



ANNUAL REPORT 2008



Energy makes things happen

Vision, objectives and strategy

Vardar is a holding company whose vision is to create value for its owner through active ownership of the company's investments.

Vardar AS – Seeking value through active ownership.

Vardar's business concept defines the company's core operations:

Vardar AS shall invest in and own energy-related activities and real estate.

In the area of energy generation Vardar's exclusive focus is on renewable energy.

The company has a long horizon for its ownership, especially given the fact that green energy will see an increase in real value in the time to come. Changes in the ownership structure of subsidiaries and associated companies are made when it can help them reach their strategic objectives and ambitions for growth.

Besides its financial objectives, Vardar also has a distinct "green" corporate image. The company's investments are to help to



develop "green" value and be a contributor and tool for meeting climate challenges. That is why Vardar will also invest in research and development projects in renewable energy production and related activities.

History in a nutshell

Vardar's origins are in "Krafftorsyningen i Buskerud", which was originally an integral part of the county administration's area of responsibility.

The undertaking, founded nearly 90 years ago, established a regional grid and developed hydropower in Buskerud county, partly under its own name and partly with other parties.

In 1990 operations were transferred to the 100% county-owned limited company Buskerud Energi. In the latter half of the 1990s a restructuring process began involving the company in several ways. Today Vardar is a holding company for subsidiaries and associated companies with operations in the areas of energy and property management.

A restructuring of ownership in 2005 resulted in the creation of two share classes, 1% of the shares are Class A shares, all of which are owned by the Buskerud county administration. The remaining 99% are Class B shares, which are owned by the local authorities in Buskerud County.



Transport of transformer in Hurum 1921.



- Decision to purchase waterfall rights Mykstufoss power station.

Mykstufoss powerstation under construction.



- Kvalheim Kraft AS founded.

1919

- Elektrisitets Forsyningen i Buskerud was founded in 1919.

1955

POWER GRID DEVELOPMENT

ACTIVE POWER STATION PERIOD

1962-1967 - Development of Uste and Nes power stations.

1970-1976 - Three newly constructed power stations go into operation.

1980-1983 - Purchase of Geithusfoss and Embretsfoss from Union AS.

1983 - Commissioning of the last wholly owned power station, Pikerfoss power station

1991

RESTRUCTURING

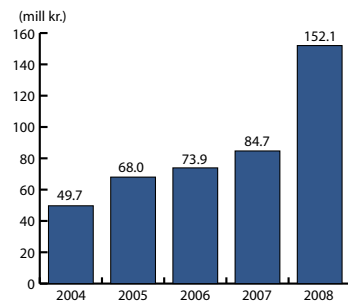
1991 - Conversion to limited liability company.

1999-2001 - Restructuring with merger of the company's production operations (excluding Uste and Nes power stations), grid operations and contracting operations with Drammen Municipality.

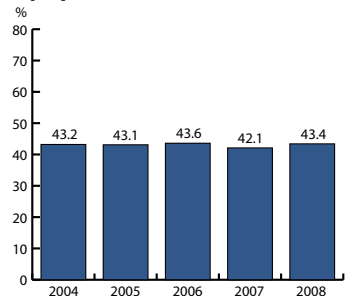
1997

Key figures, Vardar

Profit for the year, Vardar (NGAAP)



Equity, Vardar



Return on equity, Vardar

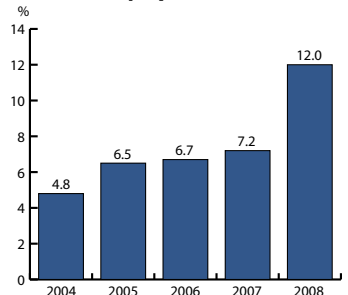


Table of contents

Vision, objectives and strategy	p	2
History	p	2-3
Key figures Vardar	p	3
Introduction by the managing director	p	4
Highlights of 2008	p	5
Vardar hires more resources persons in 2008	p	6
Five-year financial overview	p	7
Vardar – Corporate structure, earnings and sales revenue	p	8
DESCRIPTION OF OPERATIONS		
Vardar's business areas	p	9
Hydropower	p	10-13
Energiselskapet Buskerud	p	14-17
Bioenergy	p	18-21
Wind power in Norway	p	24-27
Wind power abroad	p	28-31
Real estate and property management	p	34-37
RESEARCH, DEVELOPMENT AND THE ENVIRONMENT		
	p	38-41
MARKET CONDITIONS AND RISK		
	p	42-43
BOARD OF DIRECTORS' ANNUAL REPORT FOR 2008		
	p	44-47
ACCOUNTS WITH NOTES		
Income statement IFRS	p	48
Balance sheet IFRS	p	49-50
Change in Group equity IFRS	p	51
Cash flow statement IFRS	p	52
Notes to the IFRS annual accounts for 2008	p	53-85
Income statement NGAAP	p	86
Balance sheet NGAAP	p	87-88
Cash flow statement NGAAP	p	89
Notes to the NGAAP annual accounts for 2008	p	85-97
Auditors' report	p	98
Statement	p	99
ARTICLES		
Bioenergy: Hønefoss Fjernvarme enters Phase II	p	22
Wind power in Norway		
Success for wind power in Sogn og Fjordane	p	23
Wind power abroad		
Vardar Eurus committed to green energy in Lithuania	p	32-33



- Commissioning of the largest wind farm in Norway.



- Øvre Eiker Fjernvarme (district heating) went into operation.



HYNOR
- Vardar begins its collaboration on developing HyNor, the Hydrogen Road of Norway.



HØNEFOSS FJERNVARME AS
- First full year of operation for Hønefoss Fjernvarme (district heating).

2002

2003

2004

2005

2006

2007

2008



- Vardar AS established.



- Vardar Eiendom established.



- Vardar Eurus AS founded: Investment in renewable energy production in the Baltic countries and Northwestern Russia.



- Commissioning of the first wind farm in the Baltics (Estonia) – OÜ Pakri Tuulepark.



- Zephyr AS founded: Wind power company; Investment in Norway.

Business development in times of crisis

The financial crisis does not appear to be ending anytime soon, as most people would agree. However, it is more difficult to predict how financial markets will perform until they return to normal. Will financing be even more difficult to obtain than it is now, and will credit spreads continue to widen?

Vardar works according to a development strategy, which means, among other things, that investments are approved for implementation and must be financed. Until now the energy sector has been more fortunate than many others with regard to access to capital. It is however hard to tell whether this trend will continue, it is no longer sufficed for a project to meet our requirements for profitability. We also need assurance that we have adequate access to liquidity. Other risk elements also need more attention than normally. Due to the special situation we find, the risk of problems at our partners will also be larger than before.

Precisely during this period of great uncertainty we at Vardar wish to do a thorough review of our strategy. What scenarios do we see for the industry's future performance and how can we best develop our strategy to position ourselves for these changes? On the one hand, we have to show due respect to the uncertainty characterising the future, while this must not make us so risk-averse that we are incapable of developing our assets to create more value. It is often in just such times of crisis that vast amounts of value are created. If we succeed in erecting a secure financial platform, we will have a crucial competitive advantage and be able to play a key role in a market where there is less competition for the best projects.



In this way we can build value for the future on a secure financial platform and realise the vision:

Vardar AS – creating value through active ownership.

With record earnings in 2008 we are well positioned to make such a strategy reality.

A handwritten signature in blue ink, which appears to read 'J. Rauboti'. The signature is stylized and fluid.

Managing Director
Johannes Rauboti

Highlights of 2008

May

Hønefoss Phase II

In May the boards of Hønefoss Fjernvarme AS and Vardar AS approved Phase II of the development of the district heating plant in Hønefoss. The development involves an investment of MNOK 90 and has a potential to deliver 20 GWh. The development will take place over a three-year period, with expected completion in 2012. See article on page 22.



June

Mehuken

In June, Kvalheim Kraft – 50%-owned by Vardar – obtained a licence to build an 18.4 MW wind farm adjacent to the current operational Mehuken wind farm. A total of MNOK 246 is to be invested, resulting in approx. 53 GWh per year. In December the project received an investment subsidy of MNOK 93 from Enova, and decision was made in February 2009 to go ahead with the investment. See article on page 23.



August

Construction begins in Vanaküla

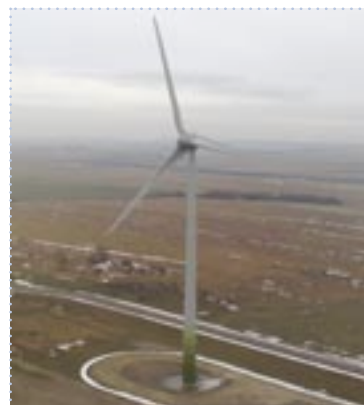
Construction of a 9 MW wind farm in western Estonia began in August. The project involves an investment of just under MEUR 13 and will result in 24 GWh per year. Vardar Eurus owns 100% of the wind farm, scheduled for completion during 2009.



December

Sudenai in Lithuania

In December Vardar Eurus and Freenergy put its first wind farm in Lithuania – Sudenai – into operation. It was just under two years from the time the project was purchased to when the first energy was generated. The investment of just over MEUR 20 is expected to produce 36 GWh per year. See article on page 33.



Vardar hires more resources persons in 2008

As Vardar's commitment has broadened, it became necessary to add new resources and more key persons to the Group. In 2008 we completed the establishment of a professional organisation for Hønefoss Fjernvarme by recruiting a general manager. Vardar Eurus hired a head of business development, and the administration at Vardar was bolstered by one FTE. We would like to welcome these new members of the team and to wish all our employees the best of luck in meeting the exciting challenges going forward.

Tor Ottar Karlsen

From 1 December 2008 Tor Ottar Karlsen has been serving as the director of the HR function and of business development. Tor Ottar is formerly the chairman of the Buskerud county council and chairman of the board of Vardar AS. His primary tasks will be to maintain contact with the owners, the press and employees as well as take charge of business development, focusing mainly on new priority areas.



Iren Bogen

From 1 March 2008 Iren Bogen has held the post of head of business development at Vardar Eurus AS. Iren comes to Vardar from EB Handel AS where she worked as CFO and most recently as general manager. Her chief responsibility will be planning the further strategic development and expansion of Vardar Eurus AS, as well as assessing profitability connected with purchases and development of individual projects.



Kjetil Bockmann

From 17 October 2008, Kjetil Bockmann has held the post of general manager of Hønefoss Fjernvarme AS. Kjetil comes from a position as deputy director in the inspection department of the Norwegian Mapping Authority. His duties will involve the day-to-day management of the company, including sales, marketing, branding and further development.



5 years financial overview

Amounts in NOK 1000.

NGAAP Income statement - Group	2008	2007	2006	2005	2004
Operating income	309 651	245 331	205 102	191 069	129 863
Result of operation	128 594	93 066	57 393	60 642	41 120
Depreciation	35 888	31 975	29 403	25 996	21 075
EBITDA	164 482	125 041	86 796	86 638	62 195
Result for the year	152 088	84 743	75 421	68 293	49 661
Balance sheet - Group					
Fixed assets	2 907 270	2 626 435	2 531 844	2 298 646	2 138 654
Current assets	146 248	521 999	126 799	409 864	246 569
Equity	1 339 922	1 211 504	1 139 922	1 072 800	1 020 506
Minority	118 268	67 914	44 485	43 167	144
Long-term liabilities	1 391 658	1 344 039	1 387 855	1 420 616	1 211 277
Short-term liabilities	203 669	524 976	86 381	171 929	153 292
Total capital	3 053 517	3 148 433	2 658 643	2 708 512	2 385 219
Key figures - Parent company					
Result for the year	152 088	84 742	73 876	67 951	49 661
Equity ratio	43.4	42.1	43.6	43.1	43.2
Return on equity	12.0	7.2	6.7	6.5	4.8
Result for the year - Subsidiaries					
Uste Nes AS	108 156	45 533	34 309	40 129	28 005
Hønefoss Fjernvarme AS	-11 409	-8 148			
Øvre Eiker Fjernvarme AS	-181	-193	-1 458	-2 924	-568
Vardar Euris AS	23 480	11 612	5 168	-1 244	-2 472
Vardar Eiendom AS	-215	7 307	-706	-691	26

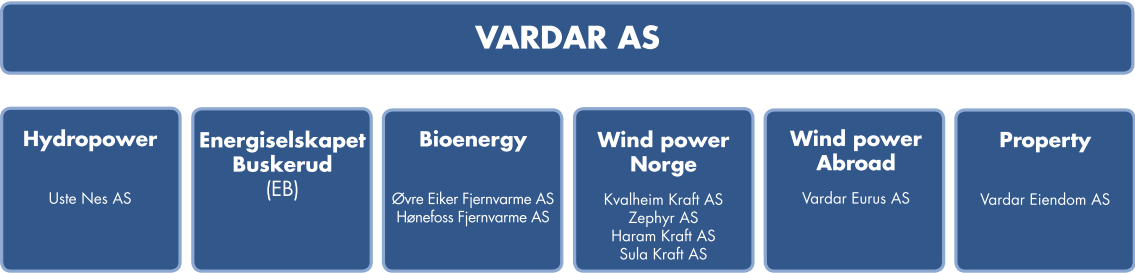
IFRS Income statement - Group	2008	2007	2006	2005	2004
Operating income	309 651	238 531	278 861		
Result of operation	-1 736	88 929	142 286		
Depreciation	22 173	20 717	18 269		
EBITDA	20 437	109 646	160 555		
Result for the year	81 677	117 323	139 849		
Balance sheet - Group					
Fixed assets	3 363 603	3 047 635	2 936 665		
Current assets	262 592	550 357	138 613		
Equity	1 552 212	1 441 349	1 364 021		
Minority	117 520	68 171	44 746		
Long-term liabilities	1 436 528	1 125 655	1 548 937		
Short-term liabilities	519 938	962 819	117 574		
Total capital	3 626 198	3 597 994	3 075 278		
Key figures - Parent company					
Result for the year	81 677	117 323	139 849		
Equity ratio	42.8	40.1	44.4		
Return on equity	5.5	8.4	10.3		

Production (GWh)	2008	2007	2006	2005	2004
Uste Nes AS	722.0	758.0	559.0	646.0	572.0
Kvalheim Kraft AS	11.8	11.2	11.9	13.3	11.8
EB Kraftproduksjon AS	2 618.0	2 584.0	2 369.0	2 397.0	2 353.0
Hønefoss Fjernvarme AS	20.4	16.1			
Øvre Eiker Fjernvarme AS	2.5	2.6	2.4	2.4	2.8
Vardar Euris AS	74.3	48.5	42.7	37.7	0.2

Corporate structure

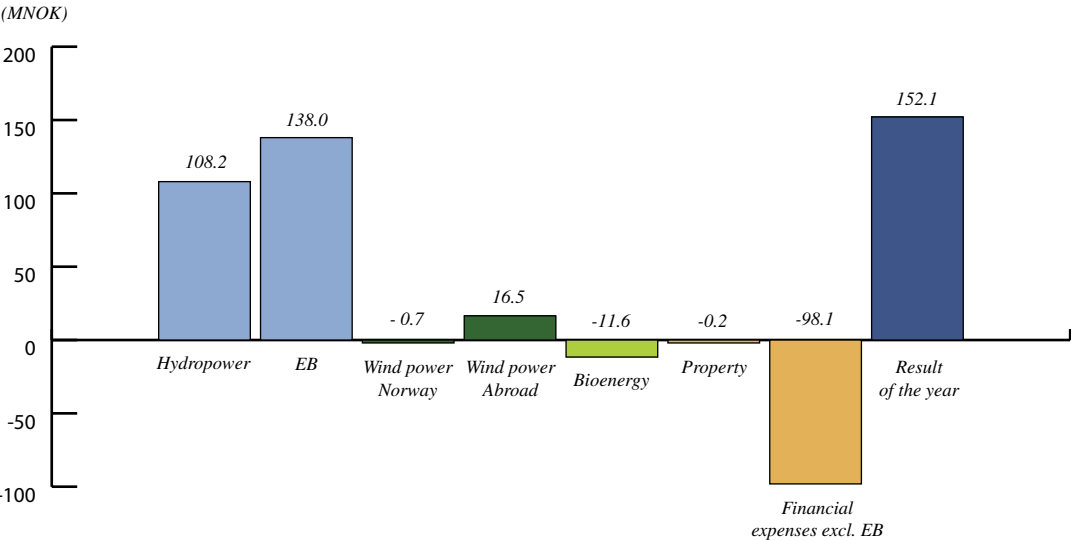


1% Class A shares
99% Class B shares



Vardar concern

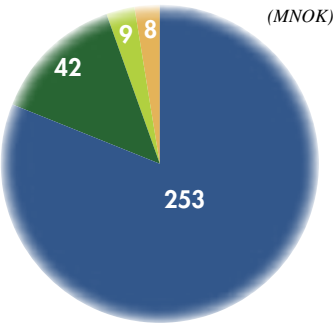
Profit after tax – by business area (NGAAP)



Sales revenue

– by business area

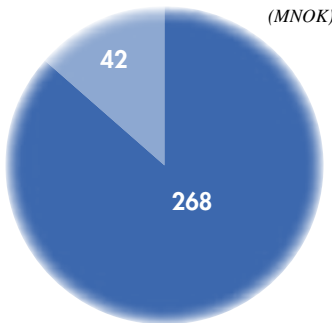
- Hydropower
- Bioenergy
- Wind power
- Other



Sales revenue

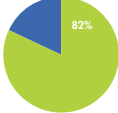
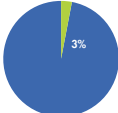
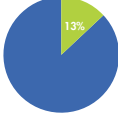
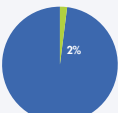
– by geographical area

- Norway
- Abroad



Vardar's business areas

Amounts in 1000 NOK.

Business area	Key figures	2008	2007	2006	Description of operations
Hydropower	Operating revenue EBITDA Earnings Share of gross operating revenue 	252 599 140 748 108 156 82%	185 773 98 348 45 533 87%	174 648 76 269 34 308 71%	Vardar's own hydropower production consists of the wholly owned subsidiary Uste Nes AS. The company owns 2/7 of the production of the Usta and Nes power stations in Hallingdal in Buskerud County.
Energiselskapet Buskerud AS	Operating revenue EBITDA Earnings <i>Part of joint venture companies with 123 MNOK in 2008.</i>	1 394 444 710 089 402 628	1 127 345 515 186 138 717	1 221 816 645 838 213 128	Energiselskapet Buskerud is owned 50% by Vardar and 50% by Drammen Municipality. The company comprises the business areas production, infrastructure, contracting and services, including sales of energy and broadband services to end users.
Bioenergy	Operating revenue EBITDA Earnings Share of gross operating revenue 	9 311 -2 293 -11 590 3%	7 246 -4 449 -8 341 3%	1 379 -984 1 458 8%	Vardar AS is committed to developing bioenergy projects in the company's home region, Buskerud County. The biggest and most advanced district heating plant Vardar AS has built is Hønefoss Fjernvarme AS. The district heating plant in Hønefoss is fuelled by raw wood chips, which provide renewable, carbon-neutral energy.
Wind power in Norway	Operating revenue EBITDA Earnings <i>The figures include only Kvalheim Kraft the business area is part of associated and joint venture companies.</i>	3 992 1 657 41	2 698 -322 -1 081	4 749 1 612 30	Vardar AS has a number of wind power projects in development in Norway together with various partners. The biggest projects in Norway are under the auspices of Zephyr AS, a joint venture between Vardar, Dong Energy from Denmark and Østfold Energi. Operational wind power production is still limited to 50% ownership of Kvalheim Kraft AS.
Wind power abroad	Operating revenue EBITDA Earnings Share of gross operating revenue 	41 667 34 267 23 480 13%	32 199 -1 988 11 612 10%	21 558 -1 297 5 168 15%	Wind power abroad comprises Vardar Euris. The company's strategy is to invest in renewable energy in the Baltics and northwestern Russia. There are activities in all three Baltic countries, primarily in wind power.
Real estate and property management	Operating revenue EBITDA Earnings Share of gross operating revenue 	7 143 2 728 -215 2%	17 079 12 946 7 307	5 578 1 586 -716 0%	Vardar Eiendom AS is a subsidiary of Vardar AS. One of the company's primary tasks is to see to efficient management and letting of its own properties.

As the individual subsidiaries report in accordance with NGAAP, the key figures used are based on this principle.



Hydropower

Vardar's hydropower production consists of the wholly-owned subsidiary Uste Nes AS. The company owns 2/7 of the production of the Usta and Nes power stations; the other owners are E-CO Energi AS (4/7) and Akershus Energi AS (1/7).

Vardar's ownership of the production of the Usta and Nes power stations amounts to around 600 GWh per year. The plants were largely built in the period 1962-67, with completion of Usta and Nes in 1965 and 1967, respectively.

E-CO Energi is in charge of operating the plants in accordance with an agreement between the joint-owners. In 2008 the stations had high availability and operations performed well.

Highlights of 2008

- The project to develop the Stolsvassdam as part of the regulating installations for the Nes power station will be completed in 2009 and will cost approx. a total of MNOK 150.

Finances

In 2008 the Hydropower business area is posting its best results ever - MNOK 108 after tax. The MNOK 62 increase over 2007 is due to a higher attained price from energy sales, in addition to substantial foreign exchange gains as a consequence of sales in EUR, which had strengthened during the year. Since a part of production is hedged via Nord Pool at a system price, big differences between the area price and system price in 2008 resulted in a loss of MNOK 12 after tax. Most of the earnings from the business area were given as a Group contribution to Vardar AS and Hønefoss Fjernvarme AS.



Above: Construction workers at the Stolsvassdam.
 Photo: E-CO / Aerosport Norge.

At left: Part of the water conduit of the Nes power station near Sando bridge.

Organisation chart, Hydropower

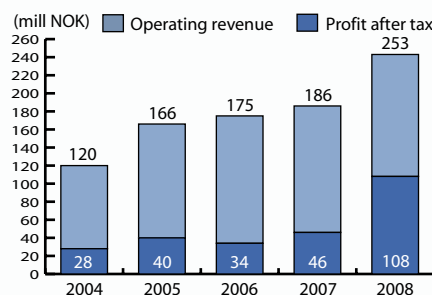


Key figures, Hydropower

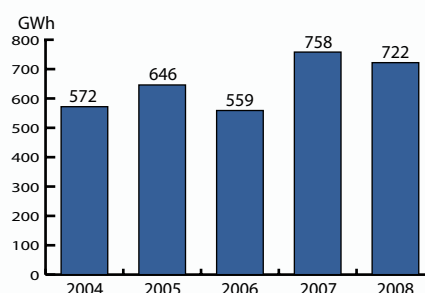
Operating revenue: 252 599
 EBITDA: 140 748
 Earnings: 108 156

Amounts in NOK 1000.

Financial performance, Hydropower



Production Hydropower



Market

All production from Usta and Nes power stations are sold on the Nord Pool power exchange. Since Nord Pool is responsible for settlement, counterparty risk is minimised. The risk posed by power price fluctuations is addressed by Vardar's own risk management system.

Strategy

As the hydropower business area is characterised by the fact that operations are based on substantial real assets, taking care of these assets and developing them for the long term is the core of the company's adopted strategy.

Do you know:

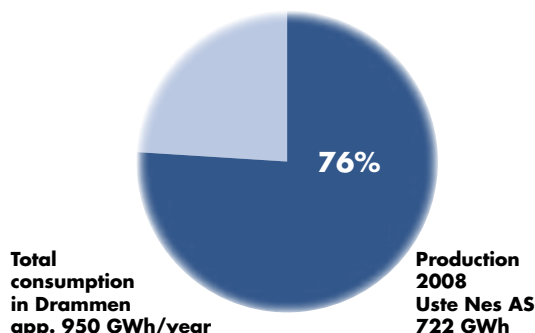
- 1 TWh = 1000 GWh
- 1 GWh = 1000 MWh
- 1 MWh = 1000 KWh
- 1 KWh = one 1,000 watt electric heater for one hour

1 TWh can enable one billion electric heaters to run at 1,000 watts for one hour.

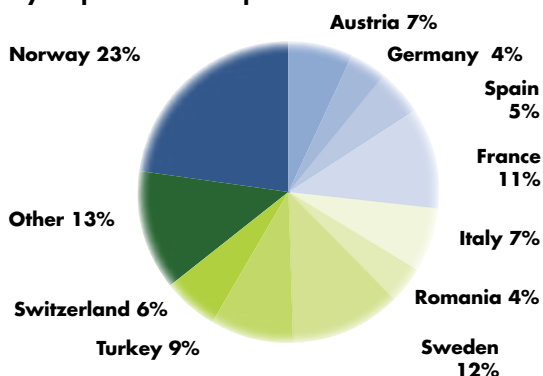
An ordinary household uses approx. 25,000 KWh per year.

Uste Nes AS produces power for 24,000 households just like these.

Power production Uste Nes AS relative to electricity use in Drammen



Hydropower in Europe



Environmental accounts



"If the power generated by Usta and Nes power stations in 2008 were to be replaced by production from a conventional coal-fired power plant, CO₂ emissions would increase by around 650,000."

Production companies



Usta machine room. Photo: E-CO.

Usta

Usta power station is located near Kleivi in Hol Municipality. It exploits the falls below the Uste river system. The reservoirs in the system are Finsvatn, Nygårdvatn, Ørteren, Ustevatn and Rødungen. The two generators are equipped with Francis turbines and utilise a gross hydraulic gradient of 540 m. Total mean annual production: 780 GWh.



Nes power station. Photo: E-CO.

