



# ANNUAL REPORT 2017



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## AGDER ENERGI AS

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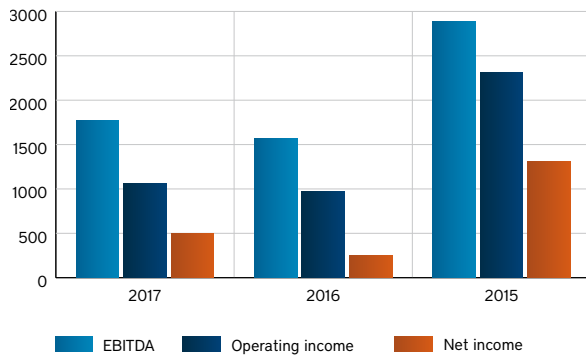
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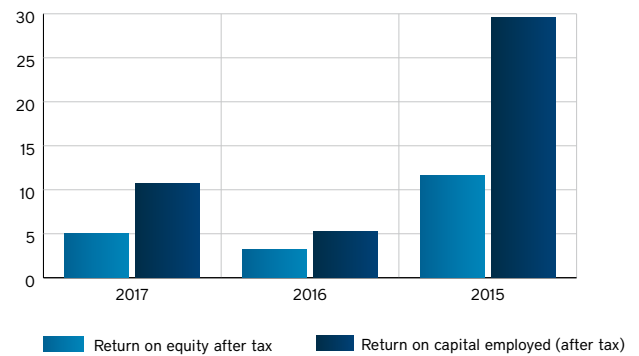
# KEY FIGURES

## RESULTS

NOK mill.



%



Def. 2017 2016 2015 2014 2013

### FROM INCOME STATEMENT

Operating revenues	NOK million	10 223	8 086	8 260	7 832	9 391
EBITDA	1 NOK million	1 770	1 573	2 886	2 327	2 856
Operating profit	NOK million	1 062	972	2 309	1 738	2 354
Profit before tax	NOK million	848	799	2 138	1 310	1 726
Net income for the year (controlling interest's share)	NOK million	487	251	1 314	616	846

### FROM BALANCE SHEET

Total assets	NOK million	20 831	20 319	19 240	16 929	16 091
Equity	NOK million	4 565	4 626	4 893	3 990	4 210
Interest-bearing liabilities	NOK million	9 240	9 143	9 029	8 299	7 668
Capital employed	2 NOK million	13 805	13 769	13 921	12 288	11 878
Unrestricted liquidity	3 NOK million	2 372	2 023	1 969	1 416	1 412
Net interest-bearing liabilities	4 NOK million	9 188	8 620	8 560	8 257	7 647
Interest-bearing liabilities due over coming 12 months	NOK million	1 740	2 243	1 745	1 184	1 773
Bank deposits excluding restricted assets	NOK million	52	523	469	42	21

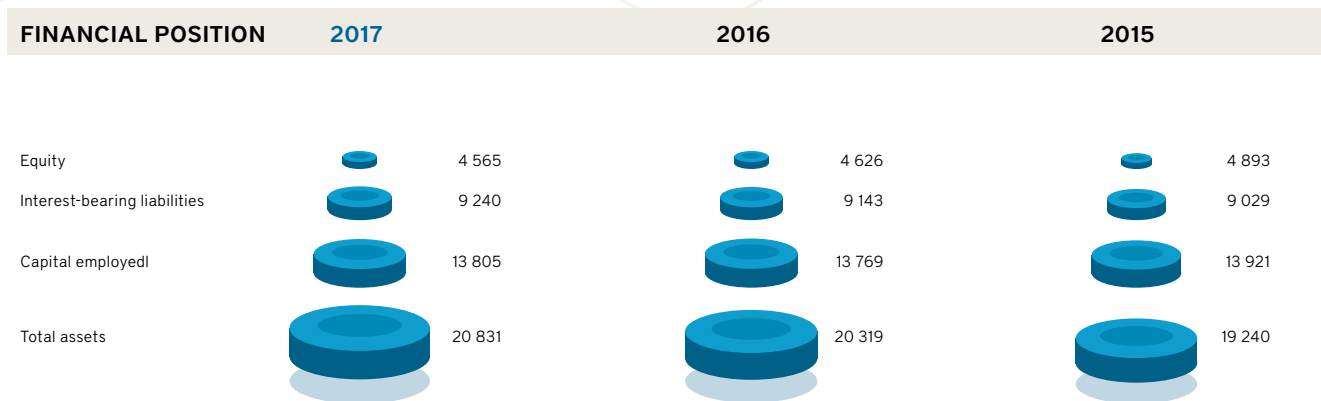
### INCOME STATEMENT (NGAAP)

Operating revenues	NOK million	11 023	8 907	7 447	8 269	8 939
EBITDA	1 NOK million	2 585	2 401	2 072	2 368	2 403
Operating profit	NOK million	1 936	1 812	1 495	1 772	1 891
Profit before tax	NOK million	1 672	1 578	1 302	1 489	1 722
Net income for the year (controlling interest's share)	NOK million	1 237	744	746	834	846

### CASH FLOW

Net cash provided by operating activities	NOK million	1 189	1 779	1 502	1 512	1 486
Dividends paid	NOK million	610	660	706	713	626
Maintenance investments	NOK million	470	522	571	331	509
Investments in expansion	NOK million	878	733	625	705	790
Acquisition of shares/ownership interests and capital increases	NOK million	69	155	81	42	56

# KEY FIGURES



	Def.	2017	2016	2015	2014	2013
<b>KEY FIGURES</b>						
Return on capital employed before tax	5	%	8,0	7,8	18,6	13,3
Return on capital employed after tax	6	%	5,0	3,2	11,6	6,9
Return on equity after tax	7	%	10,7	5,3	29,6	15,0
Equity ratio	8	%	21,9	22,8	25,4	23,6
<b>HYDROELECTRIC POWER</b>						
EBITDA		NOK million	2 034	1 749	1 606	1 920
Actual electricity generation	9	GWh	8 812	8 880	8 996	9 060
Expected electricity generation	9	GWh	8 100	8 100	7 900	7 700
Reservoir reserves at 31 Dec.		GWh	4 429	3 766	5 185	3 900
Reservoir capacity		GWh	5 250	5 250	5 250	5 250
Average spot price		øre/kWh	26,9	23,3	17,7	22,8
Electricity price realised		øre/kWh	30,5	27,8	25,8	28,2
Cost of generation/kWh		øre/kWh	10,6	11,3	10,9	10,6
<b>GRID OPERATION</b>						
EBITDA		NOK million	531	637	410	359
Number of transmission and distribution customers		1000	199	195	190	190
Energy supplied		GWh	5 573	5 581	5 624	5 454
Power grid capital (NVE capital)	10	NOK million	4 646	4 101	3 833	3 691
KILE cost	11	NOK million	64	53	61	50
<b>ELECTRICITY SALES</b>						
EBITDA		NOK million	120	97	104	114
EBITDA margin		%	2,4	2,8	4,6	4,2
Electricity sales		GWh	14 324	11 500	8 470	8 670
<b>CONTRACTOR</b>						
EBITDA		mill. kr	-59	-7	-8	22
EBITDA margin		%	-6,1	-0,7	-0,8	2,4
Share of internal sales		%	15,7	13,2	17,5	20,1
Backlog		mill. kr	887	634	791	625





# KEY FIGURES

	Def.	2017	2016	2015	2014	2013
<b>CONTRACTING</b>						
EBITDA	NOK million	40	33	28	25	29
Energy supplied	GWh	143	137	123	118	130
Price of heating sold	øre/kWh	63	59	56	57	60
Gross margin, heating	øre/kWh	38	32	24	25	39
Share of renewable generation	%	99	99	98	98	97
<b>EMPLOYEES, HEALTH AND SAFETY</b>						
Number of permanent and temporary staff at 31 Dec.		1 210	1 432	1 294	1 245	1 551
Number of permanent and temporary full-time equivalents at 31 Dec.		1 163	1 401	1 270	1 220	1 526
Sickness absence	%	3,5	3,5	3,5	3,6	3,6
Lost time injury frequency (H1)		2,1	3,5	3,0	3,5	3,9
Total injury frequency (H2)		3,7	5,4	6,4	8,4	11,2

## DEFINITIONS:

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



# GROUP MANAGEMENT



**Tom Nysted**  
CEO



**Pernille Kring Gulowsen**  
Finance and risk management



**Unni Farestveit**  
CSR and corporate development



**Jan T. Tønnessen**  
Hydroelectric power



**Steffen Syvertsen**  
Energy management



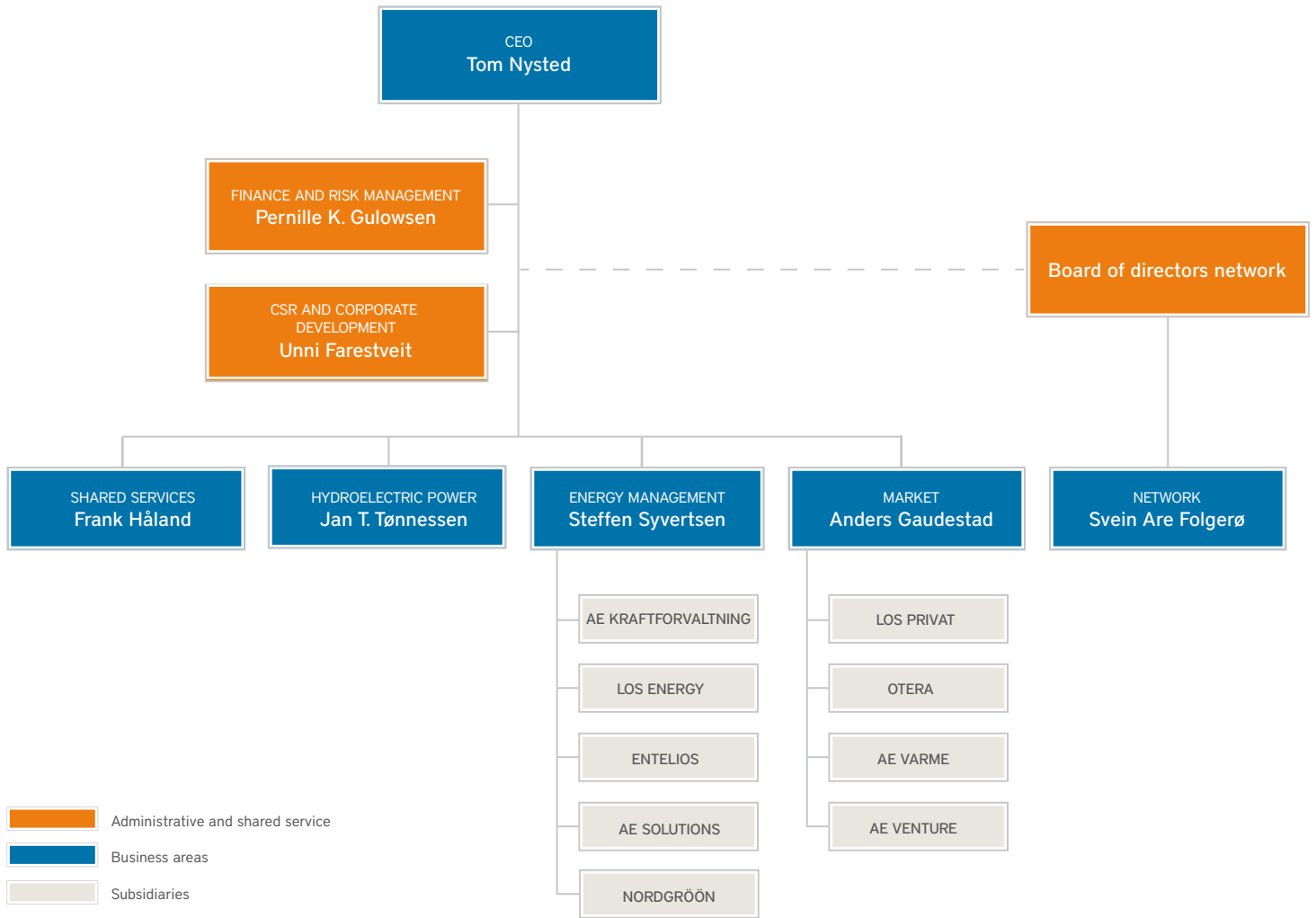
**Anders Gaudestad**  
Market



**Frank Håland**  
Shared services



# GROUP STRUCTURE







# WHERE WE OPERATE



# OUR BUSINESS

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 1,200 employees, mainly based in the counties of Aust-Agder and Vest-Agder in southern Norway, but also elsewhere in Norway, in Sweden, Germany, Belgium and Switzerland.

Agder Energi's subsidiaries are organised into four business areas, which reflect the Group's core activities and how it generates added value: Hydroelectric Power, Energy Management, Network and Market.

The parent company Agder Energi AS consists of a single business area for shared services as well as strategic and administrative departments.

The Group's 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 47 wholly-owned and part-owned hydroelectric power stations. Each year, they generate around 8.1 TWh of renewable energy.

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 the Group's trading contracts and for managing market risk. In 2017 the business area was expanded to include the Group's strategic push into new solutions for an international market in need of large quantities of renewable energy. Consequently, in addition to energy management, it now also incorporates our

services for the commercial market in Scandinavia and Germany.

- Agder Energi Kraftforvaltning AS is responsible for maximising the return on the electricity generated by Agder Energi Vannkraft AS. It does this by trying to optimise scheduling and by managing market risks, taking into account hydrology, weather data and information about markets. AE Kraftforvaltning AS is also responsible for the Group's trading portfolios.
- Nordic customer solutions consists of the companies Enfo AS, LOS Energy AS and LOS Energy AB. In 2017 LOS Energy AS was demerged from LOS AS, and it now operates as a separate entity alongside LOS Energy AB. The company is one of the leading electricity suppliers to the commercial market in Scandinavia. Its core business consists of reducing the energy costs of customers by selling, managing and identifying energy solutions adapted to their needs.
- The business area operates in the German markets through Agder Energi Solutions GmbH, Entelios AG, and Nordgröön Energie GmbH & Co KG. These businesses are involved in trading and managing renewable energy, flexibility and certificates of origin.

## 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 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. Agder Energi Nett owns a total of 21,800 kilometres of lines and cables, and has 199,000 transmission and distribution customers. The company is an independent

entity controlled by its own AGM and Board.

## Marketing

The Marketing business area comprises the contractors Otera Infra AS and Otera AB, the retail supplier LOS AS, the district heating supplier Agder Energi Varme AS, Agder Energi Venture AS, as well as the Group's strategic and financial investments.

- Otera Infra AS and Otera AB are leading electrical infrastructure contractors that operate in Norway and Sweden. They generate profit by safely and efficiently implementing operation and maintenance projects and contracts.
- LOS AS is responsible for supplying electricity to the retail market. It is the dominant player in the Agder region and also serves customers in the rest of Norway. The company has around 150,000 customers. LOS mainly generates profit from the margin it achieves on electricity sales, as well as by having a cost-efficient business model and good customer relationships.
- Agder Energi Varme AS supplies district heating and cooling in the Agder region. Agder Energi Varme adds value by building and operating infrastructure for the generation and distribution of water-based heating and cooling for 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 proactively contributing to their development. One of its important roles is developing industrial options for the Group.

## 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.

## 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.





# HIGHLIGHTS 2017

In February, Agder Energi was licensed to upgrade and increase the capacity of its power stations in Åseral. The license covers the installation of a new generator at Skjerka power station, raising the dam at Lake Langevatn, a new transfer tunnel from Langevatn to Nåvatn, and two new power stations, Øygaard and Kvernvatn. Together, these projects may increase the Group's annual power generation by 145 GWh.

In March, Otera XP was sold. The company, which supplies telecommunications engineering services, had turnover of NOK 133 million in 2016. The disposal had no impact on our income statement.

Agder Energi is preparing itself for big changes in the electric power industry. Looking forward, we expect the two biggest drivers to be the transition from a power system based on fossil fuels to one based on renewable energy, and the move from analogue to digital systems. In view of our new group strategy, in May we therefore made changes to our group structure and management team.

In June, Agder Energi agreed to sell its ownership interest in its part-owned subsidiary NetNordic Holding AS to Norvestor. The transfer of the shares took place August. The gain on that transaction and the company's operating profit up until the completion of the sale contributed NOK 244 million to net income, which is included on the income statement under "Net income from discontinued operations".

In August, Scope Ratings gave Agder Energi an official credit rating of BBB+ with a stable outlook.

Agder Energi was quick to implement measures in its drainage basins to limit the damage caused by the extreme weather over the turn of the month September/October. Many areas received record amounts of precipitation and river flow also set new records in some places. Dams and reservoirs were used proactively to control the enormous amounts of water flowing down the rivers as a result of the heavy



precipitation. This proactive approach significantly reduced the damage due to flooding.

In October, Agder Energi Nett started using the payment application Vipps for customers making customer contributions to investment projects. With around 2,500 annual transactions, this significantly reduces the company's costs, as well as making life simpler for our customers.

In November we completed the dam project at Skjerkevatn in Åseral. The project, which was expected to cost just over NOK 600 million, was completed on schedule and under budget. The project involved building two new rock-fill dams. The water level was raised by 23 metres, up to the same level as Nåvatn, thereby combining the two reservoirs. This will allow us to increase annual generation by 43 GWh, or enough electricity for 2,200 homes.

In the fourth quarter, the power exchange NordPool and Agder Energi agreed to work together to enhance the electricity market by developing an exchange for decentralised flexibility in Norway, Scandinavia and Europe. Using available flexibility can be an alternative to investing in grid upgrades, and the aim is to create a marketplace that is open to all potential market players.

In December Agder Energi decided to build a new dam at Langevatn and to refurbish

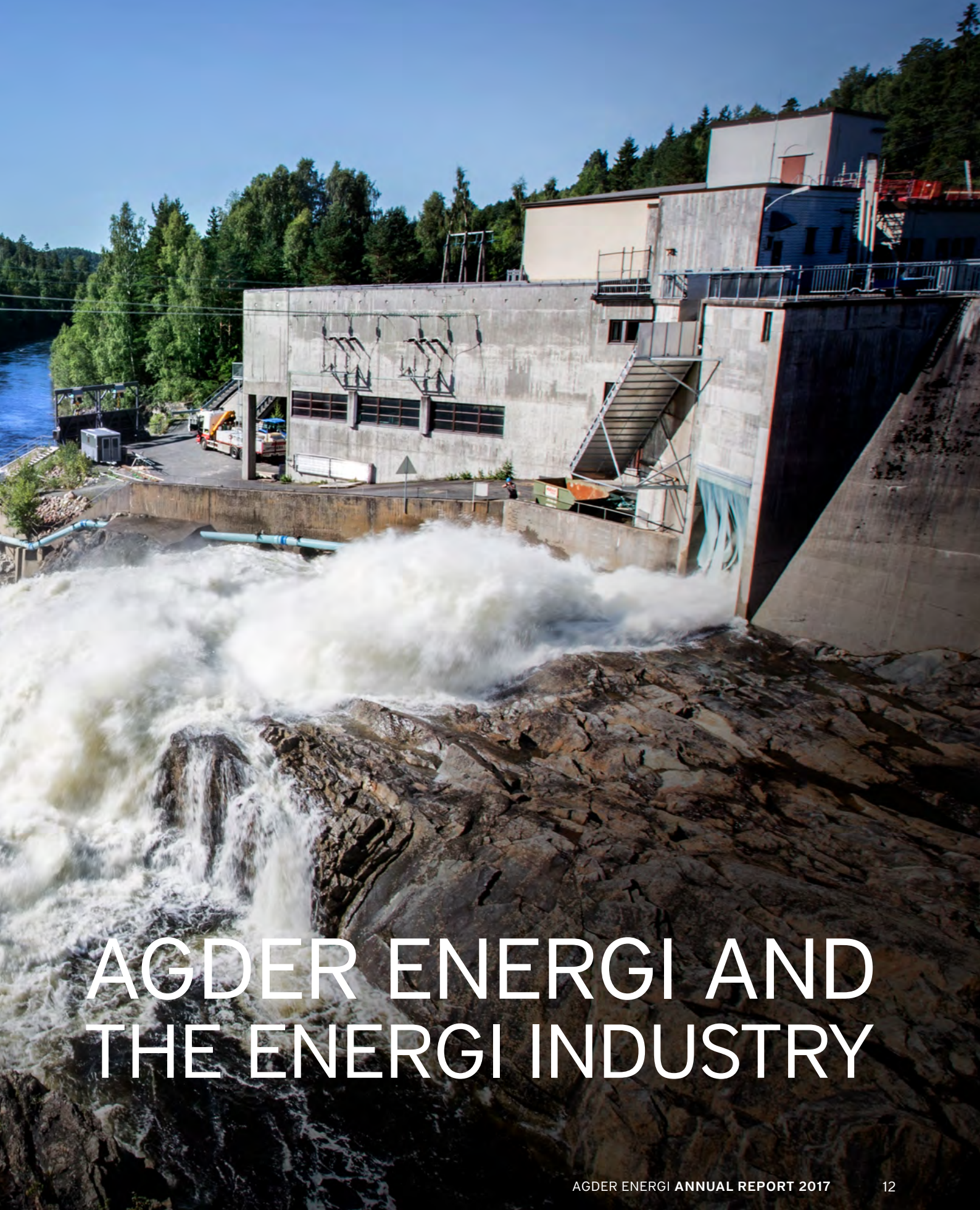
the tunnel between Langevatn and Nåvatn in Åseral, which has been affected by landslides. The project will increase our generation of renewable energy by 42 GWh, equivalent to the electricity consumption of 2,100 households. The construction contract, which was awarded to the consortium Risa-Implenja, is worth approximately NOK 600 million.

