

# QUARTERLY REPORT

01-2016



# Q1 2016 HIGHLIGHTS

- Agder Energi's first quarter net income under IFRS was NOK 491 million (controlling interest's share), compared with NOK 461 million in the year-earlier period. Operating revenues in the first quarter came to NOK 2,454 million (Q1 2015: NOK 2,227 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 measured through 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 quarter, the Group recognised a net valuation gain of NOK 257 (265) million after tax.
- For its internal reporting Agder Energi using Norwegian generally accepted accounting principles (NGAAP), which it considers to present an accurate picture of its underlying operations. Agder Energi's first quarter operating profit under NGAAP was NOK 672 (517) million, while its pre-tax profit was NOK 605 (469) million. Net income rose by NOK 66 million to NOK 281 (215) million. Nearly all of the increase in net income was attributable to greater profitability at the grid operating company due to a higher income cap.
- The Group generated 3,152 GWh (2,849 GWh) of hydroelectric power in the quarter, up 11%.
- The average spot price (in the NO2 region) in the first quarter was 21.2 øre/kWh (23.9 øre/kWh), down 12% from the same period last year.
- In February Agder Energi sold its 20.9% ownership interest in Fosen Vind. Agder Energi has also sold its 51.2% interest in Bjerkreim Vind. These disposals had a negligible impact on profitability in the first quarter, but they did have a positive impact on cash flows.
- In February Agder Energi signed an agreement with Nordic Wind Power (NWP) on managing NWP's share of Fosen Vind's variable power generation. NWP owns 40% of Fosen Vind.
- Test running of the Iveland 2 hydroelectric power station started in February. Iveland 2 will increase the Group's average annual generation by 150 GWh. The project is expected to be completed within the original schedule and budget.

## Key financial figures

		Q1 2016	Q1 2015	Q1 2014	Full year 2015
Operating revenues	NOK million	2,454	2,227	2,650	8,361
EBITDA	NOK million	960	743	1,031	2,976
Adjusted EBITDA 1)	NOK million	798	678	749	2,235
Operating profit	NOK million	834	617	883	2,399
Profit before tax	NOK million	887	807	918	1,929
Net income (controlling interest's share)	NOK million	491	461	578	1,220
Cash flow from operating activities	NOK million	595	672	527	1,502
Purchase of property, plant, equipment and intangible assets	NOK million	263	180	242	1,286
Capital employed 2)	NOK million	13,567	12,074	12,243	13,597
Operating margin	%	34.0	27.7	33.3	28.7
Return on capital employed 3)	%	17.3	9.9	20.3	17.2
Equity ratio	%	27.1	25.1	29.4	24.7
Net interest-bearing liabilities/Trailing 12-month adjusted EBITDA 4)		3.7	3.4	3.3	3.8
FFO/Net interest-bearing liabilities 5)		25.4	23.4	20.0	21.9

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

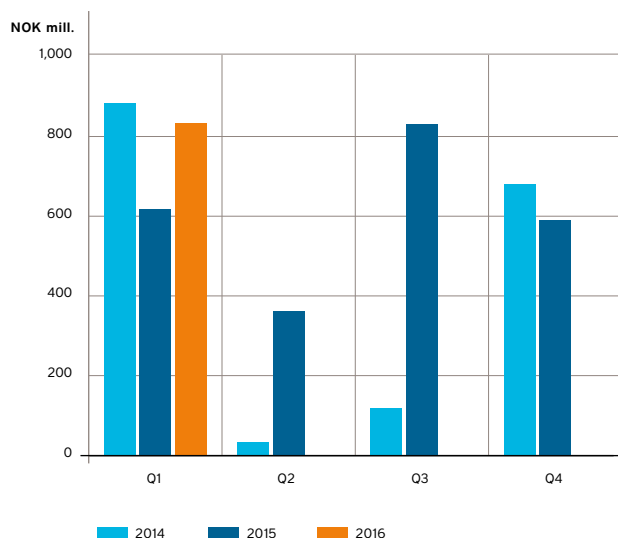
2) At the end of the reporting period.

