

QUARTERLY REPORT  
03-2014



# Q1-Q3 2014 HIGHLIGHTS

- Agder Energi's operating revenues in the first nine months of the year amounted to NOK 5 641 million, compared with NOK 6 622 million in the same period in 2013<sup>1)</sup>. The main reasons for the fall in revenues were lower prices and volumes in our retail business.
- Operating profit for the first nine months of the year was NOK 1 035 million (same period of 2013: NOK 1 522 million), while pre-tax profit amounted to NOK 985 (1 072) million. The Group's tax expense was NOK 475 (636) million, giving an effective tax rate of 48.2% (59.3%). Net income amounted to NOK 480 million (NOK 436 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 the first nine months, these gains and losses reduced pre-tax profit by NOK 114 million, compared with NOK 252 million in the same period last year.
- Adjusted for unrealised gains and losses and major exceptional items, the Group's operating profit was NOK 1 353 million (NOK 1 469 million) and it made a pre-tax profit of NOK 1 155 million (NOK 1 324 million). Net income on this basis was NOK 604 (620) million.
- In the first three quarters, the company generated 6 665 GWh (5 985 GWh) of hydroelectric power.
- During that period, the average spot price (in the NO2 region) was 22.1 øre/kWh (29.2 øre/kWh), down 24% from the same period last year.
- Brokke Nord/Sør, Skarg power station was officially opened in October. It was developed by Otra Kraft, which is a joint venture between Agder Energi and Skagerak Energi. The project will add 175 GWh of annual electricity generation, of which Agder Energi's share is around 120 GWh.
- In October Statnett was given the go-ahead to build two interconnectors, one to Germany (2018) and one to the UK (2020). When they are completed, they are expected to be of benefit to Agder Energi's business.
- Under Norwegian generally accepted accounting practice (NGAAP), Agder Energi's net income in the first nine months of the year was NOK 542 million (controlling interest's share). The equivalent figure for the same period last year was NOK 647 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

		Q1-Q3 2014	Q1-Q3 2013	Q1-Q3 2012	Full-year 2013
Operating revenues	NOK millions	5 641	6 622	6 876	9 391
EBITDA	NOK millions	1 458	1 868	1 515	2 856
Adjusted EBITDA 1)	NOK millions	1 777	1 812	1 268	2 304
Operating profit	NOK millions	1 035	1 522	1 168	2 354
Profit before tax	NOK millions	985	1 072	992	1 726
Net income	NOK millions	480	436	636	846
Cash flow from operating activities	NOK millions	1 159	1 224	752	1 486
Purchase of property, plant, equipment and intangible assets	NOK millions	779	877	614	1 299
Capital employed 2)	NOK millions	11 911	11 362	10 638	11 878
Operating margin	%	18.3	22.9	17.0	24.8
Return on capital employed 3)	%	16.0	17.4	21.2	23.3
Equity ratio	%	25.7	25.5	22.2	26.2
Net interest-bearing liabilities/ Trailing 12-month adjusted EBITDA 4)		3.5	3.0	3.8	3.6
FFO/Net interest-bearing liabilities 5)	%	20.4	20.7	25.7	21.6

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.

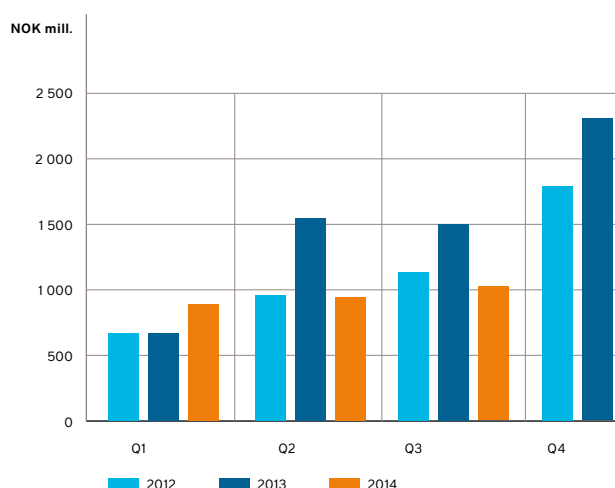
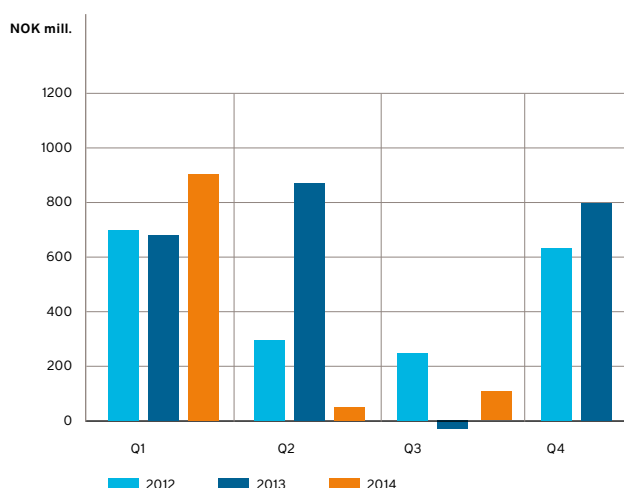
3) Before tax, based on profit/loss and capital employed for the past four quarters.

