QUARTERLY REPORT 03-2019

agder energi

Q3 2019 HIGHLIGHTS

- In the first nine months of the year, Agder Energi's reported operating profit under IFRS was NOK 1,610 million (Q1-Q3 2018: 1,091 million), and its IFRS net income was NOK 579 million (controlling interest's share), compared with NOK 255 million in the year-earlier period. It had NOK 9,686 (9,688) million in operating revenues.

- For the first nine months of the year, Agder Energi made an underlying[1] operating profit based on IFRS of NOK 875 (1,701) million. Underlying net income was NOK 84 million (controlling interest's share), down from NOK 612 million in the same period of last year. Net income primarily fell as a result of lower profit at our Hydroelectric Power segment.

- The difference between the reported net income and the underlying IFRS figure was mainly due to an unrealised gain of NOK 536 million on cash-settled hedges.

- 4,892 GWh (6,333 GWh) of hydroelectric power was generated in the first three quarters, a decline of 23%. After a lack of snow in the first quarter, the Group's hydrological resources have improved as a result of lower electricity generation and above-average precipitation. Hydrological resources were above normal at the end of the quarter.

- The average spot price (in the NO2 region) in the first nine months of the year was 38.5 øre/kWh (40.2 øre/kWh), down 4%.

- In August, Agder Energi's Board of Directors decided to appoint Steffen Syvertsen as the new CEO after Tom Nysted chose to retire. Syvertsen has worked at Agder Energi for 12 years, most recently as the Business Area Director for Energy Management, and he took over as CEO on 1 October.

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

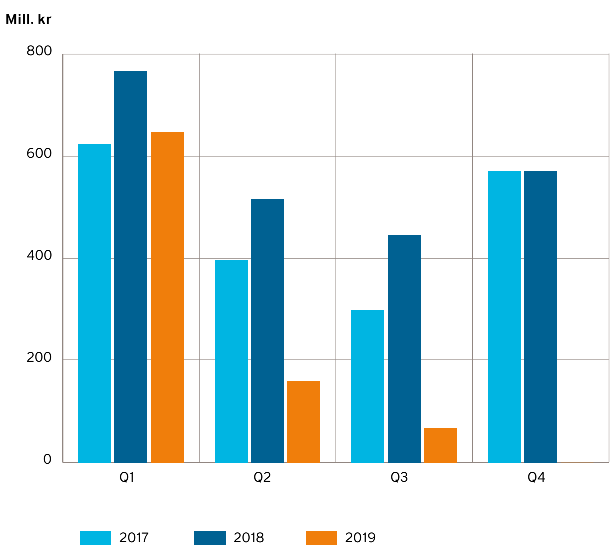
- By the end of September, several milestones had been reached in the project to upgrade the Høgefoss distribution network in Nissedal Municipality in Telemark. The upgrade lays the foundations and is a prerequisite for the expansion of Høgefoss power station and the development of new small hydro plants in the area. The project involves building a new substation at Høgefoss, creating a new 132 kV line between the substation and Dynjanfoss power station and installing new switchgear at Dynjanfoss. The remaining stages of construction will be completed in the autumn of 2019 and in 2020.

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

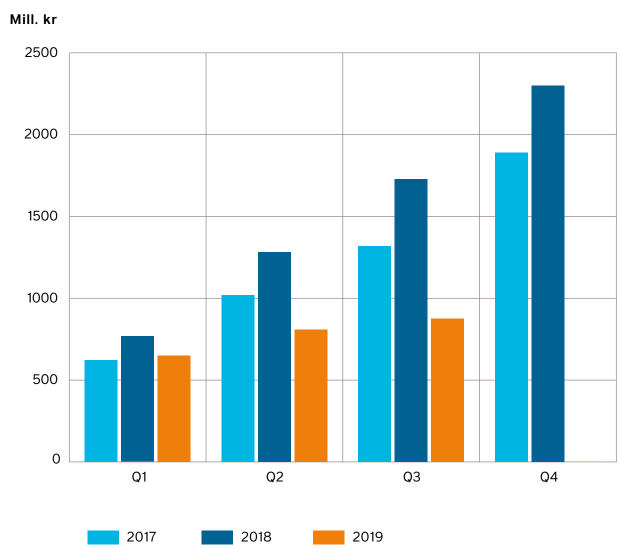
- The electric vehicle charging company Grønn Kontakt, which is part-owned by Agder Energi, moved into the Swedish market in September. It aims to become one of the leading operators of charging stations in Sweden within the next few years.

