ANNUAL REPORT 2019

agder energi

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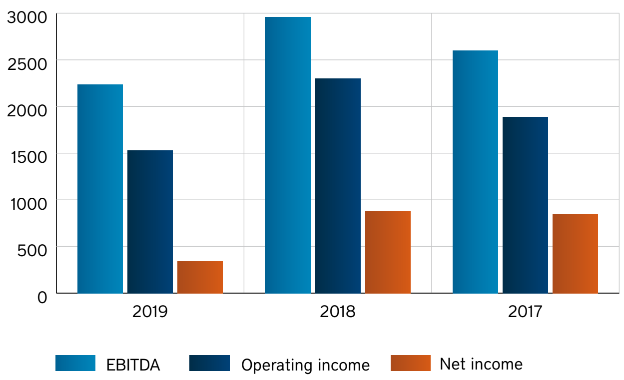
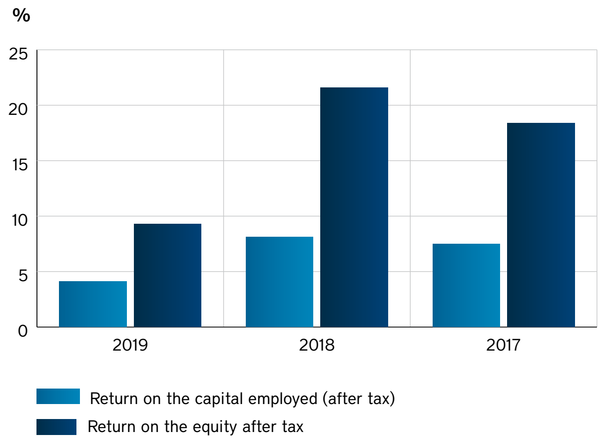
KEY FIGURES

RESULTS

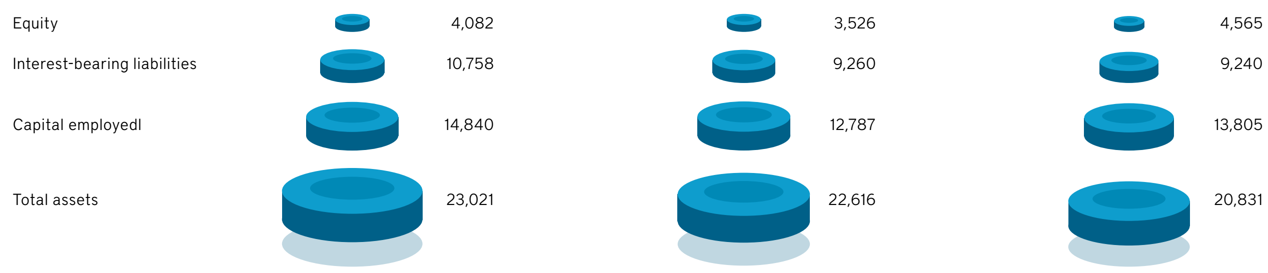




	Def.		2019	2018	2017	2016	2015
FROM INCOME STATEMENT							
Operating revenues		mill. kr	14,097	13,980	10,358	8,086	8,260
EBITDA	1	mill. kr	3,090	1,626	1,770	1,573	2,886
Operating profit		mill. kr	2,384	967	1,062	972	2,309
Profit before tax		mill. kr	2,258	853	848	799	2,138
Net income for the year (controlling interest's share)		mill. kr	1,122	-198	487	251	1,314
FROM BALANCE SHEET							
Total assets		mill. kr	23,021	22,616	20,831	20,319	19,240
Equity		mill. kr	4,082	3,526	4,565	4,626	4,893
Interest-bearing liabilities		mill. kr	10,758	9,260	9,240	9,143	9,029
Capital employed	2	mill. kr	14,840	12,787	13,805	13,769	13,921
Unrestricted liquidity	3	mill. kr	3,108	2,864	2,372	2,023	1,969
Net interest-bearing liabilities	4	mill. kr	10,650	8,896	9,188	8,620	8,560
Interest-bearing liabilities due over coming 12 months		mill. kr	2,372	1,657	1,740	2,243	1,745
Bank deposits excluding restricted assets		mill. kr	108	364	52	523	469
UNDERLYING PERFORMANCE	5						
Underlying operating revenues		mill. kr	13,241	15,312	11,185	8,705	7,458
Underlying EBITDA	1	mill. kr	2,234	2,957	2,597	2,192	2,084
Underlying operating profit		mill. kr	1,528	2,298	1,889	1,591	1,507
Underlying profit before tax		mill. kr	1,249	2,117	1,645	1,328	1,230
Underlying net income for the year (controlling interest's share)		mill. kr	340	874	845	738	698
CASH FLOW							
Net cash provided by operating activities		mill. kr	502	2,049	1,189	1,779	1,502
Dividends paid		mill. kr	592	608	610	660	706
Maintenance investments		mill. kr	551	397	470	522	571
Investments in expansion		mill. kr	801	1,000	878	733	625
Acquisition of shares/ownership interests and capital increases		mill. kr	41	94	69	155	81

KEY FIGURES

FINANCIAL POSITION 2019 2018 2017



	Def.		2019	2018	2017	2016	2015
KEY FIGURES FOR UNDERLYING PERFORMANCE							
Return on capital employed before tax	6	%	10.9	17.8	13.7	11.3	11.3
Return on capital employed after tax	7	%	4.1	8.1	7.5	6.8	6.7
Return on equity after tax	8	%	9.3	21.6	18.4	12.2	14.9
Equity ratio	9	%	17.7	15.6	21.9	22.8	25.4
HYDROELECTRIC POWER							
EBITDA		mill. kr	1,721	2,629	2,034	1,749	1,606
Actual electricity generation	10	GWh	7,288	8,686	8,812	8,880	8,996
Expected electricity generation	10	GWh	8,100	8,100	8,100	8,100	7,900
Reservoir reserves at 31 Dec.		GWh	3,724	3,180	4,429	3,766	5,185
Reservoir capacity		GWh	5,250	5,250	5,250	5,250	5,250
Average spot price		øre/kWh	38.7	41.5	26.9	23.3	17.7
Electricity price realised		øre/kWh	32.8	39.2	30.5	27.8	25.8
Cost of generation/kWh		øre/kWh	9.2	10.0	10.6	11.3	10.9
DISTRIBUTION SYSTEM OPERATION							
EBITDA		mill. kr	439	287	531	637	410
Number of transmission and distribution customers		1,000	205	202	199	195	190
Energy supplied		GWh	5,547	5,670	5,573	5,581	5,624
Power grid capital (NVE capital)	11	mill. kr	5,275	5,083	4,644	4,101	3,833
KILE cost	12	mill. kr	48	187	64	53	61
ELECTRICITY SALES							
EBITDA		mill. kr	125	75	120	97	104
EBITDA margin		%	2.0	1.2	2.4	2.8	4.6
Electricity sales		GWh	13,940	14,106	14,324	11,500	8,470
CONTRACTING							
EBITDA		mill. kr	56	44	-59	-7	-8
EBITDA margin		%	6.1	4.6	-6.1	-0.7	-0.8
Share of turnover from intra-group transactions		%	0.0	4.9	15.1	13.2	17.5

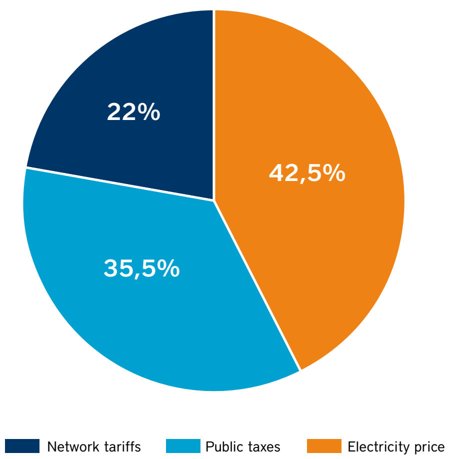
KEY FIGURES

	Def.	2019	2018	2017	2016	2015
DISTRICT HEATING						
EBITDA	mill. kr	39	41	40	33	28
Energy supplied	GWh	151	155	143	137	123
Price of heating sold	øre/kWh	73	72	63	59	56
Gross margin, heating	øre/kWh	43	43	38	32	24
Share of renewable generation	%	99	99	99	99	98
EMPLOYEES, HEALTH AND SAFETY						
Number of permanent and temporary staff at 31 Dec.		1,020	1,005	1,210	1,432	1,294
Number of permanent and temporary full-time equivalents at 31 Dec.		987	976	1,162	1,401	1,270
Sickness absence	%	2.6	3.6	3.5	3.5	3.5
Lost time injuries per million work hours		1.2	2.2	2.1	3.5	3.0
Total non-lost-time and lost-time injuries per million working hours		1.8	3.8	3.7	5.4	6.4

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 carry-forwards are calculated. See separate detailed description of alternative performance measures on page 112.
6. (Underlying operating profit + financial income) / Average capital employed.
7. (Underlying net income for the year + interest expense after tax) / Average capital employed.
8. Underlying net income 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

Steffen Syvertsen
CEO

Kristin A. Dale
HR & Communication

Jan Erik Eldor
Distribution

Svein Are Folgerø
Innovation

Anders Gaudestad
Energy management

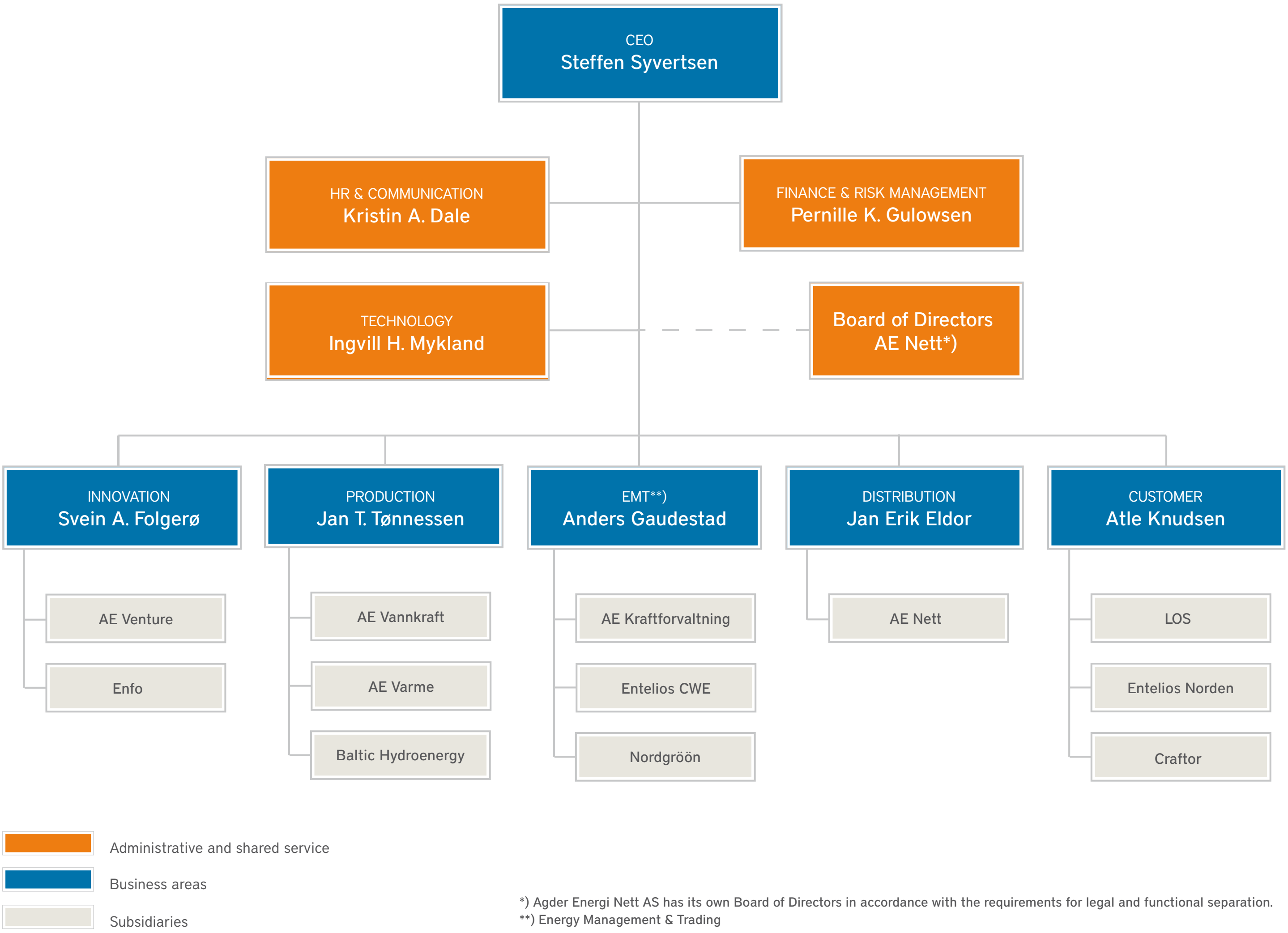
Pernille K. Gulowsen
Finance and risk management

Atle Knudsen
Customer

Ingvill H. Mykland
Technology

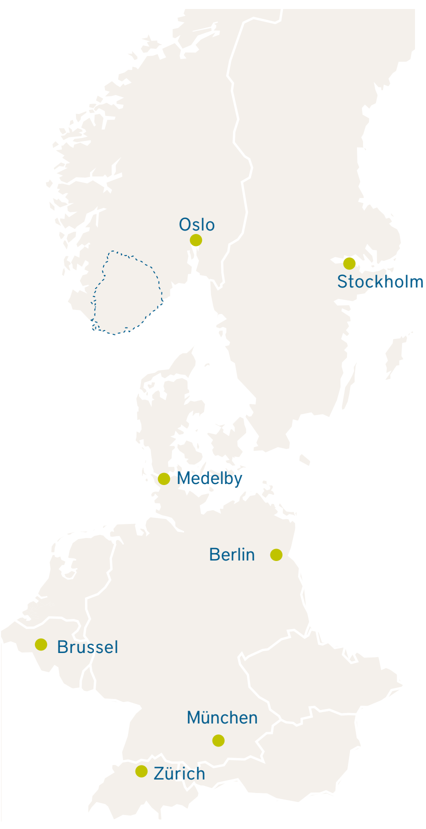
Jan T. Tønnessen
Production

GROUP STRUCTURE

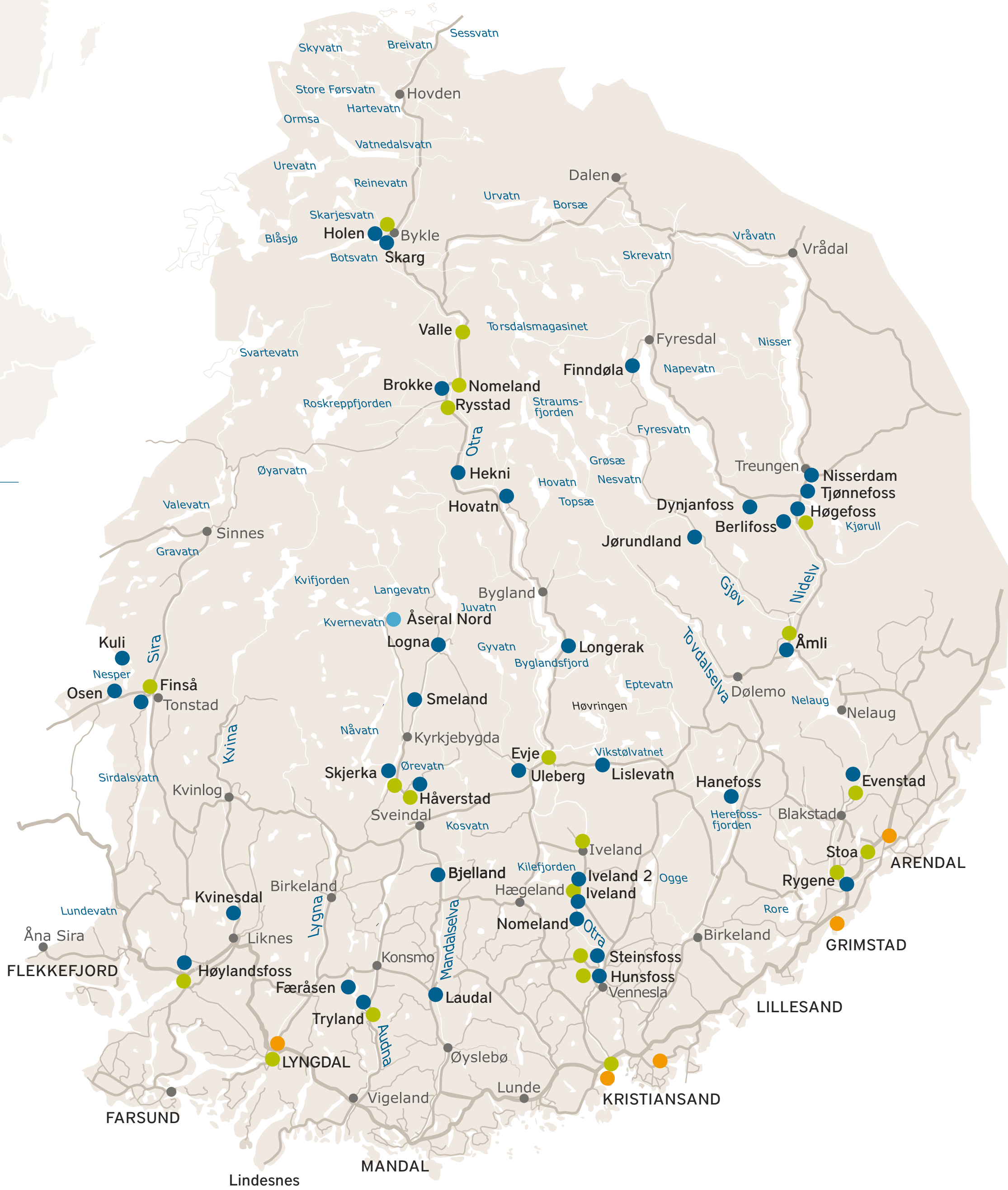


*) Agder Energi Nett AS has its own Board of Directors in accordance with the requirements for legal and functional separation.
**) Energy Management & Trading

WHERE WE OPERATE



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



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 the 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 & Trading 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. These ventures are 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 is 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 comprises the companies Entelios AS 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 the county of Agder. The company is an independent entity controlled by its own AGM and Board.

Marketing
The Marketing business area comprises the electrical contractor Craftor AB, the retailing business LOS AS, the district heating supplier Agder Energi Varme AS, Agder Energi Venture AS, and some strategic and financial investments.

- Craftor AB is a supplier of electrical infrastructure services that mainly operates in Sweden. It generates 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.

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.

HIGHLIGHTS 2019

In 2019 Agder Energi Varme expanded the district cooling network that uses cold seawater to cool buildings in Kristiansand.

In January Enova awarded NOK 210 million to eight projects to develop the energy systems of the future. Several Agder Energi companies are involved in three of these projects, which were awarded NOK 86 million between them.

In March, Agder Energi Varme expanded its district cooling network, which means that more buildings in Kristiansand city centre can now be cooled using seawater from the bottom of the fjord.

In the second quarter, the group purchasing organisation for the Norwegian hospital sector chose Entelios as its energy supplier. The agreement covers all of the hospitals in Norway, and the annual volume of electricity supplied will be 950 GWh. Including options to renew, this agreement may run until 2023.

