

QUARTERLY REPORT 04-2014



2014 HIGHLIGHTS

- Agder Energi's operating revenues in 2014 amounted to NOK 8,267 million, compared with NOK 9,391 million in 2013. The main reasons for the fall in revenues were lower prices and lower volumes in our retail business.
- Operating profit in 2014 was NOK 1,715 million (2013: NOK 2,354 million), while pre-tax profit amounted to NOK 998 (1,726) million. The Group's tax expense was NOK 473 (845) million, giving an effective tax rate of 47.4% (48.9%). Net income amounted to NOK 492 (846) million.
- Agder Energi's operations expose it to risk from changes in electricity prices, electricity generation levels, exchange rates and interest rates. In order to hedge and manage cash flows in these areas, the Group uses hedging instruments. Unrealised gains and losses are recognised in profit and loss. Unrealised gains and losses on electricity, currency and interest rate contracts can have a big impact on reported profits. In 2014, these gains and losses reduced pre-tax profit by NOK 605 million, compared with a NOK 149 million gain the previous year.
- Adjusted for unrealised gains and losses and major exceptional items, the Group's operating profit was NOK 1,879 (1,802) million, and it made a pre-tax profit of NOK 1,610 (1,577) million. Net income amounted to NOK 859 (737) million.
- 9,060 GWh (7,738 GWh) of hydro-electric power was generated in 2014, an increase of 17%.
- In 2014 the average spot price (in the NO2 region) was 22.8 øre/kWh (29.1 øre/kWh), down 22% from the previous year. However, a strong contribution from the Group's electricity price hedges meant that the prices achieved by the Group fell significantly less than that.
- The Norwegian power grid will undergo significant upgrades and modernisation over the coming years, and an important part of that is NVE's requirement that smart meters be introduced. In December, Agder Energi's Board adopted its smart meter project, which involves replacing the meters of all electricity customers in the Agder region. In total, around 190,000 meters will need to be replaced by 2019.
- Trondheim City Council has chosen LOS Energy as its electricity supplier until 2017, with an option to extend the contract to 2019. The contract involves supplying 140 GWh each year.
- Under Norwegian generally accepted accounting practice (NGAAP), Agder Energi's net income in 2014 was NOK 834 million (controlling interest's share). The equivalent figure for 2013 was NOK 845 million.

1) Agder Energi's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). The same accounting principles and calculation methods have been applied as for the annual financial statements for 2013. The accounts have not been audited. The financial statements of the parent company and subsidiaries adhere to Norwegian generally accepted accounting principles (NGAAP), and the business areas are presented in accordance with NGAAP in the interim report.

Key figures

		2014	2013	2012
Operating revenues	NOK millions	8,267	9,391	8,945
EBITDA	NOK millions	2,303	2,856	2,283
Adjusted EBITDA 1)	NOK millions	2,467	2,304	1,957
Operating profit	NOK millions	1,715	2,354	1,818
Profit before tax	NOK millions	998	1,726	1,581
Net income	NOK millions	492	846	1,045
Cash flow from operating activities	NOK millions	1,512	1,486	970
Purchase of property, plant, equipment and intangible assets	NOK millions	1,136	1,299	956
Capital employed 2)	NOK millions	12,058	11,878	11,312
Operating margin	%	20.7	25.1	20.3
Return on capital employed 3)	%	11.0	17.8	17.5
Equity ratio	%	22.9	26.2	26.1
Net interest-bearing liabilities/Trailing 12-month adjusted EBITDA 4)		3.3	3.3	3.8
FFO/Net interest-bearing liabilities 5)	%	25.1	21.8	20.0

1) Adjusted EBITDA is corrected for unrealised gains and losses on energy contracts and major exceptional items.

