



ECCO Energi

ANNUAL REPORT

2017

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Vision

Working together to create
value through clean energy

WE INTEND TO

- maximise value creation and provide high, stable investment performance
- be an attractive employer, with an inclusive working environment
- apply sound business practices in all our operations

Values

Commitment, Integrity and Creativity

COMMITMENT

We aspire to have a working environment that inspires commitment, job satisfaction and a sense of well-being. We value cooperation, communication and knowledge sharing.

INTEGRITY

We will behave with respect and accountability in all contexts.
We value quality, honesty and confidence.

CREATIVITY

We will focus on improvement and revitalisation to sustain a high level of expertise, quality and added value. We value initiative, energy and boldness.



2017 in brief

E-CO Energi is headquartered in Oslo and owns or has stakes in 50 power plants distributed all across southern Norway, accounting for annual mean production of some 14 TWh and a production capacity of about 3 350 MWh. Its largest production facilities are located in Hallingdal, Aurland and Nedre Glomma. In addition, E-CO Energi has significant interests in power plants in Hedmark County and Oppland County. The Group's main activities are related to the planning and implementation of the upgrading, operation and maintenance of the power plants, as well as to achieving the highest possible power production.

- On 4 August 2017, E-CO Energi acquired 90 per cent of the shares in Hafslund Produksjon Holding AS for MNOK 7 118. The addition of Hafslund's consolidated production activities raised E-CO Energi's mean annual production by 3 100 GWh. Once the new Vamma 12 power plant is completed in 2019, this will increase further to 3 300 GWh.
- In connection with the Hafslund transaction, E-CO Energi received MNOK 4 000 in fresh shareholders' funds from the owner, Oslo Municipality. At year-end 2017, equity totalled MNOK 12 364, which was equivalent to 41 per cent of the Group's total assets.
- In 2017, the E-CO Energi Group posted a net profit for the year of MNOK 1 038

(MNOK 505). The improvement in performance from 2016 was primarily attributable to higher realised power prices, the acquisition of Hafslund Produksjon, and unrealised gains of MNOK 57 from power derivatives in 2017, compared with an unrealised loss of MNOK 225 in 2016.

- The proposed dividend is MNOK 650. This is equivalent to 75 per cent of majority's share of the Group's net profit for the year, less the unrealised gains on power derivatives.
- The average actual selling price for 2017 was 0.281 NOK/kWh (0.254 NOK/kWh), which was 5 per cent (8 per cent) higher than the weighted hourly spot price in the price areas in which the Group produces power.

- The Group's annual production in 2017 amounted to 12 194 GWh, up 979 GWh from 2016. Excluding Hafslund Produksjon, the Group's power production aggregated 10 840 GWh, down 375 GWh from 2016.

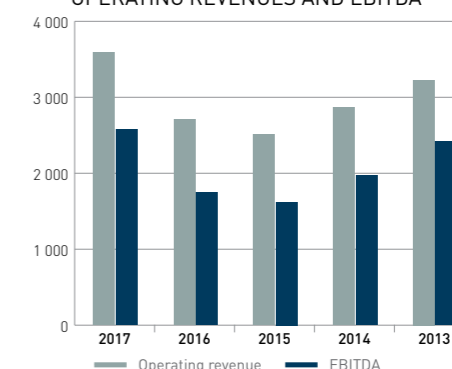
- The E-CO Energi Group made investments in capital equipment of MNOK 549 (MNOK 401) in 2017, divided between investments in maintenance and investments in renewable energy production. E-CO Energi is making ongoing investments in the new power plants at Rosten, Nedre Otta and Vamma 12 which, collectively, will generate roughly 740 GWh more renewable energy each year.

Key figures

(Amounts in MNOK)	2017	2016	2015*	2014*	2013*	
PERFORMANCE						
Operating revenue	3 592	2 710	2 511	2 863	3 228	
EBITDA ¹	2 574	1 747	1 621	1 971	2 417	
Operating profit	2 235	1 439	1 347	1 698	2 153	
Profit before taxes	1 987	1 248	1 116	1 491	1 914	
Net profit for the year	1 038	505	533	713	876	
BALANCE SHEET						
Total assets	30 458	19 203	15 636	16 064	16 269	
Equity	12 364	7 163	5 911	6 063	6 090	
Employed capital ²	24 272	16 596	13 527	13 641	13 587	
Cash and cash equivalents	1 243	1 216	349	608	694	
Loans due in the next 12 months	1 000	219	703	461	465	
Interest-bearing debt	11 907	9 433	7 617	7 578	7 497	
share of subordinated loan	2 347	3 347	3 347	3 347	3 347	
Net interest-bearing debt ³	10 664	8 217	7 268	6 924	6 752	
CASH FLOW						
Cash flow from operating activities	1 587	1 322	689	694	1 346	
Dividends paid to owner	610	685	740	750	750	
Interest paid on subordinated loan from owner	60	74	81	97	119	
KEY FIGURES						
EBITDA margin ⁴	%	72	64	65	69	75
Return on total assets ⁵	%	9	8	9	11	13
Return on equity ⁶	%	11	7	9	12	15
Return on employed capital ⁷	%	11	9	10	13	16
Equity ratio	%	41	37	38	38	37
FFO ⁸		1 153	1 022	880	1 006	1 169
FFO/net interest-bearing debt	%	11	12	12	15	17
Net interest-bearing debt/EBITDA		4,1	4,7	4,5	3,5	2,8
FFO interest coverage ⁹		3,7	4,6	3,8	4,0	4,4
OTHER						
Power production	GWh	12 194	11 215	10 561	10 579	10 045
Number of employees		198	172	177	174	170

* Key figures for 2013-2015 are based on consolidated accounts drawn up in accordance with Norwegian Generally Accepted Accounting Principles (NGAAP).

OPERATING REVENUES AND EBITDA



¹ Operating profit + depreciation

² Equity + interest-bearing liabilities

³ Interest-bearing liabilities - short-term investments and bank deposits

⁴ EBITDA/operating revenue

⁵ Earnings before taxes + financial expenses/average total assets

⁶ Net profit/average equity

⁷ Earnings before taxes + financial expenses/average employed capital

⁸ EBITDA adjusted for unrealised changes in value and one-off items - net

Interest expenses - taxes payable

⁹ FFO/interest expenses



1 038

Profit for the year
(MNOK)



12 194

Power production
(GWh)

Report of the President and CEO Maintaining Norway's competitive edge

2017 was an eventful year for E-CO Energi. We acquired Hafslund's hydropower production and, in so doing, increased our production capacity by 30 per cent. We also celebrated the company's 125th anniversary. We took advantage of the anniversary to explore the road ahead, organising the dialogue conference 'Generator 2017', which shed light on how Norway can continue to maintain the competitive edge hydropower gives us in future as well.



In future, we will need a source of energy that is renewable, reasonably priced, efficient, climate-friendly and flexible. Hydropower possesses all of these properties. Our renewable power production puts Norway in a unique position. This affords us a great opportunity to build new, green industries with low emissions. Other countries pay huge restructuring costs to achieve renewable power production. Our situation gives us an advantage that is hard to imitate. This is Norway's competitive edge.

Three challenges must be faced so that we can fully exploit this advantage.