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

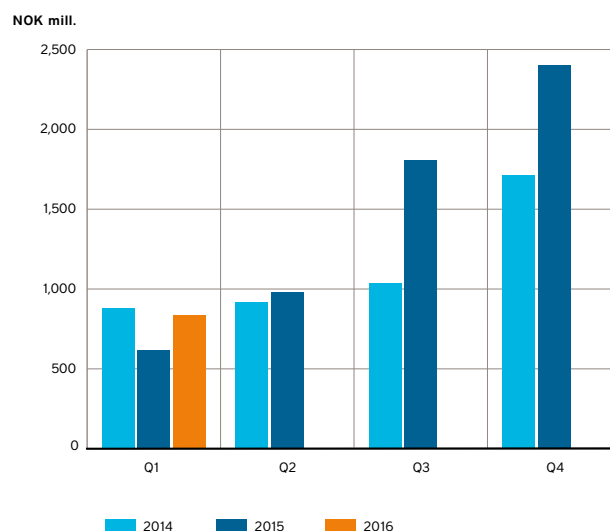
4) The rolling 12-month adjusted EBITDA is the adjusted EBITDA for the past four quarters.

5) FFO is adjusted EBITDA + dividends from A and JV + financial income - tax payable.

## Operating profits for the quarter



## Accumulated operating profit



### The Hydroelectric Power and Energy Management business areas

The combined operating revenues of these business areas in the first quarter was NOK 830 (809) million, while their operating profit was NOK 542 (494) million. Pre-tax profit amounted to NOK 514 (474) million.

3,152 GWh (2,849 GWh) of hydroelectric power was generated in the first quarter, an increase of 11%. Hydrological resources remained well above normal at the end of the period. In the NO2 price zone, reservoir levels at the end of the quarter were around 32% higher than the average for the past 10 years.

The average spot price (in the NO2 region) in the first quarter was 21.2 øre/kWh (23.9 øre/kWh), down 12% from the previous quarter. However, a strong contribution from the Group's electricity price hedges meant that the prices achieved by the Group were significantly

higher than spot prices, although lower than last year.

The tax expense was NOK 301 (258) million, which meant that the effective tax rate was 58.7% (54.4%). The tax expense rose due to a combination of higher pre-tax profit, higher resource rent tax payable due to increased production and an upward adjustment to estimated deferred resource rent tax. Net income amounted to NOK 213 (216) million.

The business areas invested NOK 84 (80) million in property, plant and equipment in the quarter. NOK 46 (44) million of this related to investments in new projects, primarily in conjunction with the 150 GWh power station Iveland 2. Test running of the plant started in February.

### The Network business area

The Network business area is responsi-

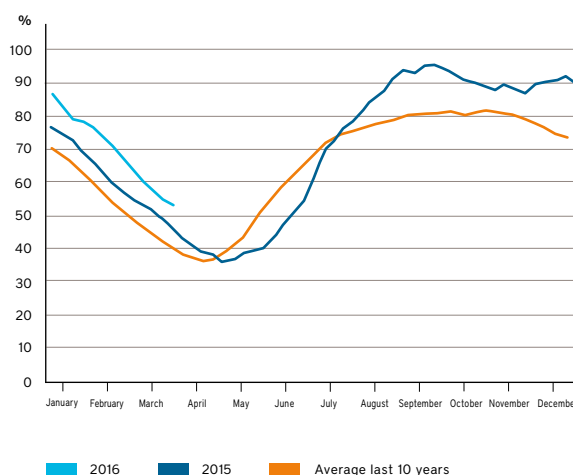
ble for developing, operating and maintaining the transmission and distribution grid in Aust-Agder and Vest-Agder. The business area's operating revenues in the first quarter came to NOK 381 million, compared with NOK 314 million in the year-earlier period. The increase over last year was due to a higher income cap. The income cap is set by the Norwegian Water Resources and Energy Directorate, and it mainly rose due to one-off factors that positively impacted the calculation of the permitted revenues of grid operating companies. Higher revenues were the main explanation why operating profit rose to NOK 137 (59) million. In addition, the first quarter of 2015 saw significant expenses related to energy not supplied (KILE) and fault resolution. Delays to maintenance work also pushed down maintenance costs in the first quarter of this year.