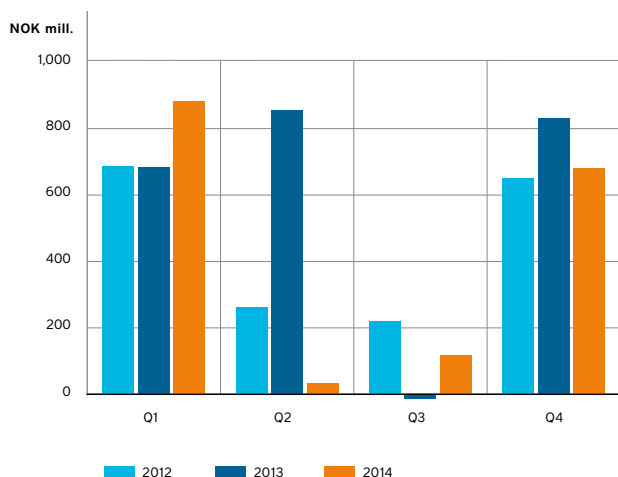
2) At the end of the reporting period.

3) Before tax, based on profit/loss and capital employed for the past four quarters.

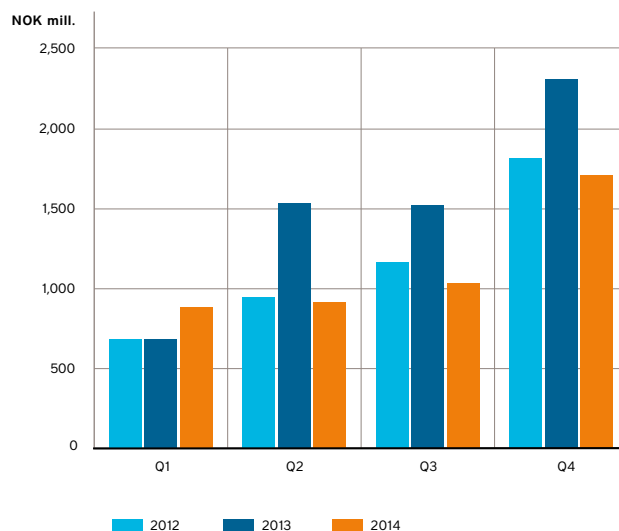
4) The rolling 12-month adjusted EBITDA is the adjusted EBITDA for the past four quarters.

5) FFO is adjusted EBITDA + dividends from associates and joint ventures + financial income - tax payable.

Operating profits for the quarter



Accumulated operating profit



The Hydroelectric Power and Energy Management business areas

The combined turnover of these business areas in 2014 was NOK 2,809 (2,504) million, while their operating profit was NOK 1,666 (1,445) million. Pre-tax profit amounted to NOK 1,542 (1,452) million.

In the fourth quarter, the company generated 2,395 GWh (1,753 GWh) of hydroelectric power. Over the whole year, 9,060 GWh (7,738 GWh) was generated, an increase of 17%. Hydrological resources remained well above normal at the end of the period. In the NO2 price zone, reservoir levels were around 8% higher than the average for the past 10 years.

In 2014 the average spot price (in the NO2 region) was 22.8 øre/kWh (29.1 øre/kWh), down 22% from the previous year. However, a strong contribution from the Group's electricity price hedges meant that the prices achieved by the Group fell significantly less than that.

The tax expense was NOK 717 (758) million, which meant that the effective tax rate was 46.5% (52.2%). Lower spot prices reduce the resource rent tax payable. In addition, the estimate for deferred resource rent tax was adjusted down. Net income amounted to NOK 824 (694) million.

Investment in property, plant and equipment in 2014 amounted to NOK 538 (767) million. NOK 345 (535) million of this related to investments in new projects, the biggest of which were Brokke Nord/Sør, Skarg power station and Iveland 2 power station.

The Network business area

The Network business area is responsible for developing, operating and maintaining the transmission and distribution grid in Aust-Agder and Vest-Agder. Operating revenues in 2014 came to NOK 1,096 (1,423) million, while operating profit was NOK 141 (479) million.

