ANNUAL REPORT 2018

agder energi

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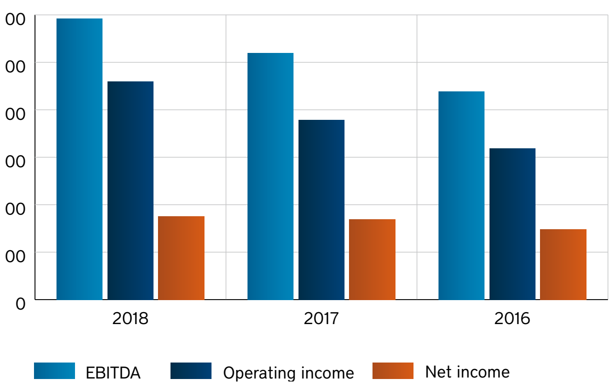
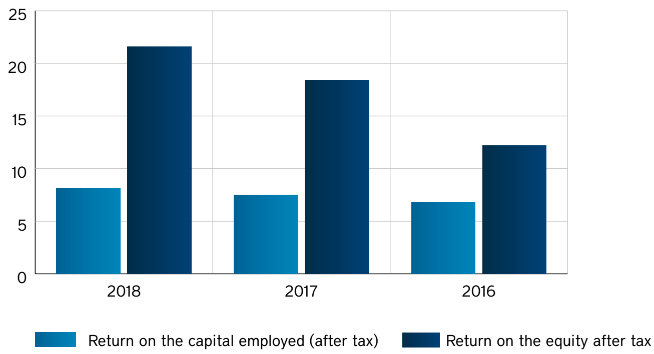
KEY FIGURES

RESULTS

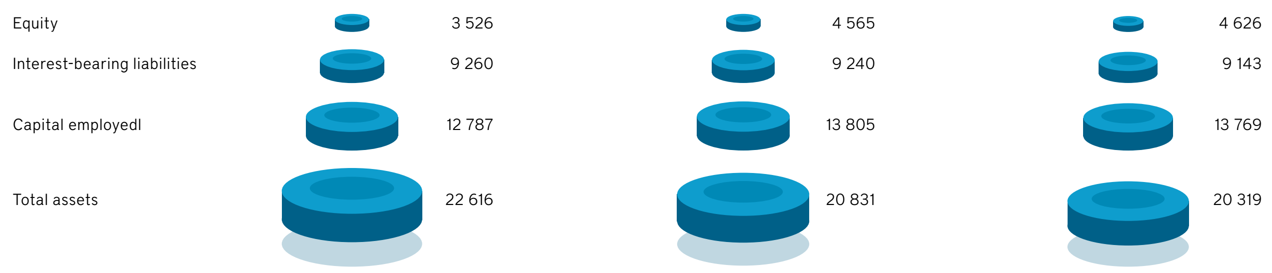




	Def.		2018	2017	2016	2015	2014
FROM INCOME STATEMENT							
Operating revenues		mill. kr	13 980	10 358	8 086	8 260	7 832
EBITDA	1	mill. kr	1 626	1 770	1 573	2 886	2 327
Operating profit		mill. kr	967	1 062	972	2 309	1 738
Profit before tax		mill. kr	853	848	799	2 138	1 310
Net income for the year (controlling interest's share)		mill. kr	-198	487	251	1 314	616
FROM BALANCE SHEET							
Total assets		mill. kr	22 616	20 831	20 319	19 240	16 929
Equity		mill. kr	3 526	4 565	4 626	4 893	3 990
Interest-bearing liabilities		mill. kr	9 260	9 240	9 143	9 029	8 299
Capital employed	2	mill. kr	12 787	13 805	13 769	13 921	12 288
Unrestricted liquidity	3	mill. kr	2 864	2 372	2 023	1 969	1 416
Net interest-bearing liabilities	4	mill. kr	8 896	9 188	8 620	8 560	8 257
Interest-bearing liabilities due over coming 12 months		mill. kr	1 659	1 740	2 243	1 745	1 184
Bank deposits excluding restricted assets		mill. kr	364	52	523	469	42
UNDERLYING PERFORMANCE	5						
Underlying operating revenues		mill. kr	15 312	11 185	8 705	7 458	7 970
Underlying EBITDA		mill. kr	2 957	2 597	2 192	2 084	2 465
Underlying operating profit		mill. kr	2 298	1 889	1 591	1 507	1 876
Underlying profit before tax		mill. kr	2 117	1 645	1 328	1 230	1 553
Underlying net income for the year (controlling interest's share)		mill. kr	874	845	738	698	943
CASH FLOW							
Net cash provided by operating activities		mill. kr	2 049	1 189	1 779	1 502	1 512
Dividends paid		mill. kr	608	610	660	706	713
Maintenance investments		mill. kr	397	470	522	571	331
Investments in expansion		mill. kr	1 000	878	733	625	705
Acquisition of shares/ownership interests and capital increases		mill. kr	94	69	155	81	42

KEY FIGURES

FINANCIAL POSITION	2018	2017	2016



	Def.		2018	2017	2016	2015	2014
KEY FIGURES FOR UNDERLYING PERFORMANCE							
Return on capital employed before tax	6	%	17,8	13,7	11,3	11,3	15,2
Return on capital employed after tax	7	%	8,1	7,5	6,8	6,7	9,5
Return on equity after tax	8	%	21,6	18,4	12,2	14,9	22,4
Equity ratio	9	%	15,6	21,9	22,8	25,4	23,6
HYDROELECTRIC POWER							
EBITDA		mill. kr	2 629	2 034	1 749	1 606	1 920
Actual electricity generation	10	GWh	8 686	8 812	8 880	8 996	9 060
Expected electricity generation	10	GWh	8 100	8 100	8 100	7 900	7 900
Reservoir reserves at 31 Dec.		GWh	3 180	4 429	3 766	5 185	3 900
Reservoir capacity		GWh	5 250	5 250	5 250	5 250	5 250
Average spot price		øre/kWh	41,5	26,9	23,3	17,7	22,8
Electricity price realised		øre/kWh	39,2	30,5	27,8	25,8	28,2
Cost of generation/kWh		øre/kWh	10,0	10,6	11,3	10,9	10,6
DISTRIBUTION SYSTEM OPERATION							
EBITDA		mill. kr	287	531	637	410	359
Number of transmission and distribution customers		i 1 000	202	199	195	190	190
Energy supplied		GWh	5 670	5 573	5 581	5 624	5 454
Power grid capital (NVE capital)	11	mill. kr	5 083	4 644	4 101	3 833	3 691
KILE cost	12	mill. kr	187	64	53	61	50
ELECTRICITY SALES							
EBITDA		mill. kr	75	120	97	104	114
EBITDA margin		%	1,2	2,4	2,8	4,6	4,2
Electricity sales		GWh	14 106	14 324	11 500	8 470	8 670
CONTRACTING							
EBITDA		mill. kr	44	-59	-7	-8	22
EBITDA margin		%	4,6	-6,1	-0,7	-0,8	2,4
Share of turnover from intra-group transactions		%	4,9	15,1	13,2	17,5	20,1

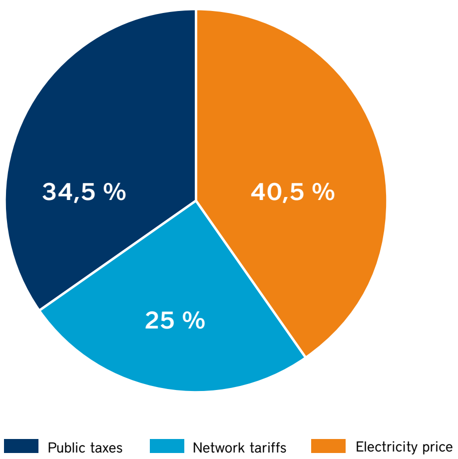
KEY FIGURES

	Def.	2018	2017	2016	2015	2014
DISTRICT HEATING						
EBITDA	mill. kr	41	40	33	28	25
Energy supplied	GWh	155	143	137	123	118
Price of heating sold	øre/kWh	72	63	59	56	57
Gross margin, heating	øre/kWh	43	38	32	24	25
Share of renewable generation	%	99	99	99	98	98
EMPLOYEES, HEALTH AND SAFETY						
Number of permanent and temporary staff at 31 Dec.		1 005	1 210	1 432	1 294	1 245
Number of permanent and temporary full-time equivalents at 31 Dec.		976	1 162	1 401	1 270	1 220
Sickness absence	%	3,6	3,5	3,5	3,5	3,6
Lost time injuries per million work hours		2,2	2,1	3,5	3,0	3,5
Total non-lost-time and lost-time injuries per million working hours		3,8	3,7	5,4	6,4	8,4

DEFINITIONS

1. Operating profit before depreciation and impairment losses.
2. Equity + interest-bearing liabilities.
3. Bank deposits and unused credit facilities. Excludes restricted assets.
4. Interest-bearing liabilities - unrestricted liquidity.
5. The underlying figures take the Group's IFRS profit and adjust it for unrealised gains and losses on financial instruments, material gains and losses on the disposal of businesses or ownership interests in businesses and changes in the way that negative resource rent carryforwards are calculated; see page xx for further details.
6. (Operating profit + financial income) / Average capital employed.
7. (Net income for the year + interest expense after tax) / Average capital employed.
8. Profit for the year / Average equity.
9. Equity / total assets.
10. All power generation figures are quoted prior to pumping and losses.
11. Basis for calculating the income cap. Set by the Norwegian Water Resources and Energy Directorate (NVE).
12. Adjustment to income cap for energy not supplied.

THE DISTRIBUTION OF ELECTRICITY PRICES, GRID RENT AND PUBLIC FEES FOR AN AVERAGE CUSTOMER IN 2018:



The electricity bill the customer pays consists of:

- The electricity price, which the customer pays to its electricity retailer. Customers can choose between a fixed or variable rate electricity contract (in the same way as for a mortgage). The electricity price also includes a mark-up for the electricity retailer and the cost of legally required electricity certificates.
- Network tariffs, which go to the customer's local distribution system operator, to cover the operation, maintenance and development of the electrical grid. Each year, the Norwegian Water Resources and Energy Directorate (NVE) sets how much each distribution system operator can charge.
- Government taxes: VAT, electricity tax and contributions to the Enova fund.

GROUP MANAGEMENT

Tom Nysted
CEO

Pernille Kring Gulowsen
Finance and risk management

Unni Farestveit
CSR and corporate development

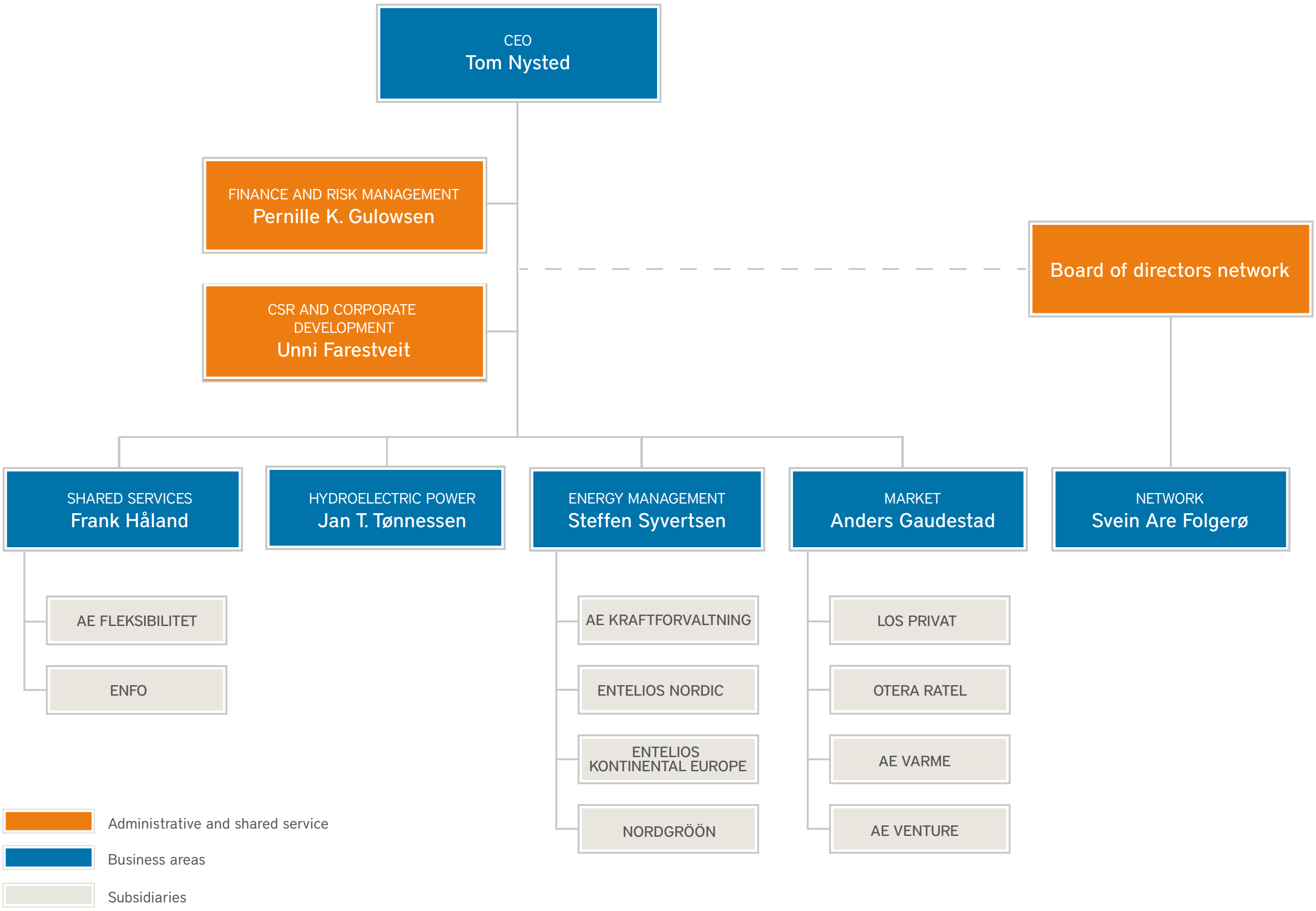
Jan T. Tønnessen
Hydroelectric power

Steffen Syvertsen
Energy management

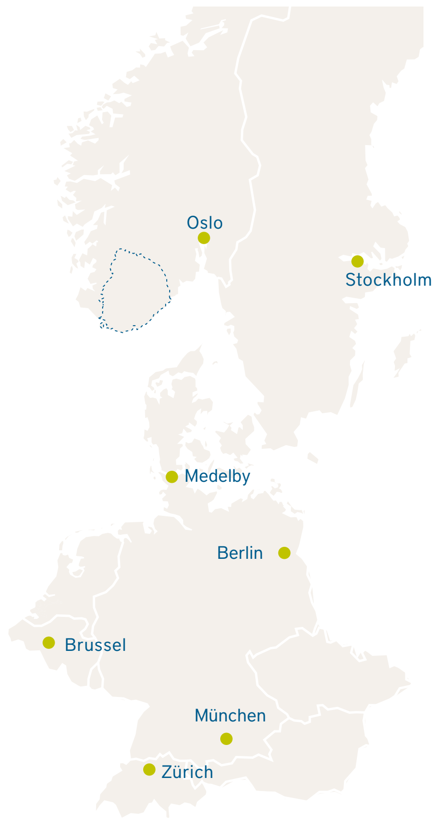
Anders Gaudestad
Market

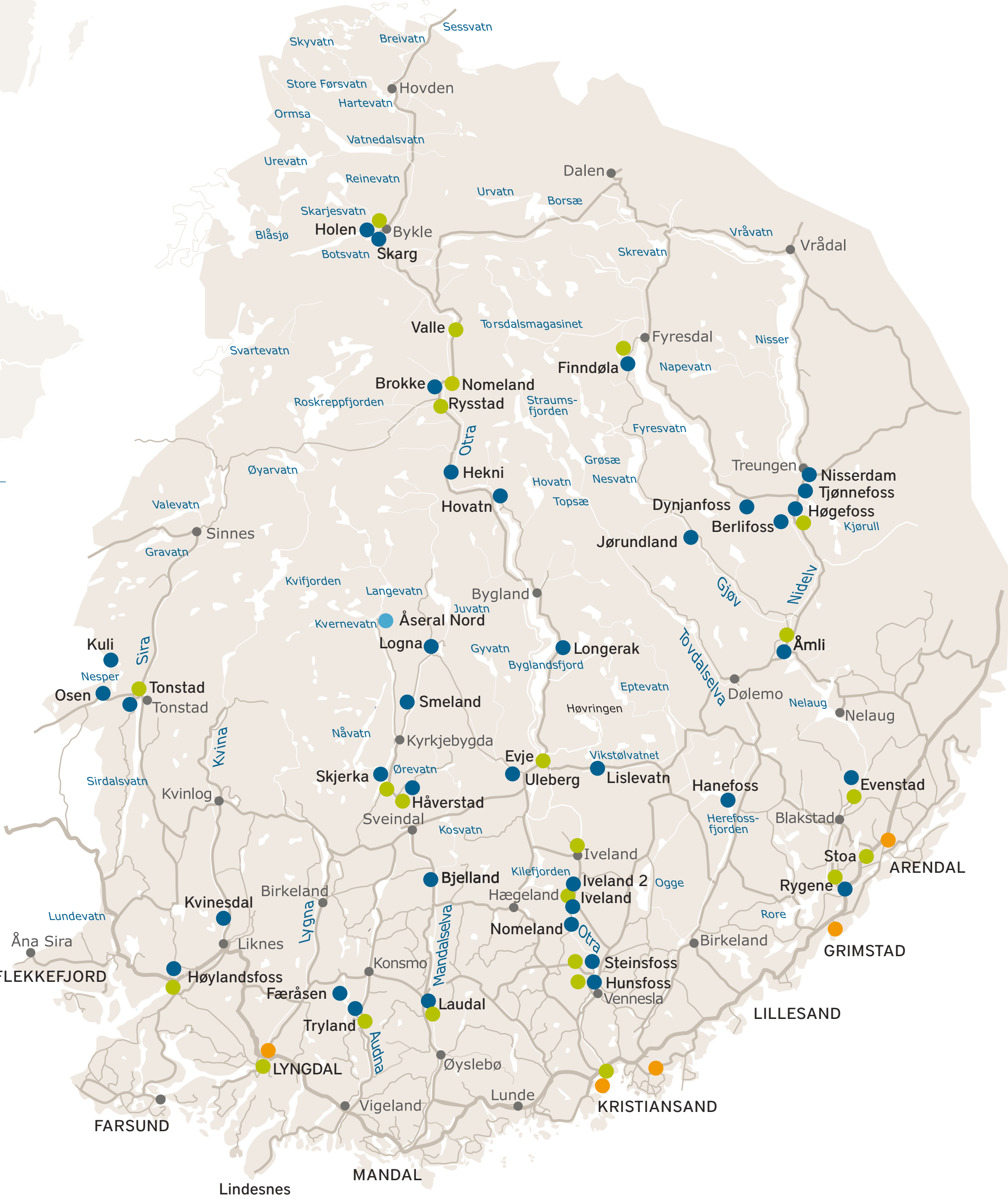
Frank Håland
Shared services

GROUP STRUCTURE



WHERE WE OPERATE





OUR BUSINESS

Agder Energi'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 Marketing, as well as the parent company and shared services. 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.

Parent company and shared services

Agder Energi AS provides administrative functions and shared services to the Group. It is also responsible for various new ventures, including Agder Energi Fleksibilitet and NODES, which are organised as separate legal entities.

Hydroelectric Power

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

Energy Management

The Energy Management business area is responsible for the Agder Energi Group's market operations. This includes physical and cash-settled electricity trading and managing market risk.

The business area is also responsible for executing the Group's strategic focus on developing new solutions for the commercial markets in the Nordic region and Germany, within the context of a European energy market with strong demand for renewable energy. As of 2018, these ventures are being marketed under the joint brand Entelios. Entelios offers clean energy, cutting-edge expertise and technology that enable industrial companies, big and small businesses and public enterprises to lead the way in terms of climate-friendly energy solutions. Entelios specialises in managing and trading electricity in a market where energy from renewable sources such as hydro, wind and solar power are replacing fossil fuels.

- Agder Energi Kraftforvaltning AS is responsible for managing and maximising the return on the electricity generated by the Group, on behalf of 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.

- Entelios Nordic consists of the companies Entelios AS (demerged from LOS AS in 2017) and Entelios AB. Entelios Nordic is one of the leading electricity suppliers to the commercial market in Scandinavia.

- Our German operations consist of the companies Entelios GmbH, Entelios AG, and Nordgröön Energie GmbH. These businesses are involved in trading and managing renewable energy, flexibility and guarantees of origin.

Network

The Network business area is responsible for fulfilling our duty to society to provide electrical energy to end users. Introducing big data solutions, as well as smart meters, is helping the company to ensure that it continues to manage the electrical grid successfully and in a way that is efficient and forward-looking.

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

Marketing

The Marketing business area comprises the contractor Otera AB, the retail supplier LOS AS, the district heating supplier Agder Energi Varme AS, Agder Energi Venture AS, as well as some strategic and financial investments. Agder Energi holds a non-controlling interest in Otera Infra AS (after reducing its ownership interest in 2018).

- Otera AB is a supplier of electrical infrastructure services that mainly operates in 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. 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. AE 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.

MISSION, VISION AND VALUES

Agder Energi provides clean energy for a sustainable society, now and in the future.

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.

Agder Energi Nett is collaborating with the research centre NORCE on introducing sensor technology that will make it easier to detect rotten utility poles that need replacing. Technician Erik Lindekleiv of Agder Energi Nett (left) and researcher Boyan Yuan of NORCE take thermal images of utility poles and pass radio waves through them. The project is part-funded by the Research Council of Norway.

HIGHLIGHTS 2018

The addition of a new generator at Skjerka power station, the construction of Honna substation and upgrades to the distribution network in Åseral will increase grid reliability and ensure that the area's resources can be exploited even better. When all of the sub-projects in the Åseral projects have been completed, they will add 145 GWh of clean, renewable energy generation, equivalent to the annual consumption of around 7,500 households.

Southern Norway experienced heavy snow in January and February. Trees weighed down by snow outside the corridors that are cleared alongside the grid caused power cuts in several parts of the Agder region. This led to the biggest power outage since Agder Energi was founded. Agder Energi Nett is implementing several measures to improve reliability of supply for customers.

In May Agder Energi sold 51% of the shares in Otera Infra to the contracting group Roadworks, a financially sound partner that complements our business and that is looking to grow. The aim is to improve Otera Infra's profitability, ensure value creation and safeguard jobs. The transaction was completed in August.

In June, Agder Energi sold the Honna transmission substationin Åseral to Statnett.

In May, Agder Energi's municipal shareholders adopted a new dividend policy for the years 2018–2020. Dividends shall represent 70% of the previous year's underlying net income under IFRS. The Group previously used NGAAP profit as a measure of underlying profitability. As a result of this change in dividend policy, from using NGAAP figures to underlying IFRS figures, underlying performance will now be presented as an adjustment to the IFRS figures.

The storm "Knud" caused massive damage to the electricity network in September. The number of customers without power peaked at around 53,000, and in total almost 78,000 of our 200,000 customers were affected by power cuts of varying durations. Agder Energi Nett has never before suffered such extensive power cuts.

In September, Statkraft agreed to acquire Agder Energi's 38% ownership interest in the wind power developer Statkraft Agder Energi Vind DA. The company has two licensed projects in its portfolio.

Together with Microsoft, Agder Energi won the Energy Efficiency Awards for its work on using new technology to create innovative smart grid solutions. The aim is to use the electricity network more efficiently and to ensure a smarter grid for the future.