Nes

Nes is the largest power station in Hallingdal. The power station exploits the fall between Strandefjorden and Hallingdalselva near Nesbyen. The inflow tunnel to Nes has a length of over thirty kilometres and a cross-section of around 8 x 8 metres. This is one of the largest power station tunnels in the world. Tributaries on both sides of Hallingdalselva also

Hydropower stations

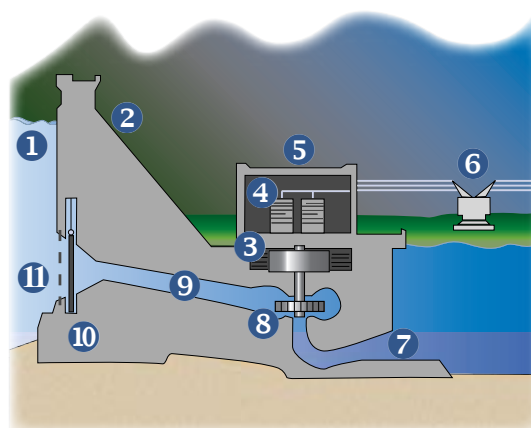
A hydropower station extracts the potential energy in water that has evaporated from the ocean and fallen as precipitation in the mountains. The difference in height between the water before and after the turbine yields an energy potential.

The energy is produced when water flows through a turbine. The turbine is connected to an axle that runs to a generator. It is the generator that produces the electricity. The water flows through a discharge tunnel and out into the river or lake.

Some power stations have reservoirs to store the precipitation and are thus able to produce energy regardless of the lack of inflow. The energy can be stored in the reservoir.

Other power stations lack a reservoir and are utterly dependent on the water that can be used from the river at any given time.

In 2008, reservoir capacity in Norway was around 84.3 TWh, which corresponds to about 70% of annual consumption in Norway (source: Norwegian Water Resources and Energy Directorate).



1 Reservoir, 2 Dam, 3 Generator, 4 Transformer, 5 Powerhouse
6 Power Lines, 7 Outflow, 8 Turbine, 9 Penstock, 10 Control Gate,
11 Intake

Hydropower

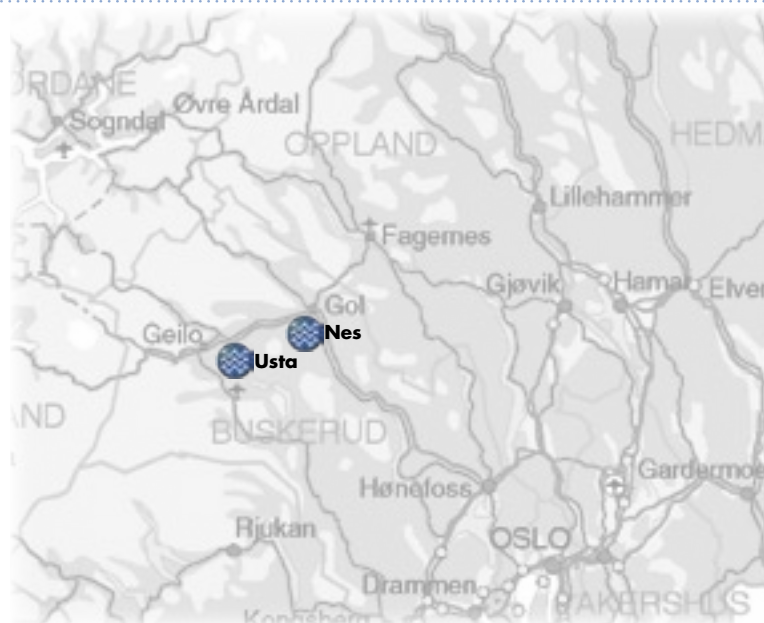
Norway is the world's sixth largest hydropower producer and the biggest in Europe. With its long tradition, the Norwegian hydropower industry has amassed unique expertise in this area. In addition, the government has over a century developed expertise in regulating and managing hydropower resources.



Top of generator, Nes power station. Photo: E-CO.

feed into the inflow tunnel. The four generators at Nes power station are equipped with Francis turbines and utilise a gross hydraulic gradient of 285 m. Total mean annual production: 1,330 GWh.

Source: E-CO Energi AS.





Energiselskapet Buskerud

The aim of Energiselskapet Buskerud is to be future-oriented and green energy group. The company consists of the business areas production, infrastructure, services and contracting, is located in Drammen, and is owned 50% by Drammen Municipality and 50% by Vardar AS.

The production business area works to make the most of the resources in the river systems in Buskerud County. Normal annual power generation is approx. 2,500 GWh, which is equal to 30% of total energy production in the county.

Infrastructure includes operations in the area of power grids, fibre-based broadband and district heating. EB works to realise synergies among its operations and develop collaboration with other infrastructure businesses.

Services aims to be the leading energy and broadband service provider in the Buskerud region. Broadband products are delivered over the group's own fibre infrastructure in the region, while electric power is provided nation-wide.

Contracting aims to be among the leading contracting firms in Eastern Norway, and offers electrical installation and maintenance for energy companies and large industrial enterprises.

The business performs work of all kinds, ranging from low-voltage installations and fibre technology to 440 kV high voltage installations.

Highlights of 2008

- Clarification of tax settlement at EB Kraftproduksjon AS has a positive earnings effect of MNOK 200
- Acquisition of 60% of the shares in EB Elektro AS and 49% of the shares in Nordi Consult, and well as the founding of the telecom and fibre development company B-Tek
- Establishment of El-Tilsynet to sell inspection services to grid companies
- Start-up of the sale of fibre broadband in Nedre Eiker and Kongsberg municipalities

Finances

The EB business area is commented on page 17.

Organisation chart, Energiselskapet Buskerud

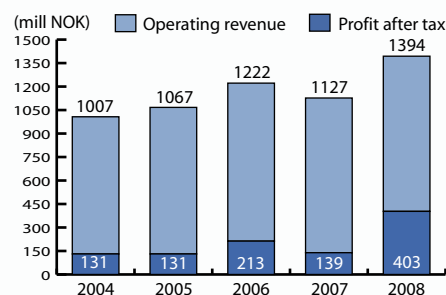


Key figures, Energiselskapet Buskerud

Operating revenue: 1 394 444
EBITDA: 710 089
Earnings: 402 628

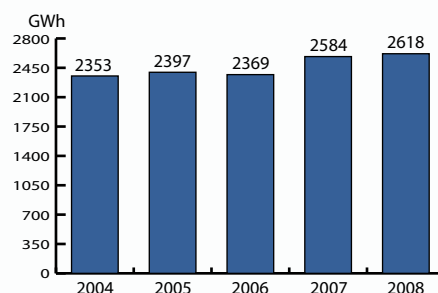
Amounts in NOK 1000.

Financial performance, Energiselskapet Buskerud



Since 2006 EB is presenting accounts in accordance with the principles in IFRS. In earlier year the NGAAP principles are used.

Production Energiselskapet Buskerud



Market

The business areas in EB operate in various markets, from those regulated by the government in portions of the infrastructure business area to the free market for the other areas. Power production is sold via the Nordic Nord Pool power exchange, while power to end customers is sold in accordance with concluded agreements. The same applies to broadband services and contracting.

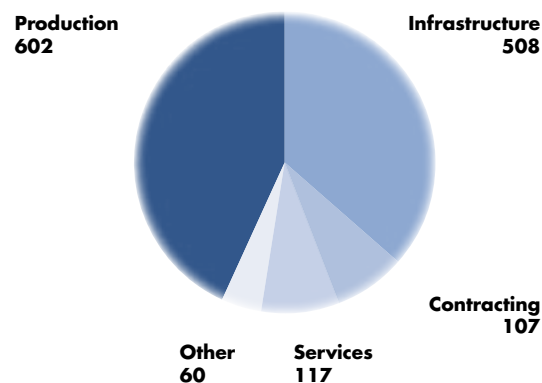
Future market outlook

The EU requirement for 20% of energy to be renewable by 2020 will eventually raise energy prices. The price of broadband services will vary depending on the number of providers, but a willingness to pay is expected for good products. The focus is on quality in all business areas and on competitive prices.

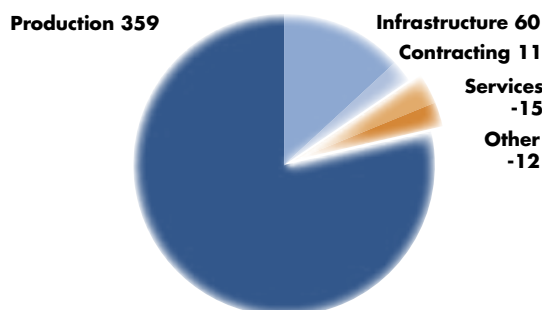
Strategy

EB's strategy is to create value for its owners through regional consolidation in the Buskerud region and making the most of opportunities in the residential and business markets wherever it has a natural competitive advantage.

Sales revenue – by business area (mill NOK)



Profit after tax – by business area (mill NOK)



Environmental accounts



"If the power production in 2008 for Energiselskapet Buskerud were to be replaced by production from a conventional coal-fired power plant, CO₂ emissions would increase by around 2,400,000 tonnes a year."

Business areas



EB Kraftproduksjon owns the power stations Grayfoss and Grayfoss II in Modum Municipality. Grayfoss went into operation in 1931 and Grayfoss II in 1996. The power stations together have an annual production of 224 GWh.



EB Nett owns 46 transformer stations connected with the regional grid in Buskerud, including Langum through which power is fed to Drammen Municipality.

EB 2008

EB is presenting consolidated accounts for 2008 in accordance with IFRS (International Financial Reporting Standards), approved by the EU at 31 December 2007. The group consists of Energiselskapet Buskerud AS, its subsidiaries and associates. Profit after tax for 2008 was MNOK 403, of which Vardar's share is MNOK 202. The results in the group come primarily from the production business area.

The production business area consists of the subsidiary EB Kraftproduksjon AS (70% owned) and the associated companies Hadeland Kraft AS, Hellefoss Kraft AS, Godfarfoss Kraft AS and Norsk Grønnkraft AS. EB Kraftproduksjon's share of normal annual production in owned power stations amounts 2,460 GWh (five-year average). In 2008 production was 2,618 GWh. EB Kraftproduksjon has active portfolio and risk management in which price and currency risks are managed. In 2008 the production area had a profit after tax of MNOK 359.

The infrastructure business areas comprises EB's activities in the power grid, green energy and fibre network areas, and consists of the subsidiaries EB Nett AS (73% owned) and EB Fibernett AS (100% owned by EB Nett) and the associated companies Hadeland Energi AS, Drammen Fjernvarme AS, Miljøvarme VSEB AS and 2VK Invest AS. EB Nett owns the regional grid in Buskerud, in addition to the distribution grids in Kongsberg, Drammen and Nedre Eiker. At the end of 2008 this company had approx. 56,000 grid customers. For 2008 the infrastructure area posted a profit after tax of MNOK 60.

The services business area consists of the subsidiaries EB Kontakt AS (100% owned), EB Kundeservice AS (100% owned by EB Nett) and EL-Tilsynet AS (51% owned by EB Nett) as well as stakes in the associated company Hadeland Energi Bredbånd AS and in several smaller companies that support EB's service production. In 2008 the services area posted a loss after tax of MNOK 15, which is in line with the business model on which the commitment to broadband is based. EB Kundeservice provides customers service for EB's grid, electricity and broadband services. At year-end EB Kontakt had over 12,000 broadband customers.

The contracting business area comprises the subsidiaries EB Energimontasje AS (66% owned), Hadeland NettPartner AS (100% owned by EB Energimontasje) and EB Elektro AS (60% owned). The business area also includes the associated companies B-Tek AS and NordiConsult AS. In 2008 the contracting area had a profit after tax of MNOK 11r skatt på 11 mnok.



EB Kontakt offers high-speed Internet in the areas where EB Fibernett is rolling out fibre-optic broadband.

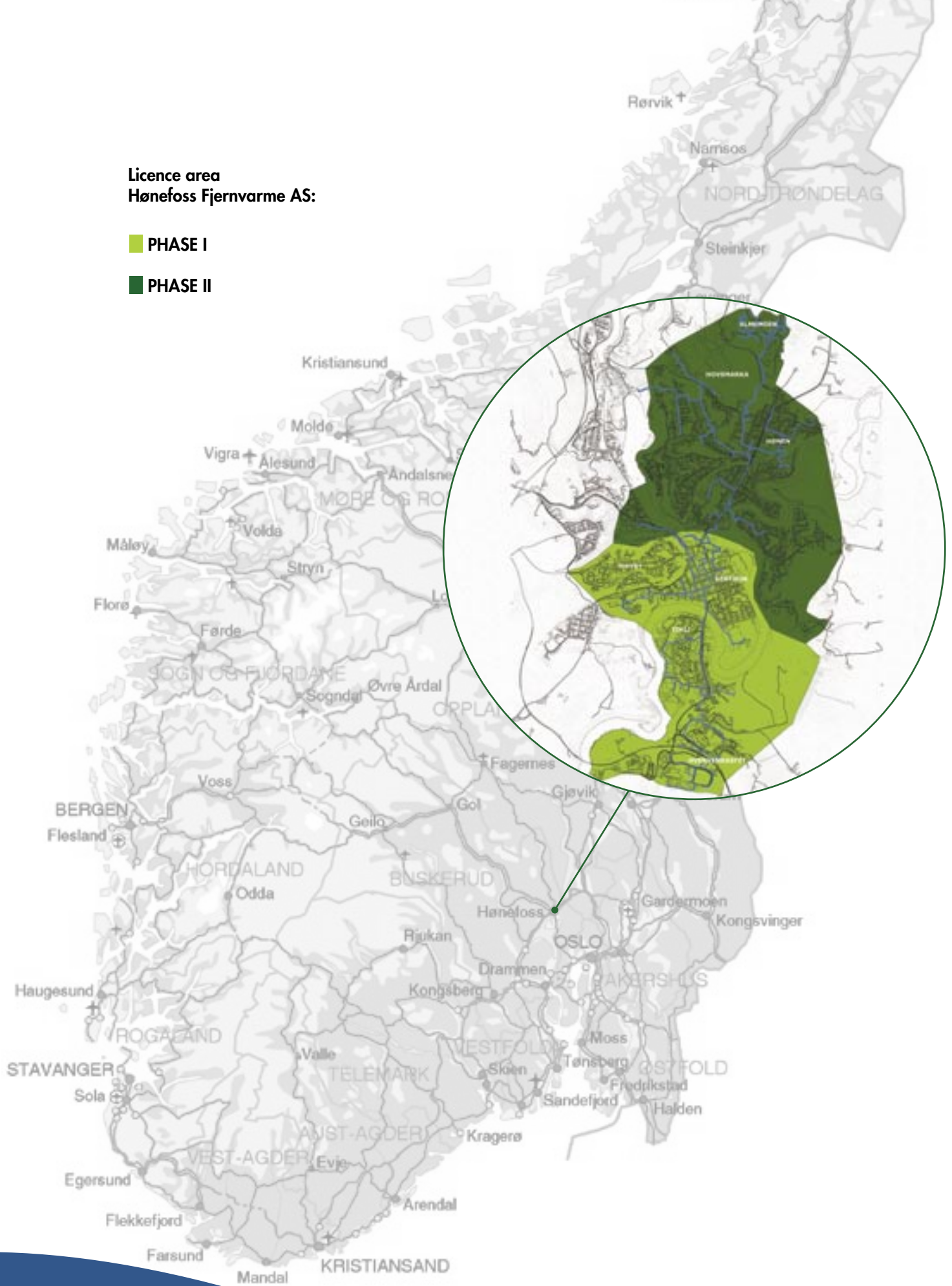


The goal is to establish EB as a leading contractor in Eastern Norway.

Licence area
Hønefoss Fjernvarme AS:

■ PHASE I

■ PHASE II



Bioenergy

Vardar's commitment to bioenergy takes the form of 50% ownership of Øvre Eiker Fjernvarme AS and the wholly owned subsidiary Hønefoss Fjernvarme AS. Øvre Eiker Fjernvarme was founded in 2003, whereas Hønefoss Fjernvarme was founded in 2007. The companies own and operate district heating systems in Vestfossen and Hønefoss, respectively. District heating systems use water as a medium to deliver energy.

The system in Vestfossen consists of a biofuel plant with installed power of 840 kW. In 2008 Øvre Eiker Fjernvarme was granted a licence to build a district heating system in Hokksund, a system that can be expected to deliver a total of just over 8 GWh/year.

The Hønefoss system consists of a heat plant that uses raw wood chips as fuel, with installed power capacity of 7.7 MW. The system delivers district heating to customers in the southern portion of the Hønefoss area. In May 2008 a decision was made to extend district heating north of Hønefoss bridge. This is defined as Phase II of the Hønefoss development.

A major waste incinerating plant in Ringerike is planned together with Ringeriks-Kraft and Norske Skog Follum adjacent to the Follum plant in Ringerike. Hønefoss Fjernvarme is a part of these plans.

Highlights of 2008

- Decision to go ahead with Phase II in Hønefoss
- Licence for district heating in Hokksund
- Enlargement of customer base

Finances

The bioenergy business area posted a loss of MNOK 12 in 2008. This is primarily due to substantial basic investment relative to energy sold, since realising the customer potential will take time. Low electricity prices and high interest rates have also had an impact. Putting district heating in place is a long-term investment, and earnings for 2008 are in line with the business model on which the decision to invest was based.

Organisation chart, Bioenergy

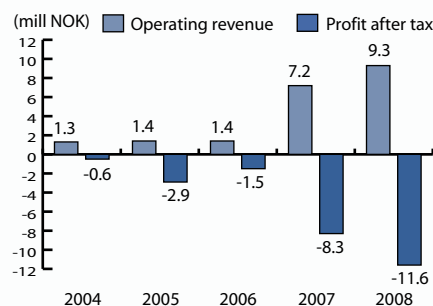


Key figures, Bioenergy

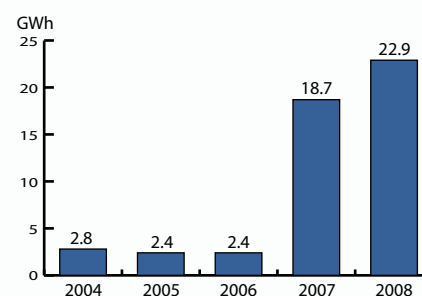
Operating revenue: 9 311
 EBITDA: -2 293
 Earnings: -11 590

Amounts in NOK 1000.

Financial performance, Bioenergy



Production Bioenergy



Market

The primary target groups are larger buildings, blocks of flats/housing cooperatives, commercial buildings and public buildings, as well as private residences along the pipelineroute. Establishing district heating for private residences must satisfy different customer base requirements in order to be profitable.

The customer group for Phase II includes a number of housing cooperatives and public buildings. Although private residences along the planned route are also among potential customers, they represent however, a limited volume. The customer potential can be increased substantially if more buildings are converted to hydronic heating. This requires better subsidy schemes, which will be realised through the Ministry of Petroleum and Energy's package of measures for Enova for 2009.

Strategy

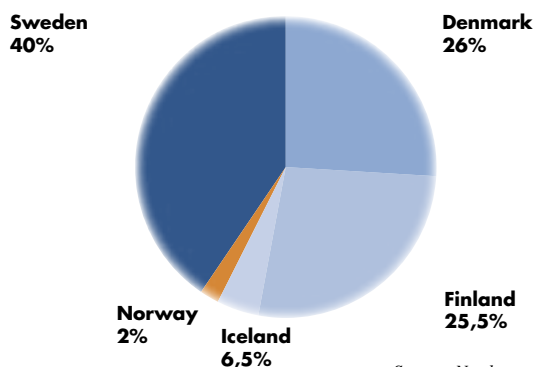
Hønefoss Fjernvarme aims to be a professional player in the bioenergy and district heating business area in Ringerike Municipality. The objects of the company are to produce and distribute thermal energy from renewable sources.

Environmental accounts



In 2008 Hønefoss Fjernvarme used 6,500 tonnes of wood chips to produce approx. 20 GWh. The equivalent amount of energy from heating oil would have required 2.2 million litres. Burning this oil would have emitted 6,000 tonnes of CO₂.

District heating in the Nordic countries

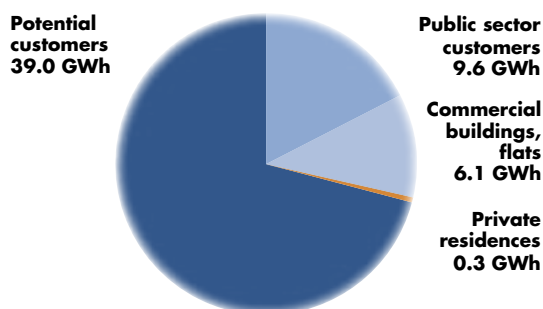


Source: Nordvarme

Norway has a considerable potential to increase its share of bioenergy, but it still has a way to go to catch up with its neighbours. The licence area in Hønefoss has an estimated potential of around 55 GWh. In 2008 16 GWh was sold.

Total customer base in Hønefoss

- broken down by existing and potential customers, Hønefoss



Brief explanation of terms:

Power expresses the capacity of a machine, engine or boiler. Power indicates how much the machine can perform at maximum output. Energy is measured in terms of power produced over a given length of time, and is normally stated as kWh, MWh, GWh or TWh.

Production companies



Hønefoss Fjernvarme is centrally located in Ringerike, Norway's biggest forest municipality.



Hønefoss Fjernvarme AS

The Hønefoss plant is still in development, and 2008 was a year in which projects and operations went on in parallel. Production growth in 2008 was around 25%, with total production in 2008 of 20 GWh.



District heating in Vestfossen.



Øvre Eiker Fjernvarme AS

In 2008 around 2.5 GWh was sold to customers in Vestfossen. Øvre Eiker Fjernvarme AS was founded to develop and operate district heating systems in Øvre Eiker Municipality. The plant can produce 840 kW and burns briquettes, dry wood chips and grain waste. The company has recently obtained a licence to build a district heating system in Hokksund and its immediate vicinity.

From district heating plant to user

1 Green energy from the forest

Energy timber is transported from the cutting area and collected at a receiving site. At the site the timber is cut into chips of a suitable size. The chips are then transported to a heating plant.

2 Heating plant

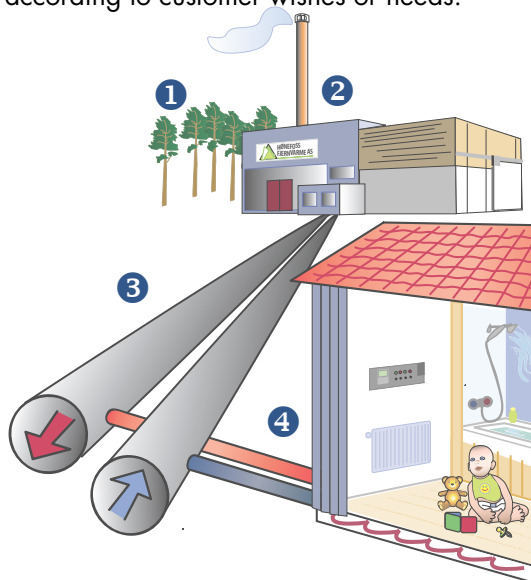
Raw wood chips are burned at the heating plant. Flue-gas condensation boosts the utilisation rate, while purifying the exhaust of particulates and waste. Water vapour at around 40-50°C is what comes out of the smokestack.

3 Pipeline system

A system of feed and return pipes extends from the heating plant. The water leaves the heating plant in the feed pipe at approx. 95°C and comes back in the return pipe at a temperature of around 45°C. Back in the heating plant, the water is reheated (new energy is added) before it is sent out in the flow pipe.

4 Customer distribution system

A distribution system is installed on the customer's premises. The distribution system consists of one or two heat exchangers. The heat exchanger transfers energy from the district heating to the customer's heating system, or to the hot water system (replaces the water heater). The temperature is controlled automatically and can be adjusted according to customer wishes or needs.



Bioenergy

Unlike fossil energy, which is obtained from biological material formed at an earlier stage in the earth's history, bioenergy is energy originating in materials formed by ongoing biological processes. Bioenergy comes from wood, wood chips, cutting waste, straw, peat, waste from the wood processing industry, timber industry, grain waste, etc., and is carbon-neutral.



Miljøvarme VSEB owns and operate heating plant at Quality Spa and Resort Norefjell.



Miljøvarme AS

Through its stake in Energiselskapet Buskerud AS, Vardar is an indirect owner of the company Miljøvarme AS. This company is intended to be a tool for realising bioenergy projects and is, for example, engaged in pellet production in Kleivi in Hallingdal.



Hønefoss Fjernvarme enters Phase II

After about a year's operation, Hønefoss Fjernvarme AS is transitioning to Phase II of its development plans. General manager Kjetil Bockmann looks forward to tackling his new duties and giving more residents of Ringerike a chance to have district heating.

Phase II of the development of district heating in Hønefoss is defined as the area north of the Hønefoss bridge, and is a project of three years' duration. A decision has been made to cross the Begna river with a minimum output of 10 MW. The total power in Hønefoss will be approx. 35 MW, distributed among customers along a district heating network of around 30 km.

During 2009 district heating pipes will be laid in Hønefoss in collaboration with the Norwegian Public Roads Administration, Ringerike Municipality, and others. Here the construction period is estimated to be one year.



Kjetil Bockmann (36) assumed the post of general manager of Hønefoss Fjernvarme AS on 20 October 2008.