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 jointly controlled entities 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 was NOK 2 034 (1 967) million, while their operating profit was NOK 1 235 (1 207) million. Pre-tax profit amounted to NOK 1 157 (1 198) million.

In the third quarter, the company generated 1 748 GWh (1 301 GWh) of hydroelectric power. For the first nine months of the year as a whole, it generated 6 665 GWh (5 985 GWh), up 11% on the year-earlier period. Hydrological resources remained well above normal at the end of the period. In the NO2 price zone, reservoir levels were around 3% higher than the average for the past 10 years.

During that period, the average spot price (in the NO2 region) was 22.1 øre/kWh (29.2 øre/kWh), down 24% from the same period last 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 534 (676) million, which meant that the effective tax rate was 46.2% (56.4%).

A lower pre-tax profit and lower spot prices meant that both expensed income tax and resource rent tax payable fell. In addition, the estimate for deferred resource rent tax was adjusted down. Net income amounted to NOK 624 (522) million.

The business area invested NOK 415 (514) million in property, plant and equipment in the first nine months of 2014. NOK 314 (352) 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. Its operating revenues were NOK 803 (1 046) million in the first three quarters, while its operating profit was NOK 124 (370) million.

Lower operating profit was expected, 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 low expenses in the industry as a whole in 2012.

NOK 285 (313) million was invested in the first nine months of the year, of which NOK 143 (101) million related to investments in new projects.

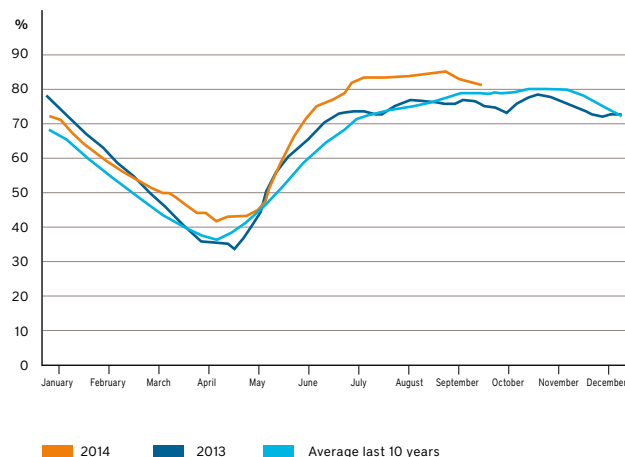
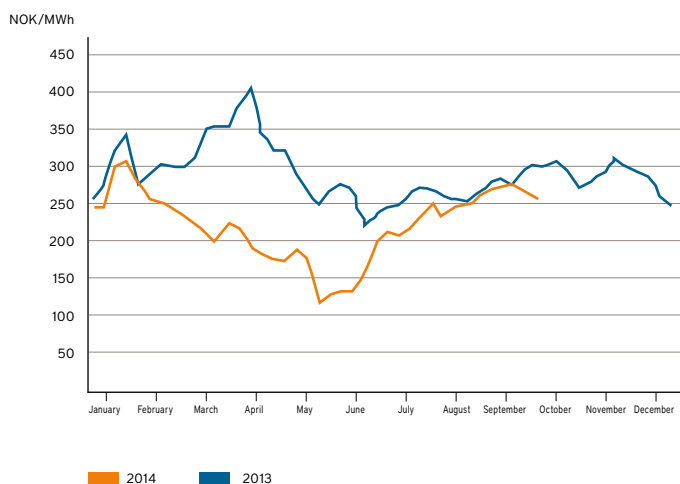
### Marketing and Business Development business area