The municipalities of Asker and Bærum, as well as around 20 other municipalities and municipal enterprises in eastern Norway, chose Entelios as their energy supplier in the second quarter. Including options to renew, this agreement may run until 2026. The annual volume of electricity is 350 GWh.

Agder Energi, Glencore, Elkem, Hydro, Saint Gobain and the Eyde cluster are working on a joint research project to make the manufacture and recycling of batteries more sustainable. The project has received NOK 11.75 million in support from the Research Council of Norway.

In August, Agder Energi's Board of Directors decided to appoint Steffen Syvertsen as the new CEO after Tom Nysted chose to retire.

In the third quarter, Telenor chose Entelios as its supplier of energy and energy-related services, including management. The annual volume of electricity involved is over 400 GWh. Including options to renew, the contract may run until 2024.

By the end of September, several milestones had been reached in the project to upgrade the Høgefoss distribution network in Nissedal Municipality in Telemark. The upgrade will facilitate, and is a prerequisite for, the expansion of Høgefoss power station and the construction of new small hydro plants in the area.

In September, Agder Energi was voted the third most innovative enterprise in Norway by *Innovasjonsmagasinet*. The jury highlighted Agder Energi's operations in Germany and the pilot project with Microsoft as good examples of innovation and business development.

In December, Agder Energi and Glitre Energi merged their new digital businesses in the electricity retailing sector into the newly established company Oss. The goal is to provide new services to the electricity customers of the future.

In December, Agder Energi changed its group structure and created a new group management team. The new structure aims to create a forward-looking organisational model that is even better at helping the company to achieve its strategic goals.

Agder Energi decided to sell its ownership interest in Grønn Kontakt to Statkraft in December. The sale frees up capital for other strategic investments.

In 2019, NOK 114 million was spent on identifying highrisk trees outside the line clearing corridor and maintaining a high level of line clearing.

WELL EQUIPPED FOR WHAT LIES AHEAD

This report is about Agder Energi's results for 2019, but at the time of this publication going to print, one event in 2020 is putting everything that happened last year in the shade. The coronavirus epidemic is having an unprecedented impact on our society, and it has already had a big impact on people's lives and health, as well as on economies and jobs in Norway and across the world. At the time of writing, it is very difficult to say how the situation will develop, and what impact it will have on the Group's operations and profitability over the coming period.

Agder Energi is responsible for infrastructure that is critical to society, and it has set in motion its central emergency management plan in order to prevent contagion and guarantee electricity supplies, so that society can continue functioning, even at a time of crisis like this.

2019 was an eventful year, both for Agder Energi and me. The Agder Energi Group is strongly positioned in an industry that is undergoing rapid technological and market-driven changes. For me personally, it was obviously a big transition and a massive vote of confidence to be asked to lead Agder Energi when Tom Nysted chose to retire. I'm looking forward to leading such a talented group of people with so many opportunities ahead of them into a new era.

Agder Energi's number one job is making sure that electricity reaches its customers, every day, all year around. In 2019 we were fortunately spared the extreme weather events that made 2018 unusually challenging, with extended power cuts that affected many of our customers. We can't control the weather, but what we can do is prepare ourselves by protecting the power grid against potential outages. In 2019 we therefore put significant resources into clearing trees along our electric power grid, which will make it more robust against the impacts of the weather.

For us to be able to perform our mission at all, we must give top priority to health and safety. I'm therefore delighted that our sickness absence rate has remained stable at low levels in recent years, and in 2019 it fell to a new record low of 2.6 percent. We will continue to take a proactive approach to health and safety throughout the group, based around creating a good working environment and eliminating risks.

Climate change has for a long time been an important driver in the renewable energy sector, but in 2019 it moved even further up the political agenda. My hope and ambition is that this will give fresh impetus to the global transition from fossil fuels to renewable energy.

I am convinced that the transition to a green economy will create business opportunities both here in Norway and in the rest of Europe. It is up to us to seize them. We have highly qualified staff and extensive experience of the renewable energy sector, and by combining that with expertise from other industries we can create new, exciting business ventures.

I want Agder Energi to be known for its innovation, and that is at the heart of many of the processes going on at the group. For example, in 2019 we started the pilot project NorFlex, where we are working with other organisations in the energy and technology sectors to test solutions to encourage customers to be more flexible in their electricity consumption.

Agder Energi is also playing an important role in Electric Region Agder, the project to turn Agder into the world's first fully electric region by 2030. Together with the authorities and the rest of the business community in the region, we will help to speed up the transition and to develop the necessary solutions.

I believe that fundamentally Agder Energi is well equipped for what lies ahead. I am privileged to be leading a company in 2020 whose long-term vision, strategy and operational goals are perfectly consistent with creating a sustainable society based on renewable energy. As well as making my job rewarding, it creates profitable business opportunities in a world where climate change is at the top of the political agenda.

However, as our financial results in 2019 show, Agder Energi will not automatically be the one that successfully seizes those opportunities. Uncertainty in fixed-income and equity markets is beginning to affect Nordic electricity prices, which are already at record lows. On top of that, the coronavirus epidemic is adding a whole new layer of uncertainty and instability. That means we have a challenging time ahead of us, but all we can do is work hard to achieve the goals in our corporate strategy and to deliver returns that meet the expectations of our shareholders.

Steffen Syvertsen
CEO

Dam Syrtveitfossen in Otra.

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 operating the grid. 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.

More information about CSR at Agder Energi can be found in the 2019 Corporate Social Responsibility Report, which is published alongside this annual report.

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 2019, the Group had NOK 4,082 million of equity, giving it an equity ratio of 17.5%. 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 Norwegian Corporate Governance Committee's 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 shareholders' 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 2019, based on an assessment of the results achieved against defined goals. The rest of the senior management team have no bonus agreements for 2019.

Details of the compensation of each individual member of the senior management team are presented in Note 31 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 2019.

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. Portfolio management helps us to see how risks affect the Group as a whole.

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. The Group's risk management strategy, including the associated appetite for risk, risk frameworks and authorisations, are reviewed and revised annually by the Board. 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. The Group gives priority to raising awareness within the Group of its ethical guidelines, standards and whistleblowing systems/procedures.

Agder Energi has systems for reporting unwanted incidents and suggested improvements both for its own employees and for subcontractors. The system is available through several platforms, including a mobile phone app and an online reporting tool, where people can report and record nonconformities, observations, suggested improvements, accidents and near misses. The reports are analysed, and all high risk incidents 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, reservoir reserves 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 started the year at record highs, but fell sharply in February, partly due to wet weather. Thermal power sources (such as coal and gas) also had a negative impact on electricity prices over the course of the year.

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 build up our expertise, 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. 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. In 2019, Agder Energi stepped up its preventive measures for extreme weather events by carrying out extra line clearing on its electric power grid. Agder Energi participates in the organisation "Kraftforsyningens beredskapsorganisasjon" (KBO) as a power generating company, district heating company and distribution system 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 ICT infrastructure, and to ensure that personal data are processed appropriately. It has implemented an extensive ICT security programme to protect itself against cyber attacks and system faults, and to ensure the secure and stable operation of its ICT systems. This will continue to be a priority going forward.

CORPORATE SOCIAL RESPONSIBILITY (CSR)

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 2019 on www.ae.no.

Agder Energi Nett supplies electricity to over 200,000 customers in Agder, including Smaken av Grimstad. This company uses local raw ingredients to produce tinned vegetables.

BOARD OF DIRECTORS' REPORT

DIRECTORS' REPORT

The Agder Energy Group supplies 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.

The Group's profit for the year under IFRS was NOK 1,122 million in 2019 (controlling interest's share), compared with a loss of NOK 198 million in 2018. Underlying* net income under IFRS was NOK 340 million (controlling interest's share), down from NOK 874 million in 2018. Agder Energi's hydropower stations generated 7,288 GWh of clean energy in 2019 (2018: 8,868 GWh).

HIGHLIGHTS

In the first quarter, a new generator was commissioned at Skjerka power station. It both increases the amount of power generated by 18 GWh and significantly increases our ability to optimise generation in response to electricity prices.

In March, Agder Energi Varme expanded its district cooling network, which means that more buildings in Kristiansand city centre can now be cooled using seawater from the bottom of the fjord.

In August, Agder Energi's Board of Directors decided to appoint Steffen Syvertsen as the new CEO after Tom Nysted chose to retire.

In September, Agder Energi was voted the third most innovative enterprise in Norway by Innovasjonsmagasinet. In its comments, the jury highlighted Agder Energi's operations in Germany and the pilot project with Microsoft as examples of innovation and business development.

In November, in a national survey of customer satisfaction and loyalty covering Norway's biggest electricity retailers, LOS and Entelios were ranked first by domestic and commercial customers respectively. The survey is carried out by the market research company EPSI Rating Norge.

Agder Energi Nett is focusing heavily on grid reliability. Prosjekt Skog 2020, which began in 2018, involves identifying high-risk trees outside the line clearing corridor and maintaining a high level of line clearing. In 2019, NOK 114 million was spent on this project.

The upgrade to Kuli dam in Sirdal was largely completed by the end of 2019. The work done will not increase electricity generation, but it will play an important role in maintaining the level of generation along the Finså river system in the future.

By the end of the year, several milestones had been reached in the project to upgrade the Høgefoss distribution network in Nissedal Municipality in Telemark. The upgrade is being done to improve grid reliability, and it is also a prerequisite for the expansion of Høgefoss power station and the construction of new small hydro plants in the area. The project involves building a new substation at Høgefoss, creating a new 132 kV line between the substation and Dynjanfoss power station and installing new switchgear at Dynjanfoss. The remaining stages of the project will be completed in 2020.

In 2019, Entelios won several major energy supply contracts. These include contracts with Telenor, the group purchasing organisation for the Norwegian hospital sector and Asker and Bærum municipalities, as well as with around 20 other municipalities and municipal entities in eastern Norway. The expected annual volume of these contracts is just under 2 TWh.

Agder Energi sold its ownership interest in Grønn Kontakt AS to Statkraft in December.

In December, Agder Energi and Glitre Energi merged their new digital businesses in the electricity retailing sector into the newly established company Oss. The goal is to provide new services to the electricity customers of the future.

In December, Agder Energi changed its group structure and created a new group management team. The new structure aims to create a forward-looking organisational model that is even better at helping the company to achieve its strategic goals.

In December, we discovered that the turbine at Rygene power station was damaged. This run-of-the-river plant at the bottom of the Arendal river system generates 280 GWh in an average year. A major repair is required, and the power station is expected to be unavailable until October 2020.

* 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 111 and 112 for further details.

FINANCIAL PERFORMANCE

In 2019, Agder Energi had NOK 14,097 million of operating revenues, almost unchanged from NOK 13,980 million in 2018. Lower electricity generation and lower realised prices meant that energy sales fell in 2019, while gains on electricity and currency contracts related to the Group's hedging activities made the biggest positive contribution.

The Group reported an operating profit of NOK 2,384 (967) million, and its net income (controlling interest's share) improved from a loss of NOK 198 million in 2018 to NOK 1,122 in 2019.

The reported operating profit was significantly affected by gains on cash-settled hedges. Under IFRS, changes in the value of these contracts are recognised through profit or loss as they arise. Forward electricity prices, particularly for the next few years, fell significantly in 2019, and unrealised gains on derivatives boosted net income by NOK 692 million. This contrasts with 2018, when forward electricity prices rose significantly, resulting in a NOK 1,049 million hit to net income.

In 2019 there were several changes to the regulations on public sector occupational pension plans. In conjunction with the transition to unit benefit plans, Agder Energi has chosen to transfer employees born in or after 1963 to a defined contribution plan, with effect from January 2020. The defined benefit pension plan will remain in place for employees born in 1962 and earlier. The changes to the pension regulations have been treated as a past service pension adjustment, with the impact on pension liabilities recognised in the income statement, both for the segments and in the consolidated financial statements. In the consolidated financial statements, a NOK 114 million pre-tax gain and a NOK 80 million post-tax gain have been recognised. This gain affects both the IFRS figures and underlying profit.

Net financial expenses came to NOK 126 (114) million. Interest on the Group's debt portfolio was NOK 271 (249) million. Capitalised interest rate expenses resulting from higher levels of investment came to NOK 23 (18) million, which meant that the net interest rate expense was NOK 248 (231) million. The Group's interest income was NOK 24 million (NOK 50 million). A NOK 15 million exchange rate loss (gain of NOK 27 million) was recognised. There was an unrealised NOK 29 (67) million gain on our interest rate swaps. Investments in associates contributed a NOK 110 million gain (NOK 9 million loss), with the improvement attributable to a gain on the disposal of the company Grønn Kontakt AS.

The Group's reported pre-tax profit under IFRS amounted to NOK 2,258 (853) million, and its tax expense was NOK 1,123 (1,057) million. The tax expense consists of NOK 485 (198) million of income tax and NOK 638 (859) million of resource rent tax. The higher income tax expense reflects higher pre-tax profit, while the fall in resource rent tax was caused by electricity generated having a lower spot value, due to a combination of lower production and lower spot prices, partly offset by a 1.3 percentage point increase in the resource rent tax rate to 37%.

The Group's underlying profit does not include unrealised gains and losses, which is the main reason for the big difference between reported and underlying profit. In 2019, the Group's underlying operating profit amounted to NOK 1,528 (2,298) million, while net income (controlling interest's share) fell to NOK 340 (874) million.

The Group's underlying performance was significantly impacted by lower profit at the hydroelectric power generation business, which made an operating profit of NOK 1,441 (2,358) million. The main explanation for this decline is lower power generation and lower realised prices. The Group generated 7,288 GWh (8,686 GWh) of hydroelectric power in 2019, down 1,398 GWh. The average realised price was 32.8 øre/kWh, compared with 39.2 øre/kWh in 2018.

The underlying contribution from the Group's distribution system business was once again weak in 2019. The reasons for this include lower recognised transmission revenues and more line clearing activities to reduce the risk of trees falling on power lines and causing outages. The Marketing segment's operating profit rose to NOK 153 (95) million, thanks to strong performances at the electricity retailer LOS and the electrical contracting firm Craftor.

Capital structure and cash flow

The aim behind the Group's management of its capital structure is to keep an appropriate balance between financial strength and investment capacity, while maintaining a strong credit rating of at least BBB+. When considering taking out new loans, Agder Energi seeks to achieve a smooth maturity structure. Agder Energi is also exposed to changes in interest rates on its debt. Our interest rate duration, which is managed by using fixed-interest loans and interest rate derivatives, was 4 years at the turn of the year.

Agder Energi's assets had a book value of NOK 23,021 million at the close of 2019, compared with NOK 22,616 in 2018. High investment levels at the Hydroelectric Power and Network segments pushed the value of property, plant and equipment up to NOK 16,123 (15,171) million at the end of the year.

The Group's book equity rose by NOK 556 million to NOK 4,082 (3,526) million at the year-end. This increase was the result of high reported IFRS profit less dividend distributions. The equity ratio rose to 18% (16%).

At the end of 2019, the Group had NOK 10,758 (9,260) million of interest-bearing liabilities. NOK 256 million of the NOK 1,498 million increase was due to the introduction of a new accounting standard for leases, IFRS 16. The standard requires the present value of future payments relating to operating leases to be capitalised on the statement of financial position. The average interest rate on the Group's liabilities was 2.7%, unchanged from the previous year. The Group had a liquidity buffer of NOK 3.1 (2.9) billion at the end of the year, consisting of unrestricted liquid assets and unused credit facilities.

Cash flow from operating activities came to NOK 502 million, compared with NOK 2,049 million the previous year. Several factors contributed to the decline. Firstly, underlying EBITDA fell by NOK 723 million. Secondly, cash flow from operating activities in 2018 was boosted by 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. These two classes of financial instruments will have the same cash flows over the long term, but they may vary within individual periods. In 2018, the futures contracts in the market produced a positive cash flow effect, which was partially reversed in 2019 through a negative cash flow effect arising from the forward contracts with customers. Thirdly, tax paid rose by NOK 381 million. Partially offsetting this, there was a positive contribution from the reduction in cash collateral for trading on Nasdaq.

Investment in property, plant and equipment and intangible assets amounted to NOK 1,456 (1,489) million. NOK 104 (92) million of this comprised investments in power distribution networks 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. The Hydroelectric Power and Network segments were responsible for 89% of the investments in property, plant and equipment. Receipts from the sale of investments came to NOK 140 million, compared with NOK 481 million in 2018. The biggest component of this was the sale of our shares in Grønn Kontakt AS in December.

NOK 592 (608) million in dividends was paid out to controlling and non-controlling interests. Net cash provided by operating activities less dividends therefore came to NOK -90 (1,441) million. This means that net investment for the year was financed by new borrowings.

Proposed dividends
Agder Energi's dividend policy states that the proposed dividend should be determined on the basis of the Group's underlying net income the previous year. This is to ensure that shareholders receive a predictable dividend income. The guideline dividend payout ratio is 70%, and the proposed dividend will be based on that. Due to great uncertainty about the long-term impacts of the new coronavirus and future electricity prices, the Board of Directors has decided to delay making a dividend proposal until the Board meeting on 7 May.

The parent company Agder Energi had net income of NOK 401 (796) million, and in the annual financial statements the net income for the year has been transferred to other reserves.

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

SEGMENTS

Agder Energi is organised as a corporate group, with Agder Energi AS as the parent company. The Group reports its segments in line with how the management team makes, reviews and evaluates its decisions. In 2019, its activities were split into four operating segments: Hydroelectric Power, Network, Energy Management & Trading and Marketing. Figures for the segments are based on Norwegian Generally Accepted Accounting Principles (NGAAP), as that is what is used for internal corporate governance purposes.

Hydroelectric Power
This segment is responsible for developing, operating, maintaining and refurbishing the Group's hydroelectric power stations, and it is one Norway's largest producers of electricity. Hydroelectric Power owns 49 hydroelectric power stations, directly or through joint arrangements, and in a normal year it expects to generate 8,100 GWh. Most of its power stations are in Agder, but it also owns some in the counties of Rogaland and Vestfold og Telemark. The segment's operating revenues come from the sale of the power that it generates in the spot market, electricity contracts with industrial customers, the sale of concession power and financial trading.

The Hydroelectric Power segment had NOK 2,785 (3,703) million of operating revenues in 2019, while its operating profit was NOK 1,441 (2,358) million. The main reasons why revenues fell by NOK 917 million are lower electricity generation and lower realised prices.

In 2019, the segment made a pre-tax profit of NOK 1,353 (2,281) million, and a profit after tax of NOK 414 (950) million.

As well as paying ordinary income tax, the hydroelectric power business also pays resource rent tax. The tax expense for the year amounted to NOK 939 (1,330) million. The effective tax rate rose to 69% (58%). The main reason for the high tax rate is that resource rent tax payable is calculated on the basis of spot prices for electricity, rather than achieved prices, with the latter being lower in 2019. Another factor that had a negative impact was the resource rent tax rate being raised from 35.7% in 2018 to 37.0% in 2019.

The segment generated 7,288 GWh (8,686 GWh) of hydroelectric power in 2019, down 16%. This was also approximately 10% lower than the Group's expected production in a normal year.

After low snowfall in the first quarter, the Group's hydrological resources (water and snow stored in its reservoirs and drainage basins) improved due to lower electricity generation and slightly higher precipitation than normal. Hydrological resources were better than normal at the end of the year, and reservoir reserves rose from 3.2 TWh at the start of the year to 3.7 TWh at year-end. All of Agder Energi's electricity is generated in the NO2 price zone. At the end of the year, the average reservoir level for all of the power generators in the price zone was 71% (68%) of capacity, two percentage points below the average for the past ten years.

