below illustrates the maturity profile for the Group's financial derivatives related to the price hedging of power production, estimated based on the closing price on NASDAQ OMX's last trading day in 2011 and 2010, respectively. This maturity profile will not represent any liquidity risk as long as the Group's power stations are operating normally in general.

[NOK 1000]	2011	2010
Year 1	19 077	-44 004
Year 2	4 144	-7 310
Total result pre tax	23 222	-51 313
Total result after tax	16 720	-36 945

### Capital management

The Group seeks to be a solid business counterparty that obtains good terms. The debt ratio was 35 per cent as at 31 December 2011. Since no instalments are paid on the subordinated loan granted by an A shareholder, it is regarded as equity in this context. The Group's goal is to have an equity ratio including subordinated loans of at least 40 per cent. The Group is regarded as having a good financial standing with regard to the completion of forthcoming investments in rehabilitation projects.

[NOK 1000]	2011	2010
Interest bearing non-current liabilities	1 999 042	1 628 921
* incl. Subordinated loan	-507 500	-507 500
Non-controlling interest with option	124 057	124 085
Total current liabilities	140 031	339 995
Bank deposit and cash	-261 999	-166 877
Net liabilities	1 493 631	1 418 624
 Total capital	 4 269 072	 3 910 409
 Debt ratio	 35 %	 36 %

The Group also focuses on future cash flows and the hedging of future cash flows in its capital management.

#### Credit risk

Credit risk is related to the risk that a counterparty does not have the financial capacity to meet its obligations. The Group sells power produced in Norway on the power exchange NASDAQ OMX, in addition to the rights holders of power from the Usta and Nes power stations. The rights holders are regarded as financially solid, and the risk of non-settlement is minimal. The trading of financial power contracts is normally cleared through NASDAQ OMX. This entails that NASDAQ OMX becomes a legal counterparty and guarantees the settlement, and this reduces the counterparty risk significantly.

The sale of power produced abroad is primarily to state-owned companies. The risk that these companies in Estonia, Lithuania and Latvia do not settle is regarded as quite small.

The Group's largest individual debtor is Energiselskapet Buskerud AS (EB), a company in which Vardar, as a 50 per cent owner, contributes to the long-term financing of the company by means of a subordinated loan. At the end of 2011 the loan totalled NOK 465 million, the same as at 31 December 2010. In addition to a subordinated loan, Vardar has granted a long-term loan to EB, and the balance of this loan was NOK 11.3 million as at 31 December 2011, compared with NOK 14.5 million as at 31 December 2010. Instalments are paid on this loan. The risk related to the loan receivables is regarded as quite limited. EB has a rating of A-, as determined by DnB Markets in 2011.

Vardar has granted a loan for the financing of the wind power project Viru Nigula in Estonia, which is wholly owned by Vardar Eurus. The loan is a serial loan with final maturity in 2019. The intention is to establish long-term financing from a local bank in Estonia when the project receives final approval and Vardar's loan will be redeemed then. The project is very robust, and it appears that the project company can easily honour its obligations in accordance with the current loan agreement. At the end of 2011 the loan totalled NOK 83.4 million, compared with NOK 103.4 million as at 31 December 2010. The loan is denominated in euros. Interest and instalments have been paid in accordance with the loan agreement in 2011, in addition to extraordinary instalments. The risk related to this loan receivable is regarded as quite limited.

Vardar AS has granted a loan to the Vanaküla project, which is wholly owned by Vardar Eurus and received final approval with retroactive force from September 2010 in 2011. At the end of 2011 the loan balance was NOK 71.7 million, compared with NOK 78.1 million as at 31 December 2010. The loan is denominated in euros. Interest and instalments have been paid in accordance with the loan agreement in 2011. The process of refinancing the loan from a local bank in Estonia did not start in 2011, pending strategic clarifications concerning the operations in the Baltic countries. The risk related to this loan receivable is regarded as quite limited based on experience from corresponding projects in Estonia.

At the end of 2011 Vardar had outstanding loans denominated in euros to Vardar Eurus totalling NOK 60.5 million. A decision has been made to carry out the new issue totalling EUR 38.1 million, which was adopted in 2010, in two phases, and phase 2, totalling EUR 11 million, will take place after final approval of Viru Nigula. Since this approval has been delayed, phase 2 has not been paid as at 31 December 2011, and Vardar has instead granted the company a credit facility for the corresponding amount. The risk related to this loan receivable is regarded as quite limited.

Vardar's wind power investments in Norway are made through the wholly owned subsidiary Vardar Boreas. Vardar has granted a loan of NOK 100 million to Vardar Boreas. No instalments will be paid on the loan unless otherwise agreed between the parties, and it will mature in 2025. The loan has been used for the company's investments, both for the acquisition of ownership and the construction of wind farms. The risk related to this loan receivable is regarded as quite limited.

Vardar has granted financing to the wholly owned subsidiary Hønefoss Fjernvarme, which is used for the development of district heating in the Ringerike region. The loan has been granted with a credit limit of NOK 203 million. NOK 182 million had been drawn against this facility as at 31 December 2011, compared with NOK 134 million as at the end of 2010. The risk related to this loan receivable is regarded as quite limited.

Vardar has granted a subordinated loan to its subsidiary Vardar Eiendom. The outstanding receivable was NOK 23 million as at 31 December 2011, compared with NOK 25 million at the end of 2010. The risk related to this loan receivable is regarded as quite limited.

In 2011 all the wind power operations were transferred to Vardar Boreas, and Vardar Boreas has thus taken over the loans that Vardar had granted to the joint venture companies to contribute to the financing of project development. At the end of 2011 the outstanding receivables on the part of Vardar Boreas totalled NOK 19 million, the same as for Vardar AS as at 31 December 2010.

Vardar Eurus has granted loans to several of its associated companies. This is part of the equity portion of the investments that are made in the various companies. Equity contributions are made in the form of loans. If the regulations require the contribution of equity to the companies, then these loans will be converted. The loans are interest-bearing until this takes place. These loans totalled NOK 214 million at the end of 2011, compared with NOK 102 million at the end of 2010. NOK 65 million of the loan



balance as at 31 December 2011 is related to loans granted on behalf of the company that Vardar Eurus invests together with in the Baltic countries, Freenergy, and upon the merger completed in March 2011, this has been converted to shares in the merged company. The remaining increase over 2010 is attributed investments in new projects.

Collateral has in general not been pledged for the loan receivables beyond ownership in the underlying operations. Reference is made to note 10 to the accounts for a more detailed explanation.

The counterparty risk for interest swap agreements and forward currency contracts is reduced through the selection of counterparties/banks with a high credit rating.

#### ***Operational risk***

Operational risk is defined as the risk of losses as a result of inadequate internal processes, human error, systems failure, or external events. Operational risk is related primarily to the Group's production facilities. The Group acquires these services. With regard to the production of power by Uste Nes AS, these services are acquired from E-CO Energi, which has long experience and contingency plans. For the foreign companies this is safeguarded through management agreements for the various farms. For Hønefoss Fjernvarme, this is safeguarded through internal routines and contingency plans.

Services associated with ICT are acquired from Energiselskapet Buskerud (EB), and the risk is included in EB's overall contingency plans. This encompasses both the availability of ICT tools and security in relation to the misuse of information from the Group's databases and analysis tools.

#### ***Insurance risk***

The Group has operative risk exposure related to the destruction of their own facilities as a result of natural disasters or fire. The Group has insured this risk with varying excesses and stop-loss covers. In addition, the Group has liability insurance that covers any compensation for damage or injury related to third-party life or property when the damage or injury was not deliberately caused by employees.

#### ***Other risk factors***

The Group's framework conditions are affected by political decisions, including regulations for taxes and duties, orders from the Norwegian Water Resources and Energy Directorate (NVE), changes in the rules for the minimum water flow and the reversion scheme, as well as changes in the general conditions in Norway and parts of the EU. Changes in the laws and regulations may have a significant impact on the competitive conditions.

## Vardar - Notes to the consolidated IFRS financial statements for 2011

### Note 2. Critical accounting estimates and judgements

#### Critical accounting estimates and assumptions

The group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

#### Estimated impairment goodwill

The group performs impairment tests annually to establish whether goodwill should be subject to impairment, in accordance with the accounting policy. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates (note 4)

#### Fair value of derivatives and other financial instruments

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. The group uses its judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period. The group has used discounted cash flow analysis for various available-for-sale financial assets that are not traded in active markets. Cf. further discussion in note 1.

#### Impairment of loans and trade receivables

Individual impairment is made when there are objective indicators of losses on loan and trade receivables. The group makes use of historical data and objective indicators to determine the impairment.

#### Valuation of real property

Valuation of the group's investment properties are based on valuation models and assessment each 4 years. Cf. note 6. Valuation involves estimate of future cash flows and required rate of return.

#### Non-controlling interest with option

Provision is made for estimated market value at the time of possible exercise of rights. The estimate is subject to uncertainty. See note 27.

Following principles for subsequent measurement of financial instruments have been used for financial instruments in the balance sheet:

#### FINANCIAL ASSETS AND LIABILITIES

31.12.2011	At fair value through profit or loss	Available- for- sale	Loan and borrowing at amortised cost	Total
Subordinated loan			484 313	484 313
Financial assets		9 680		9 680
Rights concession power	163 249			163 249
Other non-current receivables			226 650	226 650
Financial derivative instruments	62 195			62 195
<b>Total financial assets</b>	<b>225 444</b>	<b>9 680</b>	<b>710 963</b>	<b>946 087</b>
Debt to credit institutions			1 491 542	1 491 542
Subordinated loan			507 500	507 500
Non-controlling interest with option	124 057			124 057
Financial derivative instruments	33 100			33 100
<b>Total financial liabilities</b>	<b>157 157</b>	<b>0</b>	<b>1 999 042</b>	<b>2 156 199</b>

  

31.12.2010	At fair value through profit or loss	Available- for- sale	Loan and borrowing at amortised cost	Total
Subordinated loan			467 167	467 167
Financial assets		7 569		7 569
Rights concession power	252 273			252 273
Other non-current receivables			134 726	134 726
Financial derivative instruments	36 789			36 789
<b>Total financial assets</b>	<b>289 062</b>	<b>7 569</b>	<b>601 893</b>	<b>898 524</b>
Debt to credit institutions			1 225 421	1 225 421
Subordinated loan			507 500	507 500
Non-controlling interest with option	124 085			124 085
Certificate loan			40 000	40 000
Financial derivative instruments	74 617			74 617
Trade payables and other current liabilities			78 873	78 873
<b>Total financial liabilities</b>	<b>198 702</b>	<b>0</b>	<b>1 851 794</b>	<b>2 050 496</b>

# Vardar - Notes to the consolidated IFRS financial statements for 2011

## Note 3. Segment reporting

Segment information is presented for the primary segment, which is business areas based on the group's external and internal reporting structure, and secondary segments based on geography. Per 31.12.11 the group has activities within the following main segments:

- 1) Water power
- 2) Wind power
- 3) Property
- 4) Bioenergy / district heating
- 6) Energiselskapet Buskerud (EB)

Revenues from the segment wind power is in EURO.

Inter-company revenues and expenses, together with shares in joint ventures and associated companies are not allocated.