Almemoen

In Almemoen – a development just north of Hønefoss – construction is well under way. Almemoen is a unique concept where the local authority has decided that all dwellings are to have hydronic heating. Here Hønefoss Fjernvarme is in partnership with the developer Tronrud Bygg AS to supply "green" hydronic heating to single-family units.

The right use of energy

Electrical energy is high-quality energy. This means that it can be easily transformed into mechanical work in motors, provide light, etc. Bioenergy is low-quality energy and is thus not suited to purposes other than heating. Use of high-quality energy for heating is not the optimal use of that energy. By committing itself to bioenergy, Vardar wants to contribute to the right use of the right energy.

Information is important

"Informing the public is important when planning to install district heating, which nearly always affects a large number of residents", says Kjetil Bockmann, general manager. Hønefoss Fjernvarme wants to

focus on communication with the public and will actively use the local newspaper and its website www.hfvarme.no to ensure that up-to-date information is available at all times.

"Hønefoss Fjernvarme's Hvervenkastet plant has garnered recognition and has had visitors from the area, other parts of Norway and abroad. It is important for us to show the plant to interested parties in the local community and in the profession. This will help to boost community support for Hønefoss Fjernvarme. Green energy from the local forest will mean cleaner air in the centre of Hønefoss – for the enjoyment of the present generations and those to come", Bockmann concludes.

Food for thought:

On the day Hønefoss Fjernvarme had its biggest energy production in 2008, over 60 tonnes of wood chips were burned to produce 150 MWh of energy. Producing 150 MWh of energy from heating oil uses 16,000 litres, which produces emissions of 43,000 kg (43 tonnes) of CO₂. Thus, using wood chips spared the environment 50 tonnes of harmful emissions on only a single day.



Artist's rendering of Phase II at Mehuken wind farm

Success for wind power in Sogn og Fjordane

The partly owned Vardar company Kvalheim Kraft has received a commitment from Enova for a MNOK 93 grant for the planned Phase II of the Mehuken wind farm in Vågsøy Municipality in Sogn og Fjordane. The total budget for the investment is approximately MNOK 250. The two owners, Østfold Energi AS and Vardar AS, will cover the remaining MNOK 157, with half each.

"A red-letter day for Kvalheim Kraft AS", says Bjørn Husemoen, director at Vardar. This is a step in the right direction for reaching the Government's goal for increased generation of renewable energy in Norway. The Norwegian authorities have set a target for developing total capacity of 3 TWh in wind power generation by 2010.

Quintupling capacity

The planned development of Mehuken 2 in Sogn og Fjordane will nearly quintuple wind farm capacity. The increase from 12 to 65 GWh corresponds to an increase in electricity delivery capacity from 600 to 3,250 households.

Seven projects – two received grants

According to Enova's criteria, Mehuken and Høg-Jæren in the Jæren district were considered to be the two best alternatives among the seven applicants. The two projects received grants because they would be the most profitable.

A lot of work went into preparations

The licence application for Phase II of Mehuken was submitted in 2005, and the path towards the goal has been far from easy. "It is a great relief to finally get construction under way," says Kristin Ankile from Vardar. Work to complete an Enova

application requires resources. "Planning, consultations and revisions are enormously labour-intensive", she says.

The only one in Sogn og Fjordane

Mehuken is the only wind farm in Sogn og Fjordane. The project is deemed to be a good one despite power prices that as of this writing are not favourable. The area has abundant wind resources, and the existing infrastructure in the area means that the expansion at Mehuken requires less in the way of resources. The first stage of Mehuken has been in operation since 2001 and was at that time the biggest wind farm in Norway, with five wind turbines totalling 4 MW. With the new licence, the wind farm will have eight new wind turbines, quintupling its capacity. Installation of the new turbines is planned to start in August 2010, with full production expected by the end of the same year.

Local goodwill

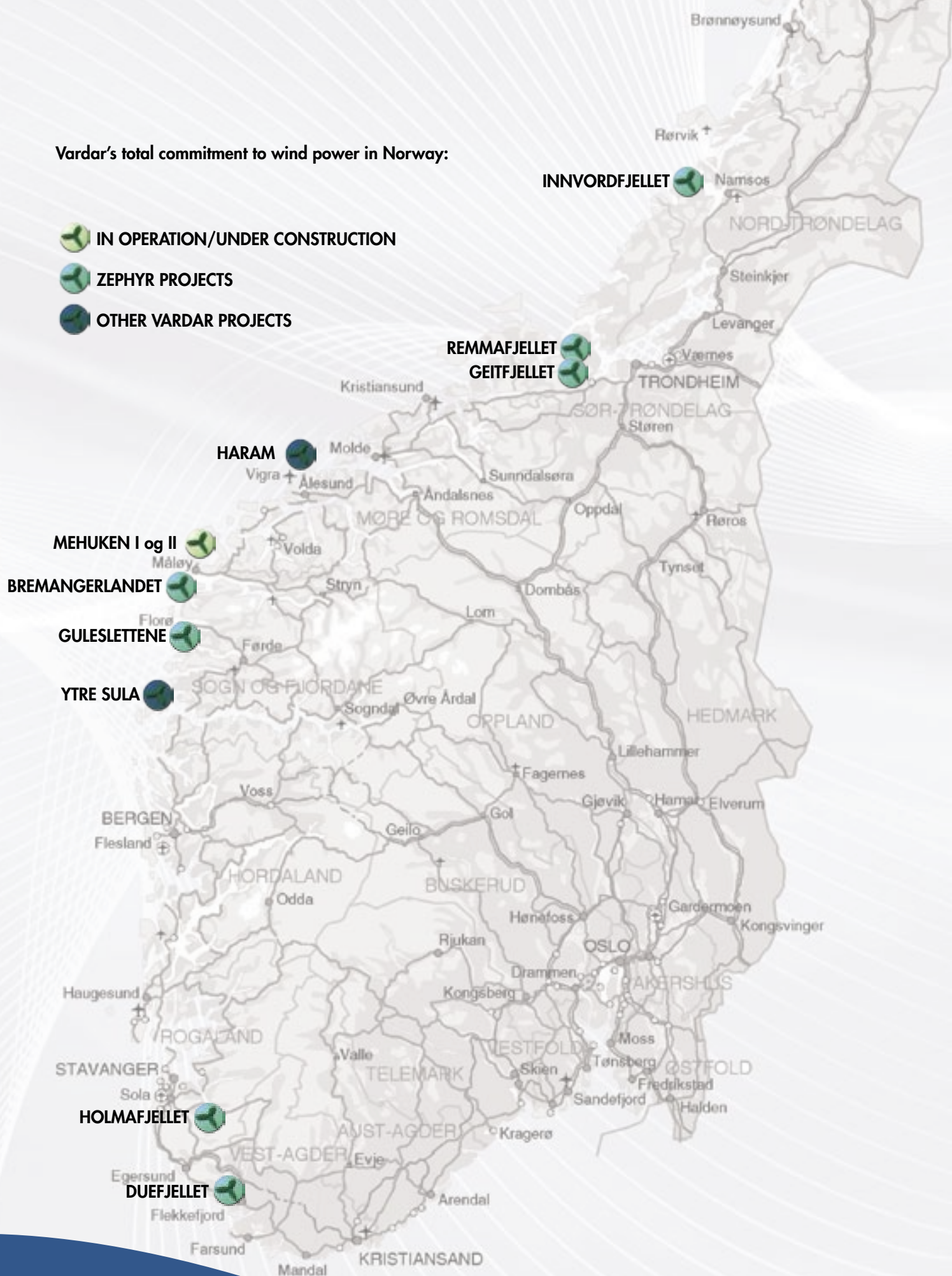
The Mehuken wind farm enjoys a lot of local support and has become a positive landmark. The locals have lived with the wind turbines for several years now, but no complaints have been lodged so far. The development of Mehuken 2 is one of very few projects in Norway not to have been appealed against.

Vardar's total commitment to wind power in Norway:

 IN OPERATION/UNDER CONSTRUCTION

 ZEPHYR PROJECTS

 OTHER VARDAR PROJECTS



Wind power in Norway

Vardar's commitment to wind power in Norway takes the form of ownership in the wind power companies Kvalheim Kraft AS and Zephyr AS and of holdings in the project companies Haram Kraft AS and Sula Kraft AS.

At Mehuken, situated on Kvalheimsfjellet in Vågsøy Municipality in Sogn og Fjordane, Kvalheim Kraft has produced wind power since 2001. Vardar's other involvements in wind power consist of wind power projects in development.

In 2008 the focus was on Kvalheim Kraft and the development of Phase II at Mehuken. In June Kvalheim Kraft obtained a licence to develop an additional 18.4 MW at Mehuken, and an investment grant under Enova's wind power programme was awarded in December. The total grant is MNOK 93.

In 2008, the wind power company Zephyr, which Vardar owns jointly with Østfold Energi AS and DONG Energy, enhanced its portfolio of wind power projects. Of the company's seven reported projects, all are being considered by the Norwegian Water Resources and Energy Directorate (NVE). Programmes for environmental impact statements are in place for three of these, with the remainder expected to be in place in 2009.

The project owned by Haram Kraft AS obtained a licence in 2008, but this was appealed against to the Ministry of Petroleum and Energy. Sula Kraft's project at Ytre Sula is being considered by NVE, and a programme for an environmental impact statement is expected in 2009.

Highlights of 2008

- Kvalheim Kraft obtained a licence to build 18.4 MW at Mehuken in Sogn og Fjordane
- Kvalheim Kraft received MNOK 93 in investment grants for developing Mehuken 2
- Haram Kraft AS obtained a licence to build 66 MW of wind power at Haramsøy in Haram Municipality. The licence was appealed against

Finances

The wind power in Norway business area broke even after tax in 2008. The increase from 2007 of MNOK 1 is primarily due to a higher attained price for the sale of energy.

Organisation chart, Wind power in Norway

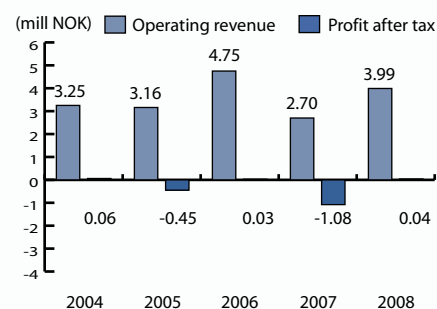


Key figures, Wind power in Norway

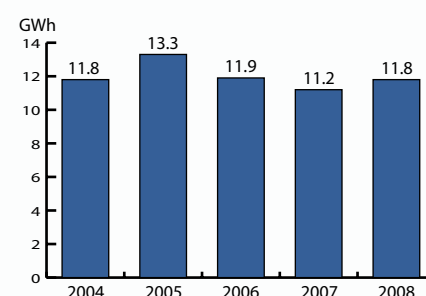
Operating revenue: 3 992
EBITDA: 1 657
Earnings: 41

Amounts in NOK 1000.

Financial performance, Kvalheim Kraft AS



Production Kvalheim Kraft AS



Market

In Norway, wind power operates under Enova's wind power programme. This is a three-year programme expiring in 2010 that is aimed at meeting the Government's target of 3 TWh of contracted wind power by 2010. After that it is uncertain what sort of regime wind power will operate under and what specific objectives will be in place for future production. Again there is talk of introducing "green certificates", though it is not at all clear if or when such a scheme will be in place.

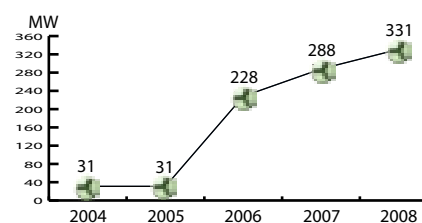
Future market outlook

The Norwegian Government has confirmed that the EU renewables directive is also to apply to Norway. The aim of this directive is for 20% of energy consumption in the areas of electricity, heating and transport to come from renewable sources by 2020. If this target is to be reached, Norway will need to introduce a satisfactory support regime for wind power and other renewable sources of energy.

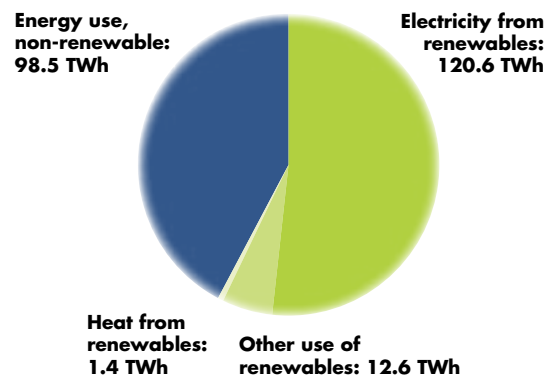
Strategy

Vardar's strategy is to boost its production from wind power in Norway. New project development is primarily to take place through the wind power company Zephyr AS, the objects of which is to develop, roll out and operate wind farms in Norway south of Nordland County.

Wind power projects in development



Renewable energy in Norway



Figures from 2005 show that in Norway, renewables' share of total energy use is around 58%. This is energy used for electricity, heating/cooling and transport. The energy used in oil and gas production is excluded. To reach the EU target of 20% renewables, all countries covered by the directive will be required to increase their share of renewable energy generation. The required increase in the share of renewables for Norway will be determined through negotiations between Norway and the EU.

Environmental accounts



If the power generated by Kvalheim Kraft in 2008 were to be replaced by equivalent production from a conventional coal-fired power plant, this would result in emissions of around 10,500 tonnes of CO₂.

Wind power companies



Artist's rendering of Ytre Sula wind farm seen from Nordre Hjørnøyvåg.

Zephyr AS

The objects of the partly owned wind power company Zephyr are to develop, build and operate wind farms in Norway. Today the company has seven wind power projects in development from Nord-Trøndelag in the north to Rogaland in the south.



Artist's rendering of the wind farm at Haramsfjellet in Møre og Romsdal.

Haram Kraft AS

In 2008 Haram Kraft was granted a licence to develop wind farms on Haramsøy. The licence has been appealed against.

Sula Kraft AS

At Ytre Sula in Sogn og Fjordane, Vardar is developing a wind power project in partnership with Sunnfjord Energi and Vestavind Kraft. Ytre Sula is located at the mouth of the fjord and has perfect wind conditions.

Wind farms

Wind farms contain wind turbines, a transformer station and a power cable that feeds the electricity to the grid. Vardar's only operational wind farm in Norway is located at Kvalheimsfjellet in Vågsøy in Sogn og Fjordane municipality.

Wind turbines

The most important elements of a wind turbine are the rotor with blades, nacelle with the generator and control system, as well as the tower and foundation. The foundation needs to be very solid, since it must tolerate substantial stresses in all kinds of weather.

1 Rotor

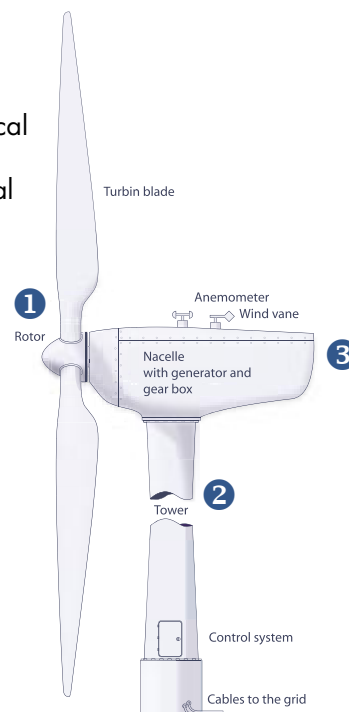
The rotor captures the wind and transfers this power via the shaft to a generator located in the nacelle. In large Norwegian wind farms the diameter can be over 80 metres, and a blade can weigh more than 90 tonnes. The blades are pitched to produce the most possible output, regardless of wind speed.

2 Tower

High towers are an advantage because wind speeds increase with altitude. The heights of modern wind turbines varies from 40 to 100 metres.

3 Generator

The generator converts mechanical energy from the turbine to electrical energy.



Wind power

Wind power a renewable and carbon-free energy source. The wind turbines convert the wind's kinetic energy to electricity. Europe's best wind resources are in the UK and Norway. Wind power is currently most widely used in Denmark, Germany, Spain, India and the US.



Wind turbine at Mehuken with a view of Stadt.



Kvalheim Kraft AS

Through Kvalheim Kraft, Vardar has generated wind power since 2001. At Mehuken in Vågsøy Municipality five turbines generate around 12 GWh of wind power a year. In 2008 Kvalheim Kraft was granted a licence to enlarge the wind farm by eight new turbines. They are to be in operation starting in 2011, and total energy production at Mehuken will be approx. 65 GWh.



- The map shows the current wind farm Mehuken 1 in green, while the next phase, Mehuken 2 is marked in yellow. Once Mehuken 2 is completed, the two installations will be seen as an integrated installation at Mehuken.



Wind power abroad – Vardar Eurus AS

Vardar's commitment to renewable energy abroad is primarily through its subsidiary Vardar Eurus AS. Vardar owns 70% of the company, while Nordic Environment Finance Corporation (NEFCO) owns 30%. The aim of Vardar Eurus AS is to invest in renewable energy in the Baltics and northwest Russia.

At Vardar Eurus the commitment to renewable energy is primarily through investment in wind power. These investments are made largely in partnership with the Estonian investment fund Freenergy AS. Development, implementation and operation of the project companies take place through the operator company Nelja Energia OÜ in Estonia.

Highlights of 2008

- Purchase of 25% of the shares in Roheline Ring Tuulepark OÜ, which at year-end had three operational wind farms in western Estonia
- Purchase of the project company Aseri, 24 MW wind power in northeastern Estonia
- Purchase of the project company Mockiai, 12 MW wind power in western Lithuania
- Construction and commissioning of the first farm in Lithuania - Sudenai
- Construction startup of Vanaküla Tuulepark in western Estonia
- Founding of Nordic Power Management – a subsidiary of Nelja Energia OÜ focusing mainly on power trading in the Baltics

Finances

The accounts for Vardar Eurus for 2008 show a profit after tax of MEUR 2.9, which corresponds to MNOK 23.5. The profit in 2007 was MNOK 11.6. The increase from 2007 is due to higher generation and sales prices in the subsidiary Pakri Tuulepark and to increased production on account of the take-over of a 25% holding in the wind power company Roheline Ring Tuulepark OÜ. Furthermore, a gain on the sale of 8.2% of the shares in Nelja Energia was taken to income.

Organisation chart, Wind power abroad

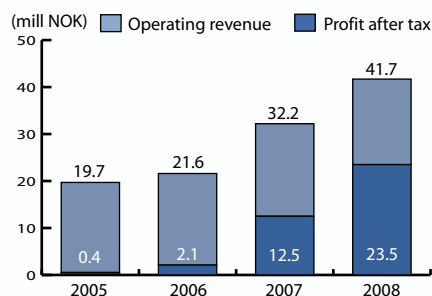


Key figures, Wind power abroad

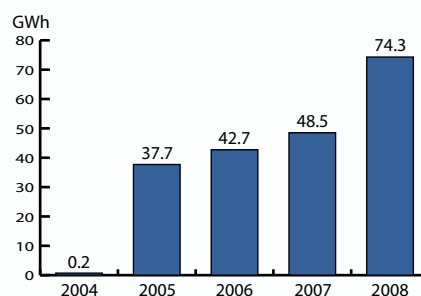
Operating revenue: 41 667
 EBITDA: 34 267
 Earnings: 23 480

Amounts in NOK 1000.

Financial performance, Wind power abroad



Production Wind power abroad



Market

The policy regime for renewable energy in Estonia and Lithuania is known and affords opportunities for profitable projects in the future as well. In Latvia it is still unclear what the operating framework will be, but signals indicate that it will be acceptable. The global financial crisis is impacting the terms for financing investment, but Vardar Eurus and Freenergy are perceived as solid investors, and so far their ability to borrow has not been substantially affected. The prices of wind turbines may drop going forward, providing unique opportunities for investors with capital.

Future market outlook

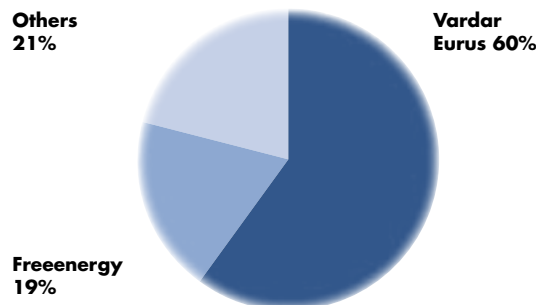
The EU target for 20% of energy consumption to come from renewables by 2020 will most likely maintain an attractive operating framework.

Strategy

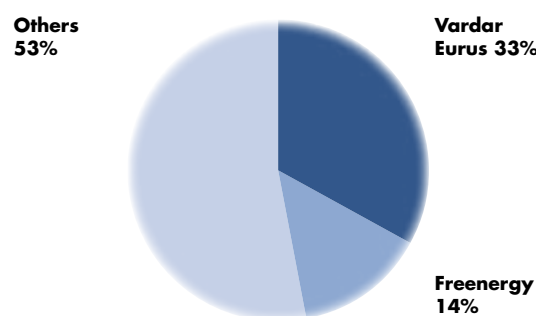
The objects of Vardar Eurus AS are to plan, develop and operate installations for production of renewable energy in the Baltics and northwestern Russia.

Vardar Eurus's position in the Baltics

Share of installed power in Estonia



Share of installed power in the Baltics



Environmental accounts



Wind power generation in Estonia helped to spare the environment 82,000 tonnes of CO₂ in 2008.

Overview of wind power – Vardar Eurus AS

Esttonia



Total number onshore wind power projects in Estonia by the end of 2008 is 122,4 MW.

Latvia



Total number onshore wind power projects in Latvia by the end of 2008 is 50 MW.

Vardar Eurus's wind power projects in the Baltics

Wind farm	Country	Company	Status	MW	MWh/y	Holding FE/VE/others*	Capacity
Pakri	Estonia	OÜ Pakri Tuulepark	Operation	18.4	53 000	10/90	32.90%
Virtsu I	Estonia	OÜ Roheline Ring Tuulepargid	Operation	1.2	3 440	75/25	32.70%
Virtsu II	Estonia	OÜ Roheline Ring Tuulepargid	Operation	6.9	16 163	75/25	26.70%
Esivere	Estonia	OÜ Roheline Ring Tuulepargid	Operation	8	20 863	75/25	29.80%
Viru-Nigula	Estonia	OÜ Viru-Nigula Tuulepark	Operation	24	64 400	0/100	30.60%
Tooma	Estonia	OÜ Tooma Tuulepark	Construction	24	67 277	50/50	32.00%
Vanaküla	Estonia	OÜ Vanaküla Tuulepark	Construction	9	24 020	0/100	30.50%
Virtsu III	Estonia	OÜ Roheline Ring Tuulepargid	Development	6.9	18 073	75/25	29.90%
Aseri	Estonia	OÜ Aseriaru Tuulepark	Development	24	71 061	50/50	33.80%
Hiiumaa Offshore	Estonia	OÜ Hiiumaa Offshore Tuulepark	Development	1 000		45/45/10	
Dundaga	Latvia	UAB Enercon SIA	Planning	50	130 000	50/50	29.70%
Sudenai	Lithuania	UABVejo Elektra, UAB Lariteksas	Operation	14	35 566	50/50	29.00%
Mockiai	Lithuania	UAB Eurolanas, UAB Iverneta	Development	12	38 205	50/50	36.30%
Silute	Lithuania	UAB Silute Vejo Projektai	Planning	100	287 490	50/50	32.80%
Silale	Lithuania		Planning	14	40 846	50/50	33.30%
Lithuania Offshore	Lithuania	UAB Baltic Energy Group	Planning	400		20/20/60	
Total excl. offshore				312.4	870 404		31.43%

* Freenergy (FE), Vardar Eurus (VE)



Total number onshore wind power projects in Lithuania by the end of 2008 is 140 MW.





Vardar Eurus committed to green energy in Lithuania



Right before year-end 2008, Vardar Eurus AS and its partner Freenergy commissioned the Sudenai wind farm. The farm is expected to produce 36 GWh a year, while sparing the environment emissions of 22,000 tonnes of CO₂ and consolidating the company's favourable position in the Baltics.

The project began in 2006, when Vardar Eurus and the Estonian investment fund Freenergy AS concluded an agreement to purchase the two project companies. The companies were called Vejo Elektra UAB and Lariteksas UAB and today jointly comprise the Sudenai wind farm in southwestern Lithuania.

Construction on the project started at the beginning of 2008. In consideration of the licences and landscape planning, etc., wind turbines from the company Enercon were chosen. The company installed seven 78 metre high Enercon E82 2 MW wind turbines on steel towers.

The local contractor Kursasta, with prior experience from similar projects, was chosen to build the roads and crane platforms in the area. Siemens was in charge of the electrical installations, while Enercon was responsible for the foundations and towers, in addition to the turbines. The first kWh was produced on 4 December.

On 21 January 2009 Vardar Eurus and Freenergy took over the farm from Enercon.

The seven windmills in the Sudenai farm are expected to generate 36 GWh per year. Production estimates are based on wind measurements made in the area over time. Gross investment in the project was MEUR 20.7. This investment is expected to be very profitable under the current operating framework in Lithuania.

In Lithuania power from wind farms is sold at a feed-in tariff set by the government. In addition to this, contracts may be entered into for the sale of emission credits.



Vardar Eurus is consolidating its position in the Baltics

For Vardar Eurus AS it is also important to show that it is capable of carrying out projects. This makes the company an attractive alternative for developers and others in need of partners to make projects a reality.

Together with other profitable projects that are or are coming on line, the implementation of Sudenai has positioned Vardar Eurus AS for growth in the period going forward.

