ANNUAL REPORT 2016

agder energi

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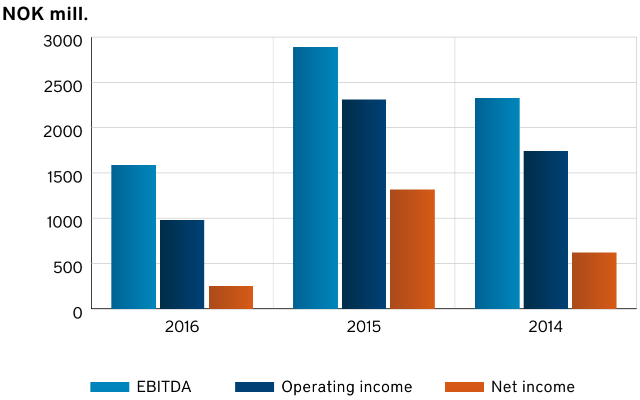
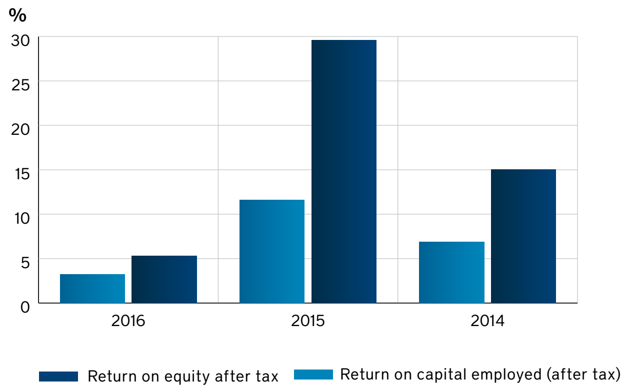
KEY FIGURES

RESULTS





	Def.		2016	2015	2014	2013	2012
FROM INCOME STATEMENT							
Operating revenues		NOK million	8 668	8 260	7 832	9 391	8 946
EBITDA	1	NOK million	1 586	2 886	2 327	2 856	2 283
Operating profit		NOK million	978	2 309	1 738	2 354	1 818
Profit before tax		NOK million	799	2 138	1 310	1 726	1 581
Net income for the year (controlling interest's share)		NOK million	251	1 314	616	834	1 037
FROM BALANCE SHEET							
Total assets		NOK million	20 319	19 240	16 929	16 091	15 243
Equity		NOK million	4 626	4 893	3 990	4 210	3 917
Interest-bearing liabilities		NOK million	9 143	9 029	8 299	7 668	7 222
Capital employed	2	NOK million	13 769	13 921	12 288	11 878	11 139
Unrestricted liquidity	3	NOK million	2 023	1 969	1 416	1 412	1 265
Net interest-bearing liabilities	4	NOK million	8 620	8 560	8 257	7 647	7 155
Interest-bearing liabilities due over coming 12 months		NOK million	1 379	1 745	1 184	1 773	2 433
Bank deposits excluding restricted assets		NOK million	523	469	42	21	67
INCOME STATEMENT (NGAAP)							
Operating revenues		NOK million	9 489	7 447	7 767	8 939	8 710
EBITDA	1	NOK million	2 413	2 072	2 329	2 403	2 032
Operating profit		NOK million	1 811	1 495	1 733	1 891	1 525
Profit before tax		NOK million	1 571	1 302	1 489	1 722	1 284
Net income for the year (controlling interest's share)		NOK million	744	746	834	846	700
CASH FLOW							
Net cash provided by operating activities		NOK million	1 779	1 502	1 512	1 486	970
Dividends paid		NOK million	660	706	713	626	653
Maintenance investments		NOK million	522	571	331	509	355
Investments in expansion		NOK million	733	625	705	790	601
Acquisition of shares/ownership interests and capital increases		NOK million	155	81	42	56	60

KEY FIGURES

FINANCIAL POSITION	2015	2014	2013
Equity	4 626	4 893	3 990
Interest-bearing liabilities	9 143	9 029	8 299
Capital employed	13 769	13 921	12 288
Total assets	20 319	19 240	16 929

	Def.		2016	2015	2014	2013	2012
KEY FIGURES							
Return on capital employed before tax	5	%	7,9	18,6	13,3	17,6	17,8
Return on capital employed after tax	6	%	3,2	11,6	6,9	9,2	11,9
Return on equity after tax	7	%	5,3	29,6	15,0	20,8	29,7
Equity ratio	8	%	22,8	25,4	23,6	26,2	25,7
HYDROELECTRIC POWER							
EBITDA		NOK million	1 749	1 606	1 920	1 675	1 570
Actual electricity generation	9	GWh	8 880	8 996	9 060	7 738	8 138
Expected electricity generation	9	GWh	8 100	7 900	7 900	7 700	7 700
Reservoir reserves at 31 Dec.		GWh	3 766	5 185	3 900	4 250	4 450
Reservoir capacity		GWh	5 250	5 250	5 250	5 250	5 250
Average spot price		øre/kWh	23,3	17,7	22,8	29,1	21,8
Electricity price realised		øre/kWh	27,8	25,8	28,2	29,0	26,3
Cost of generation/kWh		øre/kWh	11,3	10,9	10,6	9,1	8,7
GRID OPERATION							
EBITDA		NOK million	637	410	359	685	324
Number of transmission and distribution customers		1000	195	190	190	188	184
Energy supplied		GWh	5 581	5 624	5 454	5 308	5 295
Power grid capital (NVE capital)	10	NOK million	4 101	3 833	3 691	3 523	3 322
KILE cost	11	NOK million	53	61	50	45	27
ELECTRICITY SALES							
EBITDA		NOK million	97	104	114	101	61
EBITDA margin		%	2,8	4,6	4,2	2,6	1,8
Electricity sales		GWh	11 500	8 470	8 670	9 849	9 777

KEY FIGURES

	Def.		2016	2015	2014	2013	2012
CONTRACTING							
EBITDA		NOK million	-8	-8	22	16	-31
EBITDA margin		%	-0,7	-0,8	2,4	1,9	-2,0
Share of turnover from intra-group transactions		%	13,2	17,5	20,1	25,1	15,2
Order backlog		NOK million	634	791	625	810	823
DISTRICT HEATING							
EBITDA		NOK million	33	28	25	29	29
Energy supplied		GWh	142	123	118	130	122
Price of heating sold		øre/kWh	59	56	57	60	56
Gross margin, heating		øre/kWh	32	24	25	39	44
Share of renewable generation		%	99	98	98	97	97
EMPLOYEES, HEALTH AND SAFETY							
Number of permanent and temporary staff at 31 Dec.			1 432	1 294	1 245	1 551	1 529
Number of permanent and temporary full-time equivalents at 31 Dec.			1 401	1 270	1 220	1 526	1 494
Sickness absence		%	3,6	3,5	3,6	3,6	3,9
Lost time injury frequency (H1)			3,5	3,0	3,5	3,9	6,8
Total injury frequency (H2)			5,4	6,4	8,4	11,2	12,9

DEFINITIONS

1. Operating profit before depreciation and impairment losses
2. Equity + interest-bearing liabilities
3. Bank deposits and unused credit facilities. Excludes restricted assets.
4. Interest-bearing liabilities - unrestricted liquidity
5. (Operating profit + financial income) / Average capital employed
6. (Net income for the year + interest expense after tax) / Average capital employed
7. Profit for the year/Average equity
8. Equity/total assets
9. All power generation figures are quoted less pumping.
10. Basis for calculating the income cap. Set by the Norwegian Water Resources and Energy Directorate (NVE).
11. Adjustment to income cap for energy not supplied

GROUP MANAGEMENT


Tom Nysted


Steffen Syvertsen

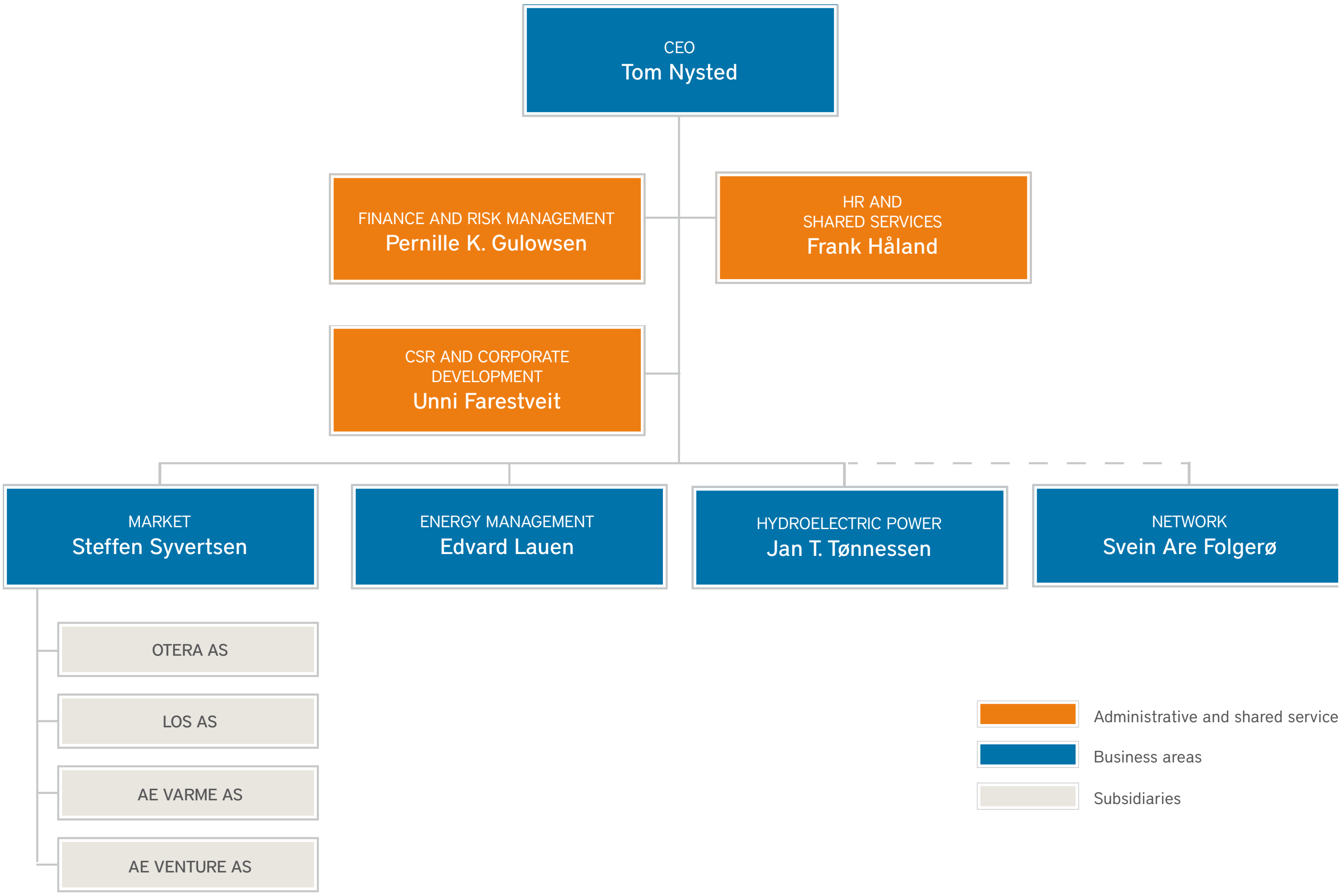

Pernille Kring Gulowsen


Frank Håland


Jan T. Tønnessen


Edvard Lauen

GROUP STRUCTURE



WHERE WE OPERATE

- Power station
- Premises/offices
- District heating/cooling
- Power stations under construction

BRIEF INTRODUCTION TO AGDER ENERGI

Agder Energi manages natural, renewable energy sources and converts them into electricity, and its business areas include hydroelectric power, energy management, network operation, retailing, contracting and district heating. The Group also has a portfolio of ownership interests and options in related business sectors.

Hydroelectric power is a perpetual natural resource, and by harnessing it Agder Energi is able to add value for its shareholders, employees and wider society. Agder Energi has a significant impact on the wider economy of southern Norway, both by purchasing local goods and services and through the dividends and taxes that we pay to the shareholder municipalities.

Agder Energi is owned by the 30 municipalities in the region (54.5%) and Statkraft Industrial Holding AS (45.5%). Agder Energi is a major centre of expertise and an important employer. The Group has around 1,400 employees, mainly based in the counties of Aust-Agder and Vest-Agder in southern Norway, but also elsewhere in Norway, as well as in countries like Sweden, Denmark and Germany. The Group's head office is in Kristiansand.

Measured in hydroelectric power generation, Agder Energi is Norway's fourth-largest energy supplier. Each year, the Group's 49 wholly-owned and part-owned power stations produce around 8.1 TWh of renewable energy.

Agder Energi Nett owns and operates the transmission and distribution networks in Vest-Agder and Aust-Agder, which comprise 21,300 km of power lines and cables. The company has 195,000 transmission and distribution customers.

The electricity retailer LOS operates under two brand names: LOS Energy in the Scandinavian business energy supply market and LOS in the Norwegian residential market. LOS Energy is one of the leading suppliers to Scandinavian businesses, while LOS is a leading supplier to Norwegian households.

Otera supplies technical services to customers responsible for building, operating and maintaining infrastructure. It specialises in electric power grids and electrical systems for road and rail infrastructure. Otera operates in Norway and Sweden.

Agder Energi Varme operates district heating plants in places such as Kristiansand, Arendal and Grimstad.

VISION AND VALUES

Agder Energi's vision is to be one of the leading companies in the Norwegian renewable energy sector.

The Group has defined its values as closeness, credibility, dynamism and innovation.

- Agder Energi shall be close to its customers and the region.
- Agder Energi shall gain credibility by keeping promises, both to third parties and within the company.
- Agder Energi shall be dynamic, with a conscious corporate strategy that helps it to implement projects and achieve its goals.
- Agder Energi shall promote innovation and creativity, so that its employees become more skilled and efficient, enabling them to help to grow and develop the Group.

OUR BUSINESS

Agder Energi has four business areas, which reflect the Group's core activities and how it generates added value: Hydroelectric Power, Energy Management, Network and Marketing/Business Development.

The parent company, Agder Energi AS, performs strategic management and provides shared services.

The business areas and administrative departments at the parent company are led by directors. They and the CEO constitute the senior management team.

Hydroelectric Power
The Hydroelectric Power business area is responsible for developing, operating and maintaining the Group's wholly-owned and part-owned hydroelectric power stations. The biggest driver of value creation for the business is its power generating capacity. This is affected by the availability of plant at power stations, reservoir volumes permitted by its licence terms and addition of new capacity through reinvestment and by obtaining new licences.

It operates through the company Agder Energi Vannkraft AS.

Energy Management
The Energy Management business area is responsible for maximising profit from the electricity generated by the Group. It does this by trying to optimise scheduling and by managing market risks, taking into account hydrology, weather data and information about markets. The business area is also responsible for the Group's trading portfolios.

These activities are performed by the company Agder Energi Kraftforvaltning AS, which acts on behalf of Agder Energi Vannkraft AS.

Network
The Network business area, which operates a monopoly, has a duty to society to provide electrical energy to end users. The government caps its revenues, which means that efficient operation and successful management of the power grid well are the main drivers of value for the business area.

The business area, which operates through Agder Energi Nett AS, is responsible for building, operating and maintaining the transmission and distribution grid in Aust-Agder and Vest-Agder. The company is an independent entity controlled by its own AGM and Board.

Marketing/Business development
The Marketing/Business development business area comprises the contractor Otera AS, the retail supplier LOS AS, and the district heating supplier Agder Energi Varme AS, as well as the Group's strategic and financial investments.

- Otera AS is one of Norway's largest electrical infrastructure contractors. Its financial results are driven by its ability to implement projects successfully and efficiently.

- LOS AS is Norway's biggest supplier of electricity to businesses, and the country's third biggest electricity supplier overall. LOS also has operations in Sweden. LOS generates profit from the margin it achieves on electricity sales, and by having a cost-efficient business model.

- Agder Energi Varme AS supplies district heating and cooling in the Agder region. The company adds value by investing in infrastructure for generating and distributing water-based heating and cooling to buildings. It generates energy using waste heat and renewable energy sources.

- Agder Energi Venture AS invests in energy-related businesses from start-up through to maturity, and adds value by actively helping to develop them.

Goals and results
The goals and results of the business areas are discussed in the Directors' Report and in Note 1 Segment Information to the consolidated financial statements of the Agder Energi Group.

HIGHLIGHTS IN 2016

In February Agder Energi sold its 20.9% ownership interest in Fosen Vind. Our 51.2% interest in Bjerkreim Vind was also sold.

In February Agder Energi signed an agreement with Nordic Wind Power (NWP) on managing NWP's share of Fosen Vind's variable power generation. NWP owns 40% of Fosen Vind.

The new power station Iveland 2 was officially opened in June by the Minister of Petroleum and Energy Tord Lien. Iveland 2 will increase our generation of clean, renewable energy by 150 GWh, equivalent to the consumption of 7,500 households.

In June LOS signed an agreement to acquire Telge Kraft, and the acquisition was completed in November. Telge Kraft was one of the leading suppliers of electricity to Swedish businesses, with turnover of almost SEK 2 billion. On being acquired, the company was renamed LOS Energy.
NetNordic acquired IPnett in August. IPnett is a Scandinavian supplier of networking, communication and security solutions, whose turnover was NOK 330 million in 2015. Agder Energi has a 59.4% ownership interest in NetNordic, which forms part of the Group's venture capital portfolio.

In August Otera was selected as one of two suppliers of emergency response, operation and maintenance services to Agder Energi Nett. Annual sales under the contract will be NOK 100-200 million. The contract runs for three years, with the possibility of being extended.

In September LOS signed an agreement with Otovo that will enable LOS to offer solar panels to its retail customers. Otovo is Norway's largest operator of solar panel systems on residential homes.

Agder Energi Varme's plant at Vesterveien in Kristiansand completely stopped using fossil fuels in September, when its peak load boiler plant started using biodiesel instead of fuel oil.

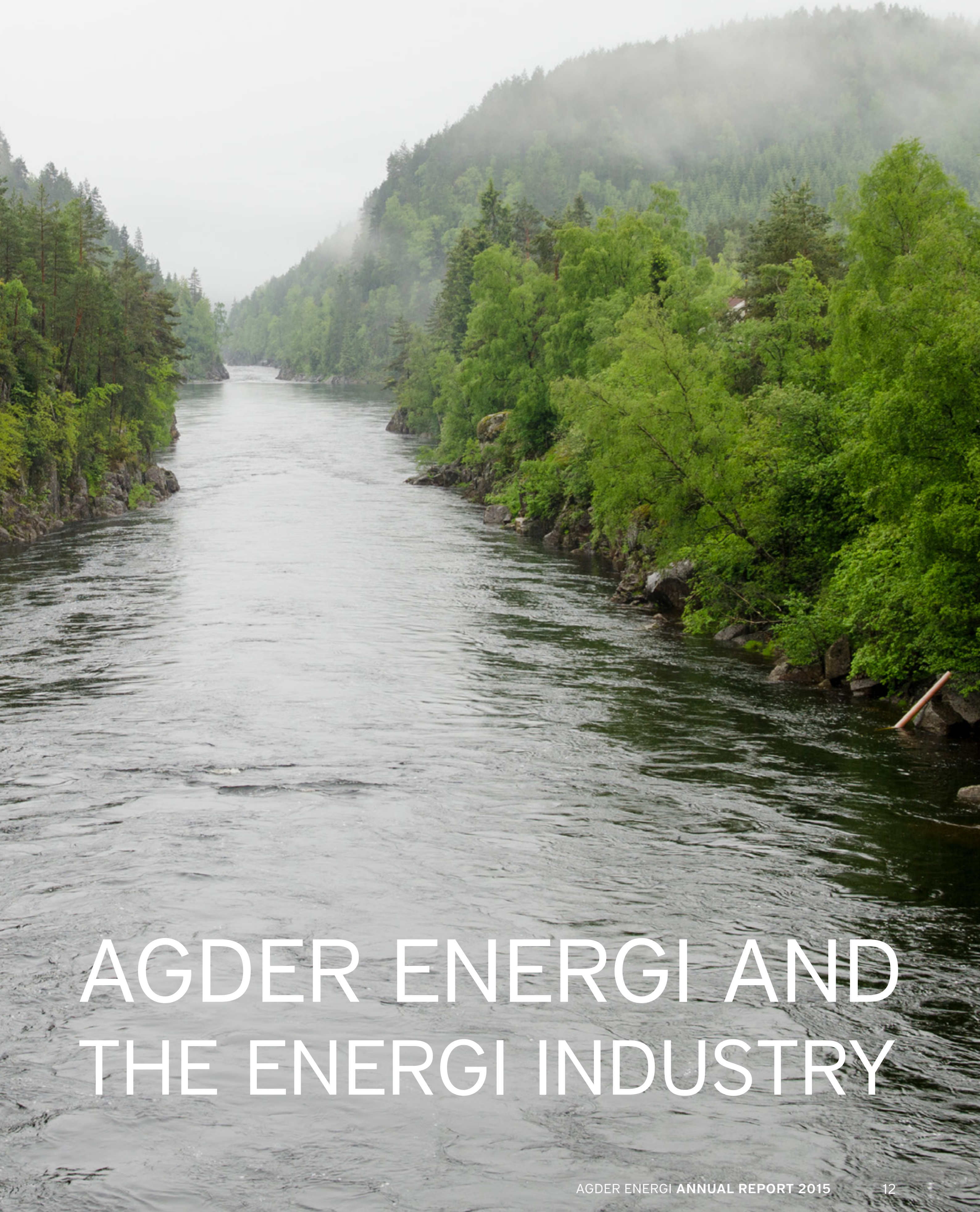
By October, Agder Energi Nett was making good progress with the construction of its new Honna transmission substation and the new regional transmission lines from Honna to the Smeland and Skjerka power stations in Åseral. The new substation will provide additional capacity for voltage conversion between the national and regional transmission grids. This will increase grid reliability and make it possible to connect new power stations in the area.

In October, a decision was taken to carry out a major rehabilitation of Evenstad power station, which lies on the River Nidelva in Froland. The project, which will cost around NOK 80 million, will involve two generators from 1938 and one from 1957. Most of the project will be completed in 2017.

In November, Otera won two contracts to supply all of the electrical installations to Norway's biggest wind farm, which will be built in Egersund. Otera will install the internal cabling that will connect all of the 33 wind turbines, as well as the overhead line that connects the wind farm to the grid. The total value of the contracts is approximately NOK 40 million.

Agder Energi has entered the German market through the acquisition of the companies Nordgröön Energie (61.4%), Markedskraft Deutschland (100%) and Entelios (100%). These acquisitions give Agder Energi a foothold in the value chain for flexible power, grid and balancing services and trade in renewable energy with Germany.

The intake for Iveland 2 power station, which was commissioned in 2016.



AGDER ENERGI AND THE ENERGI INDUSTRY

ENTERING A NEW ENERGY LANDSCAPE

For many years, electricity prices have been falling. They started 2016 at record low levels, but picked up over the course of the year, resulting in an average spot price of 23.3 øre/kWh, up from 17.7 øre/kWh in 2015. Looking ahead, prices are expected to remain low, and from 2018 onwards they are expected to fall back below the levels seen in 2016.

In spite of the low price environment, Agder Energi achieved net income of NOK 744 million in 2016, only two million less than the previous year. That is something for both Agder Energi and our shareholders to be proud of!

Health, safety and the environment is the top priority at Agder Energi. The Group's sickness absence rate has been low in recent years, and in 2016 it was 3.6 percent. We aim to get it below 3 percent in 2017. Accident figures are also showing progress towards our zero accident vision. We will continue to take a proactive and systematic approach to preventive HSE.

Renewable energy generation is expected to grow significantly over the coming years, as is demand for this kind of energy. However, technological progress, internationalisation, digitalisation, changing customer behaviour, new market designs and changes in the regulatory environment are creating significant uncertainty.

As we move forward, the two most important drivers of the electric power industry in Europe will be the transition from a grid based on fossil fuels to one incorporating more renewable energy and the move from analogue to digital systems.

These trends will also change which businesses are involved in energy markets. European companies like E.ON, Engie and RWE are investing in renewable energy and cutting back on fossil fuel power stations. Back in Norway, Statoil has announced that it will invest heavily in offshore wind power. Companies with lots of financial resources and strong project execution skills will become powerful players in the new energy market. That will alter the competitive landscape, while measures to address climate change, technological progress and changing customer behaviour will create new opportunities to add value.

Agder Energi is readying itself for big changes in the market for renewable energy in Norway and the rest of Europe. Doing so is vital to our ability to remain an industry leader in terms of financial performance and value creation. It is also why Agder Energi is investing heavily in new technology, and has acquired stakes in European companies developing new energy solutions.

The developments taking place mean that our products will also start to be sold in new markets and in new ways. Nevertheless, our core business will remain the generation, sale and distribution of renewable hydropower.

Hydropower is, and will always be, the foundation stone of the Norwegian electric power industry. Moreover, hydroelectric power is currently one of the biggest contributors to value added in the Norwegian mainland economy. It is therefore important for the electric power industry to have a regulatory environment that enables profitable investment in the renewable energy sector.

Statnett's projects to install interconnectors to Germany and the UK will make it possible to add more value, and another positive development is the Norwegian parliament's decision in 2016 to change the Energy Act so that companies other than Statnett can own and operate international interconnectors. A further amendment to the Energy Act requires legal and functional separation between the monopoly and competitive operations of all grid operating companies regardless of size. These important changes provide a foundation for greater value creation in our industry, which is clearly based on a renewable resource.

At Agder Energi we will continue to prepare the Group for the challenges of the future and lay the foundations for a flexible business strategy that will enable us to add maximum value both in the short and long term.

Our customers, employees and shareholders all benefit from Agder Energi being financially strong, ambitious and profitable.

Tom Nysted
CEO

CORPORATE GOVERNANCE

CORPORATE GOVERNANCE

Statement of Compliance
In accordance with Section 3-3b of the Norwegian Accounting Act, Agder Energi has a duty to report on its corporate governance procedures. Agder Energi has chosen to follow the corporate governance recommendations set out in the 8th edition of the Norwegian Code of Practice published by the Norwegian Corporate Governance Committee (NUES), published on 30 October 2014.

Agder Energi AS has issued bonds that are listed on Oslo Børs. Consequently, we have chosen to implement the Code of Practice in so far as we consider it relevant and appropriate.

Below we have set out how Agder Energi has chosen to follow the recommendations. Each heading represents one topic covered by the recommendations. Agder Energi has chosen to adapt Section 4 to Section 8 to reflect its operations and ownership structure. Apart from this, Agder Energi considers that it complies fully with the Code of Practice.

1. Corporate Governance Statement
The adopted corporate governance principles regulate the relationship between the shareholders, Board of Directors and executive management of a company, as well as describing the relevant roles and reporting structures.

Ethical guidelines
Ethics constitutes an integral part of the Group's operations and of its overall risk management process. Along with its values, the ethical guidelines adopted by the Group provide the foundation and framework for its activities and set out model and obligatory conduct at our organisation. The guidelines apply to all employees, Board members, contractors, consultants, intermediaries, lobbyists and other people acting on behalf of Agder Energi.

Agder Energi requires all people who act on behalf of the Group to meet high ethical standards, and it discusses ethical issues openly both within the company and with third parties. Our business partners/suppliers are also expected to have high ethical standards consistent with those of the Group. Our internal control system, including our whistleblowing procedures and ethics committee, is designed to ensure that our organisation and employees are able to follow the guidelines.

The ethical guidelines can be found on the Group's website ae.no.

Corporate social responsibility (CSR)
Section 3-3c of the Norwegian Accounting Act, the Norwegian Corporate Governance Committee's Code of Practice and the Global Reporting Initiative (GRI) all establish rules on how Agder Energi must fulfil its corporate social responsibility and communicate what it does. These Norwegian and international guidelines all emphasise the following four areas: human rights, labour, the environment and anti-corruption. Agder Energi's corporate social responsibility strategy sets out the Group's definitions, goals, plan of action, areas of responsibility and reporting structure in relation to CSR.

This annual report includes a separate section with more information about CSR at Agder Energi.

Exemption from the Group's joint guidelines
The operations of some the subsidiaries in the Group are very remote from, and have little in common with, the core activities of Agder Energi, and there are few synergies to be realised by integrating them more closely with the Group's other activities. This may apply to companies in the Group's development portfolio, subsidiary groups or joint ventures. These companies are exempted from some of the Group's joint guidelines. Any exemptions are specified in the relevant internal guidelines, and there are separate internal rules in place of the joint guidelines.

2. Business activities
Agder Energi's purpose is defined in the company's articles of association: "The company's purpose is to: exploit, produce and sell energy; contribute to the safe and efficient supply of energy; and exploit related, profitable business opportunities within the energy and infrastructure sectors."

Agder Energi is one of Norway's biggest energy companies, as well as being a major employer, with over 1,400 employees. The Group's core business consists of hydropower generation, energy management and grid operation. Agder Energi also has extensive business operations in contracting, retail electricity sales and district heating.

Agder Energi has goals and strategies covering the whole group, for each business area and subsidiary, and for certain aspects of its operations.

There is a more detailed description of the Group's business activities in a separate section of this annual report.

3. Equity and dividends
At 31 December 2016, the Group had NOK 4,626 million of equity, giving it an equity ratio of 22.8%. The Board of Directors considers it important for the Group to have sufficient equity to provide financial stability, bearing in mind its stated goals, strategy and risk profile.

The Group's dividend policy reflects the stated aim of giving shareholders a stable and predictable return on their investment through cash dividends. The Group's future dividend policy will depend on parameters such as the Group's strategic priorities, expected cash flow, investment plans, financing requirements, the need for adequate financial flexibility and debt-servicing ability.

Equity raising
Equity increases shall be proposed by the Board and discussed by the AGM. The

Board is not currently authorised to carry out equity increases.

4. Equal treatment of shareholders and transactions with related parties

The Norwegian Corporate Governance Committee's Code of Practice recommends only having one class of shares. Under Norwegian law, private investors can only own up to 1/3 of the shares in hydropower stations that need a licence. Agder Energi therefore has two classes of shares: A and B. Class A shares can only be owned by hydropower licensors. In all other respects, class A and class B shares have equal rights.

For significant transactions between the company and shareholders, Board members, key employees or any of their related parties, the Board shall obtain a valuation from an independent third party.

5. Free negotiability

The Code of Practice recommends that the articles of association should not place any restrictions on the transaction of shares. This recommendation has not been implemented at Agder Energi. The considerations relating to ownership on which the shareholder agreement is based mean that the shares are not freely negotiable.

6. Annual General Meeting

The Code of Practice recommends enabling as many shareholders as possible to exercise their rights by attending the company's Annual General Meeting, and enabling shareholders who cannot attend to vote. This recommendation has not been implemented at Agder Energi. Under the agreements between shareholders, the AGM is only attended by one representative of the shareholder municipalities and one representative of Statkraft Industrial Holding. The Chair of the Board, CEO and external auditor shall also attend. The election committee and Board members are also entitled to attend.

7. Election committee

The articles of association specify that the company shall have an election committee. It consists of five members, who are appointed for a two-year term. Under the current shareholders' agreement, the municipal shareholders can appoint three members, while Statkraft can appoint two. The election committee nominates candidates for the corporate assembly and for the Board of Directors.

The shareholders' agreement contains certain rules on the work of the election committee, designed to ensure compliance with the stipulations of the agreement.

8. Composition and independence of the corporate assembly and Board of Directors

There are 15 members of Agder Energi's corporate assembly. Five representatives are elected by and from the employees, five from the municipal shareholders and five from Statkraft. The corporate assembly is elected for a two-year term, and elects its own Chair and Deputy Chair. The corporate assembly is invested with the authority and entrusted with the tasks specified in current legislation governing limited liability companies.

Details of the current members of the corporate assembly can be found on the Group's website ae.no.

The Code of Practice recommends that the Chair of the Board should be elected by the AGM. This recommendation has not been implemented at Agder Energi. Under the shareholder agreement, twelve people sit on the Group's Board of Directors. Four members, including the Chair and Deputy Chair, are elected at the proposal of the municipal shareholders, four members are elected at the proposal of Statkraft and four at the proposal of the employees. The executive management is not represented on the Board. Board members are elected for a two-year term.

The Board members are presented in a separate section of this annual report. Details of who has attended Board meetings during the year can be found in Note 33 to the consolidated financial statements.

Entitlement of Board members to own shares

The Code of Practice recommends that Board members be encouraged to own shares in the company. This recommendation has not been implemented at Agder Energi. Under the company's articles of association and the shareholders' agreement, neither Board members nor other private individuals are entitled to own shares in Agder Energi.

9. The work of the Board

The Board's tasks are regulated by the Limited Liability Companies Act and other relevant legislation, the company's articles of association and the Board guidelines. The Board works to an annual plan.

The Board appoints the CEO. The Board has drawn up instructions for, and delegated authority to, the CEO.

Audit committee

In accordance with the Stock Exchange Regulations, the Board of Agder Energi has established an audit committee that assists and advises the Board in relation to its supervision of the Group's financial reporting and the effectiveness of its internal control systems.

10. Risk management and internal controls

Agder Energi has designed its risk management principles based on the guidance of the COSO framework for enterprise risk management (2004/2005) and ISO 31000 Risk management (2009), and risk management, internal controls and internal auditing are fully integrated into its corporate governance.

The Group is inevitably exposed to risks in a variety of areas throughout the value chain. The most important risks relate to market price movements, capital scarcity, operational issues, the regulatory environment and adaptation.

In line with the Board's guidelines, the Group performs an annual review of internal controls and risk management in collaboration with the external auditor. Risk assessments and changes to the regulatory environment are reported regularly to the Board, and all subsidiaries produce an annual self-declaration on their internal controls, which also covers the ethical guidelines and corporate social responsibility.

The company's internal audit service helps the Board to exercise good corporate governance by providing an independent, unbiased assessment of the most important risks facing the company and has a mandate to communicate directly with the Board and the Board's audit committee.