Segment results for 2011 are as follows:

	Water power	Wind power	Property	Bioenergy	Not allocated	Group	EB
Gross sales revenues	262 699	56 310	7 164	16 461	2 030	344 664	0
Sales between segments	0	0	0	0	0	0	0
<b>Total sales revenues</b>	<b>262 699</b>	<b>56 310</b>	<b>7 164</b>	<b>16 461</b>	<b>2 030</b>	<b>344 664</b>	<b>0</b>
Cost of goods	87 228			8 537	378	96 143	0
EBITDA	137 205	41 841	5 467	1 654	-24 032	162 135	0
Operating result	122 521	27 157	5 467	-3 802	-24 068	127 275	0
Share of result in joint ventures and associates	0	11 222	0	-100	1	128 903	117 780
Financial income	3 668	16 048	50	33	29 827	49 626	0
Financial expenses	6 642	1 674	0	87	95 722	104 125	0
Result before tax expense	119 547	52 753	5 517	-3 956	-89 962	201 679	117 780
Tax expense	65 077	1 672	969	-3 280	-19 096	45 342	0
<b>Result for the year</b>	<b>54 470</b>	<b>51 081</b>	<b>4 548</b>	<b>-676</b>	<b>-70 866</b>	<b>156 337</b>	<b>117 780</b>

Segment results for 2010 are as follows:

	Water power	Wind power	Property	Bioenergy	Not allocated	Group	EB
Gross sales revenues	262 611	32 240	7 568	18 984	1 328	322 731	0
Sales between segments	0	0	0	0	0	0	0
<b>Total sales revenues</b>	<b>262 611</b>	<b>32 240</b>	<b>7 568</b>	<b>18 984</b>	<b>1 328</b>	<b>322 731</b>	<b>0</b>
Cost of goods	87 560			10 757	503	98 820	
EBITDA	153 719	22 488	7 823	2 314	-4 549	181 795	0
Operating result	144 326	13 637	7 823	-4 774	-4 621	156 391	0
Share of result in joint ventures and associates	0	4 008	0	0	-3	134 997	130 992
Financial income	2 680	19 838	89	68	45 335	68 010	0
Financial expenses	15 052	4 188	0	71	95 720	115 031	0
Result before tax expense	131 954	33 295	7 912	-4 777	-55 009	244 367	130 992
Tax expense	70 464	4 490	1 953	-2 787	-11 801	62 319	0
<b>Result for the year</b>	<b>61 490</b>	<b>28 805</b>	<b>5 959</b>	<b>-1 990</b>	<b>-43 208</b>	<b>182 047</b>	<b>130 992</b>

Other items included in the result per segment for 2011 are:

	Water power	Wind power	Property	Bioenergy	Not allocated	Group	EB
Depreciation property, plant and equipment	9 200	14 684	0	5 456	36	29 376	88 518

Other items included in the result per segment for 2010 are:

	Water power	Wind power	Property	Bioenergy	Bioenergy / not allocated	Group	EB
Depreciation property, plant and equipment	9 393	8 851	0	7 088	72	25 404	88 504

Segment assets and liabilities per 31 December 2011 and investments for the year:

	Water power	Wind power	Property	Bioenergy	Not allocated	Group	EB
Assets	1 179 989	945 955	87 312	264 383	537 047	4 269 072	1 254 386
<b>Total</b>	<b>1 179 989</b>	<b>945 955</b>	<b>87 312</b>	<b>264 383</b>	<b>537 047</b>	<b>4 269 072</b>	<b>1 254 386</b>
Liabilities	232 304	70 984	10 717	13 579	2 120 393	2 447 977	
<b>Total</b>	<b>232 304</b>	<b>70 984</b>	<b>10 717</b>	<b>13 579</b>	<b>2 120 393</b>	<b>2 447 977</b>	
Investment expenses	7 879	101 411	0	82 346	0	191 636	

## Vardar - Notes to the consolidated IFRS financial statements for 2011

Segment assets and liabilities per 31. December 2010 and investments for the year:

	Water power	Wind power	Property	Bioenergy	Not allocated	Group	EB
Assets	1 110 571	737 697	85 398	197 213	443 194	3 910 409	1 336 336
<b>Total</b>	<b>1 110 571</b>	<b>737 697</b>	<b>85 398</b>	<b>197 213</b>	<b>443 194</b>	<b>3 910 409</b>	<b>1 336 336</b>
Liabilities	284 859	80 568	10 654	8 751	1 891 248	2 276 080	
<b>Sum</b>	<b>284 859</b>	<b>80 568</b>	<b>10 654</b>	<b>8 751</b>	<b>1 891 248</b>	<b>2 276 080</b>	
<b>Total</b>	<b>0</b>	<b>-30 107</b>	<b>0</b>	<b>4 035</b>	<b>101</b>	<b>-25 971</b>	

### Secondary segment reporting - geographical segments

The group's four business segments are mainly operating in two geographical areas: Norway and the Baltic States. The parent company is located in Norway.

Sales revenues	2011	2010
Norway	288 354	290 491
The Baltic States	56 310	32 240
<b>Total</b>	<b>344 664</b>	<b>322 731</b>

Assets	2011	2010
Norway	3 485 580	3 343 799
The Baltic States	783 492	566 610
<b>Total</b>	<b>4 269 072</b>	<b>3 910 409</b>

Investment expenses	2011	2010
Norway	90 225	4 136
The Baltic States	101 411	-30 107
<b>Total</b>	<b>191 636</b>	<b>-25 971</b>

Investment expenses are based on the location of the assets

### Note 4. Intangible assets

Per 1 January 2010	Goodwill	Waterfall rights	Sum
Acquisition cost	28 076	3 049	31 125
Accumulated depreciation	0	0	0
<b>Book value 01.01.10</b>	<b>28 076</b>	<b>3 049</b>	<b>31 125</b>

Accounting year 2010			
Book value 01.01.10	28 076	3 049	31 125
Translation differences	-2 765	0	-2 765
Addition	0	0	0
Disposal	0	0	0
<b>Book value 31.12.10</b>	<b>25 311</b>	<b>3 049</b>	<b>28 360</b>

Per 31 December 2010			
Acquisition cost	25 311	3 049	28 360
Accumulated depreciation	0	0	0
<b>Book value 31.12.10</b>	<b>25 311</b>	<b>3 049</b>	<b>28 360</b>

Accounting year 2011			
Book value 01.01.11	25 311	3 049	28 360
Translation differences	662	0	662
Addition	0	93	93
<b>Book value 31.12.11</b>	<b>25 973</b>	<b>3 142</b>	<b>29 115</b>

Per 31 December 2011			
Acquisition cost	25 973	3 142	29 115
Accumulated depreciation	0	0	0
<b>Book value 31.12.11</b>	<b>25 973</b>	<b>3 142</b>	<b>29 115</b>

#### Impairment test for goodwill:

Goodwill is allocated to the group's cash generating units identified for the actual region where the activity is exercised and per business segment.

Goodwill refers to Vardar Eurus' acquisition of shares in OÜ Pakri Tuulepark, OÜ Viru Nigula and OÜ Vanakül, operating in the segment wind power.

Summary of allocation of goodwill per geographical area:	2011	2010
Norway	0	0
The Baltic States	25 973	25 311
<b>Total</b>	<b>25 973</b>	<b>25 311</b>

The calculation of the recoverable amount of a cash generating unit is based on the value that the asset is expected to represent for the activity. Liquidity prognoses (pre tax) are used based on budgets approved by management stating availability ratio (volume) and prognoses for energy prices prevailing in the area.

# Vardar - Notes to the consolidated IFRS financial statements for 2011

The most significant assumptions used in the calculation of recoverable amounts in 2011:

	2011	2010
Price estimate (EUR/MWh)	42,78	42,78
Discount rate	9,8 %	10 %

## Note 5. Property, plant and equipment

	Machinery/ fixtures and fittings etc.	District heating-plant	Wind power plant	Water power plant	Total
<b>Per 1 January 2010</b>					
Acquisition cost	8 274	174 555	337 798	677 682	1 198 309
Accumulated depreciation	-2 201	-15 691	-43 413	-35 357	-96 662
<b>Book value 01.01.10</b>	<b>6 073</b>	<b>158 864</b>	<b>294 385</b>	<b>642 325</b>	<b>1 101 647</b>
					0
<b>Accounting year 2010</b>					0
Book value 01.01.10	6 073	158 418	294 385	642 325	1 101 201
Addition	101	4 035	-30 107	0	-25 971
Disposal	0	0	0	0	0
Depreciations of the year	-73	-7 088	-8 851	-9 392	-25 437
Translation differences	0	0	-20 523	0	-20 528
<b>Book value 31.12.10</b>	<b>6 101</b>	<b>155 365</b>	<b>234 904</b>	<b>632 933</b>	<b>1 029 303</b>
<b>Per 31 December 2010</b>					
Acquisition cost	8 375	178 590	287 168	677 682	1 151 815
Accumulated depreciation	-2 274	-22 779	-52 264	-44 749	-122 066
<b>Book value 31.12.10</b>	<b>6 101</b>	<b>155 811</b>	<b>234 904</b>	<b>632 933</b>	<b>1 029 749</b>
<b>Accounting year 2011</b>					
Book value 01.01.11	6 101	155 811	234 904	632 933	1 029 749
Addition	0	82 346	101 411	7 879	191 636
Disposal	0	0	0	0	0
Depreciations of the year	-69	-5 423	-14 684	-9 200	-29 376
Translation differences	0	0	-2 112	0	-2 112
<b>Book value 31.12.11</b>	<b>6 032</b>	<b>232 734</b>	<b>319 518</b>	<b>631 612</b>	<b>1 189 896</b>
<b>Per 31 December 2011</b>					
Acquisition cost	8 375	260 936	386 466	685 561	1 332 963
Accumulated depreciation	-2 343	-28 202	-66 948	-53 949	-149 099
<b>Book value 31.12.11</b>	<b>6 032</b>	<b>232 734</b>	<b>319 518</b>	<b>631 612</b>	<b>1 189 896</b>

Rate of depreciation	12,5 - 33%	10 - 33 %	2 - 6,67 %	0,66 - 6,66 %
Depreciation method	Linear	Linear	Linear	Linear

The company has not made use of financial leasing in 2011. Thus no leasing contracts have been recognised in the balance sheet.

There are some lease expenses connected to the operating cost in the financial statements, the amount appears from note 19.

Plants classified as work in progress in the balance sheet consist of the wind power plant in Viru Nigula, Estonia and plant in Hønefoss Fjernvarme.

Total 96 722 in 2010.

	2011	2010
In the period borrowing expenses have been capitalised by	0	9 655
Capitalisation rate used	0,0 %	3,1 %

Book value of windmill plant pledged as security for debt to credit institutions (note 14)	116 819	125 883
--	---------	---------

# Note 6. Investment property

Per 1 January 2010	Investment property	Total
<b>Accounting year 2010</b>		
Book value 01.01.10	74 986	74 986
Addition	0	0
Disposal	0	0
Value change (see note 17)	7 034	7 034
<b>Book value 31.12.10</b>	<b>82 020</b>	<b>82 020</b>
<b>Pr 31. desember 2010</b>		
Acquisition cost	45 017	45 017
Accumulated value change	37 003	
Accumulated depreciations	0	0
<b>Book value 31.12.10</b>	<b>82 020</b>	<b>82 020</b>
<b>Accounting year 2011</b>		
Book value 01.01.11	82 020	82 020
Additon	0	0
Disposal	0	0
Value change (see note 17)	2 980	2 980
<b>Book value 31.12.11</b>	<b>85 000</b>	<b>85 000</b>
<b>Per 31 December 2011</b>		
Acquisition cost	45 017	45 017
Accumulated value change	39 983	39 983
Accumulated depreciations	0	0
<b>Book value 31.12.11</b>	<b>85 000</b>	<b>85 000</b>

The properties were valued in summer 2011 by independent appraiser and are planned to be valued approx. each 4 years.

This is considered to be sufficient in order to reflect the market situation at the end of each reporting period.

In the intervening period a cash flow based evaluation model is used for which the assumptions are adjusted by each reporting period.

Undeveloped property, not hired out, has been valued at last held appraisal.

For properties that are hired out, a discount model based on net rental income is used in the intervening period.

10 year government securities

inflation

high-risk pay

discount rate (pre tax)

2011	2010
3,8 %	3,7 %
-2,5 %	-2,5 %
5,2 %	4,0 %
6,5 %	5,2 %

The company has only operational leasing contracts.

Duration of the contracts is from 1 to 4 years, some with right of renewal at current terms.

The lessees have deposited securities, with the exception of government departments.