First of all, power production must become even more cost effective. Norwegian hydropower is highly competitive today. The evolution of market development in the next decades is unpredictable. Powerful growth in solar energy and the expansion of batteries may lead to lower electricity prices.

Second, we must stand out as a trustworthy partner for the green shift in Europe. When the continent is to increase its renewable share, it will primarily take place using wind and solar energy. When that happens, they

will also need access to hydropower's special competitive edge: regulatable energy and output. Norway can offer that. We can serve as a locomotive for the energy markets in northern Europe.

Third, we must exploit the interaction between production and green consumption to our advantage. As in 1900 and beyond, when hydropower opened up the possibility to industrialise large parts of the country, we must ensure that we attract new, green and energy-intensive industry in the decades ahead.

If we are to succeed with this, we must cooperate with Norwegian politicians and the owners in the energy sector. If we can manage to accomplish that, we will have at least 125 new years of power production as one of the most important cornerstones of Norwegian affluence.

We will do our part. We still cultivate the culture of innovation that characterised the company's pioneers who developed the large-scale projects in the decades after World War II, as we work with improvements, great and small. E-CO Energi is currently participating in three of the largest hydropower development projects in

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2017 was a good operating year, with no serious injuries, high availability of the facilities and an exciting integration process in the organisation at Nedre Glomma. I would like to thank all employees for their dedicated efforts in a rewarding, but also demanding year.

northern Europe: Rosten, Vamma 12 and Nedre Otta, which will open in 2018, 2019 and 2020, respectively.

Through the acquisition of 90 per cent of Hafslund's hydropower production in 2017, E-CO Energi increased its production capacity by 30 per cent. In my opinion, such integration processes are justified and absolutely essential in order for Norway to maintain its competitiveness. I hope and believe that we will see several such consolidations in the years ahead. It has taken E-CO Energi 125 years to reach 13 TWh in production capacity. My prediction is that the next 13 TWh will take significantly less time.

2017 was a good operating year, with no serious injuries, high availability of the facilities and an exciting integration process in the organisation at Nedre Glomma. I would like to thank all employees for their dedicated efforts in a rewarding, but also demanding year.

Tore Olaf Rimmereid
President and CEO

The organisation

The E-CO Energi Group is headquartered in Oslo and owns or co-owns 50 power plants located all across southern Norway. The company is Norway's second largest power producer with annual mean production of roughly 14 TWh and a production capacity of about 3 350 MWh. The largest production facilities are located in Hallingdal, Aurland and Nedre Glomma. In addition, E-CO Energi has significant interests in power plants in Hedmark County and Oppland County. The Group's main activities are

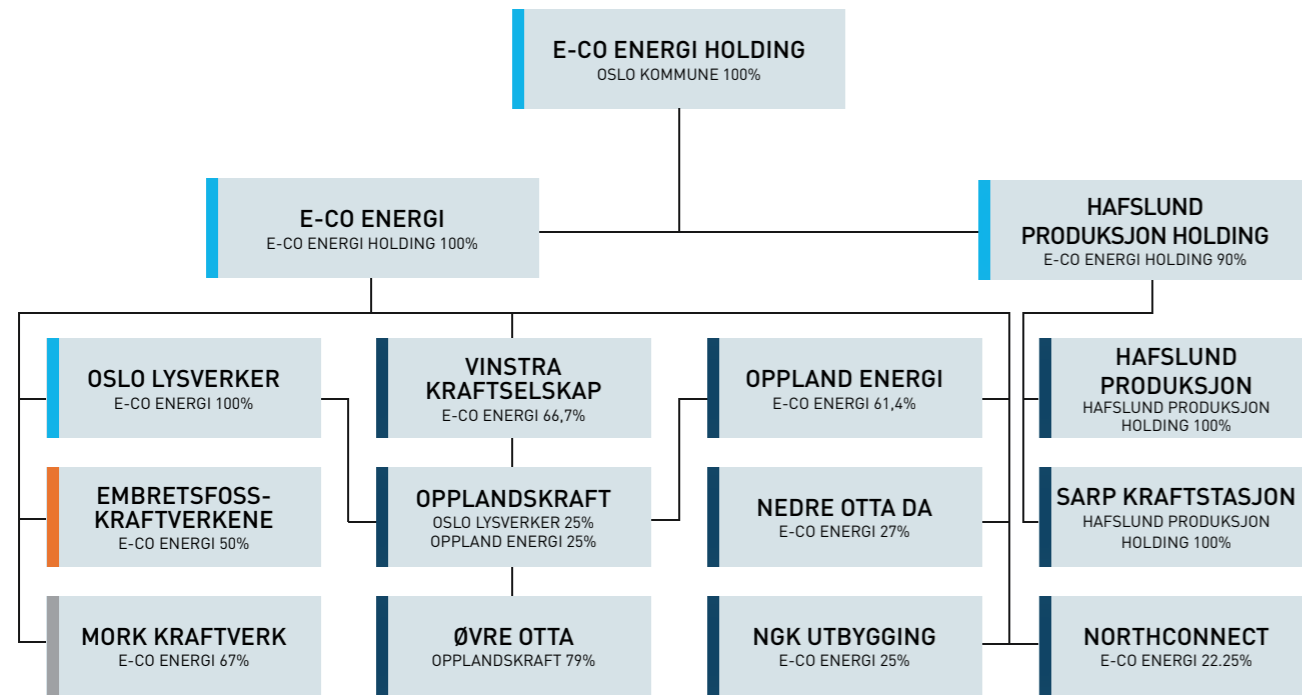
related to the planning and implementation of the upgrading, operation and maintenance of the power plants, as well as to the optimal exploitation of reservoirs to maximise the potential yield on power production.

E-CO Energi Holding AS is 100% owned by Oslo Municipality.

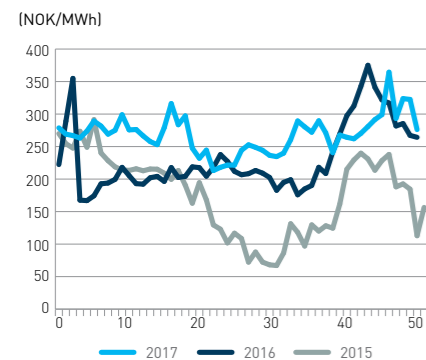
E-CO Energi had 198 employees at the end of 2017.