In 2019, the average spot price in Agder Energi's pricing region (NO2) was 38.7 øre/kWh (41.5 øre/kWh), 7% lower than in 2018. Achieved prices were lower than spot prices in 2019 – 32.8 øre/kWh compared with 39.2 øre/kWh in 2018, a decline of 16%. This reflects the impacts of supplying concession power at regulated prices and long-standing industrial supply contracts, as well as a negative contribution from electricity price and currency hedges. Sales of guarantees of origin increased their contribution, whereas electricity trading performed significantly worse than in 2018.

Measured in nominal NOK, the average spot price in 2019 was the second highest it has been since 2010, only exceeded by 2018. Prices were high at the start of 2019 due to low reservoir reserves and cold weather. Prices then proceeded to fall in response to rising reservoir levels and falling marginal costs for gas-fired power stations, before strengthening again slightly in the final quarter of the year on account of slightly lower reservoir levels. In the NO2 region, the main reason why prices in 2019 were lower than in 2018 was lower German electricity prices. That was the result of lower gas prices and hence lower marginal costs at gas-fired power stations. During 2019, German electricity prices were influenced by the fact that it was cheaper to generate electricity from gas than from coal. This increased the impact of gas prices on electricity prices in Germany and hence also in the NO2 region.

NOK 680 (568) million was invested in property, plant and equipment in 2019. The biggest projects were at Åseral Nord, including building a new dam at Langevatn and refurbishing the tunnel between Langevatn and Nåvatn in Åseral, which has been affected by landslides. The dam is almost finished, and just the final part of the tunnel remains to be done. As well as increasing the reservoir and transfer capacity, the project is important as a risk mitigation measure. Most of the project to refurbish Kuli dam in Sirdal was completed in December. In addition, a major refurbishment project on the generator at Finså power station has been completed, and the control systems at Laudal and Høylandsfoss power stations have been upgraded.

Network

The Network segment is responsible for developing, operating and maintaining the transmission and distribution grid in Agder. The segment had NOK 1,452 (1,358) million of operating revenues in 2019. It made an operating profit of NOK 163 million, up from NOK 16 million in 2018.

The low revenues and operating profit in 2018 were due to heavy snowfall and storms. These events caused exceptional expenses and KILE (quality-adjusted income cap for energy not supplied). KILE is a reduction in the income cap imposed in the event of power cuts, designed to reflect the financial impact of the power cuts on customers.

In 2019, expenses related to fault resolution came to NOK 10 million, against NOK 143 million the previous year. An insurance payout linked to the extreme weather events in 2018 reduced the expense for 2019 by NOK 24 million. Adjusted for the insurance payout, expenses related to fault resolution were roughly in line with expectations. KILE reduced the income cap by NOK 48 (187) million, which was around NOK 20 million lower than expected. In 2019, the costs of fault resolution and KILE fell to their lowest levels in a number of years, down 44% and 42% respectively compared with the average for the past five years. The Network segment has taken action to reduce the risk of trees falling on its power lines and thereby causing power cuts. NOK 114 million was invested in this project during 2019. NOK 90 million of this has been expensed.

NOK 505 (671) million was invested in 2019, of which NOK 275 (492) million related to investments in new projects. NOK 72 (199) million of the total was invested in the smart meter project. Including NOK 105 (92) million of customer contributions, gross investment was NOK 610 (763) million.

The Network segment's contribution to the Agder Energi Group's operating profit and underlying operating profit under IFRS was NOK 83 million in 2019, compared with NOK 121 million the previous year. The difference between that figure and the operating profit stated above reflects a NOK -80 (105) million difference in revenue recognition. That difference is described in greater detail in Note 3.

Energy Management & Trading

This segment covers Agder Energi Kraftforvaltning, the Entelios companies and Nordgröön.

Agder Energi Kraftforvaltning is responsible for managing and maximising the return on the electricity generated by the Group, on behalf of Hydroelectric Power. It does this by trying to optimise scheduling and by managing market risks, taking into account hydrology, weather data and market analysis. The company is also responsible for the Group's trading portfolios. Revenues from hydroelectric power generation and gains and losses on the associated hedging instruments and trading contracts are included under Hydroelectric Power.

Entelios is one of the leading energy retailers in the Nordic region. In Norway, it 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 flexibility services.

In 2019, the segment's turnover was NOK 6,606 (7,599) million, with the reduction being caused by factors such as a lower managed volume in the German wind power portfolio. It made an operating loss of NOK 53 million, compared with a NOK 111 million loss in 2018.

The German business made an operating loss of NOK 68 (130) million. Loss-making areas included the sale of flexibility solutions, management of renewable energy and optimisation of distributed generation.

For the latter area, a NOK 80 million impairment was recognised in 2018, relating to losses on past contracts.

In the Nordic countries, Entelios had turnover of NOK 5,417 (5,472) million and made an operating profit of NOK 56 (33) million.

Marketing
The Marketing segment's turnover was NOK 2,461 (2,434) million in 2019, while its operating profit was NOK 153 (95) million. The main companies in this segment are LOS, Craftor and Agder Energi Varme. The Group's venture capital portfolio is also part of it.

The electricity retailer LOS's turnover was NOK 979 million in 2019, compared with NOK 942 million the previous year. It made an operating profit of NOK 62 (35) million. In spite of growing competition, LOS maintained its strong market position in Agder, and the volume of electricity it supplied was roughly in line with 2018. The agreement signed with Coop on becoming the exclusive electricity supplier to the organisation's 1.7 million members boosted sales elsewhere in Norway.

Craftor (formerly Otera Ratel) is a Swedish electrical contracting firm that designs, builds and maintains grid infrastructure and electric power systems at voltages up to 400 kV, specialising in substations and transmission and distribution infrastructure. In 2019, the company's turnover was NOK 912 (737) million. It made an operating profit of NOK 54 million, up from NOK 45 million the year before.

Agder Energi Varme develops, builds and supplies district heating and cooling services for homes and commercial buildings, mainly in Kristiansand, Arendal and Grimstad. The company's operations make an important contribution to promoting the use of green, renewable energy sources. Reusing surplus heat from waste incineration and a nickel refinery greatly reduces CO_2 emissions from space heating and hot water in Kristiansand city centre.

Agder Energi Varme's turnover in 2019 was NOK 116 (117) million, while its operating profit was NOK 17 (20) million. The volume of billable energy supplied in 2019 was 137 GWh (143 GWh). Although customer growth made a positive contribution, the volume supplied was lower than the previous year due to significantly milder weather than normal. Our hedging of energy contracts made a negative contribution. Investment totalled NOK 32 (17) 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 2019. Netsecurity and NEG saw the biggest increases. This reflected their strong underlying performances. The company EcoStor, which offers affordable energy storage systems based on second-hand electric car batteries, was added to the portfolio in 2019.

EMPLOYEES AND SKILLS DEVELOPMENT

Health and safety
The Group's sickness absence rate has remained steady at low levels in recent years, and in 2019 it was 2.6% (3.6%), the lowest on record. Of that, 0.7% (1%) was short-term absence and 1.9% (2.5%) was long-term absence (more than 16 days). 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.

3 (7) occupational accidents resulting in injury were recorded for our own employees in 2019. Of these, 2 (4) resulted in total lost time of 44 (43) days. The accident figures are equivalent to a lost time injury frequency (number of LTIs per million work hours) of 1.2 (2.2), a total injury frequency (number of injuries, whether or not they resulted in lost time, per million work hours) of 1.8 (3.8) and an injury severity rate (number of days lost per million work hours) of 25 (24).

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 2020 we are implementing a continuous improvement and training programme for all employees at Agder Energi. Root cause analysis is performed in the event of incidents with a high risk of injury. The aim is to learn even more from incidents that could have led to injuries, and to share knowledge across the Group.

Staff and organisational structure
At the close of 2019, the Group had 1,020 (1,005) full-time and temporary employees, representing 987 (976) full-time equivalents. The parent company had 173 (159) permanent employees at the end of the year. During 2019, 5 (8) apprentices worked at Agder Energi.

Women make up 26% (25%) of the Group's employees, and 42% (41%) of the parent company's. 21% (22%) of the Group's managers are women, and there are three women and six men in the senior management team. Women occupy 33% (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) AND SUSTAINABILITY

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 2019 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. High-level 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 to adapt to 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 build up our expertise, 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. 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, and to ensure that personal data are processed appropriately.

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.

Agder Energi Fleksibilitet is developing new business models, platforms and digital marketplaces through its investments in NODES, NODES-Tech, Flex Tools and Grid Tools. These investments are giving Agder Energi a foothold in the new digital ecosystem and networks of the flexible energy system of the future.

We are engaged in over 20 different pilot collaborative projects in 10 European countries, which are aiming to demonstrate new solutions through the practical application of technology and by developing new flexibility services. Additional aims of the pilot projects include influencing regulators and establishing new partnerships with adjacent industries. NorFlex is one of Agder Energi's own pilot projects that will use new technology to smooth out spikes in electricity consumption. The project aims to promote flexibility in electricity consumption, by paying households and companies to reduce their electricity consumption when there is high demand on the grid. The project has been awarded a NOK 22 million government grant through Enova.

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 distribution systems of the future. Agder Energi is involved in several one-off projects that are part-funded by the Research Council of Norway's ENERGIX programme, including a joint SINTEF-led project with oil and gas companies looking at clean energy exports from Norway.

In 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 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 NORCE, the Group supports the renewable energy research community in the region.

Agder Energi is involved in the "Electric Region Agder", which aims to make Agder Norway's first fully electric region. This innovation project is exploring possible business models and opportunities that will arise as growing areas of society are electrified. Together with Kristiansand Municipality and Agder County Council, Agder Energi has developed a model to assess the electrification level and potential of a town or region. This model has helped to define the direction of the project. Following on naturally from this, tomorrow's cities were the theme for the Agder Energi Conference "The Next Generation – Electric City" that was held in May 2019.

EVENTS AFTER THE REPORTING PERIOD

There have been no incidents in 2020 that have a significant impact on the financial statements for 2019. Events after the reporting period that may impact the Group's future financial performance are discussed below under the outlook.

OUTLOOK

In recent years, there have been several mergers in the electric power industry, and this trend is expected to continue. The Board of Directors believes that there are significant synergies to be gained from greater consolidation, including greater capacity for continuous improvement and innovation in the face of a rapidly-changing energy system. Agder Energi wishes to actively support the continuing consolidation of the industry, provided this adds value for our shareholders and is generally beneficial to the company.

Hydroelectric Power

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 30 øre/KWh. After reaching a trough of 17.7 øre/kWh in 2015, prices rose significantly over the following three years to 41.5 øre/kWh in 2018. In 2019, the electricity price in the NO2 region was 38.7 øre/kWh, down 7% from the previous year.

Over the short term, temperatures and precipitation have a big impact on electricity prices in the Nordic region, but electricity prices here are also closely linked to German electricity prices and hence the price of coal, gas and CO_2, which are important cost drivers for electricity generation in our neighbouring markets. The price remained high in 2019 particularly on account of low snowfall in winter combined with reservoir storage levels being close to the average for the past ten years. Although German electricity prices were lower in 2019 than in 2018, prices remain high compared with prices back in 2013.

The mild and wet winter in 2020 has led to a sharp decline in forward prices, suggesting that electricity prices will be significantly lower in 2020 than in 2019. Meanwhile, the coronavirus outbreak is having a big impact on the whole global economy. It has caused big falls on stock markets all around the world, as well as in the prices of oil, coal, natural gas and CO2. A drop in manufacturing activity, and business activity in general, will reduce demand for electricity and lead to lower electricity prices. However, the very low electricity prices in the Nordic region at the moment are being driven by high precipitation, strong wind and high temperatures. We expect that the coronavirus outbreak will primarily act as a brake on any rise in electricity prices, which isn't expected until after summer when the weather-related effects potentially unwind. However, the weakening of the Norwegian krone against the euro may somewhat counteract low electricity prices, as our electricity is traded in euros. The Group's hedges mean that the electricity prices achieved by Agder Energi will not fall as much as market prices.

At the end of the year, the Group's hydrological resources (water and snow) were above normal. They have continued to increase over the course of the winter, and they are now significantly higher than normal. Assuming normal precipitation levels over the coming months, we expect significantly higher hydroelectric power generation and higher energy sales in 2020 than 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. On the other hand, electricity generation is expected to rise sharply, particularly as a result of new wind farms. The electricity surplus in the Nordic region is therefore expected to grow between now and 2030. 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.

Energy Management & Trading

The main task of the Energy Management & Trading segment is managing the hydroelectric power generated by Agder Energi by optimising scheduling and by controlling market risk. In addition, it adds value through electricity-related trading which involves using much of the same expertise on hydrology, weather data and market analysis as is needed for managing the Group's own production.

Climate change is a key driver of the big changes taking place in electricity markets. An ever growing share of renewable energy is displacing traditional thermal power generation in our neighbouring countries. This development is making the electricity market even more weather-dependent, and price volatility is expected to rise in parallel with the rising share of wind and solar power. These changes are making existing markets more complex, while system and balancing markets are being developed to deal with the new challenges. We will need to build up the necessary knowledge, expertise and analytical skills, as well as developing models and new technology, in order to continue adding value from energy management. This applies both to the value we add to our own electricity generation and trading, and to our management of market risk and financial challenges on behalf of market players who don't have that capacity themselves.

Up until 2019, Energy Management & Trading has used the Entelios brand for its customer-facing activities in the Nordic region and Germany. The business in the Nordic region manages 30 TWh of electricity, and through services such as energy management it added significant value for its customers in 2019. 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.

The growth of renewable energy sources in the European power system is increasing the proportion of non-dispatchable generation, creating a growing need for flexible resources. Entelios' German business operates in the German markets for demand response, short-term trading and managing renewable energy generation.

The market for managing renewable energy generation has been challenging, with high imbalance costs. Demand response services still face stiff competition in the market, including from fossil fuel-based sources of flexibility. Germany has decided to gradually close down all of its coal-fired power stations by 2038, which is expected to make demand response more competitive in these markets, although flexible gas-fired power stations will remain a competitor.

There is still a lot of focus on the carbon footprints of companies, and hence a desire to document the purchase of renewable energy equivalent to their electricity consumption. Nevertheless, the price of guarantees of origin fell in 2019 compared with 2018. The Energy Management & Trading business area is well positioned to offer value-adding management services in this market.

Network

The Network segment implemented wide-ranging corrective measures after the extensive power cuts in 2018. Work on line clearing has been a priority, and there have also been significant upgrades to the power grid. In 2020 the Agder region once again experienced periods of heavy snowfall and strong winds, but this did not significantly affect the supply of electricity. This strongly suggests that the action taken has been effective.

The Network segment aims to provide customers in Agder with the highest possible grid reliability at the lowest possible cost. This involves continuously evaluating whether traditional types of investments can be replaced with alternative measures. One important tool that may become increasingly significant in the future is distribution system operators being able to make greater use of load response provided by both consumers and producers. In addition, more instrumentation has been added at all levels of the grid structure, which is expected to support more efficient operation.

In the coming years, society's energy consumption will undergo a major transformation. The aim is to convert it from fossil fuels to zero-emission sources in the space of just a few years. Electrification will be one of the most important tools in this transition, and distribution system operators will play a key role. Electrification doesn't just involve changes to the power grid, it is also about transport and urban planning, etc., so there will be a need for close cooperation between distribution system operators and other sectors of society.

Marketing

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.

For the electrical contracting firm Craftor, we expect higher investment in the Swedish regional and national transmission grids, but lower investment in the distribution grid, particularly in rural areas. In cities and towns, the market is expected to be strong in all of the areas where the company operates. There is stiff competition in some parts of the market, but in niches requiring specialist expertise, and for some design and build contracts, the company enjoys a leading position.

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

The coronavirus crisis

After the financial statements for 2019 were finalised, the coronavirus outbreak has developed into a global pandemic. Agder Energi has set up a dedicated emergency response team that is reporting directly to the CEO. A number of measures have been implemented to reduce the risk of contagion and prepare for any deterioration in the situation. Our main focus is on protecting our own employees, contractors and suppliers, and as part of Agder Energi's responsibility to society, helping to reduce the risk of infection in society as a whole.

We are also focusing hard on keeping our operations going, and at the time of publication of the annual report, they had not been affected by the coronavirus outbreak. Agder Energi always aims to have adequate financial flexibility, and since the start of the year it has further increased its liquidity buffer by adding to its unused credit facilities.

Kristiansand, 2. April 2020
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

Oddvar Emil Berli
Board member

Sverre Hallvard Hamre
Board member

Morten Johnsen
Board member

Steffen Syvertsen
CEO

LOS is Norway's fourth largest electricity retailer, and it supplies electricity to domestic customers in Agder and throughout the rest of Norway. The photo shows Grimstad town centre during late evening.

BOARD OF DIRECTORS


Lars Erik Torjussen


Tine Sundtoft


Jill Akselsen


Leif Atle Beisland


Jon Vatnaland


Marit Grimsbo


Asbjørn Grundt


Siw Linnea Poulsson


Johan Ekeland


Oddvar Emil Berli


Sverre Hallvard Hamre


Morten Johnsen

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 2020
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
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Marit Grimsbo
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Siw Linnea Poulsson
Board member

Johan Ekeland
Board member

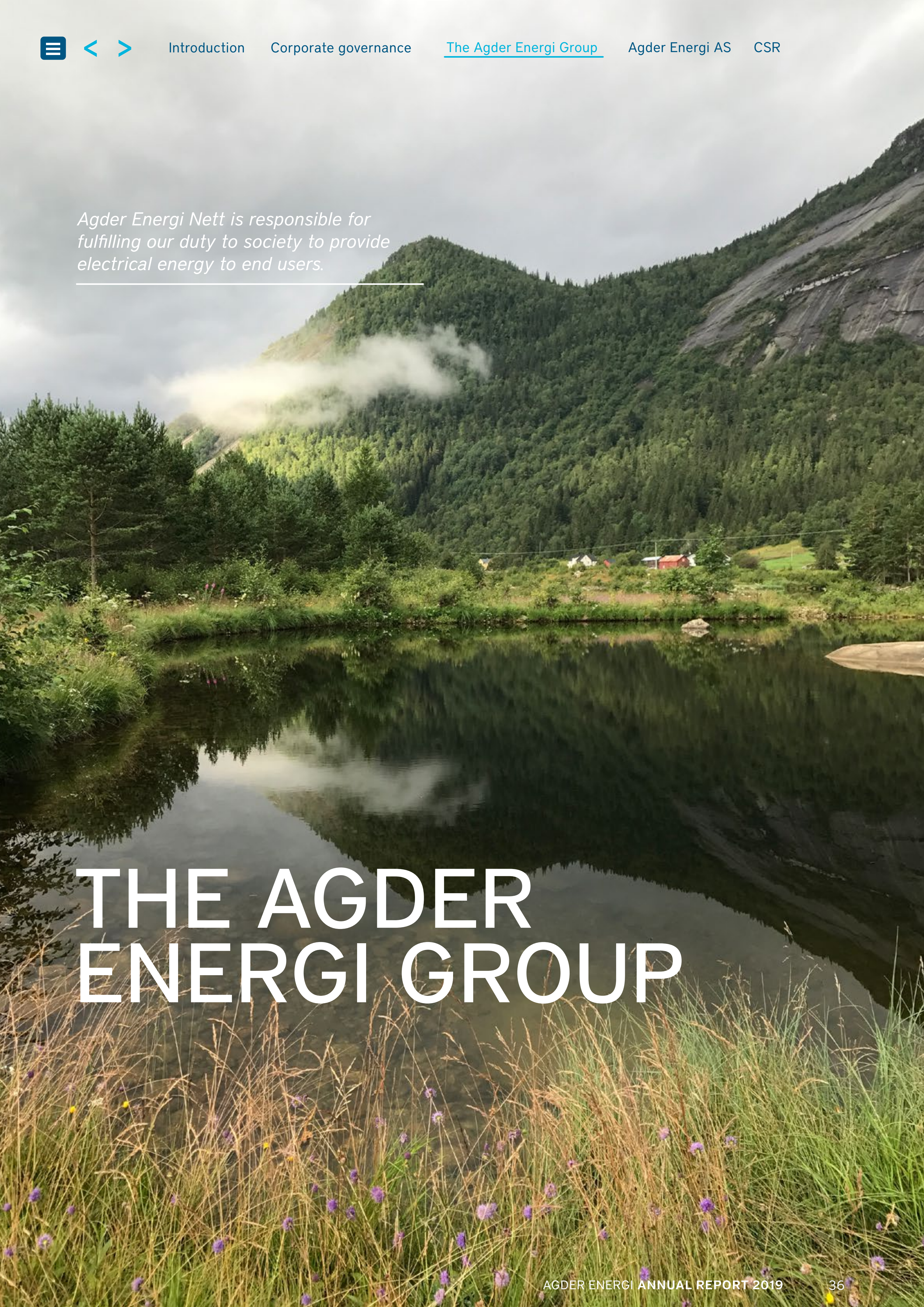
Oddvar Emil Berli
Board member

Sverre Hallvard Hamre
Board member

Morten Johnsen
Board member

Steffen Syvertsen
CEO

Agder Energi Nett is responsible for fulfilling our duty to society to provide electrical energy to end users.



