QUARTERLY REPORT 02-2019

agder energi

H1 2019 HIGHLIGHTS

- In the first six months of 2019, Agder Energi made an underlying[1] operating profit based on IFRS of NOK 807 million (H1 2019: NOK 1,263 million). Underlying net income was NOK 144 million (controlling interest's share), down from NOK 469 million in the first half of last year. Net income fell, primarily as a result of lower profit at our Hydroelectric Power segment.

- In the first six months of the year, Agder Energi's reported operating profit under IFRS was NOK 1,265 (575) million, and its IFRS net income was NOK 498 million (controlling interest's share), compared with NOK 28 million in the year-earlier period. It had NOK 6,751 (6,111) million in operating revenues.

- The difference between the reported net income and the underlying IFRS figure was mainly due to an unrealised gain of NOK 384 million on cash-settled hedges.

- 3,598 GWh (4,932 GWh) of hydroelectric power was generated in the first half of the year, a decrease of 27%. After low snowfall in the first quarter, the Group's hydrological resources, comprising water in its reservoirs and snow in the mountains, improved in the second quarter due to lower electricity generation and higher precipitation than normal. Hydrological resources at the end of June were close to normal.

- The average spot price (in the NO2 region) in the first half of the year was 41.3 øre/kWh (36.5 øre/kWh), up 13%.

- 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 optional extensions, 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 optional extensions, this agreement may run until 2026. The annual volume of electricity is 350 GWh.

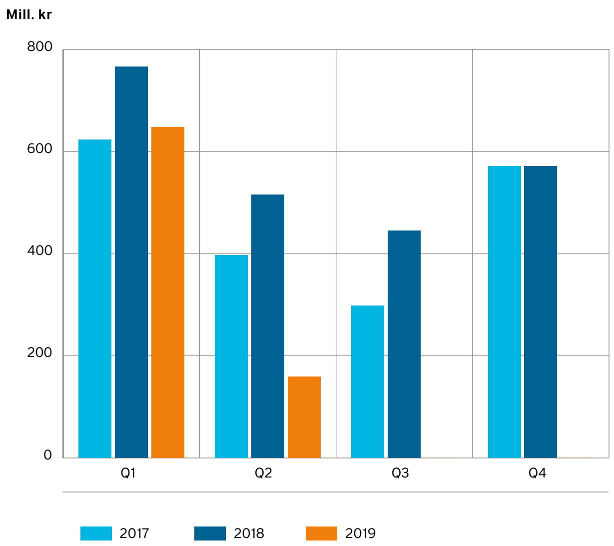
- Agder Energi, Glencore, Elkem, Hydro, Saint Gobain and the Eyde cluster are working on a joint research project to make the manufacture and recycling of batteries more sustainable. The project has received NOK 11.75 million in support from the Research Council of Norway.

[1] 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 Note 6 for further details.

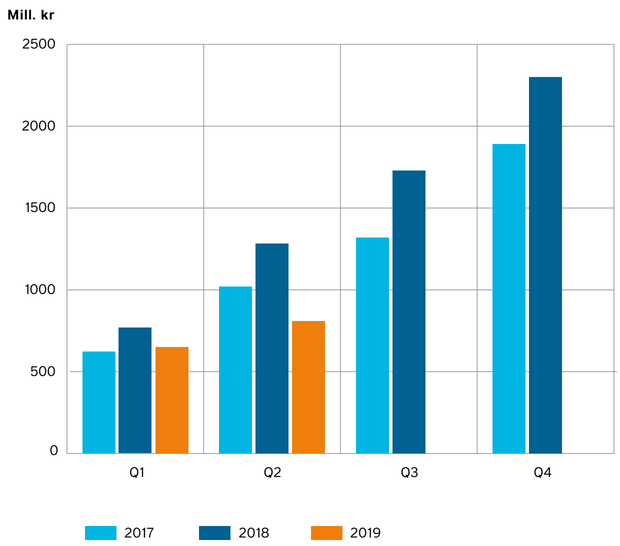
Key figures		H1 2019	H1 2018	H1 2017	Full-year 2018
From income statement					
Operating revenues	mill. kr	6 751	6 111	5 016	13 980
EBITDA	mill. kr	1 599	884	1 034	1 626
Operating profit	mill. kr	1 265	575	725	967
Net income (controlling interest's share)	mill. kr	498	28	220	-198
Underlying performance 1)					
Underlying operating revenues	mill. kr	6 291	6 799	5 311	15 312
Underlying EBITDA	mill. kr	1 139	1 572	1 329	2 957
Underlying operating profit	mill. kr	807	1 263	1 020	2 298
Underlying net income (controlling interest's share)	mill. kr	144	469	460	874
Cash flow					
Cash flow from operating activities	mill. kr	267	1 365	654	2 049
Purchase of property, plant, equipment and intangible assets	mill. kr	630	670	692	1 489
Capital					
Capital employed 2)	mill. kr	13 605	12 916	13 651	12 787
Return on capital employed 3)	%	5,5	7,8	7,1	8,1
Equity ratio	%	16,0	19,9	21,8	15,6