	2011	2010
Total rental income	7 164	7 568
Other operating expenses connected to rented properties	5 095	4 975
Other operating expenses connected to properties not rented	0	0

**Vardar - Notes to the consolidated IFRS financial statements for 2011**

**Note 7. Investments in joint ventures and associated companies**

2011	Acquired	Business address	Owner share	Voting share	Acquisition cost
<b>Joint ventures Vardar AS</b>					
Energiselskapet Buskerud AS	1999	Drammen	50 %	50 %	706 701
Øvre Eiker Fjernvarme AS	2003	Øvre Eiker	50 %	50 %	3 855
<b>Associated companies Vardar AS</b>					
Norsk Enøk og Energi AS	2010	Drammen	33 %	33 %	2 974
Follum Energisentral AS	2008	Hønefoss	33 %	33 %	40
<b>Associated companies Vardar Boreas AS</b>					
Kvalheim Kraft DA	2001	Drammen	33,3 %	33,3 %	47 767
Haram Kraft AS	2003	Vestnes	17,5 %	17,5 %	355
Zephyr AS	2006	Sarpsborg	16,7 %	16,7 %	2 000
Sula Kraft AS	2006	Førde	25 %	25 %	408
Midtfjellet Vindkraft AS	2011	Filjar	16,7 %	16,7 %	3 300
<b>Associated companies Vardar Eurus AS</b>					
OÜ Paldiski Tuulepark	2005	Estonia	50 %	50 %	9 153
OÜ Nelja Energia	2005	Estonia	25,15 %	25,15 %	405
OÜ Hiiumaa Offsh. Tuulepark	2007	Estonia	45 %	45 %	8 383
OÜ Tooma Tuulepark	2007	Estonia	50 %	50 %	24 304
OÜ Roheline Ring Tuulepargid	2008	Estonia	25 %	25 %	10 095
OÜ 4E Biofond	2009	Estonia	34,9 %	34,9 %	19
Aseriaru Tuulepark AS	2009	Estonia	50,0 %	50,0 %	10 490
UAB Naujoji energija	2010	Lithuania	50,0 %	50,0 %	14 672
UAB Lariteksas	2006	Lithuania	50 %	50 %	2 914
UAB Vejo Elektra	2006	Lithuania	50 %	50 %	2 250
UAB Iverneta	2008	Lithuania	50 %	50 %	3 330
UAB Eurolanas	2008	Lithuania	50 %	50 %	2 576
UAB Silutes Vejo Projektai	2008	Lithuania	50 %	50 %	12
SIA Enercom	2008	Latvia	50 %	50 %	2 518
			<b>Share of result of the year incl. of goodwill</b>	<b>Group contribution/ Dividends/ other equity transactions</b>	<b>Closing balance 31.12.11</b>
	<b>Opening balance 01.01.11</b>				
<b>Joint ventures Vardar AS</b>					
Energiselskapet Buskerud AS	1 254 386		117 780	37 658	1 409 824
Øvre Eiker Fjernvarme AS	2 489		-100	-	2 389
<b>Associated companies Vardar AS</b>					
Norsk Enøk og Energi AS	3 161		0	-	3 161
Follum Energisentral AS	40		-	-	40
<b>Associated companies Vardar Boreas AS</b>					
Kvalheim Kraft DA	47 992		3 188	-8 950	42 230
Haram Kraft AS	96		-10	-	86
Zephyr AS	-		-1 825	-	-1 825
Midtfjellet Vindkraft AS	-		-201	20 230	20 029
Sula Kraft AS	206		-19	-	187
<b>Associated companies Vardar Eurus AS</b>					
OÜ Paldiski Tuulepark	10 289		-1 206	-6	9 077
OÜ Nelja Energia	5 110		3 887	-3 340	5 657
OÜ Hiiumaa Offsh. Tuulepark	6 547		-13	-49	6 484
OÜ Tooma Tuulepark	20 237		7 063	-2 455	24 845
OÜ Roheline Ring Tuulepargid	14 113		5 205	83	19 401
OÜ 4E Biofond	823		-67	7 748	8 504
Aseriaru Tuulepark AS	39 215		-2 217	3 124	40 122
UAB Naujoji energija	14 125		-3 734	3 908	14 300
UAB Lariteksas	5 073		-394	315	4 995
UAB Vejo Elektra	5 059		-425	-632	4 002
UAB Iverneta	4 948		3 426	6 865	15 239
UAB Eurolanas	2 177		-142	-278	1 758
UAB Silutes Vejo Projektai	-1 190		-856	3 033	987
SIA Enercom	1 665		-469	3	1 199
<b>Recognised 31.12.2011</b>					
	<b>1 436 733</b>		<b>128 903</b>		<b>1 632 689</b>

# Vardar - Notes to the consolidated IFRS financial statements for 2011

## Share in joint ventures Vardar AS

2011	Registered in	Assets	Liabilities	Revenues	Result for the year
<b>Joint venture Vardar AS</b>					
Energiselskapet Buskerud AS	Drammen	4 391 141	3 190 766	943 618	117 780
<b>2010</b>					
<b>Joint venture Vardar AS</b>					
Energiselskapet Buskerud AS	Drammen	4 428 022	3 385 410	994 282	130 922

Result of the year makes the participant's share of the annual result.

## 2010

	Acquired	Business address	Owner share	Voting share	Acquisition cost
<b>Joint venture Vardar AS</b>					
Energiselskapet Buskerud AS	1999	Drammen	50 %	50 %	706 701
Kvalheim Kraft DA	2001	Drammen	33,3 %	33,3 %	47 767
Øvre Eiker Fjernvarme AS	2003	Øvre Eiker	50 %	50 %	3 855
Sula Kraft AS	2006	Førde	50 %	50 %	408
<b>Associated companies Vardar AS</b>					
Haram Kraft AS	2003	Vestnes	35 %	35 %	355
Norsk Enøk og Energi AS	2010	Drammen	33 %	33 %	2 974
Zephyr AS	2006	Sarpsborg	17 %	17 %	2 000
Follum Energisentral AS	2008	Hønefoss	33 %	33 %	40
<b>Associated companies Vardar Eurus AS</b>					
OÜ Paldiski Tuulepark	2005	Estonia	50 %	50 %	9 153
OÜ Nelja Energia	2005	Estonia	25,15 %	25,15 %	405
OÜ Hiiumaa Offsh. Tuulepark	2007	Estonia	45 %	45 %	8 383
OÜ Tooma Tuulepark	2007	Estonia	50 %	50 %	24 304
OÜ Roheline Ring Tuulepargid	2008	Estonia	25 %	25 %	10 095
OÜ 4E Biofond	2009	Estonia	49,6 %	49,6 %	19
Aseriaru Tuulepark AS	2009	Estonia	50,0 %	50,0 %	10 490
UAB Naujoji energija	2010	Lithuania	50,0 %	50,0 %	14 672
UAB Lariteksas	2006	Lithuania	50 %	50 %	2 914
UAB Vejo Elektra	2006	Lithuania	50 %	50 %	2 250
UAB Iverneta	2008	Lithuania	50 %	50 %	3 330
UAB Eurolanas	2008	Lithuania	50 %	50 %	2 576
UAB Silutes Vejo Projektai	2008	Lithuania	50 %	50 %	12
SIA Enercom	2008	Latvia	50 %	50 %	2 518

	Opening balance 01.01.11	Share of result of the year incl. impairment of goodwill	Group contribution/ Dividends/ other equity transactions	Closing balance 31.12.11
<b>Joint venture Vardar AS</b>				
Energiselskapet Buskerud AS	1 336 336	130 922	-212 872	1 254 386
Kvalheim Kraft DA	3 366	3 491	41 135	47 992
Øvre Eiker Fjernvarme AS	-	139	2 350	2 489
Sula Kraft AS	301	-95	-	206
<b>Associated companies Vardar AS</b>				
Haram Kraft AS	258	-162	-	96
Norsk Enøk og Energi AS	0	187	2 974	3 161
Zephyr AS	-	-	-	-
Follum Energisentral AS	-	-	40	40
<b>Associated companies Vardar Eurus AS</b>				
OÜ Paldiski Tuulepark	8 340	-75	2 024	10 289
OÜ Nelja Energia	2 025	4 038	-952	5 110
OÜ Hiiumaa Offsh. Tuulepark	6 240	-21	328	6 547
OÜ Tooma Tuulepark	20 475	1 193	-1 430	20 237
OÜ Roheline Ring Tuulepargid	4 077	1 817	8 220	14 113
OÜ 4E Biofond	1 205	-322	-60	823
Aseriaru Tuulepark AS	9 593	-941	30 563	39 215
UAB Naujoji energija	-	-196	14 321	14 125
UAB Lariteksas	268	-624	5 429	5 073
UAB Vejo Elektra	954	73	4 031	5 059
UAB Iverneta	1 337	-3 559	7 170	4 948
UAB Eurolanas	2 067	-22	132	2 177
UAB Silutes Vejo Projektai	12 768	-598	-13 360	-1 190
SIA Enercom	2 055	-278	-112	1 665
<b>Recognised 31.12.2010</b>	<b>1 411 666</b>	<b>134 997</b>		<b>1 436 733</b>



# Vardar - Notes to the consolidated IFRS financial statements for 2011

## Note 8. Available-for-sale financial assets

	2011	2010
Book value 01.01	7 569	9 261
Addition	2 111	375
Disposal	0	-1 758
Recognised in income statement	0	-309
Book value 31.12	9 680	7 569
Including classified as non-current assets	9 680	7 569

All available-for-sale financial assets consist of Norwegian unquoted shares.

## Note 9. Trade receivables and other current receivables

	2011	2010
Trade receivables	20 944	63 587
Provision for bad debts	0	0
Trade receivables net	20 944	63 587
Advance payments	5 120	166
Retained earnings	50 611	38 183
Carry forward natural resource tax	45 762	47 605
Other receivables	254	19 695
Total trade receivables and other current receivables	122 691	169 236
Per 1 January	2011	2010
Provision for impairment of receivables	0	-10
Receivables impaired during the year	0	0
Reversal of amounts not used	0	10
Per 31 December	0	0

## Note 10. Subordinated loans and other non-current receivables with maturity later than one year

### 2011

Subordinated loans	Principal	Interest income	Interest rate
Energiselskapet Buskerud AS	465 000	18 151	3,91 %
Sula Kraft AS	1 432	84	4,80 %
Haram Kraft AS	1 805	109	5,13 %
Total subordinated loans	468 237	19 032	
Other loans	Principal	Interest income	Interest rate
Zephyr AS	9 040	606	4,23 %
Midtjelllet Vindkraft AS	7 035	82	6,47 %
Energiselskapet Buskerud AS	11 327	351	3,06 %
Loan from Vardar Eurur to associated companies	213 724	14 904	Euribor + margin
Others (including loan general manager)	1 600	33	2,75 %
Total other non-current receivables	242 726	15 255	

### 2010

Subordinated loans	Principal	Interest income	Interest rate
Energiselskapet Buskerud AS	465 000	21 048	4,53 %
Haram Kraft AS	2 167	65	4,79 %
Total subordinated loans	467 167	21 113	
Other loans	Principal	Interest income	Interest rate
Energiselskapet Buskerud AS	14 563	387	2,48 %
Loan from Vardar Eurur to associated companies	101 996	4 948	Flytende 5,5-7,75%
Loan Eurodigit	-	-	0,00 %
Loan Sula Kraft AS	2 365	64	4,15 %
Loan Zephyr AS	7 502	235	4,12 %
OÜ Paldiski Tuulepark	7 200	502	7,00 %
Others (including loan general manager)	1 100	27	2,46 %
Total other non-current receivables	134 726	6 136	

Loan to general manager has been secured through mortgage in real estate.

Book value of the group's loan receivables per currency presented in NOK at the current rate of exchange:

	2011	2010
NOK	497 239	492 697
EUR	213 724	109 196

## Vardar - Notes to the consolidated IFRS financial statements for 2011

### Note 11. Inventories

Inventories comprise briquettes, oil and chips, the inventories are recognised at acquisition cost.

	2011	2010
Raw materials	1 595	2 045
Goods in progress	-	-
Finished goods	-	-
Commodities	0	0
<b>Total inventories</b>	<b>1 595</b>	<b>2 045</b>

Depreciation in the period

0                      0

Water reservoir has not been recognised in the balance sheet. The group owns 2/7 of the capacity below:

2011                      2010

Percentage of filling	75,6 %	55,1 %
GWh (capacity 3451 GWh)	2 600	1 900

### Note 12. Bank deposits

Bank deposits in the cash flow statement comprise the following:

	2011	2010
Bank deposits	251 674	150 272
<b>Total bank deposits</b>	<b>251 674</b>	<b>150 272</b>
Employees' tax deduction and other restricted bank deposits	504	449
Security deposit account	9 821	16 156
<b>Total</b>	<b>261 999</b>	<b>166 877</b>

Vardar has a credit facility of 300 mill NOK Nordea, of which 12 mill euro is linked to guarantee provided to the power exchange NASDAQ OMX. Security deposit account relates to guarantee for settlement of financial contracts.