In December, as part of the process of consolidating all of our grid-related activities in a single business area, Agder Energi Nett took over the grid infrastructure of Arendals Fossekompani, Sira Kvina kraftselskap and Otteraaens Brugseierforening/Otra Kraft. These acquisitions leave Agder Energi Nett as the only grid operator in Agder covered by the income cap.

At the end of December, Agder Energi Nett had replaced 150,000 old electricity meters with new digital ones. This means that the company is well on the way to completing the job of replacing the around 200,000 meters found in Agder. All of the meters must be replaced by 1 January 2019.

Netsecurity, in which Agder Energi Venture holds a 91,2% ownership interest, bought the company Systempartner in December. This acquisition will strengthen Netsecurity's position as a leading Norwegian supplier of solutions related to IT security, networking and operations services.





# AGDER ENERGI AND THE ENERGI INDUSTRY



# AN EXCITING YEAR FOR ELECTRIC COMPANIES



Agder Energi has put behind it a successful, exciting year, which saw many of the same trends and issues as in 2016. Electricity prices remain low, with the average spot price being 26.9 øre/kWh in 2017, compared with 23.3 øre/kWh in 2016. In 2018, prices are expected to remain at a similar level to 2017.

In spite of the low prices, the Agder Energi Group achieved financial results that our whole organisation can be proud of: net income rose to NOK 1,237 million in 2017, from NOK 744 million the previous year.

At the national level, the industry can take pleasure from the fact that the new parliament chose to retain the 2016 law that allows companies other than Statnett to own and operate international interconnectors. There were demands from some quarters that the two licenses already granted to Statnett be reassessed, but these were withdrawn before being debated in parliament. Good progress is being made on the new power cables to Germany and the UK, and NorthConnect, which is part-owned by Agder Energi, finished preparing its applications to the authorities. We are proud to have helped raise awareness of how much hydropower contributes to the Norwegian economy each year.

In autumn 2016, Statkraft started looking into the possibility of a merger between

Agder Energi and Skagerak Energi. This merger would create Norway's largest vertically-integrated electricity group; a new industry powerhouse in a stronger position to generate profit and add value in an electricity market that is undergoing rapid changes, according to Statkraft.

This process started to build up steam in 2017, and at the request of their respective boards, managers at the two companies analysed the prospect of a merger in a report published last autumn. Both companies recommended taking discussions to the next stage. This process has continued into 2018 with dialogue between the municipal shareholders of both companies. In March 2018, the owners decided that there was no basis for moving on with the merger process. However, we are confident that whatever happens Agder Energi will remain at the forefront of the Norwegian electric power industry.

At the European level, we are seeing increasingly far-reaching changes to energy markets. These transformations are being driven by climate change policies, advances in renewable energy technologies and digitalisation. As a result, new players are entering the market: more and more oil companies are investing in renewable energy sources like wind and solar, in the process converting themselves from oil companies into energy companies that don't just produce oil and gas, but also

supply electricity. Meanwhile, European energy companies are increasingly pulling out of coal, oil and gas, to instead focus on renewable energy technologies and decentralised services for consumers. Through its ownership of German companies that supply decentralised services, Agder Energi is a part of this process.

The keys here are the so-called three Ds: Digitalisation. Decentralisation. Decarbonisation.

In Europe, electricity and heat are generated from a growing number of sources and technologies – wind, solar, hydro, biomass, nuclear, oil and gas. Unfortunately, a very large share still comes from coal, including brown coal, the most polluting fossil fuel of all. We must reduce that amount, which both Norwegian hydropower and Norwegian gas can help us to do. Oil and gas will remain important sources of energy. But as renewables start to compete with oil, particularly in the transport sector, this will affect demand for oil and the profitability of oil production. In practice oil used to have a monopoly there, so this is a big step forward.

This trend, which is most visible in central Europe, is the main topic for this year's Agder Energi conference. These annual conferences have become a key forum for discussing and sharing knowledge about energy, energy policy and energy technology. Our conference in 2017 was the most successful one to date, but our aim is to do even better in 2018.

Health and safety is one of Agder Energi's top priorities. The Group's sickness absence rate has been low in recent years, and in 2017 it was 3.5 percent. We aim to get it below 3.0 percent in 2018. We will continue to take a proactive and systematic approach to preventive health and safety.

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 Sections 4–8 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 aspirational and mandatory 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](http://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 of 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 1,200 employees. The Group's core business consists of hydropower generation, energy management, electricity retailing and grid operation. Its other activities include contracting, district heating and venture capital investment.

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 2017, the Group had NOK 4,565 million of equity, giving it an equity ratio of 21.8%. The Board of Directors considers it important for the Group to have sufficient equity to provide financial stability, bearing in mind its stated credit rating goal, 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 licensees. 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](http://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 32 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). The Group fully integrates risk management, internal controls and internal auditing into its corporate governance in a way that complies with the updates to the COSO framework issued in 2017, which emphasise the link between risk management and strategy.

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, strategic investments, 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.

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](http://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 2017.

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 risk management strategy 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 corporate and risk management strategies, all of the Group's business areas have drawn up business plans. These business plans include strategic and operational goals, areas of priority and risk assessments covering existing activities and new 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.

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 Group auditor's comments. The analysis is summarised in terms of strategic and operational risks to the Group's goals and operations. 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.

### *Control mechanisms*

Agder Energi has established control mechanisms for safety, security, emergency preparedness and critical aspects of its business processes in order to prevent, or rapidly correct, any nonconformities. As digitalisation increases, Agder Energi has established an ICT model and

platform with new, stricter security requirements. In the face of growing numbers of climate-related events, checking and monitoring weather data plays an important role in helping us to manage and adapt the resources that we administer. For our internal procedures, we have established control mechanisms that combine 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 com-

mon 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 as-

essment 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 international 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 view of the public spotlight that has been put on sexual harassment, the Group has given greater priority to raising awareness within the Group of its ethical guidelines, standards and reporting systems/procedures.

Agder Energi's system for reporting unwanted incidents and suggested improvements is available through several platforms, including a mobile phone app and a new online reporting tool. 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, strategic investments, 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 the results are closely monitored. 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 con-

tracts 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 both reduced risk and made a positive contribution to profit in 2017.

Electricity retailing is considered a margin business and financial instruments are used to minimise the electricity price risk and currency risk.

#### *Strategic investments*

In 2017 the Group drew up an ambitious strategy for meeting the changes facing the electric power industry, centred on greater digitalisation and exploiting renewable energy sources. This involves designing, and positioning ourselves in, new markets and business models asso-

ciated with high levels of uncertainty. The risks involved are managed by using pilot projects and an incremental approach, combined with good portfolio management.

#### *Capital allocation*

Agder Energi has a clearly stated goal for its credit 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, grid upgrades and new business opportunities, Agder Energi has more investment opportunities than it is capable of pursuing. Portfolio management and long-term capital allocation are designed to encourage optimal use of capital at the Group.

In accordance with good risk management practice, the Group's profitability



and debt-servicing capacity are stress tested in the critical scenarios reported by the Early Warning system. The Group always has a financial contingency plan with measures that can be taken 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 response to consultation

processes, and provide a guide for any internal adjustments that need to be carried out by the Group. 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 across markets and national borders, as well as new entrants taking the fight to the traditional players. 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 taking various steps to prepare its organisation for the coming changes, including a management development programme focusing on continuous improvement, change management and teamwork.





# 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 2017 on [www.ae.no](http://www.ae.no).



# BOARD OF DIRECTORS' REPORT



# BOARD OF DIRECTOR'S REPORT

Agder Energi supplies the clean energy needed to help society operate smoothly – now and into the future. 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 under IFRS was NOK 487 million in 2017 (controlling interest's share), compared with NOK 251 million in 2016. Agder Energi's hydropower stations generated 8,812 GWh of clean energy in 2017 (2016: 8,880 GWh).

## HIGHLIGHTS

In February, Agder Energi was licensed to upgrade and increase the capacity of its hydroelectric power stations in Åseral. The license covers the installation of a new generator at Skjerka power station, raising the dam at Lake Langevatn, a new transfer tunnel from Langevatn to Nåvatn, and two new power stations.

In June, Agder Energi agreed to sell its ownership interest in its part-owned subsidiary NetNordic Holding AS to Norvestor. The transfer of the shares took place in August. The gain on that transaction and the company's operating profit up until the completion of the sale contributed NOK 244 million to net income, which is included under "Net income from discontinued operations".

In August, Scope Ratings gave Agder Energi an official credit rating of BBB+ with a stable outlook.

In November we completed the dam project at Skjerkevatn in Åseral. The project, which was expected to cost just over NOK 600

million, was completed on schedule and within budget. The project involved building two new rock-fill dams and raising the water level by 23 metres, up to the same level as Nåvatn, thereby combining the two reservoirs into a single larger one. This will allow us to increase annual generation by 43 GWh.

In the fourth quarter, the power exchange NordPool and Agder Energi agreed to work together to develop an exchange for decentralised demand response in Norway, Scandinavia and Europe. Using the flexibility provided by demand response can be an alternative to investing in grid upgrades, and the aim is to create a marketplace that is open to all potential market players. The partnership is being continued through the newly established companies Nodes and Nodes Plattform.

In December, Agder Energi decided to go ahead with parts of the Åseral project, for which it has a licence. The Åseral North

project involves building a new dam at Langevatn and refurbishing the tunnel between Langevatn and Nåvatn in Åseral, which has been affected by landslides. As well as increasing annual renewable energy generation by 42 GWh, the project is important as a risk mitigation measure. The construction contract is worth approximately NOK 600 million.

In December, as part of the process of consolidating all of our grid-related activities in a single business area, Agder Energi Nett took over the grid infrastructure of Arendals Fossekompani, Sira Kvina kraftselskap and Otteraaens Brugseierforening/Otra Kraft. These acquisitions leave Agder Energi Nett as the only grid operator in Agder covered by the income cap.

## FINANCIAL PERFORMANCE

Agder Energi's operating revenues in 2017 amounted to NOK 10,223 million, compared with NOK 8,086 million in 2016. NOK 2,068 of the NOK 2,137 increase is due to the acquisition of LOS Energy in Sweden and Nordgröön and Agder Energi Solutions in

Germany. These companies were acquired between November 2016 and January 2017. Their entire turnover for the year is therefore included in the Group's turnover figure for 2017, whereas they only had a limited impact on our turnover in 2016.

In 2017, the Group's operating profit reached NOK 1,062 million, NOK 90 million higher than the 2016 figure of NOK 972 million. The Hydroelectric Power business area's operating profit rose by NOK 296 million, while unrealised gains and losses on currency and





electricity contracts were NOK 208 million lower than the previous year.

The operating profit includes NOK 63 (2) million of impairment losses. NOK 32 million of those losses related to Otera, reflecting its poor financial results over an extended period. The remaining NOK 31 million comprises NOK 20 million of goodwill impairments at some of the companies in the venture capital portfolio and NOK 11 million for intangible assets that were sold in 2017.

Net financial expenses rose from NOK 173 million to NOK 214 million. Interest on the Group's debt portfolio was NOK 251 (252) million. Continued heavy investment in projects resulted in NOK 27 (28) million being capitalised as construction loans, leaving the net interest expense recognised at NOK 224 (224) million. There was an unrealised NOK 30 million gain on our interest rate swaps, albeit down from NOK 78 million in 2016. This was the main reason for the increase in net financial expenses. Investments in associates contributed a NOK 22 (7) million loss.

The Group's pre-tax profit amounted to NOK 848 (799) million, and its tax expense was NOK 598 (539) million. The tax expense consists of NOK 208 (156) million of income tax and NOK 390 (383) million of resource rent tax. Income tax rose, primarily reflecting higher pre-tax profit, but also due to goodwill impairments that are not tax-deductible. The expensed resource rent tax rose marginally from NOK 383 million in 2016 to NOK 390 million in 2017. The resource rent tax expense comprises tax payable and the change in deferred resource rent tax. Resource rent tax payable rose from NOK 307 million to NOK 422 million due to higher spot prices. The change in deferred resource rent tax contributed a NOK 31 million gain, compared with a NOK 76 million expense in 2016. The change in deferred resource rent tax recognised in the income statement has tended to vary greatly from year to year, without necessarily

having much relation to the Group's underlying performance. This is because the item fluctuates in line with expectations regarding our ability to make use of negative resource rent carryforwards and certain derivatives. The introduction of new tax rates in 2018 resulted in a NOK 31 million gain for 2017.

The Group's net income for the year was NOK 487 million (controlling interest's share), compared with NOK 251 million in 2016. This includes NOK 719 (332) million of valuation losses on derivatives. Adjusted for this, net income was NOK 1,207 (583) million. In 2017, Agder Energi sold its ownership interest in NetNordic. The company formed part of the Group's venture capital portfolio. The gain on the disposal and the company's operating profit up until the completion of the sale are included under "Net income from discontinued operations". Most of the NOK 244 million recognised relates to the gain on the disposal.

#### **Capital structure and cash flow**

Agder Energi's assets had a book value of NOK 20,831 million at the close of 2017, compared with NOK 20,319 in 2016. Heavy investment in the Hydroelectric Power and Network business areas was the main reason for a NOK 782 million increase in the value of property, plant and equipment. Book equity fell slightly to NOK 4,565 (4,626) million. The Group's equity ratio at the end of the year was 22% (23%). At the end of the year, the Group had NOK 9,240 (9,143) million of interest-bearing liabilities. The interest rate on the loan portfolio once again fell in 2017. The average interest rate was 2.9%, down from 3.0% in 2016. The Group had NOK 2,372 (2,023) million of unrestricted liquid assets and undrawn credit facilities.

Cash flow from operating activities came to NOK 1,189 million, compared with NOK 1,779 million the previous year. Operating profit adjusted for depreciation and unrealised gains and losses on energy and currency

contracts was NOK 2,597 (2,192) million. In 2016, Agder Energi converted a significant proportion of its electricity price hedges for 2017 from forwards to futures. At the time, this had a positive impact on cash flow of almost NOK 400 million. The conversion was the biggest reason for the reduction in cash flow from operating activities between the years.

In recent years, Agder Energi has invested heavily in hydroelectric power and grid infrastructure. This continued in 2017. Net investments amounted to NOK 1,293 million in 2017, against NOK 1,277 million the previous year. NOK 1,348 (1,255) million was invested in property, plant and equipment and in intangible assets. In addition, NOK 99 (142) million of investments in grid infrastructure were 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. 90% of the investments in property, plant and equipment related to the Network and Hydroelectric Power business areas. Cash received from the sale of subsidiaries and associates once again helped to reduce net cash used in investing activities in 2017. In 2017 it was the disposal of NetNordic, Otera XP and the associate Steinsvik Kraft that had a positive impact on cash flows.

NOK 610 (660) million in dividends were paid out to controlling and non-controlling interests. Net cash flow less dividends therefore came to NOK 579 (1,119) million. This means that 45% (88%) of the net investment for the year was financed from cash flow from operating activities, while the remaining 55% (12%) was debt-financed.

#### **Proposed dividends**

Agder Energi's dividend policy states that the proposed dividend for 2017 should be set based on the Group's net income for 2016 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 2016, the controlling interest's share of NGAAP net income was NOK 744 million. Based on that, the Board of Directors proposes a dividend payout of NOK 606 million for the 2017 financial year.

The net income for the year of the parent company Agder Energi AS was NOK 935 (785) 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	606
Transferred to other reserves	329
<b>Total allocations</b>	<b>935</b>

### 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.

## BUSINESS AREAS

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

### Hydroelectric Power business area

This business area is responsible for developing, operating and maintaining the Group's hydroelectric power stations. The business area owns, either directly or through joint arrangements, 47 hydroelectric power stations, making it one of Norway's largest generators of hydroelectric power. 8,812 GWh (8,880 GWh) of power was generated in 2017. Average annual power generation is 8,100 GWh.

The average spot price in Agder Energi's pricing region (NO2) was 26.9 øre/kWh (23.3 øre/kWh), up 15% over 2016. 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 hedges meant that the average price achieved in 2017 was 30.6 øre/kWh (27.8 øre/kWh) for the power that was generated.

The turnover of the business area was NOK 2,893 (2,651) million in 2017. It made an operating profit of NOK 1,752 million, up from NOK 1,455 million in 2016, thanks to net energy sales rising from NOK 2,471 million to NOK 2,692 million. Net energy sales benefited from an increase in the spot value of electricity generated from

NOK 2,086 million to NOK 2,452 million, partially offset by factors including a fall in realised gains on hedges from NOK 368 million to NOK 343 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 115 million to NOK 422 million. Higher futures prices, a higher euro exchange rate and a lower tax-free interest allowance resulted in an increase in the capitalised negative resource rent carryforwards, while the opposite occurred in 2016. The change in deferred resource rent tax recognised in the income statement was NOK 137 million (NOK -155 million), resulting in net income of NOK 996 (584) million.

NOK 469 (445) million was invested in 2017, of which NOK 157 (130) million related to investments in new projects. The biggest individual investments involved the new second generator at Skjerka, two new rock-fill dams on Lake Skjerkevatt and the refurbishment of Evenstad power station. Beyond this, investments mainly comprised reinvestments in the power stations and dams at wholly-owned and part-owned installations.

### 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 2017 amounted to NOK 1,335 million, compared with NOK 1,424 million in 2016. The reduction was due to a lower income cap. The income cap is set by the Norwegian Water Resources and Energy Directorate, and it mainly fell due to one-off factors that positively impacted the calculation of the permitted revenues of grid operating companies in 2016. Lower revenues were the main reason operating profit fell to NOK 271 million in 2017, from NOK 417 million in 2016. Expenses related to energy not supplied (KILE) and fault resolution were NOK 10 million higher than in 2016.

The business area invested NOK 773 (695) million in 2017, of which NOK 590 (519) million related to investments in new projects. NOK 311 (211) million was invested in the smart meter project. The figure for investment also includes NOK 68 (109) million for Honna substation in Åseral.

Including NOK 99 (142) million of customer contributions, gross investment in the business area was NOK 875 (818) million.

**The Energy Management business area**

The Energy Management business area includes Agder Energi Kraftforvaltning, LOS Energy and Agder Energi's electricity market operations in Germany. Agder Energi Kraftforvaltning is responsible for scheduling and hedging the hydropower portfolio on behalf of the Hydroelectric Power business area. LOS Energy is one of Scandinavia's leading energy retailers. In Norway, LOS Energy is the leading supplier of electricity to the commercial market. LOS Energy also has a securities trading licence for the Nordic countries, and significant turnover in the Swedish market, as well as customers in Denmark and Finland. Electricity market operations involve managing renewable energy, optimising distributed generation and selling demand response services.

The business area's operating revenues were NOK 5,210 (3,015) million in 2017. The increase in turnover was due to the acquisition of LOS Energy in Sweden in the fourth quarter of 2016 and of the German operations at the turn of the year. The business area's operating profit was NOK 27 (19) million. This includes a NOK 33 (2) million depreciation expense arising from the acquisition of LOS Energy in Sweden.