[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.

Underlying operating profits by quarter



Underlying accumulated operating profit



Key figures		Q1-Q3 2019	Q1-Q3 2018	Q1-Q3 2017	Full-year 2018
From income statement					
Operating revenues	mill. kr	9 686	9 688	6 730	13 980
EBITDA	mill. kr	2 108	1 554	1 082	1 626
Operating profit	mill. kr	1 610	1 091	612	967
Net income (controlling interest's share)	mill. kr	579	255	316	-198
Underlying performance 1)					
Underlying operating revenues	mill. kr	8 951	10 298	7 436	15 312
Underlying EBITDA	mill. kr	1 373	2 164	1 788	2 957
Underlying operating profit	mill. kr	875	1 701	1 318	2 298
Underlying net income (controlling interest's share)	mill. kr	84	612	577	874
Cash flow					
Cash flow from operating activities	mill. kr	765	1 615	1 026	2 049
Purchase of property, plant, equipment and intangible assets	mill. kr	1 054	1 025	922	1 489
Capital					
Capital employed 2)	mill. kr	13 868	12 975	13 285	12 787
Return on capital employed 3)	%	4,1	7,8	7,6	8,1
Equity ratio	%	15,4	20,4	22,8	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.

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

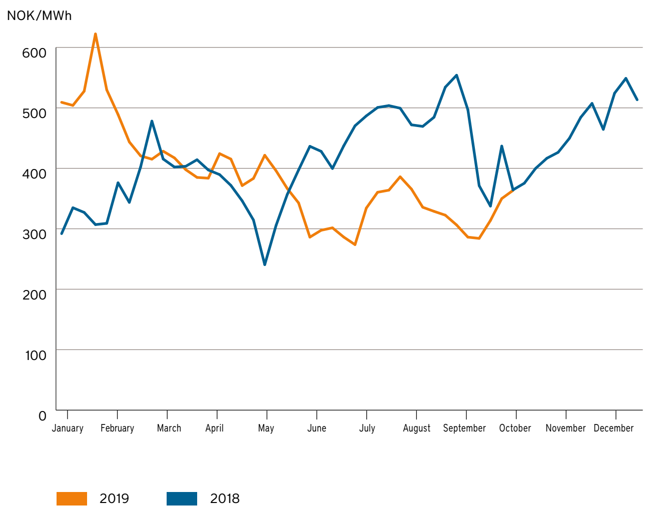
The Hydroelectric Power segment had NOK 1,807 (3,257) million of operating revenues in the first nine months of the year, while its operating profit was NOK 858 (1,792) million. Profit mainly fell as a result of lower electricity generation and lower achieved electricity prices.

1,294 GWh (1,401 GWh) of hydroelectric power was generated in the third quarter, down 8%. In the first nine months of the year, 4,892 GWh (6,333 GWh) was generated, 23% less than in the same period last year.

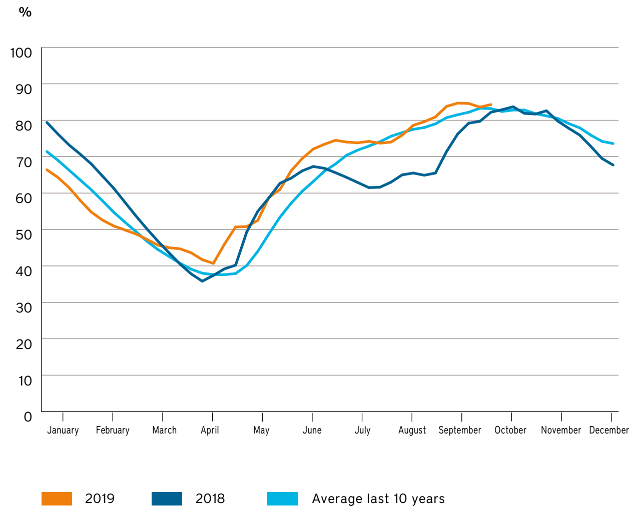
After low snowfall in the first quarter, the Group's hydrological resources (water and snow stored in its reservoirs and drainage basins) improved due to lower electricity generation and higher precipitation than normal. Hydrological resources were above normal at the end of the quarter. All of Agder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