### Note 13. Share capital and premium

	A-shares	B-shares	Total shares	Premium	Total
Pr 1. januar 2011	2 688	265 873	268 561	348 500	617 061
<b>Per 31 December 2011</b>	<b>2 688</b>	<b>265 873</b>	<b>268 561</b>	<b>348 500</b>	<b>617 061</b>

Nominal value of the shares is NOK 5,420. Share class B has no voting rights and is not entitled to dividends

Buskerud Fylkeskommune owns 100 % of the A-shares in the company.

The following municipals own B-shares:

	2011		2010	
	Number	Owner share	Number	Owner share
Drammen	7 863	16,03 % Drammen	7 863	16,03 %
Lier	6 441	13,13 % Lier	6 441	13,13 %
Kongsberg	5 921	12,07 % Kongsberg	5 921	12,07 %
Ringerike	5 739	11,70 % Ringerike	5 739	11,70 %
Nedre Eiker	4 930	10,05 % Nedre Eiker	4 930	10,05 %
Røyken	3 973	8,10 % Røyken	3 973	8,10 %
Øvre Eiker	3 954	8,06 % Øvre Eiker	3 954	8,06 %
Hurum	2 924	5,96 % Hurum	2 924	5,96 %
Modum	1 737	3,54 % Modum	1 737	3,54 %
Sigdal	1 128	2,30 % Sigdal	1 128	2,30 %
Hole	922	1,88 % Hole	922	1,88 %
Flesberg	554	1,13 % Flesberg	554	1,13 %
Ål	471	0,96 % Ål	471	0,96 %
Hol	461	0,94 % Hol	461	0,94 %
Gol	442	0,90 % Gol	442	0,90 %
Krødsherad	373	0,76 % Krødsherad	373	0,76 %
Nes	353	0,72 % Nes	353	0,72 %
Rollag	309	0,63 % Rollag	309	0,63 %
Nore og Uvdal	265	0,54 % Nore og Uvdal	265	0,54 %
Hemsedal	191	0,39 % Hemsedal	191	0,39 %
Flå	103	0,21 % Flå	103	0,21 %
<b>Total</b>	<b>49 054</b>	<b>100,00 % Sum</b>	<b>49 054</b>	<b>100,00 %</b>

**Note 14. Current liabilities/non-current liabilities and financial instruments****Non-current liabilities**

Type of loan	Interest	Maturity	2011	2010
Bond loan NO001030311	3 month nibor +18bp	March 11		104 000
Bond loan NO001030312	3 month nibor +33bp	March 16	35 000	35 000
Bond loan NO001030313	Fixed, 4,3%	March 16	10 000	10 000
Bond loan NO00105772282	Fixed, 6,5%	June 25	500 000	480 000
Bond loan NO0010601248	3 month nibor + 160bp	March 16	110 000	
Certificate loan NO0010584055	Fixed	August 11		40 000
Loan from credit institutions	3 month nibor + 150bp	December 13	350 000	400 000
Loan from credit institutions	6 month euribor + 68bp	2016	36 542	46 421
Loan from credit institutions	3 month nibor +155bp	May 17	150 000	150 000
Loan from credit institutions	3 month nibor + 160bp	March 16	150 000	
Loan from credit institutions	3 month nibo + 165 bp	November 16	150 000	
Including first year's instalment non-current/current liabilities			0	-144 000
<b>Total non-current liabilities</b>			<b>1 491 542</b>	<b>1 121 421</b>
Subordinated loan	6 month nibor + 300bp	2030	507 500	507 500
<b>Total</b>			<b>507 500</b>	<b>507 500</b>

Nordea is facilitator for the bond loans. There are covenants related to the loans; net asset value/borrowed capital > 1,5, cash reserve> next year's interest expenses and cash flows from operations > next year's interest expenses. The covenants apply for NO00105772282 and NO0010601248.

Vardar has emitted negative pledge clause.

The subordinated loans have been rendered by Buskerud Fylkeskommune.

**Effective interest rate on the balance sheet date was:**

	2011	2010
Bond loan NO001030311		2,84 %
Bond loan NO001030312	3,45 %	3,00 %
Bond loan NO001030313	4,30 %	4,30 %
Bond loan NO00105772282	6,50 %	6,50 %
Bond loan NO0010601248	4,73 %	
Certificate loan NO0010584055		3,60 %
Loan from credit institutions	4,65 %	4,15 %
Loan from credit institutions	2,38 %	1,28 %
Loan from credit institutions	4,73 %	3,99 %
Loan from credit institutions	4,56 %	
Loan from credit institutions	4,61 %	
Subordinated loan	5,30 %	5,10 %

**Book value and fair value of non-current liabilities:**

	Book value		Fair value	
	2011	2010	2011	2010
Debt to credit institutions/bond loans	1 457 376	1 121 421	1 491 542	1 123 270
Subordinated loans	507 500	507 500	507 500	507 500
Non-controlling interest with option	124 057	124 085	124 057	124 085

Fair value of current liabilities corresponds to book value as the impact of discounting is immaterial.

**Note 15. Deferred tax**

Deferred tax is offset when the group has a legal right to set off deferred tax asset against deferred tax in the balance sheet, and provided that the deferred tax relates to the same tax authorities. The following amounts have been offset:

Deferred tax asset	2011	2010
Deferred tax asset that is reversed later than 12 months	1 691	2 520
Deferred tax asset that is reversed within 12 months	0	0
<b>Total</b>	<b>1 691</b>	<b>2 520</b>

**Deferred tax**

Deferred tax that is reversed later than 12 months	146 571	139 475
Deferred tax that is reversed within 12 months	33 927	40 153
<b>Total</b>	<b>180 498</b>	<b>179 628</b>

<b>Total net deferred tax</b>	<b>178 807</b>	<b>177 108</b>
-------------------------------	----------------	----------------

**Change in deferred tax recognised in the balance sheet:**

	2011	2010
Book value 1 January	177 108	167 926
Recognised in the income statement	1 737	9 183
Deferred tax recognised directly in the balance sheet	0	0
Translation differences	-38	0
Other	0	-1
<b>Book value 31 December</b>	<b>178 807</b>	<b>177 108</b>

# Vardar - Notes to the consolidated IFRS financial statements for 2011

Change in deferred tax asset and deferred tax:

Deferred tax asset	Carry forward loss	Pensions	Total
Per 1 January 2010	47	886	933
Recognised in the income statement	0	1 587	1 587
Charged to equity	0	0	0
<b>Per 31 December 2010</b>	<b>47</b>	<b>2 473</b>	<b>2 520</b>
Recognised in the income statement	-47	-782	-829
Charged to equity	0	0	0
<b>Per 31 December 2011</b>	<b>0</b>	<b>1 691</b>	<b>1 691</b>

Deferred tax	Financial fixed assets	Profit and loss	Derivatives and rights	Operating assets and intangible assets	Total
Per 1 January 2010	3 958	626	33 135	131 102	168 820
Recognised in the income statement	6 747	-287	6 980	-2 671	10 769
Charged to equity	0	0	0	0	0
<b>Per 31 December 2010</b>	<b>10 705</b>	<b>339</b>	<b>40 115</b>	<b>128 431</b>	<b>179 628</b>
Recognised in the income statement	362	-230	-6 189	6 964	908
Charged to equity	0	0	0	0	0
<b>Per 31 December 2011</b>	<b>11 067</b>	<b>109</b>	<b>33 926</b>	<b>135 395</b>	<b>180 498</b>

Deferred tax and deferred tax asset are presented net as deferred tax.

# Vardar - Notes to the consolidated IFRS financial statements for 2011

## Note 16. Pensions

The pension obligations to employees in the Group are covered through group pension scheme in Buskerud Fylkeskommunale Pensjonskasse. This arrangement also includes AFP (early retirement pension) and meets the statutory requirements to mandatory occupational pension.

Settlement of the arrangement is not expected within the next 12 months.

	2011		2010	
<i>Pension cost</i>	<i>Secured scheme</i>	<i>Unsecured scheme</i>	<i>Secured scheme</i>	<i>Unsecured scheme</i>
Pension cost for the year	2 558	945	4 842	712
<i>Pension liabilities</i>				
Present value of pension liabilities	72 278	6 384	60 859	5 054
Plan assets (at market value)	-44 721		-44 616	
Payroll tax	3 886	900	583	177
Actuarial deviations	-27 604	-5 082	-12 289	-3 797
Net pension liabilities in the balance sheet	3 838	2 202	4 537	1 433

*Actuarial assumptions;*

Discount rate	2,60 %	4,00 %
Annual salary growth rate	3,50 %	4,50 %
Annual growth rate National Insurance	3,25 %	4,25 %
Pension adjustment	2,50 %	4,25 %
Assumed long term return on plan assets	4,10 %	5,70 %
Mortality assumption	K2005	K2005

### Changes in defined benefit pension liability during the year:

	2011	2010
Pension liabilities 1 January	65 913	64 710
Current service cost	2 016	1 792
Interest expense	2 637	2 909
Actuarial deviations	(17 443)	(16 678)
Benefits paid	(2 361)	(2 146)
Liabilities from change in scheme and acquired in a business combination	-	-
<b>Pension liabilities 31 December</b>	<b>50 761</b>	<b>50 587</b>

### The movements in the fair value of plan assets:

	2011	2010
Fair value of plan assets per 1 January	42 276	42 770
Expected return on plan assets	2 283	2 438
Actuarial deviations	-	-
Total contributions	2 540	1 567
Total benefits paid	(2 378)	(2 159)
Pension assets acquired in a business combination	-	-
<b>Fair value of plan assets per 31 December</b>	<b>44 721</b>	<b>44 616</b>

Actual return on plan assets	2,10 %	6,30 %
------------------------------	--------	--------

*Allocation plan assets;*

Investment held at maturity	17,40 %
Loans and receivables	5,80 %
Shares and investments	6,00 %
Bonds and other securities that yield a fixed return	70,80 %

### Calculation of net pension cost:

	2011	2010
Current service cost	2 016	2 026
Interest expense	2 590	3 003
Expected return on plan assets	(2 287)	(2 421)
Recognised actuarial deviations	765	2 527
Payroll tax	419	419
Contributions by plan participants	-	0
<b>Total pension cost</b>	<b>3 503</b>	<b>5 554</b>

## Note 17. Other profits / (losses) - net

	2011	2010
Value change investment property (cf. note 6)	2 980	7 033
Value change concession power rights (cf. note 8)	-89 024	12 583
Value change financial power portfolio	74 535	-55 993
Forward exchange contracts	2 184	55 904
Interest rate swaps - loan	-9 797	12 435
<b>Total other profits / (losses) net</b>	<b>-19 122</b>	<b>31 962</b>

### Carrying value of derivatives and financial power portfolio

	2011	2010
Interest rate swaps and currency swaps	(33 100)	(23 303)
Forward exchange contracts, euro	38 973	36 789
Power portfolio	23 222	(51 313)
<b>Total derivatives net</b>	<b>29 095</b>	<b>(37 827)</b>

## Vardar - Notes to the consolidated IFRS financial statements for 2011

Derivatives assets	62 195	36 789
Derivatives liabilities	(33 100)	(74 617)

The derivatives are recognised at fair value over profit and loss. The derivatives do not meet the requirements to hedge accounting in IAS 39.

### Rights concession power

Rights concession power are acquired from Buskerud Fylkeskommune.

Book value 1.1.2010	239 691
Value change	12 582
<b>Book value 31.12.10</b>	<b>252 273</b>
Value change	(89 024)
<b>Book value 31.12.11</b>	<b>163 249</b>

### Applied in the calculation of value:

Euro exchange rate	7,75	7,82
Price of power, MWh	331	389

The right lasts till 2041. Volume is 61 900 MWh in 2012, decreasing up to 2041.