The farm also provides an environmental bonus. Production from Sudenai will result in a cut in emissions in the order of 22,000 tonnes of CO₂ each year. The project will help Lithuania reach its target of increasing its share of energy from renewables. Today, 3.5% of its total energy production comes from renewables, while the goal is to reach 7% by the end of 2010.

Vardar Eurus AS eies 70% av Vardar AS og 30% av the Nordic Environment Finance Corporation (NEFCO). Vardar AS investerer langsiktig innenfor fornybar energi. Freenergy er et heleid estisk investeringsfond som investerer i fornybar energi.



Real estate and property management

Vardar Eiendom AS is a subsidiary of Vardar AS. One of the company's primary tasks is to see to efficient operation and letting of its own properties. It does this by managing the real estate assets and providing operating services to tenants. The property portfolio consists of two office buildings in Drammen and a combined administration and manufacturing building in Hurum.

Highlights of 2008

- In 2008 the company converted the foyer of the office building in Gulslogen, Drammen, to offices. The conversion was completed right before the New Year, and a lease has already been signed with a tenant who will be moving in in 2009. Vardar Eiendom has thus enhanced the value of previous common space by making it leasable.

Finances

Each property was split off into its own company (demerger with subsequent transfers of assets and liabilities) as of 1 January 2008, with accounting and tax continuity. The figures in the diagram are consolidated.

The real estate and property management business area posted results of MNOK -0.2. As operating revenue also includes gains on the sale of property, the fluctuations are greater than changes in ordinary lease income would justify. Ordinary operations posted a slight loss, while the gain on sales has yielded a substantial profit. Consequently, in a property company it is of interest to measure the change in value of properties in addition to carrying amounts. While such adjustments cannot be recognised in accordance with NGAAP, they are permitted under IFRS. The accounting standard for investment properties has been applied in the consolidated accounts. No change in value for the properties has been recognised for 2008.

Corporate structure, Property

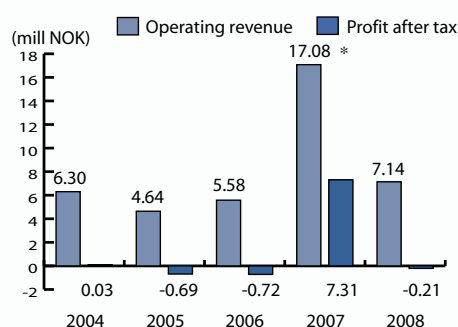


Key figures, Property

Operating revenue: 7 143
 EBITDA: 2 728
 Earnings: -215

Amounts in NOK 1000.

Financial performance, Property



* Including gains on the sale of property at 10 mnok.

Market

Vardar Eiendom exclusively serves the market segment for commercial real estate, and thanks to its high occupancy rate has not been adversely impacted by the changes in the wake of the financial crisis still affecting the market. The tenant portfolio consists of solid firms and the leases generally have terms longer than three years.

Strategy

In the same way as in the power business, the property business is marked by the fact that operations are based on considerable real assets. Taking care of these assets and developing them for the long term is the core of the company's adopted strategy. As the aim of Vardar Eiendom AS is to have satisfied customers, it works actively to maintain good relations through proper communication with its customers.



Vardar Eiendom AS will continue to assess the potential for enlarging the leased space of existing properties. The sketch shows a possible enlargement of the leased building in Øvre Eikervei.

Property development

Vardar Eiendom follows market trends on an ongoing basis and will consider good investment projects to further develop the company.



The properties



The property in Øvre Eikervei has a bucolic location on the banks of Drammenselva.

Øvre Eikervei 14

The Gulskogen property is exclusively an office building and has a stable revenue base with leases running from three months to eight years. Many of the tenants are public sector activities. It is centrally located in Drammen, with ample onsite parking. The site permits expansion.



The newly refurbished office space in central Drammen is fully leased as of today.

Dronninggt. 15

The property is situated in Bragernes in Drammen, a short distance to the centre and all main arteries. The tenants are in both the public and private sectors, with remaining lease terms from three to eight years.



In 2008 Vardar Eiendom AS upgraded the foyer of Øvre Eikervei 14, while making use of previously unused space for offices.

Åsveien 6A

The property is located in Sætre in Hurum alongside the main road to Østfold. Its location is a key factor for a company with a lot of transport and daily dispatches to customers. The building is a combined office and manufacturing building with a single tenant, Tre Trapp AS, a producer of stairs. In recent years the company has made substantial investment in new technology in both production and environmental aspects of operations.

The tenant is responsible for day-to-day follow-up of the property.

Åsveien 6B

The property is a vacant lot in Sætre in Hurum on which there are plans eventually to build a building to be let. The lot is the neighbouring property to Åsveien 6A, located adjacent to the motorway in Hurum.





Research, development and the environment

Social and environmental responsibility has always been a part of Vardar's operations. Vardar wishes to be a beacon, lighting the way towards production of renewable energy. R&D is thus a natural part of its activities.

Commitment to green energy

The Buskerud County Administration spends some of its regional development funds on research in renewable energy.

The following projects in which Vardar is involved have received funding:

- The HyNor development project, the hydrogen road from Oslo to Stavanger.
- Further development of fuel cell technology (receiving NOK 500,000 in 2009).

HyNor - The Oslo-Stavanger hydrogen road

The hydrogen road between Oslo and Stavanger, which opens on 11 May 2009, is one of the first and longest of its kind. Besides Arnold Schwarzenegger's "hydrogen highway" in California there are few similar stretches of road where hydrogen-powered cars can drive.

Drammen is a natural stop on the route

One of the filling stations along the new hydrogen route is in Drammen. Here Vardar, in partnership with Lindum Ressurs og Gjenvinning and Statoil, has worked to produce hydrogen from organic waste. Soon it will be possible to fill up with hydrogen in the river town of Drammen.

The hydrogen society – a "green dream" or reality in the near future?

Vardar's Bjørn Husemoen does not think that the hydrogen age is as far in the future as many claim.

"It will not be long before the cars we buy run on fuel cells rather than petrol and diesel. While auto industry signals indicate that the technology is already in place, before ordinary motorists can drive hydrogen-powered cars, their cost needs to come down and they need to be more user-friendly", he says.



Researchers predict that within ten years, hydrogen-powered vehicles will capture 10-15 % of the passenger car market, and in the course of 40 years, fuel cells are likely to completely replace combustion engines.

Hydrogen-powered vehicles have long been a dream among environmentalists, engineers and energy policy makers. An energy carrier that can be produced from a number of sources and that when combusted produces no emissions other than pure water and heat may well be the solution to fundamental environmental challenges.



"Green Rally"

The starting gun for the hydrogen/electric car rally will be fired on 11 May 2009, the same day as the filling stations in Oslo and Drammen open, Bjørn Husemoen from Vardar, the project manager for the race, says. The race is open to all battery- and hydrogen-powered vehicles as well as plug-in hybrid vehicles approved for Norwegian roads. So far, around 25 different types of vehicle have registered. The rally is being held to demonstrate the ability of many green cars to manage just as well on long distances as in city traffic. Along the route there will be competitions to test key driving characteristics, such as acceleration tests, uphill runs and vehicle slalom.

From waste to energy, new energy plant in Ringerike?

From our region, large quantities of waste are transported to Sweden for incineration, since as of today there is no capacity to receive it in Norway. Vardar is collaborating with Norsk Skog Follum and Ringeriks-Kraft to build an energy plant in Follum. The plant is to contain a steam turbine installation that will burn 100,000 tonnes of residual waste each year. The Follum energy plant will have annual production of 300 GWh, equivalent to the heating needs of 20,000 households and will supply the district heating network in the Hønefoss area.

Tor Ottar Karlsen of Vardar believes this is an important venture. "As we are rolling out the district heating network in Hønefoss, this is an especially exciting project for Vardar. If we also could cut the distance for transporting the waste, it would be most valuable for the environment.

Research on small-scale cogeneration

Vardar is taking part in a research programme along with SINTEF and other Norwegian power companies. The plan is to develop small-scale power plants run on biofuel for generation of electricity and heat. The goal is an increase in generation of 10 MW in two to three years.

Hydrogen from wind power

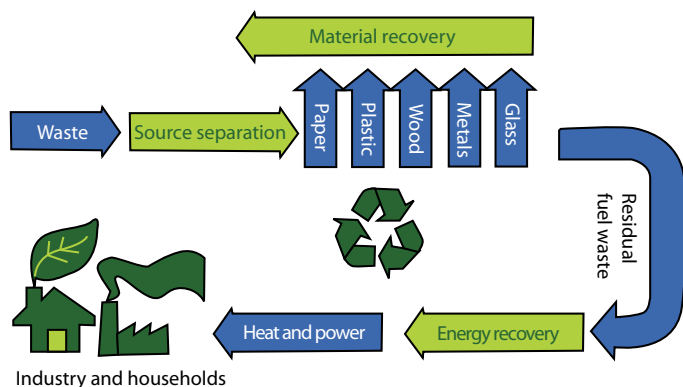
Vardar AS has a number of wind farms and wind power projects in Norway and in the Baltic countries. The company is exploring the possibility of producing hydrogen using wind power, for example, since the hydrogen in turn can be used for generating energy using fuel cells. In this connection, Vardar has a partnership with the Tallinn University of Technology in Estonia.



Tallinn University of Technology in Estonia.

New focus areas

From waste to energy



Fuel cell technology

Vardar is working actively on R&D in the areas of hydrogen and fuel cells. Provided that the hydrogen is produced using green energy, fuel cells powered by hydrogen emit no greenhouse gases. This may eventually help to reduce global pollution substantially. Fuel cells were very successfully used to run some of the buses during the 2008 Summer Olympics in Beijing.

How fuel cells work

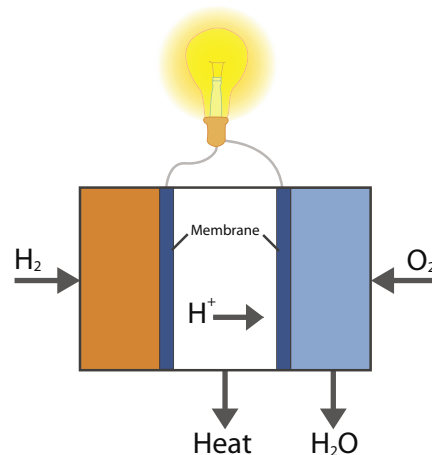
Electrolysis is a chemical process in which electrical energy is used to split water into its component parts, hydrogen and oxygen. In fuel cells, the process is reversed, generating electricity.

A fuel cell is constructed of layers of gas-permeable electrodes. Between these plates, there is an electrolyte membrane that allows protons through. Technically this is referred to as a polymer electrolyte membrane or PEM. Electricity is created when hydrogen flows through the fuel cell on the anode side of the PEM, while oxygen flow through on the other side (cathode). The membrane keeps the oxygen and hydrogen separate, thus controlling the chemical reaction. In addition to separating oxygen and hydrogen, the membrane functions as a catalyst, which speeds up the reaction that splits the hydrogen into electrons and protons.

Electricity is then generated when the protons penetrate the membrane, while the electrons

remain behind. The surplus negatively charged particles are collected at the anode, while the surplus positively charged particles are collected at the cathode, after which current flows out of the fuel cell. By assembling several cells in a series in what is called a stack, enough electricity can be generated to power an electric motor with enough output to run a car.

The only by-products of the chemical reaction arising in the fuel cell are water and heat.



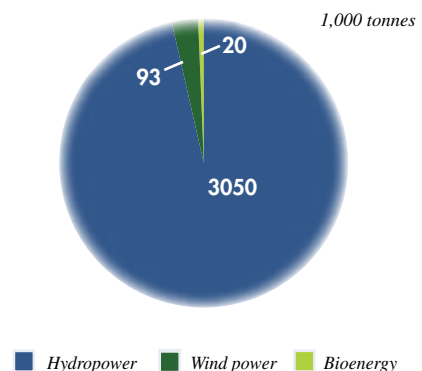
Vardar reduces CO₂ emissions equivalent to emissions from appr. 700,000 cars pr. year based on annual driving distance of 20,000 km and an emission of 115/g/km.



Offshore wind power

Vardar seeks to raise the level of expertise and experience in offshore wind power generation, which is why there is work on projects in connection with the commitment in the Baltics. In addition to technical solutions, there are challenges related to legislation in the individual countries in this area.

Savings of CO₂ emissions broken down by Vardar's business areas:



Basis of calculation: Total generation by Vardar's production companies.

Market conditions and risk

Hydropower

Uste Nes AS sells its free power production on the Nordic power exchange Nord Pool – the largest and most liquid marketplace in Europe for trading physical and financial power contracts. Nord Pool is responsible for the physical settlement of all power traded on the exchange, and the counterparty risk is addressed via the requirement for membership. However, for Uste Nes AS there are risks related to such factors as inflow, changes in the operating framework, accidents and electricity prices. Changes in electricity prices are the predominant risk factor, which is dealt with by active portfolio management within a risk framework approved by the Board. The objective is to create predictable earnings after tax for the company.

Wind power in Norway

The Government was not successful in 2008 either in putting in place a predictable operating environment that would result in satisfactory profitability for wind power in Norway. In January 2008 the Government announced a new attempt at negotiations with Sweden to establish a common certificate market. However, as the year passed there was silence on this matter and the situation remains unclear. Instead, as a provisional transitional scheme, a system of investment grants administered by Enova was implemented. This grant scheme is a three-year programme expiring in 2010 in which Enova has a total of NOK 3 billion to distribute over three years. The aim of this programme is to meet the Government's target of 3 TWh of contracted wind power by 2010. Only wind power projects with licences that have been finally approved may apply for an investment grant.

It is uncertain what operating framework wind power will operate under in Norway after 2010, and it is also uncertain what the level of ambition will be for defining new national objectives for the future commitment

to wind power. Despite considerable uncertainty regarding the future operating framework, Vardar has chosen to continue its efforts to develop wind power projects in Norway. The Norwegian Government has confirmed that the EU renewables directive is also to apply to Norway. If Norway is to help to meet the target of 20% of all energy consumption in the areas of electricity, heating and transport coming from renewable energy by 2020, Norway will be dependent on introducing a satisfactory operating framework for wind power and other renewables.

Wind power abroad

Through Vardar Eurus there are operations in Estonia and Lithuania in 2008. For Vardar Eurus there are elements of risk connected to several factors, such as the price of electricity, wind/production, exchange rates and financing.

In Estonia, power generated is sold at the market price, with production subsidies paid in addition. In Lithuania there is a feed-in tariff for wind power.

For now the production subsidy in Estonia applies for 12 years from the date of commissioning, while the tariff in Lithuania is in force until 2020. This results in predictability regarding future revenues. The EU renewable energy target also raises the expectation of attractive support systems in the future as well. Although the risk related to wind speed and production is deemed to be smaller over the entire life of the investment, in certain years this risk may affect earnings substantially. Vardar Eurus is a long-term strategic investor that will be adequately capitalised to face certain years of weaker earnings.

Normally, supplier contracts include long-term operating and maintenance agreements with guaranteed availability and predictable operating expenses.

Investment is made in EUR, while settlement for power generated takes place fully or partially in local currency. Since both the Estonian and Lithuanian currencies are pegged to the EUR, the currency risk is deemed to be limited. However, there has been speculation on devaluation of local currencies in the Baltics. It is not practicable to hedge foreign currency revenues in the Baltics over a long period against the EUR, and it would be disproportionately expensive to finance projects by borrowing in local currency. For that reason, following an overall assessment, it was decided that no actions are to be taken to hedge future revenues in local Baltic currencies against the EUR. For that reason, Vardar Eurus is exposed to a possible loss resulting from any devaluation of the EEK or LTL. However, most projects are robust with ample profitability, and in the event of a devaluation of e.g. 20%, they would still meet the company's return requirement.

The changes in the financial situation that occurred in the autumn of 2008 have affected opportunities to finance investment by borrowing. There are funds in the market, but they are more expensive than prior to the financial crisis. The general decline in interest rates, however, is compensating for the higher margins. All in all we do not expect that the situation in the financial market will affect the performance of Vardar Eurus to any appreciable extent.

Bioenergy

The Government's bioenergy strategy is to lay the groundwork for reaching the target of 14 TWh new bioenergy in 2020. To reach this target, the operating framework for bioenergy needs to be improved. As of today, there is great uncertainty concerning the electricity price. In view of today's low electricity price, a number of bioenergy projects will remain on the shelf owing to poor profitability. In 2008 the Norwegian Water Resources and Energy Directorate

(NVE) granted 31 licences for district heating. If they are all realised, it will result in 1 TWh in new heat production. The target for 2010 is for district heating to deliver 6 TWh of thermal energy in 2010.

The most important action taken in 2008 was the draft amendment to the regulation concerning disconnectable power. This was done by NVE on behalf of the Ministry of Petroleum and Energy, and is planned to go into force during 2009. The goal of the amendments is to improve the operating framework for bioenergy. If the regulation results in power companies removing the discount for disconnectable power, bioenergy will become more competitive. The uncertainty regarding the price of electricity will always be crucial for the development of district heating. The finance crisis has helped to lower the price of fossil fuels, resulting in a low electricity price and a low price for heating oil.

In Hønefoss the market performed positively, but there will be several years before the customer potential of 55 GWh is realised.

Currencies

Uste Nes's sales of power to Nord Pool take place in EUR, creating an exchange rate risk. To take this into account, Vardar has drawn up a framework for hedging future cash flows. The framework defines an upper and lower limit for hedging, where the degree of hedging is higher for more immediate future years and diminishes for subsequent years. The investment in Vardar Eurus is hedged against currency fluctuations by putting in place corresponding liability items in EUR.

Interest rate

Vardar has in place a framework for interest rate hedging of its loan portfolio whereby average interest rate hedging shall be for between one and four years.



Managing Director Johannes Rauboti.

Member of the Board Nils Peter Underbakke.

Member of the Board Linda Verde.

Member of the Board Lise Løff.

Deputy Chairman Mette Lund Stake.

Chairman Svein Marfi.

The Board of Directors' annual report for 2008

Vardar AS is a holding company which works towards its long-term goal of maximising value through a development strategy.

The company has the following vision:

Vardar AS – Creating value through active ownership.

The company's ownership interests may be roughly divided into the following four categories:

- Hydropower
- Wind power
- Bioenergy/District heating
- Real estate and property management

These areas represent the Group's core business. The company has the following business concept:

The company has the following vision:

Vardar AS shall invest in and own energy-related activities and property.

In energy-related activities the focus is exclusively on renewable energy.

The hydropower business area comprises the indirect ownership of EB Kraftproduksjon through Energiselskapet Buskerud AS as well as the wholly owned subsidiary Uste Nes AS. Uste Nes AS owns 2/7 of the co-owned Uste and Nes power stations in Hallingdal.

In the area of wind power Vardar AS owns the wind power company Kvalheim Kraft AS jointly with Østfold Energi AS as well as 1/3 of the shares in the company Zephyr AS, whose objects are to develop, build and own installations for generating wind power in Norway. In addition Vardar AS is a direct co-owner of some other wind power projects which are under development.

Vardar AS owns the subsidiary Vardar Eurus AS together with Nordic Environmental Finance Corporation, NEFCO. The company's purpose are to invest in and own production plants for renewable energy in the Baltic states and the north-west region of Russia. At the end of the financial year, Vardar Eurus AS had three subsidiaries in Estonia: OÜ Pakri Tuulepark (90%) which is Estonia's largest wind farm in production, OÜ Viru Nigula Tuulepark (100%), a wind farm in test operation, and OÜ Vanaküla Tuulepark (100%), a project under construction. Vardar Eurus AS owns 25.15% of the operating company OÜ Nelja Energia. The objects of this company are to develop and realise projects as well as run operational installations on behalf of investors. In addition

to its subsidiaries, Vardar Eurus AS has holdings in several jointly controlled and associated companies. They include the company Roheline Ring OÜ, which Vardar Eurus owns 25% of, a company in operation, and 50% of the Lithuanian companies Vejo Elektra and Lariteksas, which own wind farms that went into test operation at the end of the financial year. The remaining jointly controlled companies own projects at various stages, some of which are under construction.

In the area of bioenergy/district heating, Vardar AS owns 100% of the shares in Hønefoss Fjernvarme AS. The plant uses raw wood chips as its main energy source. The infrastructure connected to the plant will be further expanded in the future, and new customers will be hooked up as the system grows. Vardar AS also owns 50% of the shares in Øvre Eiker Fjernvarme AS, which runs a modest-sized district heating plant in Vestfossen. The heat is produced in a biofuel-fired plant which is designed to run on various types of biofuel. Øvre Eiker Fjernvarme has a licence to develop district heating in Hokksund.

The subsidiary Vardar Eiendom AS is the Group's chosen entity for developing the Group's property portfolio.

Vardar AS has its registered office in the city of Drammen.

In accordance with Section 3-3 of the Accounting Act, the Board confirms that the necessary conditions for continued operations are present. The annual report and accounts have therefore been prepared on this "going-concern" assumption which itself is founded on the company's earnings forecast for 2009 and the years following. The company is in a healthy economic and financial position.

Vardar AS has prepared its consolidated accounts in accordance with IFRS, while the subsidiaries' accounts have been prepared according to NGAAP. The Vardar Group has a risk management system that covers its power portfolio, currencies and interest rates to increase the predictability in its cash flows. In the IFRS accounts the company has chosen to recognise changes in the value of power and financial derivatives in the income statement. Because of this, the consolidated result from year to year will vary more than it did when also these accounts were prepared according to NGAAP.

Uste Nes AS

This company owns 2/7 of the power stations Uste and Nes in Hallingdal which is co-owned

by E-CO Energi AS (4/7), Akershus Energi AS (1/7) and Uste Nes AS.

The profit for Uste Nes AS in 2008 was MNOK 108.2, and equity at the end of the year stood at MNOK 644.5. 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 2009 and 2010 and a smaller proportion in 2011. This risk management serves to increase the predictability of earnings despite fluctuations in market prices throughout the year. The Board of Directors is well pleased with the profit performance of Uste Nes AS.

Energiselskapet Buskerud AS

Vardar AS owns 50% of the shares in the energy group Energiselskapet Buskerud AS.

The group comprises inter alia the subsidiaries EB Kraftproduksjon AS, EB Nett AS and EB Energimontasje AS.

Energiselskapet Buskerud has prepared its accounts according to IFRS, and in 2008 the group earned a profit after tax of MNOK 275.1 (the majority's share) as opposed to MNOK 138.6 in 2007. Previously unsettled tax matters at EB Kraftproduksjon AS were settled in 2008, with a positive effect on earnings of MNOK 201 for the subsidiary EB Kraftproduksjon.

Vardar Eurus AS

Vardar AS owns 70% of the shares in Vardar Eurus AS. The remaining 30% is held by NEFCO. The Vardar Eurus Group has considerable investments in renewable energy in the Baltics, but a substantial portion of these investments are investments in wind farms that are either under construction or in test operation. A considerable increase in operating activity is expected in 2009. Vardar Eurus AS posted a profit of MNOK 23.5 in 2008, compared with MNOK 11.6 in 2007. The Board is pleased with the results from Vardar Eurus AS.

Hønefoss Fjernvarme AS

2008 is the second year that Hønefoss Fjernvarme is presenting annual accounts. The company posted a loss of MNOK 11.4. The result is approximately as anticipated, and earnings improvements are expected as more heating customers are connected and the various installations are more efficient utilised.

Vardar Eiendom AS

In 2008 the company posted a loss after tax of NOK 214,694. During the financial year the company was demerged, so that the various properties are now organised in separate subsidiaries of Vardar Eiendom AS.

Financial results

In 2008 the Vardar Group achieved a profit after tax according to IFRS of MNOK 87.1, as opposed to MNOK 117.3 in 2007.

Vardar's company accounts according to NGAAP were MNOK 152.1 after tax in 2008, compared with MNOK 84.7 the previous year.

The Board is pleased with these earnings.

The Board proposes that the net profit after tax of MNOK 152.1 for Vardar AS be allocated as follows:

Allocated to dividend	MNOK 60.8
Transferred from other equity	MNOK 30.6
Transferred to the fund for valuation variances	MNOK 121.5

The company's distributable equity as at 31 December 2008 was MNOK 179.5.

The cash flow from operations at Vardar AS according to NGAAP was MNOK 67.2, whereas the net cash flow from operations in the Group according to IFRS was MNOK 257.2.

Capital structure

At year-end the Vardar Group had total assets according to IFRS of MNOK 3,626, with equity of MNOK 1,552; corresponding figures for 2007 were MNOK 3,598 and MNOK 1,441, respectively.

The Board considers the level of equity and liquidity in the company to be satisfactory.

Financial risk

For Vardar the 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 recognized in income.

Vardar has considerable assets in EUR or other currencies relevant. Furthermore, most of Vardar's revenue is in EUR through sales of generated power on the Norwegian power exchange Nord Pool. Vardar balances its EUR 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 flow related to future power revenue is hedged by the use of forward exchange contracts. Through Vardar Eurus, Vardar has operations in Estonia and Lithuania. Revenues from these operations are in part in local currency. No form of hedging is done of these revenues against EUR.

To a certain degree Vardar is exposed to changes in interest rates. An interest-rate hedging strategy has been introduced to counteract this.

Vardar has a credit risk through a number of loan receivables, primarily from companies that Vardar owns directly or indirectly. A substantial portion is a subordinated loan to Energiselskapet Buskerud, which in the view of the Board has a healthy financial position. Moreover, in some cases Vardar finances construction loans in connection with implementing projects. These loans are

required to be refinanced when the projects have been carried out.