**The Marketing business area**

The Marketing business area's turnover was NOK 2,071 (2,363) million in 2017,

while it made an operating loss of NOK 4 million (profit of NOK 49 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 2017, the electricity retailer LOS's turnover was NOK 670 million, compared with NOK 671 million in the year-earlier period. LOS enjoys a strong position in the Agder region, but also has a significant number of customers elsewhere. It has maintained a stable market position in Agder in spite of growing competition. The company's operating profit was NOK 56 (68) million.

Otera supplies contracting services for the installation, operation, maintenance and servicing of electricity and transport infrastructure. In 2017, Otera's turnover was NOK 954 (1,145) million. It made an operating loss of NOK 65 (19) million, reflecting weak results at both the Norwegian and Swedish businesses. Otera's operating profit for 2017 was impacted by impairment charges and losses realised on major fixed-price projects. The operation and maintenance business achieved acceptable margins and made a positive contribution to operating profit. In March, Agder Energi sold Otera XP. The figures for 2016 include NOK 133 million of turnover and NOK 9 million of operating profit attributable to the business that was sold.

Agder Energi Varme's turnover in 2017 was NOK 108 (101) million, while its operating profit was NOK 20 (21) million. Its profit for 2016 included NOK 6 million from the reversal of previous years' impairments against Sørlandsparken. The company supplied 143 GWh (137 GWh) of heating energy. Like the previous year, above average temperatures led to less energy than expected being supplied. However, customer growth and rising sales of construction site heating and cooling helped to push up volumes. Our hedging of energy contracts made a significant contribution in the period. The company invested NOK 37 (21) million. Its focus is on densification using the existing infrastructure, so once again no major development projects were implemented in 2017.

The Group's venture capital investments are managed through the company Agder Energi Venture. Its biggest investment, NetNordic, was sold at a significant profit in 2017. One of the important goals of the venture capital business is creating industrial options for the Group. In 2017, Enfo and the two German companies Entelios and Nordgröön were transferred from the venture capital portfolio to the Energy Management business area. Enfo and Entelios supply demand response services, while Nordgröön offers market access for small electricity generators.

## CORPORATE SOCIAL RESPONSIBILITY (CSR)

Agder Energi is one of Norway's largest producers of renewable energy, and the Group's CSR activities aim to ensure that all of its operations are 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**

In 2017, the Group's sickness absence rate was 3.5%, unchanged from 2016. Of that, 1% (1%) was short-term absence and 2.4% (2.4%) was long-term absence (more than 16 days). While total sickness absence has remained relatively stable over the past five years, short-term absence has been declining, while long-term

absence has been rising. 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.

7 (11) occupational accidents resulting in injury were recorded in 2017. Of these, 4 (7) resulted in total lost time of 146 (374)





days. The accident figures are equivalent to a lost time injury frequency (number of LTIs per million work hours) of 2.1 (3.5), a total injury frequency (number of injuries, whether or not they resulted in lost time, per million work hours) of 3.7 (5.4) and an injury severity rate (number of days lost per million work hours) of 71 (186). None of the incidents can be classified as serious.

A lot of effort has been put into making Agder Energi a safe place to work where injuries don't occur, and into creating a good working environment. We have been working continuously to improve both systems and conduct in order to reach our health and safety goals. In recent years, we have put a particular focus on creating a safety culture, through awareness-raising and encouraging staff to think about risks in their own work, report if something is dangerous or can be improved, etc. These efforts are one of the main reasons for the improvements that we have seen in health and safety.

#### **Staff and organisational structure**

At the close of 2017, the Group had 1,210 (1,432) full-time and temporary employees, representing 1,163 (1,401) full-time equivalents. The reduction since 2016 is mainly due to the sale of NetNordic. The parent company had 162 (158) permanent employees at the end of the year.

Women make up 17% (17%) of the Group's employees, and 41% (42%) of the parent company's. The senior management team has two women and five men. Women occupy 42% (42%) 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. Our activities in this area are carried out within the framework of the ten corporate social responsibility principles defined by the UN Global Compact. We do not accept any form of discrimination. Discrimination refers to any kind of differential treatment, exclusion or preference based on gender, age, any disability, sexual orientation, religion, political opinions or national or ethnic origin, or any other similar matter that has the effect of preventing or limiting equal treatment. 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 activities**

The Group's strategy establishes Agder Energi's values and has a strong focus on ethical conduct. All conduct at the Group should adhere to its ethical guidelines. We carry out regular activities to ensure that knowledge and awareness of the Ethical Guidelines remains high. Ethics, values and management requirements are some of the topics covered by the Group's management development programme, and managers and employees' awareness of the Ethical Guidelines is measured in our employee satisfaction surveys. Ethics, values and management requirements also played a pivotal role in our response to the #metoo movement in 2017, and that will remain the case in 2018. 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.

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 work.

Agder Energi's goal is that no form of corruption shall take place anywhere within the Group's operations. Its anti-corruption activities comply with national and international laws, regulations and conventions. In order to prevent corruption and misconduct, the Group has developed and implemented a range of measures including ethical guidelines, procedures for reporting and investigating misconduct, whistleblowing channels, integrity due diligence for acquisitions and supplier requirements. In 2017, all of our employees completed an anti-corruption course and a risk analysis was also carried out at each of our companies.

#### **The environment**

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

#### **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 climate and 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 sever-



ral river systems. For example, we have worked with NIVA to study the migration of smolts past Rygene power station in the Arendal river system. The aim of the study is to reduce harm to smolts migrating downriver past Rygene power station and to come up with targeted actions that minimise the need to release more water than required by the rules on the operation of our dams.

There is a lot of bulbous rush in the rivers in the Agder area. The reasons for this are complex and not fully understood. 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. At the start of 2017 the project was led by the county governor of Aust-Agder and Vest-Agder, while Vest-Agder County Council took over its leadership in the autumn of 2017.

The licensing authorities are legally entitled to modify the licence terms 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 of the plan 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 it is hard to say specifically what the changes may be. Finndøla is one example of a river system where the licence terms are being revised, and where considerable work was done in 2017.

No serious environmental incidents were recorded in 2017. The control centre recorded four breaches of the rules governing the operation of dams in 2017, all of which were considered minor. No environmental impacts were recorded as a result of these breaches, which were handled in accordance with the current guidelines.

#### Network

Agder Energi Nett always aims to minimise unwanted impacts on the environment. Significant resources go to ensuring that current regulations issued by the authorities are properly implemented. This applies equally to operations, maintenance and development projects. The company's procedures, which are subject to continuous improvement, aim to avert, prevent and reduce the scope of any environmental incidents.

In 2017 there was one minor environ-

mental incident in which around 100 litres of transformer oil was burned up during a fire at Øye substation.

#### District heating

Agder Energi Varme makes an important contribution to promoting the use of green, renewable energy sources. For example, in Kristiansand it reuses the surplus heat from waste incineration and from a nickel refinery, while in Arendal and Grimstad it generates heat from biomass.

Of the total heat supplied by the company in 2017, 98.7% came from renewable sources that help to reduce emissions of pollutants like CO<sub>2</sub> and NO<sub>x</sub>.

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 corporate 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 and risk management strategy.

Based on the Group's corporate and risk

management strategies, all of the Group's business areas have drawn up business plans. These business plans include strategic and operational goals, areas of priority and risk assessments. 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 safety, security, emergency preparedness and critical aspects of its processes in order to prevent, or rapidly correct, any nonconformities. Due to increasing digitalisation, Agder Energi has established an ICT model and platform with new, stricter security requirements. In the face of growing numbers of climate-related events, checking and monitoring weather data plays an important role in helping us to manage and adapt the resources that we administer. For our internal procedures, we have established control mechanisms that combine 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, strategic investments, 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. Electricity retailing is considered a margin business and financial instruments are used to minimise the electricity price risk and currency risk.

### Strategic investments

In 2017 the Group drew up an ambitious strategy for meeting the changes facing the electric power industry, centred on greater digitalisation and exploiting renewable energy sources. This involves designing, and positioning ourselves in, new markets and business models associated with high levels of uncertainty. The risks involved are managed by using pilot projects and an incremental approach, combined with good portfolio management.

### Capital allocation

Agder Energi has a clearly stated goal of having a rating of BBB+. Portfolio management and long-term capital allocation are designed to encourage optimal use of capital at the Group. The Group always has a financial contingency plan with measures that can be taken should the need arise.

### Operational risk

The most important operational risks 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. Operational risk is managed through procedures governing activities at operating units, and through 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. 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 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 across markets and national borders, as well as new entrants taking the fight to the traditional players. The Group is taking various steps to prepare its organisation for the coming changes, including a management development programme focusing on continuous improvement, change management and teamwork.

### Compliance

In 2017 the Group established a Group compliance function to assist the senior management team and ensure that the companies in the Group comply with internal guidelines and external regulatory requirements. The Group compliance function shall establish work processes to ensure that the Group's compliance risk is adequately identified, managed and controlled. The big companies in the Agder Energi Group will have their own compliance officers.





## 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. Together with the trade organisation Energi Norge and other energy and

industrial companies, as well as the Norwegian University of Science and Technology, NINA, SINTEF and other research institutes, Agder Energi participates in HydroCen. HydroCen is a new research centre for green energy backed by the Research Council of Norway.

In 2016 Agder Energi established a research programme to increase our understanding of the challenges that grid operators will face in the future. Within

this, we have initiated a project on machine learning and a demand response project. In the latter project, the grid operating company is making use of its customers' willingness to change their consumption patterns.

The Group has also started a programme to make better use of the tools already at its disposal.

## EVENTS AFTER THE REPORTING PERIOD

At the start of 2018, Southern Norway experienced heavy snowfall. In some places, the amount of snow has been four times the average. This created major challenges for Agder Energi Nett. Preliminary estimates suggest NOK 70

million of expenses related to fault resolution and compensating customers, as well as a NOK 90 million reduction in the income cap due to energy not supplied (KILE).



## OUTLOOK

### Power generation

At the start of 2018, Agder Energi's hydrological resources of water and snow were significantly above normal. Assuming normal precipitation levels, we expect hydroelectric power generation to remain relatively high in 2018. In 2017, the average spot price (in the NO2 region) was 26.9 øre/kWh. Futures markets suggest that electricity prices will be higher in 2018 than in 2017, before retreating somewhat in the years 2019–2021. The Group's hedging activities continued to make a significant contribution in 2017, but going forwards we expect this to decline. We expect resource rent tax to rise in 2018, as a result of a higher estimate for deferred resource rent tax.

As we move forward, the three 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, the move from analogue to digital systems and the transition from large-scale to distributed generation.

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, which may result in more and more hours during which electricity prices are low. However, it appears that the prices of coal, gas and CO<sub>2</sub>, together with hydrological and meteorological conditions, will continue to have the biggest impact on electricity prices until 2020, and probably until 2030. Future climate change and energy policies, both in Europe and Norway, will also have a big impact on electricity prices, as they will influence what happens to several of the factors that currently determine electricity prices.

Wind and solar power are non-dispatchable, and an increasing proportion of non-dispatchable generation combined with significant bottlenecks in national and

regional electrical grids will increase the need for flexible resources in the European power system. This should increase the value of flexible resources, on both the supply and demand sides. In the course of 2018, the EU is expected to establish the framework for a new market design adapted to the new power system, with its higher proportion of renewable, non-dispatchable generation.

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

In many ways, Germany is leading the way when it comes to converting a centralised system based on fossil fuels/nuclear power to a distributed one based on renewable energy. This is creating many new challenges and opportunities for digitalisation, new customer interfaces and adding value by offering alternatives to expensive, time-consuming grid upgrades. Agder Energi will benefit greatly from developing the necessary expertise to implement these business models both in Scandinavia and other neighbouring countries covered by our strategy.

In just over a year, Agder Energi has positioned itself to take advantage of this by establishing a significant presence in continental Europe. During the year, it bought the companies Markedskraft Deutschland GmbH, Entelios GmbH and Nordgröön (61% ownership interest). These acquisitions, which have allowed Agder Energi to enter the German markets for demand response, short-term trading and managing renewable energy generation, provide a platform for future geographic expansion. The businesses have been combined with Agder Energi's traditional energy management activities and the part of LOS that serves the commercial market. The plan is also for the team that will implement and run

Nodes to work more closely with the operations in Germany in the future.

Various investments have also been made in technology through the wholly and part-owned companies Enfo, Nodes and Nodes Plattform. Building up technological expertise, as well as managing a substantial renewable generation portfolio, has put Agder Energi in a good position to meet the changes to the market that we see coming.

In total we manage up to 35 TWh of electricity, including through physical and cash-settled contracts for the hydroelectric power generated by Agder Energi itself. We also manage the power generated by other companies in Scandinavia and Germany as well as consumption in Scandinavia and Germany. Agder Energi sees opportunities to add value at the interfaces between its various businesses, and several projects have been started to investigate new business models adapted to the changing reality of the European energy market. Investing in Germany is also a strategic decision to enter a market that in the coming years will become increasingly important to the value of our own hydroelectric power.

### Network

Due to heavy snow and bad weather at the start of 2018, Agder Energi Nett has experienced a large number of power outages caused by trees breaking and falling on power lines. The Board of the grid operating business has allocated extra funding to improve grid reliability in vulnerable areas. In 2018 a variety of actions will be taken, including clearing more trees and investing in the grid.

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

In 2018 and beyond, one of our key focuses will be on building a culture of

continuous improvement throughout the organisation. The company is also working on a number of strategic projects to prepare for potential changes in technology and markets over the coming years. The following strategic projects will be particularly important to the company going forwards: "Positioning oneself for the future power grid – DSO", "Power-based distribution tariffs", "R&D Future grid operating companies" and "Geographic expansion of power grids".

### Marketing

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

LOS performed strongly in 2017, further developing its loyalty programme and increasing its range of products and services by offering solar power solutions and charging points for electric vehicles.

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, 5th April 2018  
Board of Directors of Agder Energi AS

Lars Erik Torjussen  
Chair

Tine Sundtoft  
Deputy chair

Jill Akselsen

Leif Atle Beisland

Steinar Bysveen

Marit Grimsbo

Steinar Asbjørnsen

Siw Linnea Poulsson

Johan Ekeland

Øyvind Østensen

Tore Kvarnes

Gro Granås

Tom Nysted  
CEO









# BOARD OF DIRECTORS



Lars Erik Torjussen



Tine Sundtoft



Jill Akselsen



Leif Atle Beisland



Steinar Bysveen



Marit Grimsbo



Steinar Asbjørnsen



Siw Linnea Poulsson



Johan Ekeland



Øyvind Østensen



Tore Kvarnes



Gro Granås

### 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, 5th April 2018  
Board of Directors of Agder Energi AS

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Chair

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Deputy chair

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Johan Ekeland

Øyvind Østensen

Tore Kvarsnes

Gro Granås

Tom Nysted  
CEO





# THE AGDER ENERGI GROUP



# THE AGDER ENERGI GROUP

# FINANCIAL STATEMENTS

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# INCOME STATEMENT

(Amounts in NOK million)	Note	2017	2016 (restated)
Energy sales	2	8 579	6 044
Transmission revenues	3	1 207	1 143
Other operating revenues	4	1 264	1 518
Unrealised gains and losses on energy and currency contracts	6	-827	-619
<b>Total operating revenues</b>		<b>10 223</b>	<b>8 086</b>
Energy purchases	2	-5 477	-3 429
Transmission expenses		-270	-258
Other raw materials and consumables used	4	-793	-981
Employee benefits	7	-900	-837
Depreciation and impairment losses	13	-708	-601
Property taxes and licence fees	8	-196	-211
Other operating expenses	9	-817	-797
<b>Total operating expenses</b>		<b>-9 161</b>	<b>-7 114</b>
<b>Operating profit</b>		<b>1 062</b>	<b>972</b>
Share of profit of associates and joint ventures	11	-22	-7
Financial income	11	25	13
Unrealised gains and losses on interest rate contracts	11	30	78
Financial expenses	11	-247	-257
<b>Net financial income/expenses</b>		<b>-214</b>	<b>-173</b>
<b>Profit before tax</b>		<b>848</b>	<b>799</b>
Income tax	12	-208	-156
Resource rent tax	12	-390	-383
<b>Tax expense</b>		<b>-598</b>	<b>-539</b>
<b>Net income from continuing operations</b>		<b>250</b>	<b>260</b>
Net income from discontinued operations	34	244	2
<b>Net income</b>		<b>494</b>	<b>262</b>
Of which attributable to non-controlling interests	35	7	11
Of which attributable to controlling interest		487	251
Earnings per share/Earnings per share, diluted (NOK)		180	93





# COMPREHENSIVE INCOME

(Amounts in NOK million)	Note	2017	2016
<b>Net income</b>		<b>494</b>	<b>262</b>
<b>Other comprehensive income</b>			
Cash flow hedges	29	23	21
Translation differences		1	-10
Tax impact	12	-6	-5
<b>Total items that may be reclassified to income statement</b>		<b>18</b>	<b>6</b>
Remeasurements of pensions	22	87	191
Tax impact	12	-30	-55
<b>Total items that will not be reclassified to income statement</b>		<b>57</b>	<b>136</b>
<b>Total other comprehensive income</b>		<b>75</b>	<b>142</b>
<b>Comprehensive income</b>		<b>569</b>	<b>404</b>
Of which attributable to non-controlling interests	35	4	13
Of which attributable to controlling interest		565	391



# STATEMENT OF FINANCIAL POSITION

(Amounts in NOK million)	Note	31.12.17	31.12.16
Deferred tax assets	12	425	300
Intangible assets	14	368	476
Property, plant and equipment	15	14 599	13 817
Investments in associates and joint ventures	16	31	37
Derivatives	26	764	884
Other non-current financial assets	17	1 244	1 081
<b>Total non-current assets</b>		<b>17 431</b>	<b>16 595</b>
Inventories		72	142
Receivables	18	2 830	2 573
Derivatives	26	437	466
Cash and cash equivalents	19	61	543
<b>Total current assets</b>		<b>3 400</b>	<b>3 724</b>
<b>TOTAL ASSETS</b>		<b>20 831</b>	<b>20 319</b>
Paid-in capital	20	1 907	1 907
Retained earnings		2 624	2 668
Non-controlling interests		34	51
<b>Total equity</b>		<b>4 565</b>	<b>4 626</b>
Deferred tax	12	1 254	1 109
Provisions	21	1 817	1 776
Derivatives	26	822	465
Interest-bearing non-current liabilities	23	7 504	7 192
<b>Total non-current liabilities</b>		<b>11 397</b>	<b>10 542</b>
Interest-bearing current liabilities	23	1 736	1 951
Tax payable		607	630
Derivatives	26	149	206
Other non-interest-bearing current liabilities	24	2 377	2 364
<b>Total current liabilities</b>		<b>4 869</b>	<b>5 151</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>20 831</b>	<b>20 319</b>

Kristiansand, 5th April 2018  
Board of Directors of Agder Energi AS

Lars Erik Torjussen  
Chair

Tine Sundtoft  
Deputy chair

Jill Akselsen

Leif Atle Beisland

Steinar Bysveen

Marit Grimsbo

Steinar Asbjørnsen

Siw Linnea Poulsson

Johan Ekeland

Øyvind Østensen

Tore Kvarnsnes

Gro Granås

Tom Nysted  
CEO



# STATEMENT OF CASH FLOWS

(Amounts in NOK million)	Note	2017	2016
<b>Cash flow from operating activities</b>			
Profit before tax		848	799
Profit before tax from discontinued operations		249	0
Depreciation and impairment losses	13	717	601
Unrealised gains/losses on energy, currency and interest rate contracts	6, 11	797	540
Share of profit of associates and joint ventures	16	24	7
Gain/loss on disposals		-235	0
Tax paid		-617	-440
Change in trade receivables	18	-276	-431
Change in trade payables	24	7	166
Change in net working capital, etc.		-325	537
<b>Net cash provided by operating activities</b>		<b>1 189</b>	<b>1 779</b>
<b>Investing activities</b>			
Purchase of property, plant, equipment and intangible assets	14, 15	-1 348	-1 255
Purchase of property, plant and equipment paid for by customers	14, 15	-99	-142
Purchase of businesses/financial assets		-69	-155
Net change in loans		-14	11
Sale of property, plant, equipment and intangible assets		6	17
Sale of businesses/financial assets		231	247
<b>Net cash used in investing activities</b>		<b>-1 293</b>	<b>-1 277</b>
<b>Financing activities</b>			
New long-term borrowings		1 410	1 113
Repayment of long-term borrowings		-1 095	-1 199
Net change in current liabilities		-83	314
Dividends paid		-610	-660
<b>Net cash used in financing activities</b>		<b>-378</b>	<b>-432</b>
<b>Net change in cash and cash equivalents</b>		<b>-482</b>	<b>70</b>
Cash and cash equivalents at start of period		543	473
Cash and cash equivalents at end of period	19	61	543





# STATEMENT OF CHANGES IN EQUITY

(Amounts in NOK million)	Paid-in capital	Cash flow hedges	Translation differences	Retained earnings	Total for controlling interest	Non-controlling interests	Total equity
<b>Equity at 01/01/2016</b>	<b>1 907</b>	<b>-133</b>	<b>16</b>	<b>3 045</b>	<b>4 835</b>	<b>58</b>	<b>4 893</b>
Net income for the year	0	0	0	251	<b>251</b>	11	<b>262</b>
Other comprehensive income	0	16	-12	136	<b>140</b>	2	<b>142</b>
Dividends paid	0	0	0	-660	<b>-660</b>	0	<b>-660</b>
Other changes in equity	0	0	0	9	<b>9</b>	-20	<b>-11</b>
<b>Equity at 31/12/2016</b>	<b>1 907</b>	<b>-117</b>	<b>4</b>	<b>2 781</b>	<b>4 575</b>	<b>51</b>	<b>4 626</b>
<b>Equity at 01/01/2017</b>	<b>1 907</b>	<b>-117</b>	<b>4</b>	<b>2 781</b>	<b>4 575</b>	<b>51</b>	<b>4 626</b>
Net income for the year	0	0	0	487	<b>487</b>	7	<b>494</b>
Other comprehensive income	0	17	4	57	<b>78</b>	-3	<b>75</b>
Dividends paid	0	0	0	-607	<b>-607</b>	-3	<b>-610</b>
Other changes in equity	0	0	0	-2	<b>-2</b>	-18	<b>-20</b>
<b>Equity at 31/12/2017</b>	<b>1 907</b>	<b>-100</b>	<b>8</b>	<b>2 716</b>	<b>4 531</b>	<b>34</b>	<b>4 565</b>



# 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 Kjølta 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

Agder Energi made no changes to its accounting principles between 2016 and 2017. Nevertheless, the comparative figures in the income statement have been restated due to the reclassification of discontinued operations, in line with IFRS 5. See Note 34.