# Vardar - Notes to the consolidated IFRS financial statements for 2011

## Note 18. Wage costs and remunerations

Wage costs	2011	2010
Wages (inklusive of allocation)	6 729	4 010
Remuneration for the Board of Directors	464	245
Payroll tax	1 804	1 574
Pension costs	3 503	5 554
Other contributions	-	3
Other personnel costs	77	2 047
<b>Total wage costs and personnel costs</b>	<b>12 576</b>	<b>13 434</b>
Average number of man-years	11	9

Remunerations for executive employees	2011		2010	
	General managers	Board of Directors	General managers	Board of Directors
Wages	1 782		1 739	
Pension	140		140	
Other remunerations	160	315	152	245
<b>Total</b>	<b>2 082</b>	<b>315</b>	<b>2 031</b>	<b>245</b>

Auditor	2011	2010
Expensed fee for the Group's auditors is as follows, exclusive of v.a.t.:		
-statutory audit (including assistance in the preparation of the financial statements)	759	903
-other certification services	22	33
-tax advice (incl. technical assistance with tax return)	53	64
-other assistance	41	181
<b>Total fees to the group's auditor</b>	<b>875</b>	<b>1 181</b>

Expensed remuneration to other auditors		
-statutory audit (including assistance in the preparation of the financial statements)	74	68
-other certification services	0	0
-tax advice (incl. technical assistance with tax return)	0	0
-other assistance	0	0
<b>Total fees to other auditors</b>	<b>74</b>	<b>68</b>

Vardar group has 5 executive employees: Vardar AS: Managing director + 4 executive employees, Vardar Eurur AS: Manager of business development, and Hønefoss Fjernvarme: General manager

Remuneration for managing director is assessed and determined by the Board of Directors once a year, and possible adjustments become effective 1 January each year. The chairman of the board has an annual salary review meeting with managing director where the remuneration is reviewed and assessed against the general wage development, the development of wages for executives within the trade and the managing director's performance compared to the expectations of the Board of Directors. After the meeting the chairman presents a proposal for remuneration which is considered by the Board of Directors.

Remuneration for general manager in Hønefoss Fjernvarme is determined in accordance with similar guidelines by the Board of Directors of Hønefoss Fjernvarme.

Remuneration for the remaining executive employees in Vardar group is addressed and determined by the managing director who in advance of the wage assessment holds a wage review meeting with each employee. In connection with determination of remuneration for the individual persons the general wage development for corresponding positions, wage development in other companies where Vardar has owner interests and the individual employee's performance compared to expectations shall be assessed. Possible wage adjustments become effective 1 November each year.

The wage policy for executive employees described above has been prevailing in 2011 and will also be assumed for the next accounting year.

As regards additional remuneration beyond ordinary wages, all employees in Vardar are covered by a defined benefit pension scheme. In addition all employees are covered by group accident insurance and group life insurance. Managing director also has a business pension arrangement for coverage of pensionable income exceeding 12 G (Basic amount of national insurance) The business pension arrangement also involves the possibility of early retirement pension from 65 years of age.

Executive employees in Vardar receive other benefits from their employer, such as free telephone/cell phone, 1 - 2 newspaper subscriptions and internet for home office.

For executive employees there is an arrangement involving a combination of payment of salary in arrears and wage guarantees as financial security in connection with termination of the employment. For managing director this includes 12 months salary in arrears and another 12 months wage guarantee. For the remaining executive employees the total frame is 18 months, whereof salary in arrears constitute 3 months. These arrangements come into force only when the employer terminates the employment or the organisation is subject to extensive structural changes.

Managing director has a free car arrangement within a cost frame corresponding to NOK 655 822 for 2011.

Vardar has rendered loan to some of the executive employees, the loans are subject to the interest rate which the Storting (the Norwegian Parliament) has laid down for borrowings from employer.

Two of the executive employees in Vardar AS who partly work for the wind power company Zephyr, participate in the bonus plan of Zephyr. The bonus plan has a max. frame of 20% of the wage share that the work for Zephyr involves. Both ordinary wages and bonus are refunded by Zephyr.

Executive employees in Vardar participate to some extent in the Boards of subsidiaries and associates. No fees have been paid to employees in Vardar who are members of the Board in subsidiaries.

There are no other additional remunerations for executive employees, nor are there variable elements in the remuneration to these persons.

# Vardar - Notes to the consolidated IFRS financial statements for 2011

## Note 19. Other operating expenses

	2011	2010
Production costs	31 127	26 043
Operating expenses real property	5 707	6 915
Rent expenditure	474	542
Consultancy fee	6 177	9 569
Travelling expenses	704	763
Tax on real property	10 513	10 607
Maintenance	1 169	1 304
Other operating expenses	4 301	4 901
<b>Total other operating expenses</b>	<b>60 172</b>	<b>60 644</b>

## Note 20. Financial items

	2011	2010
Interest income	49 487	37 242
Other financial income	111	16 793
Change liability non-controlling interest with option, cf. Note 26	28	13 975
<b>Total financial income</b>	<b>49 626</b>	<b>68 010</b>
Interest expenses	-100 907	-96 929
Loss on exchange (net)	-1 112	-11 158
Other financial expenses	-2 106	-6 944
<b>Total financial expenses</b>	<b>-104 125</b>	<b>-115 031</b>
<b>Total financial items</b>	<b>-54 499</b>	<b>-47 021</b>

## Note 21. Tax expense

	2011	2010
Payable tax	14 882	15 514
Payable economic rent tax	32 470	33 833
Change in deferred tax	1 737	9 183
Other tax effects	-3 747	3 789
<b>Total tax expense</b>	<b>45 342</b>	<b>62 319</b>

The tax on pre-tax result deviates from the amount which would have appeared if the Group's average tax rate had been used. The difference is explained as follows:

	2011	2010
Result before tax expense	201 679	244 367
Tax calculated at expected average tax rate (28%)	56 470	68 423
Economic rent tax	32 470	33 833
Tax-free income	-7 621	-3 344
Result related to associates/joint ventures	-36 093	-37 799
Non-deductible expenses	117	1 206
<b>Total tax expense</b>	<b>45 342</b>	<b>62 319</b>
Average tax rate	22,48 %	25,50 %

	2011	2010
Calculation of current tax in the balance sheet		
Current tax	1 647	468
Current economic rent tax	32 470	33 833
Current natural resource tax	8 445	8 204
<b>Total payable tax</b>	<b>42 562</b>	<b>42 505</b>



## Vardar - Notes to the consolidated IFRS financial statements for 2011

### Note 22. Cash flows from the operations

	2011	2010
Result before tax expense	201 679	244 367
Adjusted for:		
- depreciations (note 5 )	29 376	25 404
- correction profit from sale of operating equipment	0	0
- change in pension liabilities	69	2 808
- financial items	103 610	71 139
- result from associates/joint ventures	-132 814	-134 997
- other accruals	-17 767	29 395
- fair value change financial instruments (note 17)	16 112	-24 929
- fair value change investment property	2 980	-7 034
Changes in working capital:		
- inventories	450	-406
- trade receivables	42 643	-50 320
- trade payables	4 715	795
<b>Cash flows from operations</b>	<b>251 054</b>	<b>156 222</b>

#### Profit/(loss) of operating equipment comprises:

Carried value	0	0
Profit/(loss) from sale of property, plant and equipment	0	0
<b>Proceeds from sale of property, plant and equipment</b>	<b>0</b>	<b>0</b>

### Note 23. Companies included in the consolidation

Name of company	Time of acquisition	Business office	Owner share
Uste Nes AS	1999	Drammen	100 %
Vardar Eiendom AS	2001	Drammen	99,2 %
Vardar Eurur AS*	2004	Drammen	90 %
Hønefoss Fjernvarme AS	2007	Ringerike	100 %
OÜ Pakri Tuulepark	2004	Estonia	90 %
OÜ Viru-Nigula Tuulepark	2005	Estonia	100 %
OÜ Vanaküla Tuulepark	2007	Estonia	100 %
Vardar Boreas AS	2009	Drammen	100 %
4E Thenoinvest	2009	Estonia	51,0 %

There is no addition of subsidiaries in 2011

\* From an accounting point of view Vardar Eurur AS is considered fully owned, with 10% share owner classified as liability. See note 27.

### Note 24. Retained earnings

Carried amount 1.01.2010	898 740
Result for the year	180 985
Dividends for 2009	-82 500
<b>Carried amount 31.12.2010</b>	<b>997 224</b>
Result for the year	154 564
Dividends for 2010	-58 000
<b>Carried amount 31.12.2011</b>	<b>1 093 788</b>

Other equity not recognised in the income statement comprises value regulation from transition to IFRS.

### Note 25. Dividends

Dividends paid for 2010 amounted to 58 000 ( NOK 116 935 per share).

Proposed dividend for the accounting year 2011 is NOK 108 266 per share, in total 53 700. Decision is made in the ordinary general meeting.

## Vardar - Notes to the consolidated IFRS financial statements for 2011

### Note 26. Non-controlling interest with option

Liability towards non-controlling interest (NCI) is calculated for 10% owner share of the subsidiary Vardar Eurus AS. Shareholders' agreement has been entered into with NCI where NCI has a sales option. The option may be used 01.01.2016 at the earliest. Liability is market value in Euro which is translated into current rate.

<b>Carried value 31.12.2009</b>	<b>213 540</b>
Value change	-13 975
Used sales option	-96 261
Issue	20 781
<b>Carried value 31.12.2010</b>	<b>124 085</b>
Value change	-28
<b>Carried value 31.12.2011</b>	<b>124 057</b>

	2011	2010
Estimate market value has been extrapolated with required rate of return on equity by	9,58 %	9,58 %
Present value calculated at 5 year euribor + 100 bp.	2,56 %	3,15 %

### Note 27. Events after the balance sheet date

On 22 of March 2012 Vardar Eurus coordinated its owner shares in Baltic companies with the rest of the owners. The merged company is named Nelja Energia. The ownership distribution in the merged company is based on value assessment of the shares of the individual owners in the project. Vardar Eurus is majority shareholder, with owner share slightly above 60 %. The coordination strengthens Vardar Eurus' campaign within renewable energy in the Baltic states and gives the company a controlling position in the projects. To a certain extent the transaction will have a risk mitigation effect since Vardar Eurus' assets are spread on several projects. The restructuring will not have any impact on the owner structure in Vardar Eurus.