The company provides various channels for whistleblowing, one of which is an external one approved by the Norwegian Data Protection Authority.

There is a more detailed description of Agder Energi's internal control and risk management systems in a separate section of this annual report.

11. Board fees

Members of the Board are paid based on their roles. Their fees are not profit-related. No Board members are entitled to a pension, options or termination compensation from the company, apart from the entitlements of the employee representatives on the Board in their capacity as employees of the company.

Details of the fees paid to individual Board members are presented in Note 32 to the consolidated financial statements.

12. Management compensation

Management compensation reflects the Group's guidelines on compensation. Members of the senior management team are not entitled to any options, bonuses or performance-related pay.
Details of the compensation of each individual member of the senior management team are presented in Note 32 to the consolidated financial statements.

13. Information and communication

Agder Energi satisfies all statutory requirements relating to financial reporting and disclosure. The Group considers maintaining good, appropriate lines of communication with its owners and external stakeholders to be a priority.
The thirty municipal shareholders coordinate their activities through two forums established for this purpose: the owners' meeting and the work committee.
The municipal owners understand that the procedures for reporting financial information to Statkraft mean that the latter owner is frequently updated before the municipalities.

The Group's website ae.no provides access to financial reports and other information for investors.

14. Acquisitions and disposals

The shareholders' agreement defines the pre-emptive rights of current shareholders in the event of shares being sold.
The disposal and acquisition of the Group's ownership interests and subsidiaries is handled in accordance with the relevant authorisations at Agder Energi. Disposals and acquisitions can take place as a result of the strategic decisions of companies in the Group or through the wholly-owned subsidiary Agder Energi Venture.

15. External auditor

Ernst & Young was the Group's external auditor in 2015.

The external auditor describes the key points of the audit of the previous financial year to the audit committee and points out any major weaknesses uncovered in the internal controls related to financial reporting.

The external auditor must also:

- confirm his independence each year
- state which services other than statutory auditing that he has provided to the Group during the financial year
- describe any threats to his independence and document any measures implemented to mitigate them

The Group's central finance function is kept informed of any consulting, tax advice and other services provided by the external Group auditor that are not related to the normal auditing process. The external Group auditor is responsible for constantly assessing his own independence.

The external auditor attends the audit committee's meetings, as well as the Board meeting at which the financial statements are approved. The auditor also meets the Board at least once a year without Agder Energi's executive management being present. Norwegian laws and regulations define which types of non-audit services the external auditor can provide to Agder Energi. The auditor's fee is set out in Note 10 to the consolidated financial statements.

ENTERPRISE RISK MANAGEMENT

RISK MANAGEMENT

At Agder Energi, risk management is an integrated part of corporate governance, both at the strategic and operational levels.

Corporate governance
In order to ensure that the instructions of the owners are followed, and that the Group is managed appropriately, the Board has established guidelines for its own activities, instructions at subsidiaries and instructions and an authorisation matrix for the Group CEO. These documents underpin the Group's strategy, which in turn sets out goals and priorities for the Group and its business areas. The Board has also approved a general description of its corporate governance model, which together with the adopted limits on risk exposure and company guidelines provides the basis for the executive management's integrated risk management activities.

Business plans and risk management strategies
As part of the implementation of the Group's strategy and limits on risk exposure, all of the Group's business areas have drawn up business plans. The business plans set out goals, areas of priority and strategies for managing risk. The areas covered are HSE, markets, finance and operational efficiency. The relative priority given to these four elements depends on the nature of the businesses and their business models. Areas that involve trading in financial markets have special risk management strategies and limits on risk exposure.

Risk assessments and risk management
The Group's risk management systems deal with potential positive and negative outcomes in relation to the company's goals. HSE has top priority and is always the first item on the agenda at management meetings, both at a Group level and within the individual companies.

Individual companies are responsible for identifying and monitoring their own risk exposures, and risk management at the operational level takes place across the organisation as an integrated part of normal business activities. Companies report their risk assessments and risk management activities to the Group.

Inter-company technical groups have been set up for HSE, quality, risk management and controlling. They help to strengthen technical expertise and increase efficiency by sharing experiences, coordinating activities and using shared communication channels.

The general analysis of Agder Energi's overall risk exposure takes place at the Group level, based on individual companies' reports combined with the strategic assessments of the senior management team, the technical assessments of shared services and the technical groups, and the Group auditor's comments. The analysis is summarised under three main headings: HSE risk, which covers sickness absence and accidents; profitability, which relates to potential impacts on financial results; and long-term returns on investment, which is particularly sensitive to changes in the regulatory framework. Risk assessments are included in reports to the Board.

Tools and processes
In order to promote integrated corporate governance processes, the Group has implemented a combined governance and information management solution, which helps to further integrate financial and risk management into management processes. We will continue to develop our corporate governance systems in parallel with the development of the Group as a whole.

INTERNAL CONTROLS

Internal control system
Internal controls at the company are implemented through clear guidelines and established processes. This is documented by the fact that governance documents have been made available to all employees through our quality management system "THIS is how we do things at Agder Energi", generally abbreviated to the first word of the Norwegian name – SLIK. SLIK has been established in accordance with the recommendations contained in the COSO framework and in the Code of Practice drawn up by the Norwegian Corporate Governance Committee (NUES).

Through SLIK, the full range of the Group's governance documents – from steering documents through manuals to descriptions of work processes – are easily accessible on the Group's intranet "Energisk". Subsidiaries in the Group implement SLIK across the organisation through their own corporate governance systems with company-specific governance documents.

SLIK is an important foundation for the Group's work on integrated risk management, internal controls and continuous improvement. Systems have been established to ensure that suggestions and proposed changes are recorded and discussed. This helps to continuously develop and improve the company's established practices.

Control mechanisms
Agder Energi has established control mechanisms for critical aspects of processes in order to prevent, or rapidly

correct, any nonconformities. These comprise a combination of manual controls such as check lists, access controls such as electronic approval processes following the four eyes principle and automatic notification systems such as position monitoring for trading portfolios.
In addition, all subsidiaries must submit an annual self-declaration on their internal controls. This is done through a common reporting format that makes it clear what kinds of controls the Group expects its subsidiaries to implement.

Monitoring
In order to pick up on changes that are relevant to the company's business, Agder Energi has introduced an Early Warning system. This system is used to carefully monitor developments in the regulatory environment and markets in which the Group operates, as well as technological developments. The information thus obtained is used in strategic and commercial decision-making procedures. The management and Board are given regular updates, and are notified explicitly of any critical scenarios.

Auditing
Agder Energi has an internal audit service, which assists the Board, senior management team and business areas by providing an independent, unbiased assessment of the Group's risk management procedures. The internal audit service's mandate and guidelines are approved by the Board, which also reviews the internal audit service's annual report and its audit plans.

The external auditor is chosen by the AGM, and is responsible for the financial audit of the parent company, Group and subsidiaries. Agder Energi has a Group-wide agreement with Ernst & Young, which must be used by all subsidiaries for the statutory audit. Companies in the Group's seed and venture capital portfolios may use a different auditor.
Whistleblowing procedures

The Group has several channels for whistleblowing, one of which is independent of the company. There are formal procedures in place for dealing with whistleblower reports. Such reports are treated in strict confidence unless criminal conduct is involved. Agder Energi has established procedures that safeguard the rights of whistleblowers.

In the past, Agder Energi's system for reporting unwanted incidents mainly dealt with HSE issues. In 2015 the system was extended to also cover suggested improvements, leading to an increase in the number of reports on processes unrelated to HSE. During 2015 the system for reporting unwanted incidents and suggested improvements was rolled out to more platforms, including a mobile phone app and a new web-based reporting solution. Here people can report and record nonconformities, observations, suggested improvements, accidents and near misses. The reports are analysed with a view to limiting potential consequences, ensuring that the causes are uncovered and implementing measures for continuous improvement.

RISK MANAGEMENT

The Group is inevitably exposed to risks in a variety of areas throughout the value chain. The most important risks relate to market price movements, capital scarcity, operational issues, the regulatory environment and adaptation.

Market risk
Agder Energi is exposed to significant market risk through the generation and trading of electricity, with its revenues from electricity sales being exposed to electricity price risk and currency risk.
Hedging strategies for the power generation portfolio are subject to limits on how much power can be sold through futures contracts and close monitoring of downside risks. Agder Energi has built up a strong team specialising in energy management, analysis and modelling. Subject to the above constraints, the amount of electricity sold through futures contracts is continuously adjusted, bearing in mind the company's price expectations and generating capacity. The sale of currency futures also takes into account electricity price hedging and the total risk associated with the generation portfolio. The Group's hedging strategy significantly reduced the potential impacts of market movements on profitability in 2016.

At the retail business, which is considered a margin business, financial instruments are used to minimise the electricity price risk and currency risk.

Capital allocation
Agder Energi has a clearly stated goal for its shadow rating, both to ensure that the company is managed well and to provide access to credit markets. With the power sector currently going through a period of heavy investment, both in power stations and grid upgrades, Agder Energi has more investment opportunities than it is capable of pursuing. Agder Energi considers poor capital allocation to be one of the most important strategic risks that it faces during this period. Information used to reach decisions about investment projects is entered in a model for long-term capital allocation, which is designed to ensure optimal use of capital at the Group.

That same model is also used to stress test the Group's profitability and debt-servicing capacity in the critical scenarios reported by the Early Warning system. The Group has drawn up a financial contingency plan in order to map out the financial resources it can draw on should the need arise.

Operational risk
There are operational risks associated with all of the processes in the value chain. The most important ones are the risk of injuries to the Group's employees and third parties, damage to power plants, distribution networks and other assets, negative impacts on the environment and climate, negative impacts on the Group's reputation and the risk of failures in administrative and management processes, including ICT systems. Operational risk is managed through procedures governing activities at operating units, and through contingency plans. Agder Energi participates in the organisation "Kraftforsyningens beredskapsorganisasjon" (KBO) as a power generating company, district heating company and grid operator. This requires it to have appropriate contingency plans and preventive measures in place. For the purpose of risk management, Agder Energi has chosen to establish contingency plans, training exercises and preventive measures even at companies not covered by the KBO requirements.

Regulatory environment
Changes in the regulatory environment and political decisions affect the company's room for manoeuvre and constitute a significant element of the Group's risk exposure. Agder Energi works systematically to understand how the regulatory environment is changing and to exploit any available room for manoeuvre. Reports from the Early Warning system describe external developments and uncertainties, including their potential impacts on the Group, and help to determine the Group's stance on issues and processes relating to the regulatory environment. These stances underpin Agder Energi's messages in consultation processes, and provide a guide for any internal adjustments that need to be carried out by Agder Energi. The Group believes strongly in open dialogue with all relevant decision-makers and in maintaining good relationships with all stakeholders.

Adaptation
Change is coming to the power sector, with a variety of energy solutions being offered to the market and new entrants taking the fight to the traditional players. Companies offering technologies based on batteries, wind, solar, hydro and hydrogen are all competing for space in the electric power market of the future. Agder Energi will need to adapt if it wants to remain a key player in the electric power industry, although we do not yet know the exact nature and extent of those adaptations. The Group is working to prepare itself for this, through measures including a management development programme that focuses on change management and teamwork, and significant investment in frameworks and tools for continuous improvement.

CORPORATE SOCIAL RESPONSIBILITY (CSR)

Renewable energy is part of the solution to the global crisis arising from climate change, and electricity plays a key role in society. Consequently, the Group's core business is inherently sustainable. Nevertheless, we realise the importance of how we conduct our core business at Agder Energi.

Agder Energi's CSR goals:

Agder Energi is one of Norway's largest producers of renewable energy, and its CSR activities are designed to ensure that its operations are run in a sustainable and ethical way.

The Norwegian Accounting Act, Norwegian Corporate Governance Committee's Code of Practice and Global Reporting Initiative (GRI) all establish rules on how Agder Energi must fulfil its corporate social responsibility and communicate what it does. These Norwegian and international guidelines all emphasise the following four areas: human rights, labour, the environment and anti-corruption. Agder Energi integrates social and environmental considerations into its operations, its decision-making processes and the activities of its subcontractors.

Agder Energi has adopted a Group strategy and methodology that establish guidelines for the business areas' activities with respect to CSR.

Agder Energi also has a separate CSR strategy for the Group as a whole, with associated goals. Agder Energi's CSR goals are related to the ten basic principles of the UN Global Compact.

The joint goals for the Group are implemented by the individual companies, which also draw up company-specific goals. Agder Energi requires subcontractors to take into account the Group's CSR goals.

The joint Group CSR goals are:

Human rights
Agder Energi and its subcontractors shall conduct themselves in accordance with the UN's internationally accepted human rights conventions. The Group and its subcontractors shall never be complicit in the breach of human rights.

Labour rights
Agder Energi and its subcontractors shall comply with the eight fundamental conventions of the International Labour Organisation (ILO) on the right to organise, the right to collective bargaining and the elimination of forced labour, child labour and discrimination at the workplace.

The environment
Each company within the Agder Energi Group draws up environmental goals for its operations, reflecting the nature of its business. Subcontractors are required to have procedures in place for environmental protection measures.

Anti-corruption
Agder Energi's goal is that no form of active or passive corruption shall take place within the Group's business activities.

More information about the Group's CSR activities can be found in the section of the annual report on CSR and in the CSR appendix for 2016 on www.ae.no.

DIRECTORS' REPORT

DIRECTORS' REPORT

Agder Energi generates and manages renewable energy. The Group's activities comprise the generation, distribution and sale of energy, as well as providing energy-related services. Our vision is to be one of the leading companies in the Norwegian renewable energy sector. Most of Agder Energi's business is done in southern Norway, and the company has its head office in Kristiansand.

The Group's profit for the year was NOK 251 million in 2016 (controlling interest's share), compared with NOK 1,314 million in 2015. Agder Energi's hydropower stations generated 8,880 GWh of clean energy in 2016 (2015: 8,995 GWh).

HIGHLIGHTS

In February Agder Energi sold its 20.9% ownership interest in Fosen Vind. Due to provisions for possible future adjustments to the transaction price, only a modest gain was recognised on the sale of Fosen Vind. Our 51.2% interest in Bjerkreim Vind was also sold. We also signed an agreement with Nordic Wind Power (NWP) on managing NWP's share of Fosen Vind's variable power generation. NWP owns 40% of Fosen Vind.

The power station Iveland 2 was officially opened in June by the Minister of Petroleum and Energy Tord Lien. With an installed capacity of 44 MW, it will allow the Group to generate an extra 150 GWh of renewable energy each year.

NetNordic acquired IPnett in August. IPnett is a Scandinavian supplier of networking, communication and security solutions, whose turnover was NOK 330 million in 2015. Agder Energi has a 59.4% ownership interest in NetNordic, which forms part of the Group's venture capital portfolio.

In June the decision was taken to install an extra generator at Skjerka power station. Currently its annual production is 650 GWh with just one generator. The new generator will increase the value of the electricity generated by reducing overflow losses and enabling us to shift generation from times with low prices to times with high prices. Having two generators will also give us greater flexibility in conjunction with planned maintenance and reduce the consequences of any outages.

In October, a decision was taken to carry out a major rehabilitation of Evenstad power station, on the River Nidelva. The project, which will cost around NOK 80 million, will involve two generators from 1938 and one from 1957. Most of the project will be completed in 2017.

In November LOS acquired Telge Kraft, one of the leading suppliers of electricity to Swedish businesses, with turnover of almost SEK 1.9 billion in 2016. This acquisition has strengthened LOS's position in the market to supply electricity to Scandinavian businesses. On being acquired, the company was renamed LOS Energy.

Agder Energi has expanded its position in the German market through the acquisition of the companies Nordgröön Energie (61.4%), Markedskraft Deutschland (100%) and Entelios (100%). The latter two companies were acquired in January 2017. The acquisitions give Agder Energi a foothold in the value chain for flexible power, grid and balancing services and trade in renewable energy with Germany.

FINANCIAL PERFORMANCE

Agder Energi's operating revenues in 2016 amounted to NOK 8,668 million, compared with NOK 8,260 in 2015. The main reason for the increase in turnover was that LOS grew its turnover by NOK 1,224 million, although all of the Group's business areas saw turnover rise. In the case of LOS, the increase reflected higher prices and volumes at its Norwegian business as well as the acquisition of Telge Kraft in November 2016. This was partially offset by unrealised gains and losses on electricity and currency contracts, which reduced turnover growth by NOK 1,421 million.

The Group's operating profit was NOK 978 million, compared with NOK 2,309 million in 2015. Once again, unrealised gains and losses were responsible. The Hydroelectric Power and Energy Management business areas grew their underlying operating profit, while the Marketing business area experienced a slight fall.

Net financial expenses rose from NOK 171 million to NOK 179 million. In 2015, financial items benefited from a gain on the disposal of Småkraft. In 2016 there were no equivalent gains, and our share of profit of associates and joint ventures therefore fell by NOK 91 million. Towards the end of 2016, market rates suggested that interest rates are expected to rise. This increased the value of the Group's interest rate swaps. In total, a NOK 78 (10) million valuation gain was recognised on interest rate swaps in 2016. The main component of the NOK 266 (274) million financial expense was interest expenses. Interest on the Group's debt portfolio came to NOK 254 million, down from NOK 277 million in 2015. An increase in interest-bearing liabilities was more than offset by lower interest rates. Heavy investment in projects in the Hydroelectric Power and Network business areas resulted in NOK 28 (31) million being capitalised as construction loans on work in progress. This meant that the interest expense recognised in the income statement was NOK 226 (246) million.

The Group's pre-tax profit amounted to NOK 799 (2,138) million, and its tax expense was NOK 537 (833) million. The tax expense consists of NOK 154 (519) million of income tax and NOK 383 (314) million of resource rent tax. Income tax was lower due to the fall in pre-tax profit. Resource rent tax rose due to an increase in resource rent tax payable and an upward adjustment to estimated deferred resource rent tax. The increase in resource rent tax payable reflected the higher spot value of electricity generated and a rise in the rate at which resource rent tax is payable. The introduction of new tax rates in 2017 resulted in a NOK 31 million gain for 2016.

The Group's net income for the year was NOK 251 million (controlling interest's share), compared with NOK 1,314 million in 2015. The big fall was due to gains and losses on electricity, currency and interest rate contracts. Together they reduced net income by NOK 542 million in 2016, whereas in 2015 they made a positive contribution of NOK 530 million.

Capital structure and cash flow

Agder Energi's assets had a book value of NOK 20,319 million at the close of 2016, compared with NOK 19,240 in 2015. Heavy investment in the Hydroelectric Power and Network business areas was the main reason for a NOK 674 million increase in the value of property, plant and equipment. Meanwhile, current receivables were NOK 1,061 million higher. This was particularly due to an increase in receivables at our retail business. Book equity fell slightly to NOK 4,626 (4,893) million. The Group's equity ratio at year-end was 23% (25%). At the end of the year, the Group had NOK 9,143 (9,029) million of interest-bearing liabilities. In 2016, the interest rate on Agder Energi's debt portfolio fell once again. The average interest rate was 3.0%, down from 3.3% in 2015. The Group had NOK 2,023 (1,969) million of unrestricted liquid assets and undrawn credit facilities.

Cash flow from operations was strong at NOK 1,779 (1,502) million. The reason why cash flow improved, in spite of a significant fall in net income, was that the gains and losses on electricity, currency and interest rate contracts recognised in the income statement are non-cash items. In 2016, Agder Energi converted some of its electricity price hedges from forwards to futures. This was the main reason for the increase in cash flow from operations. Meanwhile, having more capital tied up as trade receivables had a negative impact on cash flow. Our retail business, where both prices and volumes were higher at the end of 2016 than at the end of 2015, was responsible for most of the increase in trade receivables.

In recent years, Agder Energi has invested heavily in hydroelectric power and grid infrastructure. This continued last year, and net investments came to NOK 1,277 million in 2016, against NOK 885 million the previous year. Investment in property, plant and equipment and intangible assets amounted to NOK 1,397 (1,286) million. NOK 142 (90) million of this comprised investments in power distribution infrastructure paid for by customers. On the statement of cash flows investments are presented gross, with customer payments included under net cash provided by operating activities. Over 90% of the investments in property, plant and equipment related to the Network and Hydroelectric Power business areas. Cash received from the sale of associates and joint ventures once again helped to reduce net cash used in investing activities in 2016. The disposal of Fosen Vind made the biggest positive contribution to cash flow. The fact that only a modest gain was recognised in the income statement reflects provisions for possible future adjustments to the transaction price.

NOK 660 (706) million was paid out in dividends. Net cash flow less dividends therefore came to NOK 1,119 (796) million. This means that 88% (90%) of the net investment for the year was financed from cash flow from operating activities, while the remaining 12% (10%) was debt-financed.

Proposed dividends

Agder Energi's dividend policy states that the proposed dividend for 2016 should be set based on the Group's net income for 2015 under NGAAP (Norwegian generally accepted accounting principles). This is to ensure that shareholders receive a predictable dividend income. The minimum dividend payout is set at NOK 400 million. If NGAAP net income exceeds NOK 400 million, 60 percent of the excess shall be distributed as dividends. In 2015, the controlling interest's share of NGAAP net income was NOK 746 million. Based on that, the Board of Directors proposes a dividend payout of NOK 607 million for the 2016 financial year.

The net income for the year of the parent company Agder Energi AS was NOK 785

(688) million under NGAAP. The Board proposes that Agder Energi AS's net income for the year be appropriated as follows:

(Amounts in NOK million)	
Allocated for dividends	607
Transferred to other reserves	178
Total allocations	**785**

Going concern assumption
In accordance with the Norwegian Accounting Act, the Board of Directors confirms that the going concern assumption is justified, and that the annual financial statements have been prepared on that basis.

Accounting principles
In 2016, Agder Energi changed its accounting principles in three areas:

Classification of derivatives on the statement of financial position.
As of 2016 derivatives are classified as non-current if they are not held for trading and expire more than one year after the statement of financial position date. All derivatives were previously classified as current assets or liabilities.

Recognition of long-term electricity contracts
Agder Energi has some contracts for physical energy sales that are settled in euros. In 2016 the Financial Supervisory Authority of Norway ordered Agder Energi to separate out the currency portion of these contracts as an embedded derivative, measured at fair value.

Effect on the income statement of currency derivatives and loans
As of 2016, Agder Energi has chosen to present currency gains and losses as operating items, whereas they were previously considered financial items.

Comparative figures have been restated to reflect the new accounting principles. Also see the note on accounting principles and Note 36 to the annual financial statements.

BUSINESS AREAS

The accounts for the business areas have been prepared under NGAAP.

The Hydroelectric Power and Energy Management business areas
The Hydroelectric Power and Energy Management business areas are responsible for developing, operating and maintaining the Group's hydroelectric power stations, and for optimising revenues from the power generated by the company. They generated 8,880 GWh (8,995 GWh) of power in 2016, if you include power generated by wholly-owned power stations and Agder Energi's share of power generation at part-owned ones. Average annual power generation is 8,100 GWh.

The average spot price in Agder Energi's pricing region (NO2) was 23.3 øre/kWh (17.7 øre/kWh), up 32% over 2015. Concession power and electricity supplied under various long-standing contracts with industrial customers are sold at prices below current spot prices. Nevertheless, gains on physical and cash-settled contracts allowed Agder Energi to achieve an average price of 27.8 øre/kWh (25.8 øre/kWh) on the power that it generated in 2016.

The turnover of these two business areas was NOK 2,658 (2,513) million in 2016. They made an operating profit of NOK 1,457 million, up from NOK 1,350 million in 2015, thanks to net energy sales rising from NOK 2,317 million to NOK 2,471 million. Net energy sales benefited from an increase in the spot value of electricity generated from NOK 1,731 million to NOK 2,097 million, partially offset by a fall in realised gains on hedges from NOK 552 million to NOK 368 million.

As well as paying ordinary income tax, the hydroelectric power business also pays resource rent tax. When calculating resource rent tax, gains and losses on cash-settled contracts are excluded. The higher spot value of electricity generated, combined with a higher tax rate, meant that resource rent tax payable rose by NOK 90 million to NOK 307 million. In addition, estimated deferred resource rent tax rose by NOK 120 million to NOK 155 million, leaving net income at NOK 586 (674) million.

NOK 445 (598) million was invested in 2016, of which NOK 130 (230) million related to investments in new projects. The majority of the latter investments were at the Iveland 2 power station. Test running of Iveland power station started in February 2016, and the plant was officially opened by the Minister of Petroleum and Energy in June 2016. In Åseral Municipality, two new rock-fill dams are being constructed on Lake Skjerkevatn, with completion due in 2018. This project is the main reason why investments required by the authorities reached NOK 187 (201) million in 2016.

The Network business area
The Network business area is responsible for developing, operating and maintaining the transmission and distribution grid in Aust-Agder and Vest-Agder. The business area's operating revenues in 2016 amounted to NOK 1,424 million, compared with NOK 1,161 million in 2015. The increase was due to a higher income cap. The income cap is set by the Norwegian Water Resources and Energy Directorate, and it mainly rose due to one-off factors that positively impacted the

calculation of the permitted revenues of grid operating companies. Higher revenues were the main explanation for why operating profit rose to NOK 417 (212) million. During the first weekend of November, lots of heavy snow and powerful winds resulted in many trees being knocked onto electricity lines. At the worst point, almost 10,000 households were without power. The bad weather caused around NOK 22 million of expenses related to energy not supplied (KILE) and fault resolution. In December the storm Urd resulted in a further NOK 7 million of such expenses. For the year as a whole, the cost of fault resolution and KILE was around NOK 14 million lower than the previous year.

The business area invested NOK 695 (452) million in 2016, of which NOK 519 (299) million related to investments in new projects. NOK 211 (70) million was invested in the smart meter project. The figure for investment also includes NOK 109 (53) million invested in Honna substation. Agder Energi Nett has an option to let Statnett take over the substation once it is completed and operational.

Including NOK 142 (90) million of customer contributions, gross investment in the business area was NOK 837 (543) million.

Marketing and Business Development business area
The Marketing and Business Development business area's turnover was NOK 5,780 (4,188) million in 2016, while operating profit was NOK 71 (108) million). The main companies in this business area are LOS, Otera and Agder Energi Varme. The Group's venture capital portfolio also forms part of the business area.

In June the electricity retailer LOS signed an agreement to acquire Telge Kraft, one of the leading suppliers of electricity to Swedish businesses. The acquisition was completed on 14 November. Telge Kraft has now been renamed LOS Energy. After the acquisition, LOS has balancing responsibility for 23 TWh in the Nordic market. LOS's total turnover in 2016 was NOK 3,503 million, compared with NOK 2,279 million 2015. The increase reflected higher prices and volumes at the company's existing operations, as well as a contribution of around NOK 410 million from the acquired business between the acquisition date and the end of the year. The company's operating profit was NOK 93 (100) million.

Otera supplies contracting services for the installation, operation, maintenance and servicing of electricity, transport and communications infrastructure. The company made an operating loss of NOK 19 (20) million in 2016, on turnover of NOK 1,145 (996) million. The loss was due to Otera Infra, which has performed poorly in recent years. In the first quarter, the company reduced its headcount by around 50 workers. Both Otera's Swedish business and Otera XP were profitable, performing better than in 2015. Otera XP has been sold in 2017, with negligible impact on the income statement.

Agder Energi Varme's turnover in 2016 was NOK 101 (92) million, while its operating profit was NOK 21 (10) million. Some of the improvement was due to a NOK 6 million reversal of previous years' impairments against Sørlandsparken. The company supplied 144 GWh (125 GWh) of energy. Like the previous year, above average temperatures led to less energy than expected being supplied in 2016. However, customer growth helped to push up volumes, and the company signed agreements with Kanalbyen and Kvartal 42 in Kristiansand and Barbu Brygge in Arendal. Electricity price hedges made a positive contribution in the period. The business area invested NOK 21 (25) million.

The Group's venture capital investments are managed through the company Agder Energi Venture. The biggest investments in 2016 were the acquisitions of IPnett and Nordgröön. There were no major disposals during the year. The venture capital portfolio's two biggest investments, NEG and NetNordic, contributed a combined operating profit before depreciation and amortisation (EBITDA) of NOK 31 (52) million, on turnover of NOK 773 (609) million.

CORPORATE SOCIAL RESPONSIBILITY (CSR)

Agder Energi is one of Norway's largest producers of renewable energy, and all of its operations should be run in a sustainable, ethical and socially responsible way.

In its efforts to meet its responsibilities to society, Agder Energi bases its work on globally recognised initiatives and standards, including the UN Global Compact, which promotes sustainable and socially responsible policies, and the conventions of the International Labour Organisation (ILO).

Health and safety
During the year, 11 (13) occupational accidents resulting in injury were recorded. Of these, 7 (6) resulted in total lost time of 374 (88) days. The accident figures are equivalent to a lost time injury frequency (number of LTIs per million work hours) of 3.5 (3.0), a total injury frequency (number of injuries, whether or not they resulted in lost time, per million work hours) of 5.4 (6.4) and an injury severity rate (number of days lost per million work hours) of 185 (43.4). The main reason for the big increa-

se in the number of lost days and the injury severity rate was one accident in January 2016, in which a technician fell out of the cage of a scissor lift while installing road lighting in the Granfoss tunnel.

Agder Energi is constantly striving to achieve its aim of eliminating all injuries, and one of its key health and safety measures in 2016 was the programme "Make it safe". The aims of the programme include raising individual employees' awareness of their own responsibilities and of how their conduct affects the risks involved in their work. The programme has been compulsory for all employees and 17 training events were held between April and July. During the autumn the programme continued with company-specific activities and events.

Reporting unwanted incidents/suggested improvements is another key area where we are constantly looking to improve. In January we rolled out a new system, incorporating a new app and a new online tool for reporting. The number of unwanted incident reports and suggested improvements rose to 1.6 (1.5) per employee in 2016.

In 2016, the Group's sickness absence rate was 3.6%, compared with 3.5% in 2015. Of that, 1.1% (1.3%) was short-term absence and 2.5% (2.2%) was long-term absence (more than 16 days). Total sickness absence has remained relatively stable over the past four years, but short-term absence has been declining, while the opposite is true for long-term absence. The Group aims to have a sickness absence rate below 3%, and for some time we have been working hard to improve the way in which we deal with absences. The companies in the Group have signed up to the Norwegian government's inclusive working life scheme for the period 2014-2018.

Staff and organisational structure
At the close of 2016, the Group had 1,432 (1,294) full-time and temporary employees, representing 1,401 (1,270) full-time equivalents. 25 (27) of these full-time equivalents were trainees. The increase from 2015 mainly reflects the purchase of IPnett by the venture capital business and the acquisition of Telge Kraft by LOS. The parent company had 158 (154) permanent employees at the end of the year.

Women make up 17% (16%) of the Group's employees, and 42% (42%) of the parent company's. The senior management team has one woman and five men. Women occupy 42% (33%) of the seats on the Board.

We recruit, develop and deploy human resources in the way that is best for achieving the Group's goals. This involves offering competitive salaries, ongoing training, continuous improvement and a good and safe working environment, as well as providing strong leadership.

Diversity and equal opportunity
Our ethical guidelines set out how the Group shall be governed and managed. The guidelines also incorporate principles relating to equality and diversity.

Agder Energi shall show respect for individuals, and shall strive proactively for a good and diverse working environment where there is equal opportunity for all. We do not accept any form of discrimination in areas such as pay, promotion and recruitment. This means that people shall not be treated differently, excluded or shown preference based on their gender, age, any disability, sexual orientation, religion, political opinions or national or ethnic origin, and that no other form of discrimination shall be tolerated. Nevertheless, in certain circumstances it may be both legal and justified to treat people differently in order to ensure equal opportunity and diversity.

The project "Equality at the workplace in 2016-2018" commits Agder Energi to a strong equal opportunity agenda. The project aims to help change Southern Norway's reputation by turning the region into a model for how a proactive and systematic approach can ensure equal opportunity and diversity in the workplace. The project is a collaboration between the county governments of Aust-Agder and Vest-Agder and the chamber of commerce in the Kristiansand region.

Ethics and anti-corruption measures
The Group's strategy establishes Agder Energi's values and has a strong focus on ethical conduct. Agder Energi has set up an ethics committee that helps managers and employees to deal with ethical dilemmas.

Clear rules have been established requiring the Group's subcontractors to also conduct their business affairs in a way that complies with accepted Norwegian and international principles and guidelines relating to human rights, labour, the environment and anti-corruption. In order to prevent corruption and misconduct, the Group has set up procedures for reporting and investigating misconduct, as well as whistleblowing channels. An Integrity Due Diligence is also carried out in conjunction with acquisitions.

The environment
The Group's businesses in the hydropower and grid operation sectors are run through wholly-owned and part-owned subsidiaries. These companies operate in accordance with their licences and with a large number of laws and regulations.

Hydroelectric Power
Dams and power stations change the natural environment, but the Group's activities do not have a bigger impact on nature or society than is usual for this kind of business. Furthermore, we make a significant positive contribution to the environment by generating on average 8.1 TWh of clean, renewable energy each year.

Damming river systems can affect the ability of fish to live and reproduce. In order to mitigate this, we have implemented both statutory and voluntary measures in several river systems. In 2016 we did work on the River Mandalselva by Laudal power station, restoring several kilometres of the river almost completely to their natural state. This was done to improve the conditions for salmon. The restoration measures reflect the work done in the environmental design project for the river.

There is a lot of bulbous rush in the rivers in the Agder area. The reasons for this are complex. Agder Energi is participating in a joint regional project to remedy the situation. This project, which has received funding from various sources, is trying to control bulbous rush growth in the region's river systems, as well as understand the causes of the problem. The project is being led by the County Governor of Aust- og Vest-Agder.

The licensing authorities are legally entitled to modify licence terms, including clauses relating to minimum flow and reservoir restrictions. Based on the Norwegian water regulations, Vest-Agder County Council has established a regional water management plan for Agder. One of the important aims is to describe all water resources and establish specific environmental goals for each one. The plan was adopted by the county councils in 2015, and in 2016 it was approved by the Ministry of Climate and the Environment after some amendments. Each of the relevant authorities must decide which measures are needed to achieve the environmental goals that have been set. We expect the Norwegian Water Resources and Energy Directorate to revise various licence terms in view of the plan, but for the moment it is hard to gauge the specific impacts.