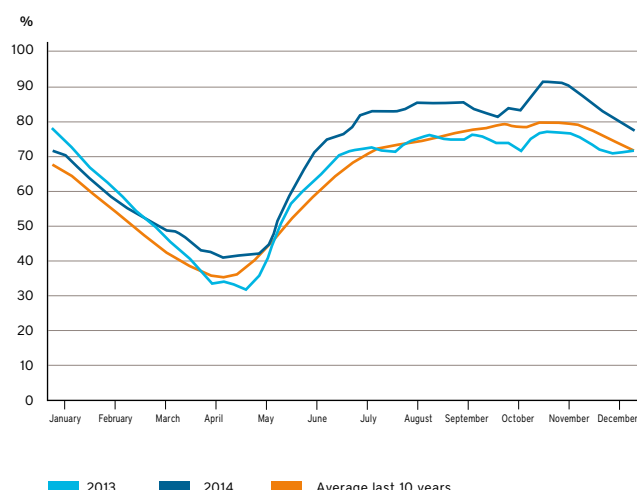
Lower operating profit was expected, mainly due to a reduction in the income cap. The income cap for any given year depends on the company's own expenses and on overall expenses in the industry two years ago. In 2013 the income cap was exceptionally high due to extraordinary expenses in 2011. The 2014 income cap is low, due to lower expenses across the industry as a whole in 2012 than in 2011. The fact that interest rates have fallen also has a negative impact on the income cap. Moreover, powerful winds and heavy precipitation at the start of the year, as well as significant amounts of lightning in the summer, resulted in higher than normal costs for fault resolution and energy not supplied.

NOK 366 (429) million was invested in 2014, of which NOK 229 (216) million related to investments in new projects.

Market prices in price zone NO 2



Reservoir storage levels (price zone NO2)



Marketing and Business Development business area

The Marketing and Business Development business area had turnover of NOK 4,796 (5,450) million in 2014, while operating profit came to NOK 127 (116) million. The main companies in this business area are LOS, Otera and Agder Energi Varme. It also includes the Group's venture capital portfolio and its strategic and financial ownership interests.

The electricity supplier LOS achieved turnover of NOK 3,155 million in 2014, compared with NOK 3,930 million in 2013. Operating profit was NOK 110 (98) million. In total, LOS supplied 8,670 GWh (9,849 GWh) over the course of the year. The 12% fall in volumes was mainly due to higher temperatures.

Otera is a contractor that provides services related to high-voltage and low-voltage power supply, electricity for road and rail, as well as mobile phone

and radio networks. The turnover of its continuing operations was NOK 899 (848) million in 2014, while it made an operating profit of NOK 10 (5) million.

In the second quarter Otera Elektro was sold to Bravida. The company's turnover in 2013 was around NOK 500 million, but for the past couple of years its financial results have been weak. Otera Elektro is presented under discontinued operations, and the company's turnover and financial results are not included in the figures quoted above.

Agder Energi Varme's turnover in 2014 was NOK 83 (90) million, while its operating profit was NOK 7 (14) million. The energy it supplied fell by 18 GWh to 118 GWh (136 GWh). Lower volumes were due to the mild weather in 2014, although this was partly offset by growth in the company's customer base. The company's electricity hedges made a larger positive contribution than the previous year.

Investment in 2014 amounted to NOK 27 (52) million.

Cash flows and capital adequacy

Cash flow from operating activities came to NOK 1,512 million in 2014, compared with NOK 1,486 million in 2013. Viewed in isolation, an increase in underlying EBITDA would point to an improvement in cash flow. However, the increase was partly offset by an increase in tax paid.

NOK 1 200 (1 378) million was invested in 2014. The hydropower project Skarg power station (Brokke Nord/Sør) was completed in 2014, which was one of the main reasons why investment was lower. The Hydroelectric Power and Network business areas were responsible for around 90% of the investments in property, plant and equipment. Net cash used in investing activities totalled NOK 1 156 million, compared with NOK 1 355 million in 2013.