# INCOME STATEMENT VARDAR AS

(Amounts in 1000 NOK)	Note	NGAAP	
		2011	2010
Sales revenues		2 609	2 430
<b>Total operating income</b>		<b>2 609</b>	<b>2 430</b>
Purchase of goods		378	503
Wages and other personnel expenses	1,10	7 555	8 094
Depreciations	3	24	57
Other operating expenses	1	8 467	10 773
<b>Total operating expenses</b>		<b>16 424</b>	<b>19 427</b>
<b>Operating result</b>		<b>-13 815</b>	<b>-16 997</b>
Income from investment in subsidiary	4	82 882	48 555
Income from investment in joint ventures and associates	4	108 027	128 155
Financial income	16	55 129	63 121
Financial expenses	16	101 312	104 620
<b>Net finance items</b>		<b>144 726</b>	<b>135 211</b>
<b>Result before tax expense</b>		<b>130 912</b>	<b>118 214</b>
Tax expense	2	-15 624	-15 282
<b>Result</b>		<b>146 536</b>	<b>133 496</b>
<b>Allocation of result for the year</b>			
Reserve for valuation variances		63 146	7 297
Dividend given		53 700	58 000
Other equity		29 690	68 199
<b>Total allocated</b>		<b>146 536</b>	<b>133 496</b>

# BALANCE SHEET VARDAR AS

		NGAAP	
(Amounts in 1000 NOK)	Note	31.12.2011	31.12.2010
Machines, fixtures and fittings etc.	3	32	56
<b>Total property, plant and equipment</b>		<b>32</b>	<b>56</b>
Investment in subsidiary	4	1 136 347	1 110 396
Loan to group entity	7	497 971	363 764
Investment in joint ventures/associates	4	1 229 770	1 187 047
Loan to joint ventures/associates	7	11 327	31 629
Shares	5	7 937	7 437
Subordinated loans	6	488 000	492 167
Other receivables	7	1 600	1 100
<b>Total financial fixed assets</b>		<b>3 372 952</b>	<b>3 193 540</b>
<b>Total fixed assets</b>		<b>3 372 984</b>	<b>3 193 595</b>
Trade receivables		639	240
Other receivables	12	82 247	86 302
Cash and bank deposits	8	196 593	340 156
<b>Total current assets</b>		<b>279 480</b>	<b>426 697</b>
<b>Total assets</b>		<b>3 652 464</b>	<b>3 620 292</b>
Share capital (49,550 each NOK 5,420)	13	268 561	268 561
Premium		348 500	348 500
<i>Retained earnings</i>		-	-
Reserve for valuation variances	4	572 666	508 920
Other equity		234 025	220 750
<b>Total equity</b>	<b>9</b>	<b>1 423 752</b>	<b>1 346 731</b>
Pension liabilities	10	4 825	5 069
Deferred tax	2	2 943	2 504
Debt to credit institutions	14	1 455 000	1 075 000
Subordinated loan capital	12	507 500	507 500
<b>Total other long-term liabilities</b>		<b>1 970 269</b>	<b>1 582 500</b>
Certificate loan	14	-	40 000
Debt to credit institutions	14	-	428 907
Trade payables		694	5 505
Current tax	2	177	467
Public duties owing		651	649
Dividends		53 700	58 000
Other short-term liabilities	11	203 222	149 958
<b>Total short-term liabilities</b>		<b>258 443</b>	<b>683 488</b>
<b>Total equity and liabilities</b>		<b>3 652 464</b>	<b>3 620 292</b>

Drammen 27.04.2012

Svein Marfi  
Chairman of the Board

Mette Lund Stake  
Deputy Chairman of the Board

Lise Løff  
Board member

Nils Peter Undebakke  
Board member

Linda Verde  
Board member

Johannes Rauboti  
CEO



# CASH FLOW STATEMENT VARDAR AS

NGAAP

1. january - 31. December

(Amounts in 1000 NOK)

	2011	2010
<b>Cash flows from operating activities</b>		
Result before tax expense	130 912	118 214
Taxes paid in the period	-467	-1
Ordinary depreciations	24	57
Impairment/reversing fixed assets	0	309
Difference between expensed pension and contributions/payments in the pension €	-244	2 356
Share of result (from subsidiaries/associates) with deduction of payments	-190 907	-176 709
Change in trade receivables	-399	-129
Change in trade payables	-4 811	3 997
Change in other accruals	4 513	250
Received dividend/group contribution	119 000	169 040
Impact of currency exchange rate changes	2 204	18 943
<b>Net cash flows from operating activities</b>	<b>59 824</b>	<b>136 327</b>
<b>Cash flows from investing activities</b>		
Purchase of property, plant and equipment	0	-72
Payment of loan receivables group	-161 495	-98 896
Proceeds from loan receivables group	27 084	66 273
Payment of long-term loan receivables	0	-5 523
Proceeds from long-term loan receivables	13 133	31 852
Purchase of shares and investments in other companies	-2 664	0
Proceeds from sale of shares and investments in other companies	10 772	-248 522
<b>Net cash flows from investing activities</b>	<b>-113 170</b>	<b>-254 888</b>
<b>Cash flows from financing activities</b>		
Net payment bank overdraft	-174 907	103 111
Proceeds from liabilities group entities	56 690	17 239
Payment of liabilities group entities	0	0
Proceeds from other debt raising	370 000	670 000
Repayment of other liabilities	-284 000	-479 000
Payment of dividends	-58 000	-40 000
<b>Net cash flows from financing activities</b>	<b>-90 217</b>	<b>271 350</b>
<b>Net cash flows for the period</b>	<b>-143 563</b>	<b>152 789</b>
Cash and cash equivalents at the beginning of the period	340 156	187 367
<b>Cash and cash equivalents at the end of the period</b>	<b>196 593</b>	<b>340 156</b>
<i>Comprising:</i>		
Bank deposit etc.	196 593	340 156

## **Accounting policies**

### **General**

The financial statements are prepared in accordance with the Norwegian Accounting Act and Norwegian Generally Accepted Accounting Practice (NGAAP).

The following companies are included in the group:

- Vardar AS (parent)
- Uste Nes AS (subsidiary, 100% owned by Vardar AS)
- Hønefoss Fjernvarme AS (subsidiary, 100% owned by Vardar AS)
- Vardar Boreas AS (subsidiary, 100% owned by Vardar AS)
- Vardar Eiendom AS (subsidiary, 99.2% owned by Vardar AS)
- Vardar Eurus AS (subsidiary, 90% owned by Vardar AS)
- OÜ Pakri Tuulepark (subsidiary of Vardar Eurus AS, 90% owned by Vardar Eurus AS)
- OÜ Viru-Nigula Tuulepark (subsidiary of Vardar Eurus AS, 100% owned by Vardar Eurus AS)
- OÜ Vanakula Tuulepark (subsidiary of Vardar Eurus AS, 100% owned by Vardar Eurus AS)
- OÜ 4E Technoinvest (subsidiary of Vardar Eurus AS, 61.7 owned by Vardar Eurus AS)

Vardar AS owns 50% of the shares in Energiselskapet Buskerud AS, Øvre Eiker Fjernvarme AS and Sula Kraft AS. These are all considered as joint ventures and are consolidated in accordance with the equity method.

The subsidiaries, the joint ventures and the associated companies are valued in accordance with the equity method in the company accounts. The parent company's share of the result is based on the invested company's result after taxes. The shares of the result are presented under financial items in the income statement, the assets in the balance sheet are presented under financial fixed assets.

The subsidiary Vardar Eurus AS has euro as presentation currency. The currency exchange rate at the balance sheet date, 7.754 has been used for translation of equity, while the share of the result for the year has been translated using the average currency exchange rate for 2011, 7.793. Translation differences are recognised against equity in Vardar AS.

### **Sales revenues**

Revenues from sale of goods and services are recognised at fair value of the consideration, net after deduction of VAT, returns, discounts and reductions. Sales are taken to income when the company has delivered its products to the customer and there are no unsatisfied commitments which may influence the customer's acceptance of the product. Delivery is not completed until the products have been sent to the agreed place, and risks relating to loss and obsolescence have been transferred to the customer. Historical data is applied to estimate and recognise provisions for quantity rebates and returns at the sales date. Provisions for expected guarantee work are recognised as expenses and provisions for liabilities. Services are recognised in proportion to the work performed.

### **Classification and valuation of assets and liabilities**

Assets intended for long term ownership or use have been classified as fixed assets. Assets relating to the trading cycle have been classified as current assets. Receivables are classified as current assets if they are to be repaid within one year after the transaction date. Similar criteria apply to liabilities.

Current assets are valued at the lower of cost and net realisable value. Short term liabilities are recognised in the balance sheet at nominal amount at the time of establishment. Fixed assets are valued at historical cost. Fixed assets whose value will deteriorate are depreciated linearly over expected useful life. The fixed assets are depreciated to net realisable value if a drop in value occurs that is not expected to be temporary. Long term liabilities in NOK are recognised in the balance sheet at nominal amount at the time of establishment.

### **Property, plant and equipment and depreciations**

Property, plant and equipment are reflected in the balance sheet and depreciated over the asset's expected useful life. Direct maintenance of an asset is expensed under operating expenses as and when it is incurred. Additions or improvements are added to the asset's cost price and depreciated together with the asset. Property, plant and equipment are depreciated from the time the asset is taken into use. If the recoverable amount of the asset is lower than carrying value, a write-down is made to recoverable amount. Recoverable amount is the higher of net sales value and value in use.

Leased property, plant and equipment are recognised in the balance sheet if the lease contract is considered a financial lease.

### **Investment in other companies**

Except for short term investments in listed shares, the equity method is applied to investments in other companies. The cost price is increased when funds are added through capital increases or when group contributions are made to subsidiaries. Dividends received are initially taken to income. Dividends exceeding the portion of retained equity after the purchase are reflected as a reduction in purchase cost. Dividend/group contribution from subsidiaries are reflected in the same year as the subsidiary makes a provision for the amount. Dividend from other companies are reflected as financial income when it has been approved.

## **Receivables**

Trade receivables and other receivables are recognised in the balance sheet after provision for bad debts. The bad debts provision is made on basis of an individual assessment of each debtor and an additional provision is made for other debtors to cover expected losses.

## **Accruals**

Accruals have been made of both income invoiced in advance, incurred expenses other nets/energy purchase, incurred interest expenses and incurred operating expenses. Contingent losses as result of ongoing disputes are assessed and taken into account continuously.

## **Pension liabilities**

The parent company and the subsidiaries Uste Nes AS and Vardar Eurur AS have a group pension scheme that includes AFP (early retirement pension) in Buskerud Fylkeskommunale Pensjonskasse (BFP). Recognition of the pension costs is in accordance with Norsk Regnskapsstandard (Norwegian Accounting Standard), NRS 6 Pension costs. Pension costs and pension liabilities are calculated on a straight-line earning profile basis, based on assumptions relating to discount rate, projected salaries, the amount of pension and benefits from the National Insurance Scheme, future return on plan assets and actuarial assumptions relating to mortality rate and voluntary retirement.

Plan assets are recognised at fair value and deducted in net pension liability in the balance sheet. Possible overfunding is recognised to the extent that the overfunding can be utilized or repaid. Changes in the pension liability due to changes in the pension plans are recognised over the estimated average remaining service period. When the accumulated effect of changes in and deviations from actuarial assumptions (changes in estimates) exceed 10 percent of the higher of pension liabilities and plan assets, the excess amount is recognised over the estimated average remaining service period.

## **Foreign currencies**

Receivables and liabilities in foreign currencies are translated using the currency exchange rate at the end of the fiscal year. Profit and losses on foreign exchange relating to sale and purchase of goods in foreign currency are recognised as sales revenues and commodity cost.

### *Forward contracts*

The company and the group use forward contracts on foreign currencies to secure a future exchange rate for existing (carrying) receivables/liabilities (value hedging) or for relatively secure future proceeds/payments in foreign exchange (cash flow hedge).

The forward contracts are classified as hedging instruments in the accounts.

Changes in fair value of forward contracts hedging balance sheet items (value hedging) are recognised in the income statement.

Changes in fair value of forward contracts that are cash flow hedging are not recognised before the underlying hedging object has impact on the result. Value changes of the hedging instruments are not recognised before this time.

## **Taxes**

The tax expense in the income statement comprises current tax and change in deferred tax. Deferred tax is calculated at 28% based on the temporary differences existing between accounting and tax related values and any carry forward loss for tax purposes at the end of the fiscal year. Tax enhancing and tax reducing temporary differences that are reversed or may be reversed in the same period are eliminated and recognised net in the balance sheet.

Tax on group contributions given that are recognised as increased cost price of shares in other companies have been recognised directly against tax in the balance sheet (against current tax if the group contribution has had impact on current tax and against deferred tax if the group contribution has had impact on deferred tax).

## **Cash flow statement**

The cash flow statement is prepared according to the indirect method. Cash and cash equivalents include cash, cash deposits and other short-term, highly liquid investments that immediately and at immaterial exchange risk may be converted into known cash amounts with original maturity of three months or less from the date of acquisition.