Our control centre recorded four (ten) breaches of the rules governing the operation of dams in 2016. No environmental impacts were recorded as a result of these breaches, which were handled in accordance with the current guidelines.

Power grid
The grid operating company is focusing hard on minimising the risk of unwanted environmental incidents. The main tools used to achieve this are training for employees, internal procedures and ensuring compliance with the relevant laws and regulations in force at any given time. In 2016 there was one relatively minor incident in which around 20 litres of transformer oil leaked out. The company has procedures describing how these incidents should be dealt with in order to limit the negative consequences.

District heating
Agder Energi Varme makes an important contribution to promoting the use of green, renewable energy sources. In Kristiansand it does this by using the surplus heat from waste incineration and from a nickel refinery, while in Arendal and Grimstad the heat is generated from biomass. Of the total heat supplied by the company in 2016, 98.7% came from renewable sources that help to reduce emissions of pollutants like CO_2 and NOx.

Agder Energi Varme aims to phase out the use of fossil fuels for its district heating production in normal years, including peak loads. However, in unusual circumstances, emergencies and long cold snaps it may be necessary to use fossil fuels for short periods of time.

Further information about the Group's corporate social responsibility activities can be found in a separate section of this annual report.

RISK MANAGEMENT AND INTERNAL CONTROLS

Risk management and internal controls
The Board has established general guidelines for the Group's corporate governance model. The Group's strategy sets out goals and priorities for the Group and its business areas, which provide the basis for the executive management's integrated risk management activities, together with the adopted authorisations, limits on risk exposure and company guidelines.

As part of the implementation of the Group's strategy and limits on risk exposure, all of the Group's business areas have drawn up business plans. The business plans set out goals, areas of priority and strategies for managing risk. Areas that involve trading in financial markets have their own risk management strategies and limits on risk exposure.

The Group's risk management systems deal with potential positive and negative outcomes in relation to the company's goals. Individual companies are responsible for identifying and monitoring their own risk exposures, and risk management at the operational level takes place across the organisation as an integrated part of normal business activities. General analysis of Agder Energi's overall risk exposure takes place at the Group level and is reported to the Board.

In order to promote integrated corporate governance processes, the Group has implemented a combined governance and information management solution, which helps to further integrate financial and risk management into management processes.

Internal controls at the company are implemented through clear guidelines and established processes that are made available to all employees through our quality management system SLIK. Through

SLIK, all of the Group's governance documents – from steering documents through manuals to descriptions of work processes – are available on the Group's intranet. Subsidiaries in the Group implement SLIK across the organisation through their own corporate governance systems with company-specific governance documents.

Agder Energi has established control mechanisms for critical aspects of processes in order to prevent, or rapidly correct, any nonconformities. These comprise a combination of manual controls, access controls and automatic notification systems. In addition, all subsidiaries must submit an annual self-declaration on their internal controls. Risk management and internal controls at Agder Energi are described in greater detail in this report's section on "Integrated risk management".

Risks

The most important risks relate to market price movements, capital scarcity, operational issues, the regulatory environment and adaptation. There follows a brief description of these risks. Risks and risk management are described in greater detail in this report's section on "Integrated risk management".

Market risk

Agder Energi is exposed to significant market risk through the generation and trading of electricity, with its revenues from electricity sales being exposed to electricity price risk and currency risk. Hedging strategies for the power generation portfolio are subject to limits on how much power can be sold through futures contracts and close monitoring of downside risks. At the retail business, which is considered a margin business, financial instruments are used to minimise the electricity price risk and currency risk.

Capital allocation

Agder Energi has a clearly stated goal of having a shadow rating of BBB+. Agder Energi considers poor capital allocation to be one of the most important strategic risks that it currently faces. A model for long-term capital allocation is designed to encourage optimal use of capital at the Group. The Group has drawn up a financial contingency plan in order to map out the financial resources it can draw on should the need arise.

Operational risk

Agder Energi is exposed to operational risk by all of its processes throughout the value chain. The biggest operational risks relate to project execution and operational activities. Risks can lead to injuries to the Group's employees and third parties, damage to power plants, distribution networks and other assets, negative impacts on the environment and climate, negative impacts on the Group's reputation and the risk of failures in administrative and management processes. Operational risk is managed through procedures governing activities at operating units, inspection procedures and contingency plans. For the purpose of risk management, Agder Energi has chosen to establish contingency plans, training exercises and preventive measures even at companies not covered by "Kraftforsyningens beredskapsorganisasjon" (KBO).

Regulatory environment

Changes in the regulatory environment and political decisions affect the company's room for manoeuvre and constitute a significant element of the Group's risk exposure. Systematic monitoring and analysis is used to describe external developments and uncertainties, including their potential impacts on the Group, and help to determine the Group's stance on issues and processes relating to the regulatory environment. These stances underpin Agder Energi's response to consultation processes, and provide a guide for any internal adjustments that need to be carried out by the Group.

Adaptation

Change is coming to the power sector, with a variety of energy solutions being offered to the market and new entrants taking the fight to the traditional players. In order to prepare for these changes, in autumn 2016 the Group started work on revising its corporate strategy. This process was completed in February 2017. The Group is working to prepare itself for the coming changes, through measures such as its management development programme and significant investment in frameworks and tools for continuous improvement.

SHAREHOLDER INFORMATION

The company's share capital consists of 2,700,000 shares with a face value of NOK 670. Of these, 1,800,000 are class A shares and 900,000 are class B shares. Class A shares can only be owned by shareholders who meet the conditions for being allocated indefinite waterfall licences under the relevant current legislation. Class B shares are freely negotiable.

A shareholders' agreement regulates matters such as pre-emptive rights for existing shareholders in the event of shares in the company being sold. In addition, the municipal shareholders have agreed to coordinate their votes at the AGM.

CORPORATE GOVERNANCE

Matters relating to corporate governance are described in a separate section of this annual report.

RESEARCH AND DEVELOPMENT

The Group's investment in R&D shall lay the foundations for long-term, profitable growth and promote development activities to increase the potential of the core business. Through our ownership interest in Teknova, an institute for applied R&D, we support the research community in the region studying renewable energy. Agder Energi has also participated in a national research centre for green energy: CEDREN.

In 2016 Agder Energi established a research programme to increase our understanding of the challenges that grid operators will face in the future, and the Group has launched a programme to make better use of the tools available to it.

Agder Energi has completed a four-year research project in collaboration with the University of Stavanger. The aim was to give Agder Energi an in-depth understanding of how Norwegian environmental policy relates to renewable energy policy.

EVENTS AFTER THE REPORTING PERIOD

There have been no incidents in 2017 that have a significant impact on the financial statements for 2016. In March 2017 Agder Energi sold its shares in Otera XP AS, with negligible impact on the income statement.

OUTLOOK

Power generation
At the start of 2017, Agder Energi's hydrological reserves (water and snow) were very close to normal. Assuming normal precipitation levels, we therefore expect hydroelectric power generation to be around average in 2017. Electricity prices are determined by the marginal cost of the last (marginal) producer who needs to be used in order for the supply of electricity to satisfy demand. The most important drivers of electricity prices today are the prices of coal, gas and CO_2, as well as hydrological conditions, the weather and wind strength. In 2016, the average spot price was 23.3 øre/kWh. Futures markets indicate that prices in 2017 will remain relatively unchanged from 2016. From 2018 onwards, electricity prices are expected to be lower. The Group's hedging activities once again made a significant positive contribution in 2016, and we expect this to continue, although the contributions will gradually decline. We are therefore likely to achieve lower prices over the coming years.

As we move forward, the two most important drivers of the electric power industry will be the transition from a power system based on fossil fuels to one based on renewable energy in both Europe and the rest of the world, and the move from analogue to digital systems.

The transition from a grid based on fossil fuels to one based on renewable energy will see a growing proportion of European electricity generated by wind and solar power. These renewable energy sources have low short-term marginal costs, and if their market penetration increases in the future, we may see more and more hours during which electricity prices are low. However, it appears that the prices of coal, gas and CO_2 will continue to have the biggest impact on electricity prices until 2020, and probably until 2030. Lower coal, gas and CO_2 prices are the key reason why electricity prices in Norway and the Nordic region have halved since 2011. These prices may go back up, pushing electricity prices up in the process, but new technology, such as the hydraulic fracturing used to extract shale gas, and competition from growing renewable energy sources, mean that a significant increase in prices seems less likely than it did in the past. Wind and solar power are non-dispatchable, and their increasing market penetration is creating a growing need for flexibility in the European power system. This should increase the value of flexibility, on both the supply and demand sides, and the EU is currently developing a new market design that will be better adapted to the new power system.

Technological developments are driving the transition from an analogue system with limited ability to adapt to new technology to a digital system that is capable of adapting rapidly. New digital technology is enabling new forms of communication, new business models and more efficient processes.

Grid operation
A lower income cap at the grid operating company means that net income in 2017 is likely to be lower than in 2016. In 2016 the Norwegian Water Resources and Energy Directorate (NVE) changed how it regulates grid operating companies in a way that will reduce fluctuations in the income cap. Annual variations in the approved costs will be reduced by NVE allowing grid operating companies to use a five-year moving average for pension expenses.
The introduction of a requirement for legal and functional separation at all grid operating companies, combined with a general tightening up of the regulatory framework, is likely to affect the structure of the industry. Thanks to its size and the improvements that it has already introduced, Agder Energi is in a strong position to deal with the coming structural changes.

New digital systems are creating opportunities to improve the ways in which business operate and invest, and our grid operating company is focusing hard on implementing the changes needed to become a modern, forward-looking business.

Marketing and business development
The prospects of the companies in our Marketing and Business Development area will depend on changes to the regulatory framework, greater customer-orientation and technological developments.

The retail electricity provider LOS performed strongly in 2016. The company achieved significant customer growth amongst businesses, and we expect this to continue in the company's main markets in Norway and Sweden. Business customers are served by LOS Energy, whose business concept is based on becoming its customers' preferred energy partner. We have further strengthened this part of our business by the acquisition of a Swedish company and by establishing subsidiaries throughout the Nordic region.
We expect our contracting business Otera to achieve growth in its main markets – electrical infrastructure and transportation – in both Norway and Sweden. This is creating opportunities, but new players are entering the market and competition is increasing in some areas. The company will therefore have to focus on operational efficiency, adapting to the market and profitable growth in new areas.

Our district heating business Agder Energi Varme has developed a simpler system that uses warm tap water as an energy carrier, which makes water-based energy more competitive for blocks of flats. Along with densification in areas with established infrastructure, expanding the supply of cooling energy in Kristiansand will also play a key role in enabling continued growth in the sale of heating energy to commercial buildings.

Kristiansand, 29 March 2017
Board of Directors of Agder Energi AS

Lars Erik Torjussen
Chair

Tine Sundtoft | Jill Akselsen | Leif Atle Beisland | Steinar Bysveen

Marit Grimsbo | Steinar Asbjørnsen | Siw Linnea Poulsson | Johan Ekeland

Øyvind Østensen | Tore Kvarsnes | Gro Granås | Tom Nysted
CEO

BOARD OF DIRECTORS


Lars Erik Torjussen


Tine Sundtoft


Leif Atle Beisland


Steinar Bysveen


Marit Grimsbo


Steinar Asbjørnsen


Siw Linnea Poulsson


Johan Ekeland


Øyvind Østensen


Tore Kvarsnes


Gro Granås


Jill Akselsen

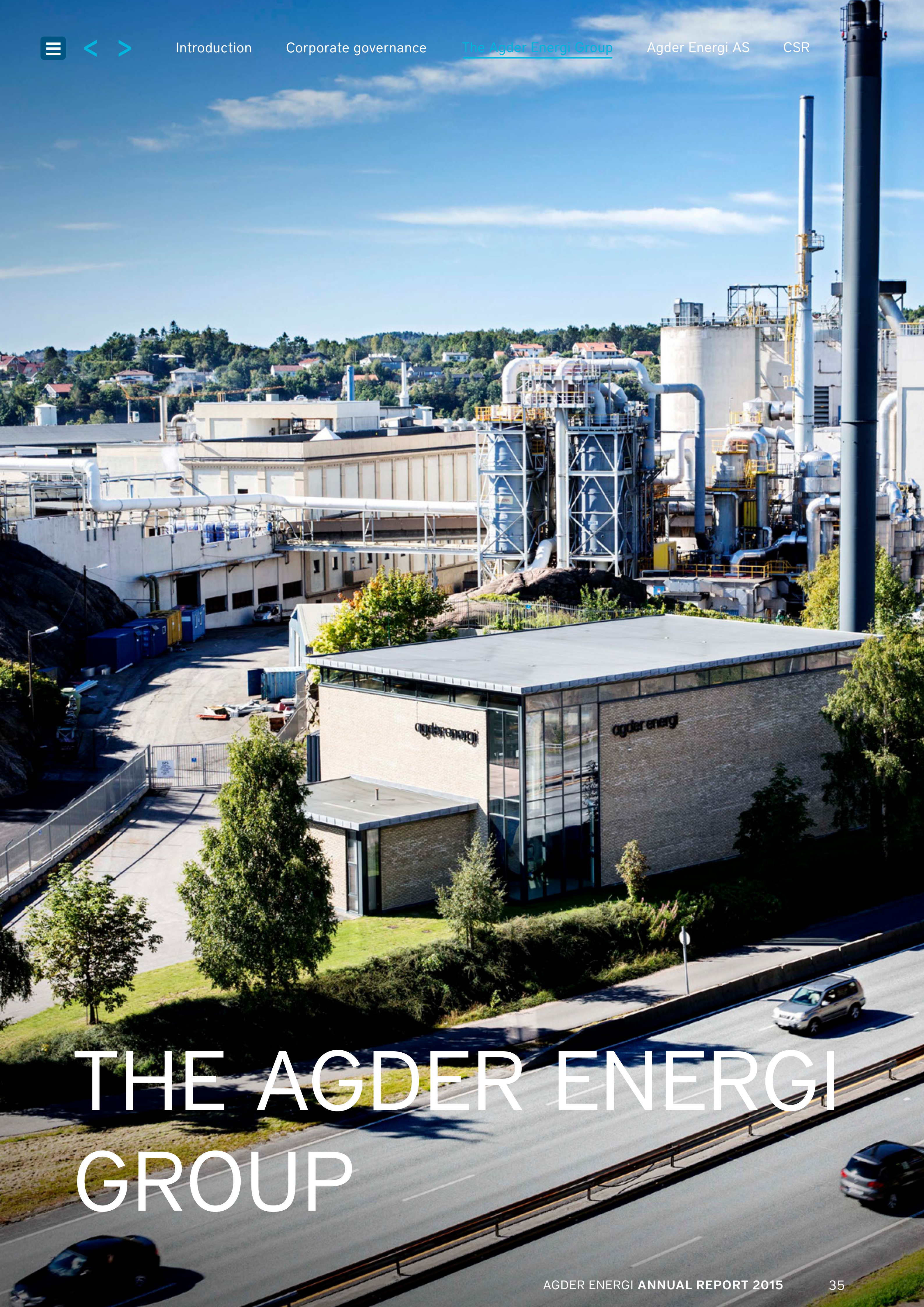
Declaration pursuant to Section 5-5 of the Securities Trading Act

We confirm that, to the best of our knowledge, the annual financial statements have been prepared in accordance with current accounting standards, and that the information contained therein provides a true and fair view of the assets, liabilities, financial position and overall results of the parent company and of the Group. We also confirm that the annual report gives a true and fair view of the performance, results and financial position of the parent company and the Group, as well as describing the most important areas of risk and uncertainty facing the Group's businesses.

Kristiansand, 29 March 2017
Board of Directors of Agder Energi AS

Lars Erik Torjussen
Chair

Tine Sundtoft	Jill Akselsen	Leif Atle Beisland	Steinar Bysveen
Marit Grimsbo	Steinar Asbjørnsen	Siw Linnea Poulsson	Johan Ekeland
Øyvind Østensen	Tore Kvarsnes	Gro Granås	Tom Nysted CEO



THE AGDER ENERGI GROUP

THE AGDER ENERGI GROUP

FINANCIAL STATEMENTS

Click on the text to go to the page of your choice

INCOME STATEMENT

(Amounts in NOK millions)	Note	2016	2015 (restated)
Energy sales	2	6 044	4 672
Transmission revenues	3	1 143	1 071
Other operating revenues	4	2 100	1 715
Unrealised gains and losses on energy and currency contracts	6	-619	802
Total operating revenues		**8 668**	**8 260**
Energy purchases	2	-3 429	-2 200
Transmission expenses		-258	-247
Other raw materials and consumables used	4	-1 317	-1 006
Employee benefits	7	-1 014	-900
Depreciation and impairment losses	13	-608	-577
Property taxes and licence fees	8	-211	-214
Other operating expenses	9	-853	-807
Total operating expenses		**-7 690**	**-5 951**
Operating profit		**978**	**2 309**
Share of profit of associates and joint ventures	11	-7	84
Financial income	11	16	9
Unrealised gains and losses on interest rate contracts	11	78	10
Financial expenses	11	-266	-274
Net financial income/expenses		**-179**	**-171**
Profit before tax		**799**	**2 138**
Income tax	12	-154	-519
Resource rent tax	12	-383	-314
Tax expense		**-537**	**-833**
Net income		**262**	**1 305**
Of which attributable to non-controlling interests	35	11	-9
Of which attributable to controlling interest		251	1 314
Earnings per share/Earnings per share, diluted (NOK)		93	487

COMPREHENSIVE INCOME

(Amounts in NOK million)	Note	**2016**	2015 (restated)
Net income		**262**	**1 305**
Other comprehensive income			
Cash flow hedges	29	21	8
Translation differences		-10	1
Tax impact	12	-5	2
Total items that may be reclassified to income statement		**6**	**11**
Remeasurements of pensions	22	191	487
Tax impact	12	-55	-151
Total items that will not be reclassified to income statement		**136**	**336**
Total other comprehensive income		**142**	**347**
Comprehensive income		**404**	**1 652**
Of which attributable to non-controlling interests	35	13	-14
Of which attributable to controlling interest		391	1 666

STATEMENT OF FINANCIAL POSITION

(Amounts in NOK millions)	Note	31/12/16	31/12/15 (restated)	01/01/2015 (restated)
Deferred tax assets	12	300	374	415
Intangible assets	14	476	277	223
Property, plant and equipment	15	13 817	13 143	12 534
Investments in associates and joint ventures	16	37	61	297
Derivatives	26	884	1 931	931
Other non-current financial assets	17	1 081	819	455
Total non-current assets		**16 595**	**16 605**	**14 855**
Inventories		142	37	38
Receivables	18	2 573	1 512	1 538
Derivatives	26	466	613	444
Cash and cash equivalents	19	543	473	54
Total current assets		**3 724**	**2 635**	**2 074**
TOTAL ASSETS		**20 319**	**19 240**	**16 929**
Paid-in capital	20	1 907	1 907	1 907
Retained earnings		2 668	2 928	2 000
Non-controlling interests		51	58	83
Total equity		**4 626**	**4 893**	**3 990**
Deferred tax	12	1 109	1 213	720
Provisions	21	1 776	1 348	1 475
Derivatives	26	465	708	518
Interest-bearing non-current liabilities	23	7 192	7 284	7 115
Total non-current liabilities		**10 542**	**10 553**	**9 828**
Interest-bearing current liabilities	23	1 951	1 745	1 184
Tax payable		630	463	498
Derivatives	26	206	216	192
Other non-interest-bearing current liabilities	24	2 364	1 370	1 237
Total current liabilities		**5 151**	**3 794**	**3 111**
TOTAL EQUITY AND LIABILITIES		**20 319**	**19 240**	**16 929**

Kristiansand, 29 March 2017
Board of Directors of Agder Energi AS

Lars Erik Torjussen
Chair

Tine Sundtoft

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Øyvind Østensen

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Gro Granås

Tom Nysted
CEO

STATEMENT OF CASH FLOWS

(Amounts in NOK million)	Note	**2016**	2015 (restated)
Cash flow from operating activities			
Profit before tax		799	2 138
Depreciation and impairment losses	13	608	588
Unrealised gains/losses on energy, currency and interest rate contracts	6, 11, 36	540	-812
Share of profit of associates and joint ventures	16	7	-84
Tax paid		-440	-484
Change in trade receivables	18	-431	-41
Change in trade payables	24	166	107
Change in net working capital, etc.		530	90
Net cash provided by operating activities		**1 779**	**1 502**
Investing activities			
Purchase of property, plant, equipment and intangible assets	14, 15	-1 255	-1 196
Purchase of property, plant and equipment paid for by customers	14, 15	-142	-90
Purchase of businesses/financial assets		-155	-81
Net change in loans		11	105
Sale of property, plant, equipment and intangible assets		17	11
Sale of businesses/financial assets		247	366
Net cash used in investing activities		**-1 277**	**-885**
Financing activities			
New long-term borrowings		1 113	1 450
Repayment of long-term borrowings		-1 199	-1 108
Net change in current liabilities		314	166
Dividends paid		-660	-706
Net cash used in financing activities		**-432**	**-198**
Net change in cash and cash equivalents		**70**	**419**
Cash and cash equivalents at start of period		473	54
Cash and cash equivalents at end of period	19	543	473

STATEMENT OF CHANGES IN EQUITY

(Amounts in NOK millions)	Note	Paid-in capital	Cash flow hedges	Translation differences	Retained earnings	**Total for controlling interest**	Non-controlling interests	**Total equity**
Equity reported in financial statements at 31/12/2014		**1 907**	**-143**	**10**	**1 903**	**3 677**	**83**	**3 760**
Adjustment to long-term electricity contracts	36	0	0	0	230	230	0	230
Equity at 01/01/2015 (restated)		**1 907**	**-143**	**10**	**2 133**	**3 907**	**83**	**3 990**
Net income for the year		0	0	0	1 314	1 314	-9	1 305
Other comprehensive income		0	10	6	336	352	-5	347
Dividends paid		0	0	0	-700	-700	-6	-706
Other changes in equity		0	0	0	-38	-38	-5	-43
Equity at 31/12/2015		**1 907**	**-133**	**16**	**3 045**	**4 835**	**58**	**4 893**
Equity at 01/01/2016		**1 907**	**-133**	**16**	**3 045**	**4 835**	**58**	**4 893**
Net income for the year		0	0	0	251	251	11	262
Other comprehensive income		0	16	-12	136	140	2	142
Dividends paid		0	0	0	-660	-660	0	-660
Other changes in equity		0	0	0	9	9	-20	-11
Equity at 31/12/16		**1 907**	**-117**	**4**	**2 781**	**4 575**	**51**	**4 626**

ACCOUNTING PRINCIPLES

General information
Agder Energi's activities comprise the generation, distribution and sale of energy, as well as providing energy-related services. Most of the Group's operations are in southern Norway. The parent company Agder Energi AS is a Norwegian limited liability company, founded and domiciled in Norway. The address of the company's head office is Kjøita 18, 4630 Kristiansand.

Basis of preparation
Agder Energi's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as approved by the EU. The consolidated financial statements apply the historical cost principle, except in the cases of certain financial assets and liabilities (including cash-settled derivatives) that are measured at fair value through profit or loss.

Changes to accounting principles and correction of errors
In 2016, Agder Energi made three changes to its accounting principles:

Classification of derivatives on the statement of financial position.
In the past, Agder Energi has classified all currency, electricity and interest rate derivatives as current assets or current liabilities. Agder Energi changed this principle in 2016, and derivatives are now classified as non-current if they are not held for trading and expire more than one year after the statement of financial position date.

Recognition of long-term electricity contracts.
Agder Energi has some contracts for physical energy sales that are settled in euros. Previously, Agder Energi did not consider the currency portion of these contracts to be an embedded derivative that had to be separated from the host contract and accounted for separately as an independent derivative. Under the old accounting practice, these contracts were recognised in their entirety on delivery. In June 2016, the Financial Supervisory Authority of Norway ordered Agder Energi to separate out the currency portion as an embedded derivative measured at fair value. Agder Energi has decided to comply with the Financial Supervisory Authority's order without appealing it.

Presentation of the effect on the income statement of foreign currency derivatives and loans.
Previously, Agder Energi classified unrealised and realised gains and losses on foreign currency derivatives and loans as financial items. Currency futures and foreign currency loans are used to manage the currency risk associated with future revenues from electricity sales. This link has become stronger in recent years and means that presenting currency gains and losses as operating items will provide more relevant information.

Comparative figures have been restated using the new principles. Also see Note 36.

SUMMARY OF THE MOST IMPORTANT ACCOUNTING PRINCIPLES

Consolidation principles
The consolidated financial statements present the overall financial performance and position of the parent company and its subsidiaries when considered as a single entity. Companies in which the Group holds a controlling interest are consolidated. A controlling interest normally exists if Agder Energi holds more than 50% of voting rights, either through an ownership interest or through agreements. Subsidiaries acquired or established during the year are consolidated from the date of acquisition or establishment. The non-controlling interests' share of profit or loss after tax is specified on a separate line.

All of the financial statements of individual companies included in the consolidated financial statements have been restated to ensure that equivalent statement of financial position items and transactions are treated consistently throughout the Group. All intra-group transactions, receivables, liabilities and unrealised gains and losses have been eliminated in the consolidated financial statements.

Acquisitions
Purchase price allocation is performed for the date when control was obtained. This is when the risks and rewards of ownership have been transferred, and normally coincides with the acquisition date. Transaction costs are not included in the purchase price, and are instead expensed as incurred. The cost of shares in subsidiaries is eliminated against equity on the acquisition date. Bargain purchase gains are based on fair values. These gains are attributed to any of the company's assets and liabilities with fair values that differ from their carrying amounts. A provision is made for deferred tax relating to any such asset write-ups or write-downs. Any part of the bargain purchase gain that cannot be attributed to identifiable assets and liabilities is treated as goodwill. No provision is made for deferred tax on goodwill. If the value of the assets and liabilities transferred in conjunction with an

acquisition exceeds the purchase price, the difference is recognised through profit and loss under other operating revenues.

Non-controlling interests in the acquiree are measured either at fair value, or as the non-controlling interest's share of the acquiree's net identifiable assets. The measurement method should be chosen individually for each business combination.

For step acquisitions, previously held assets are measured at fair value at the date control is obtained. Any gains or losses are recognised through profit or loss.

Changes in ownership interests in subsidiaries
Changes in the parent's ownership interest in a subsidiary that do not result in loss of control are accounted for as equity transactions.

Joint operations
Ownership interests in part-owned power stations and water management associations are classified as joint operations and are accounted for by including the Group's share of assets, liabilities, revenues and expenses on the relevant lines in the consolidated financial statements (proportionate consolidation).

Joint ventures and associates
A joint venture is a company that is subject to a contractual arrangement whereby two or more parties have joint control. Special rules on voting rights may give owners more or less control than their ownership interests would imply.

Associates are companies over which the Group wields significant influence. Normally this applies to companies in which it has a 20-50% ownership interest.

Joint ventures and associates are accounted for using the equity method. The Group's proportionate share of the profit or loss for the year of these entities is recognised under financial income/expenses. On the statement of financial position, these investments are classified as non-current financial assets, and are carried at cost adjusted for the Group's share of retained earnings since acquisition, impairment losses and equity transactions at the companies.

Revenues
Recognition of revenues – general
Proceeds from the sale of goods and services are recognised as revenues when the goods or service are delivered.

Energy sales
Revenues from the sale of electricity are recognised when the electricity is supplied. Realised gains or losses on physical and cash-settled energy and currency contracts are presented as energy sales under operating revenues. Changes in the fair value of currency contracts, cash-settled energy contracts and physical energy contracts, which under IAS 39 are considered financial instruments, are presented as unrealised gains and losses on energy and currency contracts under operating revenues. When a contract is closed out, the associated unrealised gain or loss is reversed, and the realised gain or loss is presented under energy sales. Realised gains or losses on trading portfolios are presented net as energy sales.

Transmission revenues
Grid operation is subject to the regulations of the Norwegian Water Resources and Energy Directorate (NVE) on income caps. Each year, NVE specifies an income cap for each individual grid operator. The revenues recognised in the income statement represent the volumes delivered during the financial period multiplied by the applicable tariff. The difference between the income cap and the actual tariff revenues creates a surplus or shortfall. This surplus or shortfall is recognised through profit or loss as it arises. Details of the surplus or shortfall are given in Note 3.

Long-term contracts
Revenues associated with long-term manufacturing contracts are recognised in accordance with the percentage of completion method. Under this method, revenues and profit are recognised gradually as the work related to the contract is completed. The percentage of completion is normally estimated by looking at incurred expenses as a percentage of total expected project expenses. Accrued revenues are included on the statement of financial position under current receivables, while advance payments received are included under current liabilities.

Disposal of property, plant and equipment
When disposing of property, plant and equipment, any gain or loss is calculated by comparing the sales price with the remaining carrying amount of the asset sold. Any gain or loss is presented under other operating revenues or other operating expenses respectively.

Green electricity certificates
Green electricity certificates received as a result of qualifying electricity generation are recognised at fair value under energy sales when the electricity is generated. Green electricity certificates held by the electricity generation business are presented as inventories on the statement of financial position, and are measured at the lower of their value when acquired and current fair value less costs to sell.

When the retail business sells electricity, the estimated cost of purchasing electricity certificates to cover the volume sold is expensed. A provision for volumes not covered by purchased electricity certificates is included on the statement of financial position under current liabilities measured at fair value. Green electricity certificates purchased are measured at cost. If the company has more electricity certificates than it needs to cover the volume of electricity sold, the excess is presented under inventories. Any such excess is measured at the lower of cost and fair value less costs to sell.

Foreign currency
The consolidated financial statements are presented in Norwegian kroner (NOK), which is also the functional currency of the parent company and main subsidiaries. Subsidiaries with functional currencies other than NOK were only responsible for a small proportion of the Group's turnover in 2016. These are translated into NOK using the current-rate method.

When preparing the accounts of the individual companies, transactions in currencies other than the functional currency of the company are translated into the functional currency using the exchange rate on the date of transaction. Foreign currency-denominated statement of financial position items are measured using the exchange rate on the statement of financial position date. Translation differences are recognised under financial income/expenses. This does not apply to euro-denominated loans used to secure future revenues from electricity sales in that currency. Translation differences relating to these loans are classified as operating gains or losses.

Financial instruments
The Group designates financial instruments in the following categories: a) Financial assets and liabilities at fair value through profit or loss; b) Loans and receivables; c) Financial liabilities at amortised cost. Designation is based on the type of instrument and its purpose. Instruments are classified when they are acquired.

a) Financial assets and liabilities at fair value through profit or loss
Financial assets and liabilities at fair value through profit or loss are financial instruments held for trading purposes. All derivatives must be designated as held for trading, unless they are part of an accounting hedge. For derivatives other than cash flow hedges, unrealised gains and losses are recognised through profit or loss.

Physical contracts for the purchase and sale of energy, CO_2 quotas and electricity certificates that form part of the trading portfolio are accounted for as financial instruments. Like their cash-settled equivalents, they are measured at fair value.

Physical contracts for the purchase and sale of energy, CO_2 quotas and electricity certificates that have been entered into for the purpose of obtaining electricity needed by the Group, or as a means of selling the electricity it generates, and which do not contain embedded derivatives, are normally recognised on delivery. Contracts entered into for different purposes are recorded in separate books.

Agder Energi has some contracts for physical energy sales that are settled in euros. The contractual obligation to supply electricity is met using electricity generated by the Group, so the contracts do not fall within the scope of IAS 39. However, the fact that the contracts are settled in euros means that they contain an embedded foreign currency derivative. Under the criteria set out in IAS 39, the foreign currency derivatives are not closely related to the electricity contract. They are therefore separated from the contracts for physical delivery and measured at fair value.

Presentation of derivatives in the income statement and statement of financial position
Derivatives are presented on separate lines in the statement of financial position under assets and liabilities respectively. Derivatives are presented gross on the statement of financial position, unless there exists a legal right to offset, and that right will actually be used when the contracts are settled. Electricity contracts traded in markets satisfy the offsetting requirements. Contracts with the same counterparty expiring in the same calendar year are therefore presented net in the statement of financial position.

In the income statement, gains and losses on the fair value of derivatives are shown on separate lines. Gains and losses on energy and foreign currency derivatives used as economic hedges of operating exposure are presented under operating revenues, while gains and losses on interest rate derivatives are presented under financial income/expenses. When they are realised, the proceeds from the sale of electricity and foreign currency derivatives are included under energy sales. Regular payments relating to interest rate swaps are presented as a financial expense.

b) Loans and receivables
On initial recognition, loans and receivables are measured at fair value plus directly attributable transaction costs. Subsequently loans and receivables are carried at amortised cost using the effective interest rate method.

Trade and other receivables with an insignificant interest component are recognised at their nominal value less any impairment losses. An impairment loss is recognised if there is objective evidence that the Group will not receive payment in accordance with the original conditions.

c) Financial liabilities at amortised cost
On initial recognition, financial liabilities are measured at fair value plus directly attributable transaction costs. Subsequently financial liabilities are carried at amortised cost using the effective interest rate method.

Hedging
In order to manage its risk exposures arising from fluctuations in electricity prices, exchange rates and interest rates, the Group uses euro-denominated loans and derivatives, such as futures contracts for electricity and currency, as well as interest rate swaps and basis swaps

(combined interest rate and currency swaps). The purpose of these instruments is to secure cash flows from future electricity generation, as well as to avoid large variations in the interest expense payable on the Group's debt portfolio.

Most of the Group's hedging instruments do not meet the documentation requirements established by the accounting standards for hedge accounting. These contracts are therefore not accounted for as hedges, even if they have been entered into as hedges. These kinds of hedges are treated as financial assets or financial liabilities measured at fair value through profit or loss.