Europe's largest shore power facility for cruise ships was opened in the port of Kristiansand in September. Agder Energi Nett has played an important role in the project.

In November, LOS signed an agreement with the Coop on becoming the exclusive electricity supplier to the organisation's 1.6 million members. LOS's electricity tariffs have been well received by Coop's members all over Norway.

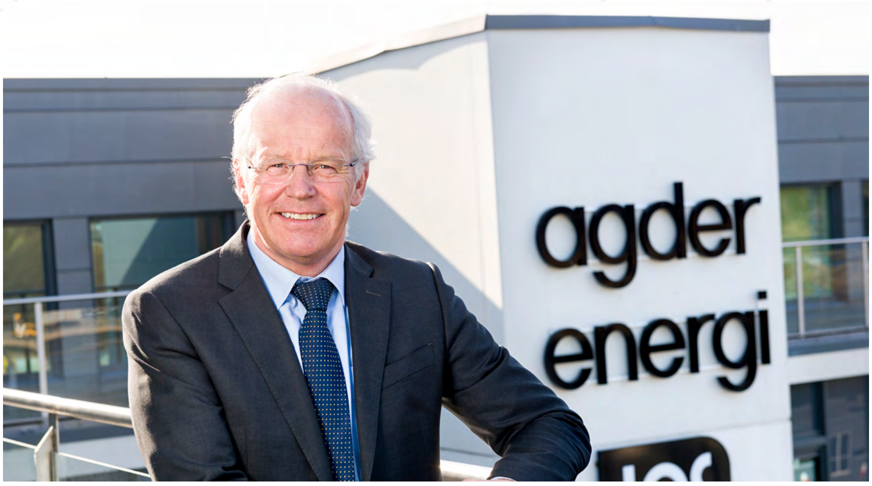
In December Agder Energi brought three of its energy market companies in Scandinavia and Germany together under the Entelios brand. Entelios offers clean energy, cutting-edge expertise and technology to industrial companies, businesses and public enterprises, so they can lead the way in terms of climate-friendly energy solutions.

Agder Energi is involved in the "Electric Region Agder", which aims to make Agder Norway's first fully electric region. Agder Energi has started work on an innovation project to explore possible business models and opportunities that will arise if growing areas of society are electrified. Following on naturally from this, tomorrow's cities are the theme for the Agder Energi Conference "The Next Generation – Electric City" that will be held in May 2019.

Now even the biggest cruise ships can turn off their engines in the Port of Kristiansand and use electric power instead. That's after Agder Energi Nett, the Port of Kristiansand and the Danish company PowerCon in 2018 commissioned Europe's largest shore power facility there. The system is an innovation and demonstration project part-funded by the EU.

AGDER ENERGI AND THE ENERGY INDUSTRY

THE BIG PICTURE



2018 was yet another exciting year for Agder Energi. On a few occasions, a bit too exciting for our liking: heavy snowfall, downed power lines and flooding, followed by a long, dry, baking summer. I apologise for the fact that many people suffered power cuts as a result of the forces of nature, but equally I must once again express my admiration of, and gratitude to, our staff and the teams who worked round the clock to repair the damage to the grid.

There will be more extreme weather events in the future. Climate change is affecting people all over the world, often with far more dramatic consequences than in Norway. That is the background to the Paris Agreement and previous treaties on climate change, which aim to limit global warming by phasing out all forms of energy that produce greenhouse gases, which above all means CO2. We have to decarbonise both the generation and consumption of energy.

As a result, both energy markets and energy companies are changing. Oil is being phased out as a heating fuel, and we are using less coal to generate electricity. Meanwhile, the electrification of society continues apace. Wind and solar power are growing fast, not least in the European market that Norway is a part of. But these energy sources depend on the weather, so they need to be backed up by more stable sources, such as hydroelectric power. For an electric power system of this kind to work, you need advanced technology, especially digitalisation and artificial intelligence.

Norway, the Norwegian electric power industry and Agder Energi in particular are in a wonderful position to benefit from the changes taking place in energy markets. Almost all of the electricity generated in Norway is hydroelectric, and we have a lot of it. Connecting ourselves to the continent, and in a few years to the UK as well, won't just increase grid reliability. It will also give us big business opportunities and enable us to contribute to the joint European effort to create a more climate-friendly energy system. Agder, which is close to both the continent and the UK, occupies a particularly privileged location.

In parallel with this, new technology is changing energy markets and creating new business models and markets. That is why Agder Energi has a longstanding partnership with Microsoft that enables us to make better use of the electricity available in the network. This partnership has been awarded a prestigious prize for innovation by the Alliance to Save Energy. Even more importantly, Statnett has joined NODES, which we are developing into an electronic marketplace for Europe together with NordPool. Enova's recent decision to award grants of almost NOK 90 million to three digitalisation projects where Agder Energi is playing an important role is another strong vote of confidence.

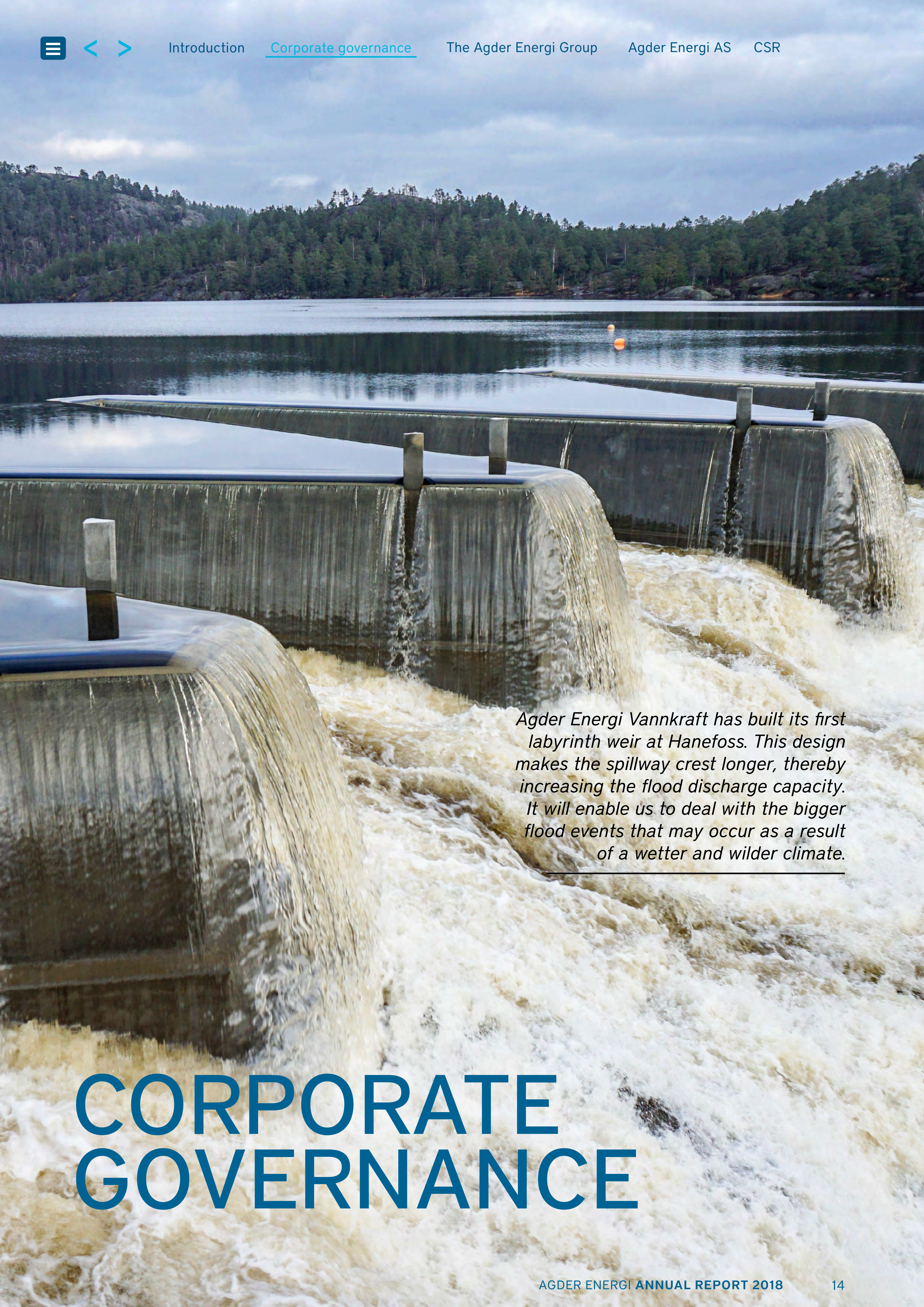
In 2018 we also took a bold step forward by bringing together three of our energy market companies in Scandinavia and Germany under the Entelios brand. Entelios will help industrial companies, businesses and public enterprises to lead the way in terms of climate-friendly energy solutions, by offering them renewable energy, new technology and cutting-edge expertise. In Scandinavia, Entelios is one of the leading suppliers of electricity to commercial customers and in Germany Entelios is a leading provider of technological solutions that can make the electricity used by energy-intensive companies available to various energy companies at a second's notice. These companies sell the electricity on or use it to stabilise the electrical grid. What we are learning through Entelios will put us at the cutting edge of technology by 2020.

Traditionally, the electric power industry has only changed slowly. This reflects the fact that the technology has been relatively simple and many system components have long useful lives. That is no longer the case. Now the pace of change is furious, driven by leaps in technology that are affecting the whole value chain – generation, distribution and consumption. Energy companies that want to succeed will need to understand these changes and forge alliances with leading technology providers, merging energy expertise with technology expertise. Looking at the big picture, this will mean that energy companies will increasingly develop into technology companies. As such, future restructurings of the electric power industry may equally well involve industrial alliances between electricity and technology companies as traditional mergers between electricity companies.

Another part of the big picture is that Norway, the Nordic region and Europe are all closely integrated in a big European energy market. Some people are unhappy that this sometimes results in Statnett importing European electricity prices. However, what we are really importing when CO2 prices push electricity prices up is European climate change policy. Over time, that will lead to renewable energy sources outcompeting fossil fuels, which will in turn reduce prices. We cannot and shouldn't refuse to take part in this battle against climate change.

Tom Nysted

Tom Nysted
CEO



Agder Energi Vannkraft has built its first labyrinth weir at Hanefoss. This design makes the spillway crest longer, thereby increasing the flood discharge capacity. It will enable us to deal with the bigger flood events that may occur as a result of a wetter and wilder climate.

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 9th edition of the Norwegian Code of Practice published by the Norwegian Corporate Governance Committee (NUES), published on 17 October 2018.

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.

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.

Each heading represents one topic covered by the recommendations. Agder Energi has chosen to adapt Sections 5, 6 and 8 to reflect its operations and ownership structure. Apart from this, Agder Energi considers that it complies fully with the Code of Practice.

Overseas entities
Agder Energi also owns overseas entities. These entities comply with their national rules, as well as following the Group guidelines on areas such as auditing and internal controls.

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 approximately 1,000 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, strategies and risk profiles covering the whole Group, for each business area and subsidiary, and for certain aspects of its operations. The Board's review and assessment of the goals, strategies and risk profiles follows an annual plan.

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

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

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

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

3. Equity and dividends
At 31 December 2018, the Group had NOK 3,526 million of equity, giving it an equity ratio of 15.6%. The Board of Directors considers it important for the Group to have a capital structure that provides 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
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. Shares and free negotiability
The Code of Practice recommends that companies should not limit the ownership, negotiability or voting rights of shares. Agder Energi AS is governed by rules that restrict the ownership of waterfall rights in the Waterfall Rights Act. The articles of association state that only shareholders who meet the conditions for being allocated indefinite waterfall licences are entitled to own Class A shares. The company's shareholders have also signed agreements that regulate the sale of shares.

6. Annual General Meeting
The Code of Practice recommends enabling as many shareholders as possible to attend 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. Board of Directors, composition and independence
The composition of the Board of Directors is designed to safeguard the collective interests of the shareholders and meet the company's need for expertise, capacity and diversity. 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 reviews its work and expertise annually.

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.

Conflicts of interest and abstention
The Board shall ensure that Board members and senior managers disclose any significant interests they have in matters being deliberated by the Board (even if those interests do not require abstention).

10. Risk management and internal controls
Agder Energi integrates risk management, internal controls and internal auditing into its corporate governance in line with "COSO Enterprise Risk Management – Integrating with Strategy and Performance", which emphasises 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, operational safety, the regulatory environment, ICT security and data protection.

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 it 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 in their capacity as employees.

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. Two business area directors received a bonus in 2018, based on an assessment of the results achieved against defined goals. The rest of the senior management team have no bonus agreements for 2018.

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 publishes quarterly financial reports and other information for the benefit of its shareholders and external stakeholders.

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 2018.

Each year, the auditor presents an outline plan for the year's auditing activities to the audit committee.

The auditor attends the meeting at which the Board reviews the annual financial statements. At the meeting, the auditor goes over any significant changes in the company's accounting principles, key aspects of the audit, calculations of significant accounting estimates and all significant issues where there has been any disagreement between the auditor and the executive management. Each year the auditor also discusses the company's internal controls with the Board, including any weaknesses identified by the auditor and proposals for improvements.

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.

ENTERPRISE RISK MANAGEMENT

RISK MANAGEMENT

At Agder Energi, risk management has for several years been an integrated part of corporate governance, both at the strategic and operational levels. "COSO Enterprise Risk Management – Integrating with Strategy and Performance" (2017) highlights the importance of enterprise risk management in strategic planning and of introducing enterprise risk management throughout an organisation. There follows a brief description of how COSO's five components have been implemented in the Agder Energi Group's enterprise risk management system.

Governance and culture
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.

The Board has adopted a set of core values and ethical guidelines for Agder Energi, which form the basis for the corporate culture at the Group. This is disseminated across the Group through the HR strategy's management requirements and emphasis on teamwork.

Strategy and Objective-Setting
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 covering existing activities and new business models. Areas that involve trading in financial markets have special risk management strategies and limits on risk exposure that reflect the Board's appetite for risk.

Implementation of Risk Assessments and Risk Management
The Group's risk management systems deal with potential positive and negative outcomes related to the company's strategic and operational performance. 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, prioritising 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 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. Risk assessments are included in reports to the Board.

Review and Revision
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 to continuously update risk assessments and in strategic and commercial decision-making procedures.

Risk management and performance is reviewed regularly at individual companies and at the Group level. As part of the Group's overall progression, corporate governance will be subject to continuous improvement and development, in response to the companies' own initiatives, updated guidelines from shared functions and the results of internal audits.

Information, Communication, and Reporting
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. The system is used for internal communication within business areas and for communication with the group management and Board of Directors.

Uncertainties with respect to key figures, the Group's financial exposures, overall risk assessments and external developments are regularly reported to the management and Board, who are notified explicitly of any critical scenarios.

INTERNAL CONTROLS

Internal controls are an integral part of overall risk management procedures, and they shall provide reasonable assurance that goals relating to operations, reporting and compliance will be achieved. There follows a description of how the quality management system, control mechanisms, audits and whistleblowing channels promote good internal controls at Agder Energi.

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.

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. Due to increasing levels of 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 such as check lists, access controls such as electronic approval processes following the four eyes principle and automatic notification systems such as position monitoring for trading portfolios.

In addition, all subsidiaries must submit an annual self-declaration on their internal controls. This is done through a common reporting format that makes it clear what kinds of controls the Group expects its subsidiaries to implement.

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

The external auditor is chosen by the AGM, and is responsible for the financial audit of the parent company, Group and subsidiaries. Agder Energi has a Group-wide agreement with Ernst & Young, which must be used by all subsidiaries for the statutory audit. Companies in the Group's 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 an online reporting tool. Here people can report and record nonconformities, observations, suggested improvements, accidents and near misses. The reports are analysed, and all High Risk Incidents (HRIs) are investigated, 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, operational safety, the regulatory environment, ICT security and data protection.

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 contracts is continuously adjusted, bearing in mind the company's price expectations and generating capacity. The sale of currency futures also takes into account electricity price hedging and the total risk associated with the generation portfolio. The hedging strategy both reduces risk and makes a positive contribution to Agder Energi's financial performance. Electricity prices rose over the course of 2018, and Agder Energi managed to benefit from a significant proportion of that increase.

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

Strategic investments
The Group is following an ambitious strategy for meeting the changes facing the electric power industry, centred on greater digitalisation and exploiting renewable energy sources. Strategic risk is managed through continuous improvement and innovation at existing business areas and by developing new, sustainable business models. This involves designing, and positioning ourselves in, new markets and business models associated with high levels of uncertainty. This additional risk is managed by using pilot projects and a gradualist approach to increase our understanding, as well as through good risk assessment and portfolio management.

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, in power stations, grid upgrades and new business opportunities, Agder Energi has more investment opportunities than it is capable of pursuing. Portfolio management, scenario-based assessments and long-term capital allocation are designed to encourage optimal use of capital at the Group over time.

Operational safety
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. There were a number of climate-related incidents in 2018, including heavy snowfall, strong wind and extreme drought. Extreme weather and climate-related incidents increase the challenges associated with grid reliability, the safety of employees, contractors and the general public, and the profitability of grid operation, power generation, energy management and energy retailing. Personal safety is always our very highest priority.

Operational risk is managed through preventive measures and procedures for responding to incidents. Agder Energi participates in the organisation "Kraftforsyningens beredskapsorganisasjon" (KBO) as a power generating company, district heating company and grid operator. 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
Big changes lie ahead for the electric power industry. Changes in the regulatory environment and political decisions affect our 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, exploit any available room for manoeuvre and make strategic choices.

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 making the changes needed to adapt itself to an industry in a state of flux. This includes changes to its technology, such as digitalisation and cloud computing, and to its culture, such as a management development programme focusing on continuous improvement, change management and teamwork.

ICT security and data protection
In recent times, there has been a growing focus on ICT security and data protection, both within the industry and more widely. Agder Energi continuously and systematically works to meet external requirements and internal needs for the security and robustness of our ICT infrastructure. Over the course of the year, we have worked to adapt ourselves to the GDPR, as well as performing various actions to ensure that our ICT systems remain secure and stable. This will continue to be a priority going forward.

CORPORATE SOCIAL RESPONSIBILITY

Agder Energi provides clean energy for a sustainable society, now and in the future.

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 sustain ble 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 evironment 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.

Removing bulbous rush at Beihølen Dam in Vennesla Municipality.

BOARD OF DIRECTORS' REPORT

DIRECTORS' REPORT

The Agder Energy Group provides clean energy for a sustainable society, now and in the future. The Group's activities comprise the generation, distribution and sale of energy, as well as providing energy-related services. Its 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.

Under IFRS, the Group made a loss for the year of 198 million in 2018 (controlling interest's share), compared with a NOK 487 million profit in 2017. Underlying net income under IFRS was NOK 874 million (controlling interest's share), up from NOK 845 million in 2017. Agder Energi's hydropower stations generated 8,868 GWh of clean energy in 2018 (2017: 8,812 GWh).

HIGHLIGHTS

Southern Norway experienced heavy snow in January and February. Trees weighed down by snow outside the corridors that are cleared alongside the grid caused power cuts in several parts of the Agder region. This led to the biggest power outage since Agder Energi was founded. Agder Energi Nett has implemented several measures to further improve reliability of supply for customers.

In May, Agder Energi agreed to sell 51% of the shares in Otera Infra to Roadworks, a financially strong, complementary partner which is looking to grow its business. The aim is to improve Otera Infra's profitability, ensure value creation and safeguard jobs. The transaction was completed in August, and resulted in a small gain for accounting purposes. Since August, Otera Infra has been classified as an associate.

In May, Agder Energi's municipal shareholders adopted a new dividend policy for the years 2018–2020. The new guideline is that 70% of the previous year's underlying net income under IFRS should be distributed as dividends. Agder Energi previously used NGAAP to measure its underlying performance, but partly due to the change in the dividend policy, underlying performance will henceforth be presented as adjusted net income under IFRS.

In June, Agder Energi exercised its option to sell Honna transmission substation in Åseral to Statnett. This disposal freed up a significant amount of capital.

The storm "Knud" caused massive damage to the electricity network in September. The number of customers without power peaked at around 53,000, and in total almost 78,000 of our 200,000 customers were affected by power cuts of varying durations. Agder Energi Nett has never before suffered such extensive power cuts.

In September, Statkraft agreed to acquire Agder Energi's 38% ownership interest in the wind power developer Statkraft Agder Energi Vind DA. The company has two licensed projects in its portfolio.

In September, Microsoft and Agder Energi won the Energy Efficiency Awards for their work on using new technology to create innovative smart grid solutions. The aim is to use the electricity network more efficiently and to ensure a smarter grid for the future.

Europe's largest shore power facility for cruise ships was opened in the port of Kristiansand in September. Agder Energi Nett has played an important role in the project.

In November, LOS signed an agreement with the Coop on becoming the exclusive electricity supplier to the organisation's 1.7 million members. LOS's electricity tariffs have been well received by Coop's members all over Norway.

In December Agder Energi brought three of its energy market companies in Scandinavia and Germany together under the Entelios brand. Entelios offers clean energy, cutting-edge expertise and technology to industrial companies, businesses and public enterprises, so they can lead the way in terms of climate-friendly energy solutions.

* The underlying IFRS figures take the Group's IFRS profit and adjust it for unrealised gains and losses on financial instruments, material gains and losses on the disposal of businesses or ownership interests in businesses and changes in the way that negative resource rent carryforwards are calculated; see page xx for further details.

FINANCIAL PERFORMANCE

Agder Energi's operating revenues in 2018 amounted to NOK 13,980 million, compared with NOK 10,358 million in 2017. The main reason for the NOK 3,622 million increase was higher energy sales due to higher electricity prices. As well as higher turnover at the Group's hydroelectric power stations, the generalised price increase resulted in higher turnover at Entelios and LOS, which also operate in the electricity market. As a result of having higher volumes under management, turnover also rose at the German energy market companies.

The Group made an operating profit of NOK 967 (1,062) million, while its underlying operating profit was NOK 2,298 (1,889) million. The main reason for the big difference between the two figures was large losses on financial hedging instruments; see below.

In 2018 the hydroelectric power business delivered strong results, with a strong operational performance, high electricity generation, significantly higher achieved prices than in 2017 and strong cash flow. Operating profit was negatively affected by weak contributions from the Network business area, as a result of heavy snowfall in January and the storm "Knud" in September, and from parts of our German operations.

Operating profit was also negatively impacted by large losses on financial hedging instruments. Under IFRS, changes in the value of these contracts are recognised through profit or loss as they arise. Forward electricity prices rose significantly in 2018. For the years 2019–2021, the increases were in the range 29–85%. These price increases have led to unrealised losses of NOK 1,357 (827) million on our hedging portfolio, and they are the main reason for the big difference between the reported and underlying performance. Meanwhile, the value of the electricity generation hedged has risen by an equivalent amount. However, this rise in value is not recognised in the income statement.

Net financial expenses fell NOK 100 million from NOK 214 million to NOK 114 million. The main reasons for the reduction were higher financial income and an increase in unrealised gains on interest rate swaps. Financial income rose by NOK52 million to NOK 77 million, partly due to a positive contribution from the settlement of a vendor credit provided to Broadnet. A NOK 67 million unrealised gain on interest rate swaps was recognised in the income statement. Interest on the Group's debt portfolio was NOK 243 (251) million. Lower investment in projects resulted in only NOK 18 (27) million being capitalised as construction loans. The net interest expense recognised in the income statement therefore came to NOK 225 (224) million.