1) Alternative performance measures are described in Note 6.
2) At the end of the reporting period.
3) Based on profit/loss and capital employed for the past four quarters. Profit/loss is defined as underlying net income plus the interest expense after tax.

Underlying operating profits for the quarter



Underlying accumulated operating profit



Segments

Agder Energi is organised as a corporate group, with Agder Energi AS as the parent company. It has four operating segments: Hydroelectric Power, Network, Energy Management and Marketing. The financial statements of the segments follow Norwegian Generally Accepted Accounting Principles (NGAAP), as that is what is used for internal corporate governance purposes.

Hydroelectric Power

The Hydroelectric Power segment had NOK 1,454 (2,061) million of operating revenues in the first six months of the year, while its operating profit was NOK 781 (1,311) million.

1,305 GWh (1,888 GWh) of hydroelectric power was generated in the second quarter, down 31%. Over the first half of the year, 3,598 GWh (4,932 GWh) was generated, a decrease of 27%.

After low snowfall in the first quarter, the Group's hydrological resources (water and snow stored in its reservoirs and drainage basins) improved in the second quarter due to lower electricity generation and higher precipitation than normal. Hydrological resources at the end of June were close to normal. All of Agder Energi's electricity is generated in the NO2 price zone. At the end of June, the total reservoir reserves of all of the power generators in the price zone were around 11% above the average for the past ten years, roughly similar to at the end of the first quarter.

In the second quarter, the average spot price (in the NO2 region) fell to 35.9 øre/kWh (37.0 øre/kWh), from 46.8 øre/kWh (36.1 øre/kWh) in the first quarter. In the first half of the year, the average spot price was 41.3 øre/kWh (36.5 øre/kWh), up 13% from the same period last year. The main reason why prices were higher than in the first half of last year was that the price of CO_2 quotas more than doubled, whereas coal and gas prices fell slightly. Overall, this raised the marginal generating costs of coal-fired and gas-fired power stations. The decline from the first to the second quarter was due to an increase in hydrological resources in the Nordic countries combined with lower gas prices in Europe.

Prices achieved by the segment during the first half of the year were lower than spot prices. This reflects the impacts of supplying concession power at regulated prices and old industrial supply contracts, as well as a negative contribution from electricity price and currency hedges.

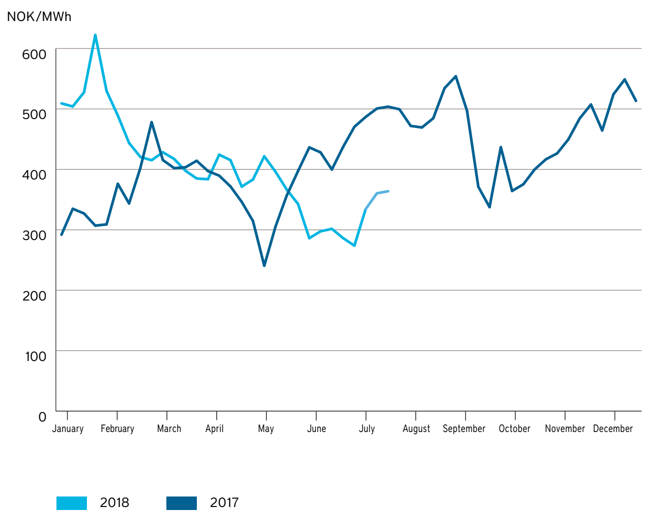
The segment's pre-tax profit amounted to NOK 738 (1,266) million, and its tax expense was NOK 524 (716) million. The effective tax rate rose to 71.1% (56.6%), mainly due to higher resource rent tax as a result of achieved electricity prices being lower than spot prices as well as the resource rent tax rate rising from 35.7% in 2018 to 37.0% in 2019. Net income amounted to NOK 214 (550) million.