Certain interest rate swaps, including basis swaps, do meet the conditions for hedge accounting under IAS 39, and they are accounted for accordingly. These hedging relationships are presented in the consolidated financial statements as follows:

Cash flow hedges
In so far as possible, Agder Energi uses cash flow hedges to eliminate its exposure to fluctuations in cash flows. This applies to a small proportion of the Group's variable-rate loans, which are swapped to a fixed rate.

The effective part of gains or losses on hedging instruments is recognised under other comprehensive income in the statement of comprehensive income, whereas the ineffective part is recognised under financial income/expenses in the income statement. Any effective gain or loss on a hedging instrument is recycled to profit or loss if the hedged item is recognised in the income statement.

Fair value hedges
Agder Energi uses fair value hedges to hedge the currency risk associated with its USD-denominated interest-bearing liabilities and the interest rate risk on fixed-rate loans.

The Group's fair value hedges are derivatives, which are measured at fair value through profit or loss. The hedged items are loans whose carrying amounts fluctuate in parallel with the hedged risks. These changes in value are also recognised in profit or loss. Changes in the value of hedged items and hedges are recognised under financial income/expenses.

Compensation
The Group pays compensation to landowners for the right to use waterfalls and land. Compensation is also paid for any damage to forests, land, etc. The compensation is a combination of one-off payments and perpetual charges or obligations to supply electricity free of charge. The present value of annual charges and the cost of supplying free electricity are presented under provisions. If a contract to supply free electricity includes the option of settlement in cash, it is considered a derivative and is measured at fair value through profit or loss. On initial recognition, the cross entry of the provision is a hydropower licence, which is presented under property, plant and equipment. In subsequent periods, annual compensation payments, as well as changes to provisions, are considered other operating expenses, whereas one-off payments are deducted from the provision.

Concession power and licence fees
Each year, the Group supplies electricity to local municipalities at a price set by the Norwegian parliament. Revenues from this "concession power" are recognised as they are earned, based on the regulated price. The present value of the future loss of revenue due to the difference between the regulated price and spot price is not included on the statement of financial position, but it is presented in Note 2.

Each year, the Group pays licence fees to the central government and municipalities for the increase in generating capacity achieved by damming and piping water. Licence fees are expensed as they are incurred. The capitalised value of future fees is not included on the statement of financial position, but is calculated and presented in Note 8.

Tax
All of the companies in the Group have to pay ordinary income tax. In addition, Agder Energi Vannkraft is covered by the special rules on the taxation of companies that generate electricity. The Group therefore pays income tax, natural resource tax and resource rent tax.

Income tax
Income tax is calculated in accordance with standard tax rules. The tax expense in the income statement consists of tax payable and changes in deferred tax liabilities/assets. This does not apply to deferred tax liabilities/assets relating to items recognised as other comprehensive income and expenses in the statement of comprehensive income or directly in equity, or to deferred tax liabilities/assets arising in conjunction with business combinations. Tax payable is calculated on the taxable profit for the year. Deferred tax liabilities/assets are calculated on the basis of the temporary differences that exist between accounting and tax values, as well as the tax effect of any loss carryforwards. Deferred income tax liabilities and assets that are expected to be reversed in the same period are offset against each other. As assessment is made of the extent to which it will be possible to utilise deferred tax assets, and any amount that can probably be utilised is included on the statement of financial position.

Natural resource tax
The natural resource tax payable is not affected by profit, and is calculated on the basis of the individual power station's average generation over the past seven years. The tax is charged at 1.3 øre/kWh. Natural resource tax can be deducted from income tax. As a result, natural resource tax normally neither affects Agder Energi's tax expense nor its tax payable.

Resource rent tax
Resource rent tax is calculated by applying the Norwegian Taxation Act's special rules on the taxation of companies that generate electricity. The expense in the income statement consists of resource rent tax payable and changes in deferred resource rent tax liabilities/assets.

Resource rent tax is profit-related, and is payable at a rate of 33% of the net resource rent estimated for each individual power station. The resource rent is estimated from the hourly output of the individual power station, multiplied by the spot price for the corresponding hour. In the case of concession power and power supplied under long-term contracts with a duration of more than seven years, the actual contract price is applied. Actual operating expenses, tax-deductible depreciation and a tax-free allowance are deducted from the estimated gross rent in order to reach the net taxable resource rent. The tax-free allowance is determined each year by multiplying the tax value of the power station's property, plant and equipment by a standard interest rate set by the Ministry of Finance. In 2016 the standard interest rate was 0.5%. Positive and negative resource rent can be offset between power stations. This only applies to negative resource rent tax arising in or after 2007. Negative resource rent that arose before 2007 can only be offset at the power station where it arose. Any negative resource rent can be carried forward with interest to be offset against future positive resource rent. The interest rate applied to carryforwards was 1.9% for 2016.

Deferred resource rent tax assets and liabilities
When calculating the deferred tax liabilities and assets to be included on the statement of financial position, temporary differences and part of the accumulated negative resource rent are taken into account. The part of the negative resource rent tax that can be offset against temporary differences is capitalised on the statement of financial position, as is the part that is likely to be used within a 10-year time frame. Tax-free allowances are treated as a permanent difference in the year for which they are calculated, and do therefore not affect the calculation of deferred resource rent tax.

Deferred resource rent tax liabilities and assets are presented gross.

Classification of current and non-current assets and liabilities
An asset is classified as a current asset if it fulfils one of the following criteria:
a) it is expected to be realised in, or is held for sale or consumption in, the ordinary business cycle;
b) it is primarily held for trading;
c) it is expected to be realised within twelve months of the end of the reporting period, or:
d) it is a form of cash or cash equivalent, unless it is subject to restrictions which mean that it cannot be realised or used to settle a liability within twelve months of the end of the reporting period.

A liability is classified as a current liability if it fulfils one of the following criteria:
a) it is expected to be settled as part of the ordinary business cycle;
b) it is primarily held for trading;
c) it is due for payment within twelve months of the end of the reporting period; or:
d) the company has no unconditional right to delay settlement of the liability beyond twelve months after the statement of financial position date.

All other assets are classified as non-current assets and all other liabilities are classified as non-current liabilities.

For non-current liabilities, any principal repayments due over the first year are presented as current liabilities.

Intangible assets
Intangible assets, including goodwill, are carried at cost less accumulated depreciation and impairment losses, provided that they meet the criteria for capitalisation. Intangible assets with an uncertain useful life, including goodwill, are not depreciated, and are instead tested annually for impairment.

Property, plant and equipment
Investments in production facilities and other property, plant and equipment are carried at cost, less accumulated depreciation and impairment losses. Hydropower licences are classified as property, plant and equipment. Depreciation starts when the assets are available for use. The acquisition cost of property, plant and equipment includes the expenses involved in acquiring and preparing the asset for use. For large investments, interest payable is calculated using the average interest rate on the Group's borrowings during the investment period, and the interest is capitalised as part of the acquisition cost. Costs incurred after the item entered service, such as regular maintenance, are expensed.

Costs accrued in relation to internal investments within the Group are capitalised. The acquisition cost only includes directly attributable costs.

Depreciation is calculated using the straight-line method over the expected useful life. The residual value is taken into account when calculating annual depreciation. Sites are not depreciated. Hydropower licences are not depreciated either, as they do not revert to public ownership. Major maintenance activities that do not add anything to property, plant and equipment (periodic maintenance) are capitalised and depreciated over the maintenance interval. The estimated useful life, depreciation method and residual value are reassessed each year.

When assets are sold or disposed of, their carrying amount is deducted, and any loss or gain is recognised in the income statement under other operating expenses and revenues. Repairs and regular maintenance are expensed as incurred. Additions or improvements are added to the asset's cost and are depreciated at the same rate as the asset. The distinction between maintenance and upgrades/improvements is judged on the basis of the condition of the asset when it was acquired by the company. Expenses that lead to significantly higher cash flows by increasing the useful life of property, plant and equipment and/or reducing maintenance costs, and that also improve functionality, are considered reinvestments.

If new parts are capitalised on the statement of financial position, the carrying amount of the parts that were replaced is deducted, and any gain or loss is recognised in profit or loss.

Each year, Agder Energi Nett receives customer contributions that fully or partially pay for new connections or grid upgrades. These contributions are presented on the statement of financial position as unearned revenue under provisions, and are taken to income over the useful life of the relevant investments.

Leases
Almost all of Agder Energi's leases are operational leases. Rent payable under these leases is expensed as it arises.

Impairment losses
Property, plant, equipment and intangible assets that are depreciated are also tested for impairment if there is any indication to suggest that future cash flows cannot justify the carrying amount. Any difference between the carrying amount and the recoverable amount is expensed in the income statement. The recoverable amount is the higher of fair value less costs to sell and the utility value.

When testing for impairment, non-current assets are grouped at the lowest possible level at which it is possible to identify independent cash flows (cash flow generating units). Most of the Group's non-current assets are held by the hydroelectric power and network business areas. Within hydroelectric power, any power stations on the same river system that are managed collectively are considered to be a single cash flow generating unit.

In conjunction with each financial report, the Group assesses whether any past impairment of non-financial assets, except goodwill, should be reversed.

Inventories
Inventories are carried at the lower of cost and fair value less costs to sell. The acquisition cost is calculated using the FIFO principle.

Reservoir reserves
The Group's most valuable raw material is the water stored in its reservoirs. The value of this water is not capitalised on the statement of financial position.

Cash pooling arrangement
Agder Energi AS has a cash pooling arrangement with its subsidiaries, and the Group has a joint bank account for short-term deposits and short-term loans. External interest income and interest expenses arising from the cash pooling arrangement are presented as interest income and interest expenses on the consolidated income statement. On the consolidated statement of financial position, net deposits and overdrafts are presented as cash and cash equivalents and current liabilities respectively.

Liquid assets
Cash and cash equivalents includes cash, bank deposits and commercial paper with a remaining term to maturity of less than three months when it was acquired.

Dividends
Proposed dividends are classified as equity. Dividends are reclassified as current liabilities when they are adopted by the AGM.

Provisions, contingent assets and contingent liabilities
A provision is recognised if the Group has a present obligation arising from a past event, and if it is probable that it will have to settle the obligation. Provisions are measured using the management's best estimate of the cost of settling the obligations on the statement of financial position date, and are discounted to their present value if this makes a significant difference.

Pensions
Defined benefit plans
A defined benefit plan is a pension plan which defines the pension benefit an employee will receive on retirement. The pension liability recognised for defined benefit plans is the present value of the pension benefits earned as of the statement of financial position date, less the fair value of the pension plan assets. The pension obligation is calculated annually by an independent actuary using the projected credit unit method.

Remeasurements as a result of changes to the actuarial and economic assumptions are recognised in the statement of comprehensive income under other comprehensive income or expenses. This also applies to the positive or negative difference between the return on pension plan assets and the discount rate.

Changes to defined benefit pension obligations arising from plan amendments that are applied retrospectively, i.e. where the change in entitlement also applies to past years of service, are recognised directly in profit or loss. Changes that are not applied retrospectively are recognised through profit or loss over the remaining years of service.

The net pension liabilities associated with underfunded pension plans, and unfunded pension plans that are treated as operating expenses, are classified as provisions for non-current liabilities. For pension plans with a surplus, the surplus is presented as a net pension asset under other non-current financial assets.

The pension expense for the period is included under employee benefits. It consists of the sum of the current service cost, interest on net pension liabilities and employers' NICs.

Defined contribution pension plans
In the case of a defined contribution plan, the Group makes regular contributions into a separate legal entity, but has no further liabilities once the contributions have been made.

The contributions are expensed as employee benefits when they are made.

Statement of cash flows
The statement of cash flows has been prepared using the indirect method.

New accounting standards and interpretations
Agder Energi did not implement any new accounting standards or interpretations that had a significant impact on its financial statements in 2016.

The IASB has published a number of new accounting standards, as well as amendments to existing accounting standards and interpretations, that had not yet entered into force when the financial statements were presented. There are three new standards covering areas that are very important to Agder Energi's financial statements:

IFRS 9 – Financial instruments:
The new standard introduces changes to classification and measurement, hedge accounting and impairment. IFRS 9 will replace IAS 39 Financial instruments – recognition and measurement. The parts of IAS 39 that have not been changed as part of this project have been transferred and included in IFRS 9. For Agder Energi, the most important change is that the new standard simplifies the rules on the use of accounting hedges. No conclusion has yet been reached on the extent to which this will result in Agder Energi making greater use of hedge accounting. Beyond this, the new standard is not expected to result in any significant changes for the Group. We have not finished analysing the impacts of the new standard, so our preliminary conclusions may be revised. The standard comes into force on 1 January 2018.

IFRS 15 – Revenue from contracts with customers:
The IASB and FASB have issued a new, joint standard on revenue recognition, IFRS 15. The standard replaces all existing standards and interpretations relating to revenue recognition. The core principle of IFRS 15 is that revenue recognition will reflect the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard applies to all revenue contracts. The Hydroelectric Power and Energy Management business areas have the biggest impact on Agder Energi's financial performance. The Group does not expect the new standard to have a significant impact on revenue recognition in these business areas. However, the standard may affect whether some of their revenues are presented net or gross. We have not finished analysing the impacts of the new standard, so our preliminary conclusions may be revised. The standard comes into force on 1 January 2018.

IFRS 16 – Leases:
This standard replaces the existing IFRS standard governing leases, IAS 17 – Leases. IFRS 16 sets out principles for recognition, measurement, presentation and disclosures in relation to leases. The new standard requires the lessee to recognise assets and liabilities for most leasing transactions, which represents a significant change from the current principles. Agder Energi has not analysed what impact the new standard will have. The standard comes into force on 1 January 2019, but it has not yet been approved by the EU.

CRITICAL ACCOUNTING JUDGEMENTS

Below we have set out the areas where the judgements made by management in applying the Group's accounting principles potentially have a material impact on the consolidated financial statements.

Non-financial energy contracts
Non-financial energy contracts, which in accordance with IAS 39 are considered to be contracts that can be "settled net in cash", are treated as though they were financial instruments. This applies unless the contracts have been entered into and continue to be held for the purpose of the receipt or delivery of the energy in accordance with the Group's expected purchase, sale or usage requirements (the "own use" exemption). In some cases determining whether a contract of this kind should be classified as cash-settled is based on best judgement.

Based on the criteria set out in IAS 39, the senior management team has used its best judgement to assess which contracts should be defined as financial instruments and which contracts should not.

Contracts classified as financial instruments are carried at fair value, with gains and losses recognised in profit or loss, while other contracts are recognised on delivery.

Concession power and licence fees
The concession power provided and the licence fees paid to the central government and municipalities are supposed to compensate for the damage or inconvenience caused by hydropower projects. Liabilities arising from the fact that future concession power may be supplied at a discount to the market price, as well as the cost of future licence fees, are regulatory requirements and are therefore non-contractual liabilities. Consequently they are not included in the financial statements, but their present value has been calculated, and is presented in Note 2 and Note 8.

UNCERTAINTIES – CRITICAL ACCOUNTING ESTIMATES

In conjunction with the preparation of the financial statements, the management has to make certain estimates and assumptions. These affect the reported assets and liabilities, including contingent assets and liabilities at the end of the reporting period, and the reported revenues and expenses for the period. Actual results may deviate from these estimates.

The most important assumptions concerning the future and other key sources of estimation uncertainty are set out below.

Fair value of financial instruments
The fair value of long-term cash-settled electricity contracts and electricity contracts not covered by the own use exemption is partly calculated using assumptions that are not observable in the market. Where that is the case, the management has based its estimates on the information available in the market in combination with its best judgement. There is a more detailed description of the assumptions used to value those contracts in Note 27. The fair value of interest rate, foreign currency and electricity derivatives is calculated based on market practice and confirmed by external market players.

Property, plant and equipment
Property, plant and equipment is depreciated over its expected useful life, giving rise to depreciation in the income statement. The expected useful life is estimated on the basis of experience, past performance and best judgement, and is adjusted if there are any changes to those estimates. The residual value, which is taken into account when calculating depreciation, is also estimated.

Impairment losses
The Group has significant investments in intangible assets, property, plant and equipment and joint arrangements. These non-current assets are tested for impairment if there is an indication that they have fallen in value. This might be indicated by changes in market prices or contract structures, negative events or other operating conditions. When calculating the recoverable amount, a number of estimates must be made regarding future cash flows, with required rates of return, prices, operating margins and sales volumes being the most important factors.

Deferred tax assets
The Group has capitalised deferred tax assets arising from negative resource rent that has been carried forward. Deferred tax assets are capitalised when it is expected that it will be possible to make use of the negative resource rent within a ten-year time frame. The timing of when it may be possible to make use of negative resource rent is particularly dependent on assumptions regarding future electricity prices. The management has used its best judgement when making assumptions about future electricity prices and other assumptions that affect future resource rent. See Note 12 for a more detailed description.

Pensions
Calculating pension liabilities involves using best judgement and estimates for a number of parameters. See Note 22 for a more detailed description of the assumptions that have been applied.

NOTES

NOTE 1 SEGMENT INFORMATION

(Amounts in NOK million)		Hydroelectric Power and Energy Management		Network business area		LOS	
		2016	2015	**2016**	2015	**2016**	2015
INCOME STATEMENT	Note						
Operating revenues		2 658	2 513	1 424	1 161	3 503	2 279
- of which external operating revenues		2 531	2 397	1 344	1 073	3 484	2 264
- of which internal operating revenues		127	116	80	88	19	15
Energy and transmission expenses		-243	-260	-337	-305	-3 235	-2 025
Other raw materials and consumables used	4	0	0	0	0	-3	-3
Employee benefits	7	-192	-176	-104	-95	-78	-70
Other operating expenses	8, 9	-472	-470	-346	-351	-90	-77
Operating profit before depreciation and impairment losses		**1 751**	**1 608**	**637**	**410**	**97**	**104**
Depreciation and impairment losses	13	-294	-257	-220	-197	-5	-3
Operating profit		**1 457**	**1 350**	**417**	**212**	**93**	**100**
Share of profit of associates and joint ventures	11	0	0	0	0	0	0
Financial income	11	15	52	1	1	4	5
Financial expenses	11	-95	-128	-64	-74	-6	-4
Net financial income/expenses		**-80**	**-76**	**-63**	**-73**	**-2**	**1**
Profit before tax		**1 377**	**1 274**	**353**	**139**	**90**	**102**
Tax expense	12	-791	-600	-76	-21	-22	-28
Net income		**586**	**674**	**278**	**118**	**68**	**74**
STATEMENT OF FINANCIAL POSITION							
Total assets		8 514	8 051	5 232	4 692	2 059	880
Equity		2 296	2 281	824	759	344	335
Total segment liabilities		6 218	5 770	4 408	3 933	1 715	544
Capital employed 1)		5 945	5 936	3 821	3 449	711	335
Interest-bearing liabilities	23	3 649	3 655	2 997	2 690	367	0
Funds from operation (FFO) 2)		1 286	1 323	637	409	42	107
Carrying amount of associates and joint ventures	16	0	0	0	0	0	0
Investments in intangible assets 3)		0	0	75	82	99	0
Investments in property, plant and equipment 3)		445	598	620	370	-9	12
Number of full-time equivalents		209	216	166	163	119	73

1) Equity + interest-bearing liabilities
2) Underlying EBITDA + dividends from associates and joint ventures + financial income - tax payable
3) Includes additions of intangible assets and property, plant and equipment through business combinations. The negative value for LOS is due to its reclassification.

(Amounts in NOK million)		Otera		Parent/Other		Eliminations	
		2016	2015	**2016**	2015	**2016**	2015
INCOME STATEMENT	Note						
Operating revenues		1 145	996	1 453	1 186	-695	-687
- of which external operating revenues		994	822	1 165	922	-28	-31
- of which internal operating revenues		151	174	289	263	-667	-656
Energy and transmission expenses		0	0	-69	-38	197	180
Other raw materials and consumables used	4	-714	-534	-601	-470	1	1
Employee benefits	7	-308	-337	-458	-370	127	149
Other operating expenses	8, 9	-130	-133	-361	-319	342	327
Operating profit before depreciation and impairment losses		**-7**	**-8**	**-36**	**-10**	**-29**	**-30**
Depreciation and impairment losses	13	-12	-12	-77	-69	5	-37
Operating profit		**-19**	**-20**	**-113**	**-79**	**-23**	**-68**
Share of profit of associates and joint ventures	11	0	0	5	96	-13	-12
Financial income	11	1	2	1 644	1 939	-1 649	-1 990
Financial expenses	11	-10	-9	-616	-1 104	542	1 033
Net financial income/expenses		**-9**	**-8**	**1 033**	**931**	**-1 119**	**-969**
Profit before tax		**-28**	**-28**	**920**	**851**	**-1 142**	**-1 037**
Tax expense	12	7	9	-153	-168	216	242
Net income		**-21**	**-19**	**767**	**682**	**-926**	**-795**
STATEMENT OF FINANCIAL POSITION							
Total assets		613	615	14 175	13 415	-12 677	-11 791
Equity		59	33	3 306	3 158	-3 566	-3 645
Total segment liabilities		554	582	10 869	10 257	-9 111	-8 146
Capital employed 1)		328	251	13 046	12 583	-11 729	-10 926
Interest-bearing liabilities	23	268	218	9 740	9 425	-8 163	-7 281
Funds from operation (FFO) 2)		-11	-11				
Carrying amount of associates and joint ventures	16	0	0	57	67	-19	-7
Investments in intangible assets 3)		0	0	48	36	0	0
Investments in property, plant and equipment 3)		17	5	117	107	-18	-25
Number of full-time equivalents		391	424	516	394		

1) Equity + interest-bearing liabilities
2) Underlying EBITDA + dividends from associates and joint ventures + financial income - tax payable
3) Includes additions of intangible assets and property, plant and equipment through business combinations.

(Amounts in NOK million)		Total (NGAAP)		IFSR adjustments		Total (IFRS)	
		2016	2015	**2016**	2015	**2016**	2015
INCOME STATEMENT	Note						
Operating revenues		9 489	7 447	-820	812	8 668	8 260
- of which external operating revenues		9 489	7 447	-820	812	8 668	8 260
- of which internal operating revenues		0	0	0	0	0	0
Energy and transmission expenses		-3 687	-2 447	0	0	-3 687	-2 447
Other raw materials and consumables used	4	-1 318	-1 006	0	0	-1 318	-1 006
Employee benefits	7	-1 014	-899	0	0	-1 014	-899
Other operating expenses	8, 9	-1 057	-1 023	-7	2	-1 064	-1 021
Operating profit before depreciation and impairment losses		**2 413**	**2 072**	**-827**	**814**	**1 586**	**2 886**
Depreciation and impairment losses	13	-602	-577	-6	-1	-608	-577
Operating profit		**1 811**	**1 495**	**-833**	**814**	**978**	**2 309**
Share of profit of associates and joint ventures	11	-8	84	0	0	-7	84
Financial income	11	16	9	78	10	95	18
Financial expenses	11	-249	-286	-17	12	-266	-274
Net financial income/expenses		**-240**	**-193**	**61**	**22**	**-179**	**-171**
Profit before tax		**1 571**	**1 302**	**-772**	**836**	**799**	**2 138**
Tax expense	12	-819	-567	282	-266	-537	-833
Net income		**752**	**735**	**-490**	**570**	**262**	**1 305**
STATEMENT OF FINANCIAL POSITION							
Total assets		17 917	15 861	2 402	3 379	20 319	19 240
Equity		3 264	2 920	1 362	1 973	4 626	4 893
Total segment liabilities		14 653	12 940	1 040	1 406	15 693	14 347
Capital employed 1)		12 123	11 627	1 646	2 294	13 769	13 921
Interest-bearing liabilities	23	8 858	8 707	285	321	9 143	9 028
Funds from operation (FFO) 2)						1 572	1 631
Carrying amount of associates and joint ventures	16	37	61	0	0	37	61
Investments in intangible assets 3)		222	118	2	0	223	118
Investments in property, plant and equipment 3)		1 173	1 067	142	101	1 315	1 168
Number of full-time equivalents		1 401	1 270			1 401	1 270

1) Equity + interest-bearing liabilities
2) Underlying EBITDA + dividends from associates and joint ventures + financial income - tax payable
3) Includes additions of intangible assets and property, plant and equipment through business combinations.

Segment information is reported using the same segments as used in financial reports to the senior management team. Segment reporting is used by Agder Energi's management to assess the performance of the various business areas, and to allocate resources to them. Operating segments are presented in accordance with the organisational structure, and are based on the internal business areas. The Network business area is presented as a separate segment. The business area is responsible for power distribution in Agder. The Hydroelectric Power and Energy Management business areas are presented jointly as a single segment. The business areas are involved in the generation and sale of hydroelectric power. Within the Marketing and Business Development business area, LOS and Otera are presented as separate segments, due to their size and the differences between their areas of activity, while the rest of the business area is presented under parent company/other. LOS sells energy to retail customers, while Otera provides electrical contracting services. The financial statements follow Norwegian generally accepted accounting principles (NGAAP), as they are also used for internal corporate governance purposes.

The Eliminations segment relates to the elimination of intra-group transactions and balances. Transactions between segments are on an arm's-length basis.

The IFRS adjustments segment covers items arising from the fact that the accounts of segments are presented in accordance with NGAAP, while the consolidated financial statements are presented in accordance with IFRS. The main reason for the differences between the segment reporting and the consolidated financial statements is that changes in unrealised gains/losses on derivatives are not included in the segment reporting. In addition, the segment reporting for the Network business area uses the approved income cap, whereas the consolidated statements are based on invoiced revenues; see Note 3.

The vast majority of Agder Energi's turnover comes from customers in Norway or from Nord Pool Spot (the marketplace for trading physical power contracts). The turnover of the subsidiary groups Otera AB and LOS Energy AB comes from the Swedish market.

NOTE 2 ENERGY SALES

Agder Energi optimises its generation of hydroelectric power based on an assessment of the value of available water in relation to current and expected future spot prices. Contracts for physical delivery and cash-settled contracts are used to secure cash flows from power generation. All contracts are recognised as an adjustment to the underlying revenues from electricity generation based on the difference between the contract price and the spot price (system price for cash-settled contracts).

Cash-settled contracts, which include both electricity and foreign currency contracts, are described in greater detail in Note 28. In addition, Agder Energi has long-term physical delivery contracts with industrial customers. Those contracts cover around 20 TWh of energy to be delivered between now and 2030.

The Group's energy sales and purchases are specified in the table below. Electricity generated by the hydropower business and sold through Nord Pool Spot and electricity bought through Nord Pool Spot for the retail business are presented gross.

Energy sales

(Amounts in NOK millions)	**2016**	2015
Spot and balancing markets	1 728	1 463
Concession power and contracts for physical delivery signed before 1991 1)	89	97
Contracts for physical delivery signed after 1991 1)	392	353
Financial contracts used for hedging purposes 2)	225	390
Electricity certificates (own generation)	24	20
Other	80	77
Total for power generation	**2 538**	**2 401**
Retail market	3 473	2 257
Grid operation	32	29
District heating	100	92
Other	30	0
Eliminations	-129	-107
Total	**6 044**	**4 672**

1) The Energy Act came into force in 1991.
2) Figures refer to realised gains and losses; unrealised gains and losses are specified in Note 6. Although these contracts are used for hedging purposes, hedge accounting is not applied.

Energy purchases

(Amounts in NOK million)	**2016**	2015
Spot and balancing markets	62	69
Other	51	58
Total for power generation	**114**	**127**
Retail market	3 235	2 030
Grid operation	129	105
District heating	39	38
Other	30	0
Eliminations	-118	-100
Total	**3 429**	**2 200**

The table below shows key figures for our power generating activities, as well as gains/losses in relation to spot prices.

	2016	2015
Net electricity generation (less pumping) (GWh)	8 880	8 995
Reservoir reserves at 31 Dec. (GWh)	3 766	5 185
Reservoir reserves as % of capacity	72 %	99 %

(Amounts in NOK million)	**2016**	2015
Spot value of net generation	2 097	1 731
Gains/losses on concession power and contracts for physical delivery signed before 1991	-86	-56
Gains/losses on hedges	368	552
Electricity certificates (own generation)	24	20
Gains/losses on other items	22	27
Net energy sales from power generation	**2 425**	**2 274**

Hedges include both cash-settled contracts and long-term physical contracts with industrial clients that are used as part of a hedging strategy.

The resources Agder Energi needs to generate power are available to it through licences. Agder Energi controls – either directly or indirectly through water management associations and joint arrangements – licences to regulate watercourses and to acquire ownership rights to waterfalls. These licences do not revert to public ownership, with the exception of a few minor regulations of the Arendal river system, which constitute less than 1% of the total river regulation capacity. Agder Energi has a perpetual obligation to supply 544 GWh each year to local municipalities, who are entitled to buy electricity at a regulated price. In most cases this price is set by the Ministry of Petroleum and Energy, but Agder Energi has some licences where the price is established individually based on government guidelines. Revenues from concession power are recognised as income when the electricity is supplied.

The future loss of revenue arising from the obligation to supply concession power at below market prices is estimated at NOK 2.2 billion. No provisions have been made for this in the financial statements, as it is estimated that the agreed price covers electricity generation costs. The calculation of the loss of revenue is based on a nominal pre-tax interest rate of 5.0%, a price differential of 10 øre/kWh and an expected inflation rate of 2.5%.

(Volume in GWh)	**2016**	2015
Volume of concession power (GWh)	544	543
Regulated price (øre/kWh)	11,4	10,6

NOTE 3 TRANSMISSION REVENUES

The Norwegian Water Resources and Energy Directorate regulates the revenues of power grid operators by setting an annual income cap. Based on the income caps they have been allocated and the volumes of electricity they expect to distribute, power grid operators set the transmission tariffs payable by customers. In the event of any difference between actual and expected volumes, revenues from transmission tariffs will show a surplus or shortfall relative to the permitted revenues (income cap). In the accounts of Agder Energi Nett AS, this difference is treated as either a liability or an asset. However, in the consolidated financial statements, which are presented in accordance with IFRS, this surplus or shortfall does not qualify for inclusion on the statement of financial position, and only the actual transmission tariff revenues are recognised in the income statement.

(Amounts in NOK millions)	**2016**	2015
Revenues under next year's income cap recognised in the consolidated income statement	-151	44
Accumulated surplus transmission revenues not included on the statement of financial position	253	404

NOTE 4 OTHER OPERATING REVENUES AND OTHER RAW MATERIALS AND CONSUMABLES USED

Other operating revenues

(Amounts in NOK million)	Note	**2016**	2015
Contracting	5	1 145	996
Services		139	118
Communication		582	373
Other revenues		234	228
Total		**2 100**	**1 715**

Electrical contracting services are provided through Otera, and cover areas such as electrical power systems, transportation and telecommunications.

Other raw materials and consumables used

(Amounts in NOK million)	Note	**2016**	2015
Contracting	5	714	534
Communication		337	212
Other purchases		266	260
Total		**1 317**	**1 006**

NOTE 5 LONG-TERM MANUFACTURING CONTRACTS

The projects included under this item relate to the electrical contracting business. They are carried out for customers and are accounted for using the percentage of completion method. Profit is recognised in proportion to the percentage of completion of the project. The percentage of completion is estimated to be the ratio between project costs incurred to date and total estimated project costs. Estimated losses on projects are also recognised in profit or loss.

(Amounts in NOK million)	**2016**	2015
Revenues from fixed-price contracts included under operating revenues	624	403
Revenues, work in progress	534	264
Accrued revenues included under other receivables	69	12
Deferred revenues included under other liabilities	22	3
Costs incurred to date, work in progress	481	220
Share of outstanding receivables not yet due under contract terms	0	7
Remaining turnover from loss-making projects	1	8

NOTE 6 UNREALISED GAINS AND LOSSES ON ENERGY CONTRACTS

Breakdown of profit and loss effects of financial instruments by class of instrument:

(Amounts in NOK million)	Note	**2016**	2015
Portfolio of production hedges, excluding power for industrial users	26	-755	671
Cash-settled electricity contracts	21	-100	95
Long-term electricity contracts measured at fair value	26	-70	0
Retail customer portfolio	26	-5	-25
Currency contracts, basis swaps and currency loans	26	586	-148
Embedded derivatives	26	-275	209
Total		**-619**	**802**

Reversal of unrealised gains and losses at 1 January on contracts closed out during the year 1)	-397	-164
Gains and losses on contracts that had not been closed out as of 31 December.	-222	966
Total	**-619**	**802**

The above table refers to financial instruments that are used in relation to electricity generation or the retails business and that must be measured at fair value through profit or loss.

1) Value at start of 2016 (2015) of contracts that were closed out during 2016 (2015).

NOTE 7 EMPLOYEE BENEFITS

(Amounts in NOK million)	Note	**2016**	2015
Wages and salaries		995	874
Employers' National Insurance Contributions		143	137
Pension expense (incl. employers' NICs)	22	82	109
Other benefits and reimbursements		14	24
Capitalised wage costs arising from own investments		-220	-245
Total		**1 014**	**900**

Number of full-time equivalents in continuing operations at 31 Dec.	1 401	1 270

For details of senior management compensation, please see Note 32.

NOTE 8 PROPERTY TAXES AND LICENCE FEES

(Amounts in NOK million)	**2016**	2015
Licence fees	51	51
Property taxes	161	163
Total	**211**	**214**

Licence fees are perpetual payments designed to compensate for the damage or inconvenience caused by hydropower projects. The fees are paid annually and are adjusted in line with the consumer price index, initially at the first turn of the year five years after the licence was granted and subsequently every five years. Annual and perpetual payments to compensate for the damage or inconvenience caused by the development of hydropower stations are indexed in the same way as licence fees.

The present value of the Group's future licence fees, for which no provision has been made in the financial statements, has been calculated to be NOK 1.9 billion using a discount rate of 2.5%.