Net financial expenses came to NOK 717 (628) million in 2014. The interest expense on the Group's debt portfolio amounted to NOK 280 (287) million. The Group realised a NOK 3 million loss (NOK 52 million gain) on currency contracts. Interest rate and currency markets were very volatile, particularly towards the end of the year. This resulted in large fluctuations in the values of hedging portfolios that do not qualify for hedge accounting under IFRS. The Group made an unrealised loss of NOK 449 (403) million on interest rate swaps, currency contracts and euro-denominated loans. Capitalised interest rate expenses came to NOK 26 (39) million, due to high project activity.

Average interest-bearing liabilities were NOK 7.7 (7.1) billion, and the average interest rate on the debt portfolio was 3.6% (4.0%). The Group had a liquidity buffer of NOK 1,420 (1,430) million at the close of the year, consisting of unused credit facilities and unrestricted liquid assets.

Major exceptional items

Agder Energi compensates some landowners for the right to use waterfalls and land. Under IAS 39, part of this compensation must be measured at fair value in the accounts. For the remaining contracts, a provision is made for the present value of future payments and

the expected cost of generating compensation power. In the second quarter, Agder Energi lowered the discount rate from 3.5% to 2.5%. This resulted in a NOK 56 million expense being recognised, which is presented under other operating expenses. There is no impact on cash flows.

In the fourth quarter, Agder Energi recognised a NOK 48 million gain arising from life expectancy adjustments to pensions. This non-cash item was recorded as a reduction in wage costs. In the fourth quarter the Group also recognised NOK 80 million in deferred tax assets that were not previously included on the statement of financial position. There was a corresponding reduction in the tax expense.

Operations and working environment

At the close of 2014, the Group had 1,245 (1,551) full-time and temporary employees, representing 1,220 (1,526) full-time equivalents. The decrease from 2013 to 2014 was mainly due to the sale of Otera Elektro AS.

The sickness absence rate for the year was 3.6%, compared with 3.6% in the year-earlier period.

19 (29) occupational accidents resulting in injury were recorded during the period. The accidents occurred at: Otera 13 (27);

Agder Energi Vannkraft 3 (2); Agder Energi Nett 2 (0); and Agder Energi AS 1 (0). Of the accidents, 8 (10) resulted in total lost time of 42 (112) days. The accident figures are equivalent to a lost time injury frequency (number of LTIs per million work hours) of 3.6 (3.9), a total injury frequency (number of injuries, whether or not they resulted in lost time, per million work hours) of 8.6 (11.2) and an injury severity rate (number of days lost per million work hours) of 19 (43.3). These are record low figures for accidents.

Outlook

Forward prices suggest that electricity prices will remain relatively low over the coming years. The contribution from the Group's hedging activities, which was significant in 2014, is likely to fall in 2015, so we expect to achieve lower prices going forwards. At the end of the year, the Group's hydrological resources (water and snow) were significantly above normal. Assuming normal precipitation levels, we expect hydroelectric power generation to remain high in 2015.

The financial results of our grid operating company should improve in 2015 over 2014, thanks to a higher income cap. We expect the income cap and profitability of our grid operating company to continue rising over the coming years.