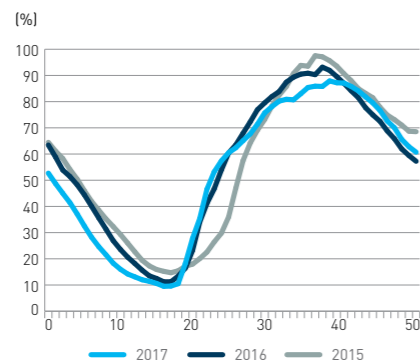
198
Employees



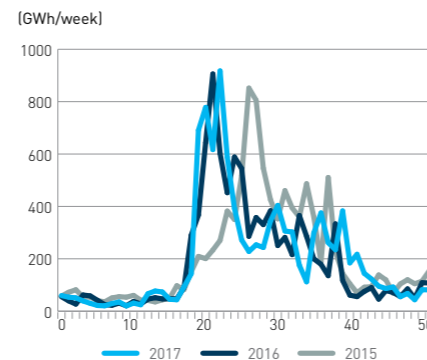
SPOT PRICE FOR ELECTRICITY OSLO



RESERVOIR FILLING RATIO



EXPLOITED INFLOW

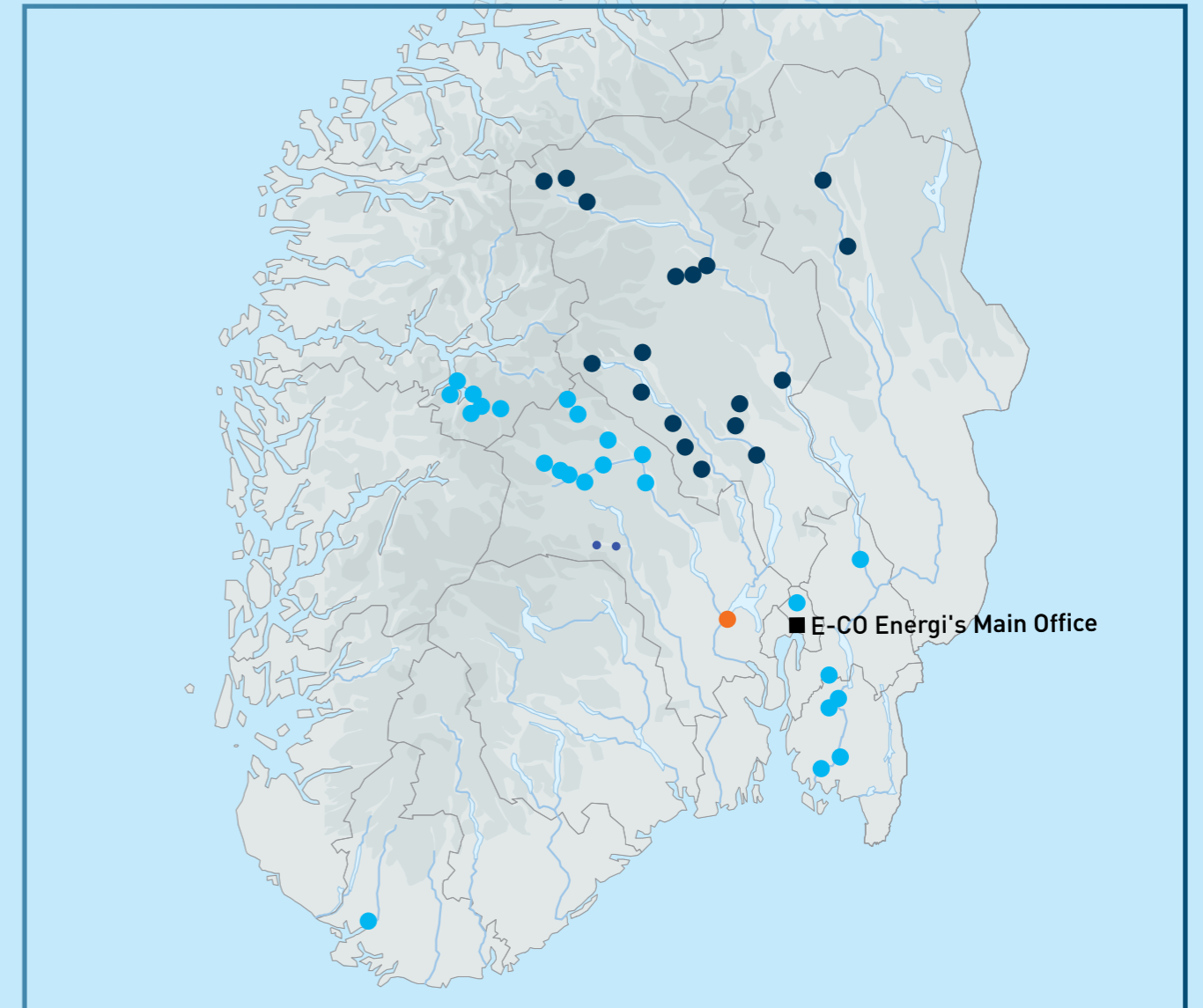


Norway's second largest power producer

E-CO Energi is 100% owned by Oslo Municipality. The company operates and owns, wholly or partly, 50 power plants in southern Norway, mainly located in Inner Sogn and Hallingdal, and in the counties of Oppland, Hedmark and Østfold.

- E-CO Energi**
E-CO Energi owns 100% of Oslo Lysverker and 90% of Hafslund Produksjon.
- Oppland Energi, Opplandskraft, Vinstra kraftselskap**
Eidsiva Vannkraft is responsible for the operation and maintenance of the power plants in Oppland Energi (E-CO Energi 61.4%), Vinstra Kraftselskap (E-CO Energi 66.7%) and Opplandskraft (E-CO Energi 40%).
- Embretsfosskraftverkene DA**
E-CO Energi owns 50%
- Uvdal I og II**
E-CO Energi owns 10%

Source of map: Norwegian Mapping Authority



Sustainability at E-CO Energi

The sustainability are important to E-CO Energi. Our core activity is to produce clean, renewable hydropower. Our hydropower is an integral part of tomorrow's climate solutions, meaning the company plays a vital role in the transition to a climate-friendly, renewable society. We take great pride in this, and we work continuously on improvements and new projects that will help us contribute even more non-polluting power to replace society's use of fossil fuels. E-CO Energi depends on having good relations with its stakeholders, so the Group cooperates closely with industry, municipalities and local communities. The Group's operations help safeguard jobs, ensure that society has access to clean energy, and create value. This means that E-CO Energi creates value at the local, regional and national levels, and even helps to lower greenhouse gas emissions (GHGs), which has a favourable impact globally.

A SUSTAINABLE E-CO

E-CO Energi aspires to ensure that all the Group's activities are sustainable and that its societal and environmental footprints are as positive as possible. For the past 12 years, we have published an annual Environmental Report to show what we do to promote a good environment. This year, we have moved a step further and drawn up a comprehensive Sustainability Report with focus on the five main areas in which we have the most impact on the world around us. This text is based on that report.

OUR AREAS OF FOCUS ARE:

- Renewable energy production
- Consideration for biodiversity
- A sustainable value chain
- An attractive workplace
- Local added value

These five areas are vital if E-CO Energi is to succeed, at the same time as they are areas of great interest to our stakeholders.

RENEWABLE ENERGY PRODUCTION

E-CO Energi produces clean, renewable hydropower. We work continuously to boost our power production, and thus to reduce GHGs from Norway and Northern Europe in the long term. Hydropower production is heavily dependent on the weather, so naturally, wet years lead to higher production than dry ones. These are factors beyond our control. What we can control is new power development and the upgrading of existing plants, and we routinely look for good, viable projects.

The production of renewable energy is our most important contribution to improving the climate. If E-CO Energi's clean hydropower production in 2017 had been replaced by gas, for example, emissions would have totalled six million metric tonnes of CO₂, equivalent to the pollution produced by more than two million cars in a year. We also strive to minimise our own emissions. One of our principles is to limit GHG emissions from our own operations.

ZERO EMISSIONS

The Group's CO₂ emissions mainly consist of the insulating gas SF₂, air travel, the use of helicopters, the consumption of electricity, and fuel for vehicles and machinery. Our emissions vary from year to year, depending on our activity level. In 2017, GHG emissions from the facilities operated by E-CO totalled 1 314 metric tonnes of CO₂ equivalents. To reduce our carbon footprint, we buy pollution credits to offset all our emissions. The pollution credits are deleted and thus taken off the market.