NOTE 9 OTHER OPERATING EXPENSES

(Amounts in NOK million)	**2016**	2015
Property-related expenses	108	87
Lease of machinery and office equipment	25	25
Purchase of plant and equipment	61	62
Repairs and maintenance to equipment	16	24
Contractors	66	82
Operation/maintenance of IT systems	34	32
Technical consultants	54	51
Administrative consultants	112	82
Other external services	53	35
Office supplies, telecommunications, postage, etc.	43	41
Cost of vehicles	32	39
Leases for cars, machinery, etc.	34	34
Travel expenses, subsistence allowances, mileage expenses, etc.	57	56
Sales, advertising, representation, membership fees and gifts	37	30
Insurance premiums	16	16
Share of other operating expenses at joint arrangements	80	80
Free electricity and compensation	7	-2
Other operating expenses	18	33
Total	**853**	**807**

NOTE 10 AUDITOR'S FEE

The Group's auditor Ernst & Young audits the parent company and the most important subsidiaries.
The total auditing fees for consolidated companies comprise:

(Amounts in NOK millions excl. VAT)	**2016**	2015
Statutory audit	3,5	3,0
Other certification services	0,0	0,4
Tax advice	0,2	0,1
Other services not related to auditing	1,6	0,1
Total	**5,3**	**3,6**

NOTE 11 FINANCIAL INCOME AND EXPENSES

(Amounts in NOK million)	Note	**2016**	2015
Share of profit of associates and joint ventures	**16**	**-7**	**84**
Net realised exchange rate gains		0	1
Interest income on loans		0	1
Other interest income		8	0
Realised gains on shares		1	0
Other financial income		7	7
Financial income		**16**	**9**
Unrealised gains and losses on interest rate contracts	26	78	10
Unrealised gains and losses on interest rate contracts		**78**	**10**
Interest expense on loans 1)		178	216
Interest expense on interest rate swaps		76	61
Other interest expenses		12	0
Interest on capitalised construction loans		-28	-31
Net realised exchange rate losses		19	0
Realised loss on shares		0	5
Impairment of non-current financial assets		0	11
Other financial expenses		9	12
Financial expenses		**266**	**274**
Net financial income/expenses		**-179**	**-171**

1) Relates to interest expenses on loans carried at amortised cost.

NOTE 12 TAX

(Amounts in NOK million)	Note	2016	2015
Tax expense in income statement			
Income tax payable		350	254
Resource rent tax payable		307	216
Changes in deferred income tax		-179	278
Changes in deferred resource rent tax		76	98
Corrections to previous years' tax assessments		-16	-13
Total tax expense recognised in income statement		**537**	**833**
Reconciliation of nominal and effective tax rates			
Profit before tax		799	2 138
Expected tax		200	577
Tax effect of			
Permanent differences		1	-10
Resource rent tax incl. deferred tax		383	314
Changes relating to prior years		-16	-13
Net impact of changes in tax rates		-31	-35
Total tax expense		**537**	**833**
Effective tax rate		67 %	39 %

Breakdown of temporary differences and negative resource rent carried forward

Taxable income		
Property, plant and equipment	3 253	2 628
Current assets/liabilities	-87	-96
Pension liabilities	611	416
Other non-current provisions	-1 056	-781
Derivatives	-12	836
Other	-39	8
Gross differences	**2 670**	**3 010**
Tax rate	24 %	25 %
Net deferred income tax assets (-)/liabilities (+)	**639**	**753**

Resource rent		
Temporary differences	904	967
Negative resource rent carryforwards expected to be offset against profit over the coming 10 years	-408	-704
Gross differences	**496**	**263**
Tax rate	34,3 %	33 %
Net deferred income tax assets (-)/liabilities (+)	**170**	**87**
Of which presented in the financial statements as:		
Deferred tax	**1 109**	**1 213**
Deferred tax assets	**-300**	-374
Deferred tax assets arising from negative resource rent carryforwards not included on the statement of financial position	-604	-518

When assessing whether it is likely that the Group will be able to make use of its accumulated negative resource rent carryforwards, deferred resource rent tax assets are calculated using a conservative estimate of future electricity prices and on the assumption that future yields on short-term government debt will be between 0,.6% and 2.7%.

(Amounts in NOK million)	Note	**2016**	2015
Changes in net deferred tax liabilities (+)/ assets (-) over the year			
Net deferred tax liabilities (+)/assets (-) at 31 Dec. prior year		839	24
Change to principle used for embedded derivatives in electricity contracts	36	0	281
Net deferred tax liabilities (+)/assets (-) at 1 Jan.		**839**	**305**
New deferred tax liabilities (+)/assets (-)		14	0
Change in deferred tax liabilities (+)/assets (-) recognised in equity		0	8
Change in net deferred tax liabilities (+)/assets (-) included in other comprehensive income		60	149
Change in deferred tax liabilities (+)/assets (-) recognised through profit or loss		-103	376
Net deferred tax liabilities (+)/assets (-) at 31 Dec.		**809**	**839**

Changes in deferred tax on items in the statement of comprehensive income		
Remeasurements of pensions	55	-151
Cash flow hedges	5	2
Net change in deferred tax on items in the statement of comprehensive income	**60**	**-149**

NOTE 13 DEPRECIATION AND IMPAIRMENT LOSSES

(Amounts in NOK million)	Note	**2016**	2015
Amortisation of intangible assets	14	39	21
Impairment of intangible assets	14	2	42
Depreciation of property, plant and equipment	15	573	513
Impairment of property, plant and equipment	15	-6	1
Total depreciation, amortisation and impairment losses recognised in operating profit		**608**	**577**
Impairment of financial assets	11	0	11
Total depreciation, amortisation and impairment losses recognised in statement of cash flows		**608**	**588**

NOTE 14 INTANGIBLE ASSETS

(Amounts in NOK millions)	Goodwill	Software	Other intangible assets	**Total intangible assets**
Acquisition cost	149	161	116	426
Accumulated depreciation and impairment losses	0	-47	-102	-149
Carrying amount at 31/12/2015	**149**	**114**	**14**	**277**
Carrying amount at 01/01/2016	149	114	14	277
Additions	65	123	34	222
Disposals at book value	0	0	-2	-2
Depreciation	0	-32	-7	-39
Impairment losses	0	0	-2	-2
Other changes	0	0	20	20
Carrying amount at 31/12/2016	**214**	**205**	**57**	**476**
Acquisition cost	214	280	118	612
Accumulated depreciation and impairment losses	0	-75	-61	-136
Carrying amount at 31/12/2016	**214**	**205**	**57**	**476**
Depreciation period	Tested annually for impairment	3-5 years	3-8 years	

Goodwill impairment

The Group tests goodwill annually for impairment, or more frequently if there is evidence to suggest a fall in value. The test is performed in the fourth quarter, and in 2016 it did not result in any charge, as was also the case in 2015. Agder Energi has not identified any other intangible assets with indefinite useful lives. Goodwill that has arisen in conjunction with acquisitions has been allocated as follows:

Breakdown of goodwill on the statement of financial position

(Amounts in NOK million)	**2016**	2015
Otera	94	94
LOS	49	12
NetNordic	39	18
NEG	9	9
Others	23	16
Carrying amount of goodwill	**214**	**149**

NOTE 15 PROPERTY, PLANT AND EQUIPMENT

	HYDROELECTRIC POWER GENERATION				GRID OPERATION	
(Amounts in NOK millions)	Rights and licences	Tunnels and dams	Machinery and electrical infrastructure	Power station buildings and sites	Regional power nett trans-mission grid	Lokal distribution network
Carrying amount at 01/01/2015	1 130	2 758	2 045	950	1 189	2 488
Additions	11	93	184	25	98	249
Disposals at book value	0	0	0	0	0	0
Depreciation	-5	-58	-136	-51	-56	-113
Impairment losses	0	0	0	0	0	0
Carrying amount at 31/12/2015	**1 136**	**2 793**	**2 093**	**924**	**1 231**	**2 624**
Acquisition cost	1 179	4 065	4 602	1 897	2 076	4 635
Accumulated depreciation and impairment losses	-43	-1 272	-2 509	-973	-845	-2 011
Carrying amount at 31/12/2015	**1 136**	**2 793**	**2 093**	**924**	**1 231**	**2 624**
Carrying amount at 01/01/2016	1 136	2 793	2 093	924	1 231	2 624
Additions	0	321	368	157	172	303
Disposals at book value	0	0	-6	0	-15	0
Depreciation	-5	-63	-164	-56	-59	-118
Impairment losses	0	0	0		0	0
Carrying amount at 31/12/2016	**1 131**	**3 051**	**2 291**	**1 025**	**1 329**	**2 809**
Acquisition cost	1 179	4 386	4 962	2 053	2 229	4 938
Accumulated depreciation and impairment losses	-48	-1 335	-2 671	-1 028	-900	-2 129
Carrying amount at 31/12/2016	**1 131**	**3 051**	**2 291**	**1 025**	**1 329**	**2 809**
Depreciation period (years)	67/ not depreciated	67-99	20-50	50-67/ not depreciated	15-50	15-50

	DISTRICT HEATING	OTHER ACTIVITIES			
(Amounts in NOK millions)	District heating	Property	Other	Work in progress	**Total property lant and equipment**
Carrying amount at 01/01/2015	553	140	190	1 091	12 534
Additions	49	7	52	400	1 168
Disposals at book value	-2	-2	-25	-15	-45
Depreciation	-20	-9	-65	0	-513
Impairment losses	0	0	-1	0	-1
Carrying amount at 31/12/2015	**580**	**135**	**151**	**1 476**	**13 143**
Acquisition cost	737	203	626	1 476	21 496
Accumulated depreciation and impairment losses	-157	-68	-475	0	-8 353
Carrying amount at 31/12/2015	**580**	**135**	**151**	**1 476**	**13 143**
Carrying amount at 01/01/2016	580	135	151	1 476	13 143
Additions	73	5	278	-363	1 314
Disposals at book value	0	-1	-7	-44	-73
Depreciation	-22	-7	-79	0	-573
Impairment losses	6	0	0	0	6
Carrying amount at 31/12/2016	**637**	**132**	**343**	**1 069**	**13 817**
Acquisition cost	802	207	874	1 069	22 699
Accumulated depreciation and impairment losses	-165	-75	-531	0	-8 882
Carrying amount at 31/12/2016	**637**	**132**	**343**	**1 069**	**13 817**
Depreciation period (years)	8-60	25-99/ not depreciated	3-20		

Additions for work in progress are calculated as gross additions less completed projects within the relevant category. Periodic maintenance is included within the relevant category. Capitalised loan arrangement fees amounted to NOK 28 (31) million in 2016, calculated using the Group's average interest rate of 3.0% (3.4%). NOK 3,103 million of property, plant and equipment at joint arrangements is included in the main groups under hydroelectric power generation and under work in progress. Of the additions under distribution networks, NOK 142 (90) million were financed through customer contributions. The stated depreciation periods apply to the majority of the assets in each category, although there may be some minor deviations from them. Maintenance expenses came to NOK 197 (218) million in 2016. NOK 302 (323) million of capitalised reinvestments in existing facilities have been included under the additions for the year.

Below the useful lives of the most important assets on the statement of financial position are set out:

Hydroelectric power stations

	Depreciation period (years)
Waterfall rights	Not depreciated
Structures	
– Rock-fill dams	99
– Caverns	99
– Concrete dams	67
– Power station buildings	67
– Other buildings	50
Penstock	
– Underground	99
– Underground pipeline	67
– Above ground pipeline	40
Gates, gratings, entrances, etc.	
– Intake gates	50
– Dam gates	50
– Gratings	50
– Entrances	50
– Stream intakes	50
Roads and bridges	
– Roads/quays	67
– Bridges	50

Power distribution networks

	Depreciation period (years)
Regional power transmission grid:	
– Power and ground cables	50
– High-voltage power lines	40
- Grid control systems	20
Local power distribution network:	
– High-voltage lines and cables	50
– Low-voltage lines and cables	40
– Distribution substations	35

Hydroelectric power stations

	Depreciation period (years)
Machinery	
– Runners	40
– Turbines	40
– Turbine hall cranes, air handling units, pumps	25
– Turbine regulators	15
– Grating cleaners	10
Process equipment and communication	
- Grid control systems	20
– Control centre	10
– Communications/Control/Logging	10
Electrical systems	
– Transformers	40
– Generators	40
– Auxiliary systems (switches, low-voltage systems)	25
– Switchgear and other high-voltage systems	25
Periodic maintenance (interval)	
– Refurbishment of buildings	25
– Machinery – major service	20
– Electrical systems – major service	20

Other assets

	Depreciation period (years)
– Sites	Not depreciated
– Pipeline district heating	60
– Office buildings	50
– Vehicles	8
– Fixtures and fittings	5
– Office and IT equipment	3

NOTE 16 ASSOCIATES AND JOINT ARRANGEMENTS

Agder Energi has various investments in associates and joint arrangements. Joint arrangements include joint ventures and joint operations. Associates and joint ventures are accounted for using the equity method, whereas proportionate consolidation is used for investments in joint operations.

Associates and joint ventures (accounted for using the equity method)

(Amounts in NOK million)	**2016**	2015
Associates	24	20
Joint ventures	14	40
Carrying amount at 31 Dec.	**37**	**61**
Profit from associates	-9	-8
Profit from joint ventures	-6	-23
Gain on disposals	7	115
Share of profit of associates and joint ventures	**-7**	**84**

Breakdown of investments in associates:

(Amounts in NOK million)	Ownership interest	Carrying amount at 31/12/2015	Additions	Disposals	Consolidated share of profit/loss	Carrying amount at 31/12/2016
Otovo AS	18,6 %	0	5	0	0	5
Steinsvik Kraft AS	20,0 %	8	0	0	0	8
Skagerak Venture Capital I KS/GP KS	19,6 %	12	0	0	-2	10
NorthConnect KS/NorthConnect AS	22,3 %	0	7	0	-7	0
Others		0	0	-1	1	0
Total for associates		**20**	**13**	**-1**	**-9**	**24**

Breakdown of investments in joint ventures:

(Amounts in NOK million)	Ownership interest	Carrying amount at 31/12/2015	Additions	Disposals	Consolidated share of profit/loss	Carrying amount at 31/12/2016
Statkraft Agder Energi Vind DA	38,0 %	2	4	0	-1	4
Fosen Vind AS	20,9 %	38	17	-55	0	0
Grønn kontakt AS	42,0 %	0	13	0	-4	9
Total for joint ventures		**40**	**35**	**-55**	**-6**	**14**

In 2016 Fosen Vind sold its wind farm projects through an asset sale. The sale had no significant impact on Agder Energi's income statement.

Joint operations (proportionate consolidation)
Joint operations consist of power stations and water management associations. Agreements regulate key areas of cooperation, and the joint owners receive their respective shares of the electricity generated in return for covering an equivalent proportion of the expenses. The Group uses the proportional consolidation method to account for joint operations, and the Group's share of revenues, expenses, assets and liabilities are consolidated on a pro-rata basis. Agder Energi is a joint owner of the following power stations and water management associations:

Otra Kraft owns the Holen, Brokke and Skarg power stations on the River Otra. Otra Kraft is owned by Agder Energi Vannkraft, which has a 68.6% interest, and Skagerak Kraft, which has a 31.4% interest, and is managed through the general meeting. The company has its head office at Rysstad in Valle.

Ulla Førre is owned by Statkraft, Lyse Energi, Skagerak Energi, Haugaland kraftlag and Agder Energi Vannkraft. Agder Energi Vannkraft has a 6.0% ownership interest in Ulla Førre, which entitles it to an equivalent proportion of the power generated by the facility.

The power station **Finndøla kraftverk** is 50:50 owned by Agder Energi Vannkraft and Skagerak Kraft.

The power station **Hekni kraftverk** is a statutory co-ownership between Agder Energi Vannkraft, with a 66.67% interest, and Skagerak Kraft, with 33.33%. The co-ownership is managed through a steering committee. Agder Energi Vannkraft represents the co-ownership in dealings with third parties.

The water management association **Otteraaens Brugseierforening** comprises Agder Energi Vannkraft, Skagerak Kraft and Vigelands Brug. The association is managed through its Board. Agder Energi Vannkraft's ownership interest, including its indirect interest through Otra Kraft, is approximately 73.8%. Otteraaens Brugseierforening has its business address in Valle.

The water management association **Arendals Vasdrags Brugseierforening** comprises Agder Energi Vannkraft, Skafså Kraftverk, Skagerak Kraft and Arendals Fossekompani. The association is managed through a Board, and has its business address in Arendal. Agder Energi Vannkraft's ownership interest is approximately 52.2%. No single member can have more than 50% of the votes.

Sira-Kvina is owned by Agder Energi Vannkraft (12.2%), Lyse Produksjon (41.1%), Statkraft Energi (32.1%) and Skagerak Kraft (14.6%). It is managed through its Board. The company has its business address at Tonstad.

Below there follows a summary of the Group's share of assets, liabilities, revenues and expenses at jointly controlled assets. The energy sales in the table do not represent actual revenues, and have instead been calculated by multiplying Agder Energi Vannkraft's actual power generation by the average electricity price, and adding Agder Energi Vannkraft's share of revenues from concession power.

(Amounts in NOK million)	**2016**	2015
Energy sales	983	845
Other operating revenues	5	6
Total operating revenues	**988**	**851**
Transmission expenses	-53	-51
Energy purchases	-12	-13
Property taxes and licence fees	-26	-26
Depreciation	-99	-94
Other operating expenses	-77	-82
Total operating expenses	**-267**	**-266**
Operating profit	**721**	**585**
Non-current assets	3 103	3 138
Current assets	74	84
Total assets	**3 177**	**3 222**
Other provisions	-3	5
Current liabilities	70	63
Net assets	**3 110**	**3 154**

NOTE 17 NON-CURRENT FINANCIAL ASSETS

(Amounts in NOK million)	Note	**2016**	2015
Investments in shares and ownership interests		12	14
Loans to associates and joint arrangements		7	7
Other receivables 1)		241	196
Pension assets	22	821	602
Total		**1 081**	**819**

1) The majority of the amount relates to a subordinated loan to Ventelo AS and a vendor credit in conjunction with the sale of the shares in Ventelo, as well as non-current trade receivables.

The fair value of non-current financial assets is described in greater detail in notes 25 and 27.

NOTE 18 RECEIVABLES

(Amounts in NOK million)	**2016**	2015
Trade receivables	1 886	1 131
Bad debt provision	9	23
Total trade receivables	**1 877**	**1 108**
Accrued revenues	388	180
Prepaid expenses	61	74
Receivables from joint arrangements	10	26
Other receivables	173	66
Share of current assets at joint arrangements	64	58
Total receivables	**2 573**	**1 512**

Ageing analysis of trade receivables

(Amounts in NOK millions)	Not overdue	0-30 days overdue	31-60 days overdue	61-90 days overdue	Over 90 days overdue	Total
2016	1 740	71	32	3	40	1 886
2015	985	70	33	6	37	1 131

NOTE 19 CASH AND CASH EQUIVALENTS

(Amounts in NOK million)	**2016**	2015
Deposits in cash pooling arrangement	32	193
Cash and cash equivalents	491	276
Restricted assets (e.g. term deposits, tax withholding account and client assets)	20	4
Total	**543**	**473**

The parent company has set up a cash pooling arrangement with an associated NOK 500 million overdraft facility. Most subsidiaries in the Group in which the parent company holds an ownership interest of at least 50% take part in the cash pooling arrangement and are jointly and severally liable to the bank for the overdraft facility.

A NOK 52 million bank guarantee covering the parent company and subsidiaries has been used as security for tax deductions at source.

NOTE 20 SHARE CAPITAL AND SHAREHOLDER INFORMATION

The share capital is made up of	Number	Face value of shares	Share capital (in NOK 000s)
Share capital	2 700 000	670	1 809 000
Total	**2 700 000**		**1 809 000**

List of shareholders in Agder Energi AS

	Number of class A shares	% of class A shares	Number of class B shares	% class B shares	Total number of shares	% of tot. number of shares	Share capital
Statkraft Industrial Holding AS	743 197	41,289 %	485 990	53,999 %	1 229 187	45,525 %	823 555
Arendal Municipality	115 017	6,390 %	57 507	6,390 %	172 524	6,390 %	115 591
Kristiansand Municipality	95 400	5,300 %	47 700	5,300 %	143 100	5,300 %	95 877
Grimstad Municipality	53 327	2,963 %	26 663	2,963 %	79 990	2,963 %	53 593
Flekkefjord Municipality	53 269	2,959 %	14 650	1,628 %	67 919	2,516 %	45 506
Lyngdal Municipality	49 745	2,764 %	13 680	1,520 %	63 425	2,349 %	42 495
Kvinesdal Municipality	49 254	2,736 %	13 545	1,505 %	62 799	2,326 %	42 075
Lillesand Municipality	40 901	2,272 %	20 450	2,272 %	61 351	2,272 %	41 105
Marnardal Municipality	44 500	2,472 %	12 238	1,360 %	56 738	2,101 %	38 014
Sirdal Municipality	43 845	2,436 %	12 057	1,340 %	55 902	2,070 %	37 454
Mandal Municipality	42 343	2,352 %	11 644	1,294 %	53 987	2,000 %	36 171
Vennesla Municipality	42 343	2,352 %	11 644	1,294 %	53 987	2,000 %	36 171
Froland Municipality	31 847	1,769 %	15 924	1,769 %	47 771	1,769 %	32 007
Søgne Municipality	33 601	1,867 %	9 240	1,027 %	42 841	1,587 %	28 703
Evje og Hornnes Municipality	27 511	1,528 %	13 756	1,528 %	41 267	1,528 %	27 649
Songdalen Municipality	31 689	1,761 %	8 714	0,968 %	40 403	1,496 %	27 070
Lindesnes Municipality	31 470	1,748 %	8 654	0,962 %	40 124	1,486 %	26 883
Hægebostad Municipality	28 776	1,599 %	7 913	0,879 %	36 689	1,359 %	24 582
Farsund Municipality	27 502	1,528 %	7 563	0,840 %	35 065	1,299 %	23 494
Birkenes Municipality	22 679	1,260 %	11 340	1,260 %	34 019	1,260 %	22 793
Åmli Municipality	21 921	1,218 %	10 960	1,218 %	32 881	1,218 %	22 030
Risør Municipality	21 052	1,170 %	10 525	1,169 %	31 577	1,170 %	21 157
Valle Municipality	20 327	1,129 %	10 164	1,129 %	30 491	1,129 %	20 429
Bygland Municipality	19 995	1,111 %	9 998	1,111 %	29 993	1,111 %	20 095
Iveland Municipality	19 155	1,064 %	9 578	1,064 %	28 733	1,064 %	19 251
Tvedestrand Municipality	19 066	1,059 %	9 533	1,059 %	28 599	1,059 %	19 161
Åseral Municipality	21 776	1,210 %	5 988	0,665 %	27 764	1,028 %	18 602
Vegårshei Municipality	14 553	0,809 %	7 277	0,809 %	21 830	0,809 %	14 626
Bykle Municipality	13 232	0,735 %	6 616	0,735 %	19 848	0,735 %	13 298
Gjerstad Municipality	12 423	0,690 %	6 211	0,690 %	18 634	0,690 %	12 485
Audnedal Municipality	8 284	0,460 %	2 278	0,253 %	10 562	0,391 %	7 077
Total	**1 800 000**	**100 %**	**900 000**	**100 %**	**2 700 000**	**100 %**	**1 809 000**

The NOK 1,809 million of share capital is made up of class A and class B shares.

Class A shares can only be owned by shareholders who meet the conditions for being allocated indefinite waterfall licences under the relevant current legislation. Class B shares are freely negotiable. In all other respects, class A and class B shares have equal rights.

The company has entered into an industrial collaboration agreement with its biggest shareholder, Statkraft Industrial Holding AS. There is also a shareholders' agreement between the shareholders in the company.

The company has a corporate assembly with 15 members, who are elected for a two-year term.

The proposed dividend payout for 2016 comes to NOK 607 million in total, equivalent to NOK 225 per share.

NOTE 21 PROVISIONS

(Amounts in NOK million)	Note	**2016**	2015
Pension liabilities	22	303	296
Other non-current provisions		1 473	1 052
Total		**1 776**	**1 348**

Breakdown of other non-current provisions

(Amounts in NOK million)	Supply of free electricity and compensation 1)	Supply of free electricity and compensation 2)	Cash-settled contracts 3)	Unearned revenue, customer contributions	Other provisions 4)	Total
Carrying amount at 01/01/2015	592	200	77	98	93	1 060
Unrealised gains and losses	-61	0	-34	0	0	-95
New provisions	0	9	0	90	13	112
Provisions used	0	0	0	-4	-21	-25
Carrying amount at 31/12/2015	**531**	**209**	**43**	**184**	**85**	**1 052**
Carrying amount at 01/01/2016	531	209	43	184	85	1 052
Unrealised gains and losses	118	0	-18	0	0	100
New provisions	0	7	0	142	199	348
Provisions used	0	0	0	-7	-20	-27
Carrying amount at 31/12/2016	**649**	**216**	**25**	**319**	**264**	**1 473**

1) Perpetual obligations to supply free electricity that are presented as financial instruments at fair value in accordance with IAS 39, as they can be settled in cash. Also see notes 25 and 27.
2) Perpetual obligations to supply free electricity and pay compensation that are accounted for in accordance with IAS 37. These obligations to supply free electricity cannot be settled in cash. Compensation involves annual cash payments that are adjusted by inflation every five years.
3) Non-current cash-settled contracts measured in accordance with IAS 39. Also see notes 25 and 27.
4) Mainly relates to a provision in conjunction with the sale of Fosen Vind DA.

NOTE 22 PENSIONS

The Group's pension plans
For employees taken on before 1 April 2007, the Group has a defined benefit pension plan run by Agder Energi Pensjonskasse, which meets the legal requirements for public sector occupational pension plans. Employees taken on after 1 April 2007, as well as employees at companies outside Norway, are part of a defined contribution pension plan. The Group's pension plans satisfy the requirements laid down in the Act on Mandatory Occupational Pensions.

Defined benefit pension plans
The Group has a funded public pension plan for its employees in Norway, which entitles them to defined future pension benefits, based on their number of years of service and salary on reaching retirement age. Provisions for pension liabilities in the pension plan are calculated using a linear accumulation model based on methods and assumptions that comply with the relevant current accounting standard.

All remeasurements that arise over the course of the financial year are presented under other comprehensive income in the statement of comprehensive income. Changes in defined benefit pension plan liabilities arising from changes to plan arrangements (past service cost), are recognised directly in profit or loss.

Pension liabilities were calculated by an independent actuary in December, and represent an estimate of the situation at 31 December. Similarly, the gross pension plan assets at 31 December were estimated by the Group's management in December.

Certain current and former senior managers are entitled to pension benefits over and above those covered by the company pension plan; see Note 32. Provisions for these plans are presented under unfunded pension liabilities.

Defined contribution pension plan
Employees taken on after 1 April 2007 are entitled to membership of a defined contribution pension plan.

Early retirement schemes (AFP schemes)
Employees covered by a public pension plan have an early retirement scheme, known as an AFP scheme. This is a so-called public sector AFP scheme, which like all such schemes set up from 2011 onwards does not receive a government subsidy. The Group is therefore fully liable for all of its obligations under the scheme.

When calculating the pension liability, it has been assumed that there will be a 100% take-up of the early-retirement scheme by the age of 64 and a half. For accounting purposes, employees start accruing early-retirement pension rights on reaching the age of 50 or on joining the Group, whichever is later.

Employees in Norway covered by the defined contribution plan are entitled to a private AFP scheme, which from 2011 onwards means a lifelong supplement to their retirement pensions from the National Insurance Scheme. This AFP scheme is partly funded by contributions made by the employer. The state covers the remaining 33% of the cost. The AFP scheme is considered a defined benefit plan, but for the moment it is being accounted for as a defined contribution plan. In 2016, the annual contribution to the scheme was 2.5% (2015: 2.4%) of qualifying pay between 1 and 7.1 times the National Insurance Scheme's basic amount ("G") for each employee covered by the scheme.

Actuarial assumptions
When calculating the pension expense and net pension liabilities, a number of assumptions have been made (see table below). The discount rate is based on the interest rate on covered bonds. The assumptions used to calculate pension liabilities are consistent with the most recent guidelines on actuarial assumptions as of 31 December 2016.

The Group uses the latest version of the Norwegian life tables (GAP 07) for its estimates of life expectancy, probability of disability, etc. Extracts from the actuarial tables are reproduced below. This table shows life expectancy and the probability that an employee in a given age bracket will suffer disability or die within a year.

Age	Disability risk in %		Mortality risk in %		**Life expectancy**	
	Man	Woman	Man	Woman	Man	Woman
20	0,07	0,07	0,01	0,01	86	90
40	0,22	0,22	0,06	0,04	85	89
60	2,16	2,59	0,45	0,33	84	88
80	-	-	5,66	2,97	88	90

(Amounts in NOK million)	Note	2016	2015
The pension expense for the year has been calculated as follows			
Current service cost		50	64
Interest expense on net pension liabilities		-8	7
Employers' National Insurance Contributions		7	9
Employee contributions		-6	-6
Pension expense for the year, defined benefit plans		**43**	**73**
Private AFP scheme including employers' NICs		5	6
Defined contribution pension plans (including employers' NICs)		33	30
Total pension expense recognised in the income statement	**7**	**82**	**109**

Pension liabilities and pension plan assets

Change in gross pension liabilities			
Gross pension liabilities at 1 Jan.		1 886	2 348
Current service cost (incl. emp. NICs)		57	73
Interest cost		46	66
Benefits paid/paid-up policies		-69	-82
Remeasurements		-69	-519
Gross pension liabilities at 31 Dec. (incl. emp. NICs)		**1 852**	**1 886**
Breakdown of defined benefit pension liabilities			
Funded pension liabilities		1 565	1 599
Unfunded pension liabilities		287	287
Gross pension liabilities at 31 Dec.		**1 852**	**1 886**
Change in gross pension plan assets			
Fair value of pension plan assets at 1 Jan.		2 192	2 071
Expected return on pension plan assets		54	59
Remeasurements		121	-32
Pension contributions		57	149
Benefits paid/paid-up policies		-56	-54
Fair value of pension plan assets at 31 Dec.		**2 369**	**2 192**
Net pension liabilities/assets (-) at 31 Dec.		**-517**	**-306**
Net pension assets recognised on statement of financial position	17	821	602
Pension liabilities recognised on statement of financial position	21	303	296
Net pension liabilities/assets (-) recognised at 31 Dec.		**-517**	**-306**

(Amounts in NOK million)	**2016**	2015
Change in net defined benefit pension liabilities		
Net defined benefit pension liabilities at 1 Jan.	-306	277
Pension expense recognised in profit or loss	43	73
Company net contributions incl. employers' NICs	-59	-164
Benefit payments on unfunded pension plans	-4	-6
Remeasurements	-190	-487
Net pension liabilities/assets (-) recognised at 31 Dec.	**-517**	**-306**
Remeasurements are made up of		
Changes in demographic assumptions	-54	-136
Changes in financial assumptions	-15	-384
Excess return on assets	-121	32
Total remeasurements included in statement of comprehensive income	**-191**	**-487**

The remeasurements in 2016 were mainly due to an excess return on pension plan assets. There was also a slight change in the number of people covered by the scheme.

Sensitivity analysis for a +/- 0.5% percentage point change in the discount rate		
Increase in pension liabilities if the discount rate falls	123	158
Fall in pension liabilities if the discount rate rises	-114	-141

The sensitivity analysis only looks at potential changes in the discount rate, as it is the only parameter considered to have a significant impact on recognised pension liabilities.

Assumptions used to determine pension liabilities at 31 Dec.		
Discount rate	2,60 %	2,50 %
Annual wage growth	2,50 %	2,25 %
Increase in the National Insurance Scheme's basic amount ("G")	2,25 %	2,25 %
Annual indexing of pensions	1,50 %	1,50 %
Expected average remaining years of service (funded)	8,2 years	8,7 years
Expected average remaining years of service (unfunded)	5,6 years	5,9 years
Retirement age: 64.5 years on average for both years.		
Assumptions used to calculate the pension expense for the year		
Discount rate	2,50 %	3,00 %
Annual wage growth	2,25 %	3,00 %
Increase in the National Insurance Scheme's basic amount ("G")	2,25 %	3,00 %
Annual indexing of pensions	1,50 %	2,25 %
Distribution of pension plan assets by investment category at 31 Dec.		
Property funds	12 %	12 %
Interest-bearing financial instruments	34 %	38 %
Shares	33 %	39 %
Hedge funds	21 %	11 %
Total	**100 %**	**100 %**

Pension plan assets consist of instruments traded on a stock exchange or funds that publish daily prices.

(Amounts in NOK million)	**2016**	2015
Number of people covered by the pension plans		
Defined benefit plan: current employees	430	466
Defined benefit plan: accrued entitlements and retired employees	1 198	1 170
Defined contribution plan: current and temporary employees	957	791
Current employees entitled to public sector AFP, and early retirees	328	369

NOTE 23 INTEREST-BEARING LIABILITIES

(Amounts in NOK million)	**2016**	2015
Interest-bearing non-current liabilities		
Bonds	4 859	5 336
Liabilities to financial institutions	2 328	1 944
Other interest-bearing non-current liabilities	5	4
Total	**7 192**	**7 284**
Interest-bearing current liabilities		
Commercial paper	850	550
Overdraft and other interest-bearing current liabilities	14	0
Current portion of non-current liabilities (principal repayments due within one year)	1 087	1 195
Total	**1 951**	**1 745**

The fair value of the Group's interest-bearing liabilities is described in Note 25. All of the above statement of financial position items are carried at amortised cost in accordance with IAS 39. Note 28 sets out further details of interest rates, durations, liquidity risk, credit facilities, etc. Some loans form part of hedging relationships in accordance with IAS 39. See Note 29 for a more detailed description.

NOTE 24 OTHER NON-INTEREST-BEARING CURRENT LIABILITIES

(Amounts in NOK million)	**2016**	2015
Trade payables	662	399
Unpaid government taxes and duties, tax deducted at source, etc.	517	355
Share of non-current liabilities at joint arrangements	70	63
Other current liabilities	1 115	553
Total	**2 364**	**1 370**

NOTE 25 FINANCIAL INSTRUMENTS

Financial instruments constitute a significant proportion of Agder Energi's total assets, and they have a big impact on the Group's financial position and results. The majority of the financial instruments are used in energy trading or as financial hedges.