The segment invested NOK 295 (260) million in property, plant and equipment in the first half of 2019. The biggest project was Åseral Nord, which involves building a new dam at Langevatn and refurbishing the tunnel between Langevatn and Nåvatn in Åseral, which has been affected by landslides.

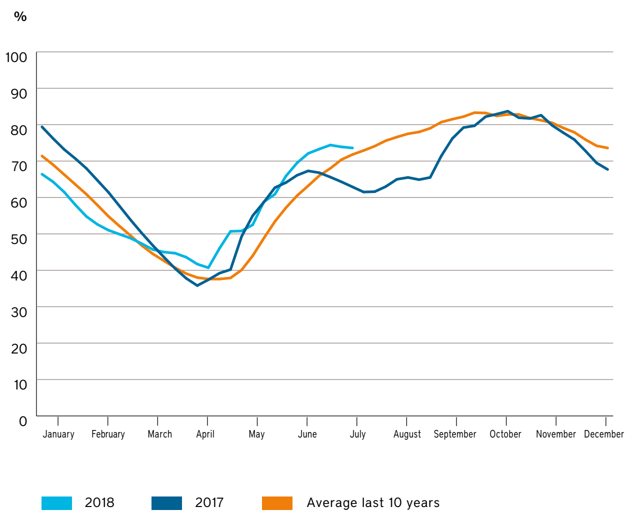
Network

The Network segment is responsible for developing, operating and maintaining the transmission and distribution grid in Aust-Agder and Vest-Agder. It had NOK 736 (644) million of operating revenues in the first half of the year. It made an operating

Market prices in price zone NO2



Reservoir storage levels in price zone NO2



profit of NOK 75 million, up from NOK 7 million last year.

The low revenues and small operating profit in the first six months of last year were due to heavy snowfall causing 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 the first six months of this year, expenses related to fault resolution came to NOK 18 million, against NOK 64 million in the year-earlier period. KILE reduced the income cap for the same period by NOK 22 (110) million. Ordinary KILE for the first six months of the year was around NOK 7 million below the expected level. The Network segment has started taking action to reduce the risk of trees falling on its power lines and thereby causing power cuts. NOK 40 million was invested in this project during the first six months of the year. NOK 30 million of this has been expensed.

NOK 227 (347) million was invested in the first six months of the year, of which NOK 126 (283) million related to investments in new projects. NOK 40 (121) million of that was invested in the smart meter project. Including NOK 47 (40) million of customer contributions, gross investment was NOK 274 (387) million.

The Network segment's contribution to the Agder Energi Group's operating profit and underlying operating profit under IFRS was NOK 49 million in the first six months of the year, compared with NOK 78 million in the year-earlier period. The difference between that figure and the operating profit stated previously reflected a NOK -26 (71) million difference in revenue recognition. That difference is described in greater detail in Note 1.

Energy Management

Energy Management covers Agder Energi Kraftforvaltning, the Entelios companies and Nordgröön.

Agder Energi Kraftforvaltning provides the services of scheduling and hedging the hydropower portfolio to the Hydroelectric Power segment. Revenues from hydroelectric power generation and gains and losses on the associated hedging instruments 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 demand response services.

Energy Management's turnover was NOK 3,254 (3,121) million in the first six months of the year, up NOK 133 million from the year-earlier period. It made an operating loss of NOK 41 million, against a loss of NOK 82 million in the same period last year.

The German business made an operating loss of NOK 32 (101) 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 the first half of 2018, relating to losses on past contracts and adjustments to accrued revenues from previous years. These two extraordinary items in 2018 explain the reduction in losses from the year-earlier period.

Entelios' operations in the Nordic region made an operating profit of NOK 38 (44) million. Profit fell due to lower margins at the Swedish part of the business.

Marketing

The Marketing segment's turnover was NOK 1,152 (1,222) million in the first six months of the year, while operating profit was NOK 65 (52) million. The main companies in this segment are LOS, Otera Ratel and Agder Energi Varme. The Group's venture capital portfolio is also part of it.