This Marketing and Business Development business area achieved turnover of NOK 3 306 (3 933) million in the first nine months of the year, while operating profit came to NOK 71 (52) 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 retail electricity provider LOS had turnover of NOK 2 195 million in the first three quarters of the year, compared with NOK 2 883 million in the year-earlier period. Operating profit was NOK 74 (64) million. LOS supplied 6 214 GWh

## Market prices in price zone NO 2

## Reservoir storage levels (price zone NO2)



(7 194 GWh) during that period. The 14% 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 626 (571) million in the first nine months, while it made an operating loss of NOK 5 (17) million. The operating loss was due to a weak first quarter, but in both the second and third quarters the company was profitable. Otera's profitability is affected by seasonal factors, with the first quarter normally being the weakest.

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 was NOK 58 (66) million, while its operating profit was NOK 3 (12) million. The energy it

supplied fell by 16 GWh to 82 GWh (98 GWh). Lower volumes were due to mild weather, although this was partly offset by growth in the company's customer base. The company's electricity hedges made a larger positive contribution than in the year-earlier period.

The business area has invested NOK 17 (39) million so far this year.

### Cash flows and capital adequacy

Cash flow from operating activities came to NOK 1 159 million, compared with NOK 1 224 million in the year-earlier period.

The Group invested NOK 820 (925) million in the first nine months of the year. 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 753 million, compared with NOK 902 million last year.

Net financial expenses came to NOK 50 (450) million in the first nine months of the year. The interest expense on the Group's debt portfolio amounted to NOK 208 (216) million. The Group made an unrealised exchange rate loss on cur-

rency contracts of NOK 8 million (gain of NOK 59 million), whereas it made an unrealised gain on the value of interest rate swaps and currency contracts of NOK 148 million (loss of NOK 305 million). Capitalised interest rate expenses came to NOK -22 (-13) million, due to high project activity.

Average interest-bearing liabilities were NOK 7 710 (7 045) million, and the average interest rate on the debt portfolio was 3.6% (4.1%). The Group had a liquidity buffer of NOK 1 444 (1 180) million at the close of the quarter, consisting of unused credit facilities and unrestricted liquid assets.

### Major exceptional items

Agder Energi compensates landowners for the right to use waterfalls and land. The compensation is perpetual, and comprises a combination of payments and obligations to supply electricity free of charge. Contracts to supply compensation power that entitle the counterparty to demand settlement in cash are measured at fair value. For the remaining contracts, a provision is made for the present value of future payments and the expected cost of generating compensation power, which in total amounts to around NOK 5 million per

year. In the second quarter, Agder Energi lowered the interest rate used to calculate the provision from 3.5% to 2.5%. This resulted in a NOK 56 million expense being recognised in the second quarter, which is presented under other operating expenses. This is a non-cash item, but it is considered to be a major exceptional item, and it is therefore not included in the figures that are adjusted for unrealised gains and losses and major exceptional items.

In the third quarter, the Norwegian Accounting Standards Board published updated advice on accounting for life expectancy adjustments in public pensions for people born in or after 1954. After its publication, uncertainty has arisen about how this advice should be interpreted. As a result of this uncertainty, Agder Energi has decided to delay the adoption of the advice until the fourth quarter.

#### **Operations and working environment**

At the close of the third quarter the Group had 1 214 (1 515) full-time and temporary employees, representing 1 191 (1 482) full-time equivalents. The reduction in staff numbers was almost entirely due to the disposal of Otera Elektro AS.

The sickness absence rate was 3.7% in the first nine months, compared with 3.6% in the year-earlier period.

11 (23) occupational accidents resulting in injury were recorded during the period. The accidents occurred at Otera (7), Agder Energi Vannkraft (2), Agder Energi Nett (1) and Agder Energi AS (1). Of the accidents, 7 (8) resulted in total lost time of 37 (92) days. The accident figures are equivalent to a lost time injury frequency (number of LTIs per million work hours) of 4.1 (4.1), a total injury frequency (number of injuries, whether or not they resulted in lost time, per million work hours) of 6.4 (11.9) and an injury severity rate (number of days lost per million work hours) of 21.5 (47.7). The equivalent figures for the past twelve months are an LTIF of 3.8, a TIF of 7.2 and an ISR of 24.