Within energy trading, financial instruments are used as part of a hedging strategy. When managing the Group's exposure to risks associated with future electricity prices and exchange rates, these instruments are viewed together with future physical trading; see Note 28. Physical energy trading is only recognised in the financial statements when the energy is supplied/bought, whereas energy and currency derivatives are measured at fair value through profit or loss. Large volumes of these derivatives, can therefore cause great volatility in the Group's reported statement of financial position and net income, without it reflecting the overall financial results.

Financial instruments in the finance area mainly consist of loans and interest rate swaps. When managing the Group's interest rate risk, these two types of financial instruments are assessed together, and they are also viewed in the context of the Group's other interest rate risks; see Note 28. In the financial statements, loans are measured at amortised cost, whereas interest rate swaps are measured at fair value through profit or loss. This can cause fluctuations in the Group's reported profit or loss, without it reflecting its overall financial performance. There are some minor exceptions to this asymmetrical treatment; see Note 29 on accounting hedges.

In order to highlight the unrealised impact of these electricity, currency and interest rate contracts, their values and changes in value are presented on separate lines in the statement of financial position and income statement.

The table below shows the carrying amount and fair value of the Group's financial instruments, with the exception of trade debtors and payables, whose carrying amounts are almost identical to their fair values.

(Amounts in NOK millions)	Note	Carrying amount **2016**	Fair value **2016**	Carrying amount 2015	Fair value 2015
Financial assets at fair value through profit or loss					
Derivatives	26	1 350	1 350	2 544	2 544
Total financial assets at fair value through profit or loss		**1 350**	**1 350**	**2 544**	**2 544**
Available-for-sale assets					
Number of shares	17	12	12	14	14
Total available-for-sale assets		**12**	**12**	**14**	**14**
Loans and receivables at amortised cost					
Loans to associates	17	7	7	7	7
Other non-current receivables	17	241	241	196	196
Cash and cash equivalents	19	543	543	473	473
Total loans and receivables at amortised cost		**791**	**791**	**676**	**676**
Financial liabilities at fair value through profit or loss					
Non-current liabilities, obligation to provide free electricity and pay compensation	21	649	649	531	531
Non-current liabilities for electricity contracts measured at fair value	21	25	25	43	43
Derivatives	26	671	671	924	924
Total financial liabilities at fair value through profit or loss		**1 345**	**1 345**	**1 498**	**1 498**
Financial liabilities at amortised cost					
Bonds	23	5 952	6 050	6 343	6 318
Liabilities to financial institutions	23	2 328	2 376	2 136	2 214
Commercial paper	23	850	850	550	550
Overdraft and other interest-bearing current liabilities	23	14	14	0	0
Total financial liabilities at amortised cost		9 144	9 290	9 029	9 082

NOTE 26 DERIVATIVES

Agder Energi has both independent derivatives (simply referred to as derivatives) and embedded derivatives.

Agder Energi has some contracts for physical energy sales that are settled in euros. The contractual obligation to supply electricity is met using electricity generated by the Group, so the contracts do not fall within the scope of IAS 39. However, the fact that the contracts are settled in euros means that they contain an embedded foreign currency derivative. Under the criteria set out in IAS 39, the foreign currency derivatives are not closely related to the electricity contract. They are therefore separated from the contracts for physical delivery and measured at fair value.

In the table below, derivatives with positive and negative fair values are shown separately by portfolio. The portfolios are described in greater detail in Note 28. The figures for energy derivatives are the accounting values of contracts which, under the criteria set out in IAS 39, fall within the definition of financial instruments. Power contracts for physical delivery that qualify for the own use exemption under IAS 39 are not defined as financial instruments. There are therefore significant discrepancies between accounting values and underlying financial values, as the portfolios contain both contracts that fall within the scope of IAS 39 and ones that do not. A small proportion of the Group's interest rate derivatives are designated as accounting hedges; see Note 29 on accounting hedges.

Agder Energi offers several managed electricity trading products to the retail market. With these products, Agder Energi supplies physical electricity to a portfolio of customers, on whose behalf it actively trades electricity through NASDAQ (the marketplace for cash-settled electricity futures). These NASDAQ positions are measured symmetrically. In other words, Agder Energi recognises equivalent contracts with respect to the retail customers covered by the electricity trading products, but with the opposite exposure of the NASDAQ positions. This symmetrical treatment means that these financial positions do not have any impact on Agder Energi's income statement, but it does result in an increase in total assets, as the gross value of derivatives on the statement of financial position rises. At the end of 2016, the Group had derivatives worth NOK 117 (5) million that were assets in relation to NASDAQ and liabilities in relation to customers. Similarly, it had derivatives worth NOK 14 (203) million that were assets in relation to customers and liabilities in relation to NASDAQ.

(Amounts in NOK million)	**2016**	2015
Derivative assets (non-current)		
Portfolio of cash-settled electricity contracts*	424	966
Currency derivatives and basis swaps	35	0
Embedded currency derivatives in electricity contracts	397	651
Interest rate swaps	28	314
Total derivatives	**884**	**1 931**
Derivative assets (current)		
Portfolio of cash-settled electricity contracts*	139	544
Embedded currency derivatives in electricity contracts	48	69
Interest rate swaps	279	0
Total derivatives	**466**	**613**
Derivative liabilities (non-current)		
Portfolio of cash-settled electricity contracts*	109	4
Currency derivatives and basis swaps	33	303
Interest rate swaps	323	401
Total derivatives	**465**	**708**
Derivative liabilities (current)		
Portfolio of cash-settled electricity contracts*	135	4
Currency derivatives and basis swaps	71	212
Total derivatives	**206**	**216**

* Includes both the portfolio of financial production hedges and the retail customer portfolio.

One of the main reasons for the fall in the value of cash-settled electricity contracts is that some of these contracts were converted from forwards into futures in 2016.

NOTE 27 FAIR VALUE OF FINANCIAL INSTRUMENTS

The below table sets out to what extent observable market data are used to value financial instruments measured at fair value. The financial instruments have been broken down into the various categories used by the Group for classification purposes.

(Amounts in NOK million)	Note	Total	Level 1*	Level 2**	Level 3***
2016					
Derivatives and electricity contracts measured at fair value****	26	1 350	0	905	445
Shares and ownership interests	17	12	0	0	12
Total assets		**1 362**	**0**	**905**	**457**
Supply of free electricity and compensation	21	649	0	0	649
Cash-settled contracts	21	25	0	0	25
Derivatives and electricity contracts measured at fair value****	26	671	0	601	70
Total liabilities		**1 345**	**0**	**601**	**744**
2015					
Derivatives and electricity contracts measured at fair value****	26	2 544	0	1 824	720
Shares and ownership interests	17	14	3	0	11
Total assets		**2 558**	**3**	**1 824**	**731**
Supply of free electricity and compensation	21	531	0	0	531
Cash-settled contracts	21	43	0	0	43
Derivatives and electricity contracts measured at fair value****	26	924	0	924	0
Total liabilities		**1 498**	**0**	**924**	**574**

* Level 1 assets are financial instruments the fair values of which can be determined from market prices in an active market.

** Level 2 assets are financial instruments the fair values of which are estimated using a valuation model that only uses market data as its inputs.

*** Level 3 assets are financial instruments the fair values of which are estimated using a valuation model that does not only use market data as its inputs. In 2016 the Group recognised a net loss of NOK 446 million on level 3 financial instruments.

**** Consist of listed derivatives, embedded derivatives in electricity contracts, cash settled electricity contracts and electricity contracts with physical delivery measured at fair value in accordance with IAS 39

Level 3 assets and liabilities at fair value*

(Amounts in NOK million)	Shares and ownership interests	Supply of free electricity and compensation	Electricity contracts measured at fair value	Cash-settled contracts	Total
Opening balance at 01/01/2016	11	-531	720	-43	157
Gains and losses recognised in profit or loss	0	-118	-346	18	-446
Additions	1	0	0	0	1
Closing balance at 31/12/2016	**12**	**-649**	**374**	**-25**	**-288**

* Liabilities are shown with a minus sign.

FAIR VALUE OF ENERGY DERIVATIVES

In measuring the fair value of energy derivatives, the following parameters and assumptions have been applied:

Electricity prices
Listed derivatives and other bilateral contracts are measured using a smooth forward curve based on the final price on the statement of financial position date. The prices used are discounted.

Agder Energi has a number of perpetual supply contracts (compensation power), which are accounted for in accordance with IAS 39. The market value of these contracts has been calculated based on a 200 year term. NASDAQ market prices are applied for the first five years. For subsequent periods, best estimates of future prices are used.

Foreign currency
For contracts quoted in foreign currency, the calculation for the first five years is based on the exchange rate at the end of the reporting period and the associated forward exchange rates. For subsequent periods separate exchange rate assumptions are used.

Commodities
For certain electricity contracts, the contract price is linked to the prices of various commodities. Valuations are based on the forward prices on the relevant commodity exchanges. If there are no quoted prices for the relevant time period, the commodity prices are inflation-adjusted from the last quoted market price.

Green electricity certificates
Contracts for the purchase and sale of electricity certificates that do not qualify for the own use exemption under IAS 39 are measured at fair value. Valuations are based on forward prices. For contracts with terms that run beyond the period for which market prices are available, a risk discount is applied to the available forward prices.

CO_2
CO_2 contracts are valued using the forward price of emission quotas (EUAs) on NASDAQ and ICE.

Interest rates
Energy derivatives are discounted by the market interest rate curve (swap curve). For the purpose of discounting perpetual supply contracts related to compensation power, a risk-adjusted nominal interest rate is used.

FAIR VALUE OF CURRENCY AND INTEREST RATE DERIVATIVES

Interest rate swaps, currency swaps and currency forwards
Interest rate and currency swaps, as well as currency forwards (including embedded currency derivatives in electricity contracts), are valued by discounting future cash flows to their present value. Expected cash flows are calculated and discounted by looking at the observed market interest rates on the various currencies (swap curves) and the observed exchange rates, which are used to derive forward exchange rates. Where possible, the estimated present values are checked against the equivalent calculations carried out by the counterparties to the contracts.

NOTE 28 FINANCIAL RISK MANAGEMENT

Agder Energi's business activities expose it to market risk, credit risk and liquidity risk. There follows a more detailed description of these risks, and of how they are managed.

MARKET RISK

Market risk primarily consists of electricity price risk, currency risk and interest rate risk. Risk management at Agder Energi focuses on entire portfolios of contracts, and not specifically on contracts that fall within the scope of IAS 39.
There are internal guidelines on exposure to market risk, for both the hedging and trading portfolios. Agder Energi's back and middle office staff have been given responsibility for continuously monitoring compliance with limits on risk exposure. Trading in both cash-settled and physical contracts is monitored systematically and reported regularly, both to senior management and to the Group's risk management section.

MARKET RISK ARISING FROM ELECTRICITY PRICES

Power generation portfolio

Agder Energi's hydroelectric power generation business is exposed to risks arising from fluctuations in prices and volumes, as both future prices and precipitation levels are unknown. The power generation portfolio aims to manage the market risks associated with power generation.

The net exposure of the portfolio at any given time consists of expected future power generation, purchase and sale commitments under long-term physical contracts, as well as contracts on NASDAQ and bilateral cash-settled contracts. Bilateral financial contracts are only used to a limited extent.

Agder Energi enters into contracts and trades various cash-settled instruments in order to secure its revenues from electricity sales. This helps to stabilise revenues from one year to another, which is considered desirable on account of the great uncertainty surrounding electricity prices. Hedging activities take into account both the Group's risk profile and expected electricity prices. For risk management purposes, cash-settled and physical contracts are considered together.

The physical contracts in the portfolio comprise contracts concluded on normal commercial terms, contracts to supply concession power and various contracts to supply free power and compensation power. The durations of the commercial contracts vary, but they all expire by the end of 2030. The Group has perpetual agreements to supply compensation power, and the contracts to supply concession power are also perpetual. These perpetual contracts cover less than ten percent of the Group's mean electricity generation.

Retail customer portfolio

The retail market covers the sale of electricity to consumers in Norway, and to state-owned entities and private companies throughout the Nordic region. It includes both contracts for physical delivery and cash-settled contracts. Contracts for physical delivery are based on spot prices or prices that have been fixed for varying lengths of time. When the retail business has agreed a fixed price with a customer for a specific length of time, this creates an electricity price risk. This risk is hedged by using cash-settled contracts with Nasdaq or other bilateral counterparties within or outside the Group. The retail customer portfolios are exposed to volume and market timing risks, as many of the physical fixed-price contracts are flexible in terms of the volumes delivered. Based on experience, knowledge of normal seasonal variation and knowledge of other specific issues that affect end users' electricity consumption, Agder Energi calculates the volumes likely to be consumed, and which consequently need to be hedged. Limits have been set on the maximum unhedged exposure to price and volume risk. Management is kept informed of the exposure level relative to the specified limits.

With many of our business customers we have contracts to provide management and electricity trading products that reflect their expected actual electricity consumption. This involves entering into cash-settled contracts with retail customers based on back-to-back contracts on NASDAQ or contracts with other bilateral counterparties.

The net exposure of the retail portfolio at any given time consists of sale contracts with prices that are fixed for varying lengths of time, as well as contracts on NASDAQ and bilateral cash-settled contracts. The vast majority of the contracts expire in less than three years, but there are some contracts with longer terms. The portfolio shall minimise electricity price risk and hedge the value of future revenues from this area. The retail portfolio maintains a net long position in cash-settled contracts.

Trading portfolios

Agder Energi has various trading portfolios which are managed independently of its expected power generation. All trading contracts are measured at fair value.

VaR calculations are the most important tool used to manage the risk exposures arising from these portfolios. The financial exposure at any given time is limited in relation to the power generation portfolio. Electricity trading authorisations are expressed in terms of limits on potential losses. At an operating level, risk management focuses on minimising any losses.

Electricity price sensitivity

Impact on profit of gains and losses on assets and liabilities at fair value in the event of electricity price fluctuations

(Amounts in NOK million)	Change in electricity prices	
	-10 %	10 %
Total impact on profit before tax	**198**	**-198**

The table shows a partial risk analysis of how the Group's pre-tax profit would be affected by changes in the values of assets and liabilities in the event of a parallel 10% decrease/increase in forward electricity prices. The analysis only covers assets and liabilities measured at fair value in accordance with IAS 39.

MARKET RISK – CURRENCY

Agder Energi is exposed to currency risk through its electricity generation business and retail business.

The biggest exposure to currency risk arises from physical electricity sales by the electricity generation business. Nord Pool Spot contracts are settled in euros, and Agder Energi has also entered into long-term contracts to sell electricity that are payable in euros. In addition, currency risk arises as a result of financial trading on NASDAQ OMX being settled in euros.

Exposure to currency risk arising from electricity generation over the coming years is hedged in accordance with adopted limits on risk exposure. Exchange rate hedging can be done separately from electricity price hedging.

At the retail business, currency risk arises if retail customers are invoiced in a different currency from the one used to buy physical and cash-settled contracts for electricity, guarantees of origin and electricity certificates. This currency risk is hedged through banks or the parent company and is managed at Group level.

An independent risk management section is responsible for checking that trading in foreign exchange instruments adheres to the adopted strategies and limits on risk exposure.

The table below shows a partial risk analysis of how the Group's pre-tax profit would be affected by changes in the values of assets and liabilities in the event of a parallel 5% decrease/increase in the NOK/EUR exchange rate. A decrease is taken to mean the Norwegian krone strengthening in relation to the euro. The analysis covers changes in the value of currency futures, basis swaps, foreign currency loans, electricity derivatives, long-term contracts to sell electricity measured at fair value under IAS 39 and embedded derivatives within long-term physical contracts.

Impact on profit of gains and losses on assets and liabilities in the event of exchange rate fluctuations

(Amounts in NOK million)	Change in exchange rate (NOK/EUR)	
	5 %	5 %
Total impact on profit before tax	**-123**	**123**

MARKET RISK – INTEREST RATES

The vast majority of the Group's exposure to interest rate risk arises from its debt portfolio. The Group also has an offsetting exposure to interest rate fluctuations through the deductible interest rate for resource rent purposes, and through the reference interest rate applied to the income cap on its grid operating business. Interest rate swaps are used to achieve the desired exposure to interest rates within the Group's debt portfolio. The fixed interest period is set by using fixed-interest loans and interest rate derivatives.

Sensitivity to interest rates is measured by modified duration within a defined period of 1 to 5 years. Average duration at the close of the year was 3.75 years. The chosen strategy aims to minimise net financial expenses over the long term, while reducing risk to an acceptable level. It is based around making use of the Group's natural interest rate hedges, such as the income cap on its grid operating business and the deductible interest rate used to calculate the resource rent tax payable by the power generation business. The group finance department is responsible for taking positions. Exposure to interest rate risk is measured. Current exposure to interest rate risk in relation to the limit specified in the finance strategy is reported monthly to the CFO. Interest rate exposure is also reported to the Group's Board of Directors in the risk report.

Impact on profit of interest rate fluctuations

(Amounts in NOK millions)	Change in interest rates	
	-1 percentage point	+1 percentage point
Impact on interest expense (- indicates higher expense)	70	-70
Gains and losses on interest rate swaps recognised in profit or loss	-200	180
Total impact on profit before tax	**-130**	**110**
Gains and losses on hedging instruments, cash flow hedges	-78	70
Total impact on comprehensive income (before tax)	**-208**	**180**

The table shows a partial risk analysis of how the Group's pre-tax profit would be affected by a parallel 1% increase/decrease in the yield curve. It also shows the impact on other comprehensive income as a result of certain interest rate derivatives being designated as cash flow hedges. All impacts are shown before tax. The analysis only covers interest-bearing liabilities measured at amortised cost under IAS 39 and interest rate derivatives.

Breakdown of interest rates by currency

	2016	2015
Nominal average interest rate, NOK	3,3 %	3,4 %
Nominal average interest rate, euros	2,3 %	3,0 %

Fixed-interest periods within loan portfolio

(Amounts in NOK millions)	1-3 years	3-5 years	Over 5 years	Total
NOK-denominated loans	1 338	-319	2 739	3 758
Euro-denominated loans	415	-277	1 523	1 661
Total	**1 753**	**-595**	**4 262**	**5 420**

The above table shows the volume of loans with fixed-interest periods of more than one year. A negative number implies an increase in hedged volume. The table includes both the face value of fixed-interest loans and the face value of floating-to-fixed interest rate swaps.

CREDIT RISK

Credit risk is the risk that a party to a cash-settled or physical trade will cause his counterparty to incur a loss by failing to fulfil his obligations. Agder Energi takes on counterparty risk by selling and distributing electricity, and by selling other goods and services. The trading of financial instruments also gives rise to counterparty risk. The majority of cash-settled electricity contracts are cleared through NASDAQ. For these contracts, there is assumed to be little counterparty risk. For all other electricity contracts, the maximum exposure to any individual counterparty is determined based on an internal credit rating. The credit rating is based on information such as key financial figures. Counterparties are then grouped in various risk classes, each of which is allocated a maximum exposure level. Bilateral contracts are subject to limits on exposure to individual counterparties, both in terms of value and duration.

In order to limit credit risk, bank guarantees are sometimes demanded when a contract is signed. Parent company guarantees are also used. In those cases, the parent company is assessed and classified in the normal way. Agder Energi has good procedures for ensuring that outstanding receivables are paid on time. An ageing analysis of customers is continuously monitored. Historically Agder Energi's losses on its receivables have been low.

The maximum credit risk arising from energy derivatives is virtually identical to the carrying amount on the statement of financial position. For energy derivatives, the credit risk associated with all contracts traded through NASDAQ is limited by the fact that counterparties provide cash collateral or bank guarantees. For bilateral contracts, including long-term electricity contracts with industrial customers, there is not normally any such security.

LIQUIDITY RISK

Agder Energi is exposed to liquidity risk arising from the fact that its liabilities do not mature at the same time as when cash flows are generated, as well as from variations in margin requirements on futures traded through NASDAQ. Agder Energi manages this risk through liquidity forecasts and simulations, as well as by establishing minimum liquidity requirements. To protect itself against refinancing risk, Agder Energi has set up NOK 1,000 million of credit facilities with banks. This amount is big enough to provide sufficient time to set up alternative financing arrangements. These facilities were unused at the end of the year. The capital markets consider Agder Energi to be a low-risk borrower, and the Group has good access to credit.

Liquidity risk is assessed regularly, and the Group finance department is responsible for ensuring that the Group has sufficient liquidity in relation to its finance strategy. Key figures relating to liquidity risk are included in the Group's risk report to the Board of Directors. Targets have been established for the minimum remaining term to maturity of the debt portfolio, the minimum proportion of loans maturing within a year covered by credit facilities with banks, the minimum liquidity reserve and the use of bank guarantees in relation to electricity trading.

Maturity structure of liabilities

(Amounts in NOK millions)	Due in 2017	Due in 2018	Due in 2019	Due in 2020	Due in 2021	Due after 2021	Unspecified maturity
Bonds and liabilities to financial institutions	1 379	942	1 332	1 355	1 069	2 198	0
Commercial paper and overdraft facility	864	0	0	0	0	0	0
Interest payments	247	206	172	142	122	483	0
Total interest-bearing liabilities	**2 490**	**1 148**	**1 504**	**1 497**	**1 191**	**2 681**	**0**
Financial liabilities at fair value through profit or loss	163	53	9	0	7	2	997
Other non-interest-bearing current liabilities	2 364	0	0	0	0	0	0
Total non-interest-bearing liabilities	**2 527**	**53**	**9**	**0**	**7**	**2**	**997**
Total	**5 017**	**1 201**	**1 513**	**1 497**	**1 198**	**2 683**	**997**

Breakdown of loans by currency

(Amounts in NOK million)	**2016**	2015
NOK-denominated loans *	6 370	7 408
Euro-denominated loans	2 769	1 617
Total	**9 139**	**9 025**

* The Group has issued a bond with a face value of USD 100 million. The bond is presented under NOK-denominated loans, as the Group has used currency swaps to ensure that it has no exposure to USD exchange rates arising from the loan. See Note 29 on accounting hedges.

The Group has 198 million euros of euro-denominated loans. In addition, Agder Energi has used basis swaps to convert NOK 1,000 million of loans into 107 million euros of euro-denominated loans. This is reflected in the above table. The fair value of the swaps at the end of 2016 was NOK 14 million, which was included under derivatives on the statement of financial position; see Note 26. Basis swaps are contracts to swap principal and interest payments between currencies. When the contract expires, the principal is swapped back to the original currency using the exchange rate when the contract was signed.

Euro-denominated loans are used as cash flow hedges to secure future cash flows in euros, but hedge accounting is not used.

Credit facilities with banks

The parent company has a long-term NOK 1,000 million committed facility with a bank to back-stop its short-term borrowing programme in the event of problems in financial markets. The parent company has also set up a cash pooling arrangement with an associated NOK 500 million overdraft facility. At the close of the year, the Group had NOK 1,500 million in total in unused credit facilities.

NOTE 29 ACCOUNTING HEDGES

Agder Energi has various interest swaps linked to specific loans that serve as cash flow hedges, i.e. they are variable-to-fixed interest rate swaps. The face value of the hedged items is 65 million euros.

Beyond this, the Group has two basis swaps that qualify as accounting hedges. The Group has issued a 7-year, USD-denominated fixed-interest bond, which matures in 2017. In relation to this, it has entered into swap agreements which see it receive fixed USD interest payments, and make a combination of fixed and variable NOK interest payments. From an accounting point of view, these swaps are considered to be fair value hedges, which swap a fixed interest rate with payments in USD to a floating interest rate with payments in NOK. For one of these swaps, the Group receives fixed interest payments in USD and pays fixed interest payments in NOK. For accounting purposes, this swap is considered to be partly a swap from a fixed interest rate with payments in USD to a floating rate with payments in NOK, with this part of the swap being designated a fair value hedge. In addition, it is considered to be a swap from a floating rate with payments in NOK to a fixed rate with payments in NOK, and this part of the swap is designated a cash flow hedge.

In addition to the above, until the end of 2013 Agder Energi had designated 168 million euros worth of loans as cash flow hedges of highly probable future revenues from electricity sales. As of 2014, Agder Energi decided not to meet the documentation requirements in relation to accounting for these foreign currency loans as hedges. Consequently, hedge accounting was discontinued for these loans as of 2014. Unrealised foreign exchange losses on the loans that arose during the period of hedge accounting will be reversed through profit or loss in the same period as the hedged electricity sales are recognised.

For its other financial hedging relationships, the Group does not satisfy the extensive documentation requirements specified in the IFRS rules on hedge accounting.

Amounts in NOK million	2016	2015
Fair value of derivatives designated as hedging instruments		
Derivatives designated as fair value hedges	285	321
Derivatives designated as cash flow hedges	-99	-103
Total fair value of derivatives designated as hedging instruments	**186**	**218**
Fair value hedges		
Gains/losses on derivatives used as fair value hedges	-37	132
Gains/losses on hedged items in fair value hedges, hedged risk	37	-132
Hedge ineffectiveness recognised in profit or loss	**0**	**0**
Cash flow hedges		
Gains/losses recognised in statement of comprehensive income	5	8
Reclassified to profit or loss	17	0
Total gains and losses on hedging instruments recognised in statement of comprehensive income	**21**	**8**
Cash flow hedge ineffectiveness recognised in profit or loss	**0**	**0**

NOTE 30 MORTGAGED ASSETS, LIABILITIES AND GUARANTEES ISSUED

Mortgages
Agder Energi AS has no mortgage debt. Subsidiaries held NOK 1 million in mortgage debt. In addition, NOK 27 million of lease liabilities are classified as financial leases and hence included on the statement of financial position.

Liabilities and guarantees issued
Agder Energi has no covenants relating to financial key figures in its loan agreements.

Agder Energi's loan agreements do contain negative pledge clauses, which also cover its subsidiaries. This means that any new security interests require the consent of the lenders.

Agder Energi has NOK 589 million in off-balance bank guarantees. NOK 163 million of this relates to a cash-settled power exchange agreement, NOK 52 million to electricity trading, NOK 52 million to tax deducted at source, NOK 145 million mainly to an internal guarantee for transmission tariffs passed on to customers and NOK 177 million to contractual guarantees.

At the close of the year, the parent company had issued guarantees worth NOK 8 million in relation to subsidiaries' external liabilities.

Contractual obligations
At any given time the Group has several ongoing investment projects that involve obligations to fulfil contracts with subcontractors. The Group also has obligations arising from its ownership interests in joint arrangements and water management associations; cf. Note 16.

Agder Energi Varme has entered into a long-term contract to buy heating energy from the municipally-owned enterprise Returkraft. The contract, which runs for 20 years with an optional extension, commits Agder Energi Varme to buying an agreed volume from Returkraft's waste-to-energy plant in Kristiansand from 2010 onwards.

Since 2010, Agder Energi has had its head office in leased premises at Kjøita in Kristiansand. It has signed a 15+5-year lease on the building with the lessor KN Kjøita AS. The companies in the Otera Group mainly occupy leased premises. In addition, several companies in the Group have leased cars. NOK 83 million was expensed in relation to these leases in 2016.

NOTE 31 CONTINGENT LIABILITIES AND EVENTS AFTER THE END OF THE REPORTING PERIOD

Agder Energi's operations are extensive, and it can therefore get involved in major and minor disputes from time to time.

Contingent liabilities

Tax

The Central Tax Office for Large Enterprises has questioned the tax treatment of one of Agder Energi Vannkraft's contracts to supply free electricity in the period since 2011. The company has commented on, and responded to, the tax office's preliminary evaluation. If the tax office's interpretation of the tax rules were to be applied, there would be little immediate impact on the Group's income statement. On account of negative resource rent carryforwards, there would also be little immediate impact on cash flows. However, in the future it could increase the Group's tax expense and reduce its cash flows by NOK 5-10 million per year.

Final payment for construction of power station

The Brokke Nord/Sør and Skarg power station hydroelectric project was completed in May 2014. Otra Kraft DA was the client for the project. The project was executed by two main contractors. One of the main contractors was responsible for the water transfer systems at Brokke Sør. The other main contractor was responsible for the construction of Skarg power station, the water transfer systems to the upper reservoir for Skarg power station and Sarvsfoss dam.

Otra Kraft, in which Agder Energi holds a 68.6 percent ownership interest, was in December 2015 sued by the main contractor responsible for the construction of Skarg power station, the water transfer systems to the upper reservoir for Skarg power station and Sarvsfoss dam. The total contract value of this part of the project was NOK 472 million.

The dispute over the final payment due was heard by the district court at the start of 2017, and the contractor claimed an additional payment of NOK 158 million. The district court is expected to issue a decision in April 2017.

Otra Kraft considers that the main contractor has received the full amount that he is entitled to. Based on this assessment, no provision has been made for this case in Agder Energi's 2016 financial statements. If the main contractor's suit were to be successful, Agder Energi's share of the project cost would increase by approximately NOK 108 million.

Events after the end of the reporting period

In 2017 Agder Energi has sold all of the shares in Otera XP. In 2016 the company made an operating profit of NOK 9 million on turnover of NOK 133 million. The disposal will result in a small accounting gain in 2017.

NOTE 32 MANAGEMENT COMPENSATION, ETC.

Board of Directors

The compensation of the Board of Directors and Corporate Assembly for 2016 was NOK 1,106,600 and NOK 17,200 respectively. The equivalent figures in 2015 were NOK 967,500 and NOK 16,000 respectively. The Board members are not entitled to any special termination benefits such as bonuses, profit-sharing or options.

All of the stated figures exclude employers' NICs.

Board of Directors

(Amounts in NOK)	Directors' fees	Board meetings attended
Lars Erik Torjussen, chair	229 165	9
Tine Sundtoft, deputy chair*	99 169	4
Jill Heidi Eklund Akselsen*	87 919	6
Bente Z. Rist, Board member**	45 830	2
Leif Atle Beisland, Board member	131 250	9
Steinar Bysveen, Board member***	0	7
Steinar Asbjørnsen, Board member***	0	9
Marit Grimsbo, Board member***	0	7
Siw Linnea Poulsson, Board member***	0	9
Johan Ekeland, employee representative	110 000	8
Øyvind Østensen, employee representative	110 000	9
Gro Granås, employee representative	110 000	8
Tore Kvarsnes, employee representative	110 000	9

* Joined the Board in June 2016.

** Left the Board in June 2016.

*** Employees of Statkraft are not paid Directors' fees.

In 2016, the audit committee appointed by the Board received NOK 15,000 in fees.

In 2016, Board members' deputies received NOK 73,281 in fees.

None of the Board members received compensation from any other companies in the Group, with the exception of the employee representatives, who receive salaries for their ordinary jobs. Their compensation as Agder Energi employees is not included in the above figures. No Board members have any loans from the company.

Senior management team

(Amounts in NOK 000s)	Basic salary	Bonus 2)	Other benefits 1)	Total taxable income	Pension expense
Tom Nysted – CEO	3 133		139	3 272	777
Pernille K. Gulowsen – CFO	1 775		111	1 886	528
Steffen Syvertsen – Business Area Director,					
Marketing and Business Development	1 974	715	118	2 807	75
Frank Håland – Director of HR and Shared Services	1 776		111	1 887	75
Jan Tønnessen – Business Area Director, Hydroelectric Power	1 776		111	1 887	81
Edvard Lauen – Business Area Director, Energy Management	2 236		131	2 367	617

1) Other benefits include mileage allowance, mobile phones and other minor benefits. A flat in Kristiansand has been made available to the CEO.

2) Bonus paid out in 2016. This amount includes holiday pay that will be received in 2017.

Loans/guarantees issued and share option schemes

No members of the senior management team have been granted loans or had guarantees issued on their behalf by Agder Energi. Agder Energi does not have any share option schemes for management or other employees.

Bonuses and pension plans

The Business Area Director for Marketing and Business Development is entitled to a bonus worth up to four months' gross basic salary based on an assessment of the results achieved against defined goals. The rest of the senior management team have no bonus agreements for 2016.

The CEO has a pension plan that allows him to retire at the age of 67 with a pension equivalent to 66% of his qualifying salary. The qualifying salary is based on his regular salary, and the cost of his pension includes retirement pension benefits in excess of 12G, which are not covered by the National Insurance Scheme or the public sector occupational pension plan. In order to receive this pension, he must have 30 years of qualifying service. The CEO must retire at the age of 67, but between the ages of 62 and 67 both the company and the CEO can decide that he should vacate his position as CEO. The notice period is six months.

For other members of the senior management team, the notice period is also six months. There are no special agreements on termination compensation. The executive directors Pernille K. Gulowsen and Edvard Lauen are entitled to a pension equivalent to 66% of their qualifying salaries on retirement at the age of 67. In order to receive this pension, they must have 30 years of qualifying service. These two employees have pension agreements which state that their qualifying salaries are based on their regular salaries, and the cost of their pensions includes retirement pension benefits in excess of 12G, which are not covered by the National Insurance Scheme or the public sector occupational pension plan. Jan Tønnessen, Steffen Syvertsen and Frank Håland have defined contribution pension plans in line with the Group's standard pension plan.

NOTE 33 RELATED PARTIES

All subsidiaries and joint arrangements specified in Note 16 are classified as related parties of Agder Energi. The people specified in Note 32, who are members of the Group's senior management team or Board of Directors, are also related parties of Agder Energi.

Agder Energi's largest shareholder is Statkraft Industrial Holding, which owns 45.525% of the shares in the company. Sales to companies in the Statkraft Group amounted to NOK 29 million in 2016 and NOK 69 million in 2015. Purchases from those companies amounted to NOK 144 million in 2016 and NOK 76 million in 2015. Statkraft Industrial Holding AS is also a joint owner of several of the joint arrangements in which Agder Energi holds an ownership interest.

All transactions with related parties are carried out on an arm's length basis.

NOTE 34 ACQUISITIONS, DISPOSALS AND BUY-OUT OF NON-CONTROLLING INTERESTS

Acquisitions

The table below shows the businesses that were acquired in 2016. All acquisitions are accounted for using the acquisition method. The list below does not include capital increases or other financing from Agder Energi.