The Group's pre-tax profit amounted to NOK 853 (848) million, and its tax expense was NOK 1,057 (598) million. The tax expense consists of NOK 198 (208) million of income tax and NOK 859 (390) million of resource rent tax. The increase in resource rent tax was mainly due to higher spot prices, as well as the fact that we have started using up our negative resource rent carryforwards. The introduction of new tax rates in 2019 resulted in a NOK 23 million gain for 2018.

The net unrealised loss on derivatives of NOK 1,049 (719) million was the main reason why Agder Energi made a net loss of NOK 198 million (controlling interest's shares) as opposed to net income of NOK 487 million in 2017. Underlying net income under IFRS was NOK 874 million (controlling interest's share), up from NOK 845 million.

Capital structure and cash flow

Agder Energi's assets had a book value of NOK 22,616 million at the close of 2018, compared with NOK 20,831 in 2017. Part of the increase was due to heavy investment in the Hydroelectric Power and Network business areas, and the carrying value of our property, plant and equipment was NOK 15,171 (14,599) million at the close of the year. As a result of the IFRS loss, negative remeasurements of pensions and dividend payments, the Group's book equity fell by NOK 1,039 million over the course of 2018 to NOK 3,526 (4,565) million. This gave a year-end equity ratio of 16% (22%).

At the end of the year, the Group had NOK 9,260 (9,240) million of interest-bearing liabilities. The interest rate on the loan portfolio once again fell in 2018. The average interest rate was 2.7%, down from 2.9% in 2017. The Group had NOK 2,883 (2,372) million of unrestricted liquid assets and undrawn credit facilities.

Cash flow from operating activities came to NOK 2,049 million, compared with NOK 1,189 million the previous year. Underlying EBITDA was NOK 2,957 million, up from NOK 2,597 million, due to high electricity prices and higher EBITDA at the Hydroelectric Power business area. Some of the large, unrealised gains and losses on derivatives are cash items while others are not. The cash flow from operating activities for 2018 includes a positive contribution from the use of various forward and futures contracts. Within its retail business, Agder Energi offers customers various management products. These typically involve the Group signing a forward contract with the customer, which is hedged by a futures contract in a financial market. The positive impact will be reversed by any fall in price or when the forward contract is settled. Changes in net working capital reduced cash flow by NOK 718 million. This was mainly due to having to provide more collateral for trading in cash-settled electricity futures.

In recent years, Agder Energi has invested heavily in hydroelectric power and grid infrastructure. This continued in 2018. Net investments amounted to NOK 1,102 million in 2018, against NOK 1,293 million the previous year. NOK 1,397 (1,348) million was invested in property, plant and equipment and in intangible assets. In addition, NOK 92 (99) 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. 91% of the investments in property, plant and equipment related to the Hydroelectric Power and Network business areas.

Receipts from the sale of investments came to NOK 481 million, compared with NOK 237 million in 2017. The biggest contribution came from the sale of Honna substation to Statnett in June, but cash received from the sale of subsidiaries, associates and financial assets once again helped to reduce net cash used in investing activities in 2018. In 2018, the sale of 51% of the shares in Otera Infra, receipt of the final settlement for Bjerkreim Vind and the settlement of a vendor credit provided to Broadnet were some of the items that made a positive contribution to cash flow.

NOK 608 (610) million in dividends were paid out to controlling and non-controlling interests. Net cash provided by operating activities less dividends therefore came to NOK 1,441 (579) million. As a result, net investment for the year was financed by cash flow from operating activities.

Proposed dividends
Agder Energi's dividend policy states that the proposed dividend for 2018 should be set based on the Group's underlying net income under IFRS in 2017. This is to ensure that shareholders receive a predictable dividend income. The guideline dividend payout ratio is 70%. The controlling interest's share of underlying net income under IFRS in 2017 was NOK 845 million. Based on that, the Board of Directors proposes a dividend payout of NOK 592 million for the 2018 financial year.

The net income for the year of the parent company Agder Energi AS was NOK 796 (935) 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	592
Transferred to other reserves	204
Total allocations	**796**

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

Agder Energi is organised as a corporate group, with Agder Energi AS as the parent company. The Group reports its business areas in line with how the management team makes, reviews and evaluates its decisions. It has four business areas: Hydroelectric Power, Network, Energy Management and Marketing. The financial statements of the business areas follow Norwegian Generally Accepted Accounting Principles (NGAAP), as that is what is used for internal corporate governance purposes.

Hydroelectric Power business area
This business area is responsible for developing, operating, maintaining and refurbishing the Group's hydroelectric power stations, and it is one Norway's largest producers of hydroelectric power. The business area owns, either directly or through joint arrangements, 49 hydroelectric power stations.

8,686 GWh (8,812 GWh) of power was generated in 2018. That is around 7% more than the Group's average production of 8,100 GWh. Reservoir reserves fell from 4,400 GWh at the start of the year to 3,200 GWh at the end of it. The average spot price in Agder Energi's pricing region (NO2) was 41.5 øre/kWh (26.9 øre/kWh), up 54% over 2017.

The turnover of the business area was NOK 3,703 (2,893) million in 2018. It made an operating profit of NOK 2,358 million, up from NOK 1,752 million in 2017, thanks to net energy sales rising from NOK 2,692 million to NOK 3,404 million. Net energy sales benefited from an increase in the spot value of electricity generated from NOK 2,452 million to NOK 3,639 million due to higher electricity prices. Losses on concession power and contracts for physical delivery signed before 1992 came to NOK 212 (111) million, while the contribution from electricity price and interest rate hedges fell from a gain of NOK 343 million to a loss of NOK 212 million. Nevertheless, positive contributions from areas such as energy trading and the sale of guarantees of origin meant that the prices achieved were roughly the same as spot prices.

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 resource rent tax expense rose from NOK 285 million to NOK 824 million. The increase was due to higher spot prices for electricity generated, a higher tax rate and the fact that the business area has started using up its negative resource rent carryforwards. The business area's net income for the year amounted to NOK 950 million (NOK 996 million).

NOK 568 (466) million was invested in 2018. The single biggest investment was the Åseral Nord project, which involves building a new dam at Langevatn and refurbishing the northern part of the transfer tunnel between Langevatn and Nåvatn. Other big investments included the new generator at Skjerka power station, the refurbishment of Hanefoss Dam and the refurbishment of Evenstad power station. Beyond this, investments 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. This business area had NOK 1,358 (1,335) million of operating revenues in 2018. However, operating profit fell by NOK 255 million to NOK 16 (271) million.

This was due to heavy snowfall in January and February, as well as the storm "Knud" in September. Those two things caused the most extensive power outage since Agder Energi was founded. Together they led to increased expenses related to fault resolution and compensating customers, as well as a NOK 245 million loss of revenues. The cost of compensating customers and fault resolution was NOK 122 million. The loss of revenues was due to KILE (quality-adjusted income cap for energy not supplied). The

Norwegian Water Resources and Energy Directorate sets an income cap for distribution system operators. In the event of a power cut, the income cap is reduced to reflect the costs inflicted on customers by the power outage. As a result of the extreme weather events, Agder Energi's income cap was reduced by NOK 123 million. Without the extreme weather events, the business area's performance and efficiency would have been close to expectations.

In spite of the high KILE adjustment, the business area's revenues were roughly unchanged. This was due to an increase in both the cost of transmission losses, reflecting higher electricity prices, and transmission network tariffs. Any increase in these costs is compensated for through an equivalent rise in the income cap.

The business area invested NOK 673 (776) million in 2018, of which NOK 492 (590) million related to investments in new projects. NOK 199 (306) million was invested in the smart meter project. Including NOK 92 (99) million of customer contributions, gross investment in the business area was NOK 765 (875) million.

The Energy Management business area

The Energy Management business area includes Agder Energi Kraftforvaltning, the Entelios companies and Nordgröön.

Agder Energi Kraftforvaltning provides the services of scheduling and hedging the hydropower portfolio to the Hydroelectric Power business area. In 2018 the company achieved record profits from energy trading. The financial results of this are included under the Hydroelectric Power business area.

In the Nordic region, Entelios is one of the leading energy retailers. In Norway, Entelios is the leading supplier of electricity to the commercial market. Entelios 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.

Agder Energi's activities in the German market comprise Entelios' German business and the company Nordgröön. The business involves managing renewable energy, optimising distributed generation and selling demand response services.

The business area's turnover was NOK 7,693 (5,208) million in 2018, up NOK 2,485 million from 2017. The increase was the result of higher turnover at Entelios' Nordic business, due to the general rise in electricity prices. Volumes were roughly unchanged from the previous year. The companies engaged in the Germany electricity market also contributed significantly to turnover growth, thanks to growth in the volumes they managed. The business area made an operating loss of NOK 111 million, compared with a profit of NOK 31 million in 2017.

The German business made an operating loss of NOK 130 (12) million. Part of its business involves managing renewable energy generation from small electricity generators. The weak performance was primarily the result of volume growth combined with unfavourable market movements and the loss of expected Eisman compensation. The entitlement to Eisman compensation can arise at times of high electricity generation and limited access to the grid. At times like that, electricity generating companies can be disconnected from the grid. This leads to a discrepancy between reported electricity generation and the volume actually supplied to the grid. Agder Energi seeks to cover the discrepancy by buying electricity through the regulating power market. Any discrepancies that are not covered cause an imbalance, which normally results in a loss. In its financial statements for 2017, Agder Energi assumed that this loss would be covered by the system operators through so-called Eisman compensation. The rules on how this should be calculated were not clear at the time. In June 2018, regulations were issued stipulating how compensation shall be calculated from 2019 onwards. In view of those regulations, Agder Energi has in its financial statements for 2018 assumed that no compensation will be given for losses arising in 2018 and earlier years. That is the main reason for the weak operating performance.

Entelios' operations in the Nordic region made an operating profit of NOK 33 (63) million. The Norwegian business was responsible for the decline in profit.

The Marketing business area

The Marketing business area's turnover was NOK 2,434 (2,071) million in 2018, while its operating profit was NOK 95 million (loss of NOK 4 million). The main companies in this business area are LOS, Otera Ratel and Agder Energi Varme. The Group's venture capital portfolio also forms part of the business area.

In 2018, the electricity retailer LOS's turnover was NOK 942 million, compared with NOK 670 million in 2017. The increase was mainly due to the general rise in electricity prices. The company made an operating profit of NOK 35 million, down from NOK 56 million. The decline in profit was due to rapid and relatively large fluctuations in the prices of electricity and electricity certificates, which resulted in lower margins.

The Otera companies supply contracting services for the installation, operation, maintenance and servicing of electricity and transport infrastructure in Norway and Sweden. In 2018, their combined turnover was NOK 953 (963) million. They made an operating profit of NOK 40 million, compared with a NOK 65 million loss the previous year. In August Agder Energi sold 51% of the shares in the Norwegian business, Otera Infra, to Roadworks. Otera Infra is included in the figures for Otera up to the transfer date, but from August onwards it is treated as an associate.

The turnover of Otera's Swedish business, Otera Ratel, was NOK 737 (560) million in 2018, while its operating profit was NOK 45 million (loss of NOK 33 million).

Agder Energi Varme supplies district heating and cooling to homes and commercial buildings, mainly in Kristiansand. The energy it supplies makes a significant contribution to ensuring that the town's grid has sufficient spare capacity. The company's turnover was NOK 117 (108) million in 2018, while its operating profit was NOK 20 (20) million. The volume of billable energy supplied in 2018 was 144 GWh (135 GWh), mainly due to customer growth and lower temperatures than the previous year. As in 2017, volumes were negatively affected by the weather being milder than normal. Revenues from district cooling were NOK 9 (7) million in 2018. Our hedging of energy contracts made a negative contribution. The business area invested NOK 17 (37) million.

The Group's venture capital investments are grouped in the company Agder Energi Venture. The value of the companies in the portfolio rose in 2018. The biggest valuation gain was for Netsecurity. This reflected a strong underlying performance combined with a positive impact from the acquisition of Systempartner, completed in January 2018. There were no other acquisitions or disposals of companies in the portfolio in 2018.

EMPLOYEES AND SKILLS DEVELOPMENT

Health and safety
In 2018, the Group's sickness absence rate was 3.6% (3.5%). Of that, 1% (1%) was short-term absence and 2.5% (2.4%) was long-term absence (more than 16 days). Total sickness absence has been relatively unchanged for the past six years. 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.

7 (7) occupational accidents resulting in injury were recorded in 2018. Of these, 4 (4) resulted in total lost time of 43 (146) days. The accident figures are equivalent to a lost time injury frequency (number of LTIs per million work hours) of 2.2 (2.1), a total injury frequency (number of injuries, whether or not they resulted in lost time, per million work hours) of 3.8 (3.7) and an injury severity rate (number of days lost per million work hours) of 24 (71). 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 a systematic continuous improvement programme in place for health and safety. In order to make further progress towards our goal of avoiding occupational injuries, in 2019 we are providing safety culture training to all employees at Agder Energi Nett, Agder Energi Vannkraft and Agder Energi Varme. Root cause analysis is performed in the event of incidents with a high risk of injury. The aim is to learn more from incidents that could have led to injuries, and to share knowledge across the Group.

Staff and organisational structure
At the close of 2018, the Group had 1,005 (1,210) full-time and temporary employees, representing 977 (1,163) full-time equivalents. The reduction since 2017 is mainly due to the sale of Otera Infra. During 2018, there were 8 (22) apprentices who worked at Agder Energi. The reduction was due to the sale of Otera Infra.

The parent company had 159 (162) permanent employees at the end of the year.

Women make up 25% (20%) of the Group's employees, and 41% (41%) of the parent company's. Women make up 22% (21%) of the Group's managers. 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.

CORPORATE SOCIAL RESPONSIBILITY (CSR)

Renewable energy is part of the solution to the global crisis created by climate change, and as one of Norway's biggest producers of renewable energy, the Group's core business is inherently sustainable. Agder Energi shall carry out all of its activities in a sustainable, ethical and socially responsible way. Several governance documents have been drawn up to put our sustainability principles into practice, and the business areas are responsible for carrying out work on sustainability, including setting environmental goals and implementing measures to achieve those goals.

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). The Global Compact is based on ten fundamental principles relating to human rights, labour standards, the environment and anti-corruption.

Each year, Agder Energi reports on its work on CSR and sustainability in accordance with the Global Reporting Initiative standards. The GRI rules changed in 2018, and there is now a clearer requirement to analyse which sustainability topics are material for the Group itself, and which ones are important to the Group's stakeholders. The 2018 sustainability report has been updated to reflect this.

The general information at the Group level is presented in the section of the annual report on sustainability. More detailed company-specific information can be found in a separate sustainability report published on ae.no.

RISK MANAGEMENT AND INTERNAL CONTROLS

Risk management and internal controls
The Board has established general guidelines for corporate governance. 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 the 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 significant risks relate to market price movements, strategic investments, operational safety, the regulatory environment, ICT security and data protection. 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. Each year, the Board assesses the results achieved by the hedging strategies. Electricity retailing is considered a margin business and financial instruments are used to minimise the electricity price risk and currency risk.

Strategic investments

The Group is following 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. This risk is managed by using pilot projects, partnerships and a gradualist approach to increase our understanding, as well as through good risk assessment and portfolio management.

Credit rating

The most important target for the Group's management of its capital structure is its long-term credit rating. Agder Energi's clearly stated goal is to have a credit rating of BBB+ or higher, and it has been given a credit rating of BBB+ with a stable outlook by Scope Rating. Portfolio management, scenario-based assessments and long-term capital allocation are designed to encourage optimal use of capital at the Group over time.

Operational safety

The most important operational risks are the risk of injuries to the Group's employees and third parties, damage to infrastructure 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. There were a number of climate-related incidents in 2018, including lots of snow, strong wind and drought. Extreme weather and climate-related incidents increase the challenges associated with grid reliability, the safety of employees, contractors and the general public, and operating profitably. Personal safety is always our very highest priority.

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 our room for manoeuvre and constitute a significant element of the Group's risk exposure. Agder Energi works systematically to understand and adapt itself to changes in the regulatory environment. This includes producing Early Warning reports that describe external developments and uncertainties, including their potential impacts on the Group, and helping 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.

ICT security and data protection
Agder Energi continuously and systematically works to meet external requirements and internal needs for the security and robustness of ICT infrastructure. Over the course of the year, work has been done to adapt the company to the GDPR, and various actions have been carried out to ensure that our ICT systems remain secure and stable.

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.

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

Agder Energi uses the Norwegian Code of Practice published by the Norwegian Corporate Governance Committee (NUES), within the framework set by the company's organisational structure and ownership.

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

RESEARCH AND DEVELOPMENT

The Group's investment in R&D and innovation shall lay the foundations for long-term, profitable growth and promote development activities to increase the potential of the core business.

The pilot partnership with Microsoft that began in 2016 has now evolved into a bigger development programme focusing on establishing business models driven by new technology and changes to electric power systems. This programme is being pursued through the wholly-owned subsidiaries Agder Energi Fleksibilitet and Enfo, as well as through the part-owned subsidiaries NODES and NODES-Tech. The NODES companies are owned jointly with Nord-Pool. The programme received NOK 5 million of SkatteFUNN credits in 2018, and is participating in demo projects that have been awarded approximately NOK 60 million of grants from Enova for the period 2019–2021.

Agder Energi is participating in HydroCen with other energy and industrial companies as well as several research institutes. HydroCen is a Centre for Environment-friendly Energy Research backed by the Research Council of Norway. The centre focuses on research relating to hydroelectric power, including ways to reduce any environmental impacts. The Group also participates in CINELDI, another research centre supported by the Research Council of Norway. CINELDI is developing solutions for the flexible and intelligent electrical distributions systems of the future. In addition, Agder Energi is involved in several one-off projects that are part-funded by the Research Council of Norway's ENERGIX programme.

In March 2017, the University of Agder opened a new centre for research into artificial intelligence. Agder Energi is collaborating with the centre on production planning and the use of machine learning to control hydroelectric power stations. The results so far have been promising. The Group also cooperates with the university in other areas, such as on Master's degrees related to the Group's operations. Through its ownership interest in Teknova, which has now become part of NORCE, the Group is supporting the region's research community working in renewable energy.

Agder Energi is involved in the "Electric Region Agder", which aims to make Agder Norway's first fully electric region. Agder Energi has started work on an innovation project to explore possible business models and opportunities that will arise if growing areas of society are electrified. Following on naturally from this, tomorrow's cities are the theme for the Agder Energi Conference "The Next Generation – Electric City" that will be held in May.

EVENTS AFTER THE REPORTING PERIOD

There have been no incidents in 2019 that have a significant impact on the financial statements for 2018.

OUTLOOK

Hydroelectric Power and Energy Management business areas
Electricity prices in Norway have fluctuated a great deal over the past 15 years, with the average price in the NO2 pricing region being approximately 29 øre/KWh. After reaching a low in 2015, prices have risen significantly for three years. Over the short term, temperatures and precipitation have a big impact on electricity prices, but electricity prices are also closely linked to the CO2 price and the other costs of generating electricity using coal and gas. In 2018, the average electricity price in the NO2 pricing region was 41.5 øre/kWh (26.9 øre/kWh), up 54% over 2017, with all of the above factors contributing to the rise.

Forward prices for electricity indicate that electricity prices will be lower than in 2018 over the coming three or four years. Meanwhile, a lack of precipitation has left the Group with lower hydrological resources (water and snow) than normal. Assuming normal precipitation levels over the coming months, we expect hydroelectric power generation and turnover from energy sales to be lower in 2019.

Analyses of the electricity market forecast that electricity consumption in the Nordic region will increase between now and 2030, due to higher demand from industry, the electrification of the transport sector and data centres. However, the amount of electricity generated will also rise, particularly at wind farms, increasing the overall electricity surplus of the Nordic countries over the same period. Viewed in isolation, this will put downward pressure on electricity prices.

However, interconnectors are making the Norwegian grid more integrated with the rest of Europe. According to the Norwegian Water Resources and Energy Directorate's analyses, price differences between countries may decline. Having more international interconnectors will probably help to smooth out seasonal price fluctuations and in the long run hydrological conditions should have less of an impact on electricity prices.

The EU's energy and climate change policies are driving changes in the electric power industry and growth in wind and solar power is pushing up the proportion of renewable energy in the European power mix. A higher share of renewable generation will push European electricity prices down. The price of fossil fuels and CO2 are nevertheless expected to be important factors for prices, and coal, gas and CO2 prices will therefore continue to strongly influence electricity prices.

The Energy Management business area has brought its customer-facing business in the Nordic region and Germany together under the Entelios brand. The similarities between these markets and their complementary characteristics will provide opportunities for synergies. The Entelios business in the Nordic region manages 30 TWh of electricity, and through services including energy management it added significant value for its customers in 2018. The markets in which Entelios operates are challenging, and the business is developing its expertise and systems in order to continuously improve its competitive position.

A growing proportion of non-dispatchable generation is increasing the need for flexible resources in the European power system, and the business area participates in the markets for demand response, short-term trading and managing renewable energy generation in Germany.

The regulatory framework for managing renewable energy generation and demand response did not develop in line with our expectations in 2018, for example because coal-fired power stations were allowed to take big positions in flexibility markets. Germany has taken the decision to start closing down its coal-fired power stations from 2020 onwards, which we expect to increase the profitability of these markets. Clarification of the regulatory framework for managing renewable energy generation will enable companies to make the adjustments needed to achieve a balance between risk and reward.

As the world becomes increasingly conscious of climate change, the value of renewable energy increases. Over the course of 2018, the price of guarantees of origin rose significantly. The Energy Management business area is well positioned to offer value-adding management services in this market.

The Network business area
Agder Energi Nett was hit by several extreme weather events in 2018. At the start of the year, heavy snowfall combined with temperatures around freezing led to significant power cuts in Agder. A large number of power outages were caused by trees snapping or falling onto power lines. In September a similar situation was caused by strong winds that reached hurricane strength in parts of region. These two events gave rise to around NOK 245 million of additional expenses before tax, and we expect the distribution system operator's financial performance to be significantly stronger in 2019.

In order to further improve reliability of supply, extra financial resources have been allocated to deal with priority areas over the coming years. This package of measures includes a number of projects, including clearing more trees and increasing investment in the grid.

The Norwegian distribution system industry is changing. New, automated meters and new digital solutions make it possible to operate distribution systems more efficiently and reliably. This, in combination with an increasingly electrified society, will lead to the development of new operating models that make increasing use of available demand response. The ongoing electrification of the transport sector will be another important driver of change.

The company believes in continuous improvement, and will continue working on several strategic projects to prepare for future changes and requirements affecting both technology and the market. The following development projects will be particularly important in the coming period: "Positioning oneself for the future power grid – DSO", "Power-based distribution tariffs", "R&D Future distribution system operators" and "Geographic expansion of power grids".

The Marketing business area

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

The electricity retailer LOS expects to achieve growth through digitalisation, value-added products and services and greater use of strategic partners. In the autumn of 2018, LOS signed a partnership agreement with COOP that gave LOS a significant number of new customers all across Norway.

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.

Agder Energi Varme expects continued growth from urbanisation and the densification of towns.

Kristiansand, 2. April 2019
Board of Directors of Agder Energi AS

Lars Erik Torjussen
Chair

Tine Sundtoft Deputy chair	Jill Akselsen Board member	Leif Atle Beisland Board member
Jon Vatnaland Board member	Marit Grimsbo Board member	Asbjørn Grundt Board member
Siw Linnea Poulsson Board member	Johan Ekeland Board member	Sverre Hallvard Hamre Board member
Oddvar Emil Berli Board member	Gro Granås Board member	Tom Nysted CEO

In 2018 LOS and Grønn Kontakt signed a partnership agreement covering Grønn Kontakt's EV charging network throughout Norway.