THE AGDER ENERGI GROUP

THE AGDER ENERGI GROUP

FINANCIAL STATEMENTS

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NOTES

INCOME STATEMENT

(Amounts in NOK million)	Note	2019	2018
Energy sales	2	11,182	12,648
Transmission revenues	3	1,256	1,313
Other operating revenues	4	1,412	1,406
Gains and losses on energy and currency contracts	6	247	-1,387
Total operating revenues		**14,097**	**13,980**
Energy purchases	2	-7,842	-9,012
Transmission expenses		-390	-339
Other raw materials and consumables used	4	-843	-766
Employee benefits	7	-812	-974
Depreciation and impairment losses	13	-706	-659
Property taxes and licence fees	8	-192	-195
Other operating expenses	9	-928	-1 068
Total operating expenses		**-11,713**	**-13,013**
Operating profit		**2,384**	**967**
Share of profit of associates and joint ventures	11	110	-9
Financial income	11	25	77
Unrealised gains and losses on interest rate contracts	11	29	67
Financial expenses	11	-289	-249
Net financial income/expenses		**-126**	**-114**
Profit before tax		**2,258**	**853**
Income tax	12	-485	-198
Resource rent tax	12	-638	-859
Tax expense		**-1,123**	**-1,057**
Net income		**1,135**	**-204**
Of which attributable to non-controlling interests	34	14	-6
Of which attributable to controlling interest		1,122	-198

COMPREHENSIVE INCOME

(Amounts in NOK million)	Note	2019	2018
Net income		**1,135**	**-204**
Other comprehensive income and expenses			
Cash flow hedges	28	-13	11
Translation differences		-3	-14
Tax impact	12	3	-5
Total items that may be reclassified to income statement		**-13**	**-8**
Remeasurements of pensions	22	38	-312
Tax impact	12	-17	92
Total items that will not be reclassified to income statement		**21**	**-220**
Total other comprehensive income and expenses		**8**	**-228**
Comprehensive income		**1,143**	**-432**
Of which attributable to non-controlling interests	34	15	-4
Of which attributable to controlling interest		1,128	-428

STATEMENT OF FINANCIAL POSITION

(Amounts in NOK million)	Note	**31.12.19**	31.12.18
Deferred tax assets	12	277	450
Intangible assets	14	400	326
Property, plant and equipment	15	16,123	15,171
Investments in associates and joint ventures	16	66	95
Derivatives	26	958	834
Other non-current financial assets	17	1,268	1,508
Total non-current assets		**19,093**	**18,384**
Inventories		133	158
Receivables	18	3,095	3,511
Derivatives	26	569	180
Cash and cash equivalents	19	131	383
Total current assets		**3,928**	**4,232**
TOTAL ASSETS		**23,021**	**22,616**
Paid-in capital	20	1,907	1,907
Retained earnings		2,142	1,592
Non-controlling interests		33	27
Total equity		**4,082**	**3,526**
Deferred tax	12	1,578	1 ,227
Provisions	21	2,032	2,010
Derivatives	26	825	1,148
Interest-bearing non-current liabilities	23	8,386	7,603
Total non-current liabilities		**12,820**	**11,988**
Interest-bearing current liabilities	23	2,372	1,657
Tax payable		653	1,023
Derivatives	26	549	1,111
Other non-interest-bearing current liabilities	24	2,545	3,311
Total current liabilities		**6,118**	**7,102**
TOTAL EQUITY AND LIABILITIES		**23,021**	**22,616**

Kristiansand, 2. April 2020
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	Sverre Hallvard Hamre Board member
Siw Linnea Poulsson Board member	Johan Ekeland Board member	Oddvar Emil Berli Board member	Asbjørn Grundt Board member	Morten Johnsen Board member	Steffen Syvertsen CEO

STATEMENT OF CASH FLOWS

(Amounts in NOK million)	Note	**2019**	2018
Cash flow from operating activities			
Profit before tax		2,258	853
Depreciation and impairment losses	13	706	659
Unrealised gains/losses on energy, currency and interest rate contracts	6, 11	-1,393	1,558
Share of profit of associates and joint ventures	11	-110	9
Gain/loss on sale of businesses		0	4
Tax paid		-990	-609
Change in trade receivables	18	-215	-181
Change in trade payables	24	-144	474
Change in net working capital, etc.		391	-718
Net cash provided by operating activities		**502**	**2,049**
Investing activities			
Purchase of property, plant, equipment and intangible assets	14, 15	-1,352	-1,397
Purchase of property, plant and equipment paid for by customers	15	-104	-92
Purchase of businesses/financial assets		-41	-94
Net change in loans		-2	165
Sale of property, plant, equipment and intangible assets		1	248
Sale of businesses/financial assets		139	68
Net cash used in investing activities		**-1,359**	**-1,102**
Financing activities			
New long-term borrowings	23	1,946	1,424
Repayment of long-term borrowings	23	-1,407	-961
Net change in current liabilities	23	658	-480
Dividends paid		-592	-608
Net cash used in financing activities		**605**	**-625**
Net change in cash and cash equivalents		**-252**	**322**
Cash and cash equivalents at start of period		383	61
Cash and cash equivalents at end of period	19	131	383

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 01/01/2018	**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**
Equity at 01/01/2019	**1,907**	**-94**	**-7**	**1,693**	**3,499**	**27**	**3,526**
Net income for the year	0	0	0	1,122	**1,122**	14	**1,135**
Other comprehensive income and expenses	0	-10	-4	21	**7**	1	**8**
Dividends paid	0	0	0	-592	**-592**	0	**-592**
Other changes in equity	0	0	0	14	**14**	-9	**5**
Equity at 31/12/2019	**1,907**	**-104**	**-11**	**2,257**	**4,049**	**33**	**4,082**

GENERAL INFORMATION AND SUMMARY OF THE MOST IMPORTANT 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.

SUMMARY OF THE MOST IMPORTANT ACCOUNTING PRINCIPLES

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 case of certain financial assets and liabilities (including cash-settled derivatives) that are measured at fair value.

Changes to accounting principles

In 2019 Agder Energi adopted IFRS 16 – Leases. The way in which it has been implemented is described in greater detail below. There have been no other changes to the accounting principles since 2018.

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

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

The performance obligation is to transport energy, and the transaction price is the consideration that the Group expects to receive. 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. The right to invoice arises when the electricity has been transported, and the right to invoice normally corresponds directly to the value to the customer.

Each year, distribution system operators receive customer contributions for new connections and grid upgrades. A critical judgement in relation to the distribution system business is whether this is a separate performance obligation in accordance with IFRS 15 or if it is linked to the future transport of energy. Agder Energi's best judgement is that customer contributions are not the consideration payable for a separate performance obligation under IFRS 15, but are rather linked to future electricity distribution. Therefore, the customer contribution is recognised over a period equivalent to the anticipated useful life of the asset that has been built.

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.

Revenues from contracting services

Revenues from contracting services relate to contracts to design, build and maintain the electric power grid and electric power systems. Revenues are recognised 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 as contract assets (current receivables), while advance payments received are included under contract liabilities (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 2019. 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 average monthly exchange rates. 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 that are not measured at amortised cost. All derivatives must be measured at fair value through profit or loss, 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, guarantees of origin 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, guarantees of origin 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 financial period are therefore presented net in the statement of financial position.

In the income statement, gains and losses on derivatives are presented 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
Financial assets are classified as being measured at amortised cost if the cash flows are solely payments of interest and principal, and if the instruments are held within a business model whose objective is to collect contractual cash flows. 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. In most cases the interest component is insignificant, in which case the trade receivables are measured at their nominal value less any impairment losses.

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.

For most of its hedging relationships, the Group has chosen not to meet the documentation requirements for hedge effectiveness established by the accounting standards. 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 cash flow hedges under IFRS 9, and they are accounted for accordingly. These hedging relationships are presented in the consolidated finanzcial statements as follows: 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.

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. Any natural resource tax that cannot be fully offset against income tax can be carried forward and deducted from income tax in subsequent years. In such cases, the portion of the natural resource tax that has not been offset is recognised as an asset.

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 it is payable at a rate of 37% of the net resource rent estimated for each individual power station. The resource rent is estimated from the hourly output of the individual power station, multiplied by the spot price for the corresponding hour. In the case of concession power and power supplied under long-term contracts with a duration of more than seven years, the actual contract price is applied. Actual operating expenses, tax-deductible depreciation and a tax-free allowance are deducted from the estimated gross rent in order to reach the net taxable resource rent. The tax-free allowance is determined each year by multiplying the tax value of the power station's property, plant and equipment by a standard interest rate set by the Ministry of Finance. In 2019 the standard interest rate was 1.2%. Positive and negative resource rent can be offset between power stations. This does not apply to negative resource rent arising prior to 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 2.1% for 2019.

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.

Tax uncertainties

In certain situations, it can be unclear how tax rules should be applied or interpreted. As a general rule, in such cases the financial statements will reflect Agder Energi's interpretation of the rules. However, this does not apply in cases where the tax authorities have issued, or notified that they will issue, a ruling that conflicts with Agder Energi's view. In those cases, the financial statements reflect the interpretation of the tax authorities, even if Agder Energi disagrees and has appealed against the ruling.

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 upgrades/improvements.

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
When signing contracts, Agder Energi assesses to what extent they include a lease, i.e. whether they include a right to control the use of an identifiable asset for a period of time in exchange for consideration. For leases, the present value of regular rent payments is recognised as an interest-bearing liability, and the right of use as a non-current asset, from the date on which the asset is made available to the Group. In subsequent periods, the lease liability is adjusted for accrued interest and rent payments, while the right-of-use asset is adjusted for depreciation and impairment losses. Linear depreciation is applied over the anticipated useful life.

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

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

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

Inventories
Inventories are carried at the lower of cost

and fair value less costs to sell. The acquisition cost is calculated using the FIFO principle.

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

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

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

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

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

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

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

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

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

The pension expense for the period is included under employee benefits. It consists of the sum of the current service cost, interest on net pension liabilities, past service pension adjustments 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
The IASB has published a number of amendments, new accounting standards and interpretations that have come into force as of the 2019 financial year. It is only the new standard on leases that has had a significant impact on Agder Energi's financial statements.

IFRS 16 – Leases:
IFRS 16, which replaces IAS 17 Leases, was implemented by Agder Energi as of 01/01/2019. 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 has been implemented using the modified retrospective method. This means that the comparative figures have not been restated. The Group has made use of the exemption in the standard that allows it to continue identifying leases according to past practice. On the transition date, assets are measured individually at a value equivalent to the lease liability. No adjustments have been made for any prepaid and/or accrued rent payments as the amounts involved are insignificant.

The tables below show the impact of implementing IFRS 16. The first part shows the effect on the statement of financial position on the implementation date. The second part shows the effect on the income statement for 2019. Capitalised leases mainly comprise leased office premises. In addition, there are leased vehicles, machinery and equipment.

Balance sheet effects

(Amounts in millions of NOK)	31/12/2018	Effect of IFRS 16	01/01/2019
Property, plant and equipment	15,171	262	15,433
Equity	3,526	0	3,526
Interest-bearing non-current liabilities	7,603	215	7,818
Interest-bearing current liabilities	1,657	47	1,704

Income statement effects

(Amounts in millions of NOK)	2019 income statement excl. IFRS 16	Effect of IFRS 16	2019 income statement
Depreciation	-652	-54	-706
Other operating expenses	-985	57	-928
Financial expenses	-282	-7	-289
Net effect on pre-tax profit		-4	

Cash flow effects

(Amounts in millions of NOK)	2019 cash flow excl. IFRS 16	Effect of IFRS 16	2019 cash flow
Net cash provided by operating activities	445	57	502
Net cash used in financing activities	662	-57	605

Reconciliation of lease liabilities at 01/01/2019 with operating lease liabilities at 31/12/2018

(Amounts in millions of NOK)	
Operating lease liabilities at 31/12/2018	296
Average marginal interest rate on loans	2,5 %
Discounted operating lease liabilities at 01/01/2019	274
Non-capitalised short-term and low-value asset leases	12
Lease liabilities at 01/01/2019	**262**

The IASB has made amendments to existing accounting standards that had not yet entered into force at the end of 2019. None of these amendments are expected to have a material impact on Agder Energi's financial statements.

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, embedded derivatives 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 25. 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 on best judgement. The estimated useful life is adjusted if new information implies that the current useful life is no longer the best estimate. The residual value, which is taken into account when calculating depreciation, is also estimated.

The Group spends significant amounts on maintenance and upgrades to its property, plant and equipment. Best judgement is used to determine whether any given expenditure is an upgrade (capitalised) or maintenance (expensed). 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 millions of NOK)	Note	Hydroelectric Power 2019	Energy management 2019	Network 2019	LOS 2019	Craftor 2019
INCOME STATEMENT	Note					
Operating revenues		2,785	6,606	1,452	979	912
- of which external operating revenues		2,623	6,406	1,397	967	912
- of which internal operating revenues		162	200	54	12	0
Energy and transmission expenses		-430	-6,241	-487	-802	0
Other raw materials and consumables used	4	0	-2	0	-3	-690
Employee benefits	7	-79	-199	-87	-41	-122
Other operating expenses	8, 9	-555	-195	-439	-70	-45
Operating profit before depreciation and impairment losses		**1,721**	**-30**	**439**	**65**	**56**
Depreciation and impairment losses	13	-280	-23	-276	-2	-2
Operating profit		**1,441**	**-53**	**163**	**62**	**54**
Share of profit of associates and joint ventures	11	0	0	0	0	0
Financial income	11	31	6	3	4	0
Financial expenses	11	-119	-12	-102	-1	-7
Net financial income/expenses		**-88**	**-7**	**-99**	**4**	**-7**
Profit before tax		**1,353**	**-60**	**64**	**66**	**47**
Tax expense	12	-939	-4	-13	-15	-8
Net income		**414**	**-64**	**50**	**51**	**38**
STATEMENT OF FINANCIAL POSITION						
Total assets		10,028	2,255	6,313	572	200
Equity		2,303	395	863	114	-43
Total segment liabilities		7,724	1,861	5,450	458	242
Capital employed 1)		7,518	608	4,836	114	93
Interest-bearing liabilities	23	5,215	213	3,974	0	135
Funds from operation (FFO) 2)		1,103	-26	435	69	53
Carrying amount of associates and joint ventures	16	0	0	0	0	0
Investments in intangible assets 3)		0	0	61	22	0
Investments in property, plant and equipment 3)		680	12	444	-10	2
Number of full-time equivalents		141	197	172	39	127

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 millions of NOK)		Parent/ Other 2019	Eliminations 2019	Total (NGAAP) 2019	IFRS adjus-tments 2019	Total (IFRS) 2019
INCOME STATEMENT	Note					
Operating revenues		899	-745	12,888	1,209	14,097
- of which external operating revenues		582	0	12,888	1,209	14,097
- of which internal operating revenues		317	-745	0	0	0
Energy and transmission expenses		-101	276	-7,783	-449	-8,232
Other raw materials and consumables used	4	-149	0	-843	0	-843
Employee benefits	7	-328	45	-812	0	-812
Other operating expenses	8, 9	-308	434	-1,177	57	-1,120
Operating profit before depreciation and impairment losses		**13**	**11**	**2,273**	**816**	**3,090**
Depreciation and impairment losses	13	-60	0	-644	-61	-706
Operating profit		**-47**	**11**	**1,630**	**756**	**2,384**
Share of profit of associates and joint ventures	11	110	0	110	0	110
Financial income	11	1,004	-1,024	25	29	54
Financial expenses	11	-569	538	-274	-16	-289
Net financial income/expenses		**544**	**-486**	**-139**	**13**	**-126**
Profit before tax		**497**	**-475**	**1,491**	**768**	**2,258**
Tax expense	12	21	0	-958	-165	-1,123
Net income		**518**	**-475**	**533**	**603**	**1,135**
STATEMENT OF FINANCIAL POSITION						
Total assets		14,351	-13,383	20,335	2,686	23,021
Equity		3,873	-3,130	4,374	-292	4,082
Total segment liabilities		10,479	-10,253	15,961	2,977	18,938
Capital employed 1)		13,751	-12,044	14,876	-36	14,840
Interest-bearing liabilities	23	9,878	-8,913	10,502	256	10,758
Funds from operation (FFO) 2)						2,585
Carrying amount of associates and joint ventures	16	66	0	66	0	66
Investments in intangible assets 3)		38	15	136	0	136
Investments in property, plant and equipment 3)		83	1	1,212	411	1,623
Number of full-time equivalents		312		987		987

1) Equity + interest-bearing liabilities.

2) Underlying EBITDA + dividends from associates and joint ventures + financial income - tax payable.

3) Includes additions of intangible assets and property, plant and equipment through business combinations.

(Amounts in millions of NOK)		Hydroelectric Power 2018	Energy management 2018	Network 2018	LOS 2018	Craftor 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		**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.

(Amounts in millions of NOK)		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		**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	64
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.

Segment information is presented consistently with internal reporting to the Group management team (the Group's senior decision-makers). 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 segments will change in 2020 to reflect the new Group structure.

The Network business area is presented as a separate segment. The business area is responsible for electric 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 & Trading 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 Craftor (previously Otera AB) 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 Craftor 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 Craftor 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 millions of NOK)	**2019**	2018
Norway	9,804	10,482
Sweden	2,536	2,987
Germany	1,131	1,782
Other countries	380	116
Total energy sales, transmission revenues and other operating revenues	**13,850**	**15,367**
Unrealised gains and losses on energy and currency contracts	247	-1,387
Total operating revenues	**14,097**	**13,980**

Geographic distribution of assets based on location of business

(Amounts in millions of NOK)	**2019**	2018
Norway	21,875	21,016
Sweden	881	1,110
Germany	155	417
Other countries	111	73
Total assets	**23,021**	**22,616**

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. Energy sales only covers revenues from physical energy sales to customers, while the income statement effects of financial contracts are presented as gains and losses on electricity and currency contracts, see Note 6. Long-term physical delivery contracts with industrial customers total around 20 TWh over the period from now until 2030.