Acquisitions in 2016

Company	Country	Interest bought in 2016	Ownership interest in % at 31/12/2016	Activities
Telge Kraft AB 1)	Sweden	100,0	100,0	Retail market
IPnett AS 2)	Norway	100,0	100,0	Telecommunications
Nordgröön Energie GmbH & Co. KG	Germany	61,4	61,4	Generators
LedlightGroup AS	Norway	100,0	100,0	Lighting

1) The parent company is based in Sweden and has subsidiaries in Denmark, Finland and Norway. On being acquired, the company changed its name to LOS Energy AB.

2) The parent company is based in Norway and has subsidiaries in Denmark and Sweden.

The total cost of ownership interests acquired in 2016 was NOK 196 million.

In November LOS acquired 100% of the shares in Telge Kraft (now LOS Energy), making LOS one of the biggest electricity retailers in the Nordic region. The acquisition is expected to produce synergies through economies of scale, opportunities for cross-selling and an integrated model for the whole Nordic region.

Goodwill mainly arises through these synergies, and is not tax-deductible.

The acquisition contributed NOK 411 million of turnover to the consolidated financial statements for 2016, and NOK 3 million of net income. Had LOS Energy been consolidated from 1 January 2016, its contribution to the consolidated financial statements for 2016 would have been NOK 1,880 in turnover and NOK 10 million in net income.

The table below shows the purchase price allocation for the acquisition of Telge Kraft. It is provisional, however, as the identifiable assets have not yet been finally assessed.

Calculation of net assets and goodwill at the time of acquisition of Telge Kraft

(Amounts in NOK million)	Carrying amounts (IFRS) at acquisition date	Asset write-up	Acquisition statement of financial position
Intangible assets	0	29	29
Inventories	36	6	42
Trade debtors and other current receivables	512	0	512
Derivatives	0	43	43
Bank deposits	22	0	22
Deferred tax	0	-17	-17
Trade payables and other current liabilities	-542	0	-542
Net assets	**28**	**61**	**89**
Non-controlling interests			0
Net assets acquired			**89**
Goodwill			37
Total net assets acquired plus goodwill			**126**
Cash consideration for shares			126
Total consideration			**126**

NetNordic (in which Agder Energi has a 59.4% interest) acquired all of the shares in IPnett in August. The acquisition makes NetNordic one of Scandinavia's biggest, specialist system integrators in the fields of networks, broadband, security, integration and cloud computing. The acquisition is expected to reduce costs through economies of scale.

Goodwill mainly arises through these synergies, and is not tax-deductible.

The acquisition contributed NOK 182 million of turnover to the consolidated financial statements for 2016, and NOK 14 million of net income. Had IPnett been consolidated from 1 January 2016, its contribution to the consolidated financial statements would have been NOK 451 million in turnover and NOK 1 million in net income.

The table below shows the purchase price allocation for the acquisition of IPnett. It is provisional, however, as the identifiable assets have not yet been finally assessed.

Calculation of net assets and goodwill at the time of acquisition of IPnett

(Amounts in NOK million)	Carrying amounts (IFRS) at acquisition date	Asset write-up	Acquisition statement of financial position
Deferred tax assets	7	0	7
Intangible assets	3	21	24
Property, plant and equipment	17	0	17
Inventories	31	0	31
Trade debtors and other current receivables	75	0	75
Bank deposits	47	0	47
Interest-bearing non-current liabilities	-11	0	-11
Interest-bearing current liabilities	-17	0	-17
Trade payables and other current liabilities	-129	0	-129
Net assets	**24**	**21**	**45**
Non-controlling interests			0
Net assets acquired			**45**
Goodwill			21
Total net assets acquired plus goodwill			**66**
Cash consideration for shares			43
Consideration for shares settled with shares in acquirer			23
Total consideration			**66**

Acquisitions in 2015

Company	Country	Interest bought in 2015	Ownership interest in % at 31/12/2015	Activities
Otera Sverige AB	Sweden	24,0	100,0	Financial investments
NetNordic Enterprise Communications AS	Denmark	100,0	100,0	Telecommunications

The total cost of ownership interests acquired in 2015 was NOK 46 million.

Disposals

In 2016 Agder Energi sold its 51.2% shareholding in Bjerkreim Vind. The income statement impact of the disposal was insignificant.

NOTE 35 GROUP STRUCTURE

The table below shows the companies in the Agder Energi Group at 31 December 2016.

Subsidiaries	Ownership interest in %*		Country
Agder Energi Nett AS	100,0		Norway
Agder Energi Vannkraft AS	100,0		Norway
Agder Energi Kraftforvaltning AS	100,0		Norway
LOS AS	100,0		Norway
LOS Energy Consulting AB	100,0		Sweden
LOS Energy AB	100,0		Sweden
LOS Energy Trading AB	100,0		Sweden
LOS Energy ApS	100,0		Denmark
LOS Energy OY	100,0		Finland
LOS Kraft AS	100,0		Norway
Otera AS	100,0		Norway
Otera Infra AS	100,0		Norway
Otera XP AS	100,0		Norway
Otera Sverige AB	100,0		Sweden
Otera AB	70,0		Sweden
Otera Ratel AB	100,0	(70,0)	Sweden
Otera Ratel AS	100,0	(70,0)	Norway
Agder Energi Varme AS	100,0		Norway
Norsk Varme- og Energiproduksjon AS	100,0		Norway
Baltic Hydroenergy AS	100,0		Norway
UAB Baltic Hydroenergy	100,0		Lithuania
JSC Latgales Energetika	64,0		Latvia
Stoaveien 14 AS	100,0		Norway
Stoa 192 AS	100,0		Norway
Stoa 234 AS	100,0		Norway
Trøngsla 8 AS	100,0		Norway
Agder Energi Venture AS	100,0		Norway
NEG AS	67,1		Norway
Norsk Energigjenvinning AS	100,0	(67,1)	Norway
NEG Skog AS	100,0	(67,1)	Norway
NEG Flis AS	100,0	(67,1)	Norway
Norsk Biobrensel AS	100,0	(67,1)	Norway
Norbio AB	100,0	(67,1)	Sweden
Norbio Energi AS	100,0	(67,1)	Norway
NetNordic Holding AS	59,4		Norway
NetNordic Bedriftskommunikasjon AS	100,0	(59,4)	Norway
NetNordic Bredbånd AS	100,0	(59,4)	Norway
NetNordic Services AS	100,0	(59,4)	Norway
NetNordic Finland OY	100,0	(59,4)	Finland
NetNordic AB	100,0	(59,4)	Sweden
NetNordic Enterprise Communications AB	100,0	(59,4)	Sweden
NetNordic Denmark AS	100,0	(59,4)	Denmark
NetNordic Enterprise Communications AS	100,0	(59,4)	Denmark
Ipnett AS	100,0	(59,4)	Norway

* Figures in brackets indicate Agder Energi AS's indirect ownership interest in companies where it holds minority interests through intermediate companies.

Subsidiaries	Ownership interest in %*		Country
Ipnett AB	100,0	(59,4)	Sweden
Imtech AB	100,0	(59,4)	Sweden
Netteam AB	100,0	(59,4)	Sweden
IPNett AS	100,0	(59,4)	Denmark
Nordgröön Energie GmbH	61,4		Germany
HPE Holding AS	100,0		Norway
Cleanpower AS	100,0		Norway
Bioenergy AS	67,9		Norway
Bio Energy Sales AS	100,0	(67,9)	Norway
Lahaugmoen Drift AS	100,0	(67,9)	Norway
Smart Grid Norway AS	97,3		Norway
Verdisikring Safety AS	100,0	(97,3)	Norway
Ledlight Group AS	100,0	(97,3)	Norway
Meventus AS	95,0		Norway
Meventus ApS	100,0	(95,0)	Denmark
Meventus AB	100,0	(95,0)	Sweden
ReSiTec AS	95,0		Norway
Netsecurity AS	81,9		Norway
AE Venture Energy AS	93,4		Norway
Enfo AS**	93,5	(93,8)	Norway

* Figures in brackets indicate Agder Energi AS's indirect ownership interest in companies where it holds minority interests through intermediate companies.

**6.5% is owned directly by Agder Energi Venture AS

Non-controlling interests

Most of the Group's non-controlling interests relate to the three subsidiary groups Otera AB, NEG AS and NetNordic Holding AS. Their turnover and profit are shown in the table below, together with a summary statement of financial position.

(Amounts in NOK million)	Otera AB		NEG AS		NetNordic Holding AS	
	2016	2015	**2016**	2015	**2016**	2015
Operating revenues	597	309	192	235	582	373
Net income	26	15	1	9	-4	13
Non-controlling interest's share of net income	8	5	0	3	-2	5
Assets	186	136	124	138	363	160
Liabilities	263	249	84	100	318	107
Equity 1)	-77	-113	40	38	45	52
Non-controlling interest's share of equity	0	0	13	13	18	21

1) In the case of Otera AB, the parent company is a pure holding company, and the group's activities are carried out through two subsidiaries. The group's negative equity is due to a business combination that resulted in the parent company being financed through a vendor credit from its sister company Otera Sverige AB.

NOTE 36 CHANGES TO ACCOUNTING PRINCIPLES AND CORRECTION OF ERRORS

As described under accounting principles, in 2016 Agder Energi changed its accounting principles in three areas, the first two of which involved correcting errors, while the third one was a change of principle:

1) After a reassessment, derivatives expiring more than one year after the statement of financial position date are now classified as non-current. All foreign currency derivatives were previously classified as current.
2) In 2016 the Financial Supervisory Authority of Norway ordered Agder Energi to change the way in which it accounts for long-term electricity contracts denominated in Euros. The financial statements have been presented in accordance with the Financial Supervisory Authority's order. This involves separating out an embedded currency derivative measured at fair value from long-term electricity contracts settled in euros.
3) Gains and losses on foreign currency contracts and loans were previously considered financial items. After a reassessment, they are now classified as operating items.

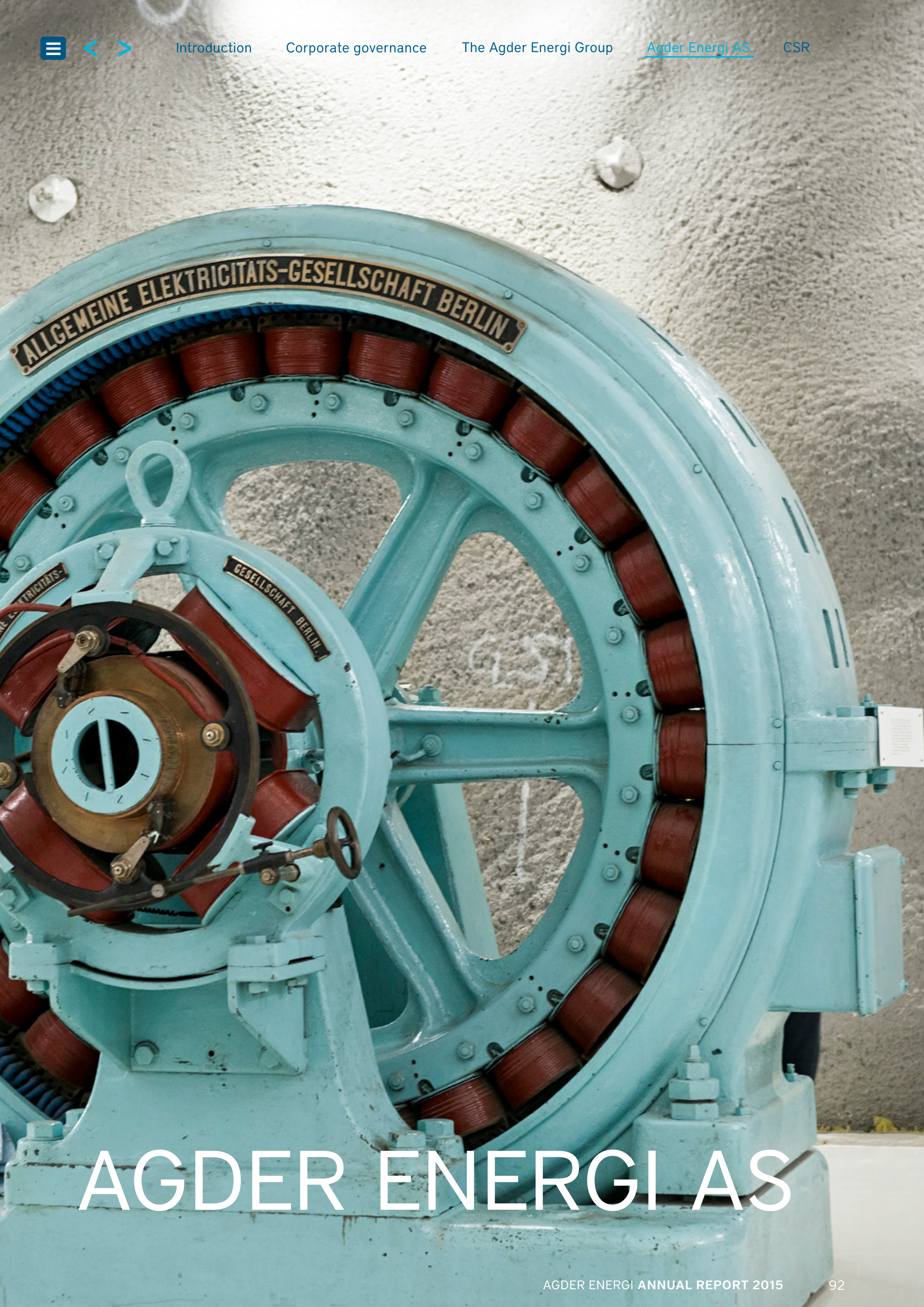
These three changes to the accounting principles have been implemented retrospectively, so comparative figures have been restated. The impact on the comparative figures for 2015 in the statement of financial position and income statement respectively are shown in the tables below.

	31.12.2015			
(Amounts in NOK million)	Previously reported	Change 1)	Change 2)	Restated
Derivatives (non-current assets)	0	1 280	651	1 931
Derivatives (current assets)	1 824	-1 280	69	613
Equity	4 569	0	324	4 893
Deferred tax	817	0	396	1 213
Derivatives (non-current liabilities)	0	708	0	708
Derivatives (current liabilities)	924	-708	0	216

	Full-year 2015			
(Amounts in NOK million)	Previously reported	Change 2)	Change 3)	Restated
Energy sales	4 835	0	-163	4 672
Unrealised gains and losses on currency and energy contracts	741	209	-148	802
Energy purchases	-2 212	0	12	-2 200
Unrealised gains and losses on interest rate swaps	-138	0	148	10
Financial expenses	-425	0	151	-274
Income tax	-467	-52	0	-519
Resource rent tax	-251	-63	0	-314
Net income	1 211	94	0	1 305

The impact of change number 3 on income statement for 2016 is shown in the table below:

	Full-year 2016		
(Amounts in NOK million)	Previous accounting principle	Change 3)	New accounting principle
Energy sales	6 255	-211	6 044
Unrealised gains and losses on currency and energy contracts	-1 205	586	-619
Energy purchases	-3 431	2	-3 429
Unrealised gains and losses on interest rate swaps	664	-586	78
Financial expenses	-475	209	-266
Net income	262	0	262



AGDER ENERGI AS

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FINANCIAL STATEMENT

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NOTES

INCOME STATEMENT

(Amounts in NOK million)	Note	2016	2015
Other operating revenues	1	277	256
Total operating revenues		**277**	**256**
Employee benefits	1, 2, 3	-183	-178
Depreciation and impairment losses	8, 9	-14	-13
Other operating expenses	1, 4, 5	-199	-177
Total operating expenses		**-396**	**-368**
Operating profit		**-118**	**-112**
Financial income	1, 6	1 643	2 028
Financial expenses	1, 6	-575	-1 052
Net financial income/expenses		**1 068**	**976**
Profit before tax		**950**	**864**
Tax expense	7	-165	-176
Net income		**785**	**688**
Allocation of profit:			
Proposed dividends	13	607	660
Transferred to other reserves	13	178	28
Total appropriations		**785**	**688**
Earnings per share/Earnings per share, diluted (NOK)		291	255

STATEMENT OF FINANCIAL POSITION

(Amounts in NOK million)	Note	2016	2015
Intangible assets	8	12	18
Property, plant and equipment	9	38	37
Investments in subsidiaries	11	3 316	3 274
Investments in associates	11	42	56
Other non-current financial assets	10	7 947	7 259
Total non-current assets		**11 355**	**10 643**
Receivables	1	1 331	1 299
Cash and cash equivalents	12	744	919
Total current assets		**2 075**	**2 218**
TOTAL ASSETS		**13 430**	**12 862**
Paid-in capital	13	1 907	1 907
Retained earnings	13	1 178	963
Total equity		**3 085**	**2 870**
Deferred tax	7	118	88
Provisions	3, 16	333	143
Interest-bearing non-current liabilities	14	7 962	8 135
Total non-current liabilities		**8 413**	**8 366**
Interest-bearing current liabilities	14, 17	850	550
Tax payable	7	91	118
Other non-interest-bearing current liabilities	1, 13, 15	991	957
Total current liabilities		**1 932**	**1 626**
TOTAL EQUITY AND LIABILITIES		**13 430**	**12 862**

Kristiansand, 29 March 2017
Board of Directors of Agder Energi AS

Lars Erik Torjussen
Chair

Tine Sundtoft
Jill Akselsen
Leif Atle Beisland
Steinar Bysveen

Marit Grimsbo
Steinar Asbjørnsen
Siw Linnea Poulsson
Johan Ekeland

Øyvind Østensen
Tore Kvarsnes
Gro Granås
Tom Nysted
CEO

STATEMENT OF CASH FLOWS

(Amounts in NOK million)	Note	2016	2015
Cash flow from operating activities			
Profit before tax		950	864
Depreciation and impairment losses	6, 8, 9	14	170
Income from investments in subsidiaries		-1 109	-1 104
Tax paid		-119	-90
Change in net working capital, etc.		106	-406
Net cash provided by operating activities		**-158**	**-566**
Investing activities			
Purchase of property, plant, equipment and intangible assets		-9	-26
Acquisitions/financial investments and equity investments in subsidiaries		-42	-36
Net change in loans		-619	-455
Sale of property, plant, equipment and intangible assets		2	7
Sale of businesses/financial assets		253	361
Net cash used in investing activities		**-415**	**-149**
Financing activities			
New long-term borrowings		1 113	1 450
Repayment of long-term borrowings		-1 410	-773
Net change in current interest-bearing liabilities		300	250
Group contribution received		913	1 474
Group contribution paid out		-153	-473
Dividends received from subsidiaries		295	182
Dividends paid		-660	-700
Net cash used in financing activities		**398**	**1 410**
Net change in cash and cash equivalents		**-175**	**695**
Cash and cash equivalents at start of year		919	224
Cash and cash equivalents at end of year		744	919

ACCOUNTING PRINCIPLES

The financial statements have been presented in compliance with the Norwegian Accounting Act and generally accepted accounting principles.

Accrual, classification and measurement principles
In accordance with generally accepted accounting principles, the financial statements are based on the historical cost, revenue recognition, matching, conservatism, hedging and congruence principles. In the event of uncertainty, best judgement is applied. Financial statements are prepared using uniform principles that are applied consistently over time. The financial statements have been prepared on the assumption of the business being a going concern.

Recognition of revenues and expenses
Revenues and expenses are recognised in profit or loss when they are earned/incurred. Revenues from the sale of goods are recognised on delivery. Revenues from services are recognised in the income statement as they are supplied.

General principles for measurement and classification
Current assets and current liabilities cover items that are due for payment within one year of the transaction date, as well as items relating to the business cycle. Other items are classified as non-current assets or non-current liabilities. Current assets are carried at the lower of cost and fair value. Current liabilities are carried at their nominal value on the initial date.

Non-current assets are carried at cost, but are written down to the recoverable amount if there is evidence of impairment, in compliance with the Norwegian accounting standard on the impairment of non-current assets.

Intangible assets
Intangible assets are included on the statement of financial position if they meet the criteria for capitalisation, with the exception of research and development costs, which are expensed as they are incurred. This means that expenses associated with intangible assets are included on the statement of financial position if it is considered probable that future economic benefits attributable to the assets will flow to the company and it has been possible to reliably measure the acquisition cost of the asset.

Property, plant and equipment
Property, plant and equipment is depreciated in a straight line over its anticipated useful life. Maintenance on property, plant and equipment is considered an operating expense, while upgrades and replacements are added to the acquisition cost of the asset and are depreciated together with the asset. The distinction between maintenance and upgrades/improvements is judged on the basis of the condition of the asset when it was acquired.

Non-current financial investments
The historical cost method is used for shares, bonds and other financial instruments. This means that shares/ownership interests are carried at cost, and any dividends received are recognised as other financial income. Intra-group distributions received are recognised in the year that they are allocated by subsidiaries. Dividends from subsidiaries are also recognised in the year that they are appropriated by the subsidiary. Investments are written down to fair value if there is evidence of other-than-temporary impairment. Dividends from associates are recognised when they are approved.

Interest rate swaps
Interest rate swaps are used to match the duration and interest rate sensitivity of the company's debt portfolio to the Group's policy and strategy. Interest rate swaps are managed within the context of the Group's overall debt portfolio. Instruments in the hedging portfolio thus meet the criteria for hedge accounting, which means that all profit and loss effects are recognised over the contract period and the value of the portfolio is kept off the statement of financial position.

Foreign currency and currency instruments
The finance department manages the Group's overall exposure to currency risk. To some extent Agder Energi AS acts as a counterparty within the Group when it does not make sense to hedge subsidiaries' exposure to currency risk directly in the market. Where the parent company has acted as a counterparty in conjunction with the need of subsidiaries to hedge their currency risk exposure arising from electricity sales, the contracts are accounted for as part of the Group's currency hedging activities. These contracts are presented on the statement of financial position at fair value, with changes in fair value recognised through profit or loss.

Receivables
Trade debtors and other receivables are presented on the statement of financial position at their nominal value less anticipated bad debts. Provisions for bad debts are made on the basis of individual assessments of the individual receivables.

Cash pooling arrangement
Agder Energi AS is part of a cash pooling arrangement with its subsidiaries. This means that the Group has a joint bank account for short-term deposits and short-term loans. Interest income and interest expenses arising from the cash pooling arrangement are classified as external in the company's income statement.

Pensions
Defined benefit pension plan
Pension costs and pension liabilities are calculated using a linear accumulation model based on assumptions relating to discount rates, projected salaries, the level of benefits from the National

Insurance Scheme and future returns on pension plan assets, as well as actuarial calculations of mortality, voluntary turnover, etc. Pension plan assets are measured at their fair value, and have been deducted in the net pension liabilities presented on the statement of financial position. Remeasurements over the course of the year are recognised in the statement of financial position at the end of the year, so that the carrying amount always reflects the full extent of the liabilities. In the event of changes in pension obligations arising from plan amendments, the portion of the change that has already been accrued at the time of the amendment is recognised directly in the income statement. Pension expenses and net pension liabilities include a charge for employers' national insurance contributions.

Defined contribution plan

For defined contribution plans, the pension expense is equivalent to the premiums/contributions paid over the course of the year.

Taxes

Income tax is calculated in accordance with standard tax rules. The tax expense in the income statement consists of tax payable and changes in deferred tax liabilities/assets. Tax payable is calculated on the taxable profit for the year. Deferred tax liabilities/assets are calculated on the basis of the temporary differences that exist between accounting and tax values, as well as the tax effect of any loss carryforwards. Deferred tax assets are only recognised on the statement of financial position if it is likely that they will be realised in the future. Tax on equity transactions is recognised directly in equity.

Liabilities

Agder Energi AS uses the amortised cost principle, and consequently the effective interest rate method, for interest and liabilities. Under the effective interest rate method, the carrying amount of a loan is the sum of future cash flows attributable to the loan discounted by the original effective interest rate calculated for the cash flows. This means that loan arrangement fees are deducted on initial recognition, and that over the duration of the loan, the difference between the nominal interest rate (the rate charged) and the effective interest rate (the rate expensed) is recognised in the statement of financial position under amortisation. In practice loans are therefore initially recognised at their face value less arrangement fees, which means that the debt is not carried on the statement of financial position at its nominal value.

A provision is made for Agder Energi AS's proposed dividends at 31 December.

Contingent liabilities and contingent assets

If there is a greater than 50% probability that an uncertain liability will need to be settled, a provision is made based on a best estimate of what the settlement will be. If there is a smaller than 50% probability that an uncertain liability will need to be settled, information is provided in the notes. Contingent assets are not recognised, but if there is a greater than 50% probability that the company will receive payment, information is provided in the notes. The amount is not estimated if it would be inappropriate to do so under generally accepted accounting principles. Furthermore, under generally accepted accounting principles entities shall be able to recognise liabilities/provide information based on best judgement without this prejudicing the outcome of any court case.

Statement of cash flows

The statement of cash flows has been prepared using the indirect method. Cash and cash equivalents includes cash, bank deposits and other short-term, liquid investments that can be converted into known cash values immediately and at insignificant risk, and that mature less than three months after their acquisition dates.

NOTES

NOTE 1 INTRA-GROUP TRANSACTIONS AND BALANCES

(Amounts in NOK million)	Note	**2016**	2015
Intra-group balances			
Other non-current financial assets	10	7 455	6 825
Trade receivables		30	56
Other current receivables		1 241	1 225
Total receivables		**8 726**	**8 106**
Trade payables	15	2	1
Other current liabilities	15	239	153
Total liabilities		**240**	**154**
Revenues and expenses relating to intra-group transactions			
Energy sales		0	0
Other operating revenues		258	236
Total operating revenues		**258**	**236**
Other operating expenses		20	13
Total operating expenses		**20**	**13**
Income from investments in subsidiaries	6	1 109	1 104
Other interest and financial income		232	267
Other interest and financial expenses		39	65
Net financial income/expenses		**1 304**	**1 306**

NOTE 2 EMPLOYEE BENEFITS, MANAGEMENT COMPENSATION, ETC.

(Amounts in NOK million)	Note	**2016**	2015
Employee benefits			
Salary		144	128
Employers' National Insurance Contributions		20	20
Pension expense including employers' NICs	3	11	20
Other benefits and reimbursements		8	10
Total		**183**	**178**
Number of full-time equivalents at 31 Dec.		**153**	**147**

For details of management compensation and non-executive Directors' fees at Agder Energi AS, please see Note 32 to the consolidated financial statements.

NOTE 3 PENSIONS

The company's pension plans
For employees taken on before 1 April 2007, the company has a defined benefit pension plan run by Agder Energi Pensjonskasse, which meets the legal requirements for public sector occupational pension plans. Employees taken on after that date are members of a defined contribution pension plan.

Defined benefit pension plans
The Group has a funded public pension plan for its employees, which entitles them to defined future pension benefits, based on number of years of service and salary on reaching retirement age. Provisions for pension liabilities in the pension plan are calculated using a linear accumulation model based on methods and assumptions that comply with the relevant current accounting standard. Pension liabilities were calculated by an independent actuary in December, and represent an estimate of the situation at 31 December 2016. Similarly, the gross pension plan assets at 31 December 2016 were estimated by the Group's management in December.

Certain current and former senior managers are entitled to pension benefits over and above those covered by the company pension plan. Provisions for these plans are presented under unfunded pension liabilities.

Remeasurements that arose during the year were recognised directly in the statement of financial position, increasing equity by NOK 37 million.

Early retirement schemes (AFP schemes)
Employees are covered by different AFP schemes, depending on whether they are part of the defined benefit or defined contribution pension plans.

Employees covered by the public pension plan have, in addition to their occupational pension, an early retirement scheme, known as an AFP scheme. This is a so-called public sector AFP scheme, set up as of 2011. The scheme does not receive any government subsidy. The company is therefore liable for all of its obligations under the scheme.

Employees covered by the defined contribution plan are entitled to a private AFP scheme. This AFP scheme is funded by contributions made by the employer. The contribution for 2016 was 2.5% (2015: 2.4%). The contribution is likely to increase further over the coming years.

Actuarial assumptions
When calculating the pension expense and net pension liabilities, a number of assumptions have been made (see table below). The discount rate is based on the interest rate on covered bonds. The assumptions used to calculate pension liabilities are consistent with the most recent guidelines on actuarial assumptions as of 31 December 2016.

The company uses the latest version of the Norwegian life tables (GAP 07), for life expectancy, probability of disability, etc.

(Amounts in NOK million)	**2016**	2015
The pension expense for the year has been calculated as follows		
Current service cost	11	16
Interest income/expenses on pension assets/liabilities	-5	-1
Employers' National Insurance Contributions	2	2
Employee contributions	-1	-1
Pension expense for the year, defined benefit plans	**7**	**17**
Defined contribution pension plans (including employers' NICs)	4	3
Total pension expense recognised in the income statement	**11**	**20**

The total pension expense also includes unfunded plans for senior managers.

Pension liabilities and pension plan assets

(Amounts in NOK millions)	**2016**	2015
Gross funded pension liabilities	339	342
Unfunded pension liabilities	108	112
Gross pension liabilities at 31 Dec. (including employers' NICs)	**447**	**454**
Fair value of pension plan assets at 31 Dec.	709	644
Net pension liabilities at 31 Dec	**-262**	**-190**

Change in defined benefit pension liabilities

Net defined benefit pension liabilities at 1 Jan.	-190	-13
Pension expense recognised in profit or loss	8	17
Company contributions incl. employers' NICs	-29	-36
Benefit payments on unfunded pension plans	-3	-2
Remeasurements	-50	-156
Net pension liabilities at 31 Dec.	**-262**	**-190**

Net pension assets	370	302
Pension liabilities	108	112
Net pension liabilities (+) / assets (-) at 31 Dec.	**-262**	**-190**

Remeasurements are made up of:

Changes in demographic assumptions	-8	-42
Changes in financial assumptions	-8	-68
Excess return on assets	-34	-45
Remeasurements recognised on statement of financial position	**-50**	**-156**

The remeasurements in 2016 were mainly due to an excess return on pension plan assets.

Assumptions used to determine pension liabilities at 31 Dec.

	2016	2015
Discount rate	2,60 %	2,50 %
Annual wage growth	2,50 %	2,25 %
Increase in the National Insurance Scheme's basic amount ("G")	2,25 %	2,25 %
Annual indexing of pensions	1,50 %	1,50 %
Expected average remaining years of service (funded)	7,8	8,3
Expected average remaining years of service (unfunded)	5,9	6,3

The assumptions used to calculate pension liabilities are consistent with the most recent guidelines on actuarial assumptions as of January 2017.

Number of people covered by the pension plans

	2016	2015
Defined benefit plan: current employees	72	77
Defined benefit plan: accrued entitlements and retired employees	323	316
Defined contribution plan: current employees	72	70
Current employees entitled to public sector AFP, and early retirees	54	73

NOTE 4 AUDITOR'S FEE

(Amounts in NOK 000s excl. VAT)	2016	2015
Total fees paid to auditor for auditing and other services comprise the following:		
Statutory audit	640	462
Tax advice	10	21
Other services not related to auditing	9	11
Total	**659**	**494**

NOTE 5 OTHER OPERATING EXPENSES

(Amounts in NOK million)	2016	2015
Property-related expenses, lease of machinery and office equipment	54	47
Purchase of plant and equipment	4	3
External services	130	101
Office supplies, telecommunications, postage, etc.	4	4
Travel expenses, subsistence allowances, mileage expenses, etc.	7	7
Sales, advertising, representation, membership fees and gifts	6	5
Other operating expenses	-7	9
Total	**199**	**177**

NOTE 6 FINANCIAL INCOME AND EXPENSES

(Amounts in NOK million)	2016	2015
Income from investments in subsidiaries*	1 109	1 104
Profit/loss on investments in associates	7	100
Exchange rate gain	292	558
Other interest and financial income	236	267
Total financial income	**1 643**	**2 028**
Impairment charge against non-current financial assets	0	157
Exchange rate losses	288	557
Other interest and financial expenses	288	338
Total financial expenses	**575**	**1 052**
Net financial income/expenses	**1 068**	**976**

* Profit/loss from investments in subsidiaries comprises allocated dividends, group contribution from subsidiaries and gains on the disposal of subsidiaries. These amounts are recognised in the income statement as they are considered to reflect the return on the investment.

NOTE 7 TAX

(Amounts in NOK million)	**2016**	2015
The tax expense consists of		
Income tax payable	150	160
Change in deferred income tax	18	20
Corrections to previous years' tax assessments	-3	-3
Tax expense in income statement	**165**	**176**
Tax payable on the statement of financial position		
Profit before tax	**950**	**864**
Permanent differences	-259	-174
Change in temporary differences	-89	-100
Profit/loss for income tax purposes	**601**	**591**
Income tax payable	150	160
Taxable group contribution	-60	-41
Tax payable on the statement of financial position	**91**	**118**
Reconciliation of nominal tax rate with effective tax rate		
Profit before tax	950	864
Expected tax based on nominal rate	237	233
Tax effect of		
Non-deductible expenses/non-taxable income	-65	-47
Corrections to previous years' tax assessments	-3	-3
Impact of change in tax rate	-5	-7
Tax expense in income statement	**165**	**176**
Effective tax rate	**17 %**	**20 %**
Breakdown of temporary differences/deferred tax assets		
Property, plant and equipment	-13	-15
Current assets/liabilities	196	258
Pension liabilities	326	237
Derivatives	-18	-127
Total taxable (+)/deductible (-) temporary difference	**492**	**354**
Total capitalised deferred tax liabilities (+)/assets (-)	**118**	**88**
Changes in net deferred income tax over the year:		
Net deferred tax liabilities (+)/assets (-) at 1 Jan.	88	27
Change in net deferred tax liabilities (+)/assets (-) on items recognised in equity	12	42
Change in deferred tax liabilities (+)/assets (-) recognised through profit or loss	18	20
Net deferred income tax liabilities (+)/assets (-) at 31 Dec.	**118**	**88**
Changes in deferred tax on items recognised in equity		
Remeasurements of pensions and change in tax rate	-12	-42
Total change	**-12**	**-42**

NOTE 8 INTANGIBLE ASSETS

(Amounts in NOK million)	Software
Cost as of 01/01/2016	41
Additions	0
Disposals	3
Cost as of 31/12/2016	**38**
Accumulated depreciation at 31/12/2016	24
Accumulated impairment losses at 31/12/2016	2
Carrying amount at 31/12/2016	**12**
Depreciation for the year	6
Useful life/depreciation period	3-8 years

NOTE 9 PROPERTY, PLANT AND EQUIPMENT

(Amounts in NOK millions)	Properties	Vehicles, fixtures, machinery, etc.	**Total property, plant and equipment**
Cost as of 01/01/2016	32	47	80
Additions	4	5	8
Disposals	1	20	21
Cost as of 31/12/2016	**35**	**32**	**67**
Accumulated depreciation at 31/12/2016	9	21	30
Accumulated imp. losses at 31/12/2016	0	0	0
Carrying amount at 31/12/2016	**26**	**11**	**38**
Depreciation for the year	2	5	7
Useful life/depreciation period	25 years - not depreciated	3-8 years	

NOTE 10 OTHER NON-CURRENT FINANCIAL ASSETS

(Amounts in NOK millions)	Note	**2016**	2015
Loans to Group companies	1	7 455	6 825
Loans to associates		2	2
Other non-current receivables 1)		120	130
Pension assets	3	370	302
Total non-current financial assets		**7 947**	**7 259**

1) Other non-current receivables mainly comprise a subordinated loan and a vendor credit provided in conjunction with the sale of the shares in Ventelo. There is also a guarantee to NASDAQ.