The average spot price (in the NO2 region) in the third quarter was 32.7 øre/kWh (47.5 øre/kWh), down 31%. In the year to date, the average spot price was 38.5 øre/kWh (40.2 øre/kWh), down 4% from the same period last year. The main reason for prices being lower than in the third quarter last year was that reservoir reserves were significantly higher than

Market prices in price zone NO2



Reservoir storage levels in price zone NO2



they were after last year's dry summer. Moreover, German spot prices were significantly lower in the third quarter of this year than last year. A significant reduction in the marginal costs of gas-fired power stations is an important factor behind the decline in German spot prices. The average spot price so far this year has been around the same as the average price over the same period last year. Last year, prices rose over the course of the year, largely driven by a trebling of the price of CO2 quotas, whereas this year prices started high due to low reservoir reserves and cold weather, but have been falling through the third quarter, due to higher reservoir reserves and lower marginal costs for gas.

The Group's hedging strategy will contribute to stable and predictable results over time. Prices achieved by the segment during the first nine months of the year were lower than spot prices. This reflects the impacts of supplying concession power at regulated prices and long-standing industrial supply contracts, as well as a negative contribution from electricity price and currency hedges.

The segment's pre-tax profit amounted to NOK 787 (1,728) million, and its tax expense was NOK 604 (968) million. The effective tax rate rose to 76.8% (56.0%), 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 for the first nine months of the year amounted to NOK 183 (760) million.

The segment invested NOK 504 (409) million in property, plant and equipment over that period. The biggest projects were 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, and the refurbishment of the dam at Kuli.

Network

The Network segment is responsible for developing, operating and maintaining the transmission and distribution grid in Aust-Agder and Vest-Agder. Its operating revenues were NOK 1,047 (950) million in the first nine months of the year, and it made an operating profit of NOK 92 million, compared with a NOK 12 million loss last year.

The low revenues and operating profit in the first nine months of last year were due to heavy snowfall and storms. These events caused exceptional expenses and KILE (quality-adjusted income cap for energy not supplied). KILE is a reduction in the income cap imposed in the event of power cuts, designed to reflect the financial impact of the power cuts on customers. In the first nine months of 2019, expenses related to fault resolution came to NOK 26 million, against NOK 121 million in the year-earlier period. KILE reduced the income cap for the same period by NOK 35 (150) million. In the first nine months of the year, fault resolution expenses were around the expected level, while KILE was around NOK 15 million lower than expected. The Network segment has started taking action to reduce the risk of trees falling on its power lines and thereby causing power cuts. NOK 75 million was invested in this project during the first nine months of the year. NOK 56 million of this has been expensed.

NOK 374 (497) million was invested in the first nine months of the year, of which NOK 197 (376) million related to investments in new projects. NOK 62 (162) million of the total was invested in the smart meter project. Including NOK 81 (67) million of customer contributions, gross investment was NOK 455 (564) million.

The Network segment's contribution to the Agder Energi Group's operating profit and underlying operating profit under IFRS was NOK 72 million in the first nine months of the year, compared with NOK 104 million in the year-earlier period. The difference between that figure and the operating profit stated above reflects a NOK -19 (116) million difference in revenue recognition. That difference is described in greater detail in Note 1.

Energy Management

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

Agder Energi Kraftforvaltning provides the services of scheduling and hedging the hydropower portfolio to Agder Energi Vannkraft. 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 flexibility services.

Energy Management's turnover was NOK 4,847 (4,632) million in the first nine months of the year, up NOK 215 million from the year-earlier period. It made an operating loss of NOK 50 million, against a loss of NOK 113 million in the same period last year.

The German business made an operating loss of NOK 53 (110) 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 nine months of 2018, relating to losses on past contracts and adjustments to accrued revenues from previous years.

Entelios' operations in the Nordic region made an operating profit of NOK 46 (42) million.

Marketing

The turnover of the Marketing segment was NOK 1,570 (1,689) million in the first nine months of the year, while it made an operating profit of NOK 75 (62) million. The main companies in this segment are LOS, Craftor and Agder Energi Varme. The Group's venture capital portfolio is also part of it.