Vardar has no long-term loans coming due in 2009. Vardar uses the certificate market for short-term financing. The company has a bank drawing facility that serves as security for refinancing. Otherwise, with regard to risk, please see Note 1 to the accounts.

Personnel, health, safety and environment

At year-end there were a total of ten employees in the Vardar Group, i.e. in Vardar AS, Uste Nes AS, Hønefoss Fjernvarme AS and Vardar Eurus AS. Of the ten employees, three are women. The Group has a collaboration agreement with Energiselskapet Buskerud AS with regard to administrative services.

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

On the Board of Vardar AS, two of the five Board members, all of whom are elected by the shareholders, are men. Three of the six Board members of Uste Nes are women. One of the three Board members of Eurus AS is a woman. In Vardar Eurus's subsidiaries OÜ Pakri Tuulepark, OÜ Vanuküla Tuulepark and OÜ Viru Nigula Tuulepark, two of the four shareholder-elected representatives are women. There is one woman among the three Board members of both Vardar Eiendom AS and Hønefoss Fjernvarme AS.

Absence due to illness in the Vardar Group for 2008 was 83 days. This represents 6% of total working hours during the year. There were no accidents or serious injuries during the financial year.

The company's operations in general result in little pollution of the external environment. Nor does the company have any projects under development or being implemented which impact the environment to a greater extent than that which naturally occurs with similar businesses.

Outlook

In the view of the Board, Vardar AS has an excellent position for further growth. The company is working actively in the area of renewable energy production. New investment is primarily in the wind power and bioenergy/district heating business areas.

Wind power production is garnering increasing attention, and Vardar AS is involved in a substantial portfolio of projects in various stages both in Norway and abroad. Higher targets for new renewable energy production has meant greater support from the authorities in the Baltic states and thus better profitability for some of our projects in this region.

For that reason the Board has high hopes for the performance of the ventures in renewable energy abroad. Here special focus will be on countries and areas where legislation and other operating conditions enable investment in renewable energy to generate a satisfactory return on equity, taking into account the additional risk factors associated with operating a business abroad. During the coming year several wind farms in which Vardar AS has substantial stakes through Vardar Eurus AS, will come on stream.

In Norway we have a temporary system of subsidies based in investment grants, which is planned for the period until and including 2010. After that, something new needs to be put in place if the development of wind power in Norway is not to come to a halt. On the basis of the favourable signals being sent, we expect that in the long run wind power in Norway will be able to grow. Vardar AS is one of the companies best positioned to participate in this growth if support systems are put in place that make these projects profitable.

In the area of bioenergy/district heating, the Board has hopes for the further development of the waste incineration project at Follum in partnership with Norske Skog ASA and Ringerikskraft AS. In addition to this, Vardar wishes to focus on further development of Hønefoss Fjernvarme AS and Øvre Eiker Fjernvarme AS.

The Board would like to emphasise that assessments of future conditions 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 2008.

Drammen, 24 April 2009

Svein Marfi
Chairman

Mette Lund Stake
Deputy Chairman

Nils Peter Undebakke
Member of the Board

Linda Verde
Member of the Board

Lise Løff
Member of the Board

Johannes Rauboti
Managing Director

Income statement IFRS

Amounts in 1000 NOK.

GROUP		IFRS	
		1 January - 31 December	
	Note	2008	2007
Operating income			
Energy sales		301 084	223 387
Total rent		6 982	6 968
Other operating income		1 585	8 176
Total operating income		309 651	238 531
Operating expenses			
Purchase of energy/cost of goods sold		86 048	63 753
Payroll expenses	18	10 079	7 500
Depreciation	5	22 173	20 717
Other (losses)/profit - net	17	148 491	8 596
Other operating expenses	19	44 596	49 036
Total operating expenses		311 387	149 602
Result of operations		-1 736	88 929
Financial expenses	20	-42 204	24 420
Income from associated and joint venture companies	7	137 690	46 297
Profit before taxes		93 750	159 646
Tax on ordinary result	21	12 073	42 323
Result of the year		81 677	117 323
Majority		72 749	112 545
Minority		8 928	4 778
Result of the year per share (amount in NOK per share)		1 648	2 368

Balance sheet IFRS

Amounts in NOK 1000.

GROUP		IFRS	
		31 December	
	Note	2008	2007
ASSETS			
Fixed assets			
Intangible fixed assets			
Goodwill	4	30 605	23 321
Waterfall rights	4	3 049	3 049
Total intangible fixed assets		33 654	26 370
Tangible assets			
Investmentsproperty	6	66 557	73 578
Machinery, equipment etc.	5	6 572	1 746
Power stations	5	975 211	944 687
Work in progress	5	242 962	176 589
Total tangible assets		1 291 302	1 196 600
Financial fixed assets			
Investment in associated and joint venture companies	7	1 247 554	1 085 348
Subordinated loans	10	395 950	395 950
Shares	8	5 961	9 229
Rights concessionpower	8	291 101	281 285
Other long-term receivables	10	97 999	52 854
Net pension assets	16	82	-
Total financial fixed assets		2 038 647	1 824 665
Total non-current assets		3 363 603	3 047 635
Current assets			
Inventory	11	285	489
Receivables			
Accounts receivables	9	62 161	21 683
Other receivables	9	83 794	100 680
Total receivables		145 955	122 363
Derivatives	20	29 424	28 359
Cash and bank deposits	12	86 928	399 146
Total current assets		262 592	550 357
TOTAL ASSETS		3 626 198	3 597 994

Balance sheet IFRS

Amounts in 1000 NOK.

GROUP	Note	IFRS	
		31 December	
		2008	2007
EQUITY AND LIABILITIES			
Equity			
<i>Paid in capital</i>			
Share capital (49 550 at NOK. 5 420,-)	13	268 561	268 561
Share premium reserve	13	348 500	348 500
<i>Retained earnings</i>			
Other equity		935 151	824 288
Total equity		1 552 212	1 441 349
Minority		117 520	68 171
Liabilities			
<i>Long-term provisions</i>			
Deferred tax	15,21	148 716	182 328
Pension liabilities	16	1 730	1 256
Total long-term provisions		150 446	183 584
<i>Other long-term liabilities</i>			
Liabilities to financial institutions	14	802 635	410 202
Subordinated loan capital	14	483 447	531 869
Total other long-term liabilities		1 286 082	942 071
Total long-term liabilities		1 436 528	1 125 655
<i>Current liabilities</i>			
Liabilities to financial institutions	14	100 000	400 000
Bank overdraft	12	102 879	447 512
Accounts payable		18 319	15 806
Income taxes payable	21	35 980	20 754
VAT and social security costs		12 723	9 770
Derivatives	20	190 137	39 303
Other short-term liabilities		59 900	29 674
Total current liabilities		519 938	962 819
Total Equity and Liabilities		3 626 198	3 597 994

Drammen, 24.04.2009



Svein Marfi
Chairman



Mette Lund Stake
Deputy Chairman



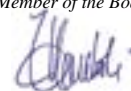
Nils Peter Undebakke
Member of the Board



Linda Verde
Member of the Board



Lise Løff
Member of the Board



Johannes Rauboti
Managing director

Statement of changes in equity IFRS

Amounts in 1000 NOK.

	Share capital	Share pre- mium reserve	Other equity	Minority	Total equity
Equity at 1 January 2007	268 561	348 500	746 960	44 746	1 408 767
Result of the year			112 545	4 778	117 323
Dividends paid					-
Currency translation differences			-236		-236
Other corrections			-34 980		-34 980
Minority corrections				18 647	18 647
Equity at 31 December 2007	268 561	348 500	824 289	68 171	1 509 520
Result of the year			72 739	8 928	81 667
Dividends paid			-15 000		-15 000
Currency translation differences			53 124	17 957	71 081
Other corrections				22 464	22 464
Minority corrections					-
Equity at 31 December 2008	268 561	348 500	935 152	117 520	1 669 732

Cashflow statement IFRS

Amounts in NOK 1000.

GROUP		IFRS	
		1 January - 31 December	
	Note	2008	2007
Cash flow from operations			
Cash flow from operations	22	257 154	176 645
Taxes paid in the period		-23 999	-23 635
Interest paid in the period		-108 289	-76 742
Net cash flow from operations		124 866	76 268
Cash flow from investments			
Purchase of fixed assets		-44 755	-69 387
Payment from sale of fixed assets		0	12 310
Payment on other long-term receivables		-45 145	-2 705
Purchase of shares and investments in other companies		-61 043	-2 631
Payment from sale of shares and investments in other companies		946	4 630
Interest received		28 109	0
Net cash flow from investments		-121 888	-57 783
Cash flow from financing			
Instalments on subordinated loans		-48 442	-43 000
Interest on subordinated loans		-37 018	-29 261
Proceeds from borrowings		500 000	10 000
Repayment of borrowings		-407 567	-10 405
Proceeds from issue of share capital in subsidiary		22 464	0
Dividends		0	0
Net cash flow from financing		29 437	-72 666
Net cash flow for the period		32 415	-54 181
Cash and cash equivalents at the beginning of the period		-48 366	5 815
Cash and cash equivalents at the end of the period	12	-15 951	-48 366

Notes to the IFRS accounts 2008

General accounting principles.	p 54-69
Note 1. Financial risk management	p 70-71
Note 2. Critical accounting estimates and judgments	p 72
Note 3. Segment information	p 72-73
Note 4. Intangible assets	p 74
Note 5. Property, plant and equipment	p 75
Note 6. Investment property	p 75-76
Note 7. Investments in associates and joint ventures	p 76-77
Note 8. Financial assets estimated to fair value through income statement	p 77
Note 9. Accounts receivables and other current assets	p 78
Note 10. Subordinated loan and other long-term receivables that are due later than 1 year	p 78
Note 11. Inventories	p 78
Note 12. Cash and cash equivalents	p 78
Note 13. Share capital and premium	p 78-79
Note 14. Long-term liabilities and financial instruments	p 80
Note 15. Deferred tax	p 80
Note 16. Pension costs and pension liabilities	p 81-82
Note 17. Other (losses)/ profits - net	p 82
Note 18. Payroll expenses and remuneration	p 83-84
Note 19. Other operating expenses	p 84
Note 20. Financial items	p 84
Note 21. Income tax expense	p 84
Note 22. Cash flow from operations	p 85
Note 23. Consolidated companies	p 85

General Accounting principles IFRS

In June 2002 EU determined that all listed companies within EU-range have to use International Financial Reporting Standards (IFRS) in the consolidated financial statement. As a consequence of the EØS-agreement all Norwegian companies with listed equity- or liabilities items have to comply with the legislation. Time-limit for implementing IFRS for companies with listed shares was 1. January 2005, Norway chose to take options on postponement for companies with only listed liabilities items until 2007. From now on Vardar AS has to give consolidated financial statements in accordance with IFRS.

The financial statements are carried at historical cost with the following modifications: Financial derivatives and financial assets and liabilities' estimated to fair value through profit or loss, investments property estimated to fair value through profit or loss, loan and receivables estimated to amortized cost. It is given an account of principles for the relevant accounting items with reference to the individual accounting item under accounting principles or the individual note. Every amount is given in NOK 1000 if it is not specified other wise.

BASE PRINCIPLES

The Group's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) which have been adopted by the EU.

The consolidated financial statements are based on historical cost, with the exception of the following: buildings which have been revalued, Financial instruments at fair value through profit or loss, financial instruments which are available for sale and recognized at fair value, and loans, receivables and other financial liabilities which are recognized at amortized cost.

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

to the consolidated financial statements are disclosed in note 2.

a) Interpretations effective in 2008

- IFRIC 14, IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction, provides guidance on assessing the limit in IAS 19 on the amount of the surplus that can be recognised as an asset. It also explains how the pension asset or liability may be affected by a statutory or contractual minimum funding requirement. This interpretation does not have any impact on the group's financial statements.
- IFRIC 11, IFRS 2 – Group and treasury share transactions, provides guidance on whether share-based transactions involving treasury shares or involving group entities (for example, options over a parent's shares) should be accounted for as equity-settled or cash-settled share-based payment transactions in the stand-alone accounts of the parent and group companies. This interpretation does not have an impact on the group's financial statements.

b) Standards and amendments early adopted by the group

- IFRS 8, 'Operating segments', was early adopted in 2008. IFRS 8 replaces IAS 14, 'Segment reporting', and aligns segment reporting with the

requirements of the US standard SFAS 131, 'Disclosures about segments of an enterprise and related information'. The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. This has resulted in an increase in the number of reportable segments presented. In addition, the segments are reported in a manner that is more consistent with the internal reporting provided to the chief operating decision-maker.

(c) Interpretations effective in 2008 but not relevant

The following interpretation to published standards is mandatory for accounting periods beginning on or after 1 January 2008 but is not relevant to the group's operations: IFRIC 12, 'Service concession arrangement.'

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

The following standards and amendments to existing standards have been published and are mandatory for the group's accounting periods beginning on or after 1 January 2009 or later periods, but the group has not early adopted them:

- IAS 23 (Amendment), 'Borrowing costs' (effective from 1 January 2009). It requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing those borrowing costs will be removed. The group will apply IAS 23 (Amended) from 1 January 2009.
- IAS 1 (Revised), 'Presentation

of financial statements' (effective from 1 January 2009). The revised standard will prohibit the presentation of items of income and expenses (that is, 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity. All non-owner changes in equity will be required to be shown in a performance statement, but entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the income statement and statement of comprehensive income). Where entities restate or reclassify comparative information, they will be required to present a restated balance sheet as at the beginning comparative period in addition to the current requirement to present balance sheets at the end of the current period and comparative period. The group will apply IAS 1 (Revised) from 1 January 2009. It is likely that both the income statement and statement of comprehensive income will be presented as performance statements.

- IFRS 2 (Amendment), 'Share-based payment' (effective from 1 January 2009). The amended standard deals with vesting conditions and cancellations. It clarifies that vesting conditions are service conditions and performance conditions only. Other features of a share-based payment are not vesting conditions. As such these features would need to be included in the grant date fair value for transactions with employees and others providing similar services, that is, these features would not impact the number of awards expected to vest or valuation thereof subsequent to grant date. All cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The group will apply IFRS 2 (Amendment)

from 1 January 2009, but is not expected to have a material impact on the group's financial statements.

- IAS 32 (Amendment), 'Financial instruments: Presentation', and IAS 1 (Amendment), 'Presentation of financial statements' – 'Puttable financial instruments and obligations arising on liquidation' (effective from 1 January 2009). The amended standards require entities to classify puttable financial instruments and instruments, or components of instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation as equity, provided the financial instruments have particular features and meet specific conditions. The group will apply the IAS 32 and IAS 1 (Amendment) from 1 January 2009, but is not expected to have any impact on the group's financial statements.
- IFRS 1 (Amendment) 'First time adoption of IFRS' and IAS 27, 'Consolidated and separate financial statements' (effective from 1 January 2009). The amended standard allows first-time adopters to use a deemed cost of either fair value or the carrying amount under previous accounting practice to measure the initial cost of investments in subsidiaries, jointly controlled entities and associates in the separate financial statements. The amendment also removes the definition of the cost method from IAS 27 and replaces it with a requirement to present dividends as income in the separate financial statements of the investor. The group will apply IFRS 1 (Amendment) from 1 January 2009 as all subsidiaries of the group will transition to IFRS. The amendment will not have any impact on the group's financial statements.
- IAS 27 (Revised), 'Consolidated and separate financial statements' (effective from 1 July 2009). The revised standard requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value and a gain or loss is recognized in profit or loss. The group will apply IAS 27 (Revised) prospectively to transactions with non-controlling interests from 1 January 2009.
- IFRS 3 (Revised), 'Business combinations' (effective from 1 July 2009). The revised standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the income statement. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs should be expensed. The group will apply IFRS 3 (Revised) prospectively to all business combinations from 1 January 2009.
- IFRS 5 (Amendment), 'Non-current assets held for sale and discontinued operations' (and consequential amendment to IFRS 1, 'First-time adoption') (effective from 1 July 2009). The amendment is part of the IASB's annual improvements project published in May 2008. The amendment clarifies that all of a subsidiary's assets and liabilities are classified as held for sale if a partial disposal sale plan results in loss of control, and relevant disclosure should be made for this subsidiary if the

definition of a discontinued operation is met. A consequential amendment to IFRS 1 states that these amendments are applied prospectively from the date of transition to IFRSs. The group will apply the IFRS 5 (Amendment) prospectively to all partial disposals of subsidiaries from 1 January 2009.

- IAS 23 (Amendment), 'Borrowing costs' (effective from 1 January 2009). The amendment is part of the IASB's annual improvements project published in May 2008. The definition of borrowing costs has been amended so that interest expense is calculated using the effective interest method defined in IAS 39 'Financial instruments: Recognition and measurement'. This eliminates the inconsistency of terms between IAS 39 and IAS 23. The group will apply the IAS 23 (Amendment) prospectively to the capitalization of borrowing costs on qualifying assets from 1 January 2009.
- IAS 28 (Amendment), 'Investments in associates' (and consequential amendments to IAS 32, 'Financial Instruments: Presentation' and IFRS 7, 'Financial instruments: Disclosures') (effective from 1 January 2009). The amendment is part of the IASB's annual improvements project published in May 2008. An investment in associate is treated as a single asset for the purposes of impairment testing and any impairment loss is not allocated to specific assets included within the investment, for example, goodwill. Reversals of impairment are recorded as an adjustment to the investment balance to the extent that the recoverable amount of the associate increases. The group will apply the IAS 28 (Amendment) to impairment tests related to investment in subsidiaries and any related impairment losses from 1 January 2009.
- IAS 36 (Amendment), 'Impairment of assets' (effective from 1 January 2009).

The amendment is part of the IASB's annual improvements project published in May 2008. Where fair value less costs to sell is calculated on the basis of discounted cash flows, disclosures equivalent to those for value-in-use calculation should be made. The group will apply the IAS 28 (Amendment) and provide the required disclosure where applicable for impairment tests from 1 January 2009.

- IAS 38 (Amendment), 'Intangible assets' (effective from 1 January 2009). The amendment is part of the IASB's annual improvements project published in May 2008. A prepayment may only be recognized in the event that payment has been made in advance of obtaining right of access to goods or receipt of services. This means that an expense will be recognized for shoe mail order catalogues when the group has access to the catalogues and not when the catalogues are distributed to customers, as is the group's current accounting policy. The group will apply the IAS 38 (Amendment) from 1 January 2009.
- IAS 19 (Amendment), 'Employee benefits' (effective from 1 January 2009). The amendment is part of the IASB's annual improvements project published in May 2008.
 - The amendment clarifies that a plan amendment that results in a change in the extent to which benefit promises are affected by future salary increases is a curtailment, while an amendment that changes benefits attributable to past service gives rise to a negative past service cost if it results in a reduction in the present value of the defined benefit obligation.
 - The definition of return on plan assets has been amended to state that plan administration costs are deducted in the calculation of return on plan assets only to the extent that such costs have been excluded from measurement of the

defined benefit obligation.

- The distinction between short term and long term employee benefits will be based on whether benefits are due to be settled within or after 12 months of employee service being rendered.

- IAS 37, 'Provisions, contingent liabilities and contingent assets', requires contingent liabilities to be disclosed, not recognised. IAS 19 has been amended to be consistent.

The group will apply the IAS 19 (Amendment) from 1 January 2009.

- IAS 31 (Amendment), 'Interests in joint ventures (and consequential amendments to IAS 32 and IFRS 7) (effective from 1 January 2009). The amendment is part of the IASB's annual improvements project published in May 2008. Where an investment in joint venture is accounted for in accordance with IAS 39, only certain rather than all disclosure requirements in IAS 31 need to be made in addition to disclosures required by IAS 32, 'Financial instruments: Presentation' and IFRS 7 'Financial instruments: Disclosures.'
- IAS 39 (Amendment), 'Financial instruments: Recognition and measurement' (effective from 1 January 2009). The amendment is part of the IASB's annual improvements project published in May 2008.
 - This amendment clarifies that it is possible for there to be movements into and out of the fair value through profit or loss category where a derivative commences or ceases to qualify as a hedging instrument in cash flow or net investment hedge.
 - The definition of financial asset or financial liability at fair value through profit or loss as it relates to items that are held for trading is also amended. This clarifies that a financial asset or liability that is part of a portfolio of financial instruments managed together with evidence of an actual recent

pattern of short-term profit taking is included in such a portfolio on initial recognition.

- When remeasuring the carrying amount of a debt instrument on cessation of fair value hedge accounting, the amendment clarifies that a revised effective interest rate (calculated at the date fair value hedge accounting ceases) are used.

The group will apply the IAS 39 (Amendment) from 1 January 2009. It is not expected to have an impact on the group's income statement.

- IAS 40 (Amendment), 'Investment property' (and consequential amendments to IAS 16) (effective from 1 January 2009). The amendment is part of the IASB's annual improvements project published in May 2008. Property that is under construction or development for future use as investment property is within the scope of IAS 40. Where the fair value model is applied, such property is, therefore, measured at fair value. However, where fair value of investment property under construction is not reliably measurable, the property is measured at cost until the earlier of the date construction is completed and the date at which fair value becomes reliably measurable.
- IAS 1 (Amendment), 'Presentation of financial statements' (effective from 1 January 2009). The amendment is part of the IASB's annual improvements project published in May 2008. The amendment clarifies that some rather than all financial assets and liabilities classified as held for trading in accordance with IAS 39, 'Financial instruments: Recognition and measurement' are examples of current assets and liabilities respectively. The group will apply the IAS 39 (Amendment) from 1 January 2009. It is not expected to have an impact on the group's financial statements.

- There are a number of minor amendments to IFRS 7, 'Financial instruments: Disclosures', IAS 8, 'Accounting policies, changes in accounting estimates and errors', IAS 10, 'Events after the reporting period', IAS 18, 'Revenue' and IAS 34, 'Interim financial reporting', which are part of the IASB's annual improvements project published in May 2008 (not addressed above). These amendments are unlikely to have an impact on the group's accounts and have therefore not been analysed in detail.
- IFRIC 16, 'Hedges of a net investment in a foreign operation' (effective from 1 October 2008). IFRIC 16 clarifies the accounting treatment in respect of net investment hedging. This includes the fact that net investment hedging relates to differences in functional currency not presentation currency, and hedging instruments may be held anywhere in the group. The requirements of IAS 21, 'The effects of changes in foreign exchange rates', do apply to the hedged item. The group will apply IFRIC 16 from 1 January 2009. It is not expected to have a material impact on the group's financial statements.

e) Interpretation of existing standards that has been published, but are not relevant for the group's operation

The following interpretations to existing standards have been published and are mandatory for the group's accounting periods beginning on or after 1 January 2009 or later periods but are not relevant for the group's operations.

- IFRIC 13, 'Customer loyalty programmes' (effective from 1 July 2008). IFRIC 13 clarifies that where goods or services are sold together with a customer loyalty incentive (for example, loyalty points or free products), the arrangement is a multiple-element arrangement and the consideration receivable from the

customer is allocated between the components of the arrangement using fair values. IFRIC 13 is not relevant to the group's operations because none of the group's companies operate any loyalty programmes.

- IAS 16 (Amendment), 'Property, plant and equipment' (and consequential amendment to IAS 7, 'Statement of cash flows') (effective from 1 January 2009). The amendment is part of the IASB's annual improvements project published in May 2008. Entities whose ordinary activities comprise renting and subsequently selling assets present proceeds from the sale of those assets as revenue and should transfer the carrying amount of the asset to inventories when the asset becomes held for sale. A consequential amendment to IAS 7 states that cash flows arising from purchase, rental and sale of those assets are classified as cash flows from operating activities. The amendment will not have an impact on the group's operations because none of the group's companies ordinary activities comprise renting and subsequently selling assets.
- IAS 27 (Amendment), 'Consolidated and separate financial statements' (effective from 1 January 2009). The amendment is part of the IASB's annual improvements project published in May 2008. Where an investment in a subsidiary that is accounted for under IAS 39, 'Financial instruments: recognition and measurement' is classified as held for sale, held for sale under IFRS 5, 'Non-current assets held for sale', held for sale and discontinued operations', IAS 39 would continue to be applied. The amendment will not have an impact on the group's operations because it is the group's policy for an investment in subsidiary to be recorded at cost in the standalone accounts of each entity.