NOTE 11 INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES

(Amounts in NOK million)	Registered office	Company's equity	Company's profit/loss	Ownership interest and voting rights	Carrying amount*
Subsidiaries					
Agder Energi Vannkraft AS	Kristiansand	2 260	584	100 %	1 937
Agder Energi Kraftforvaltning AS	Kristiansand	36	2	100 %	20
Agder Energi Nett AS	Arendal	824	278	100 %	613
LOS AS 1)	Kristiansand	343	67	100 %	324
Otera AS 1)	Kristiansand	48	7	100 %	190
Agder Energi Varme AS 1)	Kristiansand	120	4	100 %	125
Agder Energi Venture AS 1)	Kristiansand	35	-11	100 %	68
Stoaveien 14 AS	Kristiansand	4	2	100 %	1
Stoa 192 AS	Kristiansand	1	0	100 %	2
Stoa 234 AS	Kristiansand	1	0	100 %	2
Trøngsla 8 AS	Kristiansand	3	0	100 %	2
Baltic Hydroenergy AS 1)	Kristiansand	22	0	100 %	34
Total shares in subsidiaries					**3 316**
Associates and joint ventures 2)					
Statkraft Agder Energi Vind AS DA***	Kristiansand	40	16	38 %	6
Fosen Vind AS	Trondheim	22	157	20 %	0
North Connect KS**	Kristiansand	9	-36	22 %	8
North Connect AS**	Kristiansand	1	-4	22 %	3
Steinsvik Kraft AS 3)	Bergen	111	0	20 %	8
Grønn kontakt AS	Kristiansand	16	-8	43 %	15
Others					2
Total for associates and joint ventures					**42**

* Carried at the lower of cost and fair value

** Associates

*** Joint venture

1. Subsidiaries of Agder Energi AS that have their own subsidiary groups. For an overview of the Group's organisation structure, see Note 35 of the consolidated financial statements.
2. The equity and profit of associates and joint ventures has been estimated for 2016.
3. In January 2017, Agder Energi sold its ownership interest in Steinsvik Kraft AS. The transaction resulted in an estimated gain of NOK 7 million.

NOTE 12 CASH AND CASH EQUIVALENTS

(Amounts in NOK million)	**2016**	2015
Cash and cash equivalents	289	212
Deposits in cash pooling arrangement	455	707
Total	**744**	**919**

Agder Energi AS has set up a cash pooling arrangement with an associated NOK 500 million overdraft facility. Most subsidiaries in which the parent company holds an ownership interest of at least 50% take part in the cash pooling arrangement and are jointly and severally liable to the bank for the overdraft facility.

A NOK 52 million bank guarantee covering Agder Energi AS and its subsidiaries has been used as security for tax deductions at source.

NOTE 13 EQUITY

(Amounts in NOK millions)	Note	Share capital	Share premium account	Other paid-in capital	Other reserves	**Total equity**
Equity at 31/12/2015		1 809	47	51	963	2 870
Remeasurements of pensions	3	0	0	0	37	37
Net income for the year		0	0	0	785	785
Allocated for dividends	15	0	0	0	-607	-607
Equity at 31/12/2016		**1 809**	**47**	**51**	**1 178**	**3 085**

For details of share capital and shareholder information, please refer to Note 20 to the consolidated financial statements.

NOTE 14 INTEREST-BEARING LIABILITIES

(Amounts in NOK millions)	**2016**	2015
Non-current liabilities with a term to maturity of more than 5 years		
Liabilities to financial institutions	1 024	1 069
Bonds	1 175	1 125
Total	**2 199**	**2 194**
Non-current liabilities with a term to maturity of less than 5 years		
Liabilities to financial institutions	1 276	1 049
Bonds	4 487	4 892
Total	**5 763**	**5 941**
Total interest-bearing non-current liabilities	**7 962**	**8 135**
Interest-bearing current liabilities		
Commercial paper	850	550
Total interest-bearing current liabilities	**850**	**550**

Guarantees and obligations relating to interest-bearing non-current liabilities are described in greater detail in Note 19.

NOTE 15 OTHER NON-INTEREST-BEARING CURRENT LIABILITIES

(Amounts in NOK millions)	Note	**2016**	2015
Trade payables		17	24
Intra-group trade payables	1	2	1
Unpaid government taxes and duties, tax deducted at source, etc.		15	14
Allocated dividends	13	607	660
Other current liabilities		111	104
Other current liabilities to Group companies	1	239	153
Total other non-interest-bearing current liabilities		**991**	**957**

NOTE 16 PROVISIONS

(Amounts in NOK millions)	Note	**2016**	2015
Pension liabilities	3	108	112
Other non-current provisions		224	31
Total provisions		**333**	**143**

In 2016, Agder Energi sold its ownership interest in Fosen Vind DA. The final transaction price depends on various future metrics and a large proportion of the amount received has therefore not yet been recognised as income. NOK 184 million of the company's other non-current provisions are related to this. The remaining NOK 40 million represent a provision against a lease contract.

NOTE 17 MARKET AND FINANCIAL RISK

Risk policy and risk strategy

The Group's Board of Directors has formulated an overall risk policy containing frameworks and guidelines to ensure a uniform approach to risk management throughout the Group. In order to manage exposure to market and financial risk, and based on the risk policy, separate risk strategies have been drawn up for the following areas:

- Production
- Electricity trading
- Retail market
- Finance (interest rates and foreign currency)

One of the main purposes of the risk policy and risk strategies is to hedge against fluctuations in future cash flows.

Electricity derivatives with subsidiaries and NASDAQ as counterparties

Several of Agder Energi AS's subsidiaries trade cash-settled electricity derivatives on NASDAQ. Formally, this involves Agder Energi AS acting as NASDAQ's counterparty, and Agder Energi entering into identical contracts with the relevant subsidiaries in parallel.

The company uses hedge accounting for these contracts, and so they are off balance. The net value of contracts with NASDAQ was NOK 801 million at 31 December 2016. The value of the company's contracts with its subsidiaries was NOK -801 million.

Debt portfolio

The Agder Energi Group's whole loan portfolio is held by Agder Energi AS. This exposes the company to a significant interest rate risk. The Group has a central Finance department within Agder Energi, which has overall responsibility for banking services, financing, currency operations, corporate finance and other financial services.

Interest rate risk is measured by modified duration, which is kept within a target period of 1 to 5 years. Rules on durations and other rules relating to interest rate portfolios, liquidity risk, etc. are given in the risk policy and finance strategy. The chosen strategy aims to minimise net financial expenses over the long term, while reducing risk to an acceptable level. Exposure to interest rate risk is measured and monitored. The group finance department is responsible for taking positions.

The parent company's debt portfolios include foreign currency loans. 198 million euros in loans are used as a hedge against fluctuations in the Group's revenues in that currency. Agder Energi AS has lent an equivalent amount in euros to Agder Energi Vannkraft AS. Agder Energi AS has also taken out interest rate and currency

NOTE 18 CONTINGENT LIABILITIES

Agder Energi AS had no significant contingent liabilities at the end of the year.

NOTE 19 MORTGAGED ASSETS, LIABILITIES AND GUARANTEES ISSUED

Mortgages
Agder Energi AS currently has no mortgage loans.

Liabilities and guarantees issued
Agder Energi AS has no covenants relating to financial key figures in its loan agreements. Agder Energi AS's loan agreements contain negative pledge clauses, which also cover its subsidiaries. This means that any new security interests require the consent of the lenders.

Agder Energi AS has NOK 560 million in off-statement of financial position bank guarantees. NOK 163 million of this relates to a cash-settled power exchange agreement, NOK 123 million to an internal guarantee for transmission tariffs passed on to customers, NOK 52 million to electricity trading, NOK 52 to tax deducted at source and NOK 170 million to contractual guarantees.

At the close of the year, the parent company had issued guarantees worth NOK 8 million in relation to subsidiaries' external liabilities.

Contractual obligations
Agder Energi Group leases office premises at Kjøita in Kristiansand. The lease contract is between KN Kjøita AS and Agder Energi AS. Since 01/01/2017, the building has been owned by Arctic Securities. This has not resulted in any changes to the terms of the lease. At the end of the year, the contract had 9 years left to run, with a renewal option for a further five years.

AUDITOR´S REPORT

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INDEPENDENT AUDITOR'S REPORT

To the Annual Shareholders' Meeting of Agder Energi AS

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Agder Energi AS comprising the financial statements of the parent company and the Group. The financial statements of the parent company comprise the statement of financial position as at 31 December 2016, the statements of income and cash flows for the year then ended and notes to the financial statements, including a summary of significant accounting policies.

The consolidated financial statements comprise the statement of financial position as at 31 December 2016, the statements of income, comprehensive income, cash flows and changes in equity for the year then ended and notes to the financial statements, including a summary of significant accounting policies.

In our opinion,

- the financial statements are prepared in accordance with the law and regulations;
- the financial statements present fairly, in all material respects, the financial position of the parent company as at 31 December 2016, and of its financial performance and its cash flows for the year ended in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway;
- the consolidated financial statements present fairly, in all material respects the financial position of the Group as at 31 December 2016 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Basis for opinion

We conducted our audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Norway, and we have fulfilled our ethical responsibilities as required by law and regulations. We have also complied with our other ethical obligations in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the financial statements.

AUDITOR´S REPORT

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Valuation of embedded derivatives in long-term delivery agreements

The Group has entered into long-term delivery agreements with industrial companies as part of its risk management strategy for the future power production. The power price in these contracts is denominated in Euros. The delivery agreements include a currency rate exposure to be separated and recognized at fair value, as the power deliveries are settled in other currencies than the accounting currency. From 2016, embedded currency derivatives in these contracts are separated and recognized at fair value. The valuation of the embedded currency derivatives, including the change performed in 2016, made this a key audit matter.

We have read the long-term power contracts to identify embedded derivatives. We have evaluated the basis of calculation for the market value of the embedded derivatives against agreements and external sources. One of our valuation experts participated in the assessment of the basis for market value. The presentation of the change related to embedded derivatives has been reviewed against regulations and practice under IFRS.

We refer to the accounting principles disclosures and notes 6, 26 and 36 for information on embedded derivatives in long-term delivery agreements.

Balance sheet recognition and charging project costs as expenses

The Group has significant projects related to the maintenance and upgrading of plants for the production and transport of electric power. This implies judgmental assessments in distinguishing between maintenance and upgrading. In 2016, MNOK 197 was expensed as maintenance and MNOK 302 was recognized in the balance sheet as upgradings of these plants.

The accounting treatment implies a considerable degree of judgment and was a key audit matter.

As part of our audit, we have reviewed the Group's statements and project reports being the basis for the accounting assessments related to balance sheet recognition and expense of the incurred project costs in view of regulations and practice under IFRS. We evaluated the Group's internal control related to the plant expenses and tested the accounting treatment on a sample of transactions of these costs.

We refer to the accounting principles disclosures and note 15 on property, plant and equipment.

Other information

Other information consists of the information included in the Company's annual report other than the financial statements and our auditor's report thereon. The Board of Directors and Chief Executive Officer (management) is responsible for the other information. Our opinion on the financial statements does not cover the other information, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information, and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management for the financial statements

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

AUDITOR´S REPORT

EY
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In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with law, regulations and generally accepted auditing principles in Norway, including ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

AUDITOR´S REPORT

Building a better working world

Report on other legal and regulatory requirements

Opinion on the Board of Directors' report and in the statements on corporate governance and corporate social responsibility

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

Opinion on registration and documentation

Based on our audit of the financial statements as described above, and control procedures we have considered necessary in accordance with the International Standard on Assurance Engagements (ISAE) 3000, «Assurance Engagements Other than Audits or Reviews of Historical Financial Information», it is our opinion that management has fulfilled its duty to ensure that the Company's accounting information is properly recorded and documented as required by law and bookkeeping standards and practices accepted in Norway.

Kristiansand, 4 April 2017
ERNST & YOUNG AS

Øystein A. Kvåse
State Authorised Public Accountant (Norway)

(This translation from Norwegian has been made for information purposes only.)

CORPORATE SOCIAL RESPONSIBILITY (CSR) AT AGDER ENERGI IN 2016

AGDER ENERGI

CORPORATE SOCIAL RESPONSIBILITY (CSR) AT AGDER ENERGI IN 2016

Click on the text to go to the page of your choice

CORPORATE SOCIAL RESPONSIBILITY (CSR) AT AGDER ENERGI IN 2016

SOCIAL AND ENVIRONMENTAL CONSIDERATIONS

The Agder Energi Group takes social and environmental factors into consideration in its operations. Our main responsibility is the safe and reliable generation and distribution of renewable energy.

The ways in which we meet our CSR responsibilities are set out in a number of steering documents. The most important ones include:

Group HSE guidelines
The Group HSE guidelines set out the underlying principles governing activities related to Health, Safety and the Environment (HSE). The document also deals with the duties and areas of responsibility of managers and employees within these areas. Agder Energi has a zero accident vision, and aims to have a low level of sickness absence (< 3.0%). Agder Energi has chosen to have a joint HSE management system for the whole Group. Individual companies also have their own manuals covering company-specific issues.

New staff must always be given a general introduction to their company. This should include information specifically about HSE. Companies have a duty to ensure that the necessary HSE training is implemented and documented.

Group HR guidelines
The Group HR guidelines aim to ensure that the management and governance of key HR processes is consistent at all companies in the Group. The guidelines include a description of the Group's values and of how they should be implemented in HR policy, training, the corporate culture and staff welfare policy.

They also state that Agder Energi should have a good working environment. Agder Energi shall perform regular working environment surveys and ensure that any necessary corrective measures are identified and implemented. All Agder Energi employees must adhere to the adopted values and ethical guidelines. Agder Energi also has an operational HR strategy that describes key priority areas and the actions that need to be taken. The HR strategy applies to all wholly-owned subsidiaries.

Group risk management guidelines
The Group risk management guidelines lay the foundations for integrated, appropriate risk management at the Agder Energi Group, and are designed to protect the Group's profitability and optimise its capital allocation. Individual companies must identify, assess, review and monitor their own exposure to risks. They draw up risk management strategies for the areas where required by the nature of the risk and its potential impact on their financial performance, and reassess those strategies annually.

Ethics at Agder Energi
"Ethics at Agder Energi" is guide on proper conduct for employees, Board members, contractors, consultants and anyone else who acts on behalf of Agder Energi. The guide sets out clearly the kinds of dilemmas individuals may face in their work and explains what is acceptable and unacceptable conduct. Agder Energi's ethical guidelines are based on loyalty, integrity and trust. All new employees must take an e-learning course on our ethical guidelines.

Group procurement guidelines
The Group guidelines regulate the framework for procurement, as well as establishing goals and corrective measures. They also regulate ethical aspects of our relationships with our subcontractors. Procurement processes must be carried out in a way that ensures high ethical standards within the Group. Anyone who acts on behalf of the Group must adhere to high ethical standards in their dealings with bidders and subcontractors.

GRI REPORTING AT AGDER ENERGI

Our Corporate Social Responsibility (CSR) report covers the following companies:

- Agder Energi AS
- Agder Energi Vannkraft AS
- Agder Energi Kraftforvaltning AS
- Agder Energi Nett AS
- Agder Energi Varme AS
- LOS AS
- Otera Infra AS
- Otera XP AS
- Otera AB
- Baltic Hydroenergy AS

Together these companies are considered to represent the vast majority of the Group's business activities. Based on a cost/benefit analysis, smaller companies have been excluded, but we do not believe that this significantly distorts the overall picture of the Group's impact on society and the environment.

Agder Energi owns all of the shares in Baltic Hydroenergy AS, which is made up of the companies UAB Baltic Hydroenergy and JSC Latgales Energetika, in which it owns 100 and 64 percent ownership interests respectively.

Agder Energi Venture is included in Agder Energi's annual report, and each year an assessment will be made as to whether it is appropriate and relevant to include the businesses in the venture portfolio in the CSR report.

The section of the annual report on corporate social responsibility (CSR) covers the period from 1 January 2016 to 31 December 2016. The Group produces an annual CSR report, which since 2015 has been integrated into Agder Energi's annual report. As well as the discussion of CSR at the Group level in the annual report, an appendix has been published that breaks down the combined figures for the whole Group into topics and companies. The appendix is available at www.ae.no.

Process

The CSR report takes into account the stakeholder groups that are its target groups and focuses on the aspects of GRI reporting that are considered material to the stakeholders and the Group. For the 2015 CSR report, the analysis of material aspects involved two stages.

First the materiality of all of the voluntary disclosure items was analysed at the Group level, in order to identify the items that were likely to be most relevant to the companies in the Group. Then the individual companies carried out their own analysis of material aspects, identifying disclosure items that appeared important to the company and/or its stakeholders.

Defining report content

Agder Energi has previously defined its shareholders, employees and customers as the target groups for its reporting. These target groups have remained unchanged for this report, after consultation with the companies and the chief employee representative for the Group.

The purpose of sustainability reporting is to give a balanced view of the Group's most important economic, environmental and social impacts on society.

Report quality

The CSR report for 2016 adheres to the reporting principles set out in GRI G4. For the report, all of the reporting companies performed an analysis of material aspects. A certain degree of stakeholder involvement was achieved, through a meeting with the chief employee representative, whose job is to safeguard the interests of the employees. Moreover, at the consultation meetings with the companies the latter reported what their customers wanted.

The Group wishes to achieve even greater stakeholder involvement in its future reporting. As such, its ambition is to consult directly with as many stakeholders as possible.

The Group has also chosen to sign up to the global Greenhouse Gas (GHG) Protocol developed by World Resource Institute, adopted in January 2015. The GHG protocol requires the company to report CO_2 emissions from its electricity consumption using a market-based system and the national power mix. In this report the Group has chosen to present CO_2 emissions both under the guarantee of origin system and using the national power mix.

The Group considers that this complies with the GRI G4 guidelines. These principles help to ensure that the report contains reliable information that is assumed to be relevant to stakeholders.

The 2014 sustainability report was audited by Agder Energi's internal audit service. The audit report pointed out areas for improvement, and is thus an important tool for further work on reporting. The report has not been externally verified to check that the figures collected adhere to GRI guidelines.

Every effort has been made to ensure accuracy in the collection of data for the report and its presentation. In so far as underlying data has been interpreted, the aim has been to give as accurate and relevant a picture as possible of the situation in question. The environmental data on which the report is based include data from direct measurements, self-declared aggregate figures for our companies and subcontractors, and calculated averages. The level of precision of the data is therefore variable.

The GRI index only relates to the items which the Group has chosen to report.

Reference is only made to disclosure items in the General Standard Disclosures and Specific Standard Disclosures that are actually used in the report. Full details of all of the Disclosure Items can be found on the website of the Global Reporting Initiative, www.globalreporting.org.

ANALYSIS OF MATERIAL ASPECTS

Aspects that are relevant to Agder Energi

Code	Aspect		AE Vann-kraft	AE Nett	Otera	LOS	AE Kraftfor-valtning	AE Varme
Economic								
G4-EC9	Procurement Practices	Local suppliers		●				
Environmental								
G4-EU13	Biodiversity	Comparison with unaffected areas	●					
Society								
G4-HR4	Freedom of Association and Collective Bargaining	Risks to freedom of association and collective bargaining in operations and at suppliers			●			
G4-SO8	Compliance	Sanctions for non-compliance with laws and regulations	●					
G4-PR1-PR2	Customer Health Health and Safety	Safety of customer when using our products and services		●				
G4-PR3-PR5	Product and Service Labeling	Product information and customer satisfaction				●	●	
G4-PR6-PR7	Marketing Communications	Illegal/controversial products and unacceptable marketing					●	
Compulsory								
G4-EU10	Availability and Reliability	Planned capacity against projected electricity demand over the long term		●				●
G4-EU15 -EU18	Employment	% eligible to retire in 5-10 years, subcontractors (HSE)	●	●	●	●	●	●
G4-EU22	Local Communities	People displaced physically or economically	●	●				
G4-EU25	Customer and Safety	Injuries and deaths of non-employees involving company	●	●	●			●
G4-EU26 -EU30	Access	Power outages, availability and reliability		●				●

The figure shows the outcome of our consultation with the companies, and which reporting categories each company considered relevant to itself.

CHANGES IN RELATION TO THE 2015 REPORT

The application of G4 Electric Utilities Sector Disclosures meant that the companies had to include significantly more potential disclosure items in their analysis of material aspects. In order to leave the companies with a manageable number of potential disclosure items, Agder Energi carried out an analysis of material aspects at the Group level. Based on the results of the analysis for the Group, each company analysed the relevance of a selection of voluntary disclosures. The 2016 report is based on the analysis of material aspects carried out for the 2015 report. All of the companies have reported on the new required items set out in the document on Electric Utilities Sector Disclosures. One change from the 2015 CSR report is that only information for the Group as a whole has been included in Agder Energi's annual report, whereas the breakdown of that data by topic has been put in an appendix. Data for individual companies, as well as the GRI index, is also included in the appendix, which can be found at www.ae.no.

In the CSR report for 2016, Agder Energi has implemented the GHG protocol's definition of CO_2 emissions from electricity consumption by reporting emission figures for individual companies and the group using both the guarantee of origin system and the actual power mix in Norway.

STAKEHOLDERS AND AGDER ENERGI

Agder Energi defines stakeholders as people or groups who are affected by, or who could affect, the Group's business activities. Cooperation with stakeholders is a high priority for the Group.

Agder Energi is a state-owned limited liability company, and its core business is entirely dependent on maintaining the trust of its stakeholders. Cooperation with stakeholders is part of our day-to-day activities. Each company defines its most important stakeholders in its business plan. The ones who are relevant to the largest number of companies are considered most relevant to the Group. The important stakeholders include employees, shareholders, customers, government authorities, subcontractors and other business partners. CSR reporting is a key aspect of our communication with the Group's most important stakeholders.

Employees
Employee representatives and managers at Agder Energi have several regular, formal channels for discussing both strategic and operational issues. There are also a number of informal channels of communication. A working environment survey of the Group's employees is carried out every two years, and one was performed in 2015.

Shareholders
Each year, the senior management team meets the shareholder municipalities at meetings with their executive boards or municipal councils. The municipal shareholders hold regular shareholder meetings. The last shareholder meeting in 2016 was held in November. The main topic for shareholder meetings is matters relating to the ownership of the Group, but other issues of concern to municipalities can also be raised, such as new power stations and reliability of supply.

Customers
LOS carries out regular customer surveys. The results are used to make adjustments to how the company communicates with its customers. Agder Energi Nett also performs regular customer surveys. These are described in greater detail in the section on "Society" in this report.

Organisations
The big changes taking place in the energy industry make it vital to have the information that we need to position ourselves for the future. This is one of the reasons why the Group, its subsidiaries and employees both participate in, and are members of, a number of regional, national and international groups, councils and committees working on questions relating to the regulatory framework for the Group and the industry. These include both technical organisations and trade associations. One of the most important ones is Energi Norge, the organisation which represents businesses in the energy sector affiliated to the Confederation of Norwegian Enterprise (NHO). Other organisations in which Agder Energi participates include Eurelectric – The Association of the Electricity Industry in Europe, NORWEA – Norwegian Wind Energy Association and NECS – Norwegian Energy Certificate System.

Power station projects
In conjunction with all power station projects, good communication with local authorities and other stakeholders in the local community is a priority. The issues that are typically of most interest to stakeholders include secondary economic impacts on local businesses

and environmental questions. When a licence application is submitted, the Norwegian Water Resources and Energy Directorate organises stakeholder and public consultations.

Partnerships

We have had a partnership agreement with the environmental organisation ZERO since 2013.

Education

Each year, the Group fulfils its statutory duty to give lessons on electrical safety to all students in years 6 and 9 at schools in southern Norway. The students also learn about renewable energy during these lessons.

Reputation

We carry out reputation surveys at regular intervals. The results have been stable for a number of years, and reveal that people in the Agder region are highly aware of the Group. Two thirds of respondents believe that the Group has a good or very good reputation.

ETHICAL GUIDELINES AND VALUES

Agder Energi's Group strategy establishes our values and has a strong focus on ethical conduct. All conduct at the Group should adhere to its ethical guidelines.

The ethical guidelines were revised and approved by the Board in December 2013. The document "Ethics at Agder Energi" describes how anyone representing the Group should conduct themselves. The main points were published in a separate booklet in 2014. In May/June 2014 all employees were sent an e-learning course on ethical dilemmas and how to handle them. It was checked that the employees had completed the course. The aim of these measures is to further raise awareness about ethical conduct at Agder Energi.

Agder Energi has set up an ethics committee that helps managers and employees to deal with ethical dilemmas. The committee also monitors how whistleblowing is dealt with. Agder Energi strives to be as transparent as is practicable in its work on CSR. In 2014 the Group signed up to the UN Global Compact, which means that it undertakes to run its operations in accordance with specific principles.

THE GROUP'S VALUES

Closeness

Agder Energi shall be close to its customers and the region. Customers shall know that we are there for them. An open dialogue based on a joint understanding of the facts helps us to bring out the best in each other. By cooperating we preserve our regional identity and help to develop the region.

Credibility

We shall gain credibility by keeping promises, both to third parties and within our organisation. The way in which we achieve our goals is just as important as reaching them. Individual employees must safeguard their integrity and credibility in all of their activities, both within and outside the business.

Dynamism

We shall be dynamic, and have a clear corporate strategy that helps us to implement projects and achieve our goals. This dynamism shall be shown both by the organisation and by individual employees. Organisational dynamism involves having decision-making procedures that ensure successful implementation and profit-ability. Individual dynamism involves exploiting any opportunities that exist within the framework of our overall strategy.

Innovation

We shall promote innovation and creativity, so that our employees become more skilled and efficient, enabling them to help to grow and develop our business. Innovation is a process in which people build on each other's contributions and ideas. We have to think in new ways and create new processes, while also retaining the best aspects of what we currently do.

GROUP CSR GOALS

Based on our CSR strategy, and supported by the Group's ethical guidelines and HR guidelines, we have set joint Group goals for human rights, labour rights, the environment and anti-corruption. The joint Group goals are implemented by the individual companies.

Human rights
Agder Energi and its subcontractors (a subcontractor is defined as anyone who performs services for, or sells products to, Agder Energi) shall conduct themselves in accordance with the UN's internationally accepted human rights conventions. The Group and its subcontractors shall never be complicit in the breach of human rights.

Labour rights
Agder Energi and its subcontractors shall comply with the eight fundamental conventions of the International Labour Organisation (ILO) on the right to organise, the right to collective bargaining and the elimination of forced labour, child labour and discrimination at the workplace.

Environment
Each company within the Agder Energi Group draws up environmental goals for its operations, reflecting the nature of its business. Subcontractors must have procedures in place for environmental protection measures.

Anti-corruption activities
Agder Energi's goal is that no form of active or passive corruption shall take place within the Group's business activities.

BUSINESS ENVIRONMENT AND INNOVATION

In order to increase the value added by the Group, Agder Energi aims to be the industry leader with respect to understanding, exploiting and influencing the business environment. Market developments and relevant technology are closely monitored. This work informs our continual improvement processes, lobbying activities and policy positions.

Research and development
The Group's investment in R&D shall lay the foundations for long-term, profitable growth and promote development activities to increase the potential of the core business. Through our ownership interest in Teknova, an institute for applied R&D, we support the research community in the region studying renewable energy. Agder Energi also participates in a national research centre for green energy: CEDREN (Centre for Environmental Design of Renewable Energy). CEDREN's main focus is on local technical and environmental challenges associated with renewable energy generation, and on how to integrate environmental and energy policy. One project is looking at the interface between salmon, environmental protection and electricity generation with the aim of finding solutions that are good in terms of both power generation and salmon management.

In 2016 Agder Energi established an R&D programme to increase our understanding of the challenges that grid operators will face in the future, and the Group has launched a programme to make better use of the tools available to it.

Agder Energi has completed a four-year research project in collaboration with the University of Stavanger. The aim of the project was to give Agder Energi an in-depth understanding of how Norwegian environmental policy relates to renewable energy policy, and to what extent it promotes investment in wind power. The project involved one of Agder Energi's employees doing a PhD that was part-funded by the Research Council of Norway through its Industrial PhD scheme. The candidate defended his thesis on 9 March 2016.

Innovation
In order to ensure that we are in a position to exploit the technologies and markets of the future, we are always on the look-out for new opportunities within and beyond our current core activities. Over the course of the year, we started several pilot projects to develop new technology and solutions. These include a collaboration with the University of Agder on artificial intelligence at power stations and a project piloting smart grids with Microsoft. Agder Energi is participating in the Open Innovation Lab, a collaboration with Stanford University and companies including the airline Norwegian and Storebrand to develop innovative ideas and new business models. Through our subsidiary Agder Energi Venture, we are trying to create long-term opportunities for growth in the industrial sector. The main focus is on investments in companies involved in renewable energy generation and their suppliers, as well as smart grids and energy efficiency. The aim is to create a new, profitable business that can be integrated into the Group's future activities.

AGDER ENERGI'S SUBCONTRACTORS

Each year, Agder Energi buys goods and services worth around NOK 1.8 billion.

We aim to combine the purchasing expertise of all of the companies in the Group. Competitive bids are invited for joint agreements covering all companies in the Group after first studying the market. Agder Energi Nett and Agder Energi Varme are covered by the Norwegian Public Procurement Act. Subcontractors to the grid operating company must qualify through SELLIHCA, which is a supplier register and pre-qualification system used by Scandinavian utilities.

For major investment projects, the total value of goods and services purchased can be of the order of one billion Norwegian kroner. Purchases for these projects range from construction services to advanced technical components. Technical installations often involve subcontractors in a number of different countries. The Group must follow guidelines laid down by the Norwegian authorities, as well as comply with the ten principles of the UN Global Compact in the areas of human rights, labour standards, the environment and anti-corruption. This is defined in separate Group goals, which can be found under the section on "Group CSR Goals".

The Group enters into a variety of agreements covering day-to-day purchasing, covering everything from consumables to administrative services. These are often designed as framework agreements, under which there are mini-competitions between subcontractors. All procurement shall be done in a way that promotes high ethical standards. Anyone acting on behalf of the Group in its dealings with bidders and subcontractors must adhere to high ethical standards.

In its contracts, Agder Energi requires subcontractors to comply with the Group's rules on CSR and HSE. In 2016 the Group carried out audits to check that its subcontractors are complying with these requirements. With the help of an external supplier, the Group audited around 20 of its subcontractors in 2016, selected on the basis of an overall risk assessment. This brings the total number of subcontractors with framework agreements who have been audited to approximately 35-40. The audits were based on recognised auditing standards.

GENERATING ECONOMIC VALUE

Agder Energi's vision is to be one of the leading companies in the Norwegian renewable energy sector. Generating economic value and sustainability are prerequisites for a responsible approach to the other areas covered by CSR. The Group reports key financial indicators in its interim and annual reports, and the accompanying notes. Consolidated financial statements for the Group are presented in accordance with International Financial Reporting Standards (IFRS).

VALUE ADDED STATEMENT

The value added statement gives an account of the wealth created by the Group over the year, and shows how it is distributed amongst the stakeholder groups: employees, lenders, the public sector, shareholders and the company itself. The figure for value added is adjusted for unrealised gains and losses on energy, currency and interest rate contracts.

(Amounts in NOK millions)	**2016**	2015*
Operating revenues	9 286	7 458
Goods consumed/operating expenses	-5 687	-4 073
Gross added value	**3 599**	**3 385**
Capital depreciation	-608	-577
Net added value	**2 991**	**2 808**
Net financial items, excl. interest	-80	35
Available for distribution	**2 911**	**2 843**
DISTRIBUTION OF ADDED VALUE		
Employees		
Gross salaries and benefits	1 234	1 138
Tax paid by employees	-289	-288
Employers' National Insurance Contributions	-143	-137
Net amount received by employees	**802**	**713**
Lenders		
Interest, etc. paid to lenders	177	216
Net amount received by lenders	**177**	**216**
The public sector		
Ordinary taxes	154	519
Property taxes	160	163
Resource rent tax	383	314
Tax paid by employees	289	288
Employers' National Insurance Contributions	143	137
Net amount received by the public sector	**1 129**	**1 421**
Shareholders		
Allocated for distributions by the company	607	660
Net amount received by shareholders	**607**	**660**
The company		
Retained earnings	185	-158
Non-controlling interest's share of profit	11	-9
Net amount received by the company	**196**	**-167**
Total amount distributed	**2 911**	**2 843**

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