## 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 arrangements and associates

A joint arrangement 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 arrangements 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). Subsidiaries with functional currencies other than NOK were responsible for around 30% of the Group's turnover in 2017. These are translated into NOK using the current-rate method. That involves the statement of financial position being translated at the exchange rate on 31 December and the income statement being translated at the average exchange rate. Translation differences are included under other comprehensive income and expenses in the statement of comprehensive income.

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, CO2 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, CO2 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 and expenses 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 34.3% of the net resource rent estimated for each individual power station (35.7% in 2018). 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 2017 the standard interest rate was 0.4%. Positive and negative resource rent can be offset between power stations. This does not apply to negative resource rent that arose before 2007, which 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 1.8% for 2017.

#### 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.

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:

- it is expected to be realised in, or is held for sale or consumption in, the ordinary business cycle;
- it is primarily held for trading;
- it is expected to be realised within twelve months of the end of the reporting period, or;
- 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:

- it is expected to be settled as part of the ordinary business cycle;
- it is primarily held for trading;
- it is due for payment within twelve months of the end of the reporting period; or;
- 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. Hydro-power 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 2017.

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. In spite of this, Agder Energi will not start to apply hedge accounting in its financial statements any more than it has in the past. The standard will therefore not have any significant impact on Agder Energi. The standard came 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. Agder Energi has not identified any reasons why the new standard will have a significant impact on revenue recognition in these business areas. Each year, Agder Energi receives customer contributions from its transmission and distribution customers to cover the cost of upgrades or new connections to the power grid. The industry is currently discussing the right way to account for customer contributions after IFRS 15 comes into force. The most obvious options are either to recognise the customer contribution gradually in parallel with revenues from grid access charges, or to recognise the customer contribution as a reduction in the carrying amount of the asset to which the customer contribution relates. The first of these options is closest to Agder Energi's current practice. Neither of these two options would significantly affect profit for the period in comparison with current practice. The standard came 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.

## 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. Estimates of the useful life of assets are based on experience and past performance, but they also rely significantly on best judgement. The estimated useful life is adjusted if new information implies that the current useful life is no longer the best estimate. The residual value, which is taken into account when calculating depreciation, is also estimated.

The Group spends significant amounts on maintenance and upgrades to its property, plant and equipment. Best judgement is used to determine whether any given expenditure is an upgrade (capitalised) or maintenance (expenses). Expenditures 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 capitalised. Regular maintenance is expensed. See Note 15 for a breakdown of expensed maintenance activities.

### Impairment losses

The Group invests significant amounts in intangible assets and property, plant and equipment. 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)		Hydroelec- tric Power	Energy Ma- nagement	Network	LOS	Otera
		2017	2017	2017	2017	2017
<b>INCOME STATEMENT</b>						
	Note					
Operating revenues		2 893	5 210	1 335	670	954
- of which external operating revenues		2 781	5 070	1 271	641	809
- of which internal operating revenues		112	140	64	29	145
Energy and transmission expenses		-232	-4 786	-353	-522	0
Other raw materials and consumables used	4	0	-5	0	-1	-639
Employee benefits	7	-113	-207	-112	-35	-271
Other operating expenses	8, 9	-514	-157	-338	-54	-103
<b>Operating profit before depreciation and impairment losses</b>		<b>2 034</b>	<b>56</b>	<b>531</b>	<b>57</b>	<b>-59</b>
Depreciation and impairment losses	13	-283	-29	-259	-2	-6
<b>Operating profit</b>		<b>1 752</b>	<b>27</b>	<b>271</b>	<b>56</b>	<b>-65</b>
Share of profit of associates and joint ventures	11	0	0	0	0	0
Financial income	11	15	3	2	1	0
Financial expenses	11	-79	-11	-75	-1	-6
<b>Net financial income/expenses</b>		<b>-64</b>	<b>-9</b>	<b>-74</b>	<b>0</b>	<b>-5</b>
<b>Profit before tax</b>		<b>1 688</b>	<b>19</b>	<b>198</b>	<b>55</b>	<b>-70</b>
Tax expense	12	-692	-17	-31	-13	17
<b>Net income from continuing operations</b>		<b>996</b>	<b>2</b>	<b>167</b>	<b>43</b>	<b>-53</b>
Net income from discontinued operations		0	0	0	0	0
<b>STATEMENT OF FINANCIAL POSITION</b>						
Total assets		8 657	2 076	6 083	466	685
Equity		2 386	429	1 003	102	69
Total segment liabilities		6 270	1 647	5 080	363	616
Capital employed 1)		6 066	794	4 658	102	364
Interest-bearing liabilities	23	3 680	366	3 655	0	295
Funds from operation (FFO) 2)		1 465	53	526	57	-50
Carrying amount of associates and joint ventures	16	0	0	0	0	0
Investments in intangible assets 3)		0	22	27	1	0
Investments in property, plant and equipment 3)		469	4	748	1	7
Number of full-time equivalents		152	180	169	46	326

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)		Parent/ Other <b>2017</b>	Eliminations <b>2017</b>	Total NGAAP <b>2017</b>	IFRS adjustments <b>2017</b>	Total IFRS <b>2017</b>
<b>INCOME STATEMENT</b>						
	Note					
Operating revenues		722	-760	11 023	-800	10 223
- of which external operating revenues		460	-9	11 023	-800	10 223
- of which internal operating revenues		262	-752	0	0	0
Energy and transmission expenses		-42	187	-5 748	0	-5 747
Other raw materials and consumables used	4	-144	-4	-793	0	-793
Employee benefits	7	-291	130	-899	0	-900
Other operating expenses	8, 9	-284	452	-999	-14	-1 013
<b>Operating profit before depreciation and impairment losses</b>		<b>-40</b>	<b>4</b>	<b>2 585</b>	<b>-814</b>	<b>1 770</b>
Depreciation and impairment losses	13	-72	2	-648	-60	-708
<b>Operating profit</b>		<b>-111</b>	<b>7</b>	<b>1 936</b>	<b>-874</b>	<b>1 062</b>
Share of profit of associates and joint ventures	11	1	-23	-22	0	-22
Financial income	11	2 193	-2 189	25	30	55
Financial expenses	11	-1 092	998	-268	21	-247
<b>Net financial income/expenses</b>		<b>1 102</b>	<b>-1 214</b>	<b>-264</b>	<b>51</b>	<b>-214</b>
<b>Profit before tax</b>		<b>990</b>	<b>-1 208</b>	<b>1 672</b>	<b>-823</b>	<b>848</b>
Tax expense	12	-78	136	-677	79	-598
<b>Net income from continuing operations</b>		<b>912</b>	<b>-1 072</b>	<b>994</b>	<b>-745</b>	<b>250</b>
Net income from discontinued operations		248	0	248	-4	244
<b>STATEMENT OF FINANCIAL POSITION</b>						
Total assets		14 764	-14 464	18 266	2 565	20 831
Equity		3 639	-3 828	3 800	764	4 565
Total segment liabilities		11 124	-10 637	14 465	1 801	16 266
Capital employed 1)		12 718	-11 661	13 040	765	13 805
Interest-bearing liabilities	23	9 078	-7 834	9 240	1	9 240
Funds from operation (FFO) 2)						1 196
Carrying amount of associates and joint ventures	16	73	-42	31	0	31
Investments in intangible assets 3)		58	16	125	0	125
Investments in property, plant and equipment 3)		96	-16	1 309	99	1 408
Number of full-time equivalents		292	-	1 163	-	1 163

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)		Hydroelec- tric Power	Energy Ma- nagement	Network	LOS	Otera
		2016	2016	2016	2016	2016
<b>INCOME STATEMENT</b>						
	Note					
Operating revenues		2 651	3 015	1 424	671	1 145
- of which external operating revenues		2 529	2 708	1 344	671	994
- of which internal operating revenues		122	307	81	0	151
Energy and transmission expenses		-243	-2 734	-337	-531	0
Other raw materials and consumables used	4	0	-10	0	-1	-714
Employee benefits	7	-110	-139	-104	-29	-308
Other operating expenses	8, 9	-549	-109	-346	-41	-130
<b>Operating profit before depreciation and impairment losses</b>		<b>1 749</b>	<b>23</b>	<b>637</b>	<b>69</b>	<b>-7</b>
Depreciation and impairment losses	13	-294	-5	-220	0	-12
<b>Operating profit</b>		<b>1 455</b>	<b>19</b>	<b>417</b>	<b>68</b>	<b>-19</b>
Share of profit of associates and joint ventures	11	0	0	0	0	0
Financial income	11	14	4	1	1	1
Financial expenses	11	-95	-5	-64	-1	-10
<b>Net financial income/expenses</b>		<b>-80</b>	<b>-2</b>	<b>-63</b>	<b>0</b>	<b>-9</b>
<b>Profit before tax</b>		<b>1 375</b>	<b>17</b>	<b>353</b>	<b>68</b>	<b>-28</b>
Tax expense	12	-790	-3	-76	-17	7
<b>Net income from continuing operations</b>		<b>584</b>	<b>13</b>	<b>278</b>	<b>51</b>	<b>-21</b>
Net income from discontinued operations		0	0	0	0	0
<b>STATEMENT OF FINANCIAL POSITION</b>						
Total assets		8 455	1 577	5 232	647	613
Equity		2 260	282	824	101	59
Total segment liabilities		6 194	1 295	4 408	546	554
Capital employed 1)		5 909	386	3 821	377	328
Interest-bearing liabilities	23	3 649	104	2 997	275	268
Funds from operation (FFO) 2)		1 286	27	637	8	-11
Carrying amount of associates and joint ventures	16	0	0	0	0	0
Investments in intangible assets 3)		0	84	75	15	0
Investments in property, plant and equipment 3)		445	1	620	-9	17
Number of full-time equivalents in continuing operations		159	142	166	47	391
Number of full-time equivalents in discontinued operations		-	-	-	-	-

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)		Parent/ Other <b>2016</b>	Eliminations  <b>2016</b>	Total NGAAP <b>2016</b>	IFRS adjustments <b>2016</b>	Total IFRS  <b>2016</b>
<b>INCOME STATEMENT</b>						
	Note					
Operating revenues		828	-827	8 907	-820	8 086
- of which external operating revenues		555	106	8 907	-820	8 086
- of which internal operating revenues		272	-933	0	0	0
Energy and transmission expenses		-39	197	-3 687	0	-3 687
Other raw materials and consumables used	4	-258	1	-981	0	-981
Employee benefits	7	-273	127	-837	0	-837
Other operating expenses	8, 9	-299	473	-1 002	-7	-1 008
<b>Operating profit before depreciation and impairment losses</b>		<b>-41</b>	<b>-29</b>	<b>2 401</b>	<b>-827</b>	<b>1 573</b>
Depreciation and impairment losses	13	-63	5	-589	-13	-601
<b>Operating profit</b>		<b>-105</b>	<b>-23</b>	<b>1 812</b>	<b>-840</b>	<b>972</b>
Share of profit of associates and joint ventures	11	5	-13	-8	0	-7
Financial income	11	1 641	-1 649	13	78	91
Financial expenses	11	-606	542	-240	-17	-257
<b>Net financial income/expenses</b>		<b>1 039</b>	<b>-1 119</b>	<b>-235</b>	<b>61</b>	<b>-173</b>
<b>Profit before tax</b>		<b>935</b>	<b>-1 142</b>	<b>1 578</b>	<b>-779</b>	<b>799</b>
Tax expense	12	-158	216	-821	282	-539
<b>Net income from continuing operations</b>		<b>777</b>	<b>-926</b>	<b>757</b>	<b>-497</b>	<b>260</b>
Net income from discontinued operations		-5	0	-5	7	2
<b>STATEMENT OF FINANCIAL POSITION</b>						
Total assets		14 100	-12 708	17 917	2 402	20 319
Equity		3 303	-3 566	3 264	1 362	4 626
Total segment liabilities		10 797	-9 142	14 653	1 040	15 693
Capital employed 1)		13 034	-11 732	12 123	1 646	13 769
Interest-bearing liabilities	23	9 731	-8 166	8 858	285	9 143
Funds from operation (FFO) 2)						1 556
Carrying amount of associates and joint ventures	16	57	-19	37	0	37
Investments in intangible assets 3)		47	0	222	2	223
Investments in property, plant and equipment 3)		117	-18	1 173	142	1 315
Number of full-time equivalents in continuing operations		276	-	1 181	-	1 181
Number of full-time equivalents in discontinued operations		220	-	220	-	220

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 business area, which is responsible for operating the Group's hydropower plants, is also reported as a separate segment. The Energy Management business area manages the Group's generation portfolio, its retail portfolios in Scandinavia and its operations in the German demand response market. The business area, which includes the companies Agder Energi Kraftforvaltning, LOS Energy, Entelios, Agder Energi Solutions and Nordgröön, operates



in Norway, Sweden and Germany. Within the Marketing 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 is an energy retailer that serves domestic 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 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. The subsidiary group Agder Energi Solutions GmbH generates its turnover in the German market.

#### Geographic distribution of operating revenues by location of business

(Amounts in NOK million)	2017	2016
Norway	7 942	7 518
Sweden	2 362	1 117
Germany	731	30
Other countries	15	41
<b>Total energy sales, transmission revenues and other operating revenues</b>	<b>11 050</b>	<b>8 705</b>
Unrealised gains and losses on energy and currency contracts	-827	-619
<b>Total operating revenues</b>	<b>10 223</b>	<b>8 086</b>

#### Geographic distribution of assets based on location of business

(Amounts in NOK million)	2017	2016
Norway	19 535	19 031
Sweden	1 086	1 154
Germany	136	45
Other countries	74	89
<b>Total assets</b>	<b>20 831</b>	<b>20 319</b>

## 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.

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 million)	2017	2016
Spot and balancing markets	2 060	1 728
Concession power and contracts for physical delivery signed before 1991 1)	81	89
Contracts for physical delivery signed after 1991 1)	394	392
Financial contracts used for hedging purposes 2)	246	225
Electricity certificates (own generation)	5	24
Other	48	80
<b>Total for power generation</b>	<b>2 835</b>	<b>2 538</b>
Retail market	5 022	3 473
Network	32	32
District heating	108	100
Market operations 3)	704	30
Eliminations	-123	-129
<b>Total</b>	<b>8 579</b>	<b>6 044</b>

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.

3) Refers to managing and providing market access for renewable energy on behalf of external generating companies, as well as selling demand response services

### Energy purchases

(Amounts in NOK million)	2017	2016
Spot and balancing markets	90	62
Other	44	51
<b>Total for power generation</b>	<b>133</b>	<b>114</b>
Retail market	4 653	3 235
Network	120	129
District heating	41	39
Market operations	663	30
Eliminations	-133	-118
<b>Total</b>	<b>5 477</b>	<b>3 429</b>

The table below shows key figures for our power generating activities, as well as gains/losses in relation to spot prices. The spot value is calculated as the electricity actually generated each hour, multiplied by the spot price for the hour in question. Gains/losses shows the impact of the fact that some of the volume generated is not sold at spot prices, as it is sold as concession power, sold at prices agreed with customers or hedged through financial contracts.

	2017	2016
Net electricity generation (less pumping) (GWh)	8 812	8 880
Reservoir reserves at 31 Dec. (GWh)	4 429	3 766
Reservoir reserves as% of capacity	84%	72%

(Amounts in NOK million)	2017	2016
Spot value of net generation	2 467	2 097
Gains/losses on concession power and contracts for physical delivery signed before 1991	-111	-86
Gains/losses on hedges	343	368
Electricity certificates (own generation)	5	24
Gains/losses on other items	-2	22
<b>Net energy sales from power generation</b>	<b>2 702</b>	<b>2 425</b>

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 545 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)	2017	2016
Volume of concession power (GWh)	545	544
Regulated price (øre/kWh)	11,5	11,4

### 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 million)	2017	2016
Revenues under next year's income cap recognised in the consolidated income statement	-21	-151
Accumulated surplus transmission revenues not included on the SoFP	232	253

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

#### Other operating revenues

(Amounts in NOK million)	Note	2017	2016
Contracting	5	963	1 145
Services		178	139
Other revenues		123	234
<b>Total</b>		<b>1 264</b>	<b>1 518</b>

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

#### Other raw materials and consumables used

(Amounts in NOK million)	Note	2017	2016
Contracting	5	648	714
Other purchases		145	267
<b>Total</b>		<b>793</b>	<b>981</b>

## 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)	2017	2016
Revenues, work in progress	642	534
Accrued revenues included under other receivables	91	69
Deferred revenues included under other liabilities	32	22
Costs incurred to date, work in progress	609	481
Share of outstanding receivables not yet due under contract terms	0	0
Remaining turnover from loss-making projects	0	1

## 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	2017	2016
Portfolio of production hedges, excluding power for industrial users	26	-567	-755
Cash-settled electricity contracts	21	-8	-100
Long-term electricity contracts measured at fair value	26	-108	-70
Currency contracts, basis swaps and currency loans	26	-360	586
Embedded derivatives	26	287	-275
Retail customer portfolio	26	-71	-5
<b>Total</b>		<b>-827</b>	<b>-619</b>
Reversal of unrealised gains and losses at 1 January on contracts closed out during the year 1)		-377	-397
Gains and losses on contracts that had not been closed out as of 31 December		-450	-222
<b>Total</b>		<b>-827</b>	<b>-619</b>

1) Value at start of 2017 (2016) of contracts that were closed out during 2017 (2016).

The above table refers to financial instruments that are used in relation to electricity generation or the retail business and that must be measured at fair value through profit or loss. These are mainly designed to hedge future revenues from electricity sales.