The business area invested NOK 112 (76) million in the first quarter, of which NOK

## Market prices in price zone NO2



## Reservoir storage levels in price zone NO2



81 (56) million related to investments in new projects. NOK 44 (16) million was invested in the smart meter project.

Including NOK 42 (19) million of customer contributions, gross investment in the business area was NOK 154 (95) million.

### Marketing and Business Development business area

The Marketing and Business Development business area's turnover was NOK 1,197 (1,125) million in the first quarter, while operating profit was NOK 30 (23) 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 retailer LOS's turnover in the first quarter was NOK 812 million,

compared with NOK 795 million in the year-earlier period. Its operating profit was NOK 34 (36) million. In total, the company supplied 2,830 GWh (2,560 GWh) in the first three months of the year.

Otera supplies contracting services for the installation, operation, maintenance and servicing of electricity, transport and communications infrastructure. The company's turnover totalled NOK 213 (185) million in the first quarter. It made an operating loss of NOK 14 (12) million. The loss was due to Otera Infra, and in the first quarter the company cut its workforce by around 50 full-time equivalents. Both Otera's Swedish business and Otera XP were profitable, performing in line with or slightly better than in the same period last year.

Agder Energi Varme's turnover was NOK 38 (31) million, while its operating profit

was NOK 11 (5) million. Operating profit mainly improved thanks to higher sales of heating energy as a result of colder weather patterns than in the year-earlier period. The company supplied 57 GWh (48 GWh) of energy. Electricity price hedges made a positive contribution in the period. Investment in the quarter amounted to NOK 2 (4) million.

### Cash flows and capital adequacy

Cash flow from operating activities came to NOK 595 million in the first quarter, compared with NOK 672 million in the first quarter last year. Cash flow was boosted by an underlying EBITDA that was slightly higher than in the year-earlier period and by lower trade receivables. However, these two factors were more than offset by an increase in other accruals, which meant that cash flow from operating activities fell NOK 77 million from the year-earlier period.

Investment in property, plant and equipment and intangible assets amounted to NOK 263 (180) million. NOK 42 (19) 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 business areas were responsible for 90% of the investments in property, plant and equipment. Net cash used in investing activities totalled NOK 66 million, compared with NOK 211 million in the first quarter of 2015. The reduction in net cash used in investing activities was a reflection of receipts from the disposal of our ownership interests in Fosen Vind and Bjerkreim Vind.

The Group had net financial income of NOK 53 million, compared with a net expense of NOK 190 million last year. Interest on the Group's debt portfolio was NOK 69 (68) million. The Group made an unrealised gain of NOK 180 (298) million on interest rate swaps, currency contracts and euro-denominated loans. The Group realised a NOK 62 (64) million loss on currency contracts.

Average interest-bearing liabilities were NOK 8.5 (7.8) billion, and the average interest rate on the debt portfolio was 3.2% (3.5%). The Group had a liquidity buffer of NOK 2.1 (1.6) billion at the close of the quarter, consisting of bank deposits and unused credit facilities.

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

At the end of the first quarter the Group had 1,284 (1,239) full-time and temporary employees, representing 1,258 (1,209) full-time equivalents. Most of the increase occurred within the Group's venture capital portfolio.

The sickness absence rate for the quarter was 4%, compared with 4% in the year-earlier period.