The electricity retailer LOS's turnover in the first six months of the year was NOK 506 million, compared with NOK 467 million in the year-earlier period. The increase was mainly due to the general rise in electricity prices. The company's operating profit was NOK 31 (25) million.

Otera Ratel supplies contracting services for the installation, operation, maintenance and servicing of electricity and transport infrastructure in Sweden. In the first six months of the year, the company's turnover was NOK 383 (315) million. It made an operating profit of NOK 11 million, up from NOK 7 million last year.

Agder Energi Varme's turnover in the first half of the year was NOK 63 (67) million, while its operating profit was NOK 9 (15) million. The volume of billable energy supplied in that period was 76 GWh (85 GWh). The volume supplied was negatively affected by the weather being significantly milder than normal, particularly in February, March and April. Investment in the period amounted to NOK 18 (9) million.

Cash flows and capital adequacy

Cash flow from operating activities came to NOK 258 million in the first half of the year, compared with NOK 1,365 million in the year-earlier period. Several factors contributed to the decline. Firstly, underlying EBITDA fell by NOK 432 million. Secondly, operating capital fluctuates over the course of the year, normally peaking at the end of the year before falling over the first half of the next year. This pattern has a positive impact on cash flow from operating activities in the first six months of the year. This year, that impact was NOK 132 million lower than in the year-earlier period. Finally, cash flow from operating activities for the full-year 2018 included a positive contribution from the use of various forward and futures contracts. Within its retail business, Agder Energi offers customers various management products. These typically involve the Group signing a forward contract with the customer, which is hedged by a futures contract in a financial market. 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 the first half of this year through a negative cash flow effect arising from the forward contracts with customers.

Investment in property, plant and equipment and intangible assets amounted to NOK 630 (670) million. NOK 47 (40) 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 91% of the investments in property, plant and equipment.

Net financial expenses in the first six months of the year came to NOK 193 (57) million. Interest on the Group's debt portfolio was NOK 126 (125) million. The Group's interest income was NOK 11 million (NOK 38 million). NOK 16 (9) million of exchange rate losses were recognised. There was an unrealised NOK 18 million loss (NOK 56 million gain) on our interest rate swaps. Investments in associates contributed a NOK 22 (13) million loss.

Average interest-bearing liabilities were NOK 9.5 (9.1) billion in the first half of the year, and the average interest rate on the debt portfolio was 2.7% (2.8%). The Group had a liquidity buffer of NOK 3.5 (2.8) billion at the end of June, consisting of unused credit facilities and bank deposits. In the second quarter, Agder Energi extended its credit facilities with banks by a total of NOK 1 billion. The new facility has a term of 3 years, with an option to extend it by 1 + 1 years.

Operations and working environment

At the close of the first half of the year, the Group had 1,025 (1,196) full-time and temporary employees, representing 999 (1,167) full-time equivalents. The reduction in staff numbers was almost entirely due to the disposal of 51% of the shares in Otera Infra in August 2018.

The sickness absence rate in the first six months of the year was 2.7% (3.7%).

1 (6) occupational accident was recorded in that period, which occurred at Agder Energi Nett. 1 (3) of the incidents resulted in lost time. So far this year, 39 (43) days have been lost to injury. The accident figures are equivalent to a 12-month rolling average total injury frequency (number of injuries, whether or not they resulted in lost time, per million work hours) of 1.2 (6.1).

Outlook

The forward prices indicate that electricity prices in 2019 will be similar to the spot prices in 2018.

The amount of hydroelectric power generated by the Group in the first six months of the year was significantly lower than in the year-earlier period, and also lower than in a typical year. At the end of June, the Group's hydrological resources (water and snow) were around normal. Assuming normal precipitation levels over the coming months, we expect hydroelectric power generation and turnover from energy sales to be lower in 2019.

DECLARATION BY THE BOARD OF DIRECTORS

We confirm that, to the best of our knowledge, the interim financial statements for the period 1 January to 30 June 2019 have been prepared in accordance with IAS 34 Interim Financial Reporting. We also confirm that the information contained in the interim report provides a true and fair view of the Group's assets, liabilities, financial position and overall results.