CONSIDERATION FOR BIODIVERSITY

The building, operation and maintenance of hydropower installations have an impact on the local environment. The effects are generally local and related to physical encroachments on nature and the impact on biological diversity through changes in the flow of water and water temperature. In connection with development projects, dam revisions and re-investments in production facilities, E-CO Energi strives to ensure that environmental encroachments are as gentle as possible, using techniques that represent best practice. The facilities are to be operated so that we have no environmental deviations. Our licences include requirements for lowest and highest regulated water levels, and require that minimum water flows in absolute volumes be maintained at all times.

In the rivers where there is no required minimum water flow, but where releasing water could potentially benefit the environment, E-CO has introduced voluntary minimum water flows. The cost of voluntary water releases in Aurland and Hallingdal totalled nearly MNOK 2 in 2017.

E-CO carries out landscape and biotope adjustment measures where there is a defined need. The goal is to use such initiatives to reduce the environmental footprint of the facilities and their production on the outdoor environment. In compliance with government orders, trout are stocked in a number of mountain lakes. This initiative ensures good fishing lakes that



are appreciated by locals and visitors alike. The Group also participates in several research projects to see whether the measures are effective, and to determine whether it is possible to improve conditions for fish through other measures, e.g. changing the operating schedule of the facilities.

In 2017, there was just one departure from the manoeuvring rules in the licences. In connection with an inspection of the hatches in the dam at the mouth of the Stranda Fjord, the flow of water in the Hallingdal River fell below the requisite level of 10 m³/s. The episode lasted for four hours, and the lowest measured value was 6.7 m³/s. There were no reports of any adverse effects on the watercourse downstream from the dam.

SUSTAINABLE VALUE CHAIN

Our choice of suppliers and partners is important for the work to promote a sustainable industry. E-CO Energi would like to take more responsibility for the environment and the social impacts of the value chain of which we are part. We will strive to do more to influence our suppliers and partners to lower emissions, and to improve environmental management and social conditions.

Our procurement principles stipulate that:

- E-CO shall, insofar as possible along with suppliers, seek out good environmental and climate solutions.
- When required to use equipment in watercourses, the supplier shall make sure that all the equipment is dry before use and disinfected, if need be, to prevent the spread of organisms between watercourses.

- E-CO uses the Sellihca system to pre-qualify suppliers for major projects, and only suppliers with environmental management systems in place and uses only suppliers.

E-CO would like to further escalate its efforts to ensure a sustainable value chain and this area of focus will be high on our agenda in 2018. In 2018, new climate goals will be drawn up, including goals that extend beyond the company's own operations. A plan of action relating to energy use on construction projects will also be adopted.

AN ATTRACTIVE WORKPLACE

Our employees are our most important assets. E-CO strives to be an attractive employer with an inclusive working environment. We endeavour to create a corporate culture that attracts and further develops competent, motivated co-workers with the expertise we need. E-CO is to be a safe place to work, and not cause accidents, damages or losses.

A sense of well-being and a good working environment are essential. In our Centennial Year 2017, we organised several social events and initiatives to promote well-being. We perform major employee surveys regularly, usually every two years.

Our goals are to have no injuries and less than four per cent sickness absence during the year. There were no injuries in 2017 and sickness absence dropped from 3.3 per cent in 2016 to 2.8 per cent in 2017.

LOCAL VALUE CREATION

E-CO Energi's activities generate value in the local communities in which we operate. The owner receives

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Photo: E-CO Energi



In 2017, the Group contributed MNOK 480 to its host municipalities. These contributions came in the form of natural resource and property taxes, licence fees and concessionary power. Altogether, the Group paid more than NOK 1 billion in direct and indirect taxes in 2017.

dividends, employees receive salaries, and the local and national authorities receive direct and indirect taxes. E-CO Energi tries to use local service providers and partners where doing so is feasible in practical terms. Having a short path from supplier to plant translates into savings for the environment and local infrastructure, in addition to providing secure local jobs. E-CO Energi also contributes indirectly to local value creation in the municipalities in which the power is generated. Energy production creates value through the acquisition of goods and services from local suppliers and partners. Local purchases made directly by E-CO Energi were estimated as totalling MNOK 27, but our local contribution is larger due to the purchase of local goods and services for project by general contractors that use local subcontractors.

In 2017, the Group contributed MNOK 480 to its host municipalities. These contributions came in the form of natural resource and property taxes, licence fees and concessionary power. Altogether, the Group paid more than NOK 1 billion in direct and indirect taxes in 2017. Dividends paid to our owner, Oslo Municipality, came to MNOK 650 in 2017.

OTHER SOCIAL COMMITMENT

The Group's operations benefit society in ways other than by providing jobs, direct and indirect taxes, a demand for local goods and services, and a reliable power supply.

Excess rock and aggregates are by-products of hydropower development. The mass is deposited in so-called "tips" that can be used to develop local communities. E-CO Energi works to promote the use of this excess material locally for road construction and for cement production, or for other purposes that benefit the community.

The Group provides financial support to good causes at the local, national and international levels. Substantial support went to local sports clubs and associations, and to promoting sports and cultural talents. A donation was made to the Norwegian Air Ambulance, which has a helicopter base at Ål in Hallingdal. This makes safe, swift and efficient ambulance services possible throughout the region. Courses organised under the auspices of the Norwegian Air Ambulance also help improve fire safety and fire prevention conditions for E-CO Energi and others in the local community.

We have ongoing cooperation with fishing associations and river owners' associations in all the watercourses in which E-CO is engaged in power production. E-CO supports the work of the Zero Emission Resource Organisation, which is an independent, not-for-profit foundation that works to limit man-made climate changes and to deal with the world's growing demand for energy, without damaging the environment.

E-CO is one of the partners involved in the Energy Centre at Hunderfossen, an experience centre about hydropower and other renewable energy. E-CO has also set up an exhibition centre about the environment and power production in its premises at Gol.

The Group's operations are in Norway. Our commitment to clean power nonetheless extends far beyond our national borders. E-CO Energi supports the Norwegian Red Cross. The vast majority of the support will go to international "Water for Life" projects. Clean water is critical both in the acute phase after catastrophes, and in long-term humanitarian efforts. The remainder of the support will go to national emergency services, mainly in the areas in which E-CO Energi operates.