BOARD OF DIRECTORS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Jill Akselsen


Leif Atle Beisland


Jon Vatnaland


Marit Grimsbo


Asbjørn Grundt


Siw Linnea Poulsson


Johan Ekeland


Oddvar Emil Berli


Sverre Hallvard Hamre


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, 2. April 2019
Board of Directors of Agder Energi AS

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Chair

Tine Sundtoft
Deputy chair

Jill Akselsen
Board member

Leif Atle Beisland
Board member

Jon Vatnaland
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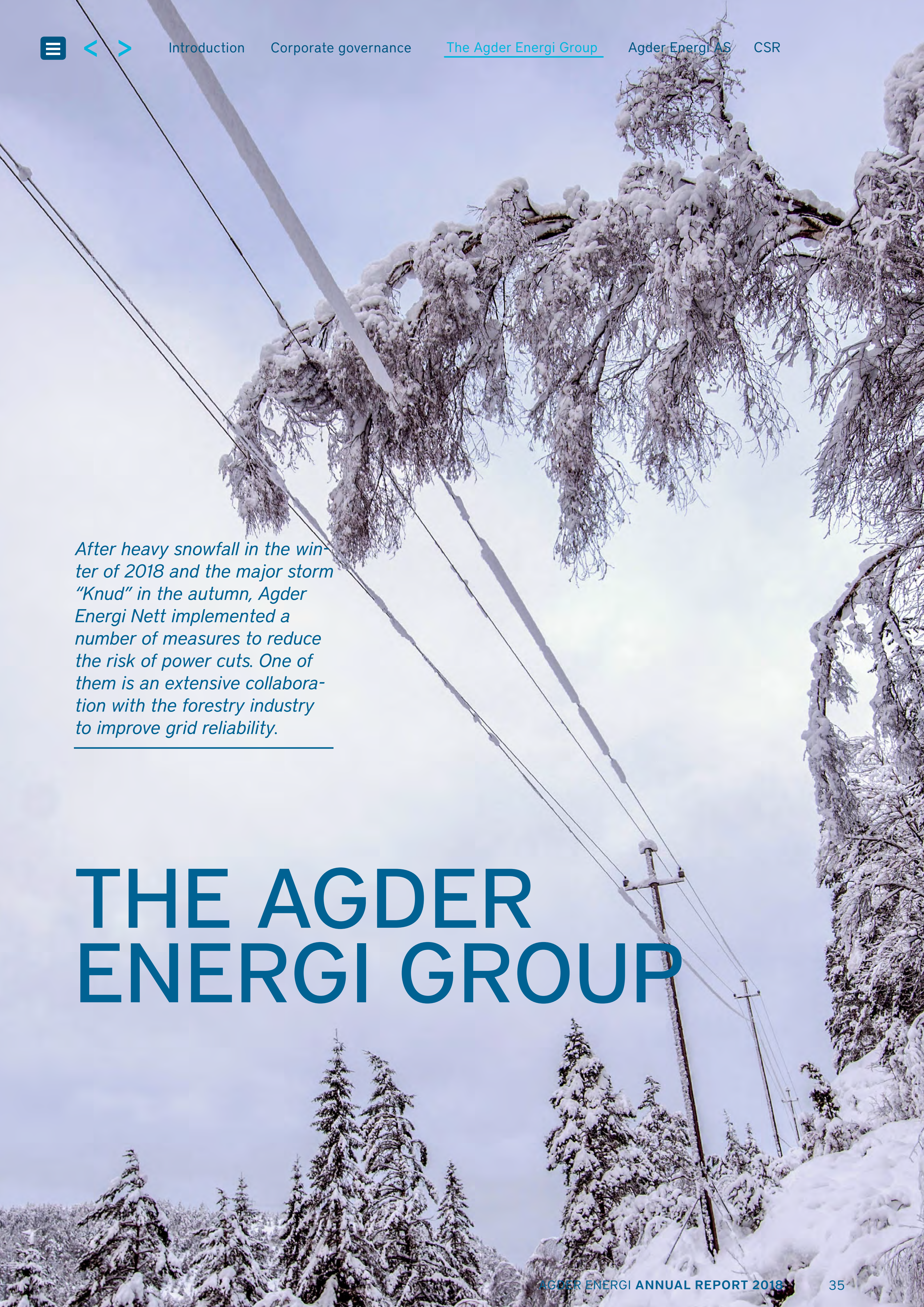
Gro Granås
Board member

Tom Nysted
CEO



After heavy snowfall in the winter of 2018 and the major storm "Knud" in the autumn, Agder Energi Nett implemented a number of measures to reduce the risk of power cuts. One of them is an extensive collaboration with the forestry industry to improve grid reliability.

THE AGDER ENERGI GROUP

THE AGDER ENERGI GROUP

FINANCIAL STATEMENTS

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

NOTES

INCOME STATEMENT

(Amounts in NOK million)	Note	**2018**	2017 (restated)
Energy sales	2	12 648	8 429
Transmission revenues	3	1 313	1 207
Other operating revenues	4	1 406	1 264
Gains and losses on energy and currency contracts	6	-1 387	-542
Total operating revenues		**13 980**	**10 358**
Energy purchases	2	-9 012	-5 612
Transmission expenses		-339	-270
Other raw materials and consumables used	4	-766	-793
Employee benefits	7	-974	-900
Depreciation and impairment losses	13	-659	-708
Property taxes and licence fees	8	-195	-196
Other operating expenses	9	-1 068	-817
Total operating expenses		**-13 013**	**-9 296**
Operating profit		**967**	**1 062**
Share of profit of associates and joint ventures	11	-9	-22
Financial income	11	77	25
Unrealised gains and losses on interest rate contracts	11	67	30
Financial expenses	11	-249	-247
Net financial income/expenses		**-114**	**-214**
Profit before tax		**853**	**848**
Income tax	12	-198	-208
Resource rent tax	12	-859	-390
Tax expense		**-1 057**	**-598**
Net income from continuing operations		**-204**	**250**
Net income from discontinued operations	34	0	244
Net income		**-204**	**494**
Of which attributable to non-controlling interests	35	-6	7
Of which attributable to controlling interest		-198	487

COMPREHENSIVE INCOME

(Amounts in NOK million)	Note	**2018**	2017
Net income		**-204**	**494**
Other comprehensive income and expenses			
Cash flow hedges	29	11	23
Translation differences		-14	1
Tax impact	12	-5	-6
Total items that may be reclassified to income statement		**-8**	**18**
Remeasurements of pensions	22	-312	87
Tax impact	12	92	-30
Total items that will not be reclassified to income statement		**-220**	**57**
Total other comprehensive income and expenses		**-228**	**75**
Comprehensive income		**-432**	**569**
Of which attributable to non-controlling interests	35	-4	4
Of which attributable to controlling interest		-428	565

STATEMENT OF FINANCIAL POSITION

(Amounts in NOK million)	Note	31.12.18	31.12.17
Deferred tax assets	12	450	425
Intangible assets	14	326	368
Property, plant and equipment	15	15 171	14 599
Investments in associates and joint ventures	16	95	31
Derivatives	26	834	764
Other non-current financial assets	17	1 508	1 244
Total non-current assets		**18 384**	**17 431**
Inventories		158	72
Receivables	18	3 511	2 830
Derivatives	26	180	437
Cash and cash equivalents	19	383	61
Total current assets		**4 232**	**3 400**
TOTAL ASSETS		**22 616**	**20 831**
Paid-in capital	20	1 907	1 907
Retained earnings		1 592	2 624
Non-controlling interests		27	34
Total equity		**3 526**	**4 565**
Deferred tax	12	1 227	1 254
Provisions	21	2 010	1 817
Derivatives	26	1 148	822
Interest-bearing non-current liabilities	23	7 603	7 504
Total non-current liabilities		**11 988**	**11 397**
Interest-bearing current liabilities	23	1 657	1 736
Tax payable		1 023	607
Derivatives	26	1 111	149
Other non-interest-bearing current liabilities	24	3 311	2 377
Total current liabilities		**7 102**	**4 869**
TOTAL EQUITY AND LIABILITIES		**22 616**	**20 831**

Kristiansand, 2. April 2019
Board of Directors of Agder Energi AS

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Oddvar Emil Berli
Board member

Gro Granås
Board member

Tom Nysted
CEO

STATEMENT OF CASH FLOWS

(Amounts in NOK million)	Note	**2018**	2017
Cash flow from operating activities			
Profit before tax		853	848
Profit before tax from discontinued operations		0	249
Depreciation and impairment losses	13	659	717
Unrealised gains/losses on energy, currency and interest rate contracts	6, 11	1 558	797
Share of profit of associates and joint ventures	11, 16	9	24
Gain/loss on disposals		4	-235
Tax paid		-609	-617
Change in trade receivables	18	-181	-276
Change in trade payables	24	474	7
Change in net working capital, etc.		-718	-325
Net cash provided by operating activities		**2 049**	**1 189**
Investing activities			
Purchase of property, plant, equipment and intangible assets	14, 15	-1 397	-1 348
Purchase of property, plant and equipment paid for by customers	14, 15	-92	-99
Purchase of businesses/financial assets		-94	-69
Net change in loans		165	-14
Sale of property, plant, equipment and intangible assets		248	6
Sale of businesses/financial assets		68	231
Net cash used in investing activities		**-1 102**	**-1 293**
Financing activities			
New long-term borrowings		1 424	1 410
Repayment of long-term borrowings		-961	-1 095
Net change in current liabilities		-480	-83
Dividends paid		-608	-610
Net cash used in financing activities		**-625**	**-378**
Net change in cash and cash equivalents		**322**	**-482**
Cash and cash equivalents at start of period		61	543
Cash and cash equivalents at end of period	19	383	61

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
Equity at 01/01/2017	**1 907**	**-117**	**4**	**2 781**	**4 575**	**51**	**4 626**
Net income for the year	0	0	0	487	**487**	7	**494**
Other comprehensive income and expenses	0	17	4	57	**78**	-3	**75**
Dividends paid	0	0	0	-607	**-607**	-3	**-610**
Other changes in equity	0	0	0	-2	**-2**	-18	**-20**
Equity at 31/12/2017	**1 907**	**-100**	**8**	**2 716**	**4 531**	**34**	**4 565**
Equity at 01/01/2018	**1 907**	**-100**	**8**	**2 716**	**4 531**	**34**	**4 565**
Net income for the year	0	0	0	-198	**-198**	-6	**-204**
Other comprehensive income and expenses	0	6	-15	-220	**-229**	1	**-228**
Dividends paid	0	0	0	-606	**-606**	-2	**-608**
Other changes in equity	0	0	0	1	**1**	0	**1**
Equity at 31/12/2018	**1 907**	**-94**	**-7**	**1 693**	**3 499**	**27**	**3 526**

ACCOUNTING PRINCIPLES

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

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

Changes to accounting principles
For 2018, Agder Energi has made changes to how it presents gains and losses on cash-settled contracts linked to energy sales and purchases. The change, which is a result of the introduction of IFRS 15, is described in greater detail below. There have been no other changes to the accounting principles since 2017.

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 to customers are recognised as revenues when the goods or service are delivered. The lines in the income statement for energy sales, transmission revenues and other operating revenues include revenue from contracts with customers in accordance with IFRS 15. Energy sales also includes some small amounts related to electricity certificates received by our electricity generation business and the sale of concession power, which both fall outside the scope of IFRS 15.

Energy sales

Revenues from the sale of electricity are recognised when the electricity is supplied.

Energy sales include revenues from the sale of electricity generated by the Group and energy sold to end users. The performance obligation is to supply electricity, and the transaction price is the consideration that the Group expects to receive. The performance obligation is fulfilled over time, which means that the revenues shall be recognised at the transaction price for each kWh supplied. Agder Energi takes a practical approach to implementing IFRS 15, which involves recognising revenues from electricity sales in the amount that Agder Energi is entitled to invoice. The right to invoice arises when the electricity has been generated and supplied, and the right to invoice normally corresponds directly to the value to the customer. In some cases the Group sells electricity through a market, in which case the market is defined as the customer.

When electricity retailers and electricity generating companies in the Group buy and sell electricity through a market, their purchases and sales are presented gross. This is because they are separate business areas whose transactions are managed and executed completely independently of one another.

Transmission revenues

Distribution system 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 distribution system 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. The surplus or shortfall is not taken into account in the financial statements, but the amount is detailed in Note 3. Agder Energi takes a practical approach to implementing IFRS 15, which involves recognising transmission revenues in the amount that Agder Energi is entitled to invoice.

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 2018. 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) Financial assets at amortised cost; 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 performance obligations in the contracts are met using electricity generated by the Group, so the contracts do not fall within the scope of IFRS 9. 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 IFRS 9, 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 derivatives are shown on separate lines. 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. Regular payments relating to interest rate swaps are presented as a financial expense.

b) Financial assets at amortised cost
Trade receivables make up by far the biggest proportion of the Group's assets measured at amortised cost. On initial recognition, they are measured at their transaction price. Where the interest component is insignificant, they are measured 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.

Agder Energi makes a provision for any expected losses on financial assets at amortised cost. The provision is equivalent to the difference between the contractual cash flows and the cash flows that the Group expects to receive based on the information available on the reporting date.

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 IFRS 9, 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 interest rate 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 35.7% of the net resource rent estimated for each individual power station (37.0% in 2019). 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 2018 the standard interest rate was 0.7%. 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 2018.

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:

a) it is expected to be realised in, or is held for sale or consumption in, the

ordinary business cycle;
b) it is primarily held for trading;
c) it is expected to be realised within twelve months of the end of the reporting period, or:
d) it is a form of cash or cash equivalent, unless it is subject to restrictions which mean that it cannot be realised or used to settle a liability within twelve months of the end of the reporting period.

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

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

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

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

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

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

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

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

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

Leases
Almost all of Agder Energi's leases are operating 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 arrange-

ment 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
In 2018 Agder Energi implemented the following new accounting standards:

IFRS 9 – Financial instruments:
The new standard introduces changes to classification and measurement, hedge accounting and impairment. IFRS 9 replaces 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. The implementation of the standard has not significantly affected Agder Energi, so no comparative figures have been restated. The standard came into force on 1 January 2018.

IFRS 15 – Revenue from contracts with customers:
Agder Energi implemented IFRS 15 with effect from 1 January 2018. The standard has been applied retrospectively to prior reporting periods (full retrospective method) and comparative figures have been restated. The standard applies to the recognition of revenue. Around 90% of Agder Energi's revenue from customers comes from the sale of energy or transmission and distribution services. Within those areas, the standard has had the following impacts:

- There is widespread use of financial instruments within the Hydroelectric Power business area. They are mainly used as economic hedges for revenues from hydroelectric power generation. In 2017 and earlier, realised gains and losses on these hedges were presented as energy sales, while unrealised gains and losses were presented on a separate line.

Realised gains and losses on financial instruments do not meet the definition of revenue from customer contracts in IFRS 15. Nor do they meet the requirements for accounting hedges. They have therefore been presented together with unrealised changes in value on the line for Gains and losses on electricity and currency contracts.

Each year, the Group supplies around 0.5 TWh of the hydroelectric power it generates to local municipalities as concession power at regulated prices. The sale of concession power has been judged to fall outside the scope of IFRS 15. Revenues from the sale of concession power are recognised at the regulated price based on the application of principles analogous to IFRS 15.

- Within the Energy Management business area, we offer management services where we sign contracts with customers that mirror the conditions obtained by Agder Energi in financial markets. The products are offered in volumes that reflect customers' expected actual electricity consumption. In 2017 and earlier, realised gains and losses on financial contracts with customers were considered an integrated part of the electricity delivery and were presented as energy sales. Unrealised gains and losses were presented on a separate line.

Under IFRS 15, only payments for the physical supply of electricity to customers satisfy the definition of revenue from contracts with customers. Realised gains and losses on cash-settled contracts have therefore been taken out of energy sales and are now presented together with unrealised gains and losses under Gains and losses on electricity and currency contracts. Consequently, realised gains and losses on contracts with financial markets have been moved from energy purchases to the line for Gains and losses on electricity and currency contracts.

- Applied to the financial statements for 2017, the above changes have reduced energy sales by NOK 150 million, and increased energy purchases by NOK 135 million. Meanwhile, NOK 285 million of revenue has been recognised under Gains and losses on electricity and currency contracts, so the net impact on profit is 0. The comparative figures for 2017 have been restated.

- In the Network business area, customers contribute toward the cost of upgrades or new connections to the power grid. Under the previous rules, Agder Energi did not consider this to be a separate performance obligation. This continues to be our assessment. Our view is based on the fact that the new installation or upgrade doesn't constitute a delivery to the customer at the time of its completion. What the customer gains is the opportunity to receive electricity in the future, or to increase the power supply. We have also maintained our view that customer contributions should be recognised as revenue over the useful life of the asset. In 2018 there were discussions within the industry as to whether upgrades and new connections should be considered separate performance obligations under IFRS 2018 and about when customer contributions should be recognised. There now appears to be strong agreement within the industry on the use of this approach.

The impacts of IFRS 15 described above only affect the presentation of the income statement. They do not affect Agder Energi's revenue recognition and therefore have no impact on the Group's equity.

The table below shows the impact of implementing IFRS 15. The first column shows the figures reported in the 2017 financial statements, the second column shows the impact of implementation and the third column shows the comparative figures for 2017 as presented in this year's financial statements.

(Amounts in NOK million)	Reported in 2017	Impact of implementation	Restated
Energy sales	8 579	-150	8 428
Gains and losses on electricity and currency contracts	-827	285	-541
Energy purchases	-5 477	-135	5 612
Net impact on operating profit and net income		0	

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. The new standard on leases is the only one of these that is expected to have a significant impact on Agder Energi's financial statements.

IFRS 16 – Leases:

IFRS 16, which replaces IAS 17 Leases, will be implemented by Agder Energi as of the 2019 financial year. The standard sets out principles for recognition, measurement, presentation and disclosures in relation to leases. The standard only applies to Agder Energi in its capacity as a lessee. IFRS 16 requires all leases to be treated in the same way, equivalent to the model used for finance leases under IAS 17. Leases of low-value assets and leases of 12 months or less are exempted. At the start of the lease term, the lessee recognises a liability to make payments under the lease and an asset representing the right to use the leased asset. The lessee must recognise an interest expense on the liability and depreciate the asset.

IFRS 16 will be implemented using the modified retrospective method. This means that the comparative figures will not be restated. The Group will make use of the exemption in the standard that allows it to continue accounting for leases under the previous system. On the transition date, the asset will be measured individually at a value equivalent to the lease liability adjusted for any prepaid and/or accrued lease payments.

Agder Energi has not fully analysed all of the impacts of IFRS 16, but it expects its implementation in 2019 to result in:

- the recognition of around NOK 300 million of lease liabilities and assets
- a reduction of around NOK 50 million in other operating expenses
- an increase of around NOK 50 million in depreciation
- an increase of around NOK 10 million in interest expenses

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 IFRS 9 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 IFRS 9, 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 exchange-traded 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 of 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)		Hydroelectric Power 2018	Energy management 2018	Network 2018	LOS 2018	Otera 2018
INCOME STATEMENT	Note					
Operating revenues		3 703	7 599	1 358	942	953
- of which external operating revenues		3 532	7 296	1 266	913	907
- of which internal operating revenues		171	303	92	30	47
Energy and transmission expenses		-373	-7 238	-459	-802	0
Other raw materials and consumables used	4	0	0	0	-1	-626
Employee benefits	7	-119	-249	-124	-36	-210
Other operating expenses	8, 9	-582	-197	-488	-66	-74
Operating profit before depreciation and impairment losses		**2 629**	**-84**	**287**	**37**	**44**
Depreciation and impairment losses	13	-271	-27	-271	-2	-4
Operating profit		**2 358**	**-111**	**16**	**35**	**40**
Share of profit of associates and joint ventures	11	0	0	0	0	0
Financial income	11	23	8	2	4	5
Financial expenses	11	-101	-10	-91	-1	-8
Net financial income/expenses		**-77**	**-3**	**-89**	**3**	**-4**
Profit before tax		**2 281**	**-114**	**-72**	**38**	**36**
Tax expense	12	-1 330	-21	31	-9	-7
Net income from continuing operations		**950**	**-135**	**-41**	**29**	**29**
STATEMENT OF FINANCIAL POSITION						
Total assets		9 509	2 945	6 368	485	253
Equity		2 481	419	908	99	-86
Total segment liabilities		7 028	2 526	5 460	386	339
Capital employed 1)		6 406	554	4 620	99	111
Interest-bearing liabilities	23	3 925	134	3 712	0	198
Funds from operation (FFO) 2)		1 810	-144	208	31	52
Carrying amount of associates and joint ventures	16	0	0	0	0	0
Investments in intangible assets 3)		0	1	34	0	0
Investments in property, plant and equipment 3)		568	18	637	10	3
Number of full-time equivalents		142	192	170	45	140

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 2018	Eliminations 2018	Total (NGAAP) 2018	IFRS adjus- tments 2018	Total (IFRS) 2018
INCOME STATEMENT	Note					
Operating revenues		912	-872	14 596	-616	13 980
- of which external operating revenues		607	76	14 596	-616	13 980
- of which internal operating revenues		306	-948			
Energy and transmission expenses		-92	273	-8 691	-660	-9 351
Other raw materials and consumables used	4	-140	0	-766	0	-766
Employee benefits	7	-300	64	-974	0	-974
Other operating expenses	8, 9	-362	512	-1 257	-6	-1 263
Operating profit before depreciation and impairment losses		**19**	**-23**	**2 908**	**-1 282**	**1 626**
Depreciation and impairment losses	13	-71	-7	-653	-6	-659
Operating profit		**-52**	**-30**	**2 255**	**-1 288**	**967**
Share of profit of associates and joint ventures	11	15	-24	-9	0	-9
Financial income	11	1 819	-1 784	77	67	144
Financial expenses	11	-821	770	-262	14	-249
Net financial income/expenses		**1 013**	**-1 039**	**-195**	**81**	**-114**
Profit before tax		**961**	**-1 069**	**2 060**	**-1 208**	**853**
Tax expense	12	-142	186	-1 293	236	-1 057
Net income from continuing operations		**819**	**-883**	**768**	**-971**	**-204**
STATEMENT OF FINANCIAL POSITION						
Total assets		15 370	-15 025	19 906	2 709	22 616
Equity		3 807	-3 874	3 754	-228	3 526
Total segment liabilities		11 564	-11 150	16 152	2 937	19 089
Capital employed 1)		13 528	-12 301	13 018	-232	12 787
Interest-bearing liabilities	23	9 721	-8 426	9 264	-4	9 260
Funds from operation (FFO) 2)						738
Carrying amount of associates and joint ventures	16	161	-66	95	0	95
Investments in intangible assets 3)		44	-15	64	0	65
Investments in property, plant and equipment 3)		100	-3	1 333	92	1 425
Number of full-time equivalents		287		976		976

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)		Hydroelectric Power 2017	Energy management 2017	Network 2017	LOS 2017	Otera 2017
INCOME STATEMENT	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
Operating profit before depreciation and impairment losses		**2 034**	**56**	**531**	**57**	**-59**
Depreciation and impairment losses	13	-283	-29	-259	-2	-6
Operating profit		**1 752**	**27**	**271**	**56**	**-65**
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
Net financial income/expenses		**-64**	**-9**	**-74**	**0**	**-5**
Profit before tax		**1 688**	**19**	**198**	**55**	**-70**
Tax expense	12	-692	-17	-31	-13	17
Net income from continuing operations		**996**	**2**	**167**	**43**	**-53**
STATEMENT OF FINANCIAL POSITION						
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. The negative value for LOS is due to its reclassification.