Kristiansand, 21st August 2019
The Board of Directors of Agder Energi AS

Lars Erik Torjussen
Chair

Tine Sundtoft Deputy Chair	Jill Akselsen Board Member	Leif Atle Beisland Board Member
Jon Vatnaland Board Member	Marit Grimsbo Board Member	Asbjørn Grundt Board Member
Siw Linnea Poulsson Board Member	Johan Ekeland Board Member	Sverre Hallvard Hamre Board Member
Oddvar Emil Berli Board Member	Morten Johnsen Board Member	Tom Nysted CEO

INCOME STATEMENT

(Amounts in NOK million)	Q2 2019	Q2 2018	H1 2019	H1 2018	Full-year 2018
Energy sales	2 054	2 317	5 583	5 396	12 648
Transmission revenues	320	317	662	638	1 313
Other operating revenues	332	397	587	645	1 406
Gains and losses on energy and currency contracts	-203	-241	-82	-568	-1 387
Total operating revenues	**2 503**	**2 790**	**6 750**	**6 111**	**13 980**
Energy purchases	-1 399	-1 584	-3 617	-3 613	-9 012
Transmission expenses	-94	-86	-198	-177	-339
Other raw materials and consumables used	-195	-238	-353	-388	-766
Employee benefits	-237	-235	-473	-500	-974
Depreciation and impairment losses	-172	-157	-333	-309	-659
Property taxes and licence fees	-43	-46	-94	-93	-195
Other operating expenses	-205	-252	-417	-456	-1 068
Total operating expenses	**-2 345**	**-2 598**	**-5 485**	**-5 536**	**-13 013**
Operating profit	**158**	**192**	**1 265**	**575**	**967**
Share of profit of associates and joint ventures	-10	-11	-22	-13	-9
Financial income	6	34	11	38	77
Unrealised gains/losses on interest rate contracts	-10	-14	-18	56	67
Financial expenses	-72	-68	-164	-138	-249
Net financial income/expenses	**-86**	**-59**	**-193**	**-57**	**-114**
Profit before tax	**72**	**133**	**1 072**	**518**	**853**
Income tax	-24	-56	-248	-150	-198
Resource rent tax	-104	-136	-321	-358	-859
Tax expense	**-128**	**-192**	**-569**	**-508**	**-1 057**
Net income	**-56**	**-59**	**503**	**10**	**-204**
Of which attributable to non-controlling interests	3	-16	5	-18	-6
Of which attributable to controlling interest	-59	-43	498	28	-198

COMPREHENSIVE INCOME

	Q2		H1		Full-year
(Amounts in NOK million)	2019	2018	2019	2018	2018
Net income	**-56**	**-59**	**503**	**10**	**-204**
Other comprehensive income					
Cash flow hedges	-17	-3	-33	5	11
Translation differences	-2	-3	1	-7	-14
Tax impact	3	1	7	-1	-5
Total items that may be reclassified to income statement	**-16**	**-5**	**-25**	**-3**	**-8**
Remeasurements of pensions	0	0	0	0	-312
Tax impact	0	0	0	0	92
Total items that will not be reclassified to income statement	**0**	**0**	**0**	**0**	**-220**
Total other comprehensive income	**-16**	**-5**	**-25**	**-3**	**-228**
Comprehensive income	**-72**	**-64**	**478**	**7**	**-432**
Of which attributable to non-controlling interests	3	-15	7	-15	-4
Of which attributable to controlling interest	-75	-49	471	22	-428

STATEMENT OF FINANCIAL POSITION

(Amounts in NOK million)	30.06.19	30.06.18	2018
Deferred tax assets	406	406	450
Intangible assets	322	344	326
Property, plant and equipment	15 731	14 736	15 171
Investments in associates and joint ventures	103	26	95
Derivatives	739	575	834
Other non-current financial assets	1 210	1 423	1 508
Total non-current assets	**18 511**	**17 510**	**18 384**
Inventories	92	30	158
Receivables	2 062	2 015	3 511
Derivatives	565	226	180
Cash and cash equivalents	112	260	383
Total current assets	**2 831**	**2 531**	**4 232**
TOTAL ASSETS	**21 342**	**20 041**	**22 616**
Paid-in capital	1 907	1 907	1 907
Retained earnings	1 476	2 047	1 592
Non-controlling interests	29	14	27
Total equity	**3 412**	**3 968**	**3 526**
Deferred tax	1 279	1 095	1 227
Provisions	1 987	1 931	2 010
Derivatives	911	740	1 148
Interest-bearing non-current liabilities	8 417	7 688	7 603
Total non-current liabilities	**12 594**	**11 454**	**11 988**
Interest-bearing current liabilities	1 785	1 247	1 657
Tax payable	795	638	1 023
Derivatives	803	816	1 111
Other non-interest-bearing current liabilities	1 953	1 918	3 311
Total current liabilities	**5 336**	**4 619**	**7 102**
TOTAL EQUITY AND LIABILITIES	**21 342**	**20 041**	**22 616**