The electricity retailer LOS's turnover in the first nine months of the year was NOK 622 million, compared with NOK 617 million in the year-earlier period. The company's operating profit was NOK 36 (25) million.

Craftor (formerly Otera Ratel) supplies contracting services for the installation, operation, maintenance and servicing of electricity and transport infrastructure in Sweden. In the first nine months of the year, the company's turnover was NOK 596 (499) million. It made an operating profit of NOK 27 million, up from NOK 22 million last year.

Agder Energi Varme's turnover was NOK 78 (83) million, while its operating profit was NOK 6 (14) million. The volume of billable energy supplied in the first nine months was 99 GWh (107 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 23 (13) million.

Cash flows and capital adequacy

Cash flow from operating activities came to NOK 765 million in the first nine months of the year, compared with NOK 1,615 million in the year-earlier period. Several factors contributed to the decline. Firstly, underlying EBITDA fell by NOK 792 million. Moreover, 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 has been partially reversed in 2019 through a negative cash flow effect arising from the forward contracts with customers. However, there was a positive contribution from the reduction in cash collateral for trading on Nasdaq.

Investment in property, plant and equipment and intangible assets amounted to NOK 1,054 (1,025) million. NOK 81 (67) 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 93% of the investments in property, plant and equipment.

Net financial expenses in the first nine months of the year came to NOK 258 (87) million. Interest on the Group's debt portfolio was NOK 195 (186) million. Capitalised interest rate expenses on account of the high level of investment came to NOK 12 (13) million, which meant that the net interest rate expense was NOK 183 (173) million. The Group's interest income was NOK 17 million (NOK 44 million). A NOK 18 million exchange rate loss (gain of NOK 3 million) was recognised. There was an unrealised NOK 24 million loss (NOK 97 million gain) on our interest rate swaps. Investments in associates contributed a NOK 34 (17) million loss.

Average interest-bearing liabilities were NOK 9.6 (9.0) billion, and the average interest rate on the debt portfolio was 2.7% (2.8%). The Group had a liquidity buffer of NOK 3.9 (2.4) billion at the end of third quarter, consisting of unused credit facilities and bank deposits.

Operations and working environment
At the close of the quarter, the Group had 1,019 (1,025) full-time and temporary employees, representing 991 (999) full-time equivalents.

The sickness absence rate for the first nine months of the year was 2.6% (3.5%).

2 (7) occupational accidents were recorded in that period, which both occurred at Agder Energi Nett. So far this year, 44 (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 (4.7).

Outlook
The prices of future contracts for the rest of the year suggest that electricity prices will be lower in 2019 than in 2018.

The amount of hydroelectric power generated by the Group in the first nine months of the year was significantly lower than in the year-earlier period, and also lower than in a typical year. We therefore expect hydroelectric power generation and turnover from energy sales to be lower in 2019 than in 2018. At the end of the quarter, the Group's hydrological resources (water and snow) were above normal, and assuming normal precipitation levels going forwards, we expect our results in 2020 to be closer to normal.

Kristiansand, 6 November 2019
The Board of Directors of Agder Energi AS

INCOME STATEMENT

(Amounts in NOK million)	Q3 2019	Q3 2018	Q1-Q3 2019	Q1-Q3 2018	Full-year 2018
Energy sales	1 877	2 654	7 460	8 050	12 648
Transmission revenues	303	332	965	970	1 313
Other operating revenues	316	390	903	1 035	1 406
Gains and losses on energy and currency contracts	439	201	357	-367	-1 387
Total operating revenues	**2 936**	**3 577**	**9 686**	**9 688**	**13 980**
Energy purchases	-1 657	-2 097	-5 274	-5 710	-9 012
Transmission expenses	-95	-78	-293	-255	-339
Other raw materials and consumables used	-183	-184	-536	-572	-766
Employee benefits	-198	-249	-671	-749	-974
Depreciation and impairment losses	-165	-154	-498	-463	-659
Property taxes and licence fees	-48	-49	-142	-142	-195
Other operating expenses	-244	-250	-661	-706	-1 068
Total operating expenses	**-2 591**	**-3 061**	**-8 076**	**-8 597**	**-13 013**
Operating profit	**345**	**516**	**1 610**	**1 091**	**967**
Share of profit of associates and joint ventures	-12	-4	-34	-17	-9
Financial income	6	9	17	47	77
Unrealised gains/losses on interest rate contracts	-6	41	-24	97	67
Financial expenses	-54	-76	-218	-214	-249
Net financial income/expenses	**-65**	**-30**	**-258**	**-87**	**-114**
Profit before tax	**280**	**486**	**1 352**	**1 004**	**853**
Income tax	-67	-116	-315	-266	-198
Resource rent tax	-130	-138	-451	-496	-859
Tax expense	**-197**	**-254**	**-766**	**-762**	**-1 057**
Net income	**83**	**232**	**586**	**242**	**-204**
Of which attributable to non-controlling interests	2	5	7	-13	-6
Of which attributable to controlling interest	81	227	579	255	-198