#### **Outlook**

Electricity prices have been lower in 2014 than in 2013. Forward prices measured in NOK for the coming years remained stable during the quarter, while in the year to date they have fallen slightly. The forward prices suggest that electricity prices will remain relatively low in the coming years. At the end of the quarter, the Group's hydrological resources (water and snow) were significantly above normal. Assuming normal

precipitation levels, Agder Energi expects to generate more hydroelectric power in 2014 than in 2013.

We expect our grid operating company to achieve significantly lower profit in 2014 than in 2013. The main reason for this is that in 2013 grid operators received a one-off compensation through the income cap for expenses incurred in 2011. We expect the income cap and profitability of our grid operating company to increase over the coming years.

After the sale of Otera Elektro, we expect the remaining parts of Otera to be profitable in the fourth quarter and for the year as a whole. Our retail business LOS is expected to achieve its best results ever, and it is working proactively to develop new business opportunities. In its latest budget, the government has suggested that it will introduce new rules on how wind power assets are depreciated. Agder Energi has several attractive wind power investments, and this would be positive for their value.

In October Statnett was given the go-ahead to build two interconnectors, one to Germany (2018) and one to the UK (2020). When they are completed, they are expected to be of benefit to Agder Energi's business.

Kristiansand, 29 October 2014  
The Board of Directors of Agder Energi AS

# INCOME STATEMENT

(Amounts in NOK millions)	Q3		Q1-Q3		Full-year 2013
	2014	2013	2014	2013	
Energy sales	1 164	1 084	4 126	4 735	6 278
Transmission revenues	246	299	788	906	1 245
Other operating revenues	307	352	989	928	1 316
Unrealised gains/losses on energy contracts	-252	-306	-262	53	552
<b>Total operating revenues</b>	<b>1 465</b>	<b>1 429</b>	<b>5 641</b>	<b>6 622</b>	<b>9 391</b>
Energy purchases	-582	-691	-2 136	-2 899	-3 920
Transmission expenses	-52	-36	-159	-114	-163
Other raw materials and consumables used	-160	-201	-561	-515	-734
Employee benefits	-189	-181	-610	-592	-827
Depreciation and impairment losses	-139	-116	-423	-346	-502
Property taxes and licence fees	-54	-51	-156	-152	-204
Other operating expenses	-170	-163	-561	-482	-687
<b>Total operating expenses</b>	<b>-1 346</b>	<b>-1 439</b>	<b>-4 606</b>	<b>-5 100</b>	<b>-7 037</b>
<b>Operating profit</b>	<b>119</b>	<b>-10</b>	<b>1 035</b>	<b>1 522</b>	<b>2 354</b>
Share of profit of associates and jointly controlled entities	-2	-5	-8	-4	-5
Financial income	5	18	18	77	78
Unrealised gains/losses on currency and interest rate contracts	180	-99	148	-305	-403
Financial expenses	-74	-62	-208	-218	-298
<b>Net financial income/expenses</b>	<b>109</b>	<b>-148</b>	<b>-50</b>	<b>-450</b>	<b>-628</b>
<b>Profit before tax</b>	<b>228</b>	<b>-158</b>	<b>985</b>	<b>1 072</b>	<b>1 726</b>
Income tax	-62	46	-264	-296	-475
Resource rent tax	-55	-104	-211	-340	-370
<b>Tax expense</b>	<b>-117</b>	<b>-58</b>	<b>-475</b>	<b>-636</b>	<b>-845</b>
<b>Net income from continuing operations</b>	<b>111</b>	<b>-216</b>	<b>510</b>	<b>436</b>	<b>881</b>
Net income from discontinued operations	-1	-3	-30	0	-35
<b>Net income</b>	<b>110</b>	<b>-219</b>	<b>480</b>	<b>436</b>	<b>846</b>
Of which attributable to non-controlling interests	2	3	10	3	12
Of which attributable to controlling interest	108	-222	470	433	834
Earnings per share/Earnings per share, diluted (NOK)	40	-82	174	160	309

# TOTAL COMPREHENSIVE INCOME

(Amounts in NOK millions)	Q3		Q1-Q3		Full-year 2013
	2014	2013	2014	2013	
<b>Net income</b>	<b>110</b>	<b>-219</b>	<b>480</b>	<b>436</b>	<b>846</b>
<b>Other comprehensive income and expenses</b>					
Cash flow hedges	21	-38	-31	-91	-139
Translation differences	-1	4	-5	7	10
Tax impact	-6	11	8	25	38
<b>Total items that may be reclassified to income statement</b>	<b>14</b>	<b>-23</b>	<b>-28</b>	<b>-59</b>	<b>-91</b>
Actuarial gains and losses on pensions	0	0	0	0	216
Tax impact	0	0	0	0	-51
<b>Total items that will not be reclassified to income statement</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>165</b>
<b>Total other comprehensive income</b>	<b>14</b>	<b>-23</b>	<b>-28</b>	<b>-59</b>	<b>74</b>
<b>Total comprehensive income</b>	<b>124</b>	<b>-242</b>	<b>452</b>	<b>377</b>	<b>920</b>
Of which attributable to non-controlling interests	2	4	9	5	15
Of which attributable to controlling interest	122	-246	443	372	905