STATEMENT OF CASH FLOWS

	Q2		H1		Full-year
(Amounts in NOK million)	2019	2018	2019	2018	2018
Cash flow from operating activities					
Profit before tax	73	134	1 073	518	853
Depreciation and impairment losses	178	156	339	308	659
Unrealised gains/losses on energy, currency and interest rate contracts	-134	256	-965	513	1 558
Share of profit of associates and joint ventures	10	11	22	13	9
Loss/gain on disposals	0	20	0	20	4
Tax paid	-358	-309	-670	-609	-609
Change in trade receivables	458	372	782	893	-181
Change in trade payables	-180	-172	-372	-104	474
Change in net working capital, etc.	145	214	49	-187	-718
Net cash provided by operating activities	**192**	**682**	**258**	**1 365**	**2 049**
Investing activities					
Purchase of property, plant, equipment and intangible assets	-334	-323	-583	-630	-1 397
Purchase of property, plant and equipment paid for by customers	-28	-21	-47	-40	-92
Purchase of businesses/financial assets	-20	0	-29	-9	-94
Net change in loans	-3	107	-5	105	165
Sale of property, plant, equipment and intangible assets	0	249	0	249	248
Sale of businesses/financial assets	0	0	0	0	68
Net cash used in investing activities	**-385**	**12**	**-664**	**-325**	**-1 102**
Financing activities					
New long-term borrowings	500	500	1 150	950	1 424
Repayment of long-term borrowings	-16	-545	-713	-702	-961
Net change in current liabilities	58	-1	290	-481	-480
Dividends paid	-592	-608	-592	-608	-608
Net cash used in financing activities	**-50**	**-654**	**135**	**-841**	**-625**
Net change in cash and cash equivalents	**-243**	**40**	**-271**	**199**	**322**
Cash and cash equivalents at start of period	355	220	383	61	61
Cash and cash equivalents at end of period	112	260	112	260	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 period	0	0	0	498	**498**	5	**503**
Other comprehensive income and expenses	0	-26	-1	0	**-27**	2	**-25**
Dividends paid	0	0	0	-592	**-592**	0	**-592**
Other changes in equity	0	0	0	5	**5**	-5	**0**
Equity at 31/03/2019	**1 907**	**-120**	**-8**	**1 604**	**3 383**	**29**	**3 412**

SEGMENTS

OPERATING REVENUES

	Q2		H1		Full-year
(Amounts in NOK million)	2019	2018	2019	2018	2018
Hydroelectric power	356	937	1 454	2 061	3 703
Network	343	350	736	644	1 358
Energy management	1 311	1 384	3 254	3 121	7 693
Marketing	550	661	1 152	1 222	2 434
Parent company/other/eliminations	-95	-395	-273	-586	-592
Total	**2 463**	**2 937**	**6 323**	**6 461**	**14 596**
Adjustments to IFRS, see Note 1	40	-147	428	-350	-616
Revenue IFRS	**2 504**	**2 790**	**6 751**	**6 111**	**13 980**

OPERATING PROFIT

	Q2		H1		Full-year
(Amounts in NOK million)	2019	2018	2019	2018	2018
Hydroelectric power	162	519	781	1 311	2 358
Network	18	44	75	7	16
Energy management	-25	-54	-41	-82	-111
Marketing	35	33	65	52	95
Parent company/other/eliminations	-19	-36	-43	-79	-103
Total	**171**	**505**	**836**	**1 208**	**2 255**
Adjustments to IFRS, see Note 1	-12	-313	430	-633	-1 289
Operating profit IFRS	**159**	**193**	**1 266**	**575**	**967**

NET INCOME

	Q2		H1		Full-year
(Amounts in NOK million)	2019	2018	2019	2018	2018
Hydroelectric power	29	203	214	550	950
Network	-5	17	21	-29	-41
Energy management	-32	-43	-50	-69	-116
Marketing	13	19	30	28	67
Parent company/other/eliminations	-25	-17	-53	-61	-92
Total	**-20**	**178**	**162**	**420**	**767**
Adjustments to IFRS, see Note 1	-38	-217	345	-392	-972
Net income IFRS	**-59**	**-39**	**507**	**28**	**-204**

NOTES TO THE INTERIM FINANCIAL STATEMENTS

NOTE 1 **Accounting principles**

Agder Energi's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU. The same accounting principles and calculation methods have been applied as for the annual financial statements for 2018, with the exception of the implementation of IFRS 16 Leases.