COMPREHENSIVE INCOME

(Amounts in NOK million)	Q3 2019	Q3 2018	Q1-Q3 2019	Q1-Q3 2018	Full-year 2018
Net income	**83**	**232**	**586**	**242**	**-204**
Other comprehensive income					
Cash flow hedges	-26	9	-59	14	11
Translation differences	-1	1	0	-6	-14
Tax impact	6	-2	13	-3	-5
Total items that may be reclassified to income statement	**-21**	**8**	**-46**	**5**	**-8**
Remeasurements of pensions	-149	0	-149	0	-312
Tax impact	44	0	44	0	92
Total items that will not be reclassified to income statement	**-105**	**0**	**-105**	**0**	**-220**
Total other comprehensive income	**-126**	**8**	**-151**	**5**	**-228**
Comprehensive income	**-43**	**240**	**435**	**247**	**-432**
Of which attributable to non-controlling interests	2	5	9	-10	-4
Of which attributable to controlling interest	-45	235	426	257	-428

STATEMENT OF FINANCIAL POSITION

(Amounts in NOK million)	30/09/19	30/09/18	2018
Deferred tax assets	342	415	450
Intangible assets	326	342	326
Property, plant and equipment	16 005	14 925	15 171
Investments in associates and joint ventures	83	36	95
Derivatives	923	906	834
Other non-current financial assets	964	1 455	1 508
Total non-current assets	**18 643**	**18 079**	**18 384**
Inventories	140	48	158
Receivables	1 804	1 967	3 511
Derivatives	775	347	180
Cash and cash equivalents	434	69	383
Total current assets	**3 153**	**2 431**	**4 232**
TOTAL ASSETS	**21 796**	**20 510**	**22 616**
Paid-in capital	1 907	1 907	1 907
Retained earnings	1 431	2 264	1 592
Non-controlling interests	28	20	27
Total equity	**3 366**	**4 191**	**3 526**
Deferred tax	1 311	1 152	1 227
Provisions	2 064	1 960	2 010
Derivatives	1 032	1 154	1 148
Interest-bearing non-current liabilities	9 257	7 241	7 603
Total non-current liabilities	**13 664**	**11 507**	**11 988**
Interest-bearing current liabilities	1 245	1 543	1 657
Tax payable	840	846	1 023
Derivatives	921	575	1 111
Other non-interest-bearing current liabilities	1 760	1 848	3 311
Total current liabilities	**4 766**	**4 812**	**7 102**
TOTAL EQUITY AND LIABILITIES	**21 796**	**20 510**	**22 616**