# STATEMENT OF FINANCIAL POSITION

(Amounts in NOK millions)	30.09.14	30.06.14	30.09.13	2013
Deferred tax assets	408	382	392	374
Intangible assets	221	226	277	259
Property, plant and equipment	12 342	12 269	11 738	11 979
Investments in associates and jointly controlled entities	275	175	185	182
Other non-current financial assets	444	502	492	530
<b>Total non-current assets</b>	<b>13 690</b>	<b>13 554</b>	<b>13 084</b>	<b>13 324</b>
Inventories	35	34	34	35
Receivables	847	794	1 330	1 677
Derivatives	686	960	626	1 022
Cash and cash equivalents	37	51	56	33
<b>Total current assets</b>	<b>1 605</b>	<b>1 839</b>	<b>2 046</b>	<b>2 767</b>
<b>TOTAL ASSETS</b>	<b>15 295</b>	<b>15 393</b>	<b>15 130</b>	<b>16 091</b>
Paid-in capital	1 907	1 907	1 907	1 907
Retained earnings	1 949	1 790	1 709	2 217
Non-controlling interests	75	73	76	86
<b>Total equity</b>	<b>3 931</b>	<b>3 770</b>	<b>3 692</b>	<b>4 210</b>
Deferred tax	506	502	395	520
Provisions	1 139	1 131	1 396	1 134
Interest-bearing non-current liabilities	6 512	5 853	5 386	5 931
<b>Total non-current liabilities</b>	<b>8 157</b>	<b>7 486</b>	<b>7 177</b>	<b>7 585</b>
Interest-bearing current liabilities	1 468	2 268	2 112	1 737
Tax payable	505	367	660	771
Derivatives	354	532	403	464
Other non-interest-bearing current liabilities	880	970	1 086	1 324
<b>Total current liabilities</b>	<b>3 207</b>	<b>4 137</b>	<b>4 261</b>	<b>4 296</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>15 295</b>	<b>15 393</b>	<b>15 130</b>	<b>16 091</b>



# STATEMENT OF CASH FLOWS

(Amounts in NOK millions)	Q3		Q1-Q3		Full-year 2013
	2014	2013	2014	2013	
<b>Cash flow from operating activities</b>					
Profit before tax from continuing operations	229	-159	985	1 071	1 726
Profit before tax from discontinued operations	0	-3	-32	1	-40
Depreciation and impairment losses	139	116	423	346	553
Unrealised gains/losses on energy, currency and interest rate contracts	73	405	114	252	-149
Share of profit of associates and jointly controlled entities	2	1	8	4	5
Loss/gain on disposals	1	0	18	2	2
Tax paid	0	0	-770	-650	-654
Change in trade receivables	-34	47	699	701	105
Change in trade payables	0	19	-157	-129	14
Change in net working capital, etc.	-49	-89	-129	-374	-76
<b>Net cash provided by operating activities</b>	<b>361</b>	<b>337</b>	<b>1 159</b>	<b>1 224</b>	<b>1 486</b>
<b>Investing activities</b>					
Purchase of property, plant, equipment and intangible assets	-209	-359	-779	-877	-1 299
Purchase of businesses/financial assets	-21	6	-38	-29	-56
Net change in loans	-3	0	-3	-19	-23
Sale of property, plant, equipment and intangible assets	0	8	2	15	15
Sale of businesses/financial assets	0	0	65	8	8
<b>Net cash used in investing activities</b>	<b>-233</b>	<b>-345</b>	<b>-753</b>	<b>-902</b>	<b>-1 355</b>
<b>Financing activities</b>					
New long-term borrowings	600	370	2 025	1 433	1 933
Repayment of long-term borrowings	-792	-691	-1 395	-1 680	-1 835
Net change in current liabilities	50	354	-319	518	341
Dividends paid	0	0	-713	-626	-626
<b>Net cash used in financing activities</b>	<b>-142</b>	<b>33</b>	<b>-402</b>	<b>-355</b>	<b>-187</b>
<b>Net change in cash and cash equivalents</b>	<b>-14</b>	<b>25</b>	<b>4</b>	<b>-33</b>	<b>-56</b>
Cash and cash equivalents at start of period	51	31	33	89	89
Cash and cash equivalents at end of period	37	56	37	56	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 interests	Total equity
<b>Equity at 01/01/2013</b>	<b>1 907</b>	<b>27</b>	<b>0</b>	<b>1 923</b>	<b>3 857</b>	<b>60</b>	<b>3 917</b>
Net income for the year	0	0	0	834	834	12	846
Other comprehensive income	0	-101	7	165	71	3	74
Dividends paid	0	0	0	-620	-620	-6	-626
Other changes in equity	0	0	0	-18	-18	17	-1
<b>Equity at 31/21/2013</b>	<b>1 907</b>	<b>-74</b>	<b>7</b>	<b>2 284</b>	<b>4 124</b>	<b>86</b>	<b>4 210</b>
<b>Equity at 01/01/2014</b>	<b>1 907</b>	<b>-74</b>	<b>7</b>	<b>2 284</b>	<b>4 124</b>	<b>86</b>	<b>4 210</b>
Net income for the year	0	0	0	470	470	10	480
Other comprehensive income	0	-23	-4	0	-27	-1	-28
Dividends paid	0	0	0	-707	-707	-6	-713
Other changes in equity	0	0	0	-4	-4	-14	-18
<b>Equity at 30/09/2014</b>	<b>1 907</b>	<b>-97</b>	<b>3</b>	<b>2 043</b>	<b>3 856</b>	<b>75</b>	<b>3 931</b>