**NOTE 7 EMPLOYEE BENEFITS**

(Amounts in NOK million)	Note	2017	2016
Wages and salaries		851	839
Employers' National Insurance Contributions		144	126
Pension expense (incl. employers' NICs)	22	84	77
Other benefits and reimbursements		43	15
Capitalised wage costs arising from own investments		-222	-220
<b>Total</b>		<b>900</b>	<b>837</b>
Number of full-time equivalents in continuing operations at 31 Dec.		1 163	1 181
Number of full-time equivalents in discontinued operations at 31 Dec.		-	220

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

**NOTE 8 PROPERTY TAXES AND LICENCE FEES**

(Amounts in NOK million)	2017	2016
Licence fees	50	51
Property taxes	146	161
<b>Total</b>	<b>196</b>	<b>211</b>

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)	2017	2016
Property-related expenses	85	92
Lease of machinery and office equipment	27	25
Purchase of plant and equipment	47	57
Repairs to and maintenance of equipment	20	16
Contractors	72	66
Operation/maintenance of IT systems	38	34
Technical consultants	47	54
Administrative consultants	138	112
Other external services	40	39
Office supplies, telecommunications, postage, etc.	36	37
Cost of vehicles	30	32
Leases for cars, machinery, etc.	32	34
Travel expenses, subsistence allowances, mileage expenses, etc.	38	47
Sales, advertising, representation, membership fees and gifts	33	33
Insurance premiums	19	16
Share of other operating expenses at joint arrangements	87	80
Supply of free electricity and compensation	5	7
Other operating expenses	23	16
<b>Total</b>	<b>817</b>	<b>797</b>

**NOTE 10 AUDITOR'S FEE**

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

(Amounts in NOK million)	2017	2016
Statutory audit	2,9	3,1
Other certification services	0,1	0,0
Tax advice	0,1	0,2
Other services not related to auditing	0,1	1,5
<b>Total</b>	<b>3,2</b>	<b>4,8</b>

**NOTE 11 FINANCIAL INCOME AND EXPENSES**

(Amounts in NOK million)	Note	2017	2016
<b>Share of profit of associates and joint ventures</b>	16	<b>-22</b>	<b>-7</b>
Net realised exchange rate gains		15	0
Other interest income		9	4
Realised gains on shares		0	1
Other financial income		1	8
<b>Financial income</b>		<b>25</b>	<b>13</b>
Unrealised gains and losses on interest rate contracts	26	30	78
<b>Unrealised gains and losses on interest rate contracts</b>		<b>30</b>	<b>78</b>
Interest expense on loans 1)		171	178
Interest expense on interest rate swaps		83	76
Other interest expenses		4	3
Interest on capitalised construction loans		-27	-28
Net realised exchange rate losses		0	19
Impairment of non-current financial assets		9	0
Other financial expenses		7	9
<b>Financial expenses</b>		<b>247</b>	<b>257</b>
<b>Net financial income/expenses</b>		<b>-214</b>	<b>-173</b>

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

**NOTE 12 TAX**

(Amounts in NOK million)	2017	2016
<b>Tax expense in income statement</b>		
Income tax payable	203	350
Resource rent tax payable	432	292
Changes in deferred income tax	-6	-179
Changes in deferred resource rent tax	-31	76
<b>Total tax expense recognised in income statement</b>	<b>598</b>	<b>539</b>
<b>Reconciliation of nominal and effective tax rates</b>		
Profit before tax	848	799
Expected tax	204	200
<b>Tax effect of</b>		
Permanent differences	24	-13
Impact of loss carryforwards not included on the SoFP	8	0
Resource rent tax incl. deferred tax	390	383
Net impact of changes in tax rates	-28	-31
<b>Total tax expense</b>	<b>598</b>	<b>539</b>
Effective tax rate	70%	67%
<b>Breakdown of temporary differences and negative resource rent carried forward</b>		
<b>Taxable income</b>		
Property, plant and equipment	3 819	3 253
Current assets/liabilities	-75	-87
Pension liabilities	659	611
Other non-current provisions	-1 444	-1 056
Derivatives	127	-12
Other	-121	-39
<b>Gross differences</b>	<b>2 965</b>	<b>2 670</b>
Tax rate	23%	24%
<b>Net deferred income tax assets (-)/liabilities (+)</b>	<b>682</b>	<b>639</b>
<b>Resource rent</b>		
Temporary differences	1 457	904
Negative resource rent carryforwards expected to be offset against profit over the coming 10 years	-1 043	-408
<b>Gross differences</b>	<b>414</b>	<b>496</b>
Tax rate	35,7%	34%
<b>Net deferred income tax assets (-)/liabilities (+)</b>	<b>148</b>	<b>170</b>
Of which presented in the financial statements as:		
<b>Deferred tax</b>	<b>1 254</b>	<b>1 109</b>
<b>Deferred tax assets</b>	<b>-425</b>	<b>-300</b>
Deferred tax assets arising from negative resource rent carryforwards not included on the SoFP	-368	-604



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 0.8% and 2.2%.

(Amounts in NOK million)	2017	2016
<b>Changes in net deferred tax liabilities (+)/ assets (-) over the year</b>		
Net deferred tax liabilities (+)/assets (-) at 31 Dec. prior year	809	839
New deferred tax liabilities (+)/assets (-)	14	13
Deferred tax liabilities (-)/assets (+) at businesses disposed of during the year	12	0
Change in net deferred tax liabilities (+)/assets (-) included in comprehensive income	36	60
Change in deferred tax liabilities (+)/assets (-) recognised through profit or loss	-40	-103
<b>Net deferred tax liabilities (+)/assets (-) at 31 Dec.</b>	<b>829</b>	<b>809</b>
<b>Changes in deferred tax on items in the SoCI</b>		
Remeasurements of pensions	30	55
Cash flow hedges	6	5
<b>Net change in deferred tax on items in the SoCI</b>	<b>36</b>	<b>60</b>

### NOTE 13 DEPRECIATION AND IMPAIRMENT LOSSES

(Amounts in NOK million)	Note	2017	2016
Amortisation of intangible assets	14	57	39
Impairment of intangible assets	14	63	2
Depreciation of property, plant and equipment	15	588	566
Impairment of property, plant and equipment	15	0	-6
<b>Total depreciation, amortisation and impairment losses recognised in operating profit</b>		<b>708</b>	<b>601</b>
Impairment of financial assets	11	9	0
<b>Total depreciation, amortisation and impairment losses recognised in statement of cash flows</b>		<b>717</b>	<b>601</b>

**NOTE 14 INTANGIBLE ASSETS**

(Amounts in NOK million)	Goodwill	Software	Other intangible assets	Total intangible assets
Acquisition cost	214	276	118	608
Accumulated depreciation and impairment losses	0	-71	-61	-132
<b>Carrying amount at 31/12/2016</b>	<b>214</b>	<b>205</b>	<b>57</b>	<b>476</b>
Carrying amount at 01/01/2017	214	205	57	476
Additions	11	33	78	122
Disposals at book value	-79	-29	-2	-110
Depreciation	0	-34	-23	-57
Impairment losses	-52	0	-11	-63
<b>Carrying amount at 31/12/2017</b>	<b>94</b>	<b>175</b>	<b>99</b>	<b>368</b>
Acquisition cost	94	275	160	529
Accumulated depreciation and impairment losses	0	-100	-61	-161
<b>Carrying amount at 31/12/2017</b>	<b>94</b>	<b>175</b>	<b>99</b>	<b>368</b>
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. In 2017 we recognised NOK 52 million in goodwill impairment losses, NOK 32 million of which related to Otera. The remaining NOK 20 million related to various companies in the Agder Energi Venture portfolio. The impairment loss recognised for Otera reflects the fact that the Norwegian part of the business has been loss-making for some time. The other impairment losses related to companies whose profit was lower than expected or that were loss-making. 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 SoFP**

(Amounts in NOK million)	2017	2016
Otera	38	94
LOS	51	49
NetNordic	0	39
NEG	0	9
Others	5	23
<b>Carrying amount of goodwill</b>	<b>94</b>	<b>214</b>

**NOTE 15 PROPERTY, PLANT AND EQUIPMENT**

(Amounts in NOK million)	HYDROELECTRIC POWER GENERATION				GRID OPERATION	
	Rights and licences	Tunnels and dams	Machinery and electrical infrastructure	Power station buildings and sites	Regional power transmission grid	Local distribution network
Carrying amount at 01/01/2016	1 136	2 793	2 093	924	1 231	2 624
Additions	0	321	368	132	190	622
Disposals at book value	0	0	-6	0	-15	0
Depreciation	-5	-63	-164	-56	-75	-269
Impairment losses	0	0	0	0	0	0
<b>Carrying amount at 31/12/2016</b>	<b>1 131</b>	<b>3 051</b>	<b>2 291</b>	<b>1 000</b>	<b>1 331</b>	<b>2 977</b>
Acquisition cost	1 179	4 386	4 962	2 028	2 247	5 257
Accumulated depreciation and impairment losses	-48	-1 335	-2 671	-1 028	-916	-2 280
<b>Carrying amount at 31/12/2016</b>	<b>1 131</b>	<b>3 051</b>	<b>2 291</b>	<b>1 000</b>	<b>1 331</b>	<b>2 977</b>
Carrying amount at 01/01/2017	1 131	3 051	2 291	1 000	1 331	2 977
Additions	2	513	108	42	438	586
Disposals at book value	0	0	0	-1	0	0
Depreciation	-4	-68	-153	-55	-63	-122
Impairment losses	0	0	0	0	0	0
<b>Carrying amount at 31/12/2017</b>	<b>1 129</b>	<b>3 496</b>	<b>2 246</b>	<b>986</b>	<b>1 706</b>	<b>3 441</b>
Acquisition cost	1 179	4 893	5 069	2 069	2 684	5 843
Accumulated depreciation and impairment losses	-50	-1 397	-2 823	-1 083	-978	-2 402
<b>Carrying amount at 31/12/2017</b>	<b>1 129</b>	<b>3 496</b>	<b>2 246</b>	<b>986</b>	<b>1 706</b>	<b>3 441</b>
Depreciation period (years)	67/ not depreciated	67-99	20-50	50-67/ not depreciated.	15-50	15-50

(Amounts in NOK million)	DISTRICT HEATING	OTHER ACTIVITIES			Total property, plant and equipment
	District heating	Property	Other	Work in progress	
Carrying amount at 01/01/2016	580	135	151	1 476	13 143
Additions	73	5	-34	-363	1 314
Disposals at book value	0	-1	-7	-44	-73
Depreciation	-22	-7	88	0	-573
Impairment losses	6	0	0	0	6
<b>Carrying amount at 31/12/2016</b>	<b>637</b>	<b>132</b>	<b>198</b>	<b>1 069</b>	<b>13 817</b>
Acquisition cost	802	207	562	1 069	22 699
Accumulated depreciation and impairment losses	-165	-75	-364	0	-8 882
<b>Carrying amount at 31/12/2016</b>	<b>637</b>	<b>132</b>	<b>198</b>	<b>1 069</b>	<b>13 817</b>
Carrying amount at 01/01/2017	637	132	198	1 069	13 817
Additions	56	0	76	-412	1 409
Disposals at book value	0	-5	-33	0	-39
Depreciation	-24	-7	-92	0	-588
Impairment losses	0	0	0	0	0
<b>Carrying amount at 31/12/2017</b>	<b>669</b>	<b>120</b>	<b>149</b>	<b>657</b>	<b>14 599</b>
Acquisition cost	858	199	575	657	24 026
Accumulated depreciation and impairment losses	-189	-79	-426	0	-9 427
<b>Carrying amount at 31/12/2017</b>	<b>669</b>	<b>120</b>	<b>149</b>	<b>657</b>	<b>14 599</b>
Depreciation period (years)	8-60	25-99/ not depreciation	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 borrowing costs amounted to NOK 27 (28) million in 2017, calculated using the Group's average interest rate of 2.9% (3.0%).

NOK 3,104 (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 99 (142) 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 210 (197) million in 2017. NOK 281 (302) 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 SoFP are set out:**

**Hydroelectric power stations**

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

**Energy distribution networks**

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

**Hydroelectric power stations**

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

**Other assets**

	Depreciation period (years)
- Sites	Not depreciated
- District heating pipelines	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)	2017	2016
Associates	10	24
Joint ventures	21	14
<b>Carrying amount at 31 Dec.</b>	<b>31</b>	<b>37</b>
Profit from associates	-23	-9
Profit from joint ventures	-11	-6
Gain on disposals	12	7
<b>Share of profit of associates and joint ventures</b>	<b>-22</b>	<b>-7</b>

### Breakdown of investments in associates:

(Amounts in NOK million)	Ownership interest	Carrying amount at 31/12/2016	Additions	Disposals	Consolidated share of profit/loss	Carrying amount at 31/12/2017
Otovo AS	18,6%	5	5	0	-2	8
Steinsvik Kraft AS	20,0%	8	0	-8	0	0
Skagerak Venture Capital I KS/GP KS	19,6%	10	0	0	-9	1
NorthConnect KS/NorthConnect AS	22,3%	0	13	0	-12	1
<b>Total for associates</b>		<b>23</b>	<b>18</b>	<b>-8</b>	<b>-23</b>	<b>10</b>

### Breakdown of investments in joint ventures:

(Amounts in NOK million)	Ownership interest	Carrying amount at 31/12/2016	Additions	Disposals	Consolidated share of profit/loss	Carrying amount at 31/12/2017
Statkraft Agder Energi Vind DA	38,0%	5	1	0	-6	0
Grønn Kontakt AS	42,0%	9	18	0	-5	21
<b>Total for joint ventures</b>		<b>14</b>	<b>18</b>	<b>0</b>	<b>-11</b>	<b>21</b>

### 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 Hølen, 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 Fossekompagni. 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)	2017	2016
Energy sales	1,032	983
Other operating revenues	6	5
<b>Total operating revenues</b>	<b>1,038</b>	<b>988</b>
Transmission expenses	-40	-53
Energy purchases	-16	-12
Property taxes and licence fees	-28	-26
Depreciation	-100	-99
Other operating expenses	-85	-77
<b>Total operating expenses</b>	<b>-269</b>	<b>-267</b>
<b>Operating profit</b>	<b>769</b>	<b>721</b>
Non-current assets	3,112	3,106
Current assets	75	74
<b>Total assets</b>	<b>3,187</b>	<b>3,180</b>
Current liabilities	71	70
<b>Net assets</b>	<b>3,116</b>	<b>3,110</b>

## NOTE 17 NON-CURRENT FINANCIAL ASSETS

(Amounts in NOK million)	Note	2017	2016
Investments in shares and ownership interests		5	12
Loans to associates and joint arrangements		7	7
Other receivables 1)		323	241
Pension assets	22	909	821
<b>Total</b>		<b>1 244</b>	<b>1 081</b>

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)	2017	2016
Face value of trade receivables	2 037	1 886
Bad debt provision	13	9
<b>Total trade receivables</b>	<b>2 024</b>	<b>1 877</b>
Accrued revenues	495	388
Prepaid expenses	56	61
Receivables from joint arrangements	12	10
Other receivables	180	173
Share of current assets at joint arrangements	63	64
<b>Total receivables</b>	<b>2 830</b>	<b>2 573</b>

### Ageing analysis of trade receivables

(Amounts in NOK million)	Not overdue	0-30 days overdue	31-60 days overdue	61-90 days overdue	Over 90 days overdue	Total
<b>2017</b>	1 774	147	17	11	88	2 037
2016	1 740	71	32	3	40	1 886

## NOTE 19 CASH AND CASH EQUIVALENTS

(Amounts in NOK million)	2017	2016
Deposits in cash pooling arrangement	0	32
Cash and cash equivalents	52	491
Restricted assets (e.g. term deposits, tax withholding account and client assets)	9	20
<b>Total</b>	<b>61</b>	<b>543</b>

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 50 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)
<b>Share</b>	<b>2 700 000</b>	<b>670</b>	<b>1 809 000</b>

**List of shareholders in Agder Energi AS**

(Amounts in NOK million)	Number of class A shares	% of class A shares	Number of class B shares	% of 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
<b>Total</b>	<b>1,800,000</b>	<b>100%</b>	<b>900,000</b>	<b>100%</b>	<b>2,700,000</b>	<b>100%</b>	<b>1,809,000</b>



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 2017 comes to NOK 606 million in total, equivalent to NOK 224 per share.

## NOTE 21 PROVISIONS

(Amounts in NOK million)		2017	2016
Pension liabilities	22	293	303
Other non-current provisions		1 524	1 473
<b>Total</b>		<b>1 817</b>	<b>1 776</b>

### Breakdown of other non-current provisions

(Amounts in NOK million)	Supply of free electricity 1)	Supply of free electricity and compensation 2)	Cash-settled electricity contracts 3)	Unearned revenue, customer contributions	Other provisions 4)	Total
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
<b>Carrying amount at 31/12/2016</b>	<b>649</b>	<b>216</b>	<b>25</b>	<b>319</b>	<b>264</b>	<b>1,473</b>
Carrying amount at 01/01/2017	649	216	25	319	264	1,473
Unrealised gains and losses	8	0	-20	0	0	-12
New provisions	0	5	0	99	9	113
Provisions used	0	0	0	-11	-39	-50
<b>Carrying amount at 31/12/2017</b>	<b>657</b>	<b>221</b>	<b>5</b>	<b>407</b>	<b>234</b>	<b>1,524</b>

- 1) Perpetual obligations to supply electricity free of charge 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 electricity free of charge 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. The final consideration depends on several parameters such as future tax rates, development costs and depreciation rates. There is still uncertainty about several of these parameters, and the provision is updated as and when new information becomes available.



## NOTE 22 PENSIONS

### The Group's pension plans

For people taken on before 1 April 2007 (1 January 2007 for employees at Otera Infra), the Group has a defined benefit pension plan run by Agder Energi Pensjonskasse, which meets the legal requirements for public sector occupational pension plans. Those 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.

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

Anyone taken on after 1 April 2007 is 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 2017, the annual contribution to the scheme was 2.5% (2016: 2.5%) 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.

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	2017	2016
<b>The pension expense for the year has been calculated as follows</b>			
Current service cost		49	50
Interest income on net pension plan assets		-14	-8
Employers' National Insurance Contributions		7	7
Employee contributions		-8	-6
Administration costs		6	0
<b>Pension expense for the year, defined benefit plans</b>		<b>40</b>	<b>43</b>
Private AFP scheme including employers' NICs		5	5
Defined contribution pension plans (including employers' NICs)		39	28
<b>Total pension expense recognised in the income statement</b>	7	<b>84</b>	<b>77</b>

#### Pension liabilities and pension plan assets

##### Change in gross pension liabilities

Gross pension liabilities at 1 Jan.	1 852	1 886
Current service cost (incl. emp. NICs)	56	57
Interest cost	47	46
Benefits paid/paid-up policies	-75	-69
Remeasurements	88	-69
<b>Gross pension liabilities at 31 Dec.</b>	<b>1 969</b>	<b>1 852</b>

##### Breakdown of defined benefit pension liabilities

Funded pension liabilities	1 677	1 565
Unfunded pension liabilities	292	287
<b>Gross pension liabilities at 31 Dec.</b>	<b>1 969</b>	<b>1 852</b>

##### Change in gross pension plan assets

Fair value of pension plan assets at 1 Jan.	2 369	2 192
Expected return on pension plan assets	62	54
Remeasurements	175	121
Pension contributions	41	57
Benefits paid/paid-up policies	-62	-56
<b>Fair value of pension plan assets at 31 Dec.</b>	<b>2 584</b>	<b>2 369</b>

##### Net pension liabilities/assets (-) at 31 Dec.

	<b>-616</b>	<b>-517</b>
Net pension assets recognised on the SoFP	17	909
Pension liabilities recognised on the SoFP	21	293
<b>Net pension liabilities/assets (-) recognised at 31 Dec.</b>	<b>-616</b>	<b>-517</b>

(Amounts in NOK million)	2017	2016
<b>Change in net defined benefit pension liabilities</b>		
Net defined benefit pension liabilities (-) at 1 Jan.	-517	-306
Pension expense recognised in profit or loss	40	43
Company net contributions incl. employers' NICs	-47	-59
Pension benefits included under operating expenses	-6	-4
Remeasurements	-87	-191
<b>Net pension liabilities/assets (-) recognised at 31 Dec.</b>	<b>-616</b>	<b>-517</b>

#### Remeasurements are made up of

Changes in demographic assumptions	15	-54
Changes in financial assumptions	73	-15
Excess return on assets	-175	-121
<b>Total remeasurements included in the SoCI</b>	<b>-87</b>	<b>-191</b>

The remeasurements in 2017 were mainly due to an excess return on pension plan assets and a change in the discount rate.

#### Sensitivity analysis for a +/- 0.5% percentage point change in the discount rate

Increase in pension liabilities if the discount rate falls	158	123
Fall in pension liabilities if the discount rate rises	-152	-114

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	2,30%	2,60%
Annual wage growth	2,50%	2,50%
Increase in the National Insurance Scheme's basic amount ("G")	2,00%	2,25%
Annual indexing of pensions	1,50%	1,50%
Expected average remaining years of service (funded)	8,1 year	8,2 year
Expected average remaining years of service (unfunded)	7,5 year	5,6 year
Retirement age: 64.5 years on average for both years.		