## Notes 2011

(All amounts in 1000 NOK)

### Note 1. Payroll expenses, number of employees, remunerations etc.

Payroll expenses	2011	2010
Wages (incl. allocated salary)	4 528	1 829
Remuneration to the Board of Directors	316	151
Payroll tax	981	1 207
Pension costs	1 647	4 762
Other personnel expenses	84	146
<b>Total payroll and personnel expenses</b>	<b>7 555</b>	<b>8 094</b>

Average number of employees	6	6
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#### Remuneration for executives

	2011		2010	
	General manager	Board	General manager	Board
Wages	1 782		1 739	
Pension	140		140	
Other remunerations	160	315	152	151
<b>Total</b>	<b>2 082</b>	<b>315</b>	<b>2 031</b>	<b>151</b>

#### Auditors

	2011	2010
Expensed fee for auditors includes :		
-statutory audit (including assistance in the preparation of financial statements)	374	539
-other certification services	17	0
-tax services (incl. technical assistance tax return)	0	11
-other services	11	109
<b>Total auditor's fee</b>	<b>402</b>	<b>659</b>



## Note 2. Tax expense

Calculation of tax expense of the year:	2011	2010
Current tax	177	467
+/- Correction previous years	-	3
Change in deferred tax/deferred tax asset	439	-632
Tax on group contribution	-16 240	-15 120
<b>Total tax expense</b>	<b>-15 624</b>	<b>-15 282</b>

Calculation of basis for taxes of the year:	2011	2010
Result before tax expense	130 912	118 214
Permanent differences *)	-187 866	-172 370
Change in temporary differences	-415	1 825
Group contribution received	58 000	54 000
<b>Basis for taxes of the year</b>	<b>631</b>	<b>1 670</b>

Temporary differences:	2011	2010
Fixed assets	-188	-218
Financial fixed assets	15 524	14 230
Pension liabilities	-4 825	-5 069
<b>Total</b>	<b>10 511</b>	<b>8 943</b>

28 % deferred tax / deferred tax asset (-)	2 943	2 503
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### Account of tax expense of the year not constituting 28 % of result before tax:

28 % tax of result before tax	36 655	33 100
+/- Correction previous years	-	-
Deferred tax 3%-rule	323	-118
Permanent differences (28%)	-52 602	-48 263
<b>Calculated tax expense</b>	<b>-15 624</b>	<b>-15 282</b>

\*) Include: Non-deductible expenses, f.ex. representation, and deduction for share of result relating to associates (share of result is extracted as tax has already been imposed on the individual entities)

## Note 3. Property, plant and equipment

	Machines/ furniture and fixtures etc.	Land	Total
Acquisition cost 01.01.	1 185	-	1 185
Addition	72	-	72
Disposal	-	-	-
Acquisition cost 31.12.	1 257	-	1 257
Accumulated depreciation 31.12.	1 225	-	1 225
<b>Book value 31.12.</b>	<b>32</b>	<b>-</b>	<b>32</b>
Depreciations of the year	24	-	24
Useful life	3 years/8 years		
Depreciation plan	33/12,5%		

#### Note 4. Subsidiaries, joint ventures and associated companies

	Aquisition Date	Business address	Owner share	Voting share	Acquisition cost
<b>Subsidiaries</b>					
Uste Nes AS	1999	Drammen	100 %	100 %	614 094
Vardar Eiendom AS	27.12.2001	Drammen	99,2 %	99,2 %	4 824
Vardar Euris AS	13.05.2004	Drammen	90 %	90 %	448 498
Hønefoss Fjernvarme AS	19.01.2007	Ringerike	100 %	100 %	71 110
Vardar Boreas AS	14.09.2009	Drammen	100 %	100 %	13 179
4E Thenoinvest	01.01.2011	Estonia	51,2 %	51,2 %	2 185
<b>Associated companies</b>					
Energiselskapet Buskerud AS	01.01.1999	Drammen	50 %	50 %	706 701
Øvre Eiker Fjernvarme AS	01.08.2003	Øvre Eiker	50 %	50 %	3 855
Sula Kraft AS	08.02.2006	Førde	50 %	50 %	408
Haram Kraft AS	07.05.2003	Vestnes	35 %	35 %	354
Zephyr AS	20.03.2006	Sarpsborg	17 %	17 %	1 000
Follum Energi Sentral AS	15.09.2009	Hønefoss	33 %	33 %	40
Norsk Enøk & Energi AS	14.01.1992	Drammen	33 %	33 %	4 271

	Opening balance	Share of result for the year	Group contribution Dividend/ other Equity-trans.	Closing balance	Reserve for valuation variances
<b>Subsidiaries</b>					
Uste Nes AS	556 487	57 093	-54 875	558 705	-
Vardar Eiendom AS	17 660	342	47	18 049	13 225
Vardar Euris AS	461 393	36 027	-6 959	490 461	41 963
Hønefoss Fjernvarme AS	63 575	-8 475	11 148	66 247	-
Vardar Boreas AS	11 280	-1 608	-8 453	1 219	-
4E Thenoinvest	-	-498	2 164	1 666	-
	<b>1 110 395</b>	<b>82 881</b>	<b>-56 929</b>	<b>1 136 347</b>	<b>55 188</b>

#### Not depreciated attributable excess value 31.12.

Vardar Euris AS	31 636
Depreciation rate attributable excess value	5 %

<b>Associated companies</b>					
Energiselskapet Buskerud AS	1 181 054	108 126	-65 000	1 224 180	517 479
Øvre Eiker Fjernvarme AS	2 489	-100	-	2 389	-
Sula Kraft AS	301	3 400	-3 702	-	-
Haram Kraft AS	96	5 154	-5 250	-	-
Zephyr AS	-	1 820	-1 820	-	-
Follum Energi Sentral AS	40	-	-	40	-
Norsk Enøk & Energi AS	3 161	-	-	3 161	-
	<b>1 187 142</b>	<b>118 401</b>	<b>-75 772</b>	<b>1 229 771</b>	<b>517 479</b>

#### Note 5. Shares in other companies

Parent company/Group	Owner share	Balance sheet value	Number of shares	Nominal value (NOK)
BTV Investeringsfond	2,00 %	2 402	2 110	100
Energi og Miljøkapital AS	2,50 %	2 034	5 000	1
Cenergie AS	1,40 %	-	140 000	100
Papirbredden Innovasjon AS	10,00 %	-	490 000	1
Kongsberg Innovasjon AS	13,00 %	3 000	1 500	1
PAN Innovasjon AS	13,88 %	500	100	1
<b>Shares in other companies 31.12.</b>		<b>7 937</b>		

#### Note 6. Subordinated loans with maturity later than 1 year

	Principal	Interest income	Interest rate
Energiselskapet Buskerud AS	465 000	18 151	3,91 %
Vardar Eiendom AS	23 000	902	3,82 %
<b>Total subordinated loans</b>	<b>488 000</b>	<b>19 053</b>	

**Note 7. Other long-term receivables with maturity later than 1 year**

	Principal	Interest income	Interest rate
Hønefoss Fjernvarme AS	182 167	7 899	5,30 %
Vardar Eurus AS	60 481	2 163	5,22 %
Vardar Boreas AS	100 000	3 840	5,48 %
OÜ Viru-Nigula Tuulepark	83 443	4 883	5,67 %
OÜ Vanaküla Tuulepark	71 724	4 277	5,67 %
4E Thenoinvest	155	7	5,67 %
<b>Total</b>	<b>497 971</b>	<b>23 069</b>	

  

Energiselskapet Buskerud AS	11 327	351	3,06 %
Others (loan to general manager (850)/employees(250 +500))	1 600	33	2,75 %
<b>Total other long-term receivables</b>	<b>12 927</b>	<b>384</b>	

Loan to general manager is secured through mortgage.

**Note 8. Restricted liquid assets**

	2011	2010
Withheld tax	264	331

**Note 9. Change in equity**

	Share capital	Premium	Reserve for valuation variances	Other equity	Total
Equity 31.12.10	268 561	348 500	508 920	220 750	1 346 731
Result for the year	0	0	63 146	83 390	146 536
Allocated dividends	0	0	0	-53 700	-53 700
Translation differences subsidiary	0	0	0	-15 815	-15 815
<b>Equity 31.12.11</b>	<b>268 561</b>	<b>348 500</b>	<b>572 066</b>	<b>234 625</b>	<b>1 423 752</b>

**Note 10. Pension cost and pension liabilities**

The pension liabilities to employees of the Group are covered through group pension scheme in Buskerud Fylkeskommunale Pensjonskasse. The scheme also includes AFP (early retirement pension). Actuarial gains and losses are recorded in accordance with the corridor method from 1.1.2007. In addition the managing director has an early retirement pension contract which is recognised as expense from 2008. The company's and the Group's pension schemes meet the requirements in the Act on mandatory occupational pension.

	2011		2010	
	Secured	Unsecured	Secured	Unsecured
<i>Pension cost</i>				
Current service cost	720	338	1 106	401
Interest cost	2 248	202	2 656	207
Return on plan assets	-2 156		-2 333	
Actuarial deviations/estimate changes recognised in income stater	626	329	2 318	103
Payroll tax	114	76		
<b>Net pension cost</b>	<b>1 552</b>	<b>945</b>	<b>3 748</b>	<b>712</b>
<i>Pension liabilities</i>				
Present value of pension liabilities	66 478	6 384	57 357	5 054
Plan assets (at market value)	-41 848		-42 804	
Payroll tax	3 473	900	449	177
Actuarial deviations	-25 479	-5 082	-11 367	-3 797
<b>Net pension liabilities</b>	<b>2 624</b>	<b>2 202</b>	<b>3 635</b>	<b>1 434</b>

*Actuarial assumptions:*

Return	4,10 %	5,40 %
Discount rate	2,60 %	4,00 %
Annual salary growth rate	3,50 %	4,00 %
Annual growth rate national insurance	3,25 %	3,75 %
Annual pension adjustment	3,25 %	3,75 %

**Note 11. Inter-company balance**

	2011	2010
Short-term receivables	62 758	63 134
Other long-term liabilities	-	-
Group debt	175 073	118 383

**Note 12. Subordinated loan with maturity later than 5 years**

	Type of loan	Balance per 31.12.	Interest rate	Interest expense
Buskerud Fylkeskommune	Loan with call, perpetual	507 500	5,30 %	26 897

**Note 13. Share capital and shareholders' information**

The company's share capital is NOK 268,561,000 distributed on 49,550 shares each with nominal value NOK 5,420, divided into two share classes, A and B. Share class A comprises 496 shares each NOK 5,420, in total NOK 2,688,320. Share class B comprises 49,054 shares each NOK 5,420, in total NOK 265,872,680.

Share class B has no voting rights and is not entitled to dividend.

Buskerud Fylkeskommune owns 100 % of the A-shares of the company

The following municipals own B-shares;

	Number	Percentage share
Drammen	7 863	16,03 %
Kongsberg	5 921	12,07 %
Ringerike	5 739	11,70 %
Hole	922	1,88 %
Flå	103	0,21 %
Nes	353	0,72 %
Gol	442	0,90 %
Hemsedal	191	0,39 %
Ål	471	0,96 %
Hol	461	0,94 %
Sigdal	1 128	2,30 %
Krødsherad	373	0,76 %
Modum	1 737	3,54 %
Øvre Eiker	3 954	8,06 %
Nedre Eiker	4 930	10,05 %
Lier	6 441	13,13 %
Røyken	3 973	8,10 %
Hurum	2 924	5,96 %
Flesberg	554	1,13 %
Rollag	309	0,63 %
Nore og Uvdal	265	0,54 %
<b>Total</b>	<b>49 054</b>	<b>100 %</b>

**Note 14. Debt to credit institutions****Long-term**

Lender/Facilitator	Type of loan	Balance per 31.12.	Interest	Interest expense	Maturity
Nordea (lender)	Bank loan	150 000	Nibor + 1,60%	5 319	March 16
Nordea (lender)	Bank loan	150 000	Nibor + 1,55%	6 549	May 17
Nordea (lender)	Bond loan	110 000	Nibor + 1,60%	4 095	March 16
Nordea (lender)	Bond loan	500 000	Fixed, 6,5%	32 500	June 25
Nordea (som tilrettelegger)	Bond loan	35 000	Nibor + 33bp	1 125	March 16
Nordea (som tilrettelegger)	Bond loan	10 000	Fixed, 4,3%	424	March 16
Nordea (långiver)	Bank loan	350 000	Nibor + 1,5%	15 661	December 13
Nordea (långiver)	Bank loan	150 000	Nibor + 1,65%	320	November 16
		<b>1 455 000</b>			

## Note 15 Forward exchange contracts, interest swaps

	2011	2010
Cash flow hedging	-33 100	-23 303
Value hedging	0	0
<b>Total fair value</b>	<b>-33 100</b>	<b>-23 303</b>

Fair value of forward exchange contracts and interest swaps have been calculated by the group's bankers and constitutes the discounted difference between the agreed forward exchange rate and the forward exchange rate per 31.12. for a forward exchange contract with corresponding maturity. The forward exchange contracts have term 2025.