2 (3) incidents resulting in injury have been recorded so far in 2016. The incidents, which both occurred at Otera Infra, resulted in a total of 58 lost days. In addition, an incident that occurred in October 2015 caused 18 lost days in January. Total lost days therefore came to 76 (29). The accident figures are equivalent to a lost time injury frequency (number of LTIs per million work hours) of 3.9 (6.1), a total injury frequency

(number of injuries, whether or not they resulted in lost time, per million work hours) of 3.9 (6.1) and an injury severity rate (number of days lost per million work hours) of 149.6 (59.1). On a trailing 12-month basis, the equivalent figures were 2.4, 5.9 and 66 respectively.

#### **Outlook**

Electricity prices continued to fall in the first quarter, and futures contracts indicate that prices will remain low over the coming years. We expect the Group's hedging activities to continue making a significant positive contribution, but we expect to achieve lower prices going forwards. At the end of the quarter, the Group's hydrological resources (water and snow) were significantly above normal. Assuming normal precipitation levels, we expect hydroelectric power generation to be high in 2016.

The financial results of our grid operating company should improve in 2016 over 2015, thanks to a higher income cap.

Kristiansand, 10 May 2016  
The Board of Directors of Agder Energi AS

# INCOME STATEMENT

(Amounts in NOK million)	2016	Q1 2015	Full-year 2015
Energy sales	1,674	1,615	4,835
Transmission revenues	299	271	1,071
Other operating revenues	319	276	1,715
Unrealised gains/losses on energy contracts	162	65	740
<b>Total operating revenues</b>	<b>2,454</b>	<b>2,227</b>	<b>8,361</b>
Energy purchases	-783	-790	-2,212
Transmission expenses	-66	-67	-247
Other raw materials and consumables used	-175	-139	-1,006
Employee benefits	-230	-234	-899
Depreciation and impairment losses	-133	-126	-577
Property taxes and licence fees	-54	-68	-214
Other operating expenses	-179	-186	-807
<b>Total operating expenses</b>	<b>-1,620</b>	<b>-1,610</b>	<b>-5,962</b>
<b>Operating profit</b>	<b>834</b>	<b>617</b>	<b>2,399</b>
Share of profit of associates and joint ventures	-3	3	84
Financial income	4	14	8
Unrealised gains/losses on currency and interest rate contracts	180	298	-138
Financial expenses	-128	-125	-424
<b>Net financial income/expenses</b>	<b>53</b>	<b>190</b>	<b>-470</b>
<b>Profit before tax</b>	<b>887</b>	<b>807</b>	<b>1,929</b>
Income tax	-222	-216	-467
Resource rent tax	-173	-130	-251
<b>Tax expense</b>	<b>-395</b>	<b>-346</b>	<b>-718</b>
<b>Net income</b>	<b>492</b>	<b>461</b>	<b>1,211</b>
Of which attributable to non-controlling interests	1	0	-9
Of which attributable to non-controlling interests	491	461	1,220
Earnings per share/Earnings per share, diluted (NOK)	182	171	452

# COMPREHENSIVE INCOME

(Amounts in NOK million)	Q1		Full-year 2015
	2016	2015	
<b>Net income</b>	<b>492</b>	<b>461</b>	<b>1,211</b>
<b>Other comprehensive income and expenses</b>			
Cash flow hedges	-19	-10	8
Translation differences	-2	-5	1
Tax impact	5	3	2
<b>Total items that may be reclassified to income statement</b>	<b>-16</b>	<b>-12</b>	<b>11</b>
Remeasurements of pensions	0	0	487
Tax impact	0	0	-151
<b>Total items that will not be reclassified to income statement</b>	<b>0</b>	<b>0</b>	<b>336</b>
<b>Total other comprehensive income and expenses</b>	<b>-16</b>	<b>-12</b>	<b>347</b>
<b>Comprehensive income</b>	<b>476</b>	<b>449</b>	<b>1,558</b>
Of which attributable to non-controlling interests	2	-1	-6
Of which attributable to controlling interest	474	450	1,564