(Amounts in NOK million)	Note	Parent/ Other 2017	Eliminations 2017	Total (NGAAP) 2017	IFRS adjus-tments 2017	Total (IFRS) 2017
INCOME STATEMENT	Note					
Operating revenues		722	-760	11 023	-665	10 358
- of which external operating revenues		460	-9	11 023	-665	10 358
- of which internal operating revenues		262	-752	0	0	0
Energy and transmission expenses		-42	187	-5 748	0	-5 612
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
Operating profit before depreciation and impairment losses		**-40**	**4**	**2 585**	**-814**	**1 770**
Depreciation and impairment losses	13	-72	2	-648	-60	-708
Operating profit		**-111**	**7**	**1 936**	**-874**	**1 062**
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
Net financial income/expenses		**1 102**	**-1 214**	**-264**	**51**	**-214**
Profit before tax		**990**	**-1 208**	**1 672**	**-823**	**848**
Tax expense	12	-78	136	-677	79	-598
Net income from continuing operations		**912**	**-1 072**	**994**	**-745**	**250**
Net income from discontinued operations		248	0	248	-4	244
STATEMENT OF FINANCIAL POSITION						
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. The negative value for LOS is due to its reclassification.

Segment information is reported using the same segments as used in financial reports to the Group 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 includes the companies Agder Energi Kraftforvaltning AS, Entelios AS, the Entelios AB Group, Entelios AG, Entelios GmbH and Nordgröön, and its operations are located in Norway, Sweden and Germany. Revenues from the generation portfolio are presented under the Hydroelectric Power business area.

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 Entelios AB comes from the Swedish market. The subsidiary group Entelios GmbH generates its turnover in the German market.

Geographic distribution of operating revenues by location of business

(Amounts in NOK million)	**2018**	2017
Norway	10 482	7 792
Sweden	2 987	2 362
Germany	1 782	731
Other countries	116	15
Total energy sales, transmission revenues and other operating revenues	**15 367**	**10 900**
Unrealised gains and losses on energy and currency contracts	-1 387	-542
Total operating revenues	**13 980**	**10 358**

Geographic distribution of assets based on location of business

(Amounts in NOK million)	**2018**	2017
Norway	21 016	19 535
Sweden	1 110	1 086
Germany	417	136
Other countries	73	74
Total assets	**22 616**	**20 831**

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)	**2018**	2017
Power generation	3 675	2 599
Retail market	7 224	5 109
Network	43	32
District heating	188	108
Market operations 1)	1 764	704
Eliminations	-245	-123
Total	**12 648**	**8 429**

1) 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)	**2018**	2017
Power generation	226	133
Retail market	6 972	4 788
Network	178	120
District heating	92	41
Market operations	1 788	663
Eliminations	-244	-133
Total	**9 012**	**5 612**

The table below shows key figures for our power generating activities.

	2018	2017
Net electricity generation (less pumping) (GWh)	8 686	8 812
Reservoir reserves at 31 Dec. (GWh)	3 180	4 429
Reservoir reserves as % of capacity	61 %	84 %

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 555 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)	**2018**	2017
Volume of concession power (GWh)	555	545
Regulated price (øre/kWh)	11,2	11,5

NOTE 3 TRANSMISSION REVENUES

The Norwegian Water Resources and Energy Directorate regulates the revenues of distribution system 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, distribution system 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)	**2018**	2017
Revenues under next year's income cap recognised in the consolidated income statement	105	-21
Accumulated surplus transmission revenues not included on the statement of financial position	337	232

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

Other operating revenues

(Amounts in NOK million)	Note	**2018**	2017
Contracting	5	953	963
Services		231	178
Other revenues		222	123
Total		**1 406**	**1 264**

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	**2018**	2017
Contracting	5	626	648
Other purchases		140	145
Total		**766**	**793**

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)	**2018**	2017
Total revenues recognised for contracts not completed at 31 Dec.	575	642
Total expenses recognised for contracts not completed at 31 Dec.	491	609
Accrued revenues included under other receivables	80	91
Deferred revenues included under other liabilities	38	32
Share of outstanding receivables not yet due under contract terms	0	0
Remaining turnover from loss-making projects	0	0

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	**2018**	2017
Cash-settled electricity contracts	26	-1 599	-638
Supply of free electricity/Cash-settled compensation power	21	-46	-8
Long-term special contracts measured at fair value	26	190	-108
Currency contracts, basis swaps and currency loans	26	20	-360
Embedded derivatives	26	77	287
Total change in unrealised gains and losses	26	**-1 357**	**-827**
Realised gains and losses for the year		-30	285
Total		**-1 387**	**-542**
Reversal of unrealised gains and losses at 1 January on contracts closed out during the year 1)		-243	-377
Gains and losses on contracts that had not been closed out as of 31 December		-1 114	-450
Total		**-1 357**	**-827**

1) Value at start of 2018 (2017) of contracts that were closed out during 2018 (2017).

The table above 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 secure future revenues from electricity sales.

NOTE 7 EMPLOYEE BENEFITS

(Amounts in NOK million)	Note	**2018**	2017
Wages and salaries		895	851
Employers' National Insurance Contributions		132	144
Pension expense (incl. employers' NICs)	22	51	84
Other benefits and reimbursements		48	43
Capitalised wage costs arising from own investments		-152	-222
Total		**974**	**900**
Number of full-time equivalents in continuing operations at 31 Dec.		976	1 163

The reduction in the number of full-time equivalents was due to the sale of 49% of the shares in Otera Infra.

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

NOTE 8 PROPERTY TAXES AND LICENCE FEES

(Amounts in NOK million)	**2018**	2017
Licence fees	52	50
Property taxes	143	146
Total	**195**	**196**

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)	**2018**	2017
Property-related expenses	97	85
Lease of machinery and office equipment	27	27
Purchase of plant and equipment	55	47
Repairs to and maintenance of equipment	21	20
Contractors	184	72
Operation/maintenance of IT systems	34	38
Technical consultants	55	47
Administrative consultants	193	138
Other external services	68	40
Office supplies, telecommunications, postage, etc.	32	36
Cost of vehicles	30	30
Leases for cars, machinery, etc.	34	32
Travel expenses, subsistence allowances, mileage expenses, etc.	34	38
Sales, advertising, representation, membership fees and gifts	41	33
Insurance premiums	24	19
Share of other operating expenses at joint arrangements	90	87
Supply of free electricity and compensation	6	5
Other operating expenses	43	23
Total	**1 068**	**817**

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 millions excl. VAT)	**2018**	2017
Statutory audit	4,6	2,9
Other certification services	0,1	0,1
Tax advice	0,0	0,1
Other services not related to auditing	0,7	0,1
Total	**5,4**	**3,2**

NOTE 11 FINANCIAL INCOME AND EXPENSES

(Amounts in NOK million)	Note	**2018**	2017
Share of profit of associates and joint ventures	16	**-9**	**-22**
Net realised exchange rate gains		27	15
Other interest income		47	9
Other financial income		3	1
Financial income		**77**	**25**
Unrealised gains and losses on interest rate contracts	26	67	30
Unrealised gains and losses on interest rate contracts		**67**	**30**
Interest expense on loans 1)		176	171
Interest expense on interest rate swaps		73	83
Other interest expenses		6	4
Interest on capitalised construction loans		-18	-27
Realised loss on shares		5	0
Impairment of non-current financial assets		0	9
Other financial expenses		7	7
Financial expenses		**249**	**247**
Net financial income/expenses		**-114**	**-214**

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

NOTE 12 TAX

(Amounts in NOK million)	**2018**	2017
Tax expense in income statement		
Income tax payable	354	203
Resource rent tax payable	671	432
Changes in deferred income tax	-156	-6
Changes in deferred resource rent tax	188	-31
Total tax expense recognised in income statement	**1 057**	**598**
Reconciliation of nominal and effective tax rates		
Profit before tax	853	848
Expected tax	196	204
Tax effect of		
Permanent differences	23	24
Impact of loss carryforwards not included on the SoFP	1	8
Resource rent tax incl. deferred tax	859	390
Net impact of changes in tax rates	-23	-28
Total tax expense	**1 057**	**598**
Effective tax rate	124 %	70 %

This high tax rate is the result of recognising unrealised losses on contracts that are measured at fair value. These contracts are generally only subject to ordinary income tax, and not resource rent tax. Unrealised losses on these contracts therefore significantly reduce pre-tax profit, without having any impact on the resource rent tax expense.

The expensed resource rent tax was NOK 459 million higher than in 2017. The resource rent tax payable is mainly calculated on the basis of the spot value of electricity generation. Rising spot prices through 2018 significantly increased the spot value of our electricity generation. This factor explains around NOK 300 million of the rise in the expensed resource rent tax. The remaining increase mainly reflects the fact that in 2018 there was an expense related to a reduction in the carrying amount of deferred tax assets arising from negative resource rent carryforwards, whereas in 2017 there was an equivalent gain. The reduction in negative resource rent carryforwards was due to some power stations having high resource rent in 2018 that was offset against negative resource rent from previous years. This is apparent from the table on the next page, which shows a reduction in negative resource rent carryforwards included on the SoFP.

Breakdown of temporary differences and negative resource rent carried forward		
Taxable income		
Property, plant and equipment	3 787	3 819
Current assets/liabilities	-270	-75
Pension liabilities	401	659
Other non-current provisions	-948	-1 444
Derivatives	-884	127
Other	15	-121
Gross differences	**2 100**	**2 965**
Tax rate	22 %	23 %
Net deferred income tax assets (-)/liabilities (+)	**462**	**682**

Resource rent		
Temporary differences	1 695	1 457
Negative resource rent carryforwards expected to be offset against profit over the coming 10 years	-846	-1 043
Gross differences	**850**	**414**
Tax rate	37,0 %	36 %
Net deferred income tax assets (-)/liabilities (+)	**314**	**148**
Of which presented in the financial statements as:		
Deferred tax	**1 227**	**1 254**
Deferred tax assets	**450**	**425**
Deferred tax assets arising from negative resource rent carryforwards not included on the SoFP	-389	-368

The assessment of whether the Group will be able to make use of its accumulated negative resource rent carryforwards is based on market prices for electricity and an assumption that future yields on short-term government debt will be between 1.1% and 2.4%. In accordance with the relevant accounting standards, the calculation makes an adjustment to the expected value of negative resource rent carryforwards to allow for the uncertainty associated with this.

(Amounts in NOK million)	**2018**	2017
Changes in net deferred tax liabilities (+)/ assets (-) over the year		
Net deferred tax liabilities (+)/assets (-) at 31 Dec. prior year	829	809
New deferred tax liabilities (+)/assets (-)	0	14
Deferred tax liabilities (-)/assets (+) at businesses disposed of during the year	2	12
Change in net deferred tax liabilities (+)/assets (-) included in comprehensive income	-87	36
Change in deferred tax liabilities (+)/assets (-) recognised through profit or loss	31	-40
Net deferred tax liabilities (+)/assets (-) at 31 Dec.	**777**	**829**
Changes in deferred tax on items in the SoCI		
Remeasurements of pensions	-92	30
Cash flow hedges	5	6
Net change in deferred tax on items in the SoCI	**-87**	**36**

NOTE 13 DEPRECIATION AND IMPAIRMENT LOSSES

(Amounts in NOK million)	Note	**2018**	2017
Amortisation of intangible assets	14	63	57
Impairment of intangible assets	14	10	63
Depreciation of property, plant and equipment	15	581	588
Impairment of property, plant and equipment	15	5	0
Total depreciation, amortisation and impairment losses recognised in operating profit		**659**	**708**
Impairment of financial assets	11	0	9
Total depreciation, amortisation and impairment losses recognised in statement of cash flows		**659**	**717**

NOTE 14 INTANGIBLE ASSETS

(Amounts in NOK million)	Goodwill	Software	Other intangible assets	**Total intangible assets**
Acquisition cost	94	275	160	529
Accumulated depreciation and impairment losses	0	-100	-61	-161
Carrying amount at 31/12/2017	**94**	**175**	**99**	**368**
Carrying amount at 01/01/2018	94	175	99	368
Additions	0	39	26	65
Disposals at book value	0	0	-34	-34
Depreciation	0	-36	-27	-63
Impairment losses	0	0	-10	-10
Carrying amount at 31/12/2018	**94**	**178**	**54**	**326**
Acquisition cost	94	314	127	535
Accumulated depreciation and impairment losses	0	-136	-73	-209
Carrying amount at 31/12/2018	**94**	**178**	**54**	**326**
Depreciation period	Tested annually	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. No goodwill impairment was recognised in 2018. 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)	**2018**	2017
Otera	38	38
Entelios AB and Entelios AS	51	51
Others	5	5
Carrying amount of goodwill	**94**	**94**

NOTE 15 PROPERTY, PLANT AND EQUIPMENT

	HYDROELECTRIC POWER GENERATION				DISTRIBUTION NETWORK	
(Amounts in NOK million)	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 01/01/2017	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
Carrying amount at 31/12/2017	**1 129**	**3 496**	**2 246**	**986**	**1 706**	**3 441**
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
Carrying amount at 31/12/2017	**1 129**	**3 496**	**2 246**	**986**	**1 706**	**3 441**
Carrying amount at 01/01/2018	1 129	3 496	2 246	986	1 706	3 441
Additions	0	61	123	22	294	442
Disposals at book value	0	0	-4	0	-254	-12
Depreciation	-3	-73	-151	-37	-73	-170
Impairment losses	0	0	0	0	0	0
Carrying amount at 31/12/2018	**1 126**	**3 484**	**2 214**	**971**	**1 673**	**3 701**
Acquisition cost	1 179	4 948	5 178	2 091	2 693	6 138
Accumulated depreciation and impairment losses	-53	-1 464	-2 964	-1 120	-1 020	-2 437
Carrying amount at 31/12/2018	**1 126**	**3 484**	**2 214**	**971**	**1 673**	**3 701**
Depreciation period (years)	67/ not depreciated	67-99	20-50	50-67/ not depreciated	15-50	15-50

	DISTRICT HEATING	OTHER ACTIVITIES			
(Amounts in NOK million)	District heating	Property	Other	Work in progress	**Total property, plant and equipment**
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
Carrying amount at 31/12/2017	**669**	**120**	**149**	**657**	**14 599**
Acquisition cost	858	199	575	657	24 026
Accumulated depreciation and impairment losses	-189	-79	-426	0	-9 427
Carrying amount at 31/12/2017	**669**	**120**	**149**	**657**	**14 599**
Carrying amount at 01/01/2018	669	120	149	657	14 599
Additions	78	1	77	327	1 425
Disposals at book value	0	0	3	0	-267
Depreciation	-27	-7	-45	0	-586
Impairment losses	0	0	0	0	0
Carrying amount at 31/12/2018	**720**	**114**	**184**	**984**	**15 171**
Acquisition cost	936	200	505	984	24 852
Accumulated depreciation and impairment losses	-216	-86	-321	0	-9 681
Carrying amount at 31/12/2018	**720**	**114**	**184**	**984**	**15 171**
Depreciation period (years)	8-60	25-99/ ingen avskr.	3-20		

Additions for work in progress are calculated as gross additions less completed projects within the relevant category. Periodic maintenance is included within the relevant category. Capitalised loan arrangement fees amounted to NOK 18 (27) million in 2018, calculated using the Group's average interest rate of 2.7% (2.9%).

NOK 3,045 (3,104) 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 92 (99) 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 225 (210) million in 2018. NOK 311 (281) 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)
Waterfall rights	Not depreciated
Structures	
- Rock-fill dams	99
- Caverns	99
- Concrete dams	67
- Power station buildings	67
- Other buildings	50
Penstock	
- Underground	99
- Underground pipeline	67
- Above ground pipeline	40
Gates, gratings, entrances, etc.	
- Intake gates	50
- Dam gates	50
- Gratings	50
- Entrances	50
- Stream intakes	50
Roads and bridges	
- Roads/quays	67
- Bridges	50

Energy distribution networks

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

Hydroelectric power stations

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

Other assets

	Depreciation period (years)
- Sites	Not depreciated
- 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)	**2018**	2017
Associates	35	10
Joint ventures	60	21
Carrying amount at 31 Dec.	**95**	**31**
Profit from associates	-18	-23
Profit from joint ventures	-18	-11
Gain on disposals	27	12
Share of profit of associates and joint ventures	**-9**	**-22**

Breakdown of investments in associates:

(Amounts in NOK million)	Ownership interest	Carrying amount at 31/12/2017	Additions	Disposals	Consolidated share of profit/loss	Carrying amount at 31/12/2018
Otovo AS	13,5 %	8	8	0	-5	11
Otera Infra AS	49,0 %	0	14	0	5	19
Skagerak Venture Capital I KS/GP KS	19,6 %	1	4	0	0	5
NorthConnect KS/NorthConnect AS	22,3 %	1	18	0	-18	0
Total for associates		**10**	**43**	**0**	**-18**	**35**

Breakdown of investments in joint ventures:

(Amounts in NOK million)	Ownership interest	Carrying amount at 31/12/2017	Additions	Disposals	Consolidated share of profit/loss	Carrying amount at 31/12/2018
Statkraft Agder Energi Vind DA	38,0 %	0	0	0	0	0
Nodes AS	50,0 %	0	9	0	-5	4
Nodes-Tech AS	50,0 %	0	29	0	0	29
Grønn kontakt AS	47,2 %	21	20	0	-13	28
Total for joint ventures		**21**	**57**	**0**	**-18**	**60**

Statkraft Agder Energi Vind DA was sold in 2018.

Joint operations (proportionate consolidation)

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

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

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

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

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

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

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

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

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

(Amounts in NOK million)	**2018**	2017
Energy sales	1 548	1 032
Other operating revenues	10	6
Total operating revenues	**1 558**	**1 038**
Transmission expenses	-55	-40
Energy purchases	-22	-16
Property taxes and licence fees	-81	-83
Depreciation	-101	-100
Other operating expenses	-63	-85
Total operating expenses	**-323**	**-324**
Operating profit	**1 235**	**715**
Non-current assets	3 053	3 112
Current assets	92	75
Total assets	**3 145**	**3 187**
Current liabilities	98	71
Net assets	**3 048**	**3 116**

NOTE 17 NON-CURRENT FINANCIAL ASSETS

(Amounts in NOK million)	Note	**2018**	2017
Investments in shares and ownership interests		7	5
Loans to associates and joint arrangements		2	7
Other receivables 1)		892	323
Pension assets	22	607	909
Total		**1 508**	**1 244**

1) The majority of the amount relates to receivables related to cash collateral for financial trading, 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)	**2018**	2017
Face value of trade receivables	2 182	2 037
Bad debt provision	13	13
Total trade receivables	**2 169**	**2 024**
Accrued revenues	569	495
Prepaid expenses	144	56
Receivables from joint arrangements	0	12
Other receivables	537	180
Share of current assets at joint arrangements	92	63
Total receivables	**3 511**	**2 830**

Ageing analysis of trade receivables

(Amounts in NOK million)	Not overdue	0-30 days	31-60 dager overdue	61-90 dager overdue	Over 90 days overdue	Total
2018	overdue	31-60 days	3	11	43	2 182
2017	overdue	61-90 days	17	11	88	2 037

NOTE 19 CASH AND CASH EQUIVALENTS

(Amounts in NOK million)	**2018**	2017
Deposits in cash pooling arrangement	95	0
Cash and cash equivalents	269	52
Restricted assets (e.g. term deposits, tax withholding account and client assets)	19	9
Total	**383**	**61**

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 55 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)
Aksjekapital	**2 700 000**	**670**	**1 809 000**

List of shareholders in Agder Energi AS

	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
Total	**1 800 000**	**100 %**	**900 000**	**100 %**	**2 700 000**	**100 %**	**1 809 000**

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

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

The company has entered into an industrial collaboration agreement with its biggest shareholder, Statkraft Industrial Holding AS.

There is also a shareholders' agreement between the shareholders in the company.

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

The proposed dividend payout for 2018 comes to NOK 592 million in total, equivalent to NOK 219 per share.

NOTE 21 PROVISIONS

(Amounts in NOK million)	Note	**2018**	2017
Pension liabilities	22	314	293
Other non-current provisions		1 697	1 524
Total		**2 010**	**1 817**

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 4)	Other provisions 5)	Total
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
Carrying amount at 31/12/2017	**657**	**221**	**5**	**407**	**234**	**1 524**
Carrying amount at 01/01/2018	657	221	5	407	234	1 524
Unrealised gains and losses	46	0	51	0	0	97
New provisions	0	6	0	93	-3	96
Provisions used	0	0	0	-13	-7	-20
Carrying amount at 31/12/2018	**703**	**227**	**56**	**487**	**224**	**1 697**

1) Perpetual obligations to supply electricity free of charge that are presented as financial instruments at fair value in accordance with IFRS 9, 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 IFRS 9. Also see notes 25 and 27.
4) Customer contributions are a contractual obligation under IFRS 15 that are recognised as revenue over the useful life of the asset. The average useful life of these assets is around 30 years. Provisions used have been recognised as transmission revenues.
5) 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, 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.

In 2018, Agder Energi sold 51% of the shares in Otera Infra. In conjunction with that sale, the company's pension plan was changed to a defined contribution plan and the accrued entitlements were transferred to Agder Energi AS. This change reduced the pension expense for the year by NOK 30 million, because it lowered the pension liabilities, and this reduction was recognised in the income statement.

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 2018, the annual contribution to the scheme was 2.5% (2017: 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.