- IAS 28 (Amendment), 'Investments in associates' (and consequential amendments to IAS 32, 'Financial Instruments: Presentation' and IFRS 7, 'Financial instruments: Disclosures') (effective from 1 January 2009). The amendment is part of the IASB's annual improvements project published in May 2008. Where an investment in associate is accounted for in accordance with IAS 39 'Financial instruments: recognition and measurement' only certain, rather than all disclosure requirements in IAS 28 need to be made in addition to disclosures required by IAS 32, 'Financial Instruments: Presentation' and IFRS 7 'Financial Instruments: Disclosures'. The amendment will not have an impact on the group's operations because it is the group's policy for an investment in an associate to be equity accounted in the group's consolidated accounts.
- IAS 29 (Amendment), 'Financial reporting in hyperinflationary economies' (effective from 1 January 2009). The amendment is part of the IASB's annual improvements project published in May 2008. The guidance has been amended to reflect the fact that a number of assets and liabilities are measured at fair value rather than historical cost. The amendment will not have an impact on the group's operations, as none of the group's subsidiaries or associates operate in hyperinflationary economies.
- IAS 38 (Amendment), 'Intangible assets', (effective from 1 January 2009). The amendment is part of the IASB's annual improvements project published in May 2008. The amendment deletes the wording that states that there is 'rarely, if ever' support for use of a method that results in a lower rate of amortization than the straight line method. The amendment will not currently have an impact on the group's operations as all intangible assets are amortized using the straight line method.
- IAS 41 (Amendment), 'Agriculture' (effective from 1 January 2009). The amendment is part of the IASB's annual improvements project published in May 2008. It requires the use of a market-based discount rate where fair value calculations are based on discounted cash flows and the removal of the prohibition on taking into account biological transformation when calculating fair value. The amendment will not have an impact on the group's operations as no agricultural activities are undertaken.
- IAS 20 (Amendment), 'Accounting for government grants and disclosure of government assistance' (effective from 1 January 2009). The benefit of a below-market rate government loan is measured as the difference between the carrying amount in accordance with IAS 39, 'Financial instruments: Recognition and measurement', and the proceeds received with the benefit accounted for in accordance with IAS 20. The amendment will not have an impact on the group's operations as there are no loans received or other grants from the government.
- The minor amendments to IAS 20 'Accounting for government grants and disclosure of government assistance' and IAS 29, 'Financial reporting in hyperinflationary economies' IAS 40, 'Investment property' and IAS 41, 'Agriculture', which are part of the IASB's which are part of the IASB's annual improvements project published in May 2008 (not addressed above). These amendments will not have an impact on the group's operations as described above.
- IFRIC 15, 'Agreements for construction of real estates' (effective from 1 January 2009). The interpretation clarifies whether IAS 18, 'Revenue', or IAS 11, 'Construction contracts' should be

applied to particular transactions. It is likely to result in IAS 18 being applied to a wider range of transactions. IFRIC 15 is not relevant to the group's operations as all revenue transactions are accounted for under IAS 18 and not IAS 11.

CONSOLIDATION

(a) Subsidiaries

Subsidiaries are all entities (including special purpose entities) 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 are considered when assessing whether the group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized directly in the income statement.

Inter-company transactions, balances and unrealized gains on transactions between group companies are eliminated. Unrealized losses are also eliminated. Accounting

policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the group.

(b) Transactions and minority interests

The group applies a policy of treating transactions with minority interests as transactions with parties external to the group. Disposals to minority interests result in gains and losses for the group and are recorded in the income statement. Purchases from minority interests result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary.

(c) Associates

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 and are initially recognized at cost. The group's investment in associates includes goodwill identified on acquisition, net of any accumulated impairment loss.

The group's share of its associates' post-acquisition profits or losses is recognized in the income statement, and its share of post-acquisition movements in reserves is recognized in reserves. The cumulative post-acquisition movements are adjusted against 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 recognize further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealized gains on transactions between the group and its associates are eliminated to the extent of the group's interest in the associates. Unrealized losses are also 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 recognized in the income statement.

(d) Joint ventures

The group's interests in jointly controlled entities are accounted for by proportionate consolidation. The group combines its share of the joint ventures' individual income and expenses, assets and liabilities and cash flows on a line-by-line basis with similar items in the group's financial statements. The group recognizes the portion of gains or losses on the sale of assets by the group to the joint venture that is attributable to the other venturers. The group does not recognize its share of profits or losses from the joint venture that result from the group's purchase of assets from the joint venture until it re-sells the assets to an independent party. However, a loss on the transaction is recognized immediately if the loss provides evidence of a reduction in the net realizable value of current assets, or an impairment loss.

SEGMENT REPORTING

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 steering committee that makes strategic decisions.

FOREIGN CURRENCY TRANSLATION

(a) Functional 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 'currency' (C), which is the company's functional and the group's presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

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

Changes in the fair value of monetary securities denominated in foreign currency classified as available for sale are analyzed between translation differences resulting from changes in the amortized cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in amortized cost are recognized in profit or loss, and other changes in carrying amount are recognized in equity.

Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognized in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets such as equities classified as available-for-sale are included in the available-for-sale reserve in equity.

(c) Group companies

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); and
 (c) all resulting exchange differences are recognized 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 currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is partially disposed of or sold, exchange differences that were recorded in equity are recognized 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.

INTANGIBLE ASSETS

(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 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) Waterfalls rights

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

Concession fee represent a liability to future payments in return for the waterfall rights the Group acquires. 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 for the concession fee liability as of the same date.

PROPERTY, PLANT AND EQUIPMENT

Power facilities and other tangible fixed assets, with the exception of investment property, are valued at their cost less accumulated depreciation and impairment losses. Depreciation is calculated at cost on a straight line basis over the asset's estimated useful life. If the fixed assets fair value is substantial lower than the value recognized in the balance sheet, assets are written down to fair value, if the value reduction is not expected to be temporary. After transition to IFRS, Hydro power plants are recognized in the balance sheet at their fair value based on cost at acquisition (deemed cost – IFRS 1). The remaining power stations adopt historical cost with retrospective application of IAS 16.

All tangible fixed assets have been decomposed, in such a way that assets with equal reinvestment- and maintenance cycle depreciate over the same period. The decomposing involves a general extension of depreciation period within power operation.

Depreciation is calculated using the following rate:

- Hydro power plants decomposing 0.66 – 2.5%
- Wind power plants 5%
- District heating plants 2 - 6.66 %
- Machinery/ equipment etc 10 - 25 %
- Land is not depreciated

This year depreciation is recognized as operating cost in the income statement.

Following expense increase the assets value recognized in the balance sheet, if the expense can be reliably measured and gives the Group future financial profitability. Other maintenance- and repair expenses are booked in the income statement when incurred.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Investments properties are valued to fair value, with change in value through profit or loss.

DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES

Vardar does not utilize hedge accounting. Changes in the fair value of derivative instruments that do not qualify for hedge accounting are recognized immediately in the income statement within 'other gains/ (losses) – net', or financial items.

NON-CURRENT ASSETS HELD FOR SALE

Non-current assets (or disposal groups) are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. They are stated at the lower of carrying amount and fair value less costs to sell if their carrying amount is to be recovered principally through a sale transaction rather than through continuing use.

FINANCIAL ASSETS

The group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, and

available-for-sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

a) Financial fixed assets at fair value through profit or loss

This classification is separated in two categories :i) financial assets held for trading purpose, and ii) financial assets that the Group has designated as being at fair value with changes in 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 designated to this category by the management. Derivatives are also categorized as held for trading unless they are designated as hedges. Assets in this category are classified as current assets, as well as assets with maturities within 12 months of 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 balance sheet date. These are classified as non-current assets. The group's loans and receivables comprise of 'account receivable and other receivables' and cash and cash equivalents 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 balance sheet date.

Recognition and measurement

Regular purchases and sales of financial assets are recognized on the trade-date – the date on which the group commits to purchase or sell the asset. Investments are initially

recognized 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 and loss are initially recognized at fair value and transaction costs are expensed in the income statement. Financial assets are derecognized 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 carried at amortized cost using the effective interest method.

Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the income statement within 'other (losses) gains – net' in the period in which they arise.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models making maximum use of market inputs and relying as little as possible on entity-specific inputs.

The group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized

in profit or loss – is removed from equity and recognized in the income statement. Impairment losses recognized in the income statement on equity instruments are not reversed through the income statement. The group is in no possession of Available-for-sale financial assets pr. 31 December.

INVENTORIES

Inventories are stated at the lower of cost and net realizable value. 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). It excludes borrowing costs. Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. Costs of inventories include the transfer from equity of any gains/losses on qualifying cash flow hedges purchases of raw materials.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents includes 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.

TRADE RECEIVABLE

Trade receivables are recognized 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 the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognized 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.

TRADE PAYABLES

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

BORROWINGS

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

Fees paid on the establishment of loan facilities are recognized 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 capitalized as a pre-payment for liquidity services and amortized over the period of the facility to which it relates.

Preference shares, which are mandatory redeemable on a specific date, are classified

as liabilities. The dividends on these preference shares are recognized in the income statement as interest expense.

The fair value of the liability portion of a convertible bond is determined using a market interest rate for an equivalent non-convertible bond. This amount is recorded as a liability on an amortized cost basis until extinguished on conversion or maturity of the bonds. The remainder of the proceeds is allocated to the conversion option. This is recognized and included in shareholders' equity, net of income tax effects.

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.

SHARE CAPITAL AND PREMIUM

Ordinary shares are classified as equity. 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 reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, and is included in equity attributable to the company's equity holders.

EMPLOYEE BENEFIT

Pension obligations

The Parent company and the subsidiaries Uste Nes AS and Vardar Eurur AS have insured collective (defined plan) pension scheme which include early retirement scheme (AFP) at Buskerud Fylkeskommunale Pensjonskasse (BFP). A defined benefit plan define an amount of pension benefit that

an employee will receive on retirement, the schemes are funded through payments to insurance companies or trustee-administered funds. The received benefit is usually dependent on one or more factors such as age, years of service and compensation. The liability recognized in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets, together with adjustments for unrecognized 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 Norwegian high-quality corporate bonds with 10 years terms. Average remaining service period for employees with defined benefit schemes are limited to 12 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 recognized over the estimated average remaining service period. Past-service costs are recognized 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 amortized on a straight-line basis over the vesting period. Pension funds are recognized at fair value and deducted in the net pension liability in the balance sheet. Excess payments which may utilize or repay are recognized in the balance sheet.

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

DEFERRED TAX

The tax expense for the period comprises of current and deferred tax. Tax is recognized

in the income statement, except to the extent that it relates to items recognized directly in equity. In this case, the tax is also recognized in equity.

The current income tax charge 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 periodically evaluates 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 recognized, 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 realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be earned to offset the temporary differences.

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 on power operating facilities

In addition to general income tax the power

operating facilities will be charged with property tax, natural resource tax and economic rent tax. Natural resource tax is a profit dependent tax which is estimated on the basis of average power production the last seven years of the individual generating stations. The tax rate is NOK 0,013 a 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 accounts receivable. The economic rent tax is 30 percent of the generating stations regulated result in excess to the estimated free income. Any negative economic rent income that occurs in a hydro power plant calculated for the year 2007 or later, can after reducing of negative economic rent income occurred before 2007, be carried forward against future positive economic rate income including interest for any other hydro power plants owned by the same company. Negative economic rate income constitute a part of the basis of estimating deferred tax/deferred income tax in the economic rate taxation combined with deferred tax/deferred income tax connected to temporary differences regarding fixed assets in the power production. The power operating facilities will also be charged with property tax up to 0,7 percent of appraised value. General income tax and economic rent tax are recorded in the operating result as ordinary tax. Property tax is recorded as operating cost.

DIVIDEND DISTRIBUTION

Dividend distribution to the company's shareholders is recognized as a liability in the group's financial statements in the period in which the dividends are approved by the company's shareholders.

PROVISIONS

Provisions for environmental restoration, restructuring costs and legal claims are recognized when: the group has a present

legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Restructuring provisions comprise lease termination penalties and employee termination payments. Provisions are not recognized 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 recognized 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 rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

REVENUE RECOGNITION

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. Inter-company sales are eliminated. 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 electric current. Sales are recognised when delivered and the meter is read by the customer.

Actual price from contracts- or spot-price are allocated to operating result. The price can also be secured over the delivery period. Payment terms coincide with regular markets terms, and are not considered as financial sales.

b) Rental income

Income from rent is recognised over the lease term.

c) Sale of services

The Group sells development- and management services to operations related to generation of water-/windpower and district heating. These services are provided on a time and material basis or as a fixed-price contract, with contract terms generally ranging from less than three year to four years. Revenue from time and material contracts is recognised in accordance with condition agreed upon as labour hours are delivered or direct expenses have incurred. Revenue from fixed-price contracts is recognised in the period the services are provided, using the percentage-of-completion method.

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 at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised using the original effective interest rate.

(e) Dividend income

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

LEASES

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.

Notes to the accounts IFRS

Amounts in NOK 1000.

Note 1. Financial risk management

Vardar's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The group uses derivative financial instruments to hedge certain risk exposures.

Vardar's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the group's financial performance. Risk management is carried out under policies approved by the board of directors, covering risk authority, limits and management objectives. The purpose is to create predictability of cash flow the next few years.

Price- and volume risk

The group's power production is exposed to risks arising from price movements. Price risk is primarily arising from power production in Norway, most of the power is realized on Nord Pool which is the Nordic power exchange. Production in the Baltic States is less exposed to market movements because of feed in tariff and production support. In Estonia a part of the sale is normally fixed-price contracts, with contract terms generally ranging from less than one year to two years. At the same time contracts can have parts of variable prices.

The group's entire portfolio is exposed to volume risk. Volume of water power production will fluctuate with hydrological conditions, and volume of production of wind power will depend on wind velocity. Vardar has no financial instruments to hedge volume risk exposures. Vardar will, as a long-term owner, in average be producing less volume over time. Therefore variation in volume will result in variation in the financial performance from year to year. The variation in the financial result caused by volume fluctuation is taken into account.

Vardar has an active portfolio management and policies approved by the board of directors to minimise potential price risk at Nord Pool. The extent of hedging are declining beyond time, and has a updated time horizon of three years. Standardized derivatives, mainly forward contracts, are used to minimise the risk. Vardar do hedging mainly with Nord Pool. Nord Pool is responsible for settlement, and their routines cause a reduced opponent risk.

Vardar do not practise secured booking, and changes in value is recorded through the result. The chart below shows the sample range for the secured portfolio by +/- 20% change in market price, and the value at the balance-sheet date and corresponding figures from the financial year 2007.

	2008			2007		
	-20%	market value	+20%	-20%	market value	+20%
Year 1	33 780	15 718	-2 345	7 063	-17 173	-41 394
Year 2	22 283	13 579	4 875	4 428	-7 095	-18 619
year 3	-	-	-	-	-	-
Total result before tax	56 063	29 297	2 530	11 491	-24 268	-60 013
Result after taxes	40 365	21 094	1 822	8 274	-17 473	-43 209

Vardar has in addition rights associated with yield of power due to concession conditions. This is recognised to fair value in the balance sheet. A change in power prices by +/- 20% will lead to changes in result after taxes by +/- 20 MNOK.

Foreign exchange risk

Vardar has a major part of their current revenues in Euro. This leads to foreign exchange risk. To counter this risk, Vardar has composed a framework approved by the board of directors for future securing of revenue in Euro from the power sales. It is made a decision of a long-term currency hedge, with a high extent of securing/hedging the next few years. The currency-hedge strategy is only securing the cash flow, since Vardar do not practise secured booking. The financial result will fluctuate when currency derivatives changes in value.

Vardar's investment in Vardar Euris gives value in the balance-sheet where the NOK value will follow the Euro exchange rate. To secure the value in the balance-sheet against exchange rate fluctuation this will be balanced with corresponding items of debt in Euro. The investments in the Baltic States are financed in Euro, but current revenue is in local Baltic exchange, until now exclusively Estonian Kroon. The foreign exchange in all of the Baltic States have a fixed exchange rate relation to Euro and Vardar Euris has not made use of foreign exchange derivatives to secure the revenues in Euro. The price of a long-term securing makes this inexpedient and one has estimated that a prospective change in the Baltic exchanges compared with Euro in a long-term will be compensated completely or partly through changes in power prices.

If we look at the operational windparks at 01.01.2009, a decrease by 20% in Estonian and Lithuanian foreign currency compared to Euro, without production support and feed in tariff changes, will lead to an annual sales loss equal to 11 million Euro.

The foreign exchange-portfolio will decrease (increase) by 53 million NOK per 31.12.2008 if the Euro/NOK-exchange rate changes by 10%, all other factors constant. This effects result after taxes. Corresponding number per 31.12.2007 was +/- 26 million NOK.

Interest rate risk

The group is exposed for interest rate risk in relation to its interest-bearing debt. To counter this risk, Vardar has a combination of fixed and floating interest in the portfolio. The group has agreed a strategy for interest rate securing where average interest securing for interest-bearing debt will be in the interval of 1-4 years. By the end of the year the group's average interest rate securing 2 years.

The market value of the group's interest rate swap contracts is estimated to increase by 24 million NOK at a 1 percentage point parallel change upwards, and decline 26 million NOK at a 1 percentage point parallel change downwards on the interest rate curves in Euro and NOK. Corresponding number per 31.12.2007 was +/- 16 million NOK.

Note1. Financial risk management (continue)**Liquidity risk**

Liquidity risk appears if there are no accordance between cash flow and current operating- and financial liability. Vardar has a strong long-term financing, consisting primarily of subordinated loan from owner and borrowings in the bond market. In addition the Group has unused credit lines of NOK 300 million, securing short-term liquidity. The credit facility enable Vardar to utilize the certificate market actively.

For investments in renewable energy in foreign countries, through Vardar Euris AS, uses mainly project financial solutions without any guarantee from the parent company, after windparks are put into operations.

Remaining period at principle of balance, excluded derivatives

The table below present contractual undiscounted cash flows related to financial liabilities, excluded derivatives, based on the remaining period at the balance sheet date.n.

At 31.12.08 (amount 1000 NOK)	Until 1 month	1 to 3 months	3 months until 1 year	1 year until 5 years	Over 5 years	Total
Liabilities						
Debt to credit institutions	-	13 313	137 879	901 499	40 458	1 093 149
Subordinated loan	-	-	33 648	134 880	794 127	962 655
Total	-	13 313	171 527	1 036 379	834 585	2 055 804

Remaining period at derivatives

Derivatives consist of interest rate derivatives (interest rate swap) and currency derivatives (currency futures and currency swap)

a) Net settled derivatives.

The table present net-settled derivative financial liabilities based on the remaining period at the balance sheet date. The amounts disclosed in the table are the contractual undiscounted cash flows.

At 31.12.08 (amount 1000 NOK)	Until 1 month	1 to 3 months	3 months until 1 year	1 year until 5 years	Over 5 years	Total
DERIVATIVES FOR HEDGE PURPOSES						
Interest rate swaps	-	6 262	12 596	63 771	15 082	97 711
Total	-	6 262	12 596	63 771	15 082	97 711

b) Gross-settled derivatives

The table present gross-settled derivative financial liabilities based on the remaining period at the balance sheet date. The amounts disclosed in the table are the contractual undiscounted cash flows.

At 31.12.08 (amount 1000 NOK)	Until 1 month	1 to 3 months	3 months until 1 year	1 year until 5 years	Over 5 years	Total
DERIVATIVES FOR HEDGE PURPOSES						
Forward contracts Nordea	-	-	-	140 896	257 113	398 009
Total payments	-	-	-	140 896	257 113	398 009

Credit risk

Vardar contribute to the long-term finance of the power company Buskerud AS with an subordinated loan. Vardar own 50% of the company, and the power company Buskerud AS is the groups largest detached debtor. The risk related to this claim is considered low.

Vardar has yielded a loan for temporary financing of the wind power project Viru Nigula in Estonia. The loan has date of payment 30. June 2009. The project company is working with a long-term finance of the project, the loan paid by Vardar will then be paid off. Because of the situation in the credit market it is not unlikely that it will take time to find permanent financing, and so Vardar may accept an delay of payment. However the project is robust and the project company is evaluated to comply with covenant in the contract. It has been paid interests and repayments during 2008.

As for the Viru Nigula project, Vardar has also contributed to project Vanaüla. This project has completion date during 2009, and refinancing will be applied equal to Viru Nigula project.

In addition Vardar has yielded a loan to Vardar Eureus' joint ventures partner and co-investor in the Baltic States, AS Freenergy. Pay off of the loan is expected when equity is paid-up, at latest 30. June 2009. Freenergy is to a great extent of the equity issue, and so payment of debt is expected before due date. In addition Freenergy and Vardar Eureus have ownership in a number of the same projects, and so the guarantee considered acceptable.

Estimation of actual value

Vardar's financial instruments are not traded in an active market. Fair value of financial instruments which not are trading in an active market are destined by valuations technics. Long-term power-rights are estimated to market price, discounted over economic life. Fair value of interest rate swaps are calculated to present value of estimated, future cash flow.

Note 2. Critical accounting estimates and judgements

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. Arised differences are recognised in the period they become known, differences also regarding the future are recognised over the time in question. 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 discussed below.

Losses on borrowings and account receivables

Losses on borrowings and account receivables are recognised when there is objective evidence that the group will not be able to collect all amounts due according to the original terms. The group make use of historical experience and objective evidence to determine provisions.

Estimation of value property

On cutover to IFRS it was performed an estimation of value to the groups properties based on appraised value.

Fair value financial instruments

Financial enterprises state the fair value of interest rate swaps, currency swaps and currency futures. The value is based on theoretical estimate. Financial enterprises are opponent to the financial contracts.

Fair value of licensing power rights are estimated by valuationdesign which compare market price with licence price, and discount cash flow to present value.

Note 3. Segment information

The segment information present primary segments, these are based on the groups external- and internal reporing format, and secondary segments based on geography. Pr 31 December 2008 the group's business segments are divided as following:

- 1) Hydropower
- 2) Wind power
- 3) Property
- 4) Bioenergy/District heating (from 2007)

Inter-company revenues and expenses, together with shares in joint ventures and associated companies are not allocated. Except for Energiselskapet Buskerud AS, this is allocated to hydro power.

The segment results for the year ended 31 December 2007 are as follows:

	Hydro-power	Wind power	Property	Bioenergy/ District heating	Not allocated	Group
Gross segment revenue	215 502	32 199	15 954	5 669	4 865	274 189
Inter-segment revenue	-	-	-	-	-	-
Total Revenues	215 502	32 199	15 954	5 669	4 865	274 189
Operating profit	111 174	16 023	10 596	-7 403	2 793	133 183
Profitshare from associated-and joint venture companies	46 605	-	-	-	-308	46 297
Financial income	9 493	3 090	145	3	28 909	41 640
Financial expense	4 148	7 642	2	2	49 680	61 474
Profit before taxes	163 124	11 471	10 739	-7 402	-18 286	159 646
Tax on ordinary result	43 055	-111	2 841	-3 169	-293	42 323
Result of the year	120 069	11 582	7 898	-4 233	-17 993	117 323

The segment results for the year ended 31 December 2008 are as follows:

	Hydro-power	Wind power	Property	Bioenergy/ District heating	Not allocated	Group
Gross segment revenue	252 019	41 450	6 982	7 616	1 584	309 651
Inter-segment revenue	-	-	-	-	-	-
Total Revenues	252 019	41 450	6 982	7 616	1 584	309 651
Operating profit	-9 981	27 589	214	-8 747	-10 811	-1 736
Profitshare from associated-and joint venture companies	137 538	152	-	-	-1	137 690
Financial income	65 822	10 453	168	73	27 379	103 896
Financial expense	133	9 386	5	18	136 558	146 100
Profit before taxes	193 247	28 808	377	-8 693	-119 989	93 750
Tax on ordinary result	39 962	713	-442	-4 426	-23 734	12 073
Result of the year	153 283	28 095	819	-4 267	-96 255	81 677

Note 3. Segment information (continue)**Other segment items included in the income statement 2007 are as follows:**

	Hydro-power	Wind power	Property	Bioenergy/ District heating	Not allocated	Group
Depreciated facilities	8 281	9 744	8	2 684	-	20 717

Other segment items included in the income statement 2008 are as follows:

	Hydro-power	Wind power	Property	Bioenergy/ District heating	Not allocated	Group
Depreciated facilities	9 076	6 539	-	6 121	404	22 173

The segment assets and liabilities at 31 December 2007 and capital expenditure for the year ended are as follows:

	Hydro-power	Wind power	Property	Bioenergy/ District heating	Not allocated	Group
Assets	1 489 341	469 975	90 778	161 914	300 638	2 512 646
Associates	4 273 476	-	-	-	29 438	4 302 914
Total assets	5 762 817	469 975	90 778	161 914	330 076	6 815 560
Total liabilities	1 864 778	118 653	1 149	64 031	39 862	2 088 473
Capital expenditure	-	20 785	-	48 602	-	69 387

The segment assets and liabilities at 31 December 2008 and capital expenditure for the year then ended are as follows:

	Hydro-power	Wind power	Property	Bioenergy/ District heating	Not allocated	Group
Assets	1 484 676	696 573	57 831	188 459	1 198 659	3 626 198
Associates	4 410 666	-	-	-	-	4 410 666
Total assets	5 895 342	696 573	57 831	188 459	1 198 659	8 036 864
Total liabilities	1 729 745	132 858	1 210	4 586	29 203	1 897 602
Capital expenditure	182	-	-	20 613	5 233	26 028

Secondary reporting format – geographical segment

The group's four business segments operate in two main geographical areas: Norway and Baltic countries. The parent company has its home in Norway.

Income from sale	2008	2007
Norway	268 201	241 990
Baltic countries	41 450	32 199
Total	309 651	274 189

Assets	2008	2007
Norway	7 340 291	6 345 585
Baltic countries	696 573	469 975
Total	8 036 864	6 815 560

Capital expenditure	2008	2007
Norway	26 028	48 602
Baltic countries	-	20 785
Total	26 028	69 387

Capital expenses are dependant on where you find the asset.