The Group's energy sales and purchases are specified in the tables 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.

External energy sales by segment

(Amounts in millions of NOK)	**2019**	2018
Hydroelectric Power	3,093	3,470
Energy Management & Trading	6,900	8,046
Network	31	42
LOS	956	904
Craftor	0	0
Other	202	186
Total	**11,182**	**12,648**

Energy sales by category

(Amounts in millions of NOK)	**Segment**	**2019**	2018
Power generation	Hydroelectric Power and other	3,248	3,675
Retail market	Energy Management & Trading and LOS	6,560	7,224
Network	Network	31	43
District heating	Other	197	188
Market operations 1)	Energy Management & Trading	1,374	1,764
Eliminations		-229	-245
Total		**11,182**	**12,648**

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 by category

(Amounts in millions of NOK)	**2019**	2018
Power generation	328	226
Retail market	6,172	6,972
Network	148	178
District heating	108	92
Market operations	1,332	1,788
Eliminations	-246	-244
Total	**7,842**	**9,012**

The table below shows key figures for our power generating activities

	2019	2018
Net electricity generation (less pumping) (GWh)	7,288	8,686
Reservoir reserves at 31 Dec. (GWh)	3,724	3,180
Reservoir reserves as % of capacity	71%	61%

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 553 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 loss of revenue (compared with market prices) arising from future deliveries of concession power 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)	**2019**	2018
Volume of concession power (GWh)	553	555
Regulated price (øre/kWh)	11.0	11.2

NOTE 3 TRANSMISSION REVENUES

Transmission revenues come from the Network segment.

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 network tariffs payable by customers. In the event of any difference between actual and expected volumes, revenues from network 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 network tariff revenues are recognised in the income statement.

(Amounts in millions of NOK)	**2019**	2018
Revenues under next year's income cap recognised in the consolidated income statement	-86	105
Accumulated surplus transmission revenues not included on the statement of financial position	251	337

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

Other operating revenues

(Amounts in millions of NOK)	Note	**2019**	2018
Contracting	5	912	953
Other revenues		499	453
Total		**1,412**	**1,406**

Other raw materials and consumables used

(Amounts in millions of NOK)	Note	**2019**	2018
Contracting	5	689	626
Other purchases		153	140
Total		**843**	**766**

NOTE 5 REVENUES FROM CONTRACTING SERVICES

Revenues from contracting services relate to Craftor, which carries out projects for its customers. Operating revenues are 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 millions of NOK)	**2019**	2018
Total revenues recognised for contracts that had not been completed at 31 Dec.	1,116	575
Total expenses recognised for contracts that had not been completed at 31 Dec.	962	491
Accrued revenues included under other receivables	25	80
Deferred revenues included under other liabilities	11	38

NOTE 6 GAINS AND LOSSES ON ELECTRICITY AND CURRENCY CONTRACTS

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

(Amounts in millions of NOK)	Note	**2019**	2018
Cash-settled electricity contracts	26	860	-1,599
Supply of free electricity/Cash-settled compensation power	21	-30	-46
Other energy-related contracts at fair value	26	-136	190
Currency contracts, basis swaps and currency loans	26	205	20
Embedded derivatives	26	-42	77
Total change in unrealised gains and losses	26	**856**	**-1,357**
Realised gains and losses for the year		-609	-30
Total		**247**	**-1,387**
Reversal of unrealised gains and losses at 1 January on contracts closed out during the year 1)		440	-243
Gains and losses on contracts that had not been closed out as of 31 December		416	-1,114
Total		**856**	**-1,357**

1) Value at start of 2019 (2018) of contracts that were closed out during 2019 (2018).

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 millions of NOK)	Note	**2019**	2018
Wages and salaries		792	895
Employers' National Insurance Contributions		141	132
Pension expense (incl. employers' NICs)	22	-20	51
Other benefits and reimbursements		47	48
Capitalised wage costs arising from own investments		-148	-152
Total		**812**	**974**
Number of full-time equivalents at 31 Dec.		987	976

Wage costs were lower in 2019 than in 2018 as a result of the sale of Otera Infra in August 2018.

For details of senior management compensation, please see Note 31.

NOTE 8 PROPERTY TAXES AND LICENCE FEES

(Amounts in millions of NOK)	**2019**	2018
Licence fees	52	52
Property taxes	140	143
Total	**192**	**195**

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 millions of NOK)	**2019**	2018
Property-related expenses	40	97
Lease of machinery and office equipment	4	27
Purchase of plant and equipment	65	55
Repairs to and maintenance of equipment	16	21
Contractors	157	184
Operation/maintenance of IT systems	44	34
Technical consultants	54	55
Administrative consultants	192	193
Other external services	40	68
Office supplies, telecommunications, postage, etc.	36	32
Cost of vehicles	30	30
Leases for cars, machinery, etc.	3	34
Travel expenses, subsistence allowances, mileage expenses, etc.	30	34
Sales, advertising, representation, membership fees and gifts	40	41
Insurance premiums	28	24
Share of other operating expenses at joint arrangements	88	90
Provision for free electricity and compensation	0	6
Other operating expenses	60	43
Total	**928**	**1,068**

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 millions of NOK)	**2019**	2018
Statutory audit	3.4	4.6
Other certification services	0.1	0.1
Tax advice	0.0	0.0
Other services not related to auditing	0.4	0.7
Total	**3.9**	**5.4**

NOTE 11 FINANCIAL INCOME AND EXPENSES

(Amounts in millions of NOK)	Note	**2019**	2018
Share of profit of associates and joint ventures	16	**110**	**-9**
Net realised exchange rate gains		0	27
Other interest income		22	47
Other financial income		3	3
Financial income		**25**	**77**
Unrealised gains and losses on interest rate contracts	26	29	67
Unrealised gains and losses on interest rate contracts		**29**	**67**
Interest expense on loans 1)		214	176
Interest expense on interest rate swaps		57	73
Other interest expenses		14	6
Interest on capitalised construction loans	15	-23	-18
Net realised exchange rate losses		15	0
Realised loss on shares		0	5
Other financial expenses		13	7
Financial expenses		**289**	**249**
Net financial income/expenses		**-126**	**-114**

1) Relates to interest expenses on loans carried at amortised cost. Also includes NOK 7 million of lease liabilities.

NOTE 12 TAX

(Amounts in millions of NOK)	**2019**	2018
Tax expense in income statement		
Income tax payable	82	354
Resource rent tax payable	532	671
Changes in deferred income tax	402	-156
Changes in deferred resource rent tax	106	188
Total tax expense recognised in income statement	**1,123**	**1,057**
Reconciliation of nominal and effective tax rates		
Profit before tax	2,258	853
Expected tax based on nominal rate of 22% (23%)	497	196
Tax effect of		
Permanent differences	-36	23
Impact of loss carryforwards not included on the SoFP	25	1
Resource rent tax incl. deferred tax	638	859
Net impact of changes in tax rates	0	-23
Total tax expense	**1,123**	**1,057**
Effective tax rate	50%	124%

The high tax rate in 2018 was the result of recognising unrealised losses on contracts that were 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 reduced pre-tax profit, without having any impact on the resource rent tax expense.

Breakdown of temporary differences and negative resource rent carried forward		
Taxable income		
Property, plant and equipment	4,664	3,787
Current assets/liabilities	-222	-270
Pension liabilities	495	401
Other non-current provisions	-1,241	-948
Derivatives	261	-884
Other	5	15
Gross differences	**3,962**	**2,100**
Tax rate	22%	22%
Net deferred income tax assets (-)/liabilities (+)	**872**	**462**
Resource rent		
Temporary differences	1,909	1,695
Negative resource rent carryforwards expected to be offset against profit over the coming 10 years	-749	-846
Gross differences	**1,160**	**850**
Tax rate	37%	37%
Net deferred income tax assets (-)/liabilities (+)	**429**	**314**
Of which presented in the financial statements as:		
Deferred tax	**1,578**	**1,227**
Deferred tax assets	**277**	**450**
Deferred tax assets arising from negative resource rent carryforwards not included on the SoFP	-283	-389

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 millions of NOK)	**2019**	2018
Changes in net deferred tax liabilities (+)/ assets (-) over the year		
Net deferred tax liabilities (+)/assets (-) at 31 Dec. prior year	777	829
New deferred tax liabilities (+)/assets (-)	2	0
Deferred tax liabilities (-)/assets (+)	0	2
Change in net deferred tax liabilities (+)/assets (-) included in comprehensive income	14	-87
Change in deferred tax liabilities (+)/assets (-) recognised through profit or loss	508	31
Net deferred tax liabilities (+)/assets (-) at 31 Dec.	**1,301**	**777**
Changes in deferred tax on items in the SoCI		
Remeasurements of pensions	17	-92
Cash flow hedges	-3	5
Net change in deferred tax on items in the SoCI	**14**	**-87**

Tax uncertainties
Tax cases where the outcome is uncertain are described in greater detail in Note 30.

NOTE 13 DEPRECIATION AND IMPAIRMENT LOSSES

(Amounts in millions of NOK)	Note	**2019**	2018
Amortisation of intangible assets	14	60	63
Impairment of intangible assets	14	0	10
Depreciation of property, plant and equipment	15	639	581
Impairment of property, plant and equipment	15	7	5
Total depreciation, amortisation and impairment losses recognised in operating profit		**706**	**659**
Impairment of financial assets		0	0
Total depreciation, amortisation and impairment losses recognised in statement of cash flows		**706**	**659**

NOTE 14 INTANGIBLE ASSETS

(Amounts in millions of NOK)	Goodwill	Software	Other intangible assets	**Total intangible assets**
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**
Carrying amount at 01/01/2019	94	178	54	326
Additions	2	91	43	136
Disposals at book value	0	0	-2	-2
Depreciation	0	-42	-18	-60
Impairment losses	0	0	0	0
Carrying amount at 31/12/2019	**96**	**227**	**77**	**400**
Acquisition cost	96	385	157	638
Accumulated depreciation and impairment losses	0	-158	-80	-238
Carrying amount at 31/12/2019	**96**	**227**	**77**	**400**
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 2019. 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 millions of NOK)	**2019**	2018
Craftor	38	38
Entelios AB and Entelios AS	51	51
Others	7	5
Carrying amount of goodwill	**96**	**94**

NOTE 15 PROPERTY, PLANT AND EQUIPMENT

	HYDROELECTRIC POWER GENERATION				DISTRIBUTION NETWORK	
(Amounts in millions of NOK)	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 01/01/2018	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**
Effect of adopting IFRS 16	0	0	0	0	0	0
Carrying amount at 01/01/2019	**1,126**	**3,484**	**2,214**	**971**	**1,673**	**3,701**
Additions	0	107	355	47	168	383
Disposals at book value	0	0	0	0	-12	0
Depreciation	-3	-70	-157	-38	-73	-169
Impairment losses	0	-2	-5	0	0	0
Carrying amount at 31/12/2019	**1,123**	**3,519**	**2,407**	**980**	**1,756**	**3,915**
Acquisition cost	1,179	5,052	5,525	2,138	2,822	6,494
Accumulated depreciation and impairment losses	-56	-1,533	-3,118	-1,158	-1,066	-2,579
Carrying amount at 31/12/2019	**1,123**	**3,519**	**2,407**	**980**	**1,756**	**3,915**
Depreciation period (years)	67/ not depreciated	67-99	20-50	50-67/ not depreciated	15-50	15-50

	DISTRICT HEATING		OTHER ACTIVITIES			
(Amounts in millions of NOK)	District heating	Property	Other	Work in progress	Leased assets	**Total property, plant and equipment**
Carrying amount at 01/01/2018	669	120	149	657	0	14,599
Additions	78	1	77	327	0	1,425
Disposals at book value	0	0	3	0	0	-267
Depreciation	-27	-7	-45	0	0	-586
Impairment losses	0	0	0	0	0	0
Carrying amount at 31/12/2018	**720**	**114**	**184**	**984**	**0**	**15,171**
Acquisition cost	936	200	505	984	0	24,852
Accumulated depreciation and impairment losses	-216	-86	-321	0	0	-9,681
Carrying amount at 31/12/2018	**720**	**114**	**184**	**984**	**0**	**15,171**
Effect of adopting IFRS 16	0	0	0	0	262	262
Carrying amount at 01/01/2019	**720**	**114**	**184**	**984**	**262**	**15,433**
Additions	59	0	39	159	44	1,361
Disposals at book value	0	-4	-9	0	0	-25
Depreciation	-28	-7	-40	0	-54	-639
Impairment losses	0	0	0	0	0	-7
Carrying amount at 31/12/2019	**751**	**103**	**174**	**1,143**	**252**	**16,123**
Acquisition cost	987	175	571	1,143	306	26,392
Accumulated depreciation and impairment losses	-236	-72	-397	0	-54	-10,269
Carrying amount at 31/12/2019	**751**	**103**	**174**	**1,143**	**252**	**16,123**
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 23 (18) million in 2019, calculated using the Group's average interest rate of 2.7% (2.7%). See Note 11.

NOK 3,015 (3,045) million of property, plant and equipment at joint arrangements is included in the main groups under hydroelectric power generation and under work in pro-gress.

Of the additions under distribution networks, NOK 104 (92) 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 288 (225) million in 2019. NOK 440 (311) million of capitalised reinvestments in existing facilities have been included under the additions for the year.

Office buildings constituted NOK 216 million of the leased assets at 31/12/2019, and the depreciation on them was NOK 43 million. The remaining leased assets were vehicles, machinery and equipment

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 millions of NOK)	**2019**	2018
Associates	40	35
Joint ventures	26	60
Carrying amount at 31 Dec.	**66**	**95**

Profit from associates	-12	-18
Profit from joint ventures	-25	-18
Gain on disposals	148	27
Share of profit of associates and joint ventures	**110**	**-9**

The gain on disposals in 2019 arose from the sale of Grønn Kontakt AS and an adjustment to the expected settlement for the earlier disposal of Fosen Vind.

Breakdown of investments in associates:

(Amounts in millions of NOK)	Ownership interest	Carrying amount at 31/12/2018	Additions	Disposals	Consolidated share of profit/loss	Carrying amount at 31/12/2019
Otovo AS	10.4%	11	0	0	-7	3
Otera Infra AS	49.0%	19	0	0	4	24
Skagerak Venture Capital I KS/GP KS	19.6%	5	0	0	9	13
NorthConnect KS/NorthConnect AS	22.3%	0	18	0	-18	0
Total for associates		**35**	**18**	**0**	**-12**	**40**

Breakdown of investments in joint ventures:

(Amounts in millions of NOK)	Ownership interest	Carrying amount at 31/12/2018	Additions	Disposals	Consolidated share of profit/loss	Carrying amount at 31/12/2019
Nodes AS	50.0%	4	10	0	-10	4
Nodes-Tech AS	50.0%	29	10	-15	-2	22
Grønn Kontakt AS	0.0%	28	38	-52	-14	0
Total for joint ventures		**60**	**58**	**-67**	**-25**	**26**

Grønn Kontakt AS was sold in 2019.

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 millions of NOK)	**2019**	2018
Energy sales	1,052	1,548
Other operating revenues	9	10
Total operating revenues	**1,061**	**1,558**
Transmission expenses	-50	-55
Energy purchases	-32	-22
Property taxes and licence fees	-81	-81
Depreciation	-101	-101
Other operating expenses	-62	-63
Total operating expenses	**-326**	**-323**
Operating profit	**735**	**1,235**
Non-current assets	3,020	3,053
Current assets	138	92
Total assets	**3,158**	**3,145**
Current liabilities	133	98
Net assets	**3,026**	**3,048**

NOTE 17 NON-CURRENT FINANCIAL ASSETS

(Amounts in millions of NOK)	Note	**2019**	2018
Investments in shares and ownership interests		5	7
Loans to associates and joint arrangements		1	2
Other receivables 1)		556	892
Pension assets	22	705	608
Total		**1,268**	**1,508**

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 note 25.

NOTE 18 RECEIVABLES

(Amounts in millions of NOK)	**2019**	2018
Face value of trade receivables	2,402	2,182
Bad debt provision	18	13
Total trade receivables	**2,384**	**2,169**
Accrued revenues	237	569
Prepaid expenses	86	144
Other receivables	250	537
Share of current assets at joint arrangements	138	92
Total receivables	**3,095**	**3,511**

Ageing analysis of trade receivables

(Amounts in millions of NOK)	Not overdue	0-30 days	31-60 dager overdue	61-90 dager overdue	Over 90 days overdue	Total
2019	2,229	111	7	5	50	2,402
2018	1,978	147	3	11	43	2,182

NOTE 19 CASH AND CASH EQUIVALENTS

(Amounts in NOK million)	**2019**	2018
Deposits in cash pooling arrangement	0	95
Cash and cash equivalents	108	269
Restricted assets (e.g. term deposits, tax withholding account and client assets)	23	19
Total	**131**	**383**

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

NOTE 20 SHARE CAPITAL AND SHAREHOLDER INFORMATION

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

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.

No dividend is proposed for 2019 at the presentation of the accounts.

NOTE 21 PROVISIONS

(Amounts in NOK million)	Note	**2019**	2018
Pension liabilities	22	303	314
Other non-current provisions		1,729	1,697
Total		**2,032**	**2,010**

Breakdown of other non-current provisions

(Amounts in millions of NOK)	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 01/01/2018	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**
Carrying amount at 01/01/2019	703	227	56	487	224	1,697
Unrealised gains and losses	30	0	-48	0	0	-18
New provisions	0	0	0	105	9	114
Provisions used	0	0	0	-15	-49	-64
Carrying amount at 31/12/2019	**733**	**227**	**8**	**577**	**184**	**1,729**

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 note 25.
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 note 25.
4) Customer contributions are a contractual obligation under IFRS 15 that is 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 and development costs. 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 31. Provisions for these plans are presented under unfunded pension liabilities.

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 2019, the annual contribution to the scheme was 2.5% (2018: 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.

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 life table K2013 for life expectancy, probability of disability, etc. Up until 2018, the Group used a different life table called GAP07. This change resulted in a NOK 134 million increase in pension liabilities. That figure is included in the remeasurements for the year.

Past service pension adjustments in 2019

In 2019 there were several changes to the regulations on public sector occupational pension plans. This includes new rules on how benefits from the National Insurance Scheme shall be integrated with occupational pension plans. It has also been decided that public sector occupational pension plans shall go from being defined benefit plans to being unit benefit plans for everyone born in 1963 or later.

In conjunction with the transition to unit benefit plans, Agder Energi has chosen to transfer employees born in or after 1963 to a defined contribution plan, with effect from January 2020. As such, a unit benefit plan has not been introduced at Agder Energi. For the age group affected, pension rights accrued up to and including 2019 will continue to be included in the pension liability as an accrued pension entitlement.

The defined benefit pension plan will remain in place for employees born in 1962 and earlier.
The change in the pension regulations and transition to a defined contribution plan for all employees born in or after 1963 has been treated as a past service pension adjustment, and the associated NOK 114 million reduction in pension liabilities has been recognised in the income statement.

Past service pension adjustments in 2018
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. The pension expense for the year was reduced by NOK 30 million as a result of the transition to a defined contribution plan.