	DISABILITY RISK IN %		MORTALITY RISK IN %		LIFE EXPECTANCY	
Age	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	**2018**	2017
The pension expense for the year has been calculated as follows			
Current service cost		51	49
Interest on net pension assets		-13	-14
Employers' National Insurance Contributions		7	7
Recognised impact of cap on pension benefits		-30	0
Employee contributions		-5	-8
Administration costs		6	6
Pension expense for the year, defined benefit plans		**15**	**40**
Private AFP scheme including employers' NICs		5	5
Defined contribution pension plans (including employers' NICs)		31	39
Total pension expense recognised in the income statement	7	**51**	**84**
Pension liabilities and pension plan assets			
Change in gross pension liabilities			
Gross pension liabilities at 1 Jan.		1 969	1 852
Current service cost (incl. emp. NICs)		58	56
Interest cost		40	47
Benefits paid/paid-up policies		-66	-75
Cap on pension benefits		-30	0
Remeasurements		208	88
Gross pension liabilities at 31 Dec. (incl. emp. NICs)		**2 179**	**1 969**
Breakdown of defined benefit pension liabilities			
Funded pension liabilities		1 892	1 677
Unfunded pension liabilities		287	292
Gross pension liabilities at 31 Dec.		**2 179**	**1 969**
Change in gross pension plan assets			
Fair value of pension plan assets at 1 Jan.		2 584	2 369
Expected return on pension plan assets		53	62
Remeasurements		-104	175
Administration costs		-6	-6
Pension contributions		6	47
Benefits paid/paid-up policies		-60	-62
Fair value of pension plan assets at 31 Dec.		**2 473**	**2 584**
Net pension liabilities/assets (-) at 31 Dec.		**-294**	**-616**
Net pension assets recognised on the SoFP	17	608	909
Pension liabilities recognised on the SoFP	21	314	293
Net pension liabilities/assets (-) recognised at 31 Dec.		**-294**	**-616**

(Amounts in NOK million)	**2018**	2017
Change in net defined benefit pension liabilities		
Net defined benefit pension liabilities at 1 Jan.	-616	-517
Pension expense recognised in profit or loss excl. employee contributions	20	47
Company net contributions incl. employers' NICs	-8	-54
Pension benefits included under operating expenses	-3	-4
Remeasurements	312	-87
Net pension liabilities/assets (-) recognised at 31 Dec.	**-294**	**-616**
Remeasurements are made up of		
Changes in demographic assumptions	55	15
Changes in financial assumptions	153	73
Positive (-)/negative (+) deviation from expected return on pension plan assets	104	-175
Total remeasurements included in the SoCI	**312**	**-87**

Sensitivity analysis for a +/- 0.5% percentage point change in the discount rate		
Increase in pension liabilities if the discount rate falls	183	158
Fall in pension liabilities if the discount rate rises	-162	-152

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	2,70 %	2,30 %
Annual wage growth	2,75 %	2,50 %
Increase in the National Insurance Scheme's basic amount ("G")	2,50 %	2,00 %
Annual indexing of pensions	1,75 %	1,50 %
Expected average remaining years of service (funded)	8,1 years	8,2 years
Expected average remaining years of service (unfunded)	7,5 years	5,6 years
Retirement age: 64.5 years on average for both years.		
Assumptions used to calculate the pension expense for the year		
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 %

Distribution of pension plan assets by investment category at 31 Dec.		
Property funds	14 %	12 %
Interest-bearing financial instruments	29 %	29 %
Shares	32 %	37 %
Hedge funds	25 %	22 %
Total	**100 %**	**100 %**

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

	2018	2017
Number of people covered by the pension plans		
Defined benefit plan: current employees	313	409
Defined benefit plan: accrued entitlements and retired employees	1 266	1 189
Defined contribution plan: current and temporary employees	663	748
Current employees entitled to public sector AFP, and early retirees	234	304

NOTE 23 INTEREST-BEARING LIABILITIES

(Amounts in NOK million)	2018	2017
Interest-bearing non-current liabilities		
Bonds	4 869	5 281
Liabilities to financial institutions	2 721	2 209
Other interest-bearing non-current liabilities	13	14
Total	**7 603**	**7 504**
Interest-bearing current liabilities		
Commercial paper	300	600
Overdraft and other interest-bearing current liabilities	0	180
Current portion of non-current liabilities (principal repayments due within one year)	1 357	956
Total	**1 657**	**1 736**

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 IFRS 9. 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 IFRS 9. See Note 29 for a more detailed description.

(Amounts in NOK million)	2018	2017
Change in interest-bearing liabilities broken down by cash and non-cash items.		
Interest-bearing liabilities at 1 Jan.	9 240	9 143
New long-term borrowings (cash item)	1 424	1 410
Repayment of long-term borrowings (cash item)	-961	-1 095
Net change in current liabilities (cash item)	-480	-84
Exchange rate fluctuations (non-cash item)	41	150
Gains/losses on fair value hedges (non-cash item)	-4	-284
Interest-bearing liabilities at 31 Dec.	**9 260**	**9 240**

NOTE 24 OTHER NON-INTEREST-BEARING CURRENT LIABILITIES

(Amounts in NOK million)	2018	2017
Trade payables	1 059	611
Unpaid government taxes and duties, tax deducted at source, etc.	434	599
Share of non-current liabilities at joint arrangements	98	71
Other current liabilities	1 720	1 096
Total	**3 311**	**2 377**

NOTE 25 FINANCIAL INSTRUMENTS

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

Within energy trading, financial instruments are used as part of a hedging strategy. When managing the Group's exposure to risks associated with future electricity prices and exchange rates, these instruments are viewed together with future physical trading; see Note 28. Physical energy trading is only recognised in the financial statements when the energy is supplied/bought, whereas energy and currency derivatives are measured at fair value through profit or loss. 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 hedges 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.

(Amounts in NOK million)	Note	Balanseført verdi 2018	Virkelig verdi 2018	Balanseført verdi 2017	Virkelig verdi 2017
Financial assets at fair value through profit or loss					
Derivatives	26	1 014	1 014	1 201	1 201
Shares	17	7	7	5	5
Total financial assets at fair value through profit or loss		**1 021**	**1 021**	**1 206**	**1 206**
Financial assets at amortised cost					
Loans to associates	17	2	2	7	7
Other non-current receivables	17	892	892	323	323
Trade debtors and other receivables	18	2 706	2 706	2 204	2 204
Cash and cash equivalents	19	383	383	61	61
Total loans and receivables at amortised cost		**3 997**	**3 997**	**2 595**	**2 595**
Financial liabilities at fair value through profit or loss					
Non-current liabilities, obligations to provide free electricity and pay compensation	21	703	703	657	657
Non-current liabilities for electricity contracts measured at fair value	21	56	56	5	5
Derivatives	26	2 258	2 258	971	971
Total financial liabilities at fair value through profit or loss	**3 017**	**3 017**	**1 633**	**1 633**	**1 633**
Financial liabilities at amortised cost					
Bonds	23	6 226	6 256	5 981	6 091
Liabilities to financial institutions	23	2 734	2 784	2 478	2 531
Commercial paper	23	300	300	600	600
Overdraft and other interest-bearing current liabilities	23	0	0	181	181
Trade payables	24	1 059	1 059	611	611
Total financial liabilities at amortised cost		**10 319**	**10 399**	**9 851**	**10 014**

* For financial assets at amortised cost and trade payables, the estimated fair value is based on valuation techniques that do not only use observable market data to arrive at a valuation. For other 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 performance obligations in the contracts are met using electricity generated by the Group, so the contracts do not fall within the scope of IFRS 9. 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 IFRS 9, 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 broken down by whether they are electricity, currency or interest rate derivatives. The figures for energy derivatives are the accounting values of contracts which, under the criteria set out in IFRS 9, fall within the definition of financial instruments. Power contracts for physical delivery that qualify for the own use exemption under IFRS 9 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 IFRS 9 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.

(Amounts in NOK million)	**2018**	2017
Derivative assets (non-current)		
Portfolio of cash-settled electricity contracts*	93	95
Currency derivatives and basis swaps	6	0
Embedded currency derivatives in electricity contracts	724	650
Interest rate swaps	11	19
Total derivatives	**834**	**764**
Derivative assets (current)		
Portfolio of cash-settled electricity contracts*	91	355
Currency derivatives and basis swaps	4	0
Embedded currency derivatives in electricity contracts	84	82
Interest rate swaps	0	0
Total derivatives	**180**	**437**
Derivative liabilities (non-current)		
Portfolio of cash-settled electricity contracts*	687	394
Currency derivatives and basis swaps	246	175
Interest rate swaps	214	253
Total derivatives	**1 148**	**822**
Derivative liabilities (current)		
Portfolio of cash-settled electricity contracts*	1 079	31
Currency derivatives and basis swaps	31	104
Interest rate swaps	0	14
Total derivatives	**1 111**	**149**

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

NOTE 27 FAIR VALUE OF FINANCIAL INSTRUMENTS

The table below 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
2018					
Derivatives and electricity contracts measured at fair value*	26	1 014	0	205	808
Shares and ownership interests	17	7	0	0	7
Total assets		**1 021**	**0**	**205**	**815**
Supply of free electricity and compensation	21	703	0	0	703
Long-term cash-settled electricity contracts	21	56	0	0	56
Derivatives and electricity contracts measured at fair value*	26	2 258	0	2 302	-44
Total liabilities		**3 017**	**0**	**2 302**	**715**
2017					
Derivatives and electricity contracts measured at fair value*	26	1 201	0	469	731
Shares and ownership interests	17	5	0	0	5
Total assets		**1 206**	**0**	**469**	**736**
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
Total liabilities		**1 632**	**0**	**773**	**859**

* 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 IFRS 9.

Level 1 assets are financial instruments the fair values of which can be determined from market prices in an active market.
Level 2 assets are financial instruments the fair values of which are estimated using a valuation model that only uses market data as its inputs.
Level 3 assets are financial instruments the fair values of which are estimated using a valuation model that does not only use market data as its inputs.
In 2018 the Group recognised a net loss of NOK 223 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 measu-red at fair value	Long-term cash-settled electricity contracts	Total
Opening balance at 01/01/2018	5	-657	534	-5	-122
Gains and losses recognised in profit or loss	2	-46	318	-51	223
Closing balance at 31/12/2018	**7**	**-703**	**852**	**-56**	**100**

* Liabilities are shown with a minus sign. The amount recognised relates to contracts still held by Agder Energi at the end of 2018.

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 70 million reduction (increase) in the valuation. A 5% strengthening (weakening) of the Norwegian krone against the euro would have given a NOK 303 million reduction (increase) in the valuation. A 1% increase (reduction) in the electricity price would have given a NOK 105 million increase (reduction) 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 IFRS 9. 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 IFRS 9 are measured at fair value. Valuations are based on forward prices. For contracts with terms that run beyond the period for which market prices are available, a risk discount is applied to the available forward prices.

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

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

FAIR VALUE OF CURRENCY AND INTEREST RATE DERIVATIVES

Interest rate swaps, currency swaps and currency 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 IFRS 9.

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, within set limits, 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.

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. In so far as the customer is offered a profile or regional price that cannot be fully mirrored in the market, the residual risk is monitored carefully.

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.

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 prices	
	-10 %	10 %
Total impact on profit before tax	**411**	**-411**

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 IFRS 9.

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, guarantees 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 IFRS 9 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	
	-5 %	5 %
Total impact on profit before tax	**178**	**-178**

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 distribution system operating business. Interest rate swaps are used to achieve the desired exposure to interest rates within the Group's debt portfolio. The fixed interest period is set by using fixed-interest loans and interest rate derivatives.

Sensitivity to interest rates is measured by modified duration within a defined period of 1 to 5 years. Average duration at the close of the year was 3.7 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 distribution system 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)	47	-47
Gains and losses on interest rate swaps recognised in profit or loss	-131	131
Total impact on profit before tax	**-84**	**84**
Gains and losses on hedging instruments, cash flow hedges	-57	57
Total impact on comprehensive income (before tax)	**-141**	**141**

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 IFRS 9 and interest rate derivatives.

Breakdown of interest rates by currency

	2018	2017
Nominal average interest rate, NOK	3,1 %	3,3 %
Nominal average interest rate, euros	2,0 %	2,0 %

Fixed-interest periods within loan portfolio*

(Amounts in NOK million)	1-3 years	3-5 years	5-10 years
NOK-denominated loans	2 836	2 776	2 776
Euro-denominated loans	2 061	1 963	1 963
Total	**4 897**	**4 739**	**4 739**

* 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. For receivables measured at amortised cost, a provision is made for expected bad debts. For 2018, provisions have only been made for trade receivables; see Note 18. The credit risk arising from receivables is virtually identical to the carrying amount on the statement of financial position; see Notes 17 and 18.

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 derivatives is virtually identical to the carrying amount on the statement of financial position; see Note 25. 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.

The table below shows a reconciliation of the gross amount, amount offset and carrying amount for financial instruments with offset agreements or similar agreements. For Agder Energi, this is only relevant to derivatives. A financial asset and financial liability are shown net on the statement of financial position if Agder Energi has a legally enforceable right to set-off the asset and liability, and if it intends to settle on a net basis.

	Financial assets		
(Amounts in NOK million)	Gross amount	Amount offset	Carrying amount
Energy derivatives	6 911	5 918	993
Currency and interest rate derivatives	34	13	21
Total derivatives (non-current and current)	**6 945**	**5 931**	**1 014**

	Financial liabilities		
(Amounts in NOK million)	Gross amount	Amount offset	Carrying amount
Energy derivatives	7 685	5 918	1 767
Currency and interest rate derivatives	505	13	492
Total derivatives (non-current and current)	**8 190**	**5 931**	**2 259**

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. 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 2,500 million in total in unused credit facilities. 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 2019	Due in 2020	Due in 2021	Due in 2022	Due in 2023	Due after 2023	Unspecified
Bonds and liabilities to financial institutions	1 359	1 350	1 085	1 221	747	3 185	0
Commercial paper and overdraft facility	300						0
Interest payments	243	214	186	166	140	418	0
Total interest-bearing liabilities	**1 902**	**1 564**	**1 271**	**1 387**	**887**	**3 603**	**0**
Financial liabilities at fair value through profit or loss	911	551	221	67	35	142	1 090
Other non-interest-bearing current liabilities	3 311	0	0	0	0	0	0
Total non-interest-bearing liabilities	**4 222**	**551**	**221**	**67**	**35**	**142**	**1 090**
Total	**6 124**	**2 115**	**1 492**	**1 454**	**922**	**3 745**	**1 090**

Breakdown of loans by currency

(Amounts in NOK million)	**2018**	2017
NOK-denominated loans	6 278	6 370
Euro-denominated loans	2 999	2 769
Total	**9 277**	**9 139**

The Group has 222 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 table above. The fair value of the swaps at the end of 2018 was NOK -93 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.

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.

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)	**2018**	2017
Fair value of derivatives designated as hedging instruments		
Derivatives designated as fair value hedges	-4	1
Derivatives designated as cash flow hedges	-76	-76
Total fair value of derivatives designated as hedging instruments	**-80**	**-75**
Fair value hedges		
Gains/losses on derivatives used as fair value hedges	-4	-54
Gains/losses on hedged items in fair value hedges, hedged risk	4	54
Hedge ineffectiveness recognised in profit or loss	**0**	**0**
Cash flow hedges		
Gains/losses recognised in the SoCI	0	23
Reclassified to profit or loss	11	0
Total gains/losses on hedging instruments recognised in the SoCI	**11**	**23**
Cash flow hedge ineffectiveness recognised in profit or loss	**0**	**0**

NOTE 30 MORTGAGED ASSETS, LIABILITIES AND GUARANTEES ISSUED

Mortgages

Agder Energi AS has no mortgage debt. NOK 11 million of the lease liabilities are classified as finance 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 712 (914) million in off-statement of financial position bank guarantees. NOK 398 (124) million of this relates to cash-settled electricity trading/settlement, NOK 55 (50) million to tax deductions at source, NOK 177 (572) million to settlement/payment guarantees and NOK 82 (168) million to contractual guarantees.

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

Off-statement of financial position 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.

Electricity from the generation portfolio has been sold in advance through physical contracts with industrial clients that are not included on the statement of financial position. These contracts form part of the risk management strategy for electricity generation; see Note 28. Similarly, the retail portfolio offers physical fixed-price contracts. The exposure arising from them is hedged as described in Note 28.

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

Since 2010, Agder Energi has had its head office in leased premises at Kjøita in Kristiansand. It has signed a 15+5-year lease on the building with the lessor Kjøita 18 AS. In addition, several companies in the Group have leased cars. NOK 83 million was expensed in relation to these leases in 2018.

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

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

Contingent liabilities

Tax

The Central Tax Office for Large Enterprises (Sfs) has decided to deny 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 Sfs has any justification for not allowing this to be deducted, and has appealed the decision to the Tax Appeals Board. 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.

Agder Energi Nett has been notified by Sfs of a change in its tax assessment for the smart meter project. Sfs considers that certain items that Agder Energi has expensed for tax purposes should be capitalised. The change would result in a NOK 59 million reduction in the deferred tax liabilities on the statement of financial position and an equivalent increase in the tax payable. It would only have a modest impact on profit. Agder Energi Nett disagrees with the decision and has appealed it to the Tax Appeals Board. The financial statements reflect the view expressed by Sfs in its notice.

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 considers that the OED has no grounds to change the price terms for older licences in conjunction with issuing the two aforementioned licences.

Agder Energi tried to get the OED to overturn its decision on the price terms, but finally it sued the state for having taken an invalid administrative decision. The Group's suit was rejected by Oslo district court, but it has decided to appeal that court's decision to Borgarting Court of Appeal. No date has been set yet for the hearing of the appeal.

NOTE 32 MANAGEMENT COMPENSATION, ETC.

Board of Directors

The compensation of the Board of Directors and Corporate Assembly for 2018 was NOK 1,305,800 and NOK 11,200 respectively. The equivalent figures in 2017 were NOK 1,455,800 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)	Period	Directors' fees	Board meetings attended
Lars Erik Torjussen, chair	Whole year	354 200	9
Tine Sundtoft, deputy chair	Whole year	170 000	9
Jill Akselsen, Board member	Whole year	125 000	9
Leif Atle Beisland, Board member 2)	Whole year	150 000	9
Marit Grimsbo, Board member 1)	Whole year	0	9
Siw Linnea Poulsson, Board member 1) 2)	Whole year	0	9
Steinar Bysveen, Board member 1)	Until August	0	4
Jon Vatnaland, Board member 1)	From August	0	4
Steinar Asbjørnsen, Board member 1)	Until September	0	5
Asbjørn Grundt, Board member 1)	From September	0	5
Johan Ekeland, employee representative	Whole year	110 000	7
Gro Granås, employee representative 2)	Whole year	110 000	9
Tore Kvarsnes, employee representative	Until May	45 800	4
Oddvar Emil Berli, employee representative	From May	64 200	5
Øyvind Østensen, employee representative	Until August	64 200	5
Sverre Halvard Hamre, employee representative	From August	45 800	4

1) Employees of Statkraft are not paid Directors' fees.
2) Member of the Board's audit committee
3) The chairman's fee is NOK 250,000, and the excess is extra fee in connection with merger negotiations with Skagerak Energi during the winter and spring 2018.

In 2018, the audit committee appointed by the Board received NOK 25,000 in fees.

In 2018, Board members' deputies received NOK 67,000 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 000s)	Period	Salary	Bonus	Other benefits 1)	Total taxable income	Pension expense
Tom Nysted – CEO	Whole year	3 357		138	3 495	634
Pernille K. Gulowsen – CFO	Whole year	1 910		111	2 021	815
Unni Farestveit – CSR Director	Whole year	1 906		95	2 001	890
Steffen Syvertsen – Business Area Director, Energy management 2)	Whole year	2 073	555	114	2 742	279
Anders Gaudestad – Business Area Director, Marketing	Whole year	1 875		116	1 991	235
Frank Håland – Director of Shared Services 3)	Whole year	1 913	530	113	2 556	240
Jan Tønnessen – Business Area Director, Hydroelectric Power	Whole year	1 906		111	2 017	261

1) Other benefits include mileage allowances, mobile phones and other benefits. A flat in Kristiansand has been made available to the CEO.
2) Bonus earned in 2017 and paid out in 2018. This amount includes holiday pay that will be received in 2019.
3) Bonus earned and paid out in 2018. This amount includes holiday pay that will be received in 2019.

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

In 2018 the Director of Shared Services was entitled to a bonus worth up to three 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 2018.

Tom Nysted will by agreement retire from his position as CEO in 2019, on reaching the age of 67. Nysted will remain in the employment of Agder Energi, and will be available to perform various tasks for the Group by agreement. He will receive 75% of his annual salary each year until the age of 70, at which point he will retire and start drawing a pension equivalent to around 66% of his qualifying salary. The pension benefit at 70 is equivalent to 16/30 of the full pension benefit less National Insurance Scheme and the Group's public sector occupational pension plan.

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 members of a public sector defined benefit plan. Their pension agreements state that their qualifying salary shall be based on their regular salary, and the pension expenses include 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, they must have 30 years of qualifying service. Jan Tønnessen, Steffen Syvertsen, Frank Håland and Ander 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 14 million of sales to such companies in 2018 and NOK 5 million in 2017. Purchases from those companies amounted to NOK 126 million in 2018. 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 26 million in 2018 and NOK 29 million in 2017. Purchases from those companies amounted to NOK 53 million in 2018 and NOK 54 million in 2017. 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

Agder Energi did not acquire any new companies in 2018, but it did increase its ownership interest in Nordgröön Energie GmbH.

Acquisitions in 2018

Company	Country	Interest bought in 2018	Ownership interest in % at 31/12/2018	Activities
Nordgröön Energie GmbH	Germany	20,9	85,0	Market access for small electricity generating companies

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 has been changed to Agder Energi Solutions GmbH

The table above shows the businesses that were acquired in 2017. All acquisitions are accounted for using the acquisition method. The table does not include capital increases or other financing from Agder Energi.

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
Net assets	**20**	**38**	**58**
Non-controlling interests	0	0	0
Net assets acquired	**20**	**38**	**58**
Goodwill	0	0	0
Total net assets acquired plus goodwill	**20**	**38**	**58**
Cash consideration for shares			47
Total consideration			**47**

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.

Disposals

In 2018 Agder Energi sold 51% of the shares in Otera Infra AS. The transaction was completed in August, and as of the completion date the company was reclassified from being a subsidiary to being an associate. The transaction only had an insignificant impact on the consolidated financial statements for 2018.

In 2017 Agder Energi sold NetNordic Holding AS. Discontinued operations in 2017 therefore refers to that company.

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)	**2018**	2017
Operating revenues	0	433
Operating expenses	0	-407
Operating profit	**0**	**26**
Net financial income/expenses	0	-3
Profit before tax	**0**	**23**
Tax expense	0	-3
Net income	**0**	**20**
Gain on disposal of discontinued operations	0	224
Tax on gain on disposal of discontinued operations	0	0
Net income from discontinued operations	**0**	**244**

Net cash provided by operating activities	0	25
Net cash provided by/used in investing activities	0	178
Net cash provided by financing activities	0	11
Net cash flow from discontinued operations	**0**	**214**

NOTE 35 GROUP STRUCTURE

The table below shows the companies in the Agder Energi Group at 31/12/2018.