STATEMENT OF CASH FLOWS

	Q3		Q1-Q3		Full-year
(Amounts in NOK million)	2019	2018	2019	2018	2018
Cash flow from operating activities					
Profit before tax	279	487	1 352	1 005	853
Depreciation and impairment losses	160	155	499	463	659
Unrealised gains/losses on energy, currency and interest rate contracts	-195	128	-1 160	641	1 558
Share of profit of associates and joint ventures	12	4	34	17	9
Loss/gain on disposals	0	-26	0	-6	4
Tax paid	-20	0	-690	-609	-609
Change in trade receivables	321	-34	1 103	859	-181
Change in trade payables	-181	56	-553	-48	474
Change in net working capital, etc.	131	-520	180	-707	-718
Net cash provided by operating activities	**507**	**250**	**765**	**1 615**	**2 049**
Investing activities					
Purchase of property, plant, equipment and intangible assets	-390	-328	-973	-958	-1 397
Purchase of property, plant and equipment paid for by customers	-34	-27	-81	-67	-92
Purchase of businesses/financial assets	-9	-18	-38	-27	-94
Net change in loans	6	11	1	116	165
Sale of property, plant, equipment and intangible assets	0	0	0	249	248
Sale of businesses/financial assets	0	68	0	68	68
Net cash used in investing activities	**-427**	**-294**	**-1 091**	**-619**	**-1 102**
Financing activities					
New long-term borrowings	796	0	1 946	950	1 424
Repayment of long-term borrowings	-464	-240	-1 177	-942	-961
Net change in current liabilities	-90	93	200	-388	-480
Dividends paid	0	0	-592	-608	-608
Net cash used in financing activities	**242**	**-147**	**377**	**-988**	**-625**
Net change in cash and cash equivalents	**322**	**-191**	**51**	**8**	**322**
Cash and cash equivalents at start of period	112	260	383	61	61
Cash and cash equivalents at end of period	434	69	434	69	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	579	**579**	7	**586**
Other comprehensive income and expenses	0	-46	-1	-105	**-152**	1	**-151**
Dividends paid	0	0	0	-592	**-592**	0	**-592**
Other changes in equity	0	0	0	4	**4**	-7	**-3**
Equity at 31/09/2019	**1 907**	**-140**	**-8**	**1 579**	**3 338**	**28**	**3 366**

SEGMENTS

OPERATING REVENUES

	Q3		Q1-Q3		Full-year
(Amounts in NOK million)	**2019**	**2018**	**2019**	**2018**	**2018**
Hydroelectric power	353	1 197	1 807	3 257	3 703
Network	311	305	1 047	950	1 358
Energy management	1 593	1 511	4 847	4 632	7 693
Marketing	418	467	1 570	1 689	2 434
Parent company/other/eliminations	-110	-202	-383	-789	-592
Total	**2 566**	**3 278**	**8 889**	**9 739**	**14 596**
Adjustments to IFRS, see Note 1	370	299	797	-51	-616
Revenue IFRS	**2 936**	**3 577**	**9 686**	**9 688**	**13 980**

OPERATING PROFIT

	Q3		Q1-Q3		Full-year
(Amounts in NOK million)	**2019**	**2018**	**2019**	**2018**	**2018**
Hydroelectric power	77	482	858	1 792	2 358
Network	17	-18	92	-12	16
Energy management	-9	-31	-50	-113	-111
Marketing	11	10	75	62	95
Parent company/other/eliminations	-34	8	-77	-71	-103
Total	**61**	**450**	**897**	**1 658**	**2 255**
Adjustments to IFRS, see Note 1	284	66	713	-567	-1 289
Operating profit IFRS	**345**	**516**	**1 610**	**1 091**	**967**

NET INCOME

	Q3		Q1-Q3		Full-year
(Amounts in NOK million)	**2019**	**2018**	**2019**	**2018**	**2018**
Hydroelectric power	-31	210	183	760	950
Network	-6	-30	15	-59	-41
Energy management	-6	-8	-56	-98	-116
Marketing	6	-6	36	25	67
Parent company/other/eliminations	-41	-31	-97	-92	-92
Total	**-78**	**134**	**80**	**537**	**767**
Adjustments to IFRS, see Note 1	162	98	506	-295	-972
Net income IFRS	**83**	**232**	**586**	**242**	**-204**

NOTES TO THE INTERIM FINANCIAL STATEMENTS

The figures in this interim report have not been audited.