Note 4. Intangible fixed assets			
	Goodwill	Waterfall rights	Total
Pr 1 January 2007			
Purchase cost	15 348	3 049	18 397
Net book value 01.01.07	15 348	3 049	18 397
Fiscal year 2007			
Net book value 01.01.07	15 348	3 049	18 397
Exchange differences	-	-	-
Additions	7 973	-	7 973
Net book value 31.12.07	23 321	3 049	26 370
Pr 31 December 2007			
Purchase cost	23 321	3 049	26 370
Accumulated depreciation	-	-	-
Net book value 31.12.07	23 321	3 049	33 654
Fiscal year 2008			
Net book value 01.01.08	23 321	3 049	26 370
Exchange differences	7 284	-	7 284
Net book value 31.12.08	30 605	3 049	33 654
Pr 31 December 2008			
Purchase cost	30 605	3 049	33 654
Net book value 31.12.08	30 605	3 049	33 654
Goodwill is regarding buying of shares in OÜ Pakri Tuulepark, OÜ Viru Nigula and OÜ Vanaküla.			
<i>Impairment tests for goodwill</i>			
Goodwill is allocated to the group's cash-generating units identified according to country of operation and business segment.			
Summary of allocating of goodwill at segment-level:	2008	2007	
Norway	-	-	
Baltic countries	30 605	23 321	
Total	30 605	23 321	

Note 5. Tangible fixed assets						
	Property	Machinery equip- ment etc.	Bio- energy/ District heating	Wind power	Hydropower	Total
At 1 January 2007						
Cost or valuation	1 050	2 464	-	177 056	664 500	841 556
Accumulated depreciation	-	-958	-	-9 032	-9 074	-18 106
Net book value 01.01.07	1 050	1 506	-	168 024	655 426	826 006
Year ended 31 December 2007						
Opening net book value	1 050	1 506	-	168 024	655 426	826 006
Additions	-	520	145 560	-	-	146 080
Depreciation in the year	-	-280	-2 684	-13 613	-9 076	-25 653
Modifications (other profits in the income statement)	-	-	-	-	-	-
Net book value 31.12.07	1 050	1 746	142 876	154 411	646 350	946 433
At 31 December 2007						
Cost or valuation	1 050	2 984	145 560	177 056	664 500	991 150
Accumulated depreciation	-	-1 238	-2 684	-22 645	-18 150	-44 717
Net book value 31.12.07	1 050	1 746	142 876	154 411	646 350	946 433
Year ended 31 December 2008						
Opening net book value	1 050	1 746	142 876	154 411	646 350	946 433
Additions	-	5 233	20 613	-	182	26 028
Reduction	-	-	-	-	-	-
Depreciation in the year	-	-404	-6 121	-6 539	-9 076	-22 173
Exchange differences	-	-	-	31 465	-	31 465
Net book value 31.12.08	1 050	6 572	157 368	179 337	637 456	981 783
At 31 December 2008						
Cost or valuation	1 050	8 217	166 173	208 521	664 682	1 039 376
Accumulated depreciation	-	-1 645	-8 805	-29 184	-27 226	-65 215
Net book value 31.12.08	1 050	6 572	157 368	179 337	637 456	981 783
Depreciation rate		12.5-33%	10-33%	2-6.67%	0.66-6.66%	
Depreciation		Linear	Linear	Linear	Linear	
The company has no form of financial leasing. From note 19, one can read costs of operational leasing. Work in progress consists of kr 242 962 (176 589 in 2007), mainly regarding wind power plant Viru Nigula, Estonia.						

Note 6. Investment property		
At 1 January 2007	Investment property	Total
Year ended 31 December 2007		
Net book value 01.01.07	76 911	76 911
Additions	-	-
Reductions	-9 000	-9 000
Depreciation in the year	0	0
Change in fair value (note 17)	5 667	5 667
Net book value 31.12.07	73 578	73 578
At 31 December 2007		
Cost or valuation	45 017	45 017
Accumulated change in value	28 561	-
Accumulated depreciation	-	-
Net book value 31.12.07	73 578	73 578
Year ended 31 December 2008		
Opening net book value	73 578	73 578
Additions	-	-
Reductions	-	-
Change in fair value (note 17)	-7 021	-7 021
Net book value 31.12.08	66 557	66 557
At 31 December 2008		
Cost	45 017	45 017
Revaluation surplus	21 540	21 540
Accumulated depreciation	-	-
Net book value 01.01.08	66 557	66 557

Note 6. Investment property (continue)

Fair value is based on valuation by an independent appraiser and was done November 2007. There will be done an independent valuation at least every fourth year. Unused property, non rental, is valued at last valuation by appraiser. For property that generated rental income in 2008, there have been used an NPV modell based on rental income and:

10 year bond		3.8
Inflation		-1.5
Riskpremium		5.0
Discountrate		7.3

There are only operating lease agreements. The agreements have a length of 1 to 4 years, with option of renewal. Tanatry has issued a rent guarantee, not public ones.

	2008	2007
Total rent	6 982 147	6 807 331
Other cost regarding property	3 316 837	3 105 426
Other cost regarding property not generating income	-	-

There has been extraordinary cost in 2008 regarding maintenance.

Note 7. Investments in associated companies and joint venture companies

	Purchase date	Business-office	Owner-ship	Voting rights	Purchase cost
Joint ventures of Vardar AS					
Energiselskapet Buskerud AS	1999	Drammen	50.00%	50.00%	706 701
Kvalheim Kraft AS	2001	Drammen	50.00%	50.00%	6 767
Øvre Eiker Fjernvarme AS	2003	Øvre Eiker	50.00%	50.00%	1 505
Sula Kraft AS	2006	Førde	50.00%	50.00%	408
Associated companies of Vardar AS					
Haram Kraft AS	2003	Vestnes	35.00%	35.00%	355
OÜ Paldiski Tuulepark	2005	Estonia	20.00%	20.00%	9 153
Zephyr AS	2006	Sarpsborg	33.00%	33.00%	2 000
OÜ Eurodigit	2008	Estonia	37,50%	37,50%	10
Joint ventures and associated companies of Vardar Eurus AS					
OÜ Nelja Energia	2005	Estonia	25,15%	25,15%	404 702
OÜ Hiiumaa Offshore Tuulepark	2007	Estonia	45.00%	45.00%	8 382 863
OÜ Tooma Tuulepark	2007	Estonia	50.00%	50.00%	28 340 004
OÜ Roheline Ring Tuulepargid	2008	Estonia	25.00%	25.00%	11 598 281
UAB Lariteksas	2006	Lithuania	50.00%	50.00%	2 913 776
UAB Vejo Elektra	2006	Lithuania	45.00%	45.00%	2 146 200
UAB Inverneta	2008	Lithuania	50.00%	50.00%	3 951 307
UAB Eurolanas	2008	Lithuania	50.00%	50.00%	2 575 574
UAB Silutes Vejo Projektai	2008	Lithuania	50.00%	50.00%	14 314
SIA Enercom	2008	Latvia	50.00%	50.00%	2 987 891

Note 7. Investments in associated companies and joint venture companies (continue)					
	Opening balance	Result of the year incl. impairment of good-will	Group contrib./ Dividends/ Other equity tr.	Closing balance	
Joint ventures of Vardar AS					
Energiselskapet Buskerud AS	1 055 910	137 556	-25 000	1 168 466	
Kvalheim Kraft AS	4 821	20	-	4 841	
Øvre Eiker Fjernvarme AS	94	-91	-	3	
Sula Kraft AS	399	-86	-	313	
Associated companies of Vardar AS					
Haram Kraft AS	291	-	-	291	
OÜ Paldiski Tuulepark	8 487	-220	895	9 161	
Zephyr AS	617	-617	-	-	
OÜ Eurodigit	-	-	10	10	
Associated companies of Vardar Eurus AS					
OÜ Nelja Energia	2 090	1 972	-1 553	2 508	
OÜ Hiiumaa Offshore Tuulepark	4 072	-425	3 789	7 435	
OÜ Tooma Tuulepark	6 778	-223	20 184	26 739	
OÜ Roheline Ring Tuulepargid	-	1 434	1 160	2 594	
UAB Lariteksas	845	-705	1 006	1 003	
UAB Vejo Elektra	946	-477	339	807	
UAB Iverneta	-	-204	3 951	3 748	
UAB Eurolanas	-	-64	2 576	2 512	
UAB 4energia	95	-	-95	-	
UAB Silutes Vejo Projektai	-	-	14 314	14 314	
SIA Enercom	-	-181	2 988	2 807	
Recognised in the financial statement 31.12.2008	1 085 443	137 690		1 247 554	
Investments in joint ventures and associates at 31 December 2008 include goodwill of 24 814 (2007: 12 521)					
2007	Registered	Assets	Liabilities	Revenues	Profit/(loss)
Joint ventures of Vardar AS					
Energiselskapet Buskerud AS	Drammen	8 546 951	5 454 798	1 127 345	138 717
2008					
Joint ventures of Vardar AS					
Energiselskapet Buskerud AS	Drammen	8 821 331	5 126 400	1 394 444	275 075

Note 8. Financial assets estimated to fair value through income statement					
Shares in other companies	Ownership	Purchase cost	Balance sheet value	Number of shares	Nominal value (NOK)
BTV Investeringsfond	2,00%	3 000	2 601	2 110	100
Energi og Miljøkapital AS	2,50%	2 750	1 670	5 000	1
Cenergie AS	1,40%	1 598	0	140 000	100
Norsk Enøk & Energi AS	18,19%	1 381	1 381	1 050	500
Papirbredden Innovasjon AS	19,82%	500	309	490 000	1
Shares in other companies 31.12.		9 229	5 961		
Rights concession power					
The group has bought concession power, to get rights to use the power, from Buskerud fylkeskommune.					
Opening net book value 1.1.2007					233 891
Change in fair value (note 17)					47 394
Net book value 31.12.07					281 285
Change in fair value (note 17)					9 816
Net book value 31.12.08					291 101

Note 9 . Account receivables and other receivables		
	2008	2007
Account receivables	62 161	21 755
Provision for impairment of account receivables	-	-72
Account receivables – net	62 161	21 683
Prepayments	121	-
Accrued income	22 720	-
Other receivables	60 952	100 680
Total account receivables and other receivable	145 955	122 363

Note 10. Subordinated loans and other long-term receivables that fall due later than 1 year			
2007	Principal amount	Interest income	Interest rate
Energiselskapet Buskerud AS	390 000	19 419	4.98%
Kvalheim Kraft AS	5 000	-	Floating rate
Haram Kraft AS	950	-	Floating rate
Total subordinated loans	395 950	19 419	
	Principal amount	Interest income	Interest rate
Energiselskapet Buskerud AS	24 272	1 200	4.42%
Loans from Vardar Eurus to associated companies	16 590	780	Fixed
Rest (among them, loan to managing director)	3 844	49	Floating rate
Receivables, OÜ Paldiski Tuulepark	8 149	-	Floating rate
Total other long-term receivables	52 854	2 029	
2008	Principal amount	Interest income	Interest rate
Energiselskapet Buskerud AS	390 000	20 918	5,36%
Kvalheim Kraft AS	5 000	258	5,67%
Haram Kraft AS	950	-	Floating rate
Total subordinated loans	395 950	21 176	
	Principal amount	Interest income	Interest rate
Energiselskapet Buskerud AS	21 035	1 367	6,26%
Loans from Vardar Eurus to associated companies	56 696	-	Floating
Loan Eurodigit	3 940	-	Fixed
Loan Sula Kraft AS	1 302	66	7,46%
Loan Zephyr AS	4 558	224	6,98%
Receivables, OÜ Paldiski Tuulepark	9 369	-	Floating
Rest (among them, loan to managing director)	1 100	-	Floating
Total other long-term receivables	97 999	1 657	
Loan to Managing Director is secured by mortgage.			

Note 11. Inventories	
Inventory consist of briquettes and wood chippings, and is activated at purchase cost.	

Note 12. Cash and cash equivalents		
Cash, cash equivalents and bank overdrafts include the following for the purposes of the cash flow statement:	2008	2007
Cash and cash equivalents	82 392	138 323
Withheld taxes and other restricted bank deposits	424	318
Deposit account	4 112	260 505
Bank overdrafts	-102 879	-447 512
Total cash and cash equivalents	-15 951	-48 366

Note 13. Share capital and premium					
	A-shares	B-shares	Total shares	Premium	Total
At 1 January 2007	2 688	265 873	268 561	348 500	617 061
At 31 December 2007	2 688	265 873	268 561	348 500	617 061
At 31 December 2008	2 688	265 873	268 561	348 500	617 061
The shares nominal value is NOK 5 420. Owners of B-shares have no right to vote, nor any right to dividend Buskerud Fylkeskommune owns 100 % the A-shares.					

Note 13. Share capital and premium (continue)**Following local government owns B-shares;**

	Numbers	Percentage share
Drammen	7 863	16.03%
Flesberg	554	11.13%
Flå	103	0.21%
Gol	442	0.90%
Hemsedal	191	0.39%
Hol	461	0.94%
Hole	922	1.88%
Hurum	2 924	5.96%
Kongsberg	5 921	12.07%
Krødsherad	373	0.76%
Lier	6 441	13.13%
Nedre Eiker	4 930	10.05%
Nes	353	0.72%
Nore og Uvdal	265	0.54%
Modum	1 737	3.54%
Ringerike	5 739	11.70%
Rollag	309	0.63%
Røyken	3 973	8.10%
Sigdal	1 128	2.30%
Øvre Eiker	3 954	8.06%
Ål	471	0.96%
Sum	49 054	100.00%

Note 14. Long-term liabilities and financial instruments

Long-term	Interest	Duration	2008	2007
Loan				
Bond NO001030311	3mnd nibor + 18bp	mar.11	265 000	265 000
Bond NO001030312	3mnd nibor + 33bp	mar.16	35 000	35 000
Bond NO001030313	Fixed	mar.16	10 000	10 000
Bond NO001248503	Fixed	des.08		400 000
Loan from credit institution	3mnd nibor + 150bp	des.13	400 000	
Certificateloan NO001047774	Fixed	mai.09	50 000	100 202
Certificateloan NO001047777	Fixed	nov.09	50 000	
Loan from credit institution	6mnd euribor + 68bp	des.12	92 635	
First years instalment			-100 000	-400 000
Total			802 635	410 202
Subordinated loan w/call	Floating	Everlasting	333 447	381 869
Subordinated loan w/call and put	Floating	Everlasting	150 000	150 000
Total			483 447	531 869

The preparer of the bond loans is Nordea. The subordinated loans are granted by Buskerud Fylkeskommune.

Effective interest rate at balance sheet day are as follow:

	2008	2007
Bond NO001030311	5.28%	6.32%
Bond NO001030312	5.43%	6.48%
Bond NO001030313	4.30%	4.30%
Bond NO001248503		3.59%
Loan from credit institution	6.08%	
Certificateloan NO001047774	6.18%	
Certificateloan NO001047777	6.14%	
Subordinated loan w/call	6.96%	5.69%
Subordinated loan w/call and put	6.96%	5.69%

Note 14. Long-term liabilities and financial instruments (continue)					
Financial instruments	Receive	Pay	Duration	2008	2007
Foreign exchange/interest swap, euro	Floating	Fixed	nov.08	-	125 000
Interestswap	Fixed	Floating	des.08	-	100 000
Interestswap	Fixed	Floating	des.08	-	225 000
Interestswap	Fixed	Floating	des.08	-	75 000
Foreign exchange/interest swap, euro	Fixed	Floating	des.15	100 000	100 000
Foreign exchange/interest swap, euro	Floating	Fixed	mar.11	55 790	55 790
Foreign exchange/interest swap, euro	Fixed	Floating	mar.11	54 965	54 965
Interestswap	Fixed	Floating	mar.16	10 000	10 000
Interestswap	Fixed	Floating	des.08	0	524 800
Foreign exchange/interest swap, euro	Fixed	Floating	sep.16	43 456	-
Foreign exchange/interest swap, euro	Fixed	Floating	sep.16	56 544	-
Foreign exchange/interest swap, euro	Fixed	Floating	sep.16	56 544	-
Interestswap	Fixed	Floating	sep.14	150 000	-
Foreign exchange/interest swap, euro	Fixed	Floating	nov.16	2 069	-
Vardar has issued a negative pledge clause.					

Note 15. Deferred tax		
Deferred tax will be settled if the group has a legal right to off set deferred income tax against deferred tax in the balance sheet, and if the deferred tax concern the same tax authority. The following amounts have been settled:		
Deferred income tax	2008	2007
Deferred income tax reversed later than 12 months	19	1
Deferred income tax reversed within 12 months	461	352
Total	480	353
Deferred tax		
Deferred tax reversed later than 12 months	184 920	53 491
Deferred tax reversed within 12 months	-35 724	128 484
Total	149 196	181 975
Net total deferred tax	148 716	182 328
Change in recorded balance deferred tax:		
Recorded balance value 01.01.	182 328	162 995
Allocated in the period	-32 507	19 333
Currency deviation	-1 105	-
Recorded balance value 31.12.	148 716	182 328

Note 15. Deferred tax (continue)

Changes in deferred income tax and deferred tax:

	Carrying forward loss	Pension	Total
Deferred income tax			
At 1 January 2007	8	592	600
Allocated in the period	-7	-240	-247
Equity capital charged	-	-	-
At 31 December 2007	1	352	353
Allocated in the period	18	109	127
Equity capital charged	-	-	-
At 31 December 2008	19	461	480

Deferred tax	Financial assets	Profit/loss accounts	Derivatives and rights	Tangible and intangible assets	Total
At 1 January 2007	-	365	36 032	125 998	162 395
Allocated in the period	-	73	16 026	3 481	19 580
Equity capital charged	-	-	-	-	-
At 31 December 2007	-	292	52 058	129 480	181 975
Allocated in the period	4 038	167	-38 242	1 403	-32 634
Equity capital charged	-	-	-	-	-
At 31 December 2008	4 038	459	13 816	130 883	149 196

Deferred tax and deferred income tax is presented as net deferred tax.

Note 16. Pension cost and pension liabilities

The pension liabilities of the employees in the group are covered through the group pension insurance of Buskerud Fylkeskommune Pension Fund. This also includes AFP. Since 1. January 2007 when accumulated effect of changes in and deviations from actuarial assumptions (changes in estimates) exceeds 10 percent of the higher of pension obligations and pension plan assets, the excess amount is recognized over the estimated average remaining service period.

	2008		2007
Pension cost	Secured	Insecured	
Pension cost for the year	272	1 518	1 714
Pension liability			
Calculated pension liabilities	58 226	1 518	56 181
Pension funds (at net realisable value)	40 137	40 136	40 908
Social security fees	189	214	7 922
Differences in estimates	-18 360	-	-21 939
Net pension liability	-82	-38 404	1 256
Financial assumption	2008	2007	
Discount rate	4.50%	4.50%	
Yearly salary increase	4.50%	4.50%	
Yearly increase to the Social security base figure	4.25%	4.25%	
Yearly pension regulation	4.25%	4.25%	

Note 16. Pension cost and pension liabilities (continue)		
Changes in the defined benefit pension plan during the year:	2008	2007
Pension liability 1 January (ex. Payroll tax)	57 272	55 255
Present value of this years pension earnings	895	731
Interest costs	2 577	2 486
Payment	-2 520	-2 292
Pension liability 31 December (ex. Payroll tax)	58 224	56 181
Changes in pension capital actual value:	2008	2007
Actual value of pension capital at 1 January	37 968	38 997
Expected return on the pension capital	2 088	2 145
Total contribution	2 612	2 068
Total disbursement of funds	-2 532	-2 303
Actual value of pension capital at 31 December	40 136	40 908
Net pension cost is presented as the following:	2008	2007
Present value of this years pension earnings	2 354	731
Interest costs	2 581	2 436
Expected return on the pension capital	-2 090	-2 139
Payroll tax	40	145
Total pension cost	2 885	1 174

Note 17. Other (losses)/profit - net		
	2008	2007
Value change in investment property (note 5)	-7 021	5 667
Value change in concession power rights (note 8)	9 816	47 394
Value change in financial power portfolio	53 622	-17 403
Forward contracts	-112 526	-24 639
Interest rate swap	-92 482	-3 307
Gain from sale of shares	-	2 345
Agio	-	-1 461
Total other (losses)/profit - net	-148 591	8 596

Note 18. Payroll expenses and remuneration				
Payroll expenses	2008		2007	
Wages (incl. salary allocated)	3 197		5 448	
Remuneration to the board	486		259	
Social security costs	1 217		1 108	
Pension costs	2 885		631	
Other remuneration	19		0	
Other personell expenses	2 275		54	
Total	10 079		7 500	
Average number of employees	6		5	
Pension cost has increased in FY 2008 due to recognition of a retirement plan for managing director.				
Remuneration to managing personell	2008		2007	
	General manager	Board	General manager	Board
Wages	1 630	-	1 316	-
Pension	76	-	82	-
Other remuneration	202	486	170	259
Sum	1 908	486	1 568	259
Policy for salary and remuneration to the group management				
Vardar (the group) has 5 leading employees: Vardar AS: General Manager + 2 executive director. Vardar Euris: leader of business development and Hønefoss Fjernvarme: general manager.				
Salary and remunertaion to the General Manager is reviewed by the board of directors once a year, any regulation is effective from 1. January every year. Chairman of the board and General Manager have an annual discourse on salary and remuneration, compensation is considered according to general wage developments, development of management compensation in the business sector and achievement compared with the expectations to the board of directors. After the discourse the chairman put forward a proposal of compensation, which the board of directors consider and decide.				
Salary and remunerations to General Manager at Hønefoss Fjernvarme is considered and decided by the board of directors at Hønefoss Fjernvarme, the directions are equivalent to directions described above.				
Compensations to remaining leading employees in the Vardar goup is reviewed and decided by the General Manager, who first has a discourse about the salary review with everyone sepatatly. Salary and remunerations are concidered according to general wage developments, development of compensations in companies where Vardar has ownership, and also the individual achievement compared with expectations. Any regulation in compensation is effective from 1. of November every year.				
The compensation policy descibed above has been effective in 2008, and will also be build on in the coming fiscal year.				
When it comes to payment beyond ordinary salary, Vardar provides defined benefit pension plan for all employees. Additional everyone has a collective accident insurance and group life insurance. In addition to the ordinary defined benefit plan, the managing director has a retirement plan that cover pension able income above 12G. Alternatively, this benefit can be used as a time-limited early retirement.				
Leading personell in Vardar get compensations for telephone/mobile, 1-2 subscription to newspapers and access to internet at home.				
On termination of the employment contract by the the Company, all leading employees are entitled an termination payment agreement and wage guarantees. General Manager is entitled to a salary for twelve + twelve months. Remaining leading employees are entitled to salary for total 18 months, where termination payment amount to 3 months. However, it is only when working condition is fininished by employer or comprehensive structural changes has been completed, that these agreements are put to use.				
General Manager has a free car within a cost limit of 480.000 NOK. (2001)				
Some of the leading employees has received loans from Vardar. These has to pay interest equivalent to rate of intereset specified by the Norwegian Parliament.				
One of the leading personell in Vardar AS is working 50% in the power company Zephyr, and so he takes a part in the bonus plan to Zephyr. Maximal bonus is 20% of salary received from Zephyr. Both salary and bonus are refund by Zephyr.				
In a certain extent some leading employees take part in boards representing subsidiaries and joint ventures, some of these companies pay out director's fees.				
Other compensations are not available to leading employees, neither any variable elements.				

Note 18. Payroll expenses and remuneration (continue)		
Auditor	2008	2007
Payment to the company's auditor is included under the item other operating expenses with (excl. VAT):		
Ordinary audit (incl. assistance of preparing the financial statements)	532	296
Other attestation services	-	-
Tax advisory (incl. assistance of preparation of tax returns)	143	45
Other services (IFRS)	176	226
Total	851	567

Note 19. Other operating expenses		
	2008	2007
Costs of production	15 430	13 379
Operating costs properties	3 656	3 105
Rent expenditures	595	1 980
Consultant fees	7 379	6 023
Travelling expenses	1 080	1 025
Property tax	10 114	10 311
Maintenance	560	867
Other costs	3 774	12 346
Total other operating expenses	44 596	49 036

Note 20. Financial items		
	2008	2007
Income from interest	34 904	32 907
Other financial income	64 861	3 311
Total financial income	99 765	36 218
Interest costs	-105 707	-76 742
Other financial costs	-36 262	-7 492
Total financial cost	-141 969	-11 798
Total financial items	-42 204	24 420
Derivatives		
	2008	2007
Interest swap's	-92 426	-1 460
Foreign exchange swap's	-97 711	14 784
Financial power portfolio	29 424	-24 268
Total derivatives - net	-160 713	-10 944
Derivatives assets	29 424	28 359
Derivatives liabilities	190 137	39 303

Note 21. Income tax expense		
	2008	2007
Payable taxes	22 517	8 161
Payable taxes economic rent	24 991	12 593
Change in deferred tax/deferred tax asset	-33 619	21 246
Other impact on taxes	-1 815	323
Total income tax expense	12 074	42 323
Tax on result before tax charges differ from the amount appeared if the groups average taxrate had been used. Differences are explained as follow:		
	2008	2007
Result before tax charges	93 750	159 646
Taxes calculated by using average taxrate (28%)	26 250	44 701
Taxes economic rent	24 991	12 593
Tax-free income	-1 504	-2 050
Result from associated-/joint venture companies	-38 553	-12 963
Not tax deductible costs	890	42
Total income tax expense	12 074	42 323
Average tax rate	12.88%	26.51%

Amounts in NOK 1000.