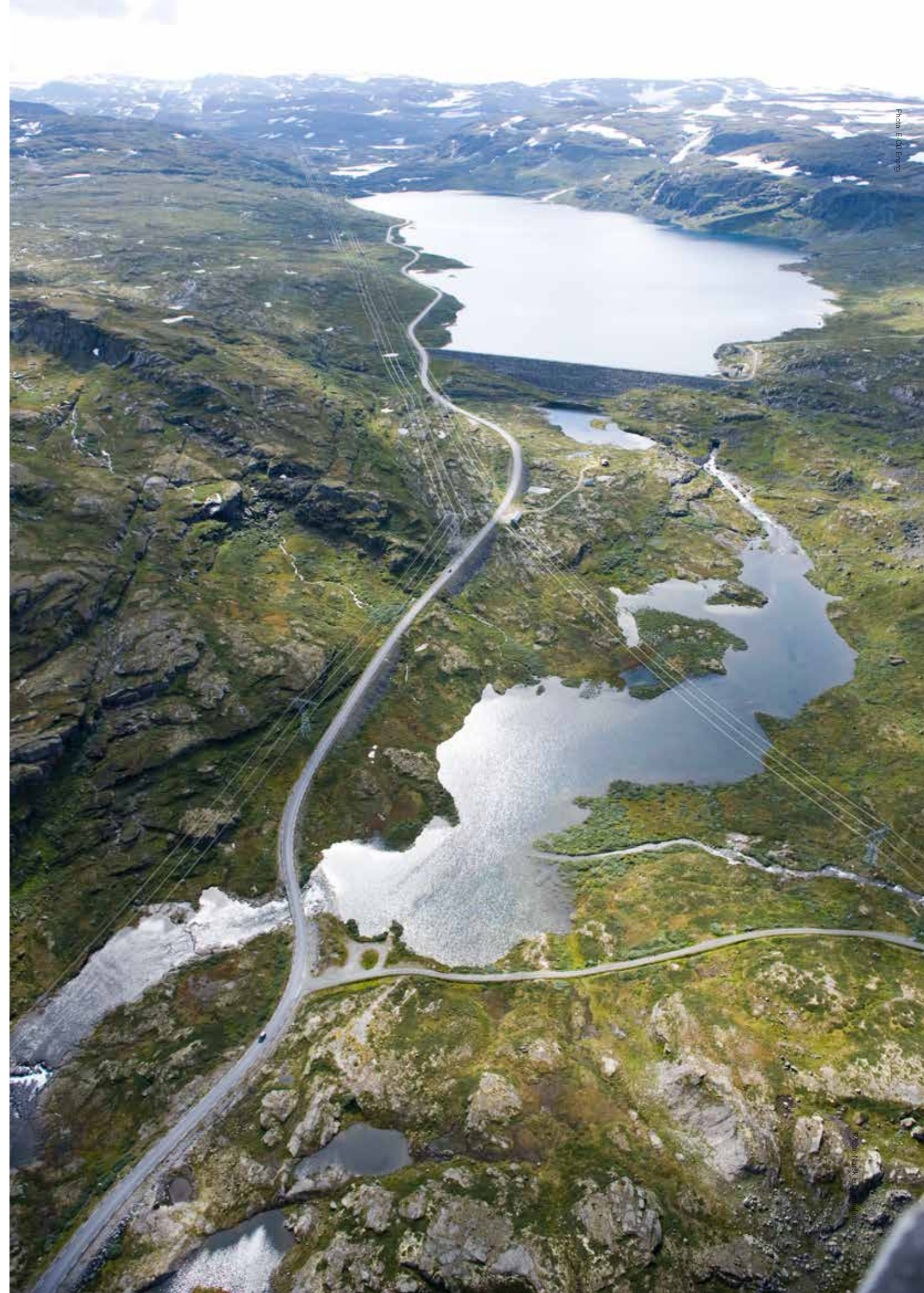


Photo: E-CO Energi

Photo: Aslak Eide

The Board of Directors of E-CO Energi Holding AS



Photo: Jarle Nytingnes

Arvid Amundsen
Arvid Amundsen

Gabriel Smith
Gabriel Smith

Helge Skudal
Helge Skudal

Mari Thjømøe
Mari Thjømøe

Anne Carine Tanum
Anne Carine Tanum
Chair of the Board

Bård Vegar Solhjell
Bård Vegar Solhjell

Tore Olaf Rimmerfeld
Tore Olaf Rimmerfeld
President and CEO

Ola Tore Eggen
Ola Tore Eggen

Arvid Amundsen, director

Arvid Amundsen is an employee director on E-CO Energi's Board. He has worked at E-CO Energi since 1987. He is part of the Maintenance Department in Hallingdal.

Anne Carine Tanum, Chair of the Board

Anne Carine Tanum was appointed to Chair of the Board of E-CO Energi in 2015. Tanum has a law degree. She has broad experience from Norwegian business and industry through both employment and directorships. She serves on the boards of several Norwegian companies.

Gabriel Smith, director

Gabriel Smith was appointed to E-CO Energi's Board of Directors in 2016. He earned a bachelor's degree in Economics from Dartmouth and an MBA from the Amos Tuck School in the USA. He has experience in banking, headed a technical commercial

company and served as CEO of the Tinfos Group for 17 years. He has broad-based experience of directorships of both private and listed undertakings.

Bård Vegar Solhjell, director

Bård Vegar Solhjell was appointed to E-CO Energi's Board of Directors in 2017. He has a Master's degree in Political Science from the University of Oslo and the University of Bergen. Solhjell has served as Norway's Minister of the Environment and Minister of Education, an MP and Deputy Chair of the Socialist Left political party. He is currently CEO of WWF-Norway (The World Wildlife Fund - Norway).

Helge Skudal, director

Helge Skudal joined E-CO Energi's Board of Directors in 2006. Helge Skudal has a degree in economics from the Norwegian School of Economics and Business Administration, and

also attended the Norwegian College of Government Administration. Helge Skudal has held a number of directorships in the energy sector. He currently runs his own consultancy.

Mari Thjømøe, director

Mari Thjømøe was appointed to E-CO Energi's Board of Directors in 2013. Thjømøe has a degree in economics from the Norwegian School of Management BI, is an authorised financial analyst (AFA) from the Norwegian School of Economics and Business Administration and has completed the London Business School's Senior Executive Programme. She runs her own business.

Ola Tore Eggen, director

Ola Tore Eggen is an employee director on E-CO Energi's Board. He has worked at E-CO Energi since 2006 and works in the IT Department at Gol.

Directors' report 2017 - E-CO Energi Holding As

2017 was a good year for E-CO Energi. Smooth operations, high production availability, successful production management and higher realised power prices, as well as the acquisition of Hafslund Production, contributed to a net profit for the year of MNOK 1 038. Through the acquisition of Hafslund's hydropower production activities, the E-CO Energi Group strengthened its position as Norway's second largest hydropower producer with a mean production of some 14 TWh. The Board of Directors proposes a dividend of MNOK 650.

(2016 figures in parentheses)

PERFORMANCE, CASH FLOW AND CAPITAL STRUCTURE

In 2017, the E-CO Energi Group switched to IFRS-based reporting (the EU-approved International Financial Reporting Standards) with effect for accounting purposes as from 1 January 2016. All figures in parentheses represent 2016 figures, adjusted to be IFRS-compliant. Please see Notes 10.1-10.3 for a more detailed description of the effects of the transition to IFRS for accounting purposes. E-CO Energi Holding AS and its subsidiaries will continue to submit company accounts in accordance with Norwegian Generally Accepted Accounting Principles (NGAAP).

As a result of stricter requirements for hedge accounting under IFRS, E-CO Energi has chosen not to apply hedge accounting to its power revenues, but rather to continue the Group's hedging strategy unchanged. Recognition of changes in unrealised values on hedging instruments will therefore result in greater fluctuations in operating revenues and profits than was the case with NGAAP.