#### Assumptions used to calculate the pension expense for the year

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%

#### Distribution of pension plan assets by investment category at 31 Dec.

Property funds	12%	12%
Interest-bearing financial instruments	29%	34%
Equities	37%	33%
Hedge funds	22%	21%
<b>Total</b>	<b>100%</b>	<b>100%</b>

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



	2017	2016
<b>Number of people covered by the pension plans</b>		
Defined benefit plan: current employees	409	430
Defined benefit plan: accrued entitlements and retired employees	1 189	1 198
Defined contribution plan: current and temporary employees	748	957
Current employees entitled to public sector AFP, and early retirees	304	328

## NOTE 23 INTEREST-BEARING LIABILITIES

(Amounts in NOK million)	2017	2016
<b>Interest-bearing non-current liabilities</b>		
Bonds	5 281	4 859
Liabilities to financial institutions	2 209	2 328
Other interest-bearing non-current liabilities	14	5
<b>Total</b>	<b>7 504</b>	<b>7 192</b>
<b>Interest-bearing current liabilities</b>		
Commercial paper	600	850
Overdraft and other interest-bearing current liabilities	180	14
Current portion of non-current liabilities (principal repayments due within one year)	956	1 087
<b>Total</b>	<b>1 736</b>	<b>1 951</b>

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.

(Amounts in NOK million)	
<b>Change in interest-bearing liabilities broken down by cash and non-cash items.</b>	
Interest-bearing liabilities at 31/12/2016	9 143
New long-term borrowings (cash item)	1 410
Repayment of long-term borrowings (cash item)	-1 095
New short-term borrowings (cash item)	600
Net change in overdraft (cash item)	166
Repayment of short-term borrowings (cash item)	-850
Exchange rate fluctuations (non-cash item)	150
Gains/losses on fair value hedges (non-cash item)	-284
<b>Interest-bearing liabilities at 31/12/2017</b>	<b>9 240</b>

## NOTE 24 OTHER NON-INTEREST-BEARING CURRENT LIABILITIES

(Amounts in NOK million)	2017	2016
Trade payables	611	662
Unpaid government taxes and duties, tax deducted at source, etc.	599	517
Share of non-current liabilities at joint arrangements	71	70
Other current liabilities	1 096	1 115
<b>Total</b>	<b>2 377</b>	<b>2 364</b>

## 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 financial activities.

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. If there are large volumes of these derivatives, they 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 used in financial activities 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 million)	Note	Carrying amount 2017	Fair value 2017	Carrying amount 2016	Fair value 2016
<b>Financial assets at fair value through profit or loss</b>					
Derivatives	26	1,201	1,201	1,350	1,350
<b>Total financial assets at fair value through profit or loss</b>		<b>1,201</b>	<b>1,201</b>	<b>1,350</b>	<b>1,350</b>
<b>Available-for-sale assets</b>					
Equities	17	5	5	12	12
<b>Total available-for-sale assets</b>		<b>5</b>	<b>5</b>	<b>12</b>	<b>12</b>
<b>Loans and receivables at amortised cost</b>					
Loans to associates	17	7	7	7	7
Other non-current receivables	17	323	323	241	241
Cash and cash equivalents	19	61	61	543	543
<b>Total loans and receivables at amortised cost</b>		<b>391</b>	<b>391</b>	<b>791</b>	<b>791</b>
<b>Financial liabilities at fair value through profit or loss</b>					
Non-current liabilities, obligations to provide free electricity and pay compensation	21	657	657	649	649
Non-current liabilities for electricity contracts measured at fair value	21	5	5	25	25
Derivatives	26	971	971	671	671
<b>Total financial liabilities at fair value through profit or loss</b>		<b>1,633</b>	<b>1,633</b>	<b>1,345</b>	<b>1,345</b>
<b>Financial liabilities at amortised cost</b>					
Bonds	23	5,981	6,091	5,952	6,050
Liabilities to financial institutions	23	2,478	2,531	2,328	2,376
Commercial paper	23	600	600	850	850
Overdraft and other interest-bearing current liabilities	23	181	181	14	14
<b>Total financial liabilities at amortised cost</b>		<b>9,240</b>	<b>9,403</b>	<b>9,143</b>	<b>9,290</b>

\* For loans and receivables at amortised cost, the estimated fair value is based on valuation techniques that do not only use observable market data to arrive at a valuation. For financial liabilities at amortised cost, the estimated fair value is based on valuation techniques that only use observable market data to arrive at a valuation.

## 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 2017, the Group had derivatives worth NOK 87 (117) million that were assets in relation to NASDAQ and liabilities in relation to customers. Similarly, it had derivatives worth NOK 24 (14) million that were assets in relation to customers and liabilities in relation to NASDAQ.

(Amounts in NOK million)	2017	2016
<b>Derivative assets (non-current)</b>		
Portfolio of cash-settled electricity contracts*	95	424
Currency derivatives and basis swaps	0	35
Embedded currency derivatives in electricity contracts	650	397
Interest rate swaps	19	28
<b>Total derivatives</b>	<b>764</b>	<b>884</b>
<b>Derivative assets (current)</b>		
Portfolio of cash-settled electricity contracts*	355	139
Embedded currency derivatives in electricity contracts	82	48
Interest rate swaps	0	279
<b>Total derivatives</b>	<b>437</b>	<b>466</b>
<b>Derivative liabilities (non-current)</b>		
Portfolio of cash-settled electricity contracts*	394	109
Currency derivatives and basis swaps	175	33
Interest rate swaps	253	323
<b>Total derivatives</b>	<b>822</b>	<b>465</b>
<b>Derivative liabilities (current)</b>		
Portfolio of cash-settled electricity contracts*	31	135
Currency derivatives and basis swaps	104	71
Interest rate swaps	14	0
<b>Total derivatives</b>	<b>149</b>	<b>206</b>

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

## 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
<b>2017</b>					
Derivatives and electricity contracts measured at fair value *	26	1 201	0	469	731
Shares and ownership interests	17	5	0	0	5
<b>Total assets</b>		<b>1 206</b>	<b>0</b>	<b>469</b>	<b>736</b>
Supply of free electricity and compensation	21	657	0	0	657
Long-term cash-settled electricity contracts	21	5	0	0	5
Derivatives and electricity contracts measured at fair value *	26	971	0	773	198
<b>Total liabilities</b>		<b>1 632</b>	<b>0</b>	<b>773</b>	<b>859</b>
<b>2016</b>					
Derivatives and electricity contracts measured at fair value *	26	1 350	0	905	445
Shares and ownership interests	17	12	0	0	12
<b>Total assets</b>		<b>1 362</b>	<b>0</b>	<b>905</b>	<b>457</b>
Supply of free electricity and compensation	21	649	0	0	649
Long-term cash-settled electricity contracts	21	25	0	0	25
Derivatives and electricity contracts measured at fair value *	26	671	0	601	70
<b>Total liabilities</b>		<b>1 345</b>	<b>0</b>	<b>601</b>	<b>744</b>

\* Includes derivatives listed on a stock exchange, embedded derivatives in electricity contracts, cash-settled electricity contracts and electricity contracts for physical delivery measured at fair value in accordance with AS 39.

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

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

Level 3 instruments 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 2017 the Group recognised a net loss of NOK 445 million on level 3 financial instruments.



### 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	Long-term cash-settled electricity contracts	Total
Opening balance at 01/01/2017	12	-649	374	-25	-287
Gains and losses recognised in profit or loss	-7	-8	159	20	164
<b>Closing balance at 31/12/2017</b>	<b>5</b>	<b>-657</b>	<b>534</b>	<b>-5</b>	<b>-122</b>

\* Liabilities are shown with a minus sign. The amount recognised relates to contracts still held by Agder Energi at the end of 2017.

The valuation of contracts measured at fair value under Level 3 is most sensitive to changes in assumptions about the EUR/NOK exchange rate and electricity prices. A 10% increase (reduction) in the electricity price would have given a NOK 79 million increase (decrease) in the valuation. A 5% strengthening (weakening) of the Norwegian krone against the euro would have given a NOK 338 million increase (decrease) in the valuation.

### 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.

#### CO2

CO2 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 futures

Interest rate and currency swaps, as well as currency futures (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.

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 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.

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 part of our business involves signing contracts with retail customers that mirror the conditions obtained by Agder Energi in the market.

The net exposure of the retail portfolios 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 trading portfolios which are managed independently of its expected power generation. All of the contracts in the trading portfolios are measured at fair value in the financial statements.

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	
	-10%	10%
<b>Total impact on profit before tax</b>	<b>281</b>	<b>-281</b>

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, mainly 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.

In the retail business, currency risk arises if customers are invoiced in a different currency from the one used to buy the physical electricity, certificates of origin and electricity certificates, or the one used to settle cash-settled electricity futures. 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%
<b>Total impact on profit before tax</b>	<b>9</b>	<b>-9</b>

## 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 4.2 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 million)

	Change in interest rates	
	-1 percentage point	+1 percentage point
Impact on interest expense (- indicates higher expense)	40	-40
Gains and losses on interest rate swaps recognised in profit or loss	-223	201
<b>Total impact on profit before tax</b>	<b>-183</b>	<b>161</b>
Gains and losses on hedging instruments, cash flow hedges	-68	61
<b>Total impact on comprehensive income (before tax)</b>	<b>-251</b>	<b>222</b>

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 and expenses 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

	2017	2016
Nominal average interest rate, NOK	3,3%	3,3%
Nominal average interest rate, euros	2,0%	2,3%



### Fixed-interest periods within loan portfolio\*

(Amounts in NOK million)	1-3 år	3-5 år	5-10 år
NOK-denominated loans	3 013	3 955	1 507
Euro-denominated loans	1 440	1 529	1 110
<b>Total</b>	<b>4 453</b>	<b>5 484</b>	<b>2 617</b>

\* The table takes into account the impact of interest rate swaps and shows the average volume of hedged loans in the three time frames.

### 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 and settlement dates for futures traded through NASDAQ. Agder Energi manages this risk through liquidity forecasts and simulations, as well as by establishing minimum liquidity requirements. Agder Energi uses a NOK 500 million credit facility with a bank as a reserve for liquidity requirements relating to NASDAQ. In addition, Agder Energi has set up NOK 1,500 million of credit facilities with banks to protect itself against refinancing risk. 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 reassessed regularly. The Group finance department is responsible for ensuring that the Group has adequate liquidity within the framework of the 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, and credit facilities with banks shall cover all loans maturing within at least 9 months.

### Maturity structure of liabilities

(Amounts in NOK million)	Due in 2018	Due in 2019	Due in 2020	Due in 2021	Due in 2022	Due after 2022	Unspeci- fied
Bonds and liabilities to financial institutions	959	1 356	1 366	1 085	1 072	2 621	0
Commercial paper and overdraft facility	781	0	0	0	0	0	0
Interest payments	244	205	177	164	160	575	0
<b>Total interest-bearing liabilities</b>	<b>1 984</b>	<b>1 561</b>	<b>1 543</b>	<b>1 249</b>	<b>1 232</b>	<b>3 196</b>	<b>0</b>
Financial liabilities at fair value through profit or loss	149	84	112	91	83	93	1 020
Other non-interest-bearing current liabilities	2 377	0	0	0	0	0	0
<b>Total non-interest-bearing liabilities</b>	<b>2 526</b>	<b>84</b>	<b>112</b>	<b>91</b>	<b>83</b>	<b>93</b>	<b>1 020</b>
<b>Total</b>	<b>4 510</b>	<b>1 645</b>	<b>1 655</b>	<b>1 340</b>	<b>1 315</b>	<b>3 289</b>	<b>1 020</b>

**Breakdown of loans by currency**

(Amounts in NOK million)	2017	2016
NOK-denominated loans *	6 278	6 370
Euro-denominated loans	2 999	2 769
<b>Total</b>	<b>9 277</b>	<b>9 139</b>

\* The comparative figures for 2016 in the table include one bond with a face value of USD 100 million that matured in 2017. The bond is presented under NOK-denominated loans, as the Group used currency swaps to ensure that it had 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 2017 was NOK -69 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 2,000 million committed facility with a bank to back-stop its short-term borrowing programme in the event of problems in financial markets, as well as to cover liquidity requirements in NASDAQ. 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 2,320 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 91 million euros.

Beyond this, the Group had two basis swaps that qualified as accounting hedges. These were linked to a USD-denominated fixed-rate bond that matured in 2017. The fact that these basis swaps have matured is the reason for the fall in the value of derivatives designated as fair value hedges in the table below.

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. Hedge accounting was no longer used for these loans after that point. Unrealised foreign exchange losses on the loans that arose during the period of hedge accounting will be reversed through profit or loss between now and 2028 in parallel with the recognition of the hedged electricity sales.

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)	2017	2016
<b>Fair value of derivatives designated as hedging instruments</b>		
Derivatives designated as fair value hedges	1	285
Derivatives designated as cash flow hedges	-76	-99
<b>Total fair value of derivatives designated as hedging instruments</b>	<b>-75</b>	<b>186</b>
<b>Fair value hedges</b>		
Gains/losses on derivatives used as fair value hedges	-54	-37
Gains/losses on hedged items in fair value hedges, hedged risk	54	37
<b>Hedge ineffectiveness recognised in profit or loss</b>	<b>0</b>	<b>0</b>
<b>Cash flow hedges</b>		
Gains/losses recognised in the SoCI	23	5
Reclassified to profit or loss	0	17
<b>Total gains/losses on hedging instruments recognised in the SoCI</b>	<b>23</b>	<b>21</b>
<b>Cash flow hedge ineffectiveness recognised in profit or loss</b>	<b>0</b>	<b>0</b>

## 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 15 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 914 (589) million in off-statement of financial position bank guarantees. NOK 124 (163) million of this relates to cash-settled power exchange agreements, NOK 50 (52) million to tax deductions at source, NOK 572 (197) million to settlement/payment guarantees and NOK 168 (177) million to contractual guarantees.

At the close of the year, the parent company had issued guarantees worth NOK 20 (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 Kjølita in Kristiansand. It has signed a 15+5-year lease on the building with the lessor Kjølita 18 AS. The companies in the Otera Group mainly occupy leased premises. In addition, several companies in the Group have leased cars. NOK 75 million was expensed in relation to these leases in 2017.

## 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

In a provisional decision, the Central Tax Office for Large Enterprises has denied Agder Energi Vannkraft the right to deduct the resource rent for the 85 GWh of free electricity that it has supplied annually in the period since 2011. Agder Energi Vannkraft does not consider that the Central Tax Office for Large Enterprises has any justification for this, and has requested that the draft decision be overturned. Based on the precautionary principle, the financial statements assume that the company will not be able to deduct the value of the free electricity it supplies from its resource rent. 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.

#### Concession power in the Mandal river system

In conjunction with Royal Decree of 6 December 2013 relating to further exploitation of Lake Skjerkevatn and Royal Decree of 3 February 2017 on the so-called Åseral projects, the Ministry of Petroleum and Energy (OED) has changed the price terms for some of Agder Energi Vannkraft's existing obligations to supply concession power (approximately 30 GWh). Agder Energi Vannkraft had expected the extra electricity generated under the new licences to be subject to the OED price, but thought that electricity generated under the existing licences granted prior to 1959 would continue to be supplied at the cost at the relevant power station. The change in the price terms may result in an annual loss of revenue of NOK 2-3 million.

Agder Energi Vannkraft considers that the OED has no grounds to change the price terms for older licences in conjunction with issuing the two aforementioned licences, and has decided to take legal action against the central government in order to overturn the change in the price terms. Until the question of the price terms has been finally decided, Agder Energi Vannkraft will supply the abovementioned concession power at the OED price.

## NOTE 32 MANAGEMENT COMPENSATION, ETC.

### Board of Directors

The compensation of the Board of Directors and Corporate Assembly for 2017 was NOK 1,455,800 and NOK 17,200 respectively. The equivalent figures in 2016 were NOK 1,106,600 and NOK 17,200 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	495 800	8
Tine Sundtoft, deputy chair	170 000	5
Jill Heidi Eklund Akselsen, Board member	125 000	7
Leif Atle Beisland, Board member	150 000	6
Steinar Bysveen, Board member*	0	8
Steinar Asbjørnsen, Board member*	0	6
Marit Grimsbo, Board member*	0	8
Siw Linnea Poulsson, Board member*	0	8
Johan Ekeland, employee representative Board member	110 000	7
Øyvind Østensen, employee representative Board member	110 000	7
Gro Granås, employee representative Board member	110 000	6
Tore Kvarsnes, employee representative Board member	110 000	7

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



In 2017, the audit committee appointed by the Board received NOK 25,000 in fees.

In 2017, Board members' deputies received NOK 75,000 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 1,000)	Period	Salary	Bonus 2)	Other benefits 1)	Total taxable income	Pension expense
Tom Nysted – CEO	Whole year	3 109		133	3 242	783
Pernille K. Gulowsen – CFO	Whole year	1 867		111	1 978	583
Unni Farestveit – CSR Director	Whole year	1 868		114	1 982	600
Steffen Syvertsen – Business Area Director, Marketing	Until 7 May					
Steffen Syvertsen – Business Area Director, Energy Management	From 8 May	2 035	537	121	2 693	236
Anders Gaudestad – Business Area Director, Marketing	From 8 May	967		75	1 042	107
Frank Håland – Director of Shared Services	Whole year	1 867		112	1 979	243
Jan T. Tønnessen – Business Area Director, Hydroelectric Power	Whole year	1 868		111	1 979	226
Edvard Lauen - Business Area Director Kraftforvaltning	Until 7 May	897		482	1 379	232

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

2) Bonus paid out in 2017. This amount includes holiday pay that will be received in 2018.

### 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 Steffen Syvertsen 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 2017.

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 may 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 Unni Farestveit are entitled to a pension equivalent to 66% of their qualifying salaries on retirement at the age of 67, subject to them having 30 years of qualifying service. Their qualifying salaries shall be 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 T. Tønnessen, Steffen Syvertsen, Frank Håland and Anders Gaudestad have defined contribution pension plans in line with the Group's standard pension plan.

## NOTE 33 RELATED PARTIES

All associates and joint arrangements specified in Note 16 are classified as related parties of Agder Energi. The Group had NOK 5 million of sales to such companies in 2017. 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 2017 and NOK 29 million in 2016. Purchases from those companies amounted to NOK 54 million in 2017 and NOK 144 million in 2016. 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 2017. 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 2017

Company	Country	Interest bought in 2017	Ownership interest in% at 31/12/2017	Activities
Markedskraft Deutschland GmbH *	Germany	100,0	100,0	Portfolio management
Entelios AG	Germany	100,0	100,0	Demand response
Systempartner AS	Norway	100,0	100,0	IT operations

\* The name is changed to Agder Energi Solutions GmbH.

The total cost of ownership interests acquired in 2017 was NOK 45 million.

#### Overall calculation of net assets and goodwill at the time of acquisition for acquisitions in 2017

(Amounts in NOK million)	Carrying amounts (IFRS) at acquisition date	Asset write-up	Acquisition SoFP
Intangible assets	10	48	58
Property, plant and equipment	5	0	5
Trade debtors and other current receivables	28	0	28
Bank deposits	7	0	7
Deferred tax	0	-10	-10
Trade payables and other current liabilities	-30	0	-30
<b>Net assets</b>	<b>20</b>	<b>38</b>	<b>58</b>
Non-controlling interests	0	0	0
<b>Net assets acquired</b>	<b>20</b>	<b>38</b>	<b>58</b>
Goodwill	0	0	0
<b>Total net assets acquired plus goodwill</b>	<b>20</b>	<b>38</b>	<b>58</b>
Cash consideration for shares			47
<b>Total consideration</b>			<b>47</b>

A NOK 11 million gain was recognised in conjunction with one of the acquisitions since the value of the net recognised assets exceeded the consideration paid. This was due to expected future losses at the acquisition date.

### 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	Electricity aggregator

1) The name is changed to LOS Energy AB.

2) The company was sold in 2017 in conjunction with the sale of NetNordic.