IFRS 16 Leases
Agder Energi implemented IFRS 16 with effect from 1 January 2019. The standard deals with how to account for 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 will not be restated. Agder Energi has made use of the exemption in the standard that allows it to continue accounting for leases under the previous system.

On the transition date, assets are measured individually at a value equivalent to the lease liability. The amounts of prepaid and/or accrued lease payments were insignificant on the implementation date. All of the leases covered by the standard had a remaining lease term of less than 10 years on the implementation date. Capitalised leases relate to buildings, vehicles and machinery. The table below shows the effects of adopting IFRS 16 on the relevant line items in the financial statements:

Effects of adopting IFRS 16 on statement of financial position

(In NOK millions)	**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

Effects of adopting IFRS 16 on income statement

(In NOK millions)	**H1 2019 income statement excl. IFRS 16**	**Effect of IFRS 16**	**H1 2019 income statement**
Depreciation	-311	-22	-333
Other operating expenses	-441	24	-417
Financial expenses	-161	-3	-164
Net effect on pre-tax profit		-1	

Accounting principles of the segments
The financial statements of the parent company and subsidiaries adhere to Norwegian Generally Accepted Accounting Principles (NGAAP). Internal reporting to the management team also uses NGAAP, and in this interim report figures for the segments are presented in accordance with NGAAP principles. The table below shows the impact of the differences between the accounting principles used for segment reporting and IFRS.

Reconciliation of figures for segments with reported IFRS figures

	Q2		H1		Full-year
(Amounts in NOK millions)	**2019**	**2018**	**2019**	**2018**	**2018**
Energy sales 1)	248	91	527	142	653
Surplus/shortfall in transmission revenues 2)	-13	3	-26	71	105
Electricity and currency contracts	-202	-241	-81	-568	-1 387
Other differences	8	0	8	6	13
Adjustments to revenues	**40**	**-147**	**428**	**-350**	**-616**
Goodwill amortisation and impairment/badwill	5	-2	4	-3	6
Energy purchases 1)	-47	-163	5	-280	-660
Other	-10	0	-6	0	-19
Adjustments to operating profit	**-12**	**-313**	**430**	**-633**	**-1 289**
Unrealised gains and losses on interest rate swaps	-10	-14	-18	56	67
Other financial income/expenses	-1	-12	-23	-17	14
Tax impact of corrections	-15	122	-44	202	236
Adjustment to net income	**-38**	**-217**	**345**	**-392**	**-972**

1) The differences with respect to energy sales and energy purchases are mainly related to the income statement effects of cash-settled hedges that are presented as energy sales and purchases under NGAAP and as gains and losses on electricity and currency contracts under IFRS.

2) 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 figures presented for the Network segment, this difference is treated as either a liability or an asset, and it is the income cap for the current year that is recognised in the income statement. In the consolidated financial statements, in both the IFRS and underlying IFRS numbers, the surplus or shortfall doesn't qualify for recognition on the balance sheet, and it is the actual revenues that are recognised.

NOTE 2 Segments

The operating segments presented are the same as the ones used in reporting to the Group management team. Segment reporting is used by Agder Energi's management to assess the performance of the various business areas, and to allocate resources to them. See page 12 for tables showing their financial performance.