Kristiansand, 13 February 2015
The Board of Directors of Agder Energi AS

INCOME STATEMENT

(Amounts in NOK millions)	Q4		Full year	
	2014	2013	2014	2013
Energy sales	1,688	764	5,814	6,278
Transmission revenues	351	339	1,139	1,245
Other operating revenues	481	7	1,470	1,316
Unrealised gains/losses on energy contracts	106	499	-156	552
Total operating revenues	2,626	1,609	8,267	9,391
Energy purchases	-947	-242	-3,083	-3,920
Transmission expenses	-61	-49	-220	-163
Other raw materials and consumables used	-254	-41	-815	-734
Employee benefits	-200	-79	-810	-827
Depreciation and impairment losses	-165	-156	-588	-502
Property taxes and licence fees	-53	-52	-209	-204
Other operating expenses	-266	-159	-827	-687
Total operating expenses	-1,946	-778	-6,552	-7,037
Operating profit	680	831	1,715	2,354
Share of profit of associates and jointly controlled entities	-3	-1	-11	-5
Financial income	8	1	26	78
Unrealised gains/losses on currency and interest rate contracts	-597	-98	-449	-403
Financial expenses	-75	-79	-283	-298
Net financial income/expenses	-667	-177	-717	-628
Profit before tax	13	654	998	1,726
Income tax	86	-179	-178	-475
Resource rent tax	-84	-30	-295	-370
Tax expense	2	-209	-473	-845
Net income from continuing operations	15	445	525	881
Net income from discontinued operations	-3	-35	-33	-35
Net income	12	410	492	846
Of which attributable to non-controlling interests	7	9	17	12
Of which attributable to controlling interest	5	401	475	834
Earnings per share/Earnings per share, diluted (NOK)	2	149	176	309

TOTAL COMPREHENSIVE INCOME

(Amounts in NOK millions)	Q4		Full year	
	2014	2013	2014	2013
Net income	12	410	492	846
Other comprehensive income				
Cash flow hedges	-64	-48	-95	-139
Translation differences	8	3	3	10
Tax impact	18	13	26	38
Total items that may be reclassified to income statement	-38	-32	-66	-91
Actuarial gains and losses on pensions	-209	216	-209	216
Tax impact	63	-51	63	-51
Total items that will not be reclassified to income statement	-146	165	-146	165
Total other comprehensive income	-184	133	-212	74
Total comprehensive income	-172	543	280	920
Of which attributable to non-controlling interests	8	10	17	15
Of which attributable to controlling interest	-180	533	263	905

STATEMENT OF FINANCIAL POSITION

(Amounts in NOK millions)	31/12/2014	30/09/2014	31/12/2013
Deferred tax assets	415	408	374
Intangible assets	223	221	259
Property, plant and equipment	12,534	12,342	11,979
Investments in associates and jointly controlled entities	297	275	182
Other non-current financial assets	455	444	530
Total non-current assets	13,924	13,690	13,324
Inventories	38	35	35
Receivables	1,538	847	1,677
Derivatives	864	686	1,022
Cash and cash equivalents	54	37	33
Total current assets	2,494	1,605	2,767
TOTAL ASSETS	16,418	15,295	16,091
Paid-in capital	1,907	1,907	1,907
Retained earnings	1,770	1,949	2,217
Non-controlling interests	83	75	86
Total equity	3,760	3,931	4,210
Deferred tax	439	506	520
Provisions	1,475	1,139	1,134
Interest-bearing non-current liabilities	7,115	6,512	5,931
Total non-current liabilities	9,029	8,157	7,585
Interest-bearing current liabilities	1,184	1,468	1,737
Tax payable	498	505	771
Derivatives	710	354	464
Other non-interest-bearing current liabilities	1,237	880	1,324
Total current liabilities	3,629	3,207	4,296
TOTAL EQUITY AND LIABILITIES	16,418	15,295	16,091