Note 22. Cash flow from operations		
	2008	2007
Result before tax charges	93 750	159 646
Adjustments:		
Depreciation (note 5)	22 173	20 717
Corr profit sale equipment	-	-3 310
Changes in pensionliabilities	392	-1 123
Result of financial derivatives	0	-56 720
Financial expenses	145 307	61 474
Financial income	-28 109	-
Result from associated-/joint venture companies	-137 790	-46 297
Other time differences	55 148	49 929
Changes in fair value of financial instruments (note 17)	151 286	-
Fair value of investment property	-7 242	-
Changes current capital:		
Inventory	204	124
Account receivables and other receivables	-40 478	-1 993
Account receivables and other receivables	2 513	-5 802
Cash flow from operations	257 154	176 645
Profit/(losses) equipment consist of :	2008	2007
Value recognised in the balance sheet	-	9 000
Profit/(losses) from sale of tangible fixed assets	-	3 310
Compensation from sale of tangible fixed assets	-	12 310

Note 23. Consolidated companies			
Name of the company	Purchase date	Business offices	Ownership
Uste Nes AS	1999	Drammen	100.0%
Vardar Eiendom AS	2001	Drammen	99.2%
Vardar Eurus AS	2004	Drammen	70.0%
Hønefoss Fjernvarme AS	2007	Ringerike	100.0%
OÜ Pakri Tuulepark	2004	Estonia	90.0%
OÜ Viru Nigula Tuulepark	2005	Estonia	100.0%
OÜ Vanaküla Tuulepark	2007	Estonia	100.0%

Income statement NGAAP

Amount in NOK 1000.

PARENT COMPANY		NGAAP	
		1 January - 31 December	
	Note	2008	2007
Operating income			
Income from sales		2 325	5 626
Total operating income		2 325	5 626
Operating expenses			
Cost of goods sold		667	3 034
Payroll expenses	1,11	6 225	3 983
Depreciation	3	121	91
Other operating expenses	1	6 118	5 910
Total operating expenses		13 131	13 019
Result of operations		-10 806	-7 393
Income from subsidiaries	4	99 942	44 012
Income from associated and joint venture companies	4	122 074	67 572
Financial income	6,7	54 542	47 410
Financial expense	13	137 398	77 332
Net financial items		139 160	81 662
Profit before taxes		128 354	74 269
Tax on ordinary result	2	-23 734	-10 473
Result of the year		152 088	84 742
Disclosures			
Proposed dividends		60 798	15 000
Allocation other equity		30 563	19 932
Allocation to reserve for valuation variances		121 525	49 810
Total allocated		152 088	84 742

Balance sheet NGAAP

Amounts in NOK 1000.

PARENT COMPANY		NGAAP	
		31. December	
	Note	2008	2007
ASSETS			
Fixed assets			
<i>Intangible fixed assets</i>			
Deferred tax asset	2	-	344
<i>Tangible fixed assets</i>			
Property and land	3	-	-
Machinery, equipment etc.	3	139	259
Work in progress	3	-	-
<i>Financial fixed assets</i>			
Investments in subsidiary	4	878 266	778 485
Investments in associated and joint venture companies	4	1 202 040	1 104 078
Subordinated loans	6	435 950	435 950
Shares	5	5 951	9 229
Other long-term receivables	7	344 281	255 087
Net pension assets	11	337	-
Total fixed assets		2 866 964	2 583 431
Current assets			
Inventory	8	-	209
<i>Receivables</i>			
Account receivables		2 723	1 708
Group receivables	12	193 092	212 543
Other receivables		22 987	31 561
Cash and bank deposits	9	2 398	14 058
Total current assets		221 200	260 079
Total assets		3 088 164	2 843 510

Amounts in NOK 1000.

PARENT COMPANY		NGAAP	
		31. December	
	Note	2008	2007
EQUITY AND LIABILITIES			
Equity			
<i>Paid in capital</i>			
Share capital (49.550 at NOK 5.420,-)	14	268 561	268 561
Share premium reserve		348 500	348 500
<i>Retained earnings</i>			
Reserve for valuation variances	4	543 391	394 721
Other equity		179 470	184 721
Total equity	10	1 339 922	1 196 503
Minority			
LIABILITIES			
<i>Long-term liabilities</i>			
Pension liabilities	11	1 732	1 064
Deferred taxes	2	3 592	-
<i>Other long-term liabilities</i>			
Subordinated loan capital	13	483 447	531 869
Liabilities to financial institutions	15	710 000	310 000
Other long-term liabilities	12,15	12 000	12 000
Total long-term liabilities		1 210 771	854 932
<i>Current liabilities</i>			
Liabilities to financial institutions	15	100 000	400 000
Bank overdraft		102 880	192 687
Accounts payable		728	8 743
Income taxes payable	2	2 344	90
VAT and social security costs		859	473
Dividends		60 798	15 000
Other short-term liabilities	12	269 863	175 081
Total current liabilities		537 471	792 074
Total equity and liabilities		3 088 164	2 843 510

Cash flow statement NGAAP

Amounts in NOK 1000.

PARENT COMPANY	NGAAP	
	1 January - 31 December	
	2008	2007
Cash flow from operations		
Result before taxes	128 354	74 269
Taxes paid in the period	-90	-
Ordinary depreciation	121	91
Writedown/reversation of fixed assets	3 001	-
Difference between expensed and paid up/out to pension plan	332	-
Profit share (from subsidiaries and associated companies) deducted for payments	-197 016	-
Change in inventory	209	404
Change in accounts receivable	-1 050	-1 111
Change in accounts payable	-8 015	-3 773
Change in other provisions	11 340	57 119
Items classified as investments- or financial activities	130 000	-
Net cash flow from operations	67 186	126 999
Cash flow from investments		
Purchase of fixed assets	-	293
Proceeds from sale of fixed assets	-	-
Payments of claim to Goup	-84 155	-
Payment of other long-term receivables	-5 039	-113 804
Purchase of shares and investments in other companies	-42 689	-3 808
Proceeds from sale of shares and investments in other companies	1 479	-
Net cash flow from investments	-130 404	-117 319
Cash flow from financing		
Repayment of borrowings	-448 442	-43 000
Proceeds from borrowings	500 000	22 000
Payment of dividend	-	-
Net cash flow from financing	51 558	-21 000
Net cash flow for the period	-11 660	-11 320
Cash and cash equivalents at the beginning of the period	14 058	25 378
Cash and cash equivalents at the end of the period	2 398	14 058
Consists of: Bank deposits etc.	2 398	14 058

Notes to the NGAAP accounts 2008

General accounting principles NGAAP	s 91-92
Note 1. Payroll expenses, number of employees, remuneration etc.	s 93
Note 2. Taxes	s 93
Note 3. Fixed assets	s 94
Note 4. Subsidiaries, associated companies and joint ventures	s 94
Note 5. Shares in other companies	s 95
Note 6. Subordinated loans that falls due later than 1 year	s 95
Note 7. Other long-term receivables that falls due later than 1 year	s 95
Note 8. Inventory	s 95
Note 9. Restricted bank deposits	s 95
Note 10. Change in equity	s 95
Note 11. Pension cost and pension liabilities	s 95-96
Note 12. Balance with grop companies	s 96
Note 13. Subordinated loans that falls due later than 5 years	s 96
Note 14. Share capital and shareholder information	s 96
Note 15. Liabilities to financial institutions/other long-term liabilities/financial instruments	s 97

General accounting principles NGAAP

General

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

The consolidated statements include following companies:

- Vardar AS
(parent company)
- Uste Nes AS
(subsidiary, 100% owned by Vardar AS)
- Vardar Eurur AS
(subsidiary, 70% owned by Vardar AS)
- Vardar Eiendom AS
(subsidiary, 99,2% owned by Vardar AS)
- Hønefoss Fjernvarme AS
(subsidiary, 100% owned by Vardar AS)
- OÜ Pakri Tuulepark
(subsidiary of Vardar Eurur AS, 90% owned by Vardar Eurur AS)
- OÜ Viru Nigula Tuulepark
(subsidiary of Vardar Eurur AS, 100% owned by Vardar Eurur AS)
- OÜ Vanaküla Tuulepark
(subsidiary of Vardar Eurur AS, 100% owned by Vardar Eurur AS)

Vardar AS owns 50% of the shares in Energiselskapet Buskerud AS, Kvalheim Kraft AS and Øvre Eiker Fjernvarme AS. These are considered as joint ventures and are consolidated by using the equity method.

The subsidiaries, joint ventures and associated companies are valued at equity method in the company financial statements. Vardar's share of the result is computed based on the result after tax of the underlying companies. In the income statement the share of result are present as financial income, while the assets are present as financial fixed assets.

Sales revenues

Sales of goods are entered as income at the time of delivery.

Classifications in the balance sheet

Assets intended for long term ownership or use has 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 realizable value. Fixed assets are valued to historical cost. Fixed assets are depreciated on a straight-line basis over estimated useful lives. Fixed assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Liabilities are valued to the nominal value on the establishment.

Property, plant and equipment

Fixed assets are recognized in the balance sheet and depreciated over the estimated useful economic life. Maintenance costs are expensed as incurred as other operating expenses, whereas improvements and additions are added to the acquisition cost and depreciated with the asset. Fixed assets are depreciated from the time it is used. If the residual value of the asset is less than the value kept in the balance sheet, depreciation will be carrying out so value kept in the balance sheet equal to residual value. Residual value is the highest value of net sale value or value in use.

Receivables

Accounts receivables and other receivables are stated at face value, after provision for doubtful accounts. Provision for

doubtful accounts is done on the basis of consideration of individual accounts. In addition there is done an unspecified provision for other receivables to cover for estimated losses.

Accruals

It is made provisions for prepaid income and prepaid cost, consisting of other net/energy costs, accrued interest cost and other costs. Any eventual loss potential in ongoing legal procedures are considered, and recorded for.

Pension liabilities

The Parent company and the subsidiaries Uste Nes AS and Vardar Eurus AS have insured (collective) pension schemes which include AFP at Buskerud Fylkeskommunale Pensjonskasse (BFP). Accounting of pension costs are in accordance with the Norwegian Accounting standard, NRS 6 Pension costs. The pension costs and pension liabilities are calculated on a straight-line earning profile basis, based on assumptions relating to discount rates, projected salaries, the amount of benefits from the National Insurance Scheme, future return on pension funds, and actuarial calculations relating to mortality rate, voluntary retirement.

Pension funds are recognised at fair value and deducted from net pension liability present in the balance sheet. If an over funding is reimbursable or can be utilized, an over funding is entered in the balance sheet. 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 obligations and pension plan assets, the excess amount is recognized over the estimated average remaining service period.

Forward contracts and interest rate swaps

Forward contracts in foreign exchange and interest rate swaps are classified as hedging instruments, as either:

- a.** hedge of fair value of accounts receivable or liabilities in foreign exchange, recognized in the balance sheet (fair value hedge)
- b.** hedge of a likely future transaction (cash flow hedge)

The derivatives that qualifies as fair value hedge and that are effective, will be recognized in the income statement in the same period as the hedged item.

Taxes

Tax on ordinary result consists of this current tax and the change in deferred tax. Deferred tax are computed with 28% on the temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes, together with carry forward losses by the end of the accounting year. Temporary differences, which are reversed or may reverse in the same period are neutralized, and recorded net in the balance sheet.

Taxes on group contribution, which are recorded as increased costs on the shares in the receiving companies, are recorded directly against taxes in the balance sheet (recorded against current tax if effect on current tax, and against deferred tax if effect on deferred tax).

Cash flow statement

The cash flow statement is prepared by using the indirect method. Cash and cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less and that are subject to an insignificant risk of change in value.

Notes to the accounts NGAAP

Amounts in NOK 1000.

Note 1. Payroll expenses, number of employees, remuneration etc.				
Payroll expenses		2008	2007	
Wages (excl. salary allocated)		2 004	2 366	
Remuneration to the board		248	259	
Social security costs		1 045	673	
Pension costs		2 729	631	
Other remuneration		19	-	
Other personnel expenses		181	54	
Total payroll- and personnel expenses		6 225	3 983	
Average number of employees		3	3	
Remuneration to managing personnel	2008		2007	
	General manager	Board	General manager	Board
Wages	1 496		1 316	
Pension	74		82	
Other remuneration	162	248	170	259
Total	1 732	248	1 568	259
Auditor		2008	2007	
Payment to the company's auditor is included under the item <i>other operating expenses</i> with:				
Ordinary audit (incl. tech. ass. prep financial statements)		215	120	
Other attestation services		-	-	
Tax advisory (incl. ass. with prep. tax return)		50	10	
Other services		167	211	
Total		432	341	
Note 2. Taxes				
Tax charges for the year is as follows:		2008	2007	
Payable taxes		10 644	5 436	
Correction of previous years current income taxes		-1 914	-	
Change in deferred tax/deferred tax asset		3 936	331	
Tax effect of group contribution with effect on payable taxes		-36 400	-16 240	
Total tax charge		-23 734	-10 473	
Calculation of basis for taxes payable		2008	2007	
Result before tax charges		128 354	74 269	
Permanent differences *)		-220 706	-111 671	
Change in temporary differences		367	-	
Group contribution received		130 000	58 000	
Basis for taxes payable		38 015	20 598	
Temporary differences		2008	2007	
Fixed assets		-199	-164	
Financial fixed assets		14 422	-	
Pension liabilities		-1 395	-1 064	
Total		12 828	-1 228	
28 % deferred tax / deferred tax asset (-)		3 592	-344	
Explanation of the year's tax charge:				
28 % tax on result before taxes		35 939	20 795	
Correction of previous years current income taxes		-1 914	-	
Deferred tax regarding 3% regulation		4 038	-	
Permanent difference (28%)		-61 798	-31 268	
Calculated tax charges		-23 734	-10 473	
*)) Includes: Non-deductible expenses like representation, deduction for share of profit from joint ventures (the share of profit is withdrawn since it has already been taxed at the individual company)				
Payable taxes in balance sheet consists of:				
Payable natural resources tax this year			-8 300	
Integration to ordinary income tax 2008			10 644	
Total payable taxes			2 344	

Note 3. Fixed assets			
	Machines/ inventory etc.	Property/land	Total
Purchase cost 01.01.2007	1 185	1 050	2 235
Additions	-	-	-
Reductions	-	1 050	1 050
Purchase cost 31.12.2007	1 185	-	1 185
Accumulated depreciations 31.12.2008	1046	-	1046
Net book value 31.12.2008	139	-	139
Depreciation in the year	121	-	121
Expected useful life	3 år/8 år	0	
Depreciation plan	33/12.5%		

Note 4. Subsidiaries, associated companies and joint ventures					
Subsidiaries	Purchase date	Business office	Ownership	Voting rights	Purchase cost
Uste Nes AS	1999	Drammen	100.0 %	100.0 %	614 094
Vardar Eiendom AS	27.12.2001	Drammen	99.2 %	99.2 %	4 560
Vardar Eurus AS	13.05.2004	Drammen	70.0 %	70.0 %	184 133
Hønefoss Fjernvarme AS	19.01.2007	Ringerike	100.0 %	100.0 %	64 503
Joint ventures					
Energiselskapet Buskerud AS	01.01.1999	Drammen	50.0 %	50.0 %	706 701
Kvalheim Kraft AS	16.03.2001	Drammen	50.0 %	50.0 %	6 767
Øvre Eiker Fjernvarme AS	01.08.2003	Øvre Eiker	50.0 %	50.0 %	1 505
Sula Kraft AS	08.02.2006	Førde	50.0 %	50.0 %	408
Associated companies					
Haram Kraft AS	07.05.2003	Vestnes	35.0 %	35.0 %	355
OÜ Paldiski Tuulepark	16.11.2005	Estland	20.0 %	20.0 %	9 153
Zephyr AS	20.03.2006	Sarpsborg	33.0 %	33.0 %	2 000
OÜ Eurodigit	17.10.2008	Estland	37.5 %	37.5 %	10
Subsidiaries	Opening balance	Result for the year	Group contrib./ Dividends/ Other equity tr.	Closing balance	Reserve for valuation variances
Uste Nes AS	559 731	108 156	-105 408	562 407	-
Vardar Eiendom AS	16 610	-213	-	16 397	11 837
Vardar Eurus AS	138 112	3 408	93 440	234 960	50 827
Hønefoss Fjernvarme AS	64 032	-11 409	11 880	64 503	-
	778 484	99 942	- 106	878 265	
Joint ventures					
Energiselskapet Buskerud AS	1 089 369	123 050	-25 000	1 187 419	480 718
Kvalheim Kraft AS	4 821	20	-	4 841	-
Øvre Eiker Fjernvarme AS	94	-91	-	3	-
Sula Kraft AS	399	-86	-	313	-
Associated companies					
Haram Kraft AS	291	-	-	291	-
OÜ Paldiski Tuulepark	8 487	-220	895	9 161	8
Zephyr AS	617	-617	-	-	-
OÜ Eurodigit	-	-	10	10	-
	1 104 078	122 074	-24 095	1 202 040	543 390

Note 5. Shares in other companies**Parent company/group**

	Ownership	Purchase cost	Balance sheet value	Number of shares	Nominal value (NOK)
BTV Investeringsfond	2.00 %	3 000	2 601	2 110	100
Energi og Miljøkapital AS	2.50 %	2 750	1 659	5 000	1
Cenergie AS	1.40 %	1 598	-	140 000	100
Norsk Enøk & Energi AS	18.19 %	1 381	1 381	1 050	500
Papirbredden Innovasjon AS	19.82 %	500	310	490 000	1
Shares in other companies 31.12.		9 229	5 951		

Note 6. Subordinated loans that falls due later than 1 year

	Principal amount	Interest income	Interest rate
Energiselskapet Buskerud AS	390 000	20 918	5.36 %
Vardar Eiendom AS	40 000	2 800	5.67 %
Kvalheim Kraft AS	5 000	258	7.96 %
Haram Kraft AS	950	-	Floating rate
Total subordinated loans	435 950	23 976	

Note 7. Other long-term receivables that falls due later than 1 year

	Principal amount	Interest income	Interest rate
Energiselskapet Buskerud AS	21 035	1 367	6.26 %
Other (loan to Managing director (850)/employees (250))	1 100	64	6.25 %
Loan OÜ Viru Nigula Tuulepark	160 056	12 969	7.80 %
Loan OÜ Paldiski Tuulepark	9 369	-	Floating rate
Loan OÜ Vanaküla Tuulepark	24 662	58	7.10 %
Loan Eurodigit	3 940	-	-
Hønefoss Fjernvarme AS	118 259	7 142	6.96 %
Sula Kraft AS	1 302	66	7.46 %
Zephyr Kraft AS	4 558	224	6.98 %
Total other long-term receivables	344 281	21 890	

Loan to managing Director is secured by mortgage.

Note 8. Inventory

Inventory consists of briquettes, and is activated to purchase cost.

Note 9. Restricted bank deposits

Withheld taxes	299
----------------	-----

Note 10. Change in equity

Equity 31.12.07	1 196 503
Equity transactions at joint ventures and associated companies	52 128
Result of the year	152 088
Proposed dividends	-60 798
Equity 31.12.08	1 339 922

Note 11. Pension cost and pension liabilities

Group companies pension plan are funded through payments to Buskerud Fylkeskommunale Pension Fund. The pension plan also include joint pension under collective agreement. Actuarial gains and losses are recognised using a corridor of 10%. In addition the managing director has a post-retirement healthcare benefits. The benefit is expensed from 2008.

	2008		2007
	Secured	Unsecured	
Pension cost			
Pension cost for the year	134	1518	908
Pension liability			
Calculated pension liabilities	56 887	1 518	55 224
Pension funds (at net realisable value)	-39 548	-	40 402
Social security fees	-	214	7 787
Difference in estimates	-17 675	-	-21 546
Net pension liability	-337	1 732	1 064

Note 11. Pension cost and pension liabilities (continues)		
	2008	2007
Financial assumptions		
Return	4.25 %	5.50 %
Discount rate	4.50 %	4.50 %
Yearly salary increase	4.50 %	4.50 %
Yearly increase to the Social security base figure	4.25 %	4.25 %
Yearly pension regulation	4.25 %	4.25 %

Note 12. Balance with group companies		
	31.12.2008	31.12.2007
Group receivables	193 092	212 543
Other long-term liabilities	12 000	12 000
Group debt	249 866	102

Note 13. Subordinated loans that falls due later than 5 years					
	Loan	Balance 31.12.	Interest rate	Interest cost	Duration
Buskerud fylkeskommune	Subord. loan with call	333 447	6.96 %	26 578	Everlasting
Buskerud fylkeskommune	Subord. loan with put and call	150 000	6.96 %	10 440	Everlasting
		483 447			

Note 14. Share capital and shareholder information	
Share capital of the company is NOK 268 561 000, consisting of 49 550 shares each with nominal value of NOK 5.420, divided in two classes of shares, A and B. A-shares consists of 496 shares of NOK 5 420, total NOK 2 688 320. B-shares consists of 49 054 shares of NOK 5 420, total NOK 265 872 680.	
Owners of B-shares have no right to vote, nor any right to dividend.	
Buskerud Fylkeskommune owns 100% the A-shares.	

Following local government owns B-shares:	Numbers	Percentage share
Drammen	7 863	16.03 %
Flesberg	554	1.13 %
Flå	103	0.21 %
Gol	442	0.90 %
Hemsedal	191	0.39 %
Hol	461	0.94 %
Hole	922	1.88 %
Hurum	2 924	5.96 %
Kongsberg	5 921	12.07 %
Krødsherad	373	0.76 %
Lier	6 441	13.13 %
Nedre Eiker	4 930	10.05 %
Nes	353	0.72 %
Nore og Uvdal	265	0.54 %
Modum	1 737	3.54 %
Ringerike	5 739	11.70 %
Rollag	309	0.63 %
Røyken	3 973	8.10 %
Sigdal	1 128	2.30 %
Øvre Eiker	3 954	8.06 %
Ål	471	0.96 %
Total	49 054	100 .00%

Amounts in NOK 1000.

Note 15. Liabilities to financial institutions/other long-term liabilities/financial instruments					
Short-term					
Lender	Loan	Balance 31.12.	Interest	Interest expend	Duration
Nordea (as preparer)	Bond loan	50 000	6.96 %	25 578	mai.09
Nordea (as preparer)	Bond loan	50 000	6.96 %	10 440	nov.09
		100 000			
Long-term					
Lender/Preparer	Loan	Balance 31.12.	Interest		Duration
Nordea (as preparer)	Bond loan	265 000	Fixed		mar.11
Nordea (as preparer)	Bond loan	35 000	Fixed		mar.16
Nordea (as preparer)	Bond loan	10 000	Fixed		mar.16
Nordea (as preparer)	Bond loan	400 000	Nibor + 1.5 %		dec.13
		710 000			
Vardar Eiendom AS	Other long-term liabilities	12 000	Floating		jun.08

To the Annual Shareholders' Meeting of Vardar AS

Auditor's report for 2008

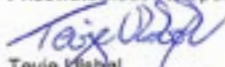
We have audited the annual financial statements of Vardar AS as of December 31, 2008, showing a profit of TNOK 152 088 for the parent company and a profit of TNOK 81 677 for the group. We have also audited the information in the directors' report concerning the financial statements, the going concern assumption, and the proposal for the allocation of the profit. The annual financial statements comprise the financial statements of the parent company and the group. The financial statements of the parent company comprise the balance sheet, the statements of income and cash flows and the accompanying notes. The financial statements of the group comprise the balance sheet, the statements of income and cash flows, the statement of changes in equity and the accompanying notes. The regulations of the Norwegian accounting act and accounting standards, principles and practices generally accepted in Norway have been applied in the preparation of the financial statements of the parent company. International Financial Reporting Standards as adopted by the EU have been applied in the preparation of the financial statements of the group. These financial statements are the responsibility of the Company's Board of Directors and Managing Director. Our responsibility is to express an opinion on these financial statements and on other information according to the requirements of the Norwegian Act on Auditing and Auditors.

We conducted our audit in accordance with laws, regulations and auditing standards and practices generally accepted in Norway, including standards on auditing adopted by The Norwegian Institute of Public Accountants. These auditing standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. To the extent required by law and auditing standards an audit also comprises a review of the management of the Company's financial affairs and its accounting and internal control systems. We believe that our audit provides a reasonable basis for our opinion.

In our opinion,

- the financial statements of the parent company have been prepared in accordance with the law and regulations and give a true and fair view of the financial position of the company as of December 31, 2008 and the results of its operations and its cash flows for the year then ended, in accordance with accounting standards, principles and practices generally accepted in Norway
- the financial statements of the group have been prepared in accordance with the law and regulations and give a true and fair view of the financial position of the group as of December 31, 2008, and the results of its operations and its cash flows and the changes in equity for the year then ended, in accordance with International Financial Reporting Standards as adopted by the EU
- the company's management has fulfilled its duty to produce a proper and clearly set out registration and documentation of accounting information in accordance with the law and good bookkeeping practice in Norway
- the information in the directors' report concerning the financial statements, the going concern assumption, and the proposal for the allocation of the profit are consistent with the financial statements and comply with the law and regulations.

Drammen, April 28, 2009
PricewaterhouseCoopers AS



Teyje Gisbøl
State Authorised Public Accountant (Norway)

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



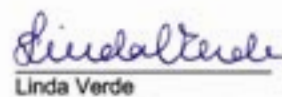
Responsibility Statement

We confirm, to the best of our knowledge, that the financial statements for the period 1 January to 31 December 2008 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 entity 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 entity and the group, together with a description of the principal risks and uncertainties facing the entity and the group.

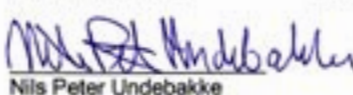
Drammen, April 24, 2009.

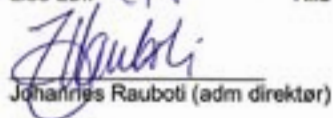

Svein Marfi


Mette Lund Stake


Linda Verde


Lise Løff


Nils Peter Undebakke


Johannes Rauboti (adm direktør)



P.O. Box 4091, Gulskogen

3005 Drammen, Norway

Tel.: +47 32 20 15 50

www.vardar.no

Org.nr. 977 028 442