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)	Q1-Q3 2019 income statement excl. IFRS 16	Effect of IFRS 16	Q1-Q3 2019 income statement
Depreciation	-464	-34	-498
Other operating expenses	-697	36	-661
Financial expenses	-213	-4	-217
Net effect on pre-tax profit		-2	

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

	Q3		Q1-Q3		Full-year
(Amounts in NOK millions)	**2019**	**2018**	**2019**	**2018**	**2018**
Energy sales 1)	-81	49	447	191	653
Surplus/shortfall in transmission revenues 2)	7	48	-19	125	105
Electricity and currency contracts	439	202	357	-367	-1 387
Other differences	5	0	12	0	13
Adjustments to revenues	**370**	**299**	**797**	**-51**	**-616**
Goodwill amortisation and impairment/badwill	2	-1	6	-4	6
Energy purchases 1)	-85	-232	-79	-512	-660
Other	-4	0	-10	0	-19
Adjustments to operating profit	**284**	**66**	**713**	**-567**	**-1 289**
Unrealised gains and losses on interest rate swaps	-6	41	-24	97	67
Other financial income/expenses	6	4	-17	-14	14
Tax impact of corrections	-122	-14	-167	188	236
Adjustment to net income	**162**	**98**	**506**	**-295**	**-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 11 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:

	Q1-Q3 2019			Q1-Q3 2018			2018		
(Amounts in NOK million)	Unrealised	Realised	Total	Unrealised	Realised	Total	Unrealised	Realised	Total
Embedded derivatives	56	0	56	-228	0	-228	77	0	77
Other electricity and currency contracts	678	-377	301	-407	269	-138	-1 434	-30	-1 464
Total gains and losses on electricity and currency contracts	**735**	**-377**	**357**	**-636**	**269**	**-367**	**-1 357**	**-30**	**-1 387**
Unrealised gains and losses on interest rate contracts	-24			97			67		
Impact of unrealised gains and losses on pre-tax profit	**711**			**-539**			**-1 290**		
Tax effect of unrealised gains and losses									
Income tax	-156			124			276		
Resource rent tax*	-19			75			-35		
Total	**-175**			**200**			**241**		
Impact of unrealised gains and losses on net income	**536**			**-339**			**-1 049**		

*Only applies to embedded derivatives

NOTE 4 Tax expense

	Q1-Q3 2019		Q1-Q3 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%)	298	22 %	231	23 %	196	16 %
Impact of non-capitalised deferred tax assets	12	1 %	26	3 %	30	2 %
Permanent differences and changes in tax rates	6	0 %	10	1 %	-29	-2 %
Income tax expense	**315**	**23 %**	**266**	**27 %**	**198**	**16 %**
Resource rent tax expense	**451**	**33 %**	**496**	**49 %**	**859**	**71 %**
Total tax expense	**766**	**57 %**	**762**	**76 %**	**1 057**	**87 %**

The Group's effective tax rate for the first nine months of the year was 57%. 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)	1 946	950
Repayment of long-term borrowings (cash item)	-1 177	-942
Net change in overdraft and other current liabilities (cash item)	200	-388
Exchange rate fluctuations (non-cash item)	-10	-64
Gains/losses on fair value hedges (non-cash item)	22	-12
Effect of adopting IFRS 16, see Note 1	262	0
Interest-bearing liabilities at 30 Sept.	**10 503**	**8 784**

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.

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.

	Q1-Q3		Full-year
(Amounts in NOK millions)	**2019**	**2018**	**2018**
IFRS operating revenues	9 686	9 688	13 980
Unrealised gains and losses, electricity and currency	-735	636	1 357
Material gains on the disposal of businesses or ownership interests in businesses	0	-26	-26
Underlying operating revenues	**8 951**	**10 298**	**15 312**
IFRS operating profit	1 610	1 091	967
Depreciation and impairment losses	498	463	659
IFRS EBITDA	**2 108**	**1 554**	**1 626**
Unrealised gains and losses, electricity and currency	-735	636	1 357
Material gains on the disposal of businesses or ownership interests in businesses	0	-26	-26
Underlying EBITDA	**1 373**	**2 164**	**2 957**
IFRS operating profit	1 610	1 091	967
Unrealised gains and losses, electricity and currency	-735	636	1 357
Material gains on the disposal of businesses or ownership interests in businesses	0	-26	-26
Underlying operating profit	**875**	**1 701**	**2 298**
IFRS net income (controlling interest's share)	579	255	-198
Changes in unrealised gains and losses after tax (see Note 3)	-536	339	1 049
Changes in deferred tax assets from neg. resource rent carryforwards	40	43	49
Material gains on the disposal of businesses or ownership interests in businesses	0	-26	-26
Underlying net income (controlling interest's share)	**84**	**612**	**874**

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Front page: Upgrading of the Høgefoss distribution network in Nissedal Municipality in Telemark.