Subsidiaries	Ownership interest in %*		Country
Agder Energi Nett AS	100,0		Norway
Agder Energi Vannkraft AS	100,0		Norway
Agder Energi Kraftforvaltning AS	100,0		Norway
LOS AS	100,0		Norway
Entelios AS	100,0		Norway
Entelios AB	100,0		Sweden
Entelios Trading AB	100,0		Sweden
Entelios ApS	100,0		Denmark
Entelios OY	100,0		Finland
Enfo AS	100,0		Norway
Entelios AG	100,0		Germany
Entelios GmbH	100,0		Germany
Nordgröön Energie GmbH	85,0		Germany
AE Alfa AS	100,0		Norway
Agder Energi Fleksibilitet AS	100,0		Norway
Otera AB	67,0		Sweden
Otera Ratel AB	100,0	(67,0)	Sweden
European Electric Technology AB	100,0	(67,0)	Sweden
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	74,5		Norway
Norsk Energigjenvinning AS	100,0	(74,5)	Norway
NEG Skog AS	100,0	(74,5)	Norway
Norsk Biobrensel AS	100,0	(74,5)	Norway
Norbio AB	100,0	(74,5)	Sweden
Norbio Energi AS	100,0	(74,5)	Norway
HPE Holding AS	100,0		Norway
Cleanpower AS	91,7		Norway
Bioenergy AS	70,0		Norway
Bio Energy Sales AS	100,0	(70,0)	Norway
Lahaugmoen Drift AS	100,0	(70,0)	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
Netsecurity AS	85,4		Norway

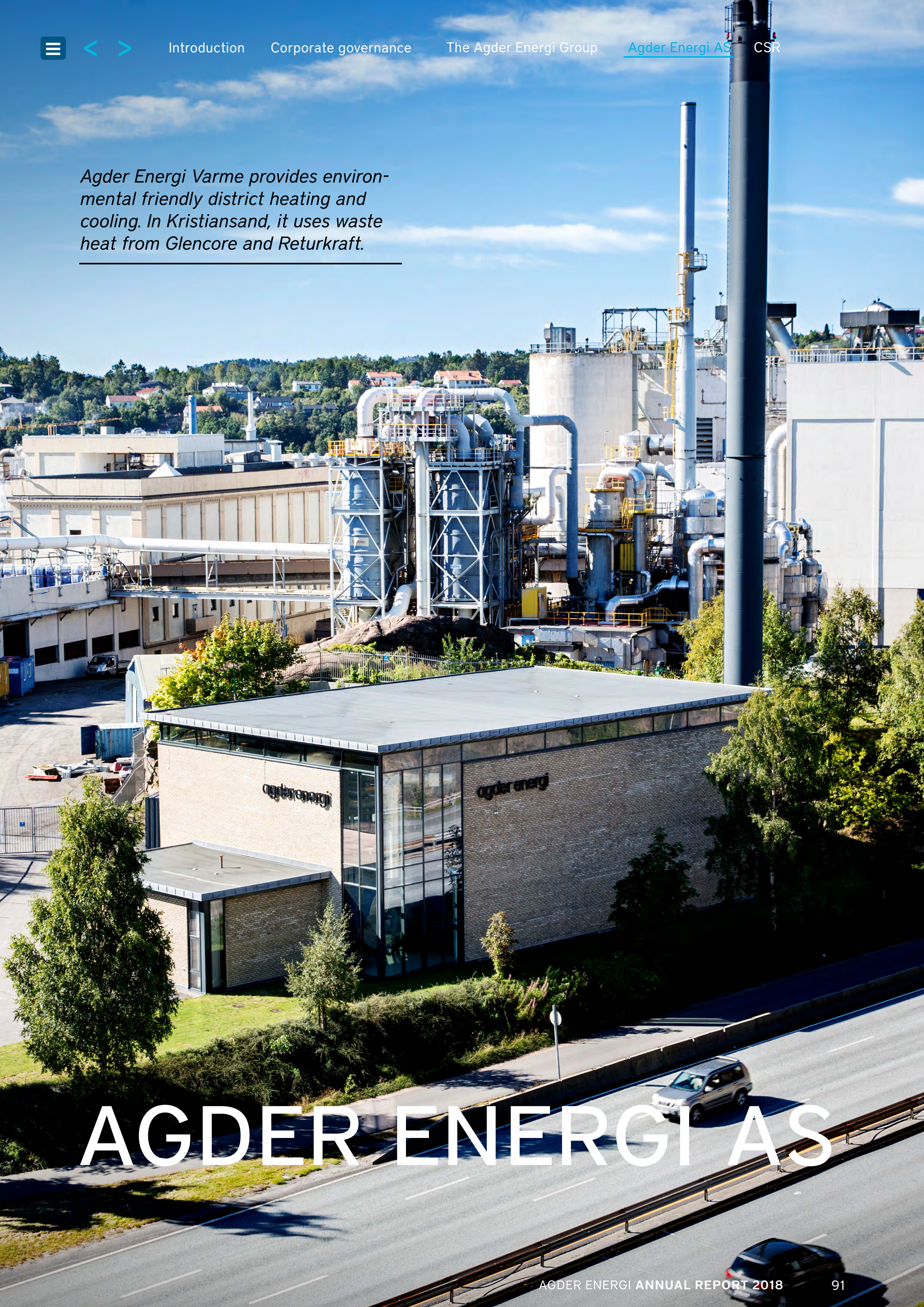
* Figures in brackets indicate Agder Energi AS's indirect ownership interest in companies where it holds minority interests through intermediate companies.

Non-controlling interests

The majority of the Group's non-controlling interests relate to the subsidiary groups Nordgröön Energie GmbH and Otera AB. Their turnover and profit are shown in the table below, together with a summary statement of financial position.

	Nordgröön Energie		Otera AB	
(Amounts in NOK million)	**2018**	2017	**2018**	2017
Operating revenues	1 740	627	737	560
Net income	-40	19	31	-32
Non-controlling interest's share of net income	-19	7	10	-10
Assets	273	82	250	180
Liabilities	271	67	336	301
Equity 1)	2	15	-86	-121
Non-controlling interest's share of equity	0	6	0	0

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 Varme provides environmental friendly district heating and cooling. In Kristiansand, it uses waste heat from Glencore and Returkraft.

AGDER ENERGI AS

AGDER ENERGI AS

FINANCIAL STATEMENT

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

INCOME STATEMENT

(Amounts in NOK million)	Note	2018	2017
Other operating revenues	1	355	268
Total operating revenues		**355**	**268**
Employee benefits	2, 3	-190	-198
Depreciation and impairment losses	8, 9	-11	-15
Other operating expenses	1, 4, 5	-226	-177
Total operating expenses		**-428**	**-390**
Operating profit		**-72**	**-122**
Financial income	1, 6	1 833	2 196
Financial expenses	1, 6	-792	-1 052
Net financial income/expenses		**1 042**	**1 144**
Profit before tax		**969**	**1 022**
Tax expense	7	-173	-87
Net income		**796**	**935**
Allocation of profit:			
Proposed dividends	13	592	606
Transferred to other reserves	13	204	329
Total appropriations		**796**	**935**

STATEMENT OF FINANCIAL POSITION

(Amounts in NOK million)	Note	**2018**	2017
Intangible assets	8	0	7
Property, plant and equipment	9	35	31
Investments in subsidiaries	11	3 379	3 444
Investments in associates	11	108	63
Other non-current financial assets	10	9 780	8 748
Total non-current assets		**13 302**	**12 294**
Receivables	1	1 665	1 758
Cash and cash equivalents	12	0	177
Total current assets		**1 665**	**1 935**
TOTAL ASSETS		**14 967**	**14 229**
Paid-in capital	13	1 907	1 907
Retained earnings	13	1 518	1 429
Total equity		**3 425**	**3 337**
Deferred tax	7	80	82
Provisions	3, 16	369	358
Interest-bearing non-current liabilities	14	8 940	8 430
Total non-current liabilities		**9 389**	**8 870**
Interest-bearing current liabilities	14, 17	729	600
Tax payable	7	23	7
Other non-interest-bearing current liabilities	1, 13, 15	1 400	1 416
Total current liabilities		**2 153**	**2 023**
TOTAL EQUITY AND LIABILITIES		**14 967**	**14 229**

Kristiansand, 2. April 2019
Board of Directors of Agder Energi AS

Lars Erik Torjussen
Chair

Tine Sundtoft
Deputy chair

Jill Akselsen
Board member

Leif Atle Beisland
Board member

Jon Vatnaland
Board member

Marit Grimsbo
Board member

Asbjørn Grundt
Board member

Siw Linnea Poulsson
Board member

Johan Ekeland
Board member

Sverre Hallvard Hamre
Board member

Oddvar Emil Berli
Board member

Gro Granås
Board member

Tom Nysted
CEO

STATEMENT OF CASH FLOWS

(Amounts in NOK million)	Note	2018	2017
Cash flow from operating activities			
Profit before tax		969	1 021
Depreciation and impairment losses	6, 8, 9	120	75
Cash flows from investments in subsidiaries		-1 113	-1 238
Tax paid		-6	-91
Change in net working capital, etc.		-878	-42
Net cash provided by operating activities		**-908**	**-275**
Investing activities			
Purchase of property, plant, equipment and intangible assets		-10	-3
Acquisitions/financial investments and equity investments in subsidiaries		-250	-29
Net change in loans		-265	-754
Sale of property, plant, equipment and intangible assets		31	2
Sale of businesses/financial assets		59	24
Net cash used in investing activities		**-435**	**-760**
Financing activities			
New long-term borrowings		1 424	1 410
Repayment of long-term borrowings		-956	-1 077
Net change in current interest-bearing liabilities		129	-250
Intra-group distributions received		672	855
Intra-group distributions paid out		-496	-239
Dividends received from subsidiaries		999	376
Dividends paid		-606	-607
Net cash used in financing activities		**1 166**	**468**
Net change in cash and cash equivalents		**-177**	**-567**
Cash and cash equivalents at start of year		177	744
Cash and cash equivalents at end of year		0	177

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	**2018**	2017
Intra-group balances			
Other non-current financial assets	10	8 580	8 157
Trade receivables		39	30
Other current receivables		1 548	1 675
Total receivables		**10 167**	**9 862**
Trade payables	15	3	1
Other current liabilities	15	647	630
Total liabilities		**650**	**631**
Revenues and expenses relating to intra-group transactions			
Other operating revenues		291	248
Total operating revenues		**291**	**248**
Other operating expenses		30	22
Total operating expenses		**30**	**22**
Cash flows from investments in subsidiaries	6	1 113	1 238
Other interest and financial income		258	242
Other interest and financial expenses		31	15
Net financial income/expenses		**1 341**	**1 466**

NOTE 2 EMPLOYEE BENEFITS, MANAGEMENT COMPENSATION, ETC.

(Amounts in NOK million)	Note	**2018**	2017
Employee benefits			
Salary		163	149
Employers' National Insurance Contributions		23	21
Pension expense including employers' NICs	3	-11	13
Other benefits and reimbursements		15	15
Total		**190**	**198**
Number of full-time equivalents at 31 Dec.		**164**	**157**

In conjunction with the sale of 51% of the shares in Otera Infra AS, the company's defined benefit plan was transferred to Agder Energi AS and was closed. The transfer involved the pension liabilities of Otera Infra being merged into Agder Energi AS. This is what the impact on net income of closing the pension plan shown in the tables above relates to.

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.

(Amounts in NOK million)	**2018**	2017
The pension expense for the year has been calculated as follows		
Current service cost	15	12
Administration costs	2	1
Interest income/expenses on pension assets/liabilities	-6	-7
Impact on net income of closing pension plan	-30	-
Employers' National Insurance Contributions	2	2
Employee contributions	-1	-1
Pension expense for the year, defined benefit plans	**-18**	**6**
Defined contribution pension plans (including employers' NICs)	7	6
Total pension expense recognised in the income statement	**-11**	**13**

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

Pension liabilities and pension plan assets

(Amounts in NOK million)	**2018**	2017
Gross funded pension liabilities	827	367
Unfunded pension liabilities	151	128
Gross pension liabilities at 31 Dec. (including employers' NICs)	**978**	**495**
Fair value of pension plan assets at 31 Dec.	1 255	771
Net pension liabilities at 31 Dec.	**-277**	**-277**

Change in defined benefit pension liabilities

Net defined benefit pension liabilities at 1 Jan.	-277	-262
Pension expense recognised in profit or loss excl. employee contributions	-17	9
Company contributions incl. employers' NICs	-	-6
Pension benefits included under operating expenses	-5	-4
Remeasurements	150	-14
Acquisitions through business combinations	-127	-
Net pension liabilities at 31 Dec.	**-277**	**-277**
Net pension assets	429	404
Pension liabilities (*)	151	128
Net pension liabilities (+) / assets (-) at 31 Dec.	**-277**	**-277**

Remeasurements are made up of:

Gains (-)/losses (+) on gross pension liabilities	97	37
Gains (-)/losses (+) on pension plan assets	53	-51
Remeasurements recognised on statement of financial position	**150**	**-14**

Assumptions used to determine pension liabilities at 31 Dec.

	2018	2017
Discount rate	2,70 %	2,30 %
Annual wage growth	2,75 %	2,50 %
Increase in the National Insurance Scheme's basic amount ("G")	2,50 %	2,25 %
Annual indexing of pensions	1,75 %	1,50 %

The assumptions used to calculate pension liabilities almost entirely follow the Norwegian Accounting Standards Board's guidelines on actuarial assumptions as of 31 December 2018.

Number of people covered by the pension plans

	2018	2017
Defined benefit plan: current employees	69	73
Defined benefit plan: accrued entitlements and retired employees	704	319
Defined contribution plan: current employees	90	79
Current employees entitled to public sector AFP, and early retirees	61	61

In conjunction with the sale of 51% of the shares in Otera Infra AS, the company's defined benefit plan was transferred to Agder Energi AS and was closed. The transfer involved the pension liabilities of Otera Infra being merged into Agder Energi AS. This is what the impact on net income of closing the pension plan shown in the tables above relates to.

NOTE 4 AUDITOR'S FEE

Total fees paid to auditor for auditing and other services comprise the following:

(Amounts in NOK 000s excl. VAT)	**2018**	2017
Statutory audit	578	532
Other certification services	0	4
Tax advice	0	4
Other services not related to auditing	222	25
Total	**800**	**565**

NOTE 5 OTHER OPERATING EXPENSES

(Amounts in NOK million)	**2018**	2017
Property-related expenses, lease of machinery and office equipment	53	46
Purchase of plant and equipment	4	5
External services	147	110
Office supplies, telecommunications, postage, etc.	4	4
Travel expenses, subsistence allowances, mileage expenses, etc.	10	8
Sales, advertising, representation, membership fees and gifts	7	5
Other operating expenses	1	-1
Total	**226**	**177**

NOTE 6 FINANCIAL INCOME AND EXPENSES

(Amounts in NOK million)	**2018**	2017
Income from investments in subsidiaries*	1 113	1 238
Profit/loss on investments in associates	20	10
Exchange rate gain	412	707
Other interest and financial income	289	242
Total financial income	**1 833**	**2 195**
Impairment charge against non-current financial assets	109	60
Exchange rate losses	394	706
Other interest and financial expenses	289	286
Total financial expenses	**792**	**1 052**
Net financial income/expenses	**1 042**	**1 144**

* 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

(Amount in NOK millions)	**2018**	2017
The tax expense consists of		
Income tax payable	171	126
Change in deferred income tax	2	-40
Corrections to previous years' tax assessments	-1	1
Tax expense in income statement	**173**	**87**
Tax payable on the statement of financial position		
Profit before tax	969	1 021
Permanent differences	-199	-647
Change in temporary differences	-25	151
Profit/loss for income tax purposes	**746**	**525**
Income tax payable	171	126
Taxable intra-group distributions	-149	-119
Tax payable on the statement of financial position	**23**	**7**
Reconciliation of nominal tax rate with effective tax rate		
Profit before tax	**969**	**1 021**
Expected tax based on nominal rate	223	245
Tax effect of		
Non-deductible expenses/non-taxable income	-46	-155
Corrections to previous years' tax assessments	-1	1
Impact of change in tax rate	-4	-4
Tax expense in income statement	**173**	**87**
Effective tax rate	**18 %**	**8 %**
Breakdown of temporary differences/deferred tax assets		
Property, plant and equipment	-12	-14
Pension liabilities	286	330
Derivatives	109	83
Other	-17	-43
Total taxable (+)/deductible (-) temporary difference	**366**	**357**
Total capitalised deferred tax liabilities (+)/assets (-)	**81**	**82**
Changes in net deferred income tax over the year:		
Net deferred tax liabilities (+)/assets (-) at 1 Jan.	82	118
Correction to net deferred tax liabilities (+)/assets (-) for business combination	31	2
Change in net deferred tax liabilities (+)/assets (-) on items recognised in equity	-34	3
Change in deferred tax liabilities (+)/assets (-) recognised through profit or loss	2	-40
Net deferred income tax liabilities (+)/assets (-) at 31 Dec.	**81**	**82**
Changes in deferred tax on items recognised in equity		
Remeasurements of pensions	-34	3
Total change	**-34**	**3**

NOTE 8 INTANGIBLE ASSETS

(Amounts in NOK million)	Software
Cost as of 01/01/2018	36
Additions	0
Disposals	2
Cost as of 31/12/2018	**35**
Accumulated depreciation at 31/12/2018	32
Accumulated impairment losses at 31/12/2018	2
Carrying amount at 31/12/2018	**0**
Depreciation for the year	5
Impairment losses for the year	0
Useful life/depreciation period	3-8 år

NOTE 9 PROPERTY, PLANT AND EQUIPMENT

(Amounts in NOK million)	Properties	Vehicles, fixtures, fittings, machinery, etc.	Work in progress	**Total property, plant and equipment**
Cost as of 01/01/2018	35	34	0	69
Additions	0	5	5	10
Disposals	0	16	0	16
Cost as of 31/12/2018	**35**	**23**	**5**	**63**
Accumulated depreciation at 31/12/2018	13	15	0	27
Accumulated impairment losses at 31/12/2018	0	0	0	0
Carrying amount at 31/12/2018	**22**	**8**	**5**	**35**
Depreciation for the year	2	4	0	6
Impairment losses for the year	0	0	0	0
Useful life/depreciation period	25 år - avskrives ikke	3-8 år		

NOTE 10 OTHER NON-CURRENT FINANCIAL ASSETS

(Amounts in NOK million)	Note	**2018**	2017
Loans to Group companies	1	8 580	8 157
Loans to associates		1	1
Investments in shares and ownership interests		2	2
Other non-current receivables 1)		769	184
Pension assets	3	429	404
Total non-current financial assets		**9 780**	**8 748**

1) Other non-current receivables includes 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 voting rights	Carrying amount*
Subsidiaries					
Agder Energi Vannkraft AS	Kristiansand	2 481	950	100 %	1 937
Agder Energi Kraftforvaltning AS	Kristiansand	12	1	100 %	20
Agder Energi Nett AS	Arendal	908	-41	100 %	613
LOS AS	Kristiansand	99	29	100 %	214
Entelios AB 1)	Stockholm	62	15	100 %	146
Entelios AS	Kristiansand	267	7	100 %	110
Otera AB 1)	Stockholm	-86	31	67 %	0
Agder Energi Varme AS	Kristiansand	124	3	100 %	125
Agder Energi Venture AS 1)	Kristiansand	168	20	100 %	68
Entelios GmbH 1)	Berlin	6	-71	100 %	10
Stoaveien 14 AS	Kristiansand	8	2	100 %	1
Stoa 192 AS	Kristiansand	1	0	100 %	2
Stoa 234 AS	Kristiansand	1	0	100 %	2
Baltic Hydroenergy AS 1)	Kristiansand	33	1	100 %	34
Enfo AS	Bærum	15	1	100 %	28
Entelios AG	Munich	-11	-32	100 %	34
Agder Energi Fleksibilitet AS	Kristiansand	32	-4	100 %	36
AE Alfa AS	Kristiansand	0	1	100 %	-1
Total shares in subsidiaries					**3 379**

Associates and joint ventures 2)					
Otera Infra AS	Kristiansand	60	6	49,0 %	14
North Connect KS**	Kristiansand	138	-3	22,3 %	37
North Connect AS**	Kristiansand	14	0	22,3 %	4
Grønn Kontakt AS ***	Kristiansand	45	-26	47,2 %	52
Total for associates and joint ventures					**108**

* 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 2018.

NOTE 12 CASH AND CASH EQUIVALENTS

(Amounts in NOK million)	**2018**	2017
Bankinnskudd konsernkontosystem	-429	177
Sum	**-429**	**177**

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 55 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	Share	Other paid-in	Other reserves	**Total equity**
Egenkapital 01.01.2018		1 809	47	51	1 429	3 337
Estimatavvik pensjon	3				-115	-115
Årets resultat					796	796
Avsatt til utbytte	15				-592	-592
Fusjon					-1	-1
Egenkapital 31.12.18		**1 809**	**47**	**51**	**1 518**	**3 425**

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)	**2018**	2017
Non-current liabilities with a term to maturity of more than 5 years		
Liabilities to financial institutions	1 325	866
Bonds	1 860	1 756
Total	**3 185**	**2 622**
Non-current liabilities with a term to maturity of less than 5 years		
Liabilities to financial institutions	1 385	1 584
Bonds	4 370	4 225
Total	**5 755**	**5 809**
Total interest-bearing non-current liabilities	**8 940**	**8 430**
Interest-bearing current liabilities		
Commercial paper	300	600
Deposits in cash pooling arrangement (overdraft facility)	429	0
Total interest-bearing current liabilities	**729**	**600**

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	2018	2017
Trade payables			36
Intra-group trade payables	1	3	1
Unpaid government taxes and duties, tax deducted at source, etc.		14	13
Allocated dividends	13	592	606
Other current liabilities		120	129
Other current liabilities to Group companies	1	647	630
Total other non-interest-bearing current liabilities		**1 400**	**1 416**

NOTE 16 PROVISIONS

(Amounts in NOK million)	Note	2018	2017
Pension liabilities	3	151	128
Other non-current provisions		218	230
Total provisions		**369**	**358**

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 171 million of the company's other non-current provisions are related to this. The remaining NOK 43 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 432 million at 31 December 2018. The value of the company's contracts with its subsidiaries was NOK -432 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. 222 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 currently has no mortgage loans. The company'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 AS has NOK 712 million in outstanding off-statement of financial position bank guarantees. Of this total, NOK 392 million comprises payment guarantees for electricity trading, NOK 177 million is an internal guarantee for transmission tariffs passed on to customers, NOK 82 million relates to contractual guarantees, NOK 55 million relates to tax deducted at source and NOK 6 million is a rent guarantee.

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

Contractual obligations

Agder Energi Group leases office premises at Kjøita in Kristiansand. The lease contract is between Kjøita 18 AS and Agder Energi AS. Since 01/01/2017, the building has been owned by Arctic Securities. This has not resulted in any changes to the terms of the lease. At the end of the year, the contract had 7 years left to run, with a renewal option for a further five years.

AUDITOR'S REPORT

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INDEPENDENT AUDITOR'S REPORT

To the Annual Shareholders' Meeting of Agder Energi AS

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Agder Energi AS comprising the financial statements of the parent company and the Group. The financial statements of the parent company comprise the balance sheet as at 31 December 2018, the income statement and statements 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 2018, 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 2018, 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 2018 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 2018. 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.

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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 are regulated by the authorities represented by the Norwegian Water Resources and Energy Directorate (NVE), and the accounting for PPE and assets under construction has significant impact for future revenue cap. In 2018 MNOK 225 was expensed as maintenance and MNOK 1 409 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 revenue 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.

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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, 2 April 2019
ERNST & YOUNG AS

Finn Espen Sellæg
State Authorised Public Accountant (Norway)

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

ALTERNATIVE PERFORMANCE MEASURES (APM)

Agder Energi's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). Alternative performance measures are used to provide relevant supplementary information to the IFRS financial statements by adjusting for impacts that are not considered relevant to the underlying profit for the period. Using alternative performance measures that better reflect the underlying value added by the Group will make it easier to compare results and cash flows over time. The alternative performance measures are defined, calculated and used consistently and transparently over time.

The alternative performance measures are used for internal management and governance purposes, and in May 2018 the municipal majority shareholders in Agder Energi decided that the dividend policy for the years 2018–2020 should use the previous year's underlying profit under IFRS.

Agder Energi uses the following alternative performance measures:

- *Underlying operating revenues:* Operating revenues +/- the adjustments described below
- *EBITDA:* Operating profit before depreciation and impairment losses
- *Underlying EBITDA:* EBITDA +/- the adjustments described below
- *Underlying operating profit:* Operating profit +/- the adjustments described below
- *Underlying net income:* Net income +/- the adjustments described below

The following adjustments are made to calculate the Group's underlying operating revenues, EBITDA, operating profit and net income:

1. +/- Unrealised gains and losses on electricity and currency contracts, interest rate contracts at fair value and currency loans.

   Agder Energi has a significant volume of contracts that are measured at fair value under IFRS. These are mainly financial contracts whose aim is to hedge the value of future electricity generation. Future electricity generation is only recognised when it occurs. Fluctuations in the value of the financial contracts are excluded from the underlying results and are only included when they are settled. This ensures consistency in the timing of when the hedging instruments and hedged items are included in the underlying results. It also reduces fluctuations in the results and gives a more accurate idea of how Agder Energi has performed in the reporting period. Changes in the fair value of compensation power agreements and other contracts measured at fair value are also excluded from the underlying results. However, changes in the market value of the Group's trading portfolios are included in the underlying results.

   The underlying operating revenues, EBITDA and operating profit are adjusted for the pre-tax effect of unrealised gains and losses on electricity and currency contracts and of currency loans.

   Underlying net income is adjusted for the post-tax effect of unrealised gains and losses on electricity and currency contracts and of currency loans. In addition, it includes the post-tax effect of unrealised gains and losses on interest rate swaps.