# STATEMENT OF FINANCIAL POSITION

(Amounts in NOK million)	31/03/2016	31/03/2015 (restated)	31/12/2015 (restated)
Deferred tax assets	335	392	374
Intangible assets	290	221	277
Property, plant and equipment	13,235	12,585	13,143
Investments in associates and joint ventures	36	308	61
Derivatives	1,411	819	1,280
Other non-current financial assets	839	469	819
<b>Total non-current assets</b>	<b>16,146</b>	<b>14,794</b>	<b>15,954</b>
Inventories	38	41	37
Receivables	1,263	1,284	1,512
Derivatives	511	333	544
Cash and cash equivalents	599	123	473
<b>Total current assets</b>	<b>2,411</b>	<b>1,781</b>	<b>2,566</b>
<b>TOTAL ASSETS</b>	<b>18,557</b>	<b>16,575</b>	<b>18,520</b>
Paid-in capital	1,907	1,907	1,907
Retained earnings	3,080	2,188	2,604
Non-controlling interests	50	65	58
<b>Total equity</b>	<b>5,037</b>	<b>4,160</b>	<b>4,569</b>
Deferred tax	882	512	817
Provisions	1,551	1,488	1,348
Derivatives	641	538	708
Interest-bearing non-current liabilities	7,490	6,714	7,284
<b>Total non-current liabilities</b>	<b>10,564</b>	<b>9,252</b>	<b>10,157</b>
Interest-bearing current liabilities	1,040	1,200	1,745
Tax payable	513	535	463
Derivatives	175	133	216
Other non-interest-bearing current liabilities	1,228	1,295	1,370
<b>Total current liabilities</b>	<b>2,956</b>	<b>3,163</b>	<b>3,794</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>18,557</b>	<b>16,575</b>	<b>18,520</b>



# STATEMENT OF CASH FLOWS

(Amounts in NOK million)	2016	Q1 2015	Full-year 2015
<b>Cash flow from operating activities</b>			
Profit before tax	887	807	1,929
Depreciation and impairment losses	133	126	588
Unrealised gains/losses on energy, currency and interest rate contracts	-341	-363	-602
Share of profit of associates and joint ventures	3	-3	-84
Tax paid	-230	-205	-484
Change in trade receivables	459	369	-41
Change in trade payables	74	74	107
Change in net working capital, etc.	-390	-133	89
<b>Net cash provided by operating activities</b>	<b>595</b>	<b>672</b>	<b>1,502</b>
<b>Investing activities</b>			
Purchase of property, plant, equipment and intangible assets	-221	-161	-1,196
Purchase of property, plant and equipment paid for by customers	-42	-19	-90
Purchase of businesses/financial assets	-34	-50	-81
Net change in loans	-9	4	105
Sale of property, plant, equipment and intangible assets	0	5	11
Sale of businesses/financial assets	240	10	366
<b>Net cash used in investing activities</b>	<b>-66</b>	<b>-211</b>	<b>-885</b>
<b>Financing activities</b>			
New long-term borrowings	300	300	1,450
Repayment of long-term borrowings	-405	-300	-1,108
Net change in current liabilities	-298	-384	166
Dividends paid	0	-8	-706
<b>Net cash used in financing activities</b>	<b>-403</b>	<b>-392</b>	<b>-198</b>
<b>Net change in cash and cash equivalents</b>	<b>126</b>	<b>69</b>	<b>419</b>
Cash and cash equivalents at start of period	473	54	54
Cash and cash equivalents at end of period	599	123	473