### 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 SoFP
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
<b>Net assets</b>	<b>28</b>	<b>61</b>	<b>89</b>
Non-controlling interests			0
<b>Net assets acquired</b>			<b>89</b>
Goodwill			37
<b>Total net assets acquired plus goodwill</b>			<b>126</b>
Cash consideration for shares			126
<b>Total consideration</b>			<b>126</b>

### 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 SoFP
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
<b>Net assets</b>	<b>24</b>	<b>21</b>	<b>45</b>
Non-controlling interests			0
<b>Net assets acquired</b>			<b>45</b>
Goodwill			21
<b>Total net assets acquired plus goodwill</b>			<b>66</b>
Cash consideration for shares			43
Consideration for shares settled with shares in acquirer			23
<b>Total consideration</b>			<b>66</b>

**Disposals**

In 2017, Agder Energi sold NetNordic Holding AS. Discontinued operations therefore refers to that company. The transaction was completed in August.

The table below shows how the figure for profit from discontinued operations is calculated, broken down into the operating performance until disposal and the gain/loss on disposal.

(Amounts in NOK million)	2017	2016
Operating revenues	433	582
Operating expenses	-407	-576
<b>Operating profit</b>	<b>26</b>	<b>6</b>
Net financial income/expenses	-3	-6
<b>Profit before tax</b>	<b>23</b>	<b>0</b>
Tax expense	-3	2
<b>Net income</b>	<b>20</b>	<b>2</b>
Gain on disposal of discontinued operations	224	0
Tax on gain on disposal of discontinued operations	0	0
<b>Net income from discontinued operations</b>	<b>244</b>	<b>2</b>

Net cash provided by operating activities	25	3
Net cash provided by/used in investing activities	178	-54
Net cash provided by financing activities	11	67
<b>Net cash flow from discontinued operations</b>	<b>214</b>	<b>16</b>

The financial results for 2016 have been reclassified from continuing operations to discontinued operations. The table below shows the impact on the restated lines in the income statement.

(Amounts in NOK million)	2016		
	Previously reported	Change	Restated
Other operating revenues	2 100	-582	1 518
Other raw materials and consumables used	-1 317	336	-981
Employee benefits	-1 014	177	-837
Depreciation and impairment losses	-608	7	-601
Other operating expenses	-853	56	-797
Financial income	16	-3	13
Financial expenses	-266	9	-257
Income tax	-154	-2	-156
Net income	262	0	262

**NOTE 35 GROUP STRUCTURE**

The table below shows the companies in the Agder Energi Group at 31/12/2017.

<b>Subsidiaries</b>	<b>Ownership interest in%*</b>	<b>Country</b>
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 AS	100.0	Norway
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
Enfo AS	100.0	Norway
Entelios GmbH	100.0	Germany
Agder Energi Solutions GmbH	100.0	Germany
Nordgröön Energie GmbH	61.4	Germany
Otera Infra AS	100.0	Norway
Otera Sverige AB	100.0	Sweden
Otera AB	70.0	Sweden
Otera Ratel AB	100.0 (70.0)	Sweden
European Electric Technology 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
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
HPE Holding AS	100.0	Norway
Cleanpower AS	67.0	Norway
Bioenergy AS	67.9	Norway
Bio Energy Sales AS	100.0 (67.9)	Norway
Lahaugmoen Drift AS	100.0 (67.9)	Norway
Adaptic AS	95.0	Norway
Verdisikring Safety AS	100.0 (95.0)	Norway
Ledlight Group AS	100.0 (95.0)	Norway
Meventus AS	100.0	Norway
Meventus ApS	100.0	Denmark
Meventus AB	100.0	Sweden
ReSiTec AS	92.5	Norway
Metallkraft AS	99.4 (91.9)	Norway
Netsecurity AS	91.2	Norway
Systempartner AS	100.0 (91.2)	Norway
AE Venture Energy AS	100.0	Norway

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





### Non-controlling interests

Most of the Group's non-controlling interests relate to the subsidiary groups Otera AB and NEG 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	
	2017	2016	2017	2016
Operating revenues	560	597	152	192
Net income	-32	26	1	1
Non-controlling interest's share of net income	-10	8	0	0
Assets	180	186	126	124
Liabilities	301	263	89	84
Equity 1)	-121	-77	37	40
Non-controlling interest's share of equity	0	0	12	13

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.



# AGDER ENERGI AS

## AGDER ENERGI AS

# FINANCIAL STATEMENT

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# INCOME STATEMENT

(Amounts in NOK million)	Note	2017	2016
Other operating revenues	1	268	277
<b>Total operating revenues</b>		<b>268</b>	<b>277</b>
Employee benefits	2, 3	-198	-183
Depreciation and impairment losses	8, 9	-15	-14
Other operating expenses	1, 4, 5	-177	-199
<b>Total operating expenses</b>		<b>-390</b>	<b>-396</b>
<b>Operating profit</b>		<b>-122</b>	<b>-118</b>
Financial income	1, 6	2 196	1 643
Financial expenses	1, 6	-1 052	-575
<b>Net financial income/expenses</b>		<b>1 144</b>	<b>1 068</b>
<b>Profit before tax</b>		<b>1 021</b>	<b>950</b>
Tax expense	7	-87	-165
<b>Net income</b>		<b>935</b>	<b>785</b>
<b>Allocation of profit:</b>			
Proposed dividends	13	606	607
Transferred to other reserves	13	329	178
<b>Total appropriations</b>		<b>935</b>	<b>785</b>
Earnings per share/Earnings per share, diluted (NOK)		346	291





# STATEMENT OF FINANCIAL POSITION

(Amounts in NOK million)	Note	2017	2016
Intangible assets	8	7	12
Property, plant and equipment	9	31	38
Investments in subsidiaries	11	3 444	3 316
Investments in associates	11	65	42
Other non-current financial assets	10	8 746	7 947
<b>Total non-current assets</b>		<b>12 294</b>	<b>11 355</b>
Receivables	1	1 758	1 331
Cash and cash equivalents	12	177	744
<b>Total current assets</b>		<b>1 935</b>	<b>2 075</b>
<b>TOTAL ASSETS</b>		<b>14 229</b>	<b>13 430</b>
Paid-in capital	13	1 907	1 907
Retained earnings	13	1 429	1 178
<b>Total equity</b>		<b>3 337</b>	<b>3 085</b>
Deferred tax	7	82	118
Provisions	3, 16	358	333
Interest-bearing non-current liabilities	14	8 430	7 962
<b>Total non-current liabilities</b>		<b>8 870</b>	<b>8 413</b>
Interest-bearing current liabilities	14, 17	600	850
Tax payable	7	7	91
Other non-interest-bearing current liabilities	1, 13, 15	1 416	991
<b>Total current liabilities</b>		<b>2 023</b>	<b>1 932</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>14 229</b>	<b>13 430</b>

Kristiansand, 5th April 2018  
Board of Directors of Agder Energi AS

Lars Erik Torjussen  
Chair

Tine Sundtoft  
Deputy chair

Jill Akselsen

Leif Atle Beisland

Steinar Bysveen

Marit Grimsbo

Steinar Asbjørnsen

Siw Linnea Poulsson

Johan Ekland

Øyvind Østensen

Tore Kvarnsnes

Gro Granås

Tom Nysted  
CEO





# STATEMENT OF CASH FLOWS

(Amounts in NOK million)	Note	2017	2016
<b>Cash flow from operating activities</b>			
Profit before tax		1 021	950
Depreciation and impairment losses	6, 8, 9	75	14
Cash flows from investments in subsidiaries		-1 238	-1 109
Tax paid		-91	-119
Change in net working capital, etc.		-42	106
<b>Net cash provided by operating activities</b>		<b>-275</b>	<b>-158</b>
<b>Investing activities</b>			
Purchase of property, plant, equipment and intangible assets		-3	-9
Acquisitions/financial investments and equity investments in subsidiaries		-29	-42
Net change in loans		-754	-619
Sale of property, plant, equipment and intangible assets		2	2
Sale of businesses/financial assets		24	253
<b>Net cash used in investing activities</b>		<b>-760</b>	<b>-415</b>
<b>Financing activities</b>			
New long-term borrowings		1 410	1 113
Repayment of long-term borrowings		-1 077	-1 410
Net change in current interest-bearing liabilities		-250	300
Intra-group distributions received		855	913
Intra-group distributions paid out		-239	-153
Dividends received from subsidiaries		376	295
Dividends paid		-607	-660
<b>Net cash used in financing activities</b>		<b>468</b>	<b>398</b>
<b>Net change in cash and cash equivalents</b>		<b>-567</b>	<b>-175</b>
Cash and cash equivalents at start of year		744	919
Cash and cash equivalents at end of year		177	744



# 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. Dividends and intra-group distributions received are recognised if the underlying profit was earned while the asset was owned by the Group. 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	2017	2016
<b>Intra-group balances</b>			
Other non-current financial assets	10	8,157	7,455
Trade receivables		30	30
Other current receivables		1,691	1,241
<b>Total receivables</b>		<b>9 878</b>	<b>8 726</b>
Trade payables	15	1	2
Other current liabilities	15	630	239
<b>Total liabilities</b>		<b>631</b>	<b>240</b>
<b>Revenues and expenses relating to intra-group transactions</b>			
Other operating revenues		248	258
<b>Total operating revenues</b>		<b>248</b>	<b>258</b>
Other operating expenses		22	20
<b>Total operating expenses</b>		<b>22</b>	<b>20</b>
Cash flows from investments in subsidiaries	6	1,238	1,109
Other interest and financial income		242	232
Other interest and financial expenses		15	39
<b>Net financial income/expenses</b>		<b>1 466</b>	<b>1 304</b>

## NOTE 2 EMPLOYEE BENEFITS, MANAGEMENT COMPENSATION, ETC.

(Amounts in NOK million)	Note	2017	2016
<b>Employee benefits</b>			
Salary		149	144
Employers' National Insurance Contributions		21	20
Pension expense including employers' NICs	3	13	11
Other benefits and reimbursements		15	8
<b>Total</b>		<b>198</b>	<b>183</b>
<b>Number of full-time equivalents at 31 Dec.</b>		<b>157</b>	<b>153</b>

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 people 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 2017. Similarly, the gross pension plan assets at 31 December 2017 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.

### 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 2017 was 2.5%.

### Actuarial assumptions

When calculating the pension expense and net pension liabilities, a number of assumptions have been made (see table below). The company uses the latest version of the Norwegian life tables (GAP 07), for life expectancy, probability of disability, etc.

### The pension expense for the year has been calculated as follows

(Amounts in NOK million)	2017	2016
Current service cost	12	11
Administration costs	1	0
Interest income/expenses on pension assets/liabilities	-7	-5
Employers' National Insurance Contributions	2	2
Employee contributions	-1	-1
<b>Pension expense for the year, defined benefit plans</b>	<b>7</b>	<b>7</b>
Defined contribution pension plans (including employers' NICs)	6	4
<b>Total pension expense recognised in the income statement</b>	<b>13</b>	<b>11</b>

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



### Pension liabilities and pension plan assets

(Amounts in NOK million)	2017	2016
Gross funded pension liabilities	367	339
Unfunded pension liabilities	127	108
<b>Gross pension liabilities at 31 Dec. (including employers' NICs)</b>	<b>494</b>	<b>447</b>
Fair value of pension plan assets at 31 Dec.	771	709
<b>Net pension liabilities (+)/assets(-) at 31 Dec.</b>	<b>-277</b>	<b>-262</b>

### Change in defined benefit pension liabilities

Net defined benefit pension liabilities at 1 Jan.	-262	-190
Pension expense recognised in profit or loss	7	7
Company contributions incl. employers' NICs	-6	-29
Pension benefits included under operating expenses	-3	-3
Remeasurements	-14	-50
<b>Net pension liabilities (+)/assets(-) at 31 Dec.</b>	<b>-277</b>	<b>-262</b>

Net pension assets	404	370
Pension liabilities	128	108
<b>Net pension liabilities (+)/assets(-) at 31 Dec.</b>	<b>-277</b>	<b>-262</b>

### Remeasurements are made up of:

Changes in demographic assumptions	20	-8
Changes in financial assumptions	16	-8
Excess return on assets	-51	-34
<b>Remeasurements recognised on statement of financial position</b>	<b>-14</b>	<b>-50</b>

The remeasurements in 2017 were mainly due to an excess return on pension plan assets and a change in the discount rate applied.

### Assumptions used to determine pension liabilities at 31 Dec.

	2017	2016
Discount rate	2.30%	2.60%
Annual wage growth	2.50%	2.50%
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)	7.1	7.8
Expected average remaining years of service (unfunded)	7.2	5.9

The assumptions used to calculate pension liabilities almost entirely follow the Norwegian Accounting Standards Board's guidelines on actuarial assumptions as of 31 December 2017.

### Number of people covered by the pension plans

	2017	2016
Defined benefit plan: current employees	73	72
Defined benefit plan: accrued entitlements and retired employees	319	323
Defined contribution plan: current employees	79	72
Current employees entitled to public sector AFP, and early retirees	61	54

#### NOTE 4 AUDITOR'S FEE

(Amounts in NOK 000s excl. VAT)	2017	2016
<b>Total fees paid to auditor for auditing and other services comprise the following:</b>		
Statutory audit	532	640
Other certification services	4	0
Tax advice	4	10
Other services not related to auditing	25	9
<b>Total</b>	<b>565</b>	<b>658</b>

#### NOTE 5 OTHER OPERATING EXPENSES

(Amounts in NOK million)	2017	2016
Property-related expenses, lease of machinery and office equipment	46	54
Purchase of plant and equipment	5	4
External services	110	130
Office supplies, telecommunications, postage, etc.	4	4
Travel expenses, subsistence allowances, mileage expenses, etc.	8	7
Sales, advertising, representation, membership fees and gifts	5	6
Other operating expenses	-1	-7
<b>Total</b>	<b>177</b>	<b>199</b>

#### NOTE 6 FINANCIAL INCOME AND EXPENSES

(Amounts in NOK million)	2017	2016
Income from investments in subsidiaries*	1,238	1,109
Profit/loss on investments in associates	10	7
Exchange rate gain	707	292
Other interest and financial income	242	236
<b>Total financial income</b>	<b>2 196</b>	<b>1 643</b>
Impairment charge against non-current financial assets	60	0
Exchange rate losses	706	288
Other interest and financial expenses	286	288
<b>Total financial expenses</b>	<b>1 052</b>	<b>575</b>
<b>Net financial income/expenses</b>	<b>1 144</b>	<b>1 068</b>

\* Profit/loss from investments in subsidiaries comprises allocated dividends, intra-group distributions 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)	2017	2016
<b>The tax expense consists of</b>		
Income tax payable	126	150
Change in deferred income tax	-40	18
Corrections to previous years' tax assessments	1	-3
<b>Tax expense in income statement</b>	<b>87</b>	<b>165</b>
<b>Tax payable on the statement of financial position</b>		
Profit before tax	1,021	950
Permanent differences	-647	-259
Change in temporary differences	151	-89
<b>Profit/loss for income tax purposes</b>	<b>525</b>	<b>601</b>
Income tax payable	126	150
Taxable intra-group distributions	-119	-60
<b>Tax payable on the statement of financial position</b>	<b>7</b>	<b>91</b>
<b>Reconciliation of nominal tax rate with effective tax rate</b>		
<b>Profit before tax</b>	<b>1 021</b>	<b>950</b>
Expected tax based on nominal rate	245	237
<b>Tax effect of</b>		
Non-deductible expenses/non-taxable income	-155	-65
Corrections to previous years' tax assessments	1	-3
Impact of change in tax rate	-4	-5
<b>Tax expense in income statement</b>	<b>87</b>	<b>165</b>
Effective tax rate	8%	17%
<b>Breakdown of temporary differences/deferred tax assets</b>		
Property, plant and equipment	-14	-13
Current assets/liabilities	-43	196
Pension liabilities	330	326
Derivatives	83	-18
<b>Total taxable (+)/deductible (-) temporary difference</b>	<b>357</b>	<b>492</b>
<b>Total capitalised deferred tax liabilities (+)/assets (-)</b>	<b>82</b>	<b>118</b>
<b>Changes in net deferred income tax over the year:</b>		
Net deferred tax liabilities (+)/assets (-) at 1 Jan.	118	88
Change in net deferred tax liabilities (+)/assets (-) on items recognised in equity	3	12
Change in deferred tax liabilities (+)/assets (-) recognised through profit or loss	-40	18
<b>Net deferred income tax liabilities (+)/assets (-) at 31 Dec.</b>	<b>82</b>	<b>118</b>
<b>Changes in deferred tax on items recognised in equity</b>		
Remeasurements of pensions	3	12
<b>Total change</b>	<b>3</b>	<b>12</b>

**NOTE 8 INTANGIBLE ASSETS**

(Amounts in NOK million)	Software
Cost as of 01/01/2017	39
Additions	1
Disposals	3
<b>Cost as of 31/12/2017</b>	<b>36</b>
Accumulated depreciation at 31/12/2017	27
Accumulated impairment losses at 31/12/2017	2
<b>Carrying amount at 31/12/2017</b>	<b>7</b>
Depreciation for the year	6
Impairment losses for the year	0
Useful life/depreciation period	3-8 years

**NOTE 9 PROPERTY, PLANT AND EQUIPMENT**

(Amounts in NOK million)	Properties	Vehicles, fixtures, fittings, machinery, etc.	Total property, plant and equipment
Cost as of 01/01/2017	35	32	67
Additions	0	3	3
Disposals	1	1	1
<b>Cost as of 31/12/2017</b>	<b>35</b>	<b>34</b>	<b>69</b>
Accumulated depreciation at 31/12/2017	11	27	37
Accumulated impairment losses at 31/12/2017	0	0	0
<b>Carrying amount at 31/12/2017</b>	<b>24</b>	<b>7</b>	<b>31</b>
Depreciation for the year	2	7	8
Impairment losses for the year	0	0	0
Useful life/depreciation period	25 years – not depreciated	3-8 years	

**NOTE 10 OTHER NON-CURRENT FINANCIAL ASSETS**

(Amounts in NOK million)	Note	2017	2016
Loans to Group companies	1	8,157	7,455
Loans to associates		1	2
Other non-current receivables 1)		184	120
Pension assets	3	404	370
<b>Total non-current financial assets</b>		<b>8 746</b>	<b>7 947</b>

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. They also include foreign currency loans and a guarantee to NASDAQ.

**NOTE 11 INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES**

(Amounts in NOK million)	Registered office	The company's equity	The company's profit/loss	Ownership interest and voting rights	Carrying amount*
<b>Subsidiaries</b>					
Agder Energi Vannkraft AS	Kristiansand	2 386	996	100%	1 937
Agder Energi Kraftforvaltning AS	Kristiansand	23	1	100%	20
Agder Energi Nett AS	Arendal	1 003	167	100%	613
LOS AS	Kristiansand	102	43	100%	214
LOS Energy AB 1)	Södertälje	55	21	100%	146
LOS Energy AS	Kristiansand	261	27	100%	110
Otera Infra AS	Kristiansand	48	-26	100%	71
Otera AB 1)	Stockholm	-121	-32	67%	0
Otera Sverige AB	Stockholm	134	4	100%	72
Agder Energi Varme AS 1)	Kristiansand	122	3	100%	125
Agder Energi Venture AS 1)	Kristiansand	139	215	100%	68
Agder Energi Solutions GmbH 1)	Berlin	-5	-11	100%	14
Stoa veien 14 AS	Kristiansand	6	2	100%	1
Stoa 192 AS	Kristiansand	1	0	100%	2
Stoa 234 AS	Kristiansand	1	0	100%	2
Baltic Hydroenergy AS 1)	Kristiansand	34	6	100%	34
Enfo AS	Bærum	2	-3	100%	16
Entelios AG	München	-13	-26	100%	0
<b>Total shares in subsidiaries</b>					<b>3 444</b>
<b>Associates and joint ventures 2)</b>					
Statkraft Agder Energi Vind DA***	Kristiansand	0	-42	38%	7
North Connect KS**	Kristiansand	16	-47	22%	21
North Connect AS**	Kristiansand	-2	-5	22%	3
Grønn Kontakt AS ***	Kristiansand	3	-13	47%	32
Others					2
<b>Total for associates and joint ventures</b>					<b>65</b>

\* Carried at the lower of cost and fair value

\*\* Associates

\*\*\* Joint ventures

1) Subsidiaries of Agder Energi AS with 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 2017.