# BUSINESS AREAS

## NET INCOME UNDER NGAAP

(Amounts in NOK millions)	Q3		Q1-Q3		Full-year 2013
	2014	2013	2014	2013	
Hydroelectric power and energy management	184	9	624	522	694
Network	9	74	47	222	296
Marketing and business development	7	6	31	16	60
Parent company/other/eliminations	-52	-22	-146	-111	-198
<b>Group (NGAAP)</b>	<b>148</b>	<b>67</b>	<b>555</b>	<b>649</b>	<b>851</b>
Of which attributable to non-controlling interests	3	2	13	3	6
<b>Of which attributable to controlling interest</b>	<b>144</b>	<b>65</b>	<b>542</b>	<b>647</b>	<b>845</b>

## OPERATING PROFIT UNDER NGAAP

(Amounts in NOK millions)	Q3		Q1-Q3		Full-year 2013
	2014	2013	2014	2013	
Hydroelectric power and energy management	352	189	1 235	1 207	1 445
Network	34	124	124	370	479
Marketing and business development	15	15	71	52	116
Parent company/other/eliminations	-46	-33	-139	-99	-149
<b>Group (NGAAP)</b>	<b>355</b>	<b>295</b>	<b>1 291</b>	<b>1 529</b>	<b>1 891</b>

## RECONCILIATION WITH GROUP'S REPORTED OPERATING PROFIT

(Amounts in NOK millions)	Q3		Q1-Q3		Full-year 2013
	2014	2013	2014	2013	
<b>Operating profit (NGAAP)</b>	<b>355</b>	<b>295</b>	<b>1 291</b>	<b>1 529</b>	<b>1 891</b>
Adjustment for differences arising from:					
Energy sales	-5	2	-14	-18	-31
Surplus/shortfall in transmission revenues	24	-22	76	-70	-79
Goodwill amortisation and impairment	1	4	9	14	10
Other	-2	15	-8	15	11
<b>Operating profit (adjusted IFRS)</b>	<b>372</b>	<b>295</b>	<b>1 353</b>	<b>1 469</b>	<b>1 802</b>
Changes in obligation to provide free electricity and pay compensation	0	0	-56	0	0
Unrealised gains/losses on energy contracts	-253	-305	-262	53	552
<b>Operating profit under IFRS</b>	<b>119</b>	<b>-10</b>	<b>1 035</b>	<b>1 522</b>	<b>2 354</b>

**Agder Energi**

P.O.Box 603 Lundsiden, 4606 Kristiansand  
Visiting adress (head office): Kjøita 18, 4630 Kristiansand  
Tel. no.: +47 38 60 70 00  
Organisation number: NO 981 952 324