# 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
<b>Equity at 01/01/2015</b>	<b>1,907</b>	<b>-143</b>	<b>10</b>	<b>1,903</b>	<b>3,677</b>	<b>83</b>	<b>3,760</b>
Net income for the year	0	0	0	1,220	1,220	-9	1,211
Other comprehensive income and expenses	0	10	6	336	352	-5	347
Dividends paid	0	0	0	-700	-700	-6	-706
Changes due to acquisitions, disposals, etc.	0	0	0	-38	-38	-5	-43
<b>Equity at 31/12/2015</b>	<b>1,907</b>	<b>-133</b>	<b>16</b>	<b>2,721</b>	<b>4,511</b>	<b>58</b>	<b>4,569</b>
<b>Equity at 01/01/2016</b>	<b>1,907</b>	<b>-133</b>	<b>16</b>	<b>2,721</b>	<b>4,511</b>	<b>58</b>	<b>4,569</b>
Year-to-date profit	0	0	0	491	491	1	492
Other comprehensive income and expenses	0	-14	-2	0	-16	1	-15
Dividends paid	0	0	0	0	0	0	0
Changes due to acquisitions, disposals, etc.	0	0	0	1	1	-10	-9
<b>Equity at 31/03/2016</b>	<b>1,907</b>	<b>-147</b>	<b>14</b>	<b>3,213</b>	<b>4,987</b>	<b>50</b>	<b>5,037</b>

# BUSINESS AREAS

## OPERATING REVENUES UNDER NGAAP

(Amounts in NOK million)	Q1		Full-year
	2016	2015	2015
VHydroelectric power and energy management	830	809	2,513
Network	381	314	1,161
Marketing and business development	1,197	1,125	4,196
Parent company/other/eliminations	-114	-127	-422
<b>Group (NGAAP)</b>	<b>2,294</b>	<b>2,121</b>	<b>7,448</b>

## OPERATING PROFIT UNDER NGAAP

(Amounts in NOK million)	Q1		Full-year
	2016	2015	2015
Hydroelectric power and energy management	542	494	1,350
Network	137	59	212
Marketing and business development	30	23	108
Parent company/other/eliminations	-36	-58	-175
<b>Group (NGAAP)</b>	<b>673</b>	<b>518</b>	<b>1,495</b>

## NET INCOME UNDER NGAAP

(Amounts in NOK million)	Q1		Full-year
	2016	2015	2015
Hydroelectric power and energy management	213	216	674
Network	91	29	118
Marketing and business development	16	11	49
Parent company/other/eliminations	-39	-42	-106
<b>Group (NGAAP)</b>	<b>281</b>	<b>214</b>	<b>735</b>
Of which attributable to non-controlling interests	0	-1	-11
<b>Of which attributable to controlling interest</b>	<b>281</b>	<b>215</b>	<b>746</b>

# RECONCILIATION OF FIGURES FOR BUSINESS AREA WITH REPORTED IFRS FIGURES

## OPERATING REVENUES

(Amounts in NOK million)	Q1		Full-year 2015
	2016	2015	
<b>Operating revenues under NGAAP</b>	<b>2,294</b>	<b>2,121</b>	<b>7,448</b>
Energy sales*	46	41	120
Surplus/shortfall in transmission revenues	-47	0	54
Unrealised gains/losses on electricity contracts	161	64	740
<b>Operating revenues under IFRS</b>	<b>2,454</b>	<b>2,226</b>	<b>8,362</b>

\* Mainly due to realised gains and losses on foreign currency hedges linked to energy revenues being included as energy sales under NGAAP, whereas they are considered financial items under IFRS, see below

## OPERATING PROFIT

(Amounts in NOK million)	Q1		Full-year 2015
	2016	2015	
<b>Operating profit (NGAAP)</b>	<b>673</b>	<b>518</b>	<b>1,495</b>
IFRS adjustments to revenues (see above)	160	105	914
Goodwill amortisation	-1	1	-1
Other	1	-7	-9
<b>Operating profit (IFRS)</b>	<b>833</b>	<b>617</b>	<b>2,399</b>

## NET INCOME

(Amounts in NOK million)	Q1		Full-year 2015
	2016	2015	
<b>Net income (NGAAP)</b>	<b>281</b>	<b>214</b>	<b>735</b>
IFRS adjustments to operating profit (see above)	160	99	904
Unrealised gains/losses on currency and interest rate contracts	180	298	-138
Realised exchange rate gains/losses	-58	-67	-146
Other financial income/expenses	0	8	7
Tax	-71	-91	-151
<b>Net income (IFRS)</b>	<b>492</b>	<b>461</b>	<b>1,211</b>

# 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 2015, except in the case of the classification of derivatives on the balance sheet, see Note 2. The financial statements of the parent company and subsidiaries adhere to Norwegian generally accepted accounting principles (NGAAP). Internal reporting to the management team is also based on NGAAP, and in the interim report the business areas are also presented using NGAAP.