All contracts are considered to reduce the currency risk and the interest risk effectively and therefore meet the demands to hedge accounting. Continuous recognition of settlement interest swaps are to other interest expense. Profit/loss on forward contracts are recognised to other financial income and other financial expenses.

## Note 16 Financial items

	2011	2010
Interest income from group entity	23 973	17 786
Other interest income	28 043	28 550
Other financial income	3 113	16 785
<b>Financial income</b>	<b>55 129</b>	<b>63 121</b>
Write-down of financial fixed assets	0	309
Other interest expenses	97 361	89 208
Other financial expenses	3 952	15 103
<b>Financial expenses</b>	<b>101 312</b>	<b>104 620</b>

## Note 17 Related parties

Transactions with executives are disclosed in note 1.

The company has transactions with related parties both in regard to lending and borrowing. Cf. note 6, 7 and 12, 13.



To the Annual Shareholders' Meeting of Vardar AS

## **Independent auditor's report**

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Vardar AS, which comprise the financial statements of the parent company and the financial statements of the group. The financial statements of the parent company comprise the balance sheet as at 31 December 2011, income statement and cash flow for the year then ended, and a summary of significant accounting policies and other explanatory information. The financial statements of the group comprise the balance sheet at 31 December 2011, income statement, changes in equity and cash flow for the year then ended, and a summary of significant accounting policies and other explanatory information.

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

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

#### *Auditor's Responsibility*

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

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

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

*Opinion on the financial statements of the parent company*

In our opinion, the financial statements of the parent company are prepared in accordance with the law and regulations and present fairly, in all material respects, the financial position for Vardar AS as at 31 December 2011, and its financial performance for the year then ended in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway.

*Opinion on the financial statements of the group*

In our opinion, the financial statements of the group present fairly, in all material respects, the financial position of the group Vardar AS as at 31 December 2011, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by EU.

**Report on Other Legal and Regulatory Requirements***Opinion on the Board of Directors' report and statement of corporate governance principles and practices*

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

*Opinion on Registration and Documentation*

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

Drammen, 27 April 2012  
**PricewaterhouseCoopers AS**

Tevje Ulsbøl  
State Authorised Public Accountant (Norway)

Note: This translation from Norwegian has been prepared for information purposes only.

### **Responsibility Statement**

We confirm, to the best of our knowledge, that the financial statements for the period 1 January to 31 December 2011 have been prepared in accordance with current applicable accounting standards, and give a true and fair view of the assets, liabilities, financial position and profit or loss of the equity and the group taken as a whole. We also confirm that the Board of Directors' Report includes a true and fair review of the development and performance of the business and the position of the equity and the group, together with a description of the principal risk and uncertainties facing the entity and the group.

Drammen, 27.04. 2012.

Svein Marfi

Mette Lund Stake

Linda Verde

Lise Løff

Nils Peter Undebakke

Johannes Rauboti (CEO)



## **Corporate governance**

Vardar's corporate governance guidelines shall ensure confidence in the company's Board of Directors and management, and lay the foundation for long-term value creation in the best interests of its owners, employees, other stakeholders and society in general.

The main principles for corporate governance at Vardar are based on the following:

- Vardar shall communicate with the external world in an open, reliable and relevant manner about its operations and corporate governance
- The Board of Directors of Vardar shall be autonomous and independent of the company's management
- Vardar shall have a clear division of work between the Board of Directors and the company's management

### **1. Statement on corporate governance**

#### **Compliance**

Vardar's principles for corporate governance follow the "Norwegian Code of Practice for Corporate Governance" of 21 October 2010, as well as the amendments incorporated as of 20 October 2011. Instructions have been prepared for the work of the Board of Directors and the Audit Committee, as well as ethical guidelines. The instructions and guidelines are reviewed annually by the Board of Directors, in addition to an evaluation of compliance. Compliance with the adopted corporate governance guidelines shall strengthen confidence in the company and contribute to the creation of value over time.

### **2. Business activities**

Vardar's business activities are defined in the company's Articles of Association. The objects of the company are:

- to invest in power production operations based on renewable energy sources, as well as related and complementary operations
- to invest in other companies in order to contribute to the development and build-up of expertise in renewable energy

The Articles of Association are published on the company's website in their entirety.

The company's vision is to create value through active ownership. The company's business concept is to contribute to increasing the supply of clean, renewable energy. The strategy for Vardar's business activities is adopted by the Board of Directors, and the main elements are discussed in greater detail in the annual report and on the company's website.

### **3. Share capital and dividends**

#### **Equity**

The Group operates in a capital-intensive sector, and the realisation of the Group's goals and strategies requires that the Group maintain a solid financial position, characterised by an adequate equity ratio, predictable future cash flows and access to adequate liquidity reserves.

The Group's equity as at 31 December 2011 was MNOK 1,821.1, which corresponds to a book equity ratio of 42.7 per cent. Vardar shall maintain a level of equity that is reasonable in relation to the company's object, strategy and risk profile.

#### **Dividend policy**

Vardar's objective is to give its owners a dividend that corresponds to around 50 per cent of the net cash flow before financing and investments, provided that this is not in violation of the current legislation and agreed covenants.

Cash flow is calculated in accordance with the model agreed on. This model ensures that a significant portion of the value created is set aside for further development of the operations.

#### **Capital increase**

The Board of Directors does not have the authority to increase the company's share capital or to acquire treasury shares.

#### **4. Equal treatment of shareholders and transactions with related parties**

Vardar has two classes of shares, A and B. The difference between the two classes of shares is defined in the company's Articles of Association, which stipulates that the class B shares shall not be entitled to dividends or carry any voting rights for matters that require a simple majority at the General Meeting. Shareholders shall be treated equally within each class of shares.

Existing shareholders generally have pre-emptive rights in connection with share capital increases. Any waiver of these pre-emptive rights must be on grounds of the common interests of the company and shareholders.

#### **Transactions between related parties**

For transactions between the company and related parties that are not insignificant, the Board of Directors will obtain an independent valuation and make this known to the owners. Transactions between related parties are generally carried out on ordinary commercial terms as though they were carried out between independent parties.

The Group has guidelines that ensure that board members and senior executives have a reporting obligation if they directly or indirectly have a significant interest in any agreements entered into by the company.

#### **5. Free negotiability**

The shares in Vardar are freely negotiable within the limits of the Norwegian concession laws. The company has no ownership restrictions beyond what follows from the Norwegian concession laws.

#### **6. General Meeting**

The shareholders exercise supreme authority over Vardar through the General Meeting. The General Meeting deals with and decides on matters in accordance with Norwegian law, including approval of the annual report and accounts, distribution of dividends, election of an auditor and approval of auditor's fees. In addition, the General Meeting approves amendments to the Articles of Association. The Ordinary General Meeting is held in accordance with the Articles of Association by the end of June each year.

##### **Notice**

Notice of a General Meeting must be made in writing to all the shareholders no later than one week before the General Meeting is to be held. Case documents, proposed resolutions, Nomination Committee's recommendations and a proxy form are enclosed with the notice.

##### **Participation**

All shareholders in the company are entitled to submit business for consideration, and to address the meeting and participate in the General Meeting. The B class shares do not carry any voting rights in matters that only require a simple majority. The Board Chairman, auditor and Managing Director all participate in the General Meeting. Other board members have the right to attend.

##### **Execution**

The company's Articles of Association do not contain provisions on who shall be the chairperson of the company's General Meeting. In accordance with the provisions of the Limited Liability Companies Act, the General Meeting is opened by the Board Chairman and the chairperson for the meeting is elected by the General Meeting.

The Ordinary General Meeting shall approve the annual accounts and determine the remuneration of board members. The minutes of the General Meeting are made known to all the shareholders.

#### **7. Nomination Committee**

The company does not have a Nomination Committee. The class A shareholders select and appoint all of the shareholder-elected board members in the company.

#### **8. Corporate Assembly and Board of Directors: composition and independence**

##### **Corporate Assembly**

The company has no corporate assembly, since the number of employees is significantly less than 200.

##### **Composition of the Board of Directors**

Board members shall be elected according to the Group's need for expertise, capacity and diversity, based on the company's activities and the objective of ownership. The Board of Directors shall act independently of any own interests and function effectively as a collegiate body in the best interests of the Group.

### **Independence of the Board of Directors**

All of the members of the Board of Directors are independent of the company's day-to-day management and important business associates. Four out of five board members are independent of the company's largest shareholder.

## **9. Work of the Board of Directors**

### **Duties of the Board of Directors**

The Board of Directors has the ultimate responsibility for the management of Vardar and execution of the company's strategy, in addition to monitoring and supervising its operations. The company's management prepares proposals for the strategy, long-term goals and budget, which are adopted by the Board of Directors. The Board appoints and dismisses the Chief Executive Officer.

### **Board committees**

In accordance with the Audit Committee requirement in the Limited Liability Companies Act applicable to companies with securities listed on a regulated market, the Board of Directors established an Audit Committee in November 2010. The Audit Committee was elected by and from among the members of the Board of Directors and has the same term of office as the board members. The Audit Committee is comprised of Svein Marfi, Linda Verde and Mette Lund Stake, all of whom satisfy the Public Limited Liability Companies Act's requirements with respect to independence and competence.

### **Rules of Procedure for the Board of Directors**

Detailed provisions relating to the Board of Directors' areas of responsibility and administrative procedures are stipulated in the Rules of Procedure for the Board of Directors. The Board Chairman is responsible for ensuring that the work of the Board of Directors is performed in an efficient and correct manner in accordance with the current legislation and the adopted Rules of Procedure for the Board of Directors. The Board of Directors works according to an annual plan.

### **Meeting structure**

A minimum of six meetings are held annually. A total of seven meetings were held in 2011. The Board of Directors has a fixed annual plan for its work. In addition to approval of the strategy, financial reporting, annual accounts and budget, the plan also includes a review of the risk areas and internal control. The Board of Directors evaluates the company's management and organisational structure annually.

### **Financial reporting**

The Board of Directors receives interim reports on the company's economic and financial status. The management submits and explains the quarterly and annual financial statements. The company follows the deadlines from Oslo Børs for interim and annual financial statement reporting.

## **10. Risk management and internal control**

### **Responsibility and object of the Board of Directors**

The Board of Directors is responsible for ensuring that the company has sound internal control and systems for risk management. The Board of Directors receives periodic reports that include the operational status, as well as the management's assessment of significant risks and the management of these risks. The Rules of Procedure for the Board of Directors require an annual review of the risk management and internal control.

The main elements of the company's risk areas and internal control related to financial reporting are discussed separately in the annual report.

## **11. Remuneration of the Board of Directors**

The General Meeting adopts the remuneration of board members annually. Remuneration of the Board of Directors is not performance-based and no options are issued to board members.

## **12. Remuneration of senior executives**

The Board of Directors determines the Chief Executive Officer's salary. Remuneration of senior executives is stipulated by the Chief Executive Officer. The Group's compensation policy for senior executives is described in greater detail in the annual accounts.

## **13. Information and communication**

### **Guidelines for the reporting of financial and other information**

Vardar provides investors and analysts with access to the same information simultaneously through publication on internal websites and disclosure to Oslo Børs. Communication with the financial markets must provide the best

possible basis for creating an accurate picture of the company's financial position, key value drivers, risk factors and other considerations that may affect the future creation of value.

The company has defined who has the right to speak on various issues.

#### **Reporting and notices**

The company follows the Securities Trading Act with regard to reporting. In addition, the complete half-year report, annual accounts and annual report are made available on the company's website.

#### **14. Company takeover**

So far the Board of Directors has not found it appropriate to prepare special guidelines for takeover situations.

#### **15. Auditor**

The auditor shall participate at board meetings that discuss the annual and half-year accounts. In connection with these meetings, the auditor will review significant changes to the company's accounting principles, assessments of significant accounting estimates and any material matters where there may be a disagreement between the auditor and the management and where these matters are of a significant nature. The auditor has a meeting with the Board of Directors without the management present at least once a year. The auditor is entitled to be present at the company's General Meetings. Information on the auditor's fees for auditing and other services is specified in the consolidated financial statements.