**NOTE 12 CASH AND CASH EQUIVALENTS**

(Amounts in NOK million)	2017	2016
Cash and cash equivalents	0	289
Deposits in cash pooling arrangement	177	455
<b>Total</b>	<b>177</b>	<b>744</b>

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 50 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 million)	Note	Share capital	Share premium account	Other paid-in capital	Other reserves	Total equity
Equity at 01/01/2017		1,809	47	51	1,178	3,085
Net income for the year		0	0	0	935	935
Remeasurements of pensions	3	0	0	0	11	11
Allocated for dividends	15	0	0	0	-606	-606
Merger		0	0	0	-88	-88
<b>Equity at 31.12.17</b>		<b>1 809</b>	<b>47</b>	<b>51</b>	<b>1 429</b>	<b>3 337</b>

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 million)	2017	2016
<b>Non-current liabilities with a term to maturity of more than 5 years</b>		
Liabilities to financial institutions	866	1,024
Bonds	1,756	1,175
<b>Total</b>	<b>2 622</b>	<b>2 199</b>
<b>Non-current liabilities with a term to maturity of less than 5 years</b>		
Liabilities to financial institutions	1 584	1 276
Bonds	4 225	4 487
<b>Total</b>	<b>5 809</b>	<b>5 763</b>
<b>Total interest-bearing non-current liabilities</b>	<b>8 430</b>	<b>7 962</b>
<b>Interest-bearing current liabilities</b>		
Commercial paper	600	850
<b>Total interest-bearing current liabilities</b>	<b>600</b>	<b>850</b>

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 million)	Note	2017	2016
Trade payables		36	17
Intra-group trade payables	1	1	2
Unpaid government taxes and duties, tax deducted at source, etc.		13	15
Allocated dividends	13	606	607
Other current liabilities		129	111
Other current liabilities to Group companies	1	630	239
<b>Total other non-interest-bearing current liabilities</b>		<b>1,416</b>	<b>991</b>

## NOTE 16 PROVISIONS

(Amounts in NOK million)	Note	2017	2016
Pension liabilities	3	128	108
Other non-current provisions		230	224
<b>Total provisions</b>		<b>358</b>	<b>333</b>

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 190 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 management policy and strategy

The Group's Board of Directors has formulated an overall risk management 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 management 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 management policy and 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 not capitalised. The net value of contracts with NASDAQ was NOK 298 million at 31 December 2017. The value of the company's contracts with its subsidiaries was NOK -298 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 swaps for 107 million euros of mirrored loans provided to Agder Energi Vannkraft AS.

## 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 914 million in outstanding off-statement of financial position bank guarantees. Of this total, NOK 696 million comprises payment guarantees for physical and cash-settled electricity trading, including NOK 123 million for an internal guarantee for transmission tariffs passed on to customers, NOK 168 million relates to contractual guarantees and NOK 50 million relates to tax deducted at source.

At the close of the year, the parent company had issued guarantees worth NOK 20 million in relation to subsidiaries' external liabilities.

### Contractual obligations

Agder Energi Group leases office premises at Kjølita in Kristiansand. The lease contract is between Kjølita 18 AS and Agder Energi AS. At the end of the year, the contract had 8 years left to run, with a renewal option for a further five years.



## AUDITOR'S REPORT



Building a better  
working world

Statsautoriserte revisorer  
Ernst & Young AS

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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 balance sheet as at 31 December 2017, the income statement and statement of 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 balance sheet as at 31 December 2017, the statements of other comprehensive income, income statement, 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 2017, and of its financial performance and its cash flows for the year then 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 2017 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 and the Group 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 for 2017. 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.





#### Non-current assets – Property plant and equipment (PPE) and assets under construction

Agder Energi has significant investments, including maintenance and upgrades of production facilities and the grid. Revenues from the grid is regulated from the Government by Norwegian Water Resources and Energy Directorate (NVE), and the accounting for PPE and assets under construction has significant impact for future income cap. In 2017 MNOK 210 was expensed as maintenance and MNOK 1409 was capitalised as PPE and assets under construction. Since PPE and assets under construction are significant, has a higher inherent complexity and degree of judgement and effect on future income cap, this was assessed to be key audit matter.

We have throughout our audit evaluated the group's internal control related to investments, maintenance and upgrades of the production facilities and the grid. To evaluate if the criteria for capitalization is met, timing for start of depreciation and the assets useful life, we have gathered and evaluated relevant supporting documentation for a sample of projects and discussed the accounting treatment with management. We have performed analytical procedures for acquisitions of PPE and assets under construction, and expensed maintenance by comparison to prior periods and established assumptions.

See note 1 and 15 in the consolidated financial statements for further information.

#### Accounting for financial derivatives and long-term delivery contracts.

Agder Energi produces electric power that primarily is sold in the Norwegian market, where the spot price is volatile and nominated in Euro at Nord Pool Spot. The exposure for changes in the power spot price and currency exchange rates are partly hedged using financial derivatives and long-termed delivery contracts. Financial derivatives comprise of energy and currency derivatives, which are accounted for at fair value with changes in fair value recognised in the consolidated income statement. Some long-termed delivery contracts are priced in Euro, where the embedded currency derivative is accounted for at fair value. Changes in spot price for power and currency lead to significant changes in the fair value of financial derivatives and embedded derivatives in long-termed delivery contracts. Financial derivatives and long-termed delivery contracts are considered to be a key audit matter based on the number of transactions, complexity and degree of judgement related to the assessment of fair value.

We have throughout our audit evaluated the group's internal control over trading, monitoring and accounting for financial derivatives and long-termed delivery contracts. Our audit procedures included test of existence, completeness and contractual terms for the financial derivatives through external confirmations. Additionally we have tested the valuation for a sample of the group's financial derivatives through external confirmations. Fair value of embedded derivatives was assessed through external benchmarks of future exchange rates and interest rate curves. We performed analytical procedures and evaluated managements analysis of changes in fair value of financial instruments related to the power generating portfolio.

Further we have evaluated the presentation and classification of the financial derivatives and long-termed delivery contracts in the consolidated financial statements, including information presented in the notes. See note 6, 25, 26 and 27 for further information.

#### 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) are 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.

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.

## Report on other legal and regulatory requirements

### Opinion on the Board of Directors' report and on 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 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, 5 April 2018  
ERNST & YOUNG AS

Finn Espen Sellæg  
State Authorised Public Accountant (Norway)

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





# CORPORATE SOCIAL RESPONSIBILITY (CSR) AT AGDER ENERGI IN 2017



AGDER ENERGI

# CORPORATE SOCIAL RESPONSIBILITY (CSR) AT AGDER ENERGI IN 2017

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# CSR AT AGDER ENERGI 2017

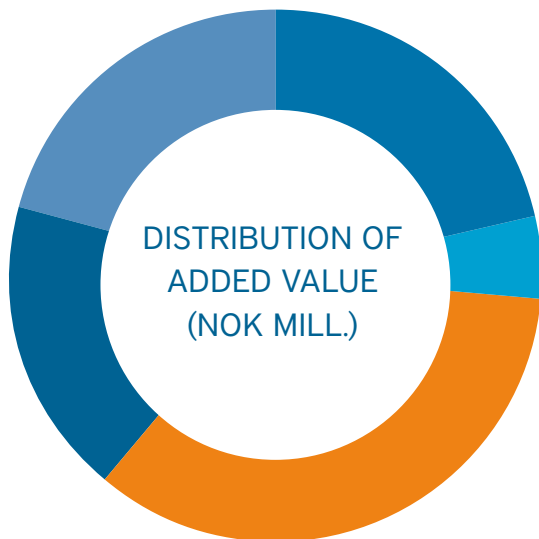
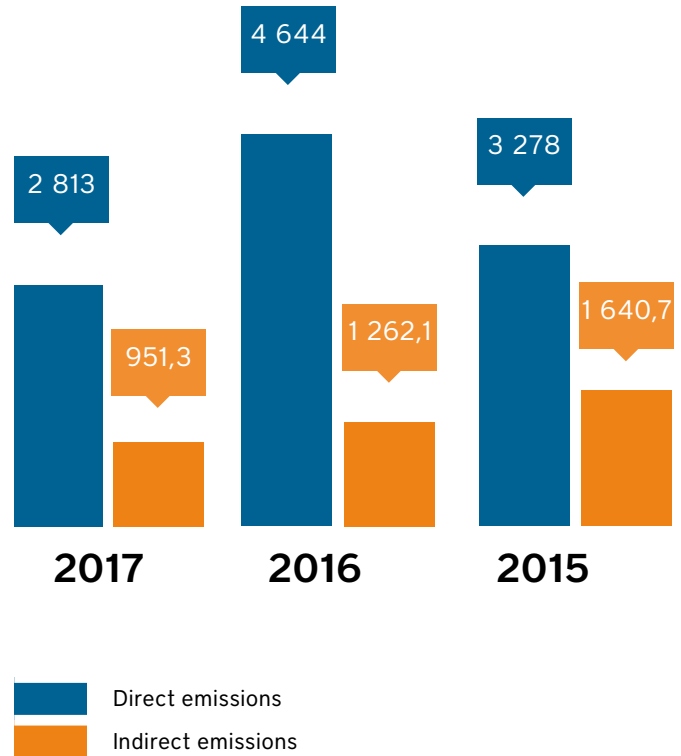
## ▶ NETWORK RELIABILITY

2017 **99,98%**

2016 **99,98%**

2015 **99,98%**

## ▶ GREENHOUSE GAS EMISSIONS (tCO<sub>2</sub>e)



<span style="color: #005696;">■</span> Net amount the company	685
<span style="color: #005696;">■</span> Net amount employees	712
<span style="color: #00a0e3;">■</span> Net amount lenders	171
<span style="color: #e69138;">■</span> Net amount the public sector	1 151
<span style="color: #005696;">■</span> Net amount shareholders	606

## ▶ AVAILABLE DISTRIBUTION TO SELECTED STAKEHOLDERS

**2017**

**20,6%**

The company

**21,4%**

Employees

**5,1%**

Lenders

**34,6%**

The public sector

**18,2%**

Shareholders

**2016**

**7,1%**

The company

**22,8%**

Employees

**6,5%**

Lenders

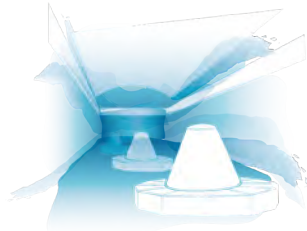
**41,3%**

The public sector

**22,2%**

Shareholders





### Power stations

<b>2017</b>	<b>2016</b>	<b>2015</b>
<b>45</b>	<b>45</b>	<b>45</b>

\* Power stations refers to power stations owned by companies reporting in the CSR report and varies from the numbers presented earlier in the annual report



### Heating/cooling pipes (km)

<b>2017</b>	<b>2016</b>	<b>2015</b>
<b>78</b>	<b>75</b>	<b>72</b>



### Aerial cables (km)

<b>2017</b>	<b>2016</b>	<b>2015</b>
<b>13 766</b>	<b>13 556</b>	<b>13 520</b>

### Cables under ground (km)

<b>2017</b>	<b>2016</b>	<b>2015</b>
<b>8 010</b>	<b>7 792</b>	<b>7 675</b>

### ▶ ENERGY GENERATIONS (GWH)

	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>
WATER	8 809,40	8 884,10	9 002,70	9 067,70	7 740,00
SOLAR PV	0,04	0,04	0,04	0,04	0,04
DISTRICT HEATING	161,83	158,94	138,58	132,73	150,80
<b>TOTAL ENERGY GENERATION</b>					
	<b>8 971,26</b>	<b>9 043,08</b>	<b>9 141,33</b>	<b>9 200,47</b>	<b>7 890,84</b>



## AGDER ENERGI, SOCIETY AND THE ENVIRONMENT



Renewable energy has a vital role to play in limiting climate change while safeguarding the quality of life of people today and into the future. That's why our most important contribution to society is generating and distributing renewable energy safely and reliably.

What we do is important. The way we do things is also important. It is important to us, but also to our stakeholders. Agder Energi has therefore established values, ethical guidelines and various Group guidelines to ensure that the Group's activities respect the needs of society and the environment. Compliance is monitored at the individual companies and at the Group level.

Our duty to run our business responsibly is formalised through our membership of the UN Global Compact and our annual reporting in accordance with the G4 Sustainability Reporting Guidelines of the Global Reporting Initiative (GRI). In 2018 we aim to continue improving our work in this area.

To give our stakeholders as accurate and complete an understanding as possible of CSR at the Agder Energi Group, we report on CSR both here in this annual report and in a separate, more comprehensive CSR report. This report gives a general overview, while the details are described in the CSR report. If you would like to find out more about how we meet our responsibilities, or if you have any comments on how we go about it, we would love to hear from you.

We supply the clean energy needed to help society operate smoothly now and into the future. That's why we must run our business in the same way that we exploit renewable energy: today's needs mustn't be met at the expense of the needs of future generations.

Unni Farestveit  
Director CSR and Corporate  
Development



# AGDER ENERGI'S VALUES

Agder Energi's values set standards for our day-to-day work, both with respect to our own conduct and what we can expect of others. Together with our Ethical Guidelines, our values give us direction and the strength to make the right choices. Our values are:



## 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.



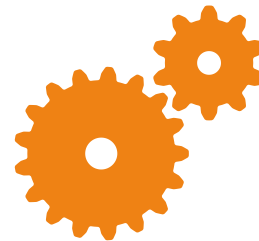
## Credibility

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 profitability. 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.

For more information about the Group's values, go to [www.ae.no](http://www.ae.no).



# ETHICAL GUIDELINES

Agder Energi's Group Strategy reflects 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 second quarter 2014 all employees received an e-learning course on ethical dilemmas and how to handle them. Checks were made to ensure that employees had completed the course.

We carry out regular activities to ensure that knowledge and awareness of the Ethical Guidelines remains at a high level.

Ethics, values and management requirements are some of the topics covered by the Group's management development programme, and managers and employees' awareness of the Ethical Guidelines is measured in our employee satisfaction surveys. Ethics, values and management requirements also played a pivotal role in our response to the #metoo movement in 2017, and that will remain the case in 2018.

The aim of these measures is to further raise awareness about ethical conduct at Agder Energi. Agder Energi has an ethics committee that advises managers and employees on how to deal with ethical dilemmas. The committee also monitors how whistleblowing is dealt with.

Our ethical guidelines are available at [www.ae.no](http://www.ae.no)





# STEERING DOCUMENTS RELATED TO CSR

The ways in which we meet our CSR responsibilities are set out in a number of steering documents. These are implemented in our organisation and are followed up within individual companies and at Group level. Some of the most important steering documents related to CSR are:

## 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 joint HSE management system for the whole Group. Meanwhile, subsidiaries also have their own manuals dealing with company-specific matters.

Agder Energi has a zero accident vision, and aims to have a low level of sickness absence (< 3.0%). We work actively to create a working environment that is enjoyable, rewarding and open, where risks are under control and all work activities are completely safe.

## GROUP HR GUIDELINES

The Group HR Guidelines aim to ensure that the management and governance of key HR processes is consistent within 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 this is required by the nature of the risk and its potential impact on their financial performance, and reassess those strategies annually.

## GROUP PROCUREMENT GUIDELINES

These 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.





## ETHICS AT AGDER ENERGI

The document "Ethics at Agder Energi" is a guide to proper conduct for employees, Board members, contractors, consultants and anyone else who acts on behalf of Agder Energi. The guide describes the kinds of dilemmas individuals may face in their work and makes clear 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.

## CSR AND ENVIRONMENTAL STRATEGY

The CSR and environmental strategy defines CSR in Agder Energi and sets out the Group's goals in this area. The strategy includes a plan of action to ensure that goals are achieved. The document describes the division of responsibilities between the various parts of the Group management team and the companies. Reporting structure is also described.

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## GROUP CSR AND ENVIRONMENTAL GUIDELINES

These guidelines describe in greater detail the division of responsibility for implementing the CSR and Environmental Strategy between the Group management and the various business areas. The managements of the business areas are responsible for implementation, which includes setting environmental goals that are relevant to their operations and taking the necessary actions to achieve them. The methodology for stakeholder involvement is also described, as well as which channels business areas should use to ensure that they meet CSR requirements.



# GROUP CSR GOALS

Based on the CSR and Environmental Strategy and the Group CSR and Environmental Guidelines, and informed by the Ethical Guidelines and Group HR Guidelines, we have set joint goals for the Group relating to key areas of CSR. Both individual companies and the Group management team are responsible for meeting the Group CSR Goals. The goals cover four main areas:

## *Human rights*

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

This is backed up by a risk assessment of various parts of the business focusing on the likelihood of breaches of human rights. Suppliers are assessed on the basis of their importance to Agder Energi, and checks are carried out in conjunction with audits and site visits to suppliers.

## *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.

Labour rights are monitored using a risk assessment of the likelihood of them being breached. For suppliers and contractors, the importance of the delivery and of the project are also taken into account. Measures used to guarantee labour rights include audits, visits to suppliers and the obligation to ensure compliance. The obligation to ensure compliance is an obligation to ensure that pay and working conditions at the suppliers comply with the current regulations on the general application of collective agreements.

## *The 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.

Individual companies are responsible for ensuring that their suppliers meet this requirement. Amongst other things, some companies require suppliers and contractors to report various environmental data.

## *Anti-corruption activities*

Agder Energi's goal is that no form of corruption shall take place anywhere within the Group's operations.

The Group's anti-corruption activities comply with national and international laws, regulations and conventions. In order to prevent corruption and misconduct, the Group has developed and implemented a range of measures including ethical guidelines, procedures for reporting and investigating misconduct, whistleblowing channels, Integrity Due Diligence (IDD) for acquisitions and supplier requirements. These are followed up through three main areas of focus.

1. Overall anti-corruption guidelines including goals, attitudes and requirements of companies. These include:
  - i. discussions with the management teams at the companies
  - ii. ethical guidelines and an anti-corruption manual
  - iii. checking third parties' ethical guidelines and anti-corruption programmes to confirm that they are in line with current laws and best practice
2. An annual assessment of the corruption risk in the business processes of companies in the Group
3. Regular training of all employees using annual web-based courses and dilemma training adapted to the actual risks at the companies



# 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 and having the trust of its stakeholders is vital to the Group's core business.**

As a publicly owned limited liability company, Agder Energi depends on the trust of its stakeholders. Cooperation with stakeholders is therefore part of the Group's day-to-day activities. Each company defines its most important stakeholders in its business plan, and the Group's most important stakeholders are the stakeholders that have been identified as important by the highest number of companies. The important stakeholders include employees, shareholders, customers, stakeholder organisations, government authorities, suppliers, lenders and other

business partners. CSR reporting is a key aspect of our communication with the Group's most important stakeholders. The Purpose of this reporting is to meet our stakeholders' needs regarding information about the Group's efforts to integrate social and environmental considerations into its day-to-day operations.



## 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 million)	2017	2016 (restated)
Operating revenues	11 050	8 705
Goods consumed/operating expenses	-7 188	-5 295
Gross added value	3 862	3 410
Capital depreciation	-708	-601
Net added value	3 154	2 809
Net financial items, excl. interest	-73	-75
Discontinued operations	244	2
<b>Available for distribution</b>	<b>3 325</b>	<b>2 736</b>
<b>DISTRIBUTION OF ADDED VALUE</b>		
<b>Employees</b>		
Gross salaries and benefits	1 118	1 057
Tax paid by employees	-262	-289
Employers' National Insurance Contributions	-144	-143
<b>Net amount received by employees</b>	<b>712</b>	<b>625</b>
<b>Lenders</b>		
Interest, etc. paid to lenders	171	178
<b>Net amount received by lenders</b>	<b>171</b>	<b>178</b>
<b>The public sector</b>		
Ordinary taxes	209	156
Property taxes	146	160
Resource rent tax	390	383
Tax paid by employees	262	289
Employers' National Insurance Contributions	144	143
<b>Net amount received by the public sector</b>	<b>1 151</b>	<b>1 131</b>
<b>Shareholders</b>		
Allocated for distributions by the company (dividends/guarantees)	606	607
<b>Net amount received by shareholders</b>	<b>606</b>	<b>607</b>
<b>The company</b>		
Retained earnings	678	184
Non-controlling interest's share of profit	7	11
<b>Net amount received by the company</b>	<b>685</b>	<b>195</b>
<b>Total amount distributed</b>	<b>3 325</b>	<b>2 736</b>
<b>Proportion received by each stakeholder group</b>		
Employees	21,4%	22,8%
Lenders	5,1%	6,5%
The public sector	34,6%	41,3%
Shareholders	18,2%	22,2%
The company	20,6%	7,1%

The Corporate social responsibility report for  
Agder Energi 2017 is available at [ae.no](http://ae.no)

**Agder Energi**

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