As discussed in Agder Energi's 2015 annual report, the Group has contracts for physical energy sales that are settled in euros. The currency portion of these contracts is not considered an embedded derivative that must be separated from the host contract and be accounted for separately as an independent derivative. Contracts of this kind are accounted for in their entirety on delivery. In March 2016, the Financial Supervisory Authority of Norway informed Agder Energi that it may require the Group to separate out the currency portion as an embedded derivative at fair value in future financial reporting. Agder Energi disagrees with the Financial Supervisory Authority's view and has issued a defence of its current practice. If the proposed change is finally enforced, it could have a significant impact on the Group's accounts. If it had been used for the presentation of the first quarter financial statements, it would have significantly increased the Group's book equity.

The accounts have not been audited.

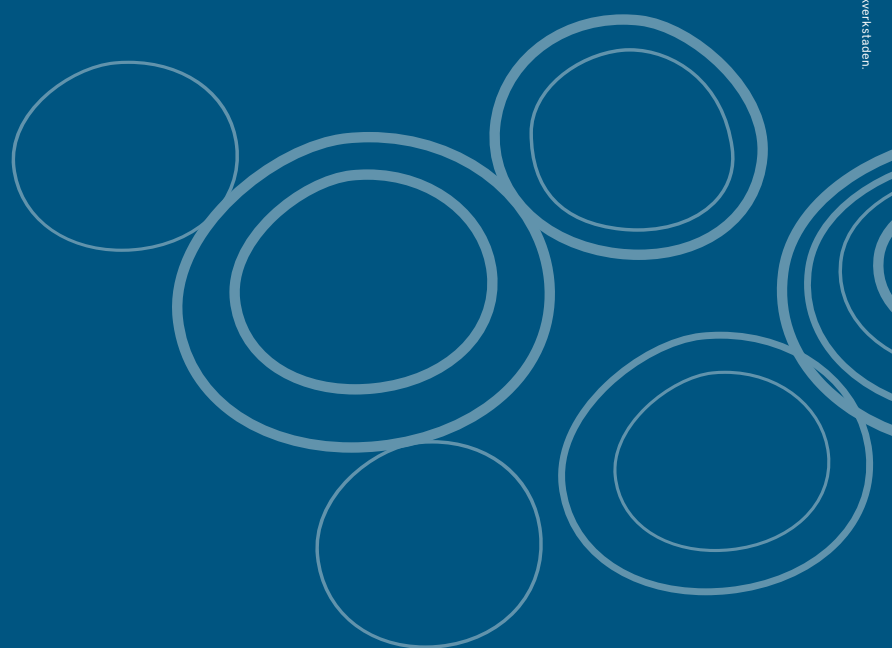
## NOTE 2 IMPACT OF CHANGES TO ACCOUNTING PRINCIPLES

In the past, Agder Energi has classified all currency, electricity and interest rate derivatives as current assets or current liabilities. Upon reconsideration Agder Energi has decided to change this principle, and it now classifies derivatives expiring more than one year after the statement of financial position date as non-current. Comparative figures have been restated. The table below shows the impact of the change on the comparative figures.

(Amounts in NOK million)	31/03/2015			31/12/2015		
	Previously reported	Change	Restated	Previously reported	Change	Restated
Derivatives (non-current assets)	0	819	819	0	1,280	1,280
Derivatives (current assets)	1,152	-819	333	1,824	-1,280	544
Derivatives (non-current liabilities)	0	538	538	0	708	708
Derivatives (current liabilities)	671	-538	133	924	-708	216

## NOTE 3 BUSINESS AREAS

Segment information is reported using the same segments as used in financial reports to the senior 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 11 for tables showing the financial performance of the business areas.



**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