THE ACQUISITION OF HAFSLUND PRODUKSJON

E-CO Energi acquired 90 per cent of the shares in Hafslund Produksjon Holding AS (formerly Hafslund ASA) on 4 August 2017, following the demerger of all activities other than hydropower production. Fortum acquired the remaining 10 per cent of the shares. The acquisition was a step in a larger restructuring of Oslo Municipality's ownership in the energy sector. The agreed debt free cash free enterprise value for Hafslund's power production was MNOK 7 750, of which E-CO Energi's 90 per cent stake came to MNOK 6 975. E-CO Energi's purchase price, adjusted *inter alia* for investments up until the transaction date, came to MNOK 7 118. The purchase was funded by MNOK 3 000 in equity (as non-cash contribution) in addition to MNOK 4 118 through new loans.

Hafslund Produksjon Holding AS owns 100 per cent of the shares in Hafslund Produksjon AS and Sarp Kraftstasjon AS. The acquired power production operations have an ordinary annual production of 3.1 TWh, which will increase by 230 GWh when the new generator, Vamma 12, goes online in spring 2019.

The acquisition has been incorporated into the consolidated accounts as from the date of acquisition, 4 August 2017.

PERFORMANCE

In 2017, the E-CO Energi Group posted a net profit for the year of MNOK 1 038 (MNOK 505). The improvement in performance from 2016 was primarily attributable to higher realised power prices and the acquisition of Hafslund Produksjon, as well as to unrealised gains of MNOK 57 from power derivatives in 2017, compared with an unrealised loss of MNOK 225 in 2016.

Consolidated operating revenues came to MNOK 3 592 in 2017, up MNOK 882 from 2016. In addition to higher power prices and a change in the unrealised profit from power derivatives, the increase is ascribable to the acquisition of Hafslund's power production operations. The average actual selling price for 2017 was 0.281 NOK/kWh (0.254 NOK/kWh), which was 5 per cent (8 per cent) higher than the weighted hourly spot price for Oslo and Bergen (NO1 and NO5). E-CO Energi has outperformed the market price through the successful management of hydropower resources during the year, coupled with a successful pricing strategy.

E-CO Energi's reservoir storage was below normal at the outset of 2017, but was at a normal level at year end. The Group's total production was 12.2 TWh (11.2 TWh) in 2017, of which Hafslund Produksjon contributed 1.4 TWh from the date of the acquisition in August until year end. Smooth



3 592

Group
operating income
(MNOK)



1 357

In operating
expenses (MNOK)

operations and a good allocation of resources led to satisfactory availability at our power plants and there were no events involving significant interruptions during the year.

Operating expenses came to MNOK 1 357, up MNOK 85. Excluding increased expenses resulting from the acquisition of Hafslund's power production operations, this was a reduction of MNOK 45 compared with 2016. The reduction must be viewed, among other things, against the background of lower property taxes and lower costs associated with compensation to landowners.

The operating profit of MNOK 2 235 in 2017 marks an increase of MNOK 796 from last year. In addition to higher power prices, the increase is ascribable to the change in unrealised profit on power derivatives and somewhat lower operating expenses, as well as an operating profit of MNOK 302 resulting from the acquisition of Hafslund Produksjon.

Net financial items came to MNOK - 248 (MNOK - 192) in 2017. The increase in financial expenditure must be seen in the light of a higher interest rate on a subordinated loan from Oslo Municipality and an increase in interest-bearing debt in connection with the acquisition of Hafslund Produksjon. Net interest-bearing liabilities climbed by MNOK 2 448 in 2017.

Taxes of MNOK 949 (MNOK 743) in 2017 translate into an effect tax rate of 48 per cent (60 per cent) on earnings before tax of MNOK 1 987 (MNOK 1 248). The taxes include resource rent tax of MNOK 655 (MNOK 431).

The net profit for the year of MNOK 1 038 marks an improvement of MNOK 533 from 2016. The proposed dividend of MNOK 650 is equivalent to 75 per cent of the net profit for the year, less MNOK 115 for the minority shareholders' percentage of the net profit/(loss) for the year in subsidiaries and MNOK 57 in unrealised gains on derivatives.

The financial statements are IFRS-compliant. The Board confirms that the going concern principle applies, and that the financial statements are presented on this basis.

INVESTMENTS

The E-CO Energi Group had investments in capital equipment of MNOK 549 (MNOK 401) in 2017, divided between investments in maintenance and in renewable energy production. E-CO Energi has made ongoing investments in the new power plants at Rosten, Nedre Otta and Vamma 12 which, collectively, will provide roughly 740 GWh more renewable energy each year.

- In autumn 2017, the development of Norway's largest run-of-river power station, Vamma 12, became part of E-CO Energi's portfolio through the acquisition of Hafslund's power production operations. With an absorption capacity of 500 m³/s and an installed output of 128 MW, the new generator will make 1 TWh per year, boosting production by 230 GWh. Vamma 12 will take over large parts of production from the other generators in Vamma, which will be operated as flood generators in future. The project is on schedule for commissioning in spring 2019 and cumulative investments at the end of 2017 totalled MNOK 634.
- Construction on the Rosten Power Plant (approx. 200 GWh) is nearing completion and will be commissioned in Q2 2018. Cumulative investments at year-end 2017 added up to MNOK 797, of which E-CO Energi's stake was 72 per cent.
- Construction on the new power plant at Nedre Otta (315 GWh) in Nedre Otta in Sel and Vågå municipalities under the auspices of Nedre Otta DA is proceeding well and is scheduled to come online in 2020. Cumulative investments at year-end 2017 came to MNOK 474, 27 per cent of which is E-CO Energi's stake.

At the Usta Power Plant, work began on a major overhaul of both generators and the installation of new ball valves in 2017. The work is scheduled for completion by the end of 2020. At Aurland 3, 2017 marked the completion of a major renovation of the control system. Aurland 3 is a power station with reversible turbines that can also be run for pumping operations. To ensure a more gentle start for the generators for pumping operations, the control system has been rebuilt to enhance its flexibility. That will also allow E-CO to benefit more from price fluctuations in the market.

The rehabilitation of two major dams, on Lake Flævatn in Hemsedal Municipality and Lake Vargevatn in Aurland Municipality, has been completed. The dams were rehabilitated in response to new requirements posed by the Dam Safety Regulations.

FUNDING AND CAPITAL STRUCTURE

The cash flow from operating activities totalled MNOK 1 587, up MNOK 265 from 2015. The Group borrowed MNOK 3 371 and paid down MNOK 218 on long-term loans. Short-term commercial papers added up MNOK 500 at the end of 2017 (MNOK 0). The Group's liquid reserves totalled MNOK 1 216 at the beginning of the year and MNOK 1 243 at year end.

In 2017, as part of the funding for the acquisition of Hafslund Produksjon, E-CO Energi floated five

privately placed loans on the US market for a total of MNOK 3 371. The loans are nominated in NOK and their due dates range from 7 to 15 years. Of the Group's total interest-bearing debt (excluding subordinated loan) of MNOK 9 344, MNOK 1 000 will fall due in 2018. The Group's loan portfolio has a balanced composition of loans with a due date structure ranging from 1 to 15 years, an average maturity of 7.5 years and an average fixed-rate interest period, including interest rate derivatives, of 3.6 years. All loan agreements carry a negative pledge clause and *pari passus* ranking of creditors, as well as an ownership clause, meaning that the lenders can call in the loans if Oslo Municipality sells down to less than a 50.1 per cent stake in E-CO Energi Holding AS. The Group has no other covenants or restrictions on any of its loans. The company has a credit facility with affinity banks of MNOK 1 500, which will run until 2022, with an option to extend for one more year.