2. +/- Changes in deferred tax assets arising from negative resource rent carryforwards at power stations

   The accounting rules require future tax savings from negative resource rent carryforwards to be included on the balance sheet as an asset. Agder Energi has implemented this requirement by including the estimated value of tax savings over the coming ten years on its balance sheet. This calculation is highly sensitive to changes in parameters like electricity prices in euros and the EUR/NOK exchange rate. The carrying amount of this accounting estimate is almost entirely governed by external factors such as electricity prices and the EUR/NOK exchange rate, so changes in the estimate recognised in the income statement tell us nothing about the underlying performance during the reporting period.

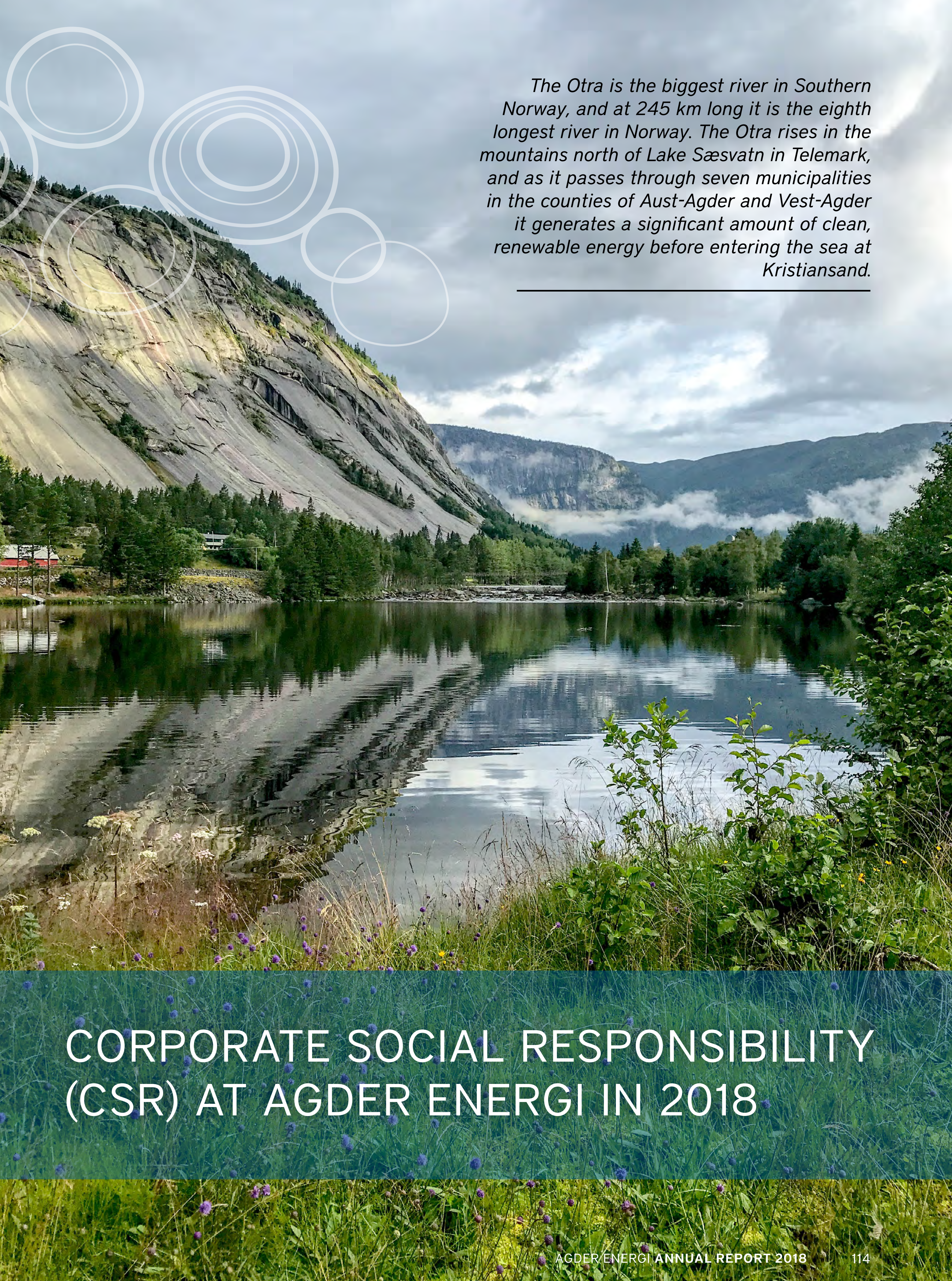
   This adjustment is reflected in the underlying net income.

3. +/- Material gains and losses on the disposal of businesses or ownership interests in businesses

An adjustment is made for material gains and losses on the disposal of businesses or ownership interests in businesses, since these are not considered to be part of the underlying performance in the reporting period. Material gains and losses refers to disposals of businesses or ownership interests in businesses with an impact on net income of at least NOK 25 million in a single financial year. Even if several items individually have a smaller impact than NOK 25 million, they are considered material if their total impact is greater than NOK 50 million in a financial year.

This adjustment is reflected in the underlying net income.

(Amounts in NOK million)	2018	2017
IFRS operating revenues	13 980	10 358
Unrealised gains and losses, electricity and currency	1 357	827
Material gains on the disposal of businesses or ownership interests in businesses	-26	0
Underlying operating revenues	**15 312**	**11 185**
IFRS operating profit	967	1 062
Depreciation and impairment losses	659	708
IFRS EBITDA	**1 626**	**1 770**
Unrealised gains and losses, electricity and currency	1 357	827
Material gains on the disposal of businesses or ownership interests in businesses	-26	0
Underlying EBITDA	**2 957**	**2 597**
IFRS operating profit	967	1 062
Unrealised gains and losses, electricity and currency	1 357	827
Material gains on the disposal of businesses or ownership interests in businesses	-26	0
Underlying operating profit	**2 298**	**1 889**
IFRS net income (controlling interest's share)	-198	487
Changes in unrealised gains and losses after tax (see Note 3)	1 049	719
Changes in deferred tax assets from neg. resource rent carryforwards	49	-137
Material gains on the disposal of businesses or ownership interests in businesses	-26	-224
Underlying net income (controlling interest's share)	**874**	**845**



The Otra is the biggest river in Southern Norway, and at 245 km long it is the eighth longest river in Norway. The Otra rises in the mountains north of Lake Sæsvatn in Telemark, and as it passes through seven municipalities in the counties of Aust-Agder and Vest-Agder it generates a significant amount of clean, renewable energy before entering the sea at Kristiansand.

CORPORATE SOCIAL RESPONSIBILITY (CSR) AT AGDER ENERGI IN 2018

AGDER ENERGI

CORPORATE SOCIAL RESPONSIBILITY (CSR) AT AGDER ENERGI IN 2018

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

CSR

NETWORK RELIABILITY

2018 99,94 %

2017 99,98 %

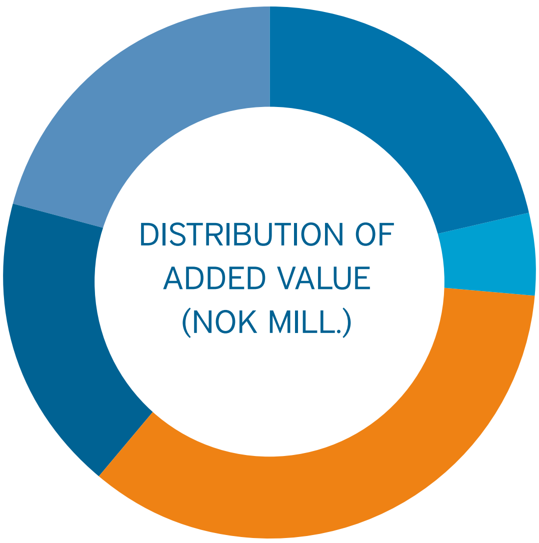
2016 99,98 %

LOST TIME INJURIES PER MILLION WORK HOURS

2018 2,20

2017 2,10

2016 3,50

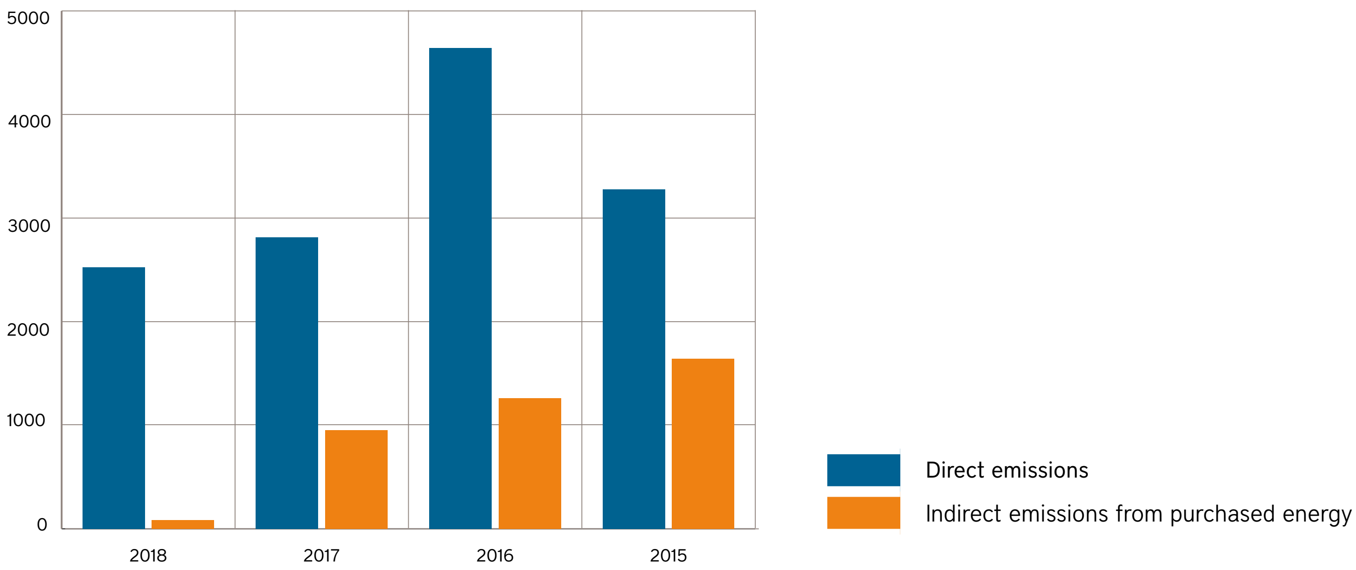


Net amount the company	524
Net amount employees	728
Net amount lenders	177
Net amount the public sector	1 591
Net amount shareholders	592

AVAILABLE DISTRIBUTION

	2018	2017	2016
Net amount the company	14,5 %	20,6 %	7,1 %
Net amount employees	20,2 %	21,4 %	22,8 %
Net amount lenders	4,9 %	5,1 %	6,5 %
Net amount the public sector	44,0 %	34,6 %	41,3 %
Net amount shareholders	16,4 %	18,2 %	22,2 %

GREENHOUSE GAS EMISSIONS (tCO²e)



Power stations

2018	2017	2016
58	58	58

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

ENERGY GENERATIONS (GWH)

	2018	2017	2016	2015	2014
Water	8 687,74	8 809,40	8 884,10	9 002,70	9 067,70
Solar PV	0,03	0,04	0,04	0,04	0,04
District heating	172,00	161,83	158,94	138,58	132,73
TOTAL ENERGY GENERATION					
	8 859,77	**8 971,26**	**9 043,08**	**9 200,47**	**7 890,84**

SUSTAINABLE ENERGY FOR FUTURE GENERATIONS

Agder Energi has reported on the Group's work on sustainability in accordance with the Global Reporting Initiative (GRI) since 2010. GRI is the most widely used framework for sustainability reporting, both worldwide and in Norway. The GRI rules changed in 2018, and there is now a clearer requirement to analyse which sustainability topics are material for the Group itself, and which ones are important to the Group's stakeholders.

Moreover, the rules state that disclosures shall reflect the materiality assessment – in other words, most information shall be given about the most important areas. After performing this assessment in 2018, we found twelve topics that are particularly important to the Group and its stakeholders. The 2018 sustainability report has been updated to reflect this.

In 2000 the UN launched the Global Compact, which is a global network of companies that support corporate social responsibility and wish to promote responsible and sustainable business practices. The Global Compact is based on ten fundamental principles relating to human rights, labour standards, the environment and anti-corruption. The principles are taken from international conventions, and as such they represent a shared set of values for global businesses.

Agder Energi helped to establish the Global Compact network in Norway in 2018. As a member of the network, we undertake to do our utmost to run our business in accordance with the Global Compact's two main aims: to integrate the ten principles into our business activities, and to catalyse actions and partnerships in support of the UN's goals for sustainable development.

In the process of implementing the materiality assessment in Agder Energi's sustainability reporting, work on indicators for the Group as a whole and for individual companies will play an important role. The UN's 17 Sustainable Development Goals provide a good framework for how Agder Energi can help the world to achieve its shared desire for sustainable development.

Agder Energi is also a member of Norway 203040, which is a business-led initiative to identify new business opportunities during the transition to a low-carbon economy and to help Norway achieve its climate change goals by 2030.

Our mission is clear: We provide clean energy for a sustainable society, now and in the future. That means supplying sustainable energy for future generations.

Unni Farestveit
CSR Director

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 also provide the foundation for our work on sustainability. Our values are:

Closeness

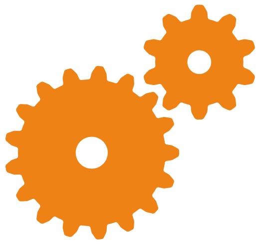
Agder Energi shall be close to its customers and the region. Customers shall know that we are there for them. An open dialogue based on a joint understanding of the facts helps us to bring out the best in each other. By cooperating we preserve our regional identity and help to develop the region.

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.

SUSTAINABILITY AT AGDER ENERGI

Agder Energi's values and ethical guidelines provide the foundations for our business activities. That also applies to our work on sustainability. The CSR Director is responsible for the Group's work on sustainability.

Several governance documents have been drawn up to put our sustainability principles into practice, including the Group CSR and Environmental Guidelines and the CSR and Environmental Strategy. The business areas are responsible for carrying out work on sustainability, including setting environmental goals and implementing measures to achieve those goals. This is described in more detail in the guidelines. The strategy defines CSR at the Group and clearly sets out its goals in this area. This document also includes a plan of action to ensure that the goals are met, as well as clearly allocating responsibilities between the Group management team and the various companies.

In 2019 a new position of sustainability manager will be created with responsibility for the Group's work on sustainability. The Group will focus on updating its CSR and Environmental Strategy and on highlighting its contributions to achieving the UN Sustainable Development Goals. This partly reflects the fact that our stakeholders are demanding more and more information about sustainability and CSR, which means that highlighting the contribution we make will be a priority for the Group going forward.

IMPORTANT SUSTAINABILITY TOPICS FOR AGDER ENERGI

In the autumn of 2018, Agder Energi carried out a detailed analysis of which sustainability topics are material for the Group itself, which ones are important to the Group's stakeholders and which ones the Group affects through its operations. As a result of that process, the following topics were identified as being most important:

- Anti-corruption
- Biodiversity
- Breaches of laws and regulations
- Health and safety
- Greenhouse gas emissions
- Impacts on local community
- Laws and regulations
- Energy utility sector
- Staff training
- Privacy
- Third party health and safety
- Economic performance – direct
- Economic performance – indirect

Anti-corruption

The Agder Energi Group's goal is that no form of corruption shall take place anywhere within its 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 designed to minimise the risk of corruption risk.

The Group supports anti-corruption activities through its governance documents and stated attitudes, and by setting clear standards for its companies. The corruption risk at the Group varies depending on a variety of factors such as the type of activity a company engages in, the markets it operates in and the scale of its business. The Group also discusses anti-corruption activities during conversations with the management teams at companies, publishes an anti-corruption handbook and investigates third parties' ethical guidelines and anti-corruption programmes. Annual corruption risk assessments are performed on companies' business processes, and employees receive regular training through annual, web-based courses and dilemma training adapted to the actual risks at their companies.

Biodiversity

Biodiversity is important to the Group and particularly to the companies Agder Energi Vannkraft and Agder Energi Nett, as a lot of their activities take place in the countryside. All Group companies follow the Group CSR and Environmental Guidelines, which give the companies themselves responsibility for setting goals with respect to their environmental impacts. Agder Energi Vannkraft focuses on biodiversity in the watercourses where it operates, while the impact of power lines on vulnerable species is an important topic for Agder Energi Nett. The Group regularly assesses the need to make changes to its activities in relation to biodiversity. The Group CSR and Environmental Guidelines will be updated in 2019.

Breaches of laws and regulations

It is important for the Group to adhere to laws and legislations, and there are procedures and systems in place to ensure compliance. Compliance is a key responsibility that is ensured through organisation, routines and systems. The Group has establish a compliance function to assist the senior management team with executing these responsibilities via all its companies.

This compliance function is designed to prevent, detect, and handle issues related to non-compliance. Agder Energi AS and the largest daughter companies have their own responsible compliance function.

The daughter companies report annually to Agder Energi AS with updates on this function. As of today, there is no established system for continuous reporting of breaches in laws and regulation. However, no fines nor other penalties for breaches of laws or regulations were recorded in 2018.

Health and safety

Health and safety is the Group's very highest priority. The level of risk varies between companies that perform more work on site and companies whose activities are mainly office-based. Nevertheless, the area is a priority throughout the Group.

The Group HSE Guidelines set out guiding principles for the approach to health and safety. The document also deals with the duties and areas of responsibility of managers and employees within these areas. Agder Energi has a joint health and safety management system for the whole Group, while 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.

Our operations are subject to a number of laws and regulations, with the most important ones for health and safety being laid down by the Norwegian Directorate for Civil Protection, the Norwegian Labour Inspection Authority, the Norwegian Water Resources and Energy Directorate (NVE) and the Norwegian Environment Agency. We are regularly audited by the authorities to ensure that our current systems are compliant and are improved where necessary.

Greenhouse gas emissions

As a Group involved in generating renewable energy with low greenhouse gas emissions, it is also important for us to focus on reducing our own greenhouse gas emissions. Electricity consumption is the biggest source of our direct emissions. The Group reduces these emissions by using guarantees of origin to cover some of its consumption. Guarantees of origin are a certification system for electricity used to document that a certain amount of electricity has been generated from a specific energy source. Distribution losses are the biggest source of the Group's indirect emissions, but other significant sources include rental vehicles, leased vehicles and air travel.

Impacts on local community

The local community and the Agder Energi Group are symbiotic. Our modern society couldn't function without the electricity supplied by the Group, and without the local community in which it operates, the Group would be unable to fulfil its mandate.

Work in relation to impacts on the local community is coordinated at the Group level, but the business areas also take it into consideration in their day-to-day operations. As the business activities of the companies in the Group vary, so do their local impacts.

Energy utility sector

The electric power industry has an important social mission, but it also has the potential to have a positive or negative impact on the economy, environment, climate and society. Some of the topics that are important to energy companies in general are not as relevant to organisations that base their activities on generating and distributing renewable hydroelectric power.

Environmentally-friendly renewable energy generation is one of the most important ways in which we can combat climate change. The way in which this work is conducted is part of Agder Energi's business strategy, and as Norway's fourth largest electricity utility the Group makes an important contribution to society in this area.

Staff training

Agder Energi considers the expertise of its employees to be one of its most important resources. Agder Energi believes that in order to get the best out of every single person it must have a safe, good working environment where the diversity of people and their expertise are valued and developed. It is the responsibility of all employees, including managers and their staff, to help create that kind of working environment.

The HR/health and safety strategy deals with how Agder Energi should recruit, develop and make use of human resources in order to achieve its goals. The aims of the HR/health and safety strategy include becoming a learning organisation with access to the expertise needed for the future, and having employees who help bring about change, take responsibility and produce good results. The whole Group works systematically on skills development in order to make sure we have the right expertise for the future and to tie this in with the development plans of individual employees.

The Group uses the 70:20:10 model for professional development, which provides inspiration as to how learning can take place at the workplace and how work on learning and development can become more systematic. The model suggests specific learning and development activities for development plans. The development plan is an important topic in employee appraisals, which provide quality assurance of the individual's development and are held twice a year.

Privacy

Data protection is important to the Group – particularly in relation to two stakeholder groups: customers and employees. The data protection rights of employees are important for the whole Group, while the rights of customers are relevant to companies that process information about private individuals, such as Agder Energi Nett and LOS.

Agder Energi must do its utmost to respect the data protection rights of Norwegian residents, its customers and its employees. The Group has a dedicated data protection officer, and rules and procedures have been introduced to safeguard the rights of data subjects. Each company has appointed someone who is responsible for data protection, and all employees have also completed a training course on the new regulation.

Third party health and safety

Third party health and safety is particularly important in conjunction with big development projects, infrastructure and power lines. The Group's big projects often take place in areas used by third parties. In order to ensure the safety of our own staff and of contractors, suppliers and subcontractors, the Group must ensure that it is safe for third parties to operate in and around the site. During the initial phase of big development projects, a risk analysis is performed covering the safety of third parties.

Economic performance – direct

Our economic performance is a prerequisite for running the company and is of vital importance to the Group itself and to most of its stakeholders. Economic performance is an important part of the Group's overall strategy and communication with stakeholders, but it is also managed at each business area through the companies' business strategies.

When the Group achieves strong financial results, this also generates indirect economic impacts in the business community through greater investment in infrastructure and new projects. The Group's value added statement shows how wealth is created and distributed amongst employees, lenders, the public sector, shareholders and the company itself.

Economic performance – indirect

Agder Energi is also very conscious of its indirect economic impacts. For example, those generated by building infrastructure. They are particularly significant in the case of companies like Agder Energi Varme, Agder Energi Nett and Agder Energi Vannkraft. These investments and the operation of our existing facilities provide work for local contractors. These kinds of economic impacts are the result of the Group's activities and operations, which are governed by strategies and guidelines at the Group level, as well as by individual strategies for each business area.

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 during 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 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 suppliers comply with the current regulations on the general application of collective agreements.

Environmental impacts
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.

SOCIAL ACCOUNTING

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)	2018	2017
Operating revenues	15 367	11 050
Goods consumed/operating expenses	-11 091	-7 188
Gross added value	4 276	3 862
Capital depreciation	-659	-708
Net added value	3 617	3 154
Net financial items, excl. interest	-5	-73
Discontinued operations	-	244
Available for distribution	**3 612**	**3 325**
DISTRIBUTION OF ADDED VALUE		
Employees		
Gross salaries and benefits	1 119	1 118
Tax paid by employees	-259	-262
Employers' National Insurance Contributions	-132	-144
Net amount received by employees	**728**	**712**
Lenders		
Interest, etc. paid to lenders	177	171
Net amount received by lenders	**177**	**171**
The public sector		
Ordinary taxes	198	209
Property taxes	143	146
Resource rent tax	859	390
Tax paid by employees	259	262
Employers' National Insurance Contributions	132	144
Net amount received by the public sector	**1 591**	**1 151**
Shareholders		
Allocated for distributions by the company (dividends/guarantees)	592	606
Net amount received by shareholders	**592**	**606**
The company		
Retained earnings	530	678
Non-controlling interest's share of profit	-6	7
Net amount received by the company	**524**	**685**
Total amount distributed	**3 612**	**3 325**

Design: Kikkut kommunikasjon, Photo: Agder Energi, Translation: Språkverkstaden

The Corporate social responsibility report for Agder Energi 2018 is available at ae.no

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Organisation number: NO 981 952 324

Frontpage photo: Ida Gunstveit Foss intended to educate within health care, but changed her mind and is now an industrial mechanic in Agder Energi.