(Amounts in millions of NOK)	Note	**2019**	2018
The pension expense for the year has been calculated as follows			
Current service cost		48	51
Interest on net pension assets		-8	-13
Employers' National Insurance Contributions		6	7
Past service pension adjustment recognised in the income statement		-114	-30
Employee contributions		-5	-5
Administration costs		4	6
Pension expense for the year, defined benefit plans		**-68**	**15**
Private AFP scheme including employers' NICs		4	5
Defined contribution pension plans (including employers' NICs)		44	31
Total pension expense recognised in the income statement	7	**-20**	**51**
Pension liabilities and pension plan assets			
Change in gross pension liabilities			
Gross pension liabilities at 1 Jan.		2,179	1,969
Current service cost (incl. emp. NICs)		54	58
Interest cost		58	40
Benefits paid/paid-up policies		-73	-66
Cap on pension benefits		-114	-30
Remeasurements		219	208
Gross pension liabilities at 31 Dec. (including employers' NICs)		**2,323**	**2,179**
Breakdown of defined benefit pension liabilities			
Funded pension liabilities		2,021	1,892
Unfunded pension liabilities		302	287
Gross pension liabilities at 31 Dec.		**2,323**	**2,179**
Change in gross pension plan assets			
Fair value of pension plan assets at 1 Jan.		2,473	2,584
Expected return on pension plan assets		66	53
Remeasurements		257	-104
Administration costs		-4	-6
Pension contributions		0	6
Benefits paid/paid-up policies		-66	-60
Fair value of pension plan assets at 31 Dec.		**2,725**	**2,473**
Net pension liabilities (-)/assets (+) at 31 Dec.		**402**	**294**
Net pension assets recognised on the SoFP	17	705	608
Pension liabilities recognised on the SoFP	21	303	314
Net pension liabilities (-)/assets (+) recognised at 31 Dec.		**402**	**294**

(Amounts in millions of NOK)	**2019**	2018
Change in net defined benefit pension plan assets		
Net defined benefit pension plan assets at 1 Jan.	294	616
Pension expense recognised in profit or loss excluding employee contributions	64	-20
Company net contributions including employers' NICs	0	8
Pension benefits included under operating expenses	7	3
Remeasurements	38	-312
Net pension liabilities (-)/assets (+) recognised at 31 Dec.	**402**	**294**

Remeasurements are made up of		
Changes in demographic assumptions	38	55
Changes in financial assumptions	-123	153
Transition to new life table	-134	0
Positive (+)/negative (-) deviation from expected return on pension plan assets	257	104
Total remeasurements included in the SoCI	**38**	**312**

Sensitivity analysis for a +/- 0.5% percentage point change in the discount rate		
Increase in pension liabilities if the discount rate falls	199	183
Fall in pension liabilities if the discount rate rises	-176	-162

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.

	2019	2018
Assumptions used to determine pension liabilities at 31 Dec.		
Discount rate	2.20%	2.70%
Annual wage growth	2.50%	2.75%
Increase in the National Insurance Scheme's basic amount ("G")	2.25%	2.50%
Annual indexing of pensions	1.50%	1.75%
Life table	K2013	Gap07
Retirement age: 64.5 years on average for both years.		
Assumptions used to calculate the pension expense for the year		
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%

Allocation of pension plan assets by investment category at 31 Dec.		
Property funds	13%	14%
Interest-bearing financial instruments	32%	29%
Number of shares	30%	32%
Hedge funds	25%	25%
Total	**100%**	**100%**

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

	2019	2018
Number of people covered by the pension plans		
Defined benefit plan: current employees	132	313
Defined benefit plan: accrued entitlements and retired employees	1,422	1,266
Defined contribution plan: current and temporary employees	844	663
Current employees entitled to public sector AFP, and early retirees	204	234

NOTE 23 INTEREST-BEARING LIABILITIES

(Amounts in millions of NOK)	2019	2018
Interest-bearing non-current liabilities		
Bonds	5,684	4,869
Liabilities to financial institutions	2,494	2,721
Lease liabilities	192	0
Other interest-bearing non-current liabilities	16	13
Total	**8,386**	**7,603**
Interest-bearing current liabilities		
Commercial paper	500	300
Overdraft and other interest-bearing current liabilities	458	0
Lease liabilities	64	0
Current portion of non-current liabilities (principal repayments due within one year)	1,350	1,357
Total	**2,372**	**1,657**

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 measured at amortised cost. Note 27 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 28 for a more detailed description.

(Amounts in millions of NOK)	2019	2018
Change in interest-bearing liabilities broken down by cash and non-cash items.		
Interest-bearing liabilities at 1 Jan.	9,260	9,240
New long-term borrowings (cash item)	1,946	1,424
Repayment of long-term borrowings (cash item) 1)	-1,407	-961
Net change in current liabilities (cash item)	658	-480
Exchange rate fluctuations (non-cash item)	-9	41
Gains/losses on fair value hedges (non-cash item)	4	-4
New lease liabilities (non-cash item)	44	0
Effect of adopting IFRS 16 (non-cash item)	262	0
Interest-bearing liabilities at 31 Dec.	**10,758**	**9,260**

1) Includes NOK 57 million in repayment of lease liabilities.

NOTE 24 OTHER NON-INTEREST-BEARING CURRENT LIABILITIES

(Amounts in millions of NOK)	2019	2018
Trade payables	916	1,059
Unpaid government taxes and duties, tax deducted at source, etc.	444	434
Share of non-current liabilities at joint arrangements	133	98
Other current liabilities	1,052	1,720
Total	**2,545**	**3,311**

NOTE 25 FINANCIAL INSTRUMENTS

Volume of 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 27. 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 27. 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 28 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.

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 millions of NOK)	Note	Total	Level 1	Level 2	Level 3
2019					
Derivatives and electricity contracts measured at fair value*	26	1,527	0	761	766
Shares and ownership interests	17	5	0	0	5
Total assets		**1,532**	**0**	**761**	**771**
Supply of free electricity and compensation	21	741	0	0	741
Derivatives and electricity contracts measured at fair value*	26	1,374	0	1,270	103
Total liabilities		**2,115**	**0**	**1,270**	**844**
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
Derivatives and electricity contracts measured at fair value*	26	2,314	0	2,302	12
Total liabilities		**3,017**	**0**	**2,302**	**715**

* 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 2019 the Group recognised a net loss of NOK 173 million on level 3 financial instruments.

Level 3 assets and liabilities at fair value*

(Amounts in millions of NOK)	Shares and ownership interests	Supply of free electricity and compensation	Derivatives and electricity contracts measured at fair value	Total
Opening balance at 01/01/2019	7	-703	796	100
Gains and losses recognised in profit or loss	-2	-30	-141	-173
Closing balance at 31/12/2019	**5**	**-733**	**655**	**-73**

* Liabilities are shown with a minus sign. The amount recognised relates to contracts still held by Agder Energi at the end of 2019.

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 percentage point increase (reduction) in the interest rates would have given a NOK 105 million increase (NOK 226 million reduction) in the valuation.

Fair value of financial instruments measured at amortised cost
In the case of financial instruments measured at amortised cost, there may be a discrepancy between their fair value and carrying amount. This is true of the Group's interest-bearing liabilities. In the case of current assets and liabilities like trade receivables, bank deposits, trade payables, etc., the difference is insignificant. The table below therefore only shows the difference between the carrying amount and fair value for the Group's interest-bearing liabilities.

(Amounts in millions of NOK)	Note	Carrying amount **2019**	Fair value **2019**	Carrying amount 2018	Fair value 2018
Interest-bearing liabilities measured at amortised cost					
Bonds	23	6,784	6,867	6,226	6,256
Liabilities to financial institutions	23	2,758	2,841	2,734	2,784
Commercial paper	23	500	500	300	300
Overdraft and other interest-bearing current liabilities	23	458	457	0	0
Lease liabilities	23	258	258	0	0
Total interest-bearing liabilities		**10,758**	**10,923**	**9,260**	**9,340**

The fair value has been estimated at Level 2, i.e. using a valuation model that only uses market data as its inputs.

Assumptions used to determine 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 ten years. For subsequent periods, best estimates of future prices are used.

Foreign currency
For contracts quoted in foreign currency, the calculation for the first ten 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.

Guarantees of origin
Contracts for the purchase and sale of guarantees of origin that do not qualify for the own use exemption under IFRS 9 are measured at fair value. The valuation uses the forward prices quoted by large brokers. For contracts with terms that run beyond the period for which market prices are available, a risk discount is applied to the available forward prices.

CO2
CO2 contracts are valued using the forward price of emission quotas (EUAs) on NASDAQ and ICE.

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

Assumptions used to determine fair value of currency and interest rate derivatives
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 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 28 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)	**2019**	2018
Derivative assets (non-current)		
Portfolio of cash-settled electricity contracts*	244	93
Currency derivatives and basis swaps	17	6
Embedded currency derivatives in electricity contracts	697	724
Interest rate swaps	0	11
Total derivatives	**958**	**834**
Derivative assets (current)		
Portfolio of cash-settled electricity contracts*	418	91
Currency derivatives and basis swaps	61	4
Embedded currency derivatives in electricity contracts	69	84
Interest rate swaps	21	0
Total	**569**	**180**
Derivative liabilities (non-current)		
Portfolio of cash-settled electricity contracts*	368	687
Currency derivatives and basis swaps	155	246
Interest rate swaps	198	214
Other contracts	103	0
Total	**825**	**1,148**
Derivative liabilities (current)		
Portfolio of cash-settled electricity contracts*	473	1,079
Currency derivatives and basis swaps	76	31
Interest rate swaps	0	0
Total	**549**	**1,111**

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

NOTE 27 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 risk management function has 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 the Group's risk profile, risk capacity 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.

Risk management takes into account the effect of resource rent tax.

Retail customer portfolio

The retail customer portfolio 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 are based on 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. This creates an electricity price risk when our electricity retail business is unable or unwilling to change the price paid by the customer even if the spot price has changed. 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 some 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.

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 may be some contracts with longer terms. The portfolio aims to keep electricity price risk low and to protect our margins in this business area. The retail portfolio maintains a net long position in cash-settled contracts.

Independent portfolios

Agder Energi also has separate portfolios that are managed independently of its expected power generation and electricity retailing activities. In these independent portfolios, a distinction is made between the purchase and sale of standard products (trading) and the purchase and sale of non-standard contracts. 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 the trading portfolios. The financial exposure at any given time is limited in relation to the power generation portfolio.

In the case of the portfolios of non-standard contracts, the most important risk management occurs before they are signed, through how they are structured and the negotiation of terms and conditions. The permitted volume of open positions in non-standard products is governed by maximum downside exposure limits derived from the scenario-based stress testing of financial market risk.

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

(Amounts in millions of NOK)	Change in electricity prices	
	-10%	10%
Total impact on profit before tax	**390**	**-390**

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 the price paid by the customer is specified 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. Currency risk is hedged externally through banks or the parent company.

The company's back and middle office function 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 millions of NOK)	Change in exchange rate (NOK/EUR	
	-5%	5%
Total impact on profit before tax	**-3**	**3**

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

Sensitivity to interest rates is measured by modified duration within a defined period of 1 to 5 years. Average duration at the close of the year was 4 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 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.

Impact on profit of interest rate fluctuations

(Amounts in millions of NOK)	Change in interest rates	
	-1 percentage point	+1 percentage point
Impact on interest expense (- indicates higher expense)	45	-45
Gains and losses on interest rate swaps recognised in profit or loss	-141	153
Total impact on profit before tax	**-96**	**108**
Gains and losses on hedging instruments, cash flow hedges	-53	53
Total impact on comprehensive income (before tax)	**-149**	**161**

The table shows a partial risk analysis of how the Group's pre-tax profit would be affected by a parallel 1 percentage point 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

	2019	2018
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 millions of NOK)	1-3 years	3-5 years	5-10 years
NOK-denominated loans	3,293	2,854	2,854
Euro-denominated loans	2,332	2,135	2,135
Total	**5,625**	**4,989**	**4,989**

* 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 2019, provisions have only been made for trade receivables; see Note 18. The credit risk exposure 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.

Offsetting

(Amounts in millions of NOK)		**Financial assets**	
	Gross amount	Amount offset	Carrying amount
Derivatives (non-current and current)	3,722	2,195	1,527

(Amounts in millions of NOK)		**Financial liabilities**	
	Gross amount	Amount offset	Carrying amount
Derivatives (non-current and current)	3,570	2,195	1,374

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 2,500 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 a total of NOK 3,000 million 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 millions of NOK)	Due in 2020	Due in 2021	Due in 2022	Due in 2023	Due in 2024	Due after 2024	Unspecified
Bonds and liabilities to financial institutions	1,415	1,435	1,221	1,449	749	3,323	0
Commercial paper and overdraft facility	958						
Lease liabilities	62	54	49	42	40	25	0
Interest payments	255	250	211	173	140	515	0
Total interest-bearing liabilities	**2,690**	**1,739**	**1,481**	**1,664**	**929**	**3,863**	**0**
Financial liabilities at fair value through profit or loss	549	391	109	38	56	128	836
Other non-interest-bearing current liabilities	2,545						
Total non-interest-bearing liabilities	**3,094**	**391**	**109**	**38**	**56**	**128**	**836**
Total	**5,784**	**2,130**	**1,590**	**1,702**	**985**	**3,991**	**836**

Breakdown of loans by currency

(Amounts in millions of NOK)	**2019**	2018
NOK-denominated loans	7,529	6,278
Euro-denominated loans	3,284	2,999
Total	**10,813**	**9,277**

The Group has 226 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 2019 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 28 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.

At the start of 2019, Agder Energi had one interest rate swap that was designated as a hedging instrument in a fair value hedge. That swap was terminated in 2019.

For its other financial hedging relationships, Agder Energi has chosen not to meet the extensive documentation requirements specified in the IFRS rules on hedge accounting.

Amounts in millions of NOK	**2019**	2018
Fair value of derivatives designated as hedging instruments		
Derivatives designated as fair value hedges	0	-4
Derivatives designated as cash flow hedges	-100	-76
Total fair value of derivatives designated as hedging instruments	**-100**	**-80**
Fair value hedges		
Gains/losses on derivatives used as fair value hedges	0	-4
Gains/losses on hedged items in fair value hedges, hedged risk	0	4
Hedge ineffectiveness recognised in profit or loss	**0**	**0**
Cash flow hedges		
Gains/losses recognised in the SoCI	-24	0
Reclassified to profit or loss	12	11
Total gains/losses on hedging instruments recognised in the SoCI	**-13**	**11**
Cash flow hedge ineffectiveness recognised in profit or loss	**0**	**0**

NOTE 29 MORTGAGED ASSETS, LIABILITIES AND GUARANTEES ISSUED

Mortgages
Agder Energi AS has no mortgage debt.

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 778 (712) million in off-statement of financial position bank guarantees. NOK 327 (398) million of this relates to cash-settled electricity trading/settlement, NOK 48 (55) million to tax deductions at source, NOK 299 (177) million to settlement/payment guarantees and NOK 98 (82) million to contractual guarantees.

At the close of the year, the parent company had issued guarantees worth NOK 10 (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 27. Similarly, the retail portfolio offers physical fixed-price contracts. The exposure arising from them is hedged as described in Note 27.

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. It is not considered reasonably certain that the 5-year option to renew will be exercised, so that period is not included in the lease liability presented on the statement of financial position.

NOTE 30 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

For the purposes of calculating resource rent, the tax authorities have denied Agder Energi Vannkraft the right to deduct the value of the 85 GWh of free electricity that it has supplied annually since 2011 – most recently in a ruling by the Tax Appeals Board. Agder Energi Vannkraft is considering appealing this ruling through the courts. Due to negative resource rent carryforwards, the cash flow impact has been modest to date, but in the future the inability to make this deduction could increase the Group's tax expense and reduce its cash flows by NOK 5-10 million per year.

Agder Energi Nett has been issued a ruling on a change in the tax assessment for the smart meter project for the period since 2015. The Central Tax Office for Large Enterprises (Sfs) believes that certain items that Agder Energi has expensed for tax purposes should be capitalised. The change has caused a reduction in the deferred tax liabilities on the statement of financial position and an equivalent increase in the tax payable. It has only had a modest impact on profit. Agder Energi Nett disagrees with the ruling 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 lost the case in the district court and appealed the decision.

Events after the end of the reporting period

After the financial statements for 2019 were finalised, the coronavirus outbreak has developed into a global pandemic. Agder Energi has set up a dedicated emergency response team that is reporting directly to the CEO. A number of measures have been implemented to reduce the risk of contagion and prepare for any deterioration in the situation. Our main focus is on protecting our own employees, contractors and suppliers, and as part of Agder Energi's responsibility to society, helping to reduce the risk of infection in society as a whole.

We are also focusing hard on keeping our operations going, and at the time of publication of the annual report, they had not been affected by the coronavirus outbreak. Measures have been implemented to reduce counterparty risk, particularly arising from the Group's customer-facing activities in the business market. For Agder Energi it is a priority to maintain financial room for manoeuvre, and since the turn of the year the Group has expanded its liquidity buffer further through credit facilities with banks in order to secure access to alternative sources of financing.

NOTE 31 MANAGEMENT COMPENSATION, ETC.

Board of Directors

The compensation of the Board of Directors and Corporate Assembly for 2019 was NOK 1,350,500 and NOK 12,400 respectively. The equivalent figures in 2018 were NOK 1,305,800 and NOK 11,200 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	250,000	8 of 8
Tine Sundtoft, deputy chair	Whole year	170,000	8 of 8
Jill Akselsen, Board member	Whole year	125,000	8 of 8
Leif Atle Beisland, Board member 2)	Whole year	150,000	3 of 8
Marit Grimsbo, Board member 1)	Whole year	0	7 of 8
Siw Linnea Poulsson, Board member 1) 2)	Whole year	0	8 of 8
Jon Vatnaland, Board member 1)	Whole year	0	8 of 8
Asbjørn Grundt, Board member 1)	Whole year	0	8 of 8
Johan Ekeland, employee representative	Whole year	125,000	7 of 8
Sverre Halvard Hamre, employee representative	Whole year	125,000	8 of 8
Oddvar Emil Berli, employee representative 2)	Whole year	140,500	8 of 8
Gro Granås, employee representative 2)	Until June	75,000	3 of 5
Morten Johnsen, employee representative	From June	62,500	3 of 3

1) Employees of Statkraft are not paid Directors' fees.
2) Member of the Board's audit committee.

In 2019, the audit committee appointed by the Board received NOK 50,000 in fees.

In 2019, Board members' deputies received NOK 127,500 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 000s of NOK)	Period	Salary	Bonus	Other benefits 1)	Total taxable income	Pension expense
Tom Nysted – CEO 1)	Until 30 September	2,641	0	132	2,773	476
Steffen Syvertsen – CEO	From 1 October	925	0	30	955	152
Steffen Syvertsen – Business Area Director, Energy Management & Trading 2)	Until 30 September	1,604	572	90	2,266	263
Pernille K. Gulowsen – CFO	Whole year	1,974	0	112	2,086	646
Unni Farestveit – CSR Director	Whole year	1,966	0	98	2,064	826
Anders Gaudestad – Business Area Director, Marketing 3)	Whole year	1,896	163	117	2,177	279
Jan Tønnessen – Business Area Director, Hydroelectric Power	Whole year	1,966	0	112	2,078	307
Frank Håland – Director of Shared Services	Until 30 September	2,052	0	115	2,167	305
Knut Hoven – Acting Director of Shared Services	From 1 October	462	0	3	465	120
Therese Bjerke – Acting Business Area Director, Energy Management & Trading	From 1 October	446	0	3	449	111

1) Other benefits include mileage allowances, mobile phones and other benefits. A flat in Kristiansand has been made available to the CEO Tom Nysted.
2) Bonus earned in 2018 and paid out in 2019. This amount includes holiday pay that will be received in 2020.
3) Bonus earned in 2017 and paid out in 2019. This amount includes holiday pay that will be received in 2020.