STATEMENT OF CASH FLOWS

(Amounts in NOK millions)	Q4		Full year	
	2014	2013	2014	2013
Cash flow from operating activities				
Profit before tax from continuing operations	13	655	998	1,726
Profit before tax from discontinued operations	-5	-41	-37	-40
Depreciation and impairment losses	167	207	590	553
Unrealised gains/losses on energy, currency and interest rate contracts	490	-401	604	-149
Share of profit of associates and jointly controlled entities	3	1	11	5
Loss/gain on disposals	3	0	21	2
Tax paid	15	-4	-755	-654
Change in trade receivables	-523	-596	176	105
Change in trade payables	35	143	-122	14
Change in net working capital, etc.	206	298	26	-76
Net cash provided by operating activities	404	262	1,512	1,486
Investing activities				
Purchase of property, plant, equipment and intangible assets	-357	-422	-1,136	-1,299
Purchase of businesses/financial assets	-4	-27	-42	-56
Net change in loans	-19	-4	-22	-23
Sale of property, plant, equipment and intangible assets	0	0	2	15
Sale of businesses/financial assets	-23	0	42	8
Net cash used in investing activities	-403	-453	-1,156	-1,355
Financing activities				
New long-term borrowings	300	500	2,325	1,933
Repayment of long-term borrowings	0	-155	-1,344	-1,835
Net change in current liabilities	-284	-177	-603	341
Dividends paid	0	0	-713	-626
Net cash used in financing activities	16	168	-355	-187
Net change in cash and cash equivalents	17	-23	21	-56
Cash and cash equivalents at start of period	37	56	33	89
Cash and cash equivalents at end of period	54	33	54	33

STATEMENT OF CHANGES IN EQUITY

(Amounts in NOK millions)	Paid-in capital	Cash flow hedges	Translation differences	Retained earnings	Total for controlling interest	Non controlling interest	Total equity
Equity at 01/01/2013	1,907	27	0	1,923	3,857	60	3,917
Net income for the year	0	0	0	834	834	12	846
Other comprehensive income and expenses	0	-101	7	165	71	3	74
Dividends paid	0	0	0	-620	-620	-6	-626
Changes due to acquisitions, disposals, etc.	0	0	0	-18	-18	17	-1
Equity at 31/21/2013	1,907	-74	7	2,284	4,124	86	4,210
Equity at 01/01/2014	1,907	-74	7	2,284	4,124	86	4,210
Net income for the year	0	0	0	475	475	17	492
Other comprehensive income and expenses	0	-69	3	-146	-212	0	-212
Dividends paid	0	0	0	-707	-707	-6	-713
Changes due to acquisitions, disposals, etc.	0	0	0	-3	-3	-14	-17
Equity at 31/12/2014	1,907	-143	10	1,903	3,677	83	3,760

BUSINESS AREAS

NET INCOME UNDER NGAAP

(Amounts in NOK millions)	Q4		Full year	
	2014	2013	2014	2013
Hydroelectric power and energy management	201	172	824	694
Network	-5	73	42	296
Marketing and business development	126	44	156	60
Parent company/other/eliminations	-23	-87	-169	-198
Group (NGAAP)	298	202	853	851
Of which attributable to non-controlling interests	7	4	19	6
Of which attributable to controlling interest	292	198	834	845

OPERATING PROFIT UNDER NGAAP

(Amounts in NOK millions)	Q4		Full year	
	2014	2013	2014	2013
Hydroelectric power and energy management	430	238	1,666	1,445
Network	17	109	141	479
Marketing and business development	56	64	127	116
Parent company/other/eliminations	-22	-50	-162	-149
Group (NGAAP)	481	362	1,772	1,891

RECONCILIATION WITH GROUP'S REPORTED OPERATING PROFIT

(Amounts in NOK millions)	Q4		Full year	
	2014	2013	2014	2013
Operating profit (NGAAP)	481	362	1,772	1,891
<i>Adjustment for differences arising from:</i>				
Energy sales	-17	-13	-31	-31
Surplus/shortfall in transmission revenues	108	-9	184	-79
Goodwill amortisation and impairment	-2	-4	7	10
Changes to pension plans	-48	0	-48	0
Other	3	-4	-6	11
Operating profit (adjusted IFRS)	525	333	1,879	1,802
Changes in obligation to provide free electricity and pay compensation	0	0	-56	0
Changes to pension plans	48	0	48	0
Unrealised gains/losses on energy contracts	107	498	-156	552
Operating profit under IFRS	680	831	1,715	2,354



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