NOTE 3 Breakdown of unrealised gains and losses

The table below gives details of how unrealised gains and losses affect the financial results reported by the Group:

	H1 2019			H1 2018			2018		
(Amounts in NOK million)	**Unrealised**	**Realised**	**Total**	**Unrealised**	**Realised**	**Total**	**Unrealised**	**Realised**	**Total**
Embedded derivatives	-119	0	-119	-203	0	-203	77	0	77
Other electricity and currency contracts	578	-540	37	-485	120	-365	-1 434	-30	-1 464
Total gains and losses on electricity and currency contracts	**459**	**-540**	**-81**	**-688**	**120**	**-568**	**-1 357**	**-30**	**-1 387**
Unrealised gains and losses on interest rate contracts	-18			56			67		
Impact of unrealised gains and losses on pre-tax profit	**441**			**-632**			**-1 290**		
Tax effect of unrealised gains and losses									
Income tax	-97			143			276		
Resource rent tax*	40			67			-35		
Total	**-57**			**210**			**241**		
Impact of unrealised gains and losses on net income	**384**			**-422**			**-1 049**		

*Only applies to embedded derivatives

NOTE 4 Tax expense

	H1 2019		H1 2018		2018	
	Amount in NOK millions	**% of pre-tax profit**	**Amount in NOK millions**	**% of pre-tax profit**	**Amount in NOK millions**	**% of pre-tax profit**
Expected income tax rate 22% (2018: 23%)	236	profit	119	23 %	196	18 %
Impact of non-capitalised deferred tax assets	9	1 %	23	5 %	30	3 %
Permanent differences and changes in tax rates	4	0 %	7	1 %	-29	-3 %
Income tax expense	**248**	**23 %**	**150**	**29 %**	**198**	**18 %**
Resource rent tax expense	**321**	**30 %**	**358**	**69 %**	**859**	**80 %**
Total tax expense	**569**	**53 %**	**508**	**98 %**	**1 057**	**99 %**

The Group's effective tax rate for the first six months of the year was 53%. The effective tax rate is sensitive to the recognition of gains and losses on hedging instruments. The effective tax rate fell due to the recognition of gains on hedging instruments, which only attract income tax. In the same period last year losses were recognised on hedging instruments, which pushed up the effective tax rate.

NOTE 5 Change in interest-bearing liabilities

The table below gives details of changes in the Group's interest-bearing liabilities so far this year:

(Amounts in NOK millions)	2019	2018
Interest-bearing liabilities at 1 Jan.	9 260	9 240
New long-term borrowings (cash item)	1 150	950
Repayment of long-term borrowings (cash item)	-713	-702
Net change in overdraft and other current liabilities (cash item)	290	-481
Exchange rate fluctuations (non-cash item)	-56	-65
Gains/losses on fair value hedges (non-cash item)	9	-7
Effect of adopting IFRS 16, see Note 1	262	0
Interest-bearing liabilities at 30 June	**10 202**	**8 935**

NOTE 6 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.

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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. +/- 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. In conjunction with disposals, gains and losses are presented as other operating revenues and other operating expenses respectively. Gains and losses on the disposal of ownership interests in businesses that are not controlled by Agder Energi are presented under financial items.

Underlying operating revenues, EBITDA and operating profit include the pre-tax effect of gains and losses on disposals.

Underlying net income includes the post-tax effect of gains and losses on disposals of businesses or ownership interests in business that are not controlled by Agder Energi.

3. +/- 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.

	H1 2018		Full-year
(Amounts in NOK millions)	**2019**	**2018**	**2018**
IFRS operating revenues	6 751	6 111	13 980
Unrealised gains and losses, electricity and currency	-459	688	1 357
Material gains on the disposal of businesses or ownership interests in businesses	0	0	-26
Underlying operating revenues	**6 291**	**6 799**	**15 312**
IFRS operating profit	1 265	575	967
Depreciation and impairment losses	333	309	659
IFRS EBITDA	**1 599**	**884**	**1 626**
Unrealised gains and losses, electricity and currency	-459	688	1 357
Material gains on the disposal of businesses or ownership interests in businesses	0	0	-26
Underlying EBITDA	**1 139**	**1 572**	**2 957**
IFRS operating profit	1 265	575	967
Unrealised gains and losses, electricity and currency	-459	688	1 357
Material gains on the disposal of businesses or ownership interests in businesses	0	0	-26
Underlying operating profit	**807**	**1 263**	**2 298**
IFRS net income (controlling interest's share)	498	28	-198
Changes in unrealised gains and losses after tax (see Note 3)	-384	422	1 049
Changes in deferred tax assets from neg. resource rent carryforwards	31	19	49
Material gains on the disposal of businesses or ownership interests in businesses	0	0	-26
Underlying net income (controlling interest's share)	**144**	**469**	**874**

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Front page: Technician Daniel Kvanvik of Otera Infra performs repairs on the power lines from Austadvika to Sira on behalf of Agder Energi Nett.