The subordinated loan from Oslo Municipality totalled MNOK 2 347 at 31 Dec. 2017 (MNOK 3 347). In 2017, a new loan agreement was set up to run until 2037, while the old loan had a due date in 2022. In connection with the establishment of the new agreement, MNOK 1 000 was converted from debt to equity.

At 31 December 2017, the Group's total assets aggregated MNOK 30 458 (MNOK 19 203). The increase in total assets is primarily attributable to the acquisition of Hafslund Produksjon. Equity totalled MNOK 12 364 (MNOK 7 163). The increase from 2016 must be seen in connection with the capital increase of MNOK 4 000 related to the acquisition of Hafslund Produksjon. The Group enjoys a sound financial position, with an equity ratio of 41 per cent (37 per cent) at the end of 2017.

DIVIDENDS AND THE ALLOCATION OF THE RESULT

At the Annual General Meeting on 10 April 2018, the Board will recommend that a dividend of MNOK 650 (MNOK 610) be paid for the 2017 financial year. The Board proposes the following allocations of E-CO Energi Holding AS's net profit for 2017 (the company accounts and not the consolidated accounts) of MNOK 850:

Dividends:	MNOK 650
Transferred to other equity:	MNOK 200

E-CO ENERGI'S BUSINESS ACTIVITIES

E-CO Energi is headquartered in Oslo and owns or has stakes in 50 power plants located all across southern Norway, accounting for annual mean production of some 14 TWh (just under 13 TWh excluding minority owners' share of power



In 2017, the spot price was 0.269 NOK/kWh on average for the western Norway price area (NO5), where E-CO Energi is responsible for somewhat more than half of all power production. This is an increase of 0.038 NOK/kWh from 2016 and is the highest annual price since 2013. The lowest price was in June with 0.222 NOK/kWh, and the highest price was in December with 0.306 NOK/kWh.

generation) and featuring a production capacity of roughly 3 350 MW. The largest production facilities are located in Hallingdal, Aurland and Nedre Glomma. In addition, E-CO Energi has significant interests in power plants in Hedmark County and Oppland County. The Group's main activities are related to the planning and implementation of the upgrading, operation and maintenance of the power plants, as well as to the optimal exploitation of reservoirs to maximise the potential yield on power production.

THE POWER MARKET

Norway's power consumption was record-high, i.e. 134.1 TWh (133.1 TWh) in 2017, despite a relatively mild winter. The rise was driven by manufacturing growth, more consumption for the production of oil and gas, greater affluence and population growth. Aggregate power production of 149.3 TWh (149.5 TWh) in 2017 is the second highest level ever registered. Abundant precipitation led to high hydropower production, at the same time as wind power production reached a record 2.9 TWh. Norwegian wind power production is on the rise, and new production capacity equivalent to 1.1 TWh of mean annual production was commissioned in 2017. This trend is driven by the electricity certificate programme.

In 2017, the spot price was 0.269 NOK/kWh on average for the western Norway price area (NO5), where E-CO Energi is responsible for somewhat more than half of all power production. This is an increase of 0.038 NOK/kWh from 2016 and is the highest annual price since 2013. The lowest price was in June with 0.222 NOK/kWh, and the highest price was in December with 0.306 NOK/kWh. The average monthly price in eastern Norway (NO1) was 0.271 NOK/kWh in 2017, an increase of 0.028 NOK/kWh from last year. E-CO generates slightly less than half its annual production in this area, following the acquisition of Hafslund's power production operations, which have a mean annual production of 3.1 TWh. The NO5 price area had the lowest monthly price of all the Nordic price areas also in 2017, but the difference from the Nordic system price (the estimated reference price for the Nordic power market) was smaller than in recent years.

Coal prices were roughly USD 90 per metric tonne at the end of 2017, an increase of approximately 50 per cent during the year, driven by high coal consumption in Asia, as well as by the closure of production capacity for coal in China. Oil prices increased from roughly USD 56 per barrel early in the year to slightly less than USD 70 per barrel at the end of 2017. The price of European emission allowances climbed somewhat during the year.



The rise in commodities prices is also reflected in increased prices for Nordic power, and the 2017 futures market picked up for the most immediate annual contracts.

The rise in commodities prices is also reflected in increased prices for Nordic power, and the 2017 futures market picked up for the most immediate annual contracts. The annual contract for delivery in 2018 increased by 0.041 NOK/kWh in 2017 to 0.251 NOK/kWh at year end. Annual contracts for 2019 and 2020 ended at 0.251 NOK/kWh and 0.256 NOK/kWh, respectively, at the end of 2017, marking increases of 0.055 NOK/kWh and 0.062 NOK/kWh, respectively, in 2017.

Prices in the certificate market fell steeply early in the year. New projects were approved on a steady basis, raising concerns that there might be a surplus of emissions allowances. As the spring progressed, prices began to climb when it became known that the Norwegian and Swedish authorities had agreed that Sweden could extend its electricity certificate system until 2030 and raise its level of ambition by 18 TWh of renewable energy by 2030. The certificate price was SEK 62 per MWh (SEK 114 per MWh) at the end of 2017. At the beginning of 2018, facilities commissioned and approved in the electricity certificate system totalled 20.3 TWh in mean annual production. At the same time, projects equivalent to 16.5 TWh were under construction, including 5.5 TWh of Norwegian wind power and 2.2 TWh of Norwegian hydropower.

STRATEGY AND BUSINESS DEVELOPMENT

The acquisition of Hafslund's hydropower production activities in 2017 strengthens E-CO Energi's position as Norway's second largest power producer and supports the Group's strategic objectives of actively participating in the development of new hydropower, hydropower transactions and the restructuring of the industry. The hydropower in E-CO Energi's own watercourse regulation areas and in joint ventures and joint operations will continue to be developed. Beyond the ongoing projects involving the construction of the new power plants Rosten, Nedre Otta and Vamma 12, which will give roughly 740 GWh more renewable energy, efforts are being invested in the following potential investment projects:

- Efforts to bring the Tolga Project in Østerdalen to fruition under the auspices of Opplandskraft (200 GWh) intensified throughout 2017. The Ministry of Petroleum and Energy granted a licence for the project in 2017. E-CO Energi owns a 40 per cent stake in the Tolga Project. It is possible that an investment decision will be taken in 2018.
- The Norwegian Water Resources and Energy Directorate (NVE) handed down a positive decision on the Mork Power Plant (42 GWh) in

December 2016. Final administrative processing and a decision from the Ministry of Petroleum and Energy (OED) are expected in 2018. E-CO Energi owns a 67 per cent stake in the Mork Power Plant.

- E-CO Energi has applied to build a small power plant, the Frosen Power Plant (24 GWh/4.7 MW), in Ål municipality.

In 2017 too, E-CO Energi seconded project team members for the further development of the cable project NorthConnect between Scotland and Norway. Licence applications were filed with the Ministry of Petroleum and Energy for a foreign licence and with NVE for a construction licence in 2017. The matter is being processed by NVE and the coordination between Norwegian and British authorities seems good.