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

No members of the senior management team had bonus agreements in 2019.

Steffen Syvertsen became CEO at the start of October 2019. The CEO is covered by Agder Energi's ordinary pension plan for income up to 12G, and by its pension plan included under operating expenses for income over 12G. The retirement age for the position is 70. A mutual notice period of 6 months has been agreed for the CEO. In his contract, the CEO renounces the right to the protections against dismissal stipulated in the Working Environment Act. If the employer makes use of this clause, termination compensation is payable equivalent to 10 months' basic salary on top of the agreed notice period. The termination compensation will not be reduced by the amount of any other income the CEO receives during the period that the compensation is payable.

Tom Nysted left his position as CEO in September 2019. 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 benefits 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. In 2019, two members of the senior management team – Pernille K. Gulowsen and Unni Farestveit – were covered by the public sector defined benefit pension 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 Group's public sector occupational pension plan. 30 years of qualifying service is a prerequisite.

Jan Tønnessen, Frank Håland and Anders Gaudestad were covered by a defined contribution pension plan in line with the Group's standard plan, while Knut Hoven and Therese Bjerke, who have been acting business area directors, were covered by a defined benefit pension plan in line with the Group's standard plan.

NOTE 32 RELATED PARTIES

All associates and joint arrangements specified in Note 16 are classified as related parties of Agder Energi. The Group had NOK 25 million of sales to such companies in 2019 and NOK 14 million in 2018. Purchases from those companies amounted to NOK 211 million in 2019 and NOK 126 million in 2018. The people specified in Note 31, 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 6 million in 2019 and NOK 26 million in 2018. Purchases from those companies amounted to NOK 52 million in 2019 and NOK 53 million in 2018. Statkraft Industrial Holding AS is also a joint owner of several of the joint arrangements in which Agder Energi holds an ownership interest.

In December 2019, Agder Energi sold its ownership interest in Grønn Kontakt AS to Statkraft AS, realising a gain of NOK 125 million.

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

NOTE 33 ACQUISITIONS, DISPOSALS AND BUY-OUT OF NON-CONTROLLING INTERESTS

Business acquisitions

Agder Energi did not make any significant business acquisitions in 2019.
Nor were there any significant business acquisitions in 2018.

Business disposals

Agder Energi did not complete any significant business disposals in 2019.

In 2018, it 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.

NOTE 34 GROUP STRUCTURE

The table below shows the companies in the Agder Energi Group at 31/12/2019.

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	92.0		Germany
AE Alfa AS	100.0		Norway
Agder Energi Fleksibilitet AS	100.0		Norway
Craftor Holding AB	67.0		Sweden
Craftor 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
Alfred Uglands veg 17 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
Miljøenergi AS	52.0	(38.7)	Norway
HPE Holding AS	100.0		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	85.0		Norway
Eco STOR AS	59.8		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 Nordgröön Energie GmbH and Craftor. Their turnover and profit are shown in the table below, together with a summary statement of financial position.

	Nordgröön Energie		Craftor	
(Amounts in NOK million)	**2019**	2018	**2019**	2018
Operating revenues	1,372	1,740	912	737
Net income	-15	-40	38	31
Non-controlling interest's share of net income	-1	-19	13	10
Assets	117	273	198	250
Liabilities	132	271	242	336
Equity 1)	-15	2	-45	-86
Non-controlling interest's share of equity	-1	0	0	0

1) In the case of Craftor, the parent company is a pure holding company, and the group's activities are carried out through the subsidiary Craftor AB. The group's negative equity is due to a business combination that resulted in the parent company being financed through a vendor credit from another company in the Group.

Agder Energi Varme provides eco-friendly district heating and cooling in several towns in southern Norway. The photo shows Vesterveien district heating plant in Kristiansand, which uses waste heat from the neighbouring Glencore nickel refinery as its energy source.

AGDER ENERGI AS

AGDER ENERGI AS

FINANCIAL STATEMENT

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NOTES

INCOME STATEMENT

(Amounts in NOK million)	Note	2019	2018
Other operating revenues	1	363	355
Total operating revenues		**363**	**355**
Employee benefits	2, 3	-211	-190
Depreciation and impairment losses	8, 9	-7	-11
Other operating expenses	1, 4, 5	-227	-226
Total operating expenses		**-444**	**-428**
Operating profit		**-81**	**-72**
Financial income	1, 6	1,644	1,833
Financial expenses	1, 6	-1,070	-792
Net financial income/expenses		**574**	**1,042**
Profit before tax		**493**	**969**
Tax expense	7	-92	-173
Net income		**401**	**796**
Allocation of profit:			
Proposed dividends	13	0	592
Transferred to other reserves	13	401	204
Total appropriations		**401**	**796**

STATEMENT OF FINANCIAL POSITION

(Amounts in NOK million)	Note	**2019**	2018
Intangible assets	8	15	0
Property, plant and equipment	9	25	35
Investments in subsidiaries	11	3,418	3,379
Investments in associates	11	74	108
Other non-current financial assets	10	10,475	9,780
Total non-current assets		**14,006**	**13,302**
Receivables	1	993	1,665
Total current assets		**993**	**1,665**
TOTAL ASSETS		**14,999**	**14,967**
Paid-in capital	13	1,907	1,907
Retained earnings	13	1,897	1,518
Total equity		**3,804**	**3,425**
Deferred tax	7	79	80
Provisions	3, 16	347	369
Interest-bearing non-current liabilities	14	8,166	8,940
Total non-current liabilities		**8,592**	**9,389**
Interest-bearing current liabilities	14, 17	2,036	729
Tax payable	7	0	23
Other non-interest-bearing current liabilities	1, 15	566	1,400
Total current liabilities		**2,602**	**2,153**
TOTAL EQUITY AND LIABILITIES		**14,999**	**14,967**

Kristiansand, 2. April 2020
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* | Oddvar Emil Berli *Board Member* | Sverre Hallvard Hamre *Board Member* | Morten Johnsen *Board Member* | Steffen Syvertsen *CEO*

STATEMENT OF CASH FLOWS

(Amounts in NOK million)	Note	2019	2018
Cash flow from operating activities			
Profit before tax		493	969
Depreciation and impairment losses	6, 8, 9	79	120
Income from investments in subsidiaries		-558	-1,113
Tax paid		-23	-6
Change in net working capital, etc.		198	-878
Net cash provided by operating activities		**189**	**-908**
Investing activities			
Purchase of property, plant, equipment and intangible assets		-11	-10
Acquisitions/financial investments and equity investments in subsidiaries		-139	-250
Net change in loans		-1,026	-265
Sale of property, plant, equipment and intangible assets		0	31
Sale of businesses/financial assets		139	59
Net cash used in investing activities		**-1,037**	**-435**
Financing activities			
New long-term borrowings		1,946	1,424
Repayment of long-term borrowings		-1,352	-956
Net change in current interest-bearing liabilities		-43	129
Intra-group distributions received		950	672
Intra-group distributions paid out		-647	-496
Dividends received from subsidiaries		586	999
Dividends paid		-592	-606
Net cash used in financing activities		**848**	**1,166**
Net change in cash and cash equivalents		**0**	**-177**
Cash and cash equivalents at start of year		0	177
Cash and cash equivalents at end of year		0	0

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 millions of NOK)	Note	**2019**	2018
Intra-group balances			
Other non-current financial assets	10	9,608	8,580
Trade receivables		52	39
Other current receivables		885	1,548
Total receivables		**10,545**	**10,167**
Trade payables	15	4	3
Other current liabilities	15	396	647
Total liabilities		**401**	**650**
Revenues and expenses relating to intra-group transactions			
Other operating revenues		336	291
Total operating revenues		**336**	**291**
Other operating expenses		29	30
Total operating expenses		**29**	**30**
Income from investments in subsidiaries	6	558	1,113
Other interest and financial income		482	258
Other interest and financial expenses		239	31
Net financial income/expenses		**801**	**1,341**

NOTE 2 EMPLOYEE BENEFITS, MANAGEMENT COMPENSATION, ETC.

(Amounts in millions of NOK)	Note	**2019**	2018
Employee benefits			
Salary		172	163
Employers' National Insurance Contributions		25	23
Pension expense including employers' NICs	3	-5	-11
Other benefits and reimbursements		19	15
Total		**211**	**190**
Number of full-time equivalents at 31 Dec.		**176**	**164**

The pension expense for 2019 was affected by changes in legislation on pensions that apply to all public sector defined benefit pension plans. For more detailed information, see Note 3 Pensions. For details of management compensation and non-executive Directors' fees at Agder Energi AS, please see Note 31 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.

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. 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 a public pension plan have 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 partly funded by contributions made by the employer. The contribution for 2019 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 life table K2013 for life expectancy, probability of disability, etc.

Past service pension adjustments in 2019

In 2019 there were several changes to the regulations on public sector occupational pension plans. This includes new rules on how benefits from the National Insurance Scheme shall be integrated with occupational pension plans. It has also been decided that public sector occupational pension plans shall go from being defined benefit plans to being unit benefit plans for everyone born in 1963 or later.

In conjunction with the transition to unit benefit plans, Agder Energi has chosen to transfer employees born in or after 1963 to a defined contribution plan, with effect from January 2020. As such, a unit benefit plan has not been introduced at Agder Energi. For the age group affected, pension rights accrued up to and including 2019 will continue to be included in the pension liability as an accrued pension entitlement.

The defined benefit pension plan will remain in place for employees born in 1962 and earlier. The change in the pension regulations and transition to a defined contribution plan for all employees born in or after 1963 has been treated as a past service pension adjustment, and the associated NOK 23 million reduction in pension liabilities has been recognised in the income statement.

In 2018, 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 NOK 30 million impact on net income of closing a pension plan shown in the table below relates to.

(Amounts in millions of NOK)	2019	2018
The pension expense for the year has been calculated as follows		
Current service cost	16	15
Administration costs	2	2
Interest income/expenses on pension assets/liabilities	-8	-6
Impact on net income of closing pension plan	0	-30
Past service cost	-23	0
Employers' National Insurance Contributions	2	2
Employee contributions	-1	-1
Pension expense for the year, defined benefit plans	**-13**	**-18**
Defined contribution pension plans (including employers' NICs)	8	7
Total pension expense recognised in the income statement	**-5**	**-11**

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

(Amounts in millions of NOK)	2019	2018
Pension liabilities and pension plan assets		
Gross funded pension liabilities	920	827
Unfunded pension liabilities	169	151
Gross pension liabilities at 31 Dec. incl. emp. NICs	**1,089**	**978**
Fair value of pension plan assets at 31 Dec.	1,355	1,255
Net pension plan assets at 31 Dec.	**266**	**277**
Change in defined benefit pension liabilities		
Net defined benefit pension liabilities at 1 Jan.	277	277
Pension expense recognised in profit or loss excluding employee contributions	11	17
Pension benefits included under operating expenses	6	5
Remeasurements	-29	-150
Acquisitions through business combinations	0	127
Net pension liabilities (-)/assets (+) recognised at 31 Dec.	**266**	**277**
Pension plan assets	435	429
Pension liabilities (*)	169	151
Net pension liabilities (-)/assets (+) recognised at 31 Dec.	**266**	**277**
Remeasurements are made up of:		
Gains (+)/losses (-) on gross pension liabilities	-122	-97
Gains (+)/losses (-) on pension plan assets	93	-53
Remeasurements recognised on statement of financial position	**-29**	**-150**

Assumptions used to determine pension liabilities at 31 Dec.

	2019	2018
Discount rate	2.20%	2.70%
Annual wage growth	2.50%	2.75%
Increase in the National Insurance Scheme's basic amount ("G")	2.25%	2.50%
Annual indexing of pensions	1.50%	1.75%

The assumptions used to calculate pension liabilities are not considered to deviate significantly from the most recent guidelines on actuarial assumptions as of January 2020.

Number of people covered by the pension plans

	2019	2018
Defined benefit plan: current employees	28	69
Defined benefit plan: accrued entitlements and retired employees	743	704
Defined contribution plan: current employees	96	90
Current employees entitled to public sector AFP, and early retirees	64	61

NOTE 4 AUDITOR'S FEE

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

(Amounts in millions of NOK excl. VAT)	**2019**	2018
Statutory audit	544	578
Tax advice	33	0
Other services not related to auditing	283	222
Total	**859**	**800**

NOTE 5 OTHER OPERATING EXPENSES

(Amounts in NOK million)	**2019**	2018
Property-related expenses, lease of machinery and office equipment	33	53
Purchase of plant and equipment	8	4
External services	160	147
Office supplies, telecommunications, postage, etc.	7	4
Travel expenses, subsistence allowances, mileage expenses, etc.	9	10
Sales, advertising, representation, membership fees and gifts	5	7
Other operating expenses	4	1
Total	**227**	**226**

NOTE 6 FINANCIAL INCOME AND EXPENSES

(Amounts in millions of NOK)	**2019**	2018
Income from investments in subsidiaries*	558	1,113
Profit/loss on investments in associates	110	20
Exchange rate gain	692	412
Other interest and financial income	285	289
Total financial income	**1,644**	**1,833**
Impairment charge against non-current financial assets	73	109
Exchange rate losses	694	394
Other interest and financial expenses	303	289
Total financial expenses	**1,070**	**792**
Net financial income/expenses	**574**	**1,042**

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

NOTE 7 TAX

(Amounts in millions of NOK)	**2019**	2018
The tax expense consists of		
Income tax payable	87	171
Change in deferred income tax	5	2
Corrections to previous years' tax assessments	0	-1
Tax expense in income statement	**92**	**173**
Tax payable on the statement of financial position		
Profit before tax	493	969
Permanent differences	-75	-199
Change in temporary differences	-22	-25
Profit/loss for income tax purposes	**396**	**746**
Income tax payable	87	171
Taxable intra-group distributions	-87	-149
Tax payable on the statement of financial position	**0**	**23**
Reconciliation of nominal tax rate with effective tax rate		
Profit before tax	**493**	**969**
Expected tax based on nominal rate	108	223
Tax effect of		
Non-deductible expenses/non-taxable income	-16	-46
Corrections to previous years' tax assessments	0	-1
Impact of change in tax rate	0	-4
Tax expense in income statement	**92**	**173**
Effective tax rate	**19%**	**18%**
Breakdown of temporary differences/deferred tax assets		
Property, plant and equipment	-11	-12
Pension liabilities	264	286
Derivatives	111	109
Other	-4	-17
Total taxable (+)/deductible (-) temporary difference	**359**	**366**
Total capitalised deferred tax liabilities (+)/assets (-)	**79**	**80**
Changes in net deferred income tax over the year:		
Net deferred tax liabilities (+)/assets (-) at 1 Jan.	80	82
Correction to net deferred tax liabilities (+)/assets (-) for business combination	0	31
Change in net deferred tax liabilities (+)/assets (-) on items recognised in equity	-6	-34
Change in deferred tax liabilities (+)/assets (-) recognised through profit or loss	5	2
Net deferred income tax liabilities (+)/assets (-) at 31 Dec.	**79**	**80**
Changes in deferred tax on items recognised in equity		
Remeasurements of pensions	6	34
Total change	**6**	**34**

NOTE 8 INTANGIBLE ASSETS

(Amounts in millions of NOK)	Software	Software under development	**Total intangible assets**
Cost as of 01/01/2019	35	0	35
Additions	1	14	15
Disposals	34	0	34
Cost as of 31/12/2019	**2**	**14**	**16**
Accumulated depreciation at 31/12/2019	1		1
Accumulated impairment losses at 31/12/2019	0		0
Carrying amount at 31/12/2019	**1**	**14**	**15**
Depreciation for the year	1	0	1
Impairment losses for the year	0	0	0
Useful life/depreciation period	3-8 år		

NOTE 9 PROPERTY, PLANT AND EQUIPMENT

(Amounts in millions of NOK)	Properties	Vehicles, fixtures, fittings, machinery, etc.	Work in progress	**Total property, plant and equipment**
Cost as of 01/01/2019	35	23	5	63
Additions	0	1	0	1
Disposals	1	12	5	18
Cost as of 31/12/2019	**34**	**12**	**0**	**46**
Accumulated depreciation at 31/12/2019	14	7	0	21
Accumulated impairment losses at 31/12/2019	0	0	0	0
Carrying amount at 31/12/2019	**20**	**5**	**0**	**25**
Depreciation for the year	2	4	0	6
Impairment losses for the year	0	0	0	0
Useful life/depreciation period	25 years – not depreciated	3-8 years		

NOTE 10 OTHER NON-CURRENT FINANCIAL ASSETS

(Amounts in millions of NOK)	Note	**2019**	2018
Loans to Group companies	1	9,608	8,580
Loans to associates		0	1
Investments in shares and ownership interests		2	2
Other non-current receivables 1)		430	769
Pension assets	3	435	429
Total non-current financial assets		**10,475**	**9,780**

1) Other non-current receivables includes foreign currency loans and a guarantee to NASDAQ.

NOTE 11 INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES

(Amounts in millions of NOK)	Registered office	Company's equity	Company's profit/loss	Ownership interest and voting rights	Carrying amount*
Subsidiaries					
Agder Energi Vannkraft AS	Kristiansand	2,544	413	100%	1,937
Agder Energi Kraftforvaltning AS	Kristiansand	16	1	100%	20
Agder Energi Nett AS	Arendal	978	50	100%	612
LOS AS	Kristiansand	114	51	100%	214
Entelios AB1)	Stockholm	78	17	100%	146
Entelios AS	Kristiansand	261	21	100%	110
Agder Energi Varme AS 1)	Kristiansand	123	-1	100%	125
Agder Energi Venture AS 1)	Kristiansand	180	15	100%	68
Entelios GmbH 1)	Berlin	7	-72	100%	50
Stoaveien 14 AS	Kristiansand	11	3	100%	1
Stoa 192 AS	Kristiansand	1	0	100%	2
Stoa 234 AS	Kristiansand	1	0	100%	2
Baltic Hydroenergy AS 1)	Kristiansand	20	-3	100%	25
Enfo AS	Bærum	13	-1	100%	28
Entelios AG	Munich	6	-24	100%	42
Agder Energi Fleksibilitet AS	Kristiansand	20	-11	100%	36
Craftor Holding AB 1)	Stockholm	-45	38	67%	0
AE Alfa AS	Kristiansand	0	0	100%	-1
Alfred Uglands veg 17 AS	Kristiansand	0	0	100%	1
Total shares in subsidiaries					**3,418**
Associates 2)					
Otera Infra AS	Kristiansand	71	10	49.0%	14
North Connect KS	Kristiansand	213	-3	22.25%	53
North Connect AS	Kristiansand	22	0	22.25%	6
Total for associates					**74**

* Carried at the lower of cost and fair value

1) Subsidiaries of Agder Energi AS with subsidiary groups. For an overview of the Group's organisation structure, please refer to Note 34 of the consolidated financial statements.
2) The equity and profit/loss of associates has been estimated for 2019.
3) In 2019, Agder Energi AS sold its ownership interest in Grønn Kontakt AS. The disposal resulted in a NOK 86.5 million accounting gain.

NOTE 12 CASH AND CASH EQUIVALENTS

(Amounts in millions of NOK)	**2019**	2018
Deposits in cash pooling arrangement	-186	-429
Total	**-186**	**-429**

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 48 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 millions of NOK)	Note	Share capital	Share premium account	Other paid-in capital	Other reserves	**Total equity**
Equity at 01/01/2019		1,809	47	51	1,518	3,425
Remeasurements of pensions	3				-22	-22
Net income for the year					401	401
Equity at 31/12/2019		**1,809**	**47**	**51**	**1,897**	**3,804**

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 millions of NOK)	**2019**	2018
Non-current liabilities with a term to maturity of more than 1 year		
Bonds	5,684	6,230
Liabilities to financial institutions	2,482	2,710
Total interest-bearing non-current liabilities	**8,166**	**8,940**
Interest-bearing current liabilities		
Commercial paper and repayments of long-term debt due within one year	1,850	300
Deposits in cash pooling arrangement (overdraft facility)	186	429
Total interest-bearing current liabilities	**2,036**	**729**

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 millions of NOK)	Note	**2019**	2018
Trade payables		28	25
Intra-group trade payables	1	4	3
Unpaid government taxes and duties, tax deducted at source, etc.		16	14
Allocated dividends		0	592
Other current liabilities		122	120
Other current liabilities to Group companies	1	396	647
Total other non-interest-bearing current liabilities		**566**	**1,400**

NOTE 16 PROVISIONS

(Amounts in millions of NOK)	Note	**2019**	2018
Pension liabilities	3	169	151
Other non-current provisions		178	218
Total provisions		**347**	**369**

In 2016, Agder Energi AS 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 153 million of the company's other non-current provisions are related to this. The remaining NOK 25 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 104 million at 31 December 2019. The value of the company's contracts with its subsidiaries was NOK -104 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. 226 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

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 778 million in outstanding off-statement of financial position bank guarantees. Of this total, NOK 446 million comprises payment guarantees for electricity trading, NOK 181 million is an internal guarantee for network tariffs passed on to customers, NOK 98 million relates to contractual guarantees, NOK 48 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 10 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 6 years left to run, with a renewal option for a further five years.

AUDITOR'S REPORT

Building a better working world

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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 2019, 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 2019, 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 2019, 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 2019 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 2019. 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.

Building a better working world

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-term 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 basted 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 were assessed through external benchmarks of future exchange rates and interest rate curves. We performed analytical procedures and evaluated management’s 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, 27 and 28 for further information.

Other information

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

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

Responsibilities of management for the financial statements

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

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

Auditor’s responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

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

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

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

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

Report on other legal and regulatory requirements

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

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

Opinion on registration and documentation

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

Kristiansand, 2 April 2020
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)	2019	2018
IFRS operating revenues	14,097	13,980
Unrealised gains and losses, electricity and currency	-856	1,357
Material gains on the disposal of businesses or ownership interests in businesses	0	-26
Underlying operating revenues	**13,241**	**15,312**
IFRS operating profit	2,384	967
Depreciation and impairment losses	706	659
IFRS EBITDA	**3,090**	**1,626**
Unrealised gains and losses, electricity and currency	-856	1,357
Material gains on the disposal of businesses or ownership interests in businesses	0	-26
Underlying EBITDA	**2,234**	**2,957**
IFRS operating profit	2,384	967
Unrealised gains and losses, electricity and currency	-856	1,357
Material gains on the disposal of businesses or ownership interests in businesses	0	-26
Underlying operating profit	**1,528**	**2 298**
IFRS net income (controlling interest's share)	1,122	-198
Changes in unrealised gains and losses after tax (see Note 3)	-692	1,049
Changes in deferred tax assets from neg. resource rent carryforwards	36	49
Material gains on the disposal of businesses or ownership interests in businesses	-125	-26
Underlying net income (controlling interest's share)	**340**	**874**

Agder Energi's core business is the generation of clean, renewable hydroelectric power. Our production of clean power is sustainable and will be important to future generations.

CORPORATE SOCIAL RESPONSIBILITY (CSR) AT AGDER ENERGI IN 2019

AGDER ENERGI

SUSTAINABILITY AND CORPORATE SOCIAL RESPONSIBILITY 2019

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

CORPORATE SOCIAL RESPONSIBILITY (CSR) AND SUSTAINABILITY

NETWORK RELIABILITY

2019 99.98%

2018 99.94%

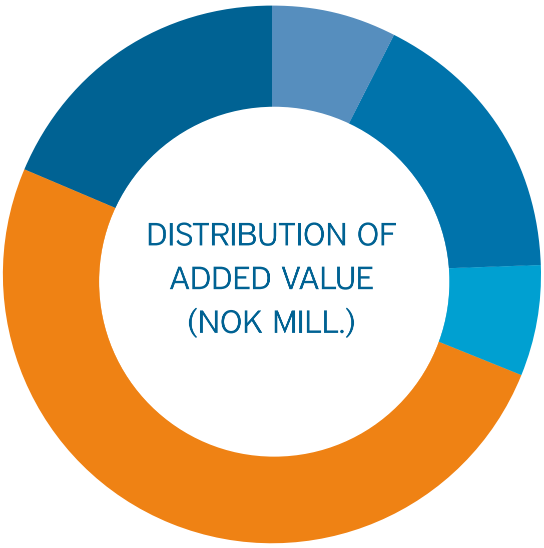
2017 99.98%

LOST TIME INJURIES PER MILLION WORK HOURS

2019 1.20

2018 2.20

2017 2.10

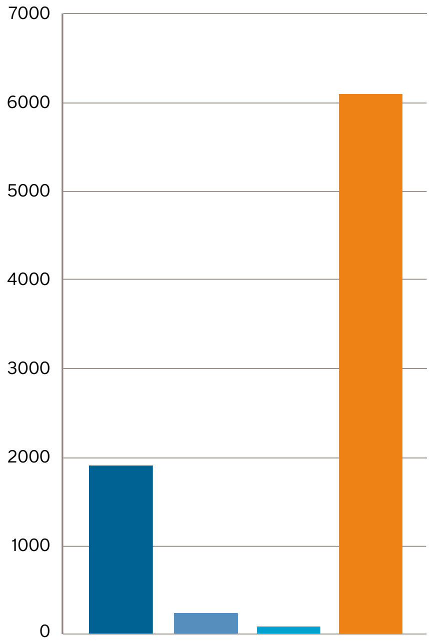


Net amount the company	860
Net amount employees	565
Net amount lenders	214
Net amount the public sector	1,657
Net amount shareholders	0

AVAILABLE DISTRIBUTION

	2019	2018	2017
Net amount the company	26.1%	14.5%	20.6%
Net amount employees	17.1%	20.2%	21.4%
Net amount lenders	6.5%	4.9%	5.1%
Net amount the public sector	50.3%	44.0%	34.6%
Net amount shareholders	0.0%	16.4%	18.2%

GREENHOUSE GAS EMISSIONS (tCO_2e)



Direct emissions – Scope 1:	1,892
Indirect emissions – Scope 2 Physical approach:	228
Indirect emissions – Scope 2 Market-based approach:	76
Indirect emissions – Scope 3:	6,084

Power stations

2019	2018	2017
57	57	57

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)

	2019	2018	2017	2016	2015
Water	7,237	8,688	8,809	9,003	9,068
Solar PV	0.04	0.03	0.04	0.04	0.04
District heating	168	172	162	159	139
TOTAL ENERGY GENERATION	**7,405**	**8,860**	**8,971**	**9,162**	**9,206**

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 – so most information shall be given about the most important areas. After performing this assessment in the autumn of 2018, we found twelve topics that are particularly important to the Group and its stakeholders. The 2019 sustainability report has been updated to reflect this.

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 group guidelines.

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.

Agder Energi has been seeking an overall framework for its work on the environment and sustainability. In 2019, informed by the 17 UN Sustainable Development Goals, we carried out an extensive analysis of both the parent company and subsidiaries to determine which areas it made most sense to prioritise going forwards. Six of the 17 goals were chosen, and based on them, goals and action plans have been formulated for Agder Energi's subsidiaries and business areas.

As well as taking part in the UN Global Compact, Agder Energi works closely with various other organisations that promote sustainable business development: Skift – The Business Community's Climate Leaders, ZERO and Klimapartnere. Our mission is clear: We supply clean energy so society can prosper now and into the future. That means supplying sustainable energy for generations.

Unni Farestveit
CSR Director

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 are affected by the Group's operations. In 2019 we carried out an extensive analysis of both the parent company and subsidiaries to determine which areas it made most sense to prioritise in conjunction with future work on the six selected Sustainable Development Goals. Consequently, no further analysis has been done to identify the topics that are material for the Group, but an overall assessment was made that the topics chosen in 2018 were still valid.

The following topics were identified as being most important:

- Anti-corruption
- Biodiversity
- Breaches of laws and regulations
- Health and safety
- Greenhouse gas emissions
- Laws and regulations
- Staff training
- Data protection
- The electric power/renewable energy industry
- Third party health and safety
- Impacts on the local community
- Economic performance – direct
- Economic performance – indirect

Anti-corruption

Like all businesses, Agder Energi faces risks associated with financial crime such as corruption, misconduct and illegal price fixing. The Board and executive management of Agder Energi are responsible for implementing a robust anti-corruption system, an important element of which is providing training to employees.

Within Agder Energi's ethical framework, all employees have a responsibility to prevent corruption. Preventive measures have been put in place, such as ethical guidelines, dilemma training and internal controls. All employees take nano learning courses each year. Our anti-corruption handbook is available to all employees in Norway and at our international businesses.

Moreover, a new role has been created with the main aim of preventing corruption. Various internal and external whistleblowing channels have been established. Agder Energi has created an interdisciplinary ethics committee to deal with matters reported through the whistleblowing channels. All of Agder Energi's employees have received information and training on the Group's anti-corruption guidelines and procedures.

Biodiversity

Biodiversity is important to the Group as a whole, but particularly so to Agder Energi Vannkraft and Agder Energi Nett. All companies in the Group 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.

Dams and power stations change the natural environment, but the Group's activities do not have a bigger impact on nature or society than is usual for this kind of business. Agder Energi has 57 part-owned and wholly-owned power stations within the companies included in this report, located in Agder, Telemark, Lithuania and Latvia. Distribution system operation is not as such polluting, but power lines have an impact on the landscape, and there is a risk of birds colliding with them or suffering electric shocks. Agder Energi Nett's operations have a particularly big impact on one critically endangered species, the Eurasian eagle-owl. Agder Energi Vannkraft's operations affect the eel, which is defined as vulnerable, and the salmon and bleke, which are defined as being of least concern.

Breaches of laws and regulations

It is a priority for the Group to adhere to relevant laws and regulations. Compliance is a line management responsibility implemented through organisational structures, procedures and systems. In order to assist line managers with this, a Group compliance function has been established. Agder Energi's compliance system consists of functions to prevent, identify and respond to issues. The parent company and the biggest business areas have their own compliance officers. Once a year, the subsidiaries in the Group give an update on compliance to the parent company. Currently there is no system in place for continuous reporting of breaches of laws and regulations.

Unwanted incidents that occurred in 2019 are described in the section on the company in question. In 2019, Agder Energi Nett was fined for breaking the rules that restrict visitor access to power infrastructure. The company has since tightened up its procedures in accordance with the relevant regulations and guidelines. Agder Energi Nett has appealed against the details of the decision and its appeal is currently being reviewed by the Ministry of Petroleum and Energy. Apart from this case, the executive management is not aware of any unwanted incidents at subsidiaries in 2019, or of the authorities imposing fines or other sanctions on them.

Health and safety

Health and safety is a priority area at all levels of our organisation. Our health and safety activities are regulated by legislation, company guidelines, instructions and procedures, as set out in the Group's health and safety management system.

We have a zero accident vision and we want all of our employees to experience job satisfaction. The health and safety figures for recent years show improvement. Health and safety has been prioritised throughout the organisation, and it is the first item on the agenda at management meetings at both the Group and company levels. Employees receive health and safety training that reflects their roles and certain companies, such as Agder Energi Vannkraft, have additional health and safety training programmes.

The power stations have dedicated health and safety managers with responsibility for reporting and facilitating improvements to health and safety procedures, as required and in response to defined trigger points. There is an occupational health and safety system with working environment committees covering all workers, who are given the opportunity to report dangerous situations and accidents. Employees participate in, and contribute to, health and safety activities through the working environment committees and safety representatives at individual companies, as well as through departmental safety and working environment surveys. We have also established a public, anonymous whistleblowing channel that our own employees, contractors and third parties can use to report any misconduct. In addition, all of the companies in the Group have a company health service.

Agder Energi has a range of risk assessment tools adapted to the activities and situations they are designed for. Broadly speaking, risk assessments are carried out for emergency planning, liability during projects, restructuring and operational issues. Risk managers at individual companies are responsible for keeping assessments up-to-date. For workplace operations, a Safe Job Analysis (SJA) is used, which is carried out by the person responsible for the work before starting. This covers local issues and is designed to deal with the risks associated with the task at hand. Risk assessments may lead to physical or organisational changes, which are implemented to ensure that the working environment is completely safe.

Greenhouse gas emissions

Since our business is based on the generation, distribution and sale of renewable energy, low greenhouse gas emissions provide a key competitive advantage and are important to the Group's ability to add value. The Group is working to minimise its own greenhouse gas emissions and has chosen to sign up to the Science Based Targets initiative. Based on our involvement in this initiative, in 2020 we will set goals for our own emissions that reflect the targets in the Paris Agreement. Our GHG accounting for 2019 has been done using a tool created by CEMAsys based on the international standard the "Greenhouse Gas Protocol Initiative". This is the world's most widely used method for measuring GHG emissions. Due to changes in the methodology used to calculate GHG emissions compared with previous years, the Group has chosen not to present comparative figures as they would not be directly comparable.

The biggest direct emissions (scope 1) are from road transport, burning fossil fuels to meet peak loads on district heating systems and SF6 emissions from switchgear. Indirect emissions from electricity consumption (scope 2) are reduced under the market-based method by buying guarantees of origin for all consumption in Norway and Sweden. The biggest contribution to other indirect emissions (scope 3) comes from the use of concrete and asphalt for the repair and construction of hydroelectric power stations. Business travel by air, employees' own cars and hire cars also contribute to indirect emissions.

Staff training

Agder Energi is very conscious that the expertise of its employees is one of its most important resources.

The Group's approach to training is informed by the innovation and business development activities set out in the Group's strategy to 2020, as well as by the need for digitalisation and adaptation to new technology. The Group is therefore working to establish a strong culture of continuous improvement, modernisation and innovation.

In order to develop today's managers, talented professionals and specialists, the Group has established a management development programme that is mandatory for all managers. Key learning goals include communication skills, interpersonal skills, dialogue skills, coordination and continuous improvement. This work is supported by a focus on teamwork and professional development.

The Group is experiencing a growing need to mobilise expertise across its companies, and internal mobility is increasing. The Group is therefore making increasing use of flexible working structures, which facilitate the sharing of expertise between companies without staff having to be transferred. Facilitating opportunities for career development within the Group is a high priority.

All employees at the Group are given regular feedback and performance reviews, as well as support with career development.

Data protection

In 2019, protecting the personal data of our customers and employees was once again an area of priority for Agder Energi. The introduction in 2018 of the GDPR – joint European rules on data protection – led to a lot of work preparing, documenting and establishing procedures for all of our activities that involve processing personal data. GDPR compliance should be seen as an ongoing process, which means that there were continuous updates to, and reviews of, documentation and processes relating to data processing in 2019.

During the year, three employees requested access to their own personal data.

The Group has a dedicated data protection officer, and each company has appointed someone to be responsible for data protection. Privacy policies describe the way in which Agder Energi Nett and LOS process personal data in accordance with the GDPR. The way in which the personal data of staff is processed in Workplace is set out in the Workplace Premium Privacy Policy.

The energy/renewable energy industry
The renewable energy 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 groups that base their activities on generating and distributing renewable hydroelectric power. Climate-friendly renewable energy generation is one of the most important ways in which we can combat climate change.

Third party health and safety
Health and safety is the Agder Energi Group's top priority, and this also applies to third parties. Third parties are defined as people who come into contact with, or are affected by, the Group's activities in a variety of ways.

Third party health and safety is particularly important in conjunction with big development projects, infrastructure and power lines. This is particularly important at Agder Energi Nett, as the company considers itself to be partly responsible for the health and safety of its customers by providing them with a safe, reliable electricity supply. A modern society cannot function without this, so Agder Energi Nett is continuously working on improvements in areas such as clearing rights of way by overhead power lines.

When a commercial project is concluded, an assessment report is written, and where relevant this includes an evaluation of work on third party health and safety. The findings of the report are then used as a basis for improvements in the next project.

Impacts on the 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, the Group would be unable to achieve its goals. That's why Agder Energi works to ensure the best possible relationship with the local communities in the areas where it operates.

Economic performance – direct
Our economic performance is a prerequisite for running the company and is of vital importance to our employees, shareholders and the Agder Energi Group.

The value added statement, which is a reflection of how our financial performance benefits society, presents how value 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. These may be generated by building infrastructure or providing district heating, for example. They are particularly significant in the case of companies like Agder Energi Varme, Agder Energi Nett and Agder Energi Vannkraft. Investments in infrastructure and the operation of our existing facilities provide work for local contractors. District heating reduces the energy costs of Agder Energi's customers, because district heating is more affordable than electricity, oil or biofuel. District heating also reduces pressure on the electrical grid, reducing the need for further investments.

Agder Energi Nett makes an important contribution to society by creating jobs and economic growth in Agder. The company is a significant customer for local suppliers in Agder, and it has established ties with 597 providers of goods and services. As such, Agder Energi Nett plays a big role in ensuring the health of the business community in Agder. All projects to build new facilities or refurbish existing ones, as well as operation and maintenance, involve buying services from local suppliers. As well as giving a financial boost to suppliers, this also enhances their expertise.

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.

Anti-corruption

Agder Energi's goal is that no form of active or passive corruption shall take place within the Group's business activities. The Board and management of Agder Energi are responsible for implementing a robust anti-corruption system, an important element of which is providing training to employees.

VALUE ADDED STATEMENT

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

(Amounts in NOK million)	2019	2018
Operating revenues	13,850	15,367
Goods consumed/operating expenses	-9,907	-11,091
Gross added value	**3,943**	**4,276**
Capital depreciation	-706	-659
Net added value	**3,237**	**3,617**
Net financial items, excl. interest	59	-5
Available for distribution	**3,296**	**3,612**
DISTRIBUTION OF ADDED VALUE		
Employees		
Gross salaries and benefits	959	1,119
Tax paid by employees	-253	-259
Employers' National Insurance Contributions	-141	-132
Net amount received by employees	**565**	**728**
Lenders		
Interest, etc. paid to lenders	214	177
Net amount received by lenders	**214**	**177**
The public sector		
Ordinary taxes	485	198
Property taxes	140	143
Resource rent tax	638	859
Tax paid by employees	253	259
Employers' National Insurance Contributions	141	132
Net amount received by the public sector	**1,657**	**1,591**
Shareholders		
Allocated for distributions by the company (dividends/guarantees)	0	592
Net amount received by shareholders	**0**	**592**
The company		
Retained earnings	846	530
Non-controlling interest's share of profit	14	-6
Net amount received by the company	**860**	**524**
Total amount distributed	**3,296**	**3,612**

Design: WergelandApenes • Photo: Agder Energi • Translation: Språkverkstaden

The Corporate social responsibility report for Agder Energi 2019 is available at ae.no

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Frontpage photo: Kuli dam in Sirdal was upgraded in 2019. The work done will not increase electricity generation, but it will play an important role in maintaining generation along the Finså river system in the future. Photo credit: Spectacular Norway/Simen Haughom