E-CO Energi monitors and follows up changes in the power market on an ongoing basis. The company is engaged in a process to adapt the current long-term strategic plan for the period 2015 to 2019 to changes in the international power markets. Development trends like more renewable production, changes in the value chain for hydropower, digitisation and consolidation of the industry will influence the structure and profitability of the industry. The company will build further on E-CO Energi's competitive advantages, participating in the further consolidation of the industry, optimising its power plant portfolio, further developing its expertise in the operation of power plants and energy trading, and taking into account digitisation and changes in the value chain that will open opportunities for further growth and profitability.

CORPORATE GOVERNANCE AND MANAGEMENT

CORPORATE GOVERNANCE

E-CO is wholly owned by Oslo Municipality and is governed in compliance with the provisions of the Norwegian Act relating to Limited Liability Companies and the Group's Articles of Association, in keeping with the code of best practice for corporate governance of limited liability companies. The company complies with the Norwegian Code of Practice for Corporate Governance insofar as it is appropriate for a publicly owned business activity. In keeping with Oslo Municipality's ownership strategy, E-CO Energi has the following main goals for its business activities:

- to maximise value creation and ensure high, stable returns;
- to be an attractive employer, with an inclusive working environment;
- to apply sound business practices in all its activities.

Informal meetings have been held, where the company's Board meets with the municipality's representatives of the owners, i.e. the city council member for business and industry and the chief municipal executive, to discuss items of great and/or principle importance.

THE BOARD'S WORK

The Board has seven members, two of whom are employee representatives. At the annual general meeting in April 2017, Anne Carine Tanum and Mari Thjømøe were re-elected as Chair of the Board and a member of the Board, respectively, for a two-year term. At an extraordinary general meeting on 12 September 2017, Eli Skrøvset resigned from the Board and Bård Vegar Solhjell was elected as a new member up until the annual general meeting of 2019. The Board has held seven ordinary and five extraordinary Board meetings in 2017.

The Audit Committee supports the Board's work with the submission of accounts and internal control, including the application of accounting principles and the exercise of discretion in rendering the accounts. Chaired by Mari Thjømøe, the Audit Committee consists of three directors and it had four meetings in 2017.

RISK MANAGEMENT AND INTERNAL CONTROL

E-CO Energi's operations entail risks related to market operations, financial management, operating activities and operating parameters. Risk management is based on a combination of elements that includes key factors such as authorisation structures, market monitoring, procedures and emergency contingency plans. E-CO's overall risk is monitored at the corporate level and reported to management and the Board.

E-CO Energi's corporate governance consists of governance documents in which central ownership documents, as well as the policies for high-priority areas, constitute the two highest levels. It is management's responsibility to facilitate expedient processes that ensure good internal control in their own spheres of responsibility, and which support the governance documents. Internal control is a key part of risk management, and ongoing efforts are invested in improving and strengthening it. To monitor internal control, a position has been set up for risk follow up and, if need be, relevant independent expertise will be hired to handle internal auditing projects.

As regards financial reporting risk, the accounting process includes clear roles, responsibilities and tasks to be performed. Procedures and routines have been set up for reporting, including verification and documentation. Established

controls target areas considered to have the greatest risk of errors in the accounts. E-CO Energi has satisfactory systems and expertise to carry out correct, effective financial reporting routines. As from 2017, the consolidated accounts have been drawn up in compliance with the International Financial Reporting Standards (IFRS). Independent assistance was used, in addition to an independent auditor, for the implementation and operationalisation of this transition.

Clear parameters have been established for the Group's price risk associated with power production. Within these parameters, future production is hedged during periods when prices are considered optimal. However, the choice of hedging strategy results in a tax risk inasmuch as the resource rent tax is estimated on the basis of the spot price and not the actual selling price. The Group pursues a hedging strategy that takes tax risk into account, so that no more expected future production is hedged than what is required for a higher spot price to have a neutral or favourable impact on the expected cash flow after tax. To avoid foreign currency risk on the hedging of power contracts denominated in EUR, they are hedged against Norwegian kroner using futures or options.

E-CO Energi is also vulnerable to changes in interest levels on the Group's liabilities. At the end of 2017, the interest-rate term was 3.6 years, which is within the established parameters. The Group has no currency risk on its foreign debt, as all loans are hedged against NOK.

By hedging transactions in interest rate and currency derivatives, the Group incurs counterparty risk. This risk is limited by having a variety of counterparties and by defining a lower limit for approved counterparties' creditworthiness. E-CO Energi has signed agreements that allow set-offs of gains against losses (ISDA agreements), with all counterparties in financial derivatives. Trade in power derivatives is generally handled through NASDAQ OMX Commodities. The Group's counterparties for physical power sales are generally Nord Pool Spot and reliable large-scale players in the power industry in Norway.

The Group has signed insurance agreements which, along with satisfactory maintenance, help to limit the operational risk attached to operations. The insurance policies cover damage to production facilities and other property, as well as lost power production due to interruptions. Further, dam liability insurance has been subscribed to cover damage to third parties or third-party's property.



Clear parameters have been established for the Group's price risk associated with power production. Within these parameters, future production is hedged during periods when prices are considered optimal.



Health, safety and environment are given high priority at E-CO Energi, and the company's systematic and continuous focus over time is paying off. In 2017, there were no injuries, and absence due to illness declined from the year before.

As a major power producer, E-CO Energi is exposed to information security risks. The work is governed by information security policy and involves a number of risk mitigation measures. An information security forum has been established, where information security issues and events are discussed. E-CO Energi also participates in KraftCert, the power industry cooperation forum for information security. Other important activities in 2017 and into 2018 have been preparing to comply with new emergency preparedness regulations and activities to ensure that E-CO Energi complies with the General Data Protection Regulation (GDPR) by May 25, 2018.

CORPORATE SOCIAL RESPONSIBILITY

E-CO Energi has responsibility for the societal consequences of the Group's activities with a view to the outdoor environment, working conditions, human rights and other social conditions. Corporate social responsibility has high strategic priority, and responsibility for it permeates E-CO Energi's value chain and operations. E-CO Energi strives on an ongoing basis to promote the company's values in respect of co-workers, suppliers and partners, and several of the elements related to corporate social responsibility are discussed in the company's own Environmental Report.

HEALTH, SAFETY AND THE ENVIRONMENT

Health, safety and environment are given high priority at E-CO Energi, and the company's systematic and continuous focus over time is paying off. In 2017, there were no injuries, and absence due to illness declined from the year before. A number of activities factor into this, including good reporting routines and their follow up, training, HSE days, drills and managerial support. One overriding objective of the work is to protect employees' health and safety, and it is a managerial responsibility to make sure that this work is carried out correctly. This includes preventing undesirable incidents and behaviour,

developing a good working environment and contributing to training and the exchange of experience across the organisation and with external partners.

Preventative health care includes medical examinations, and not least factors related to the working environment, ergonomic studies, offers of physical therapy and a number of health-promoting initiatives. Team-building activities in the form of offers of joint recreational activities and several social gatherings help to develop a positive working environment

PERSONNEL AND ORGANISATION

E-CO had 198 employees at the end of 2017, including four apprentices. The number of skilled workers has declined, but E-CO Energi has upheld the number of apprentices. In 2017, 35 new employees joined the company in regular positions through the acquisition of Hafslund Produksjon, and 12 individuals resigned or retired.

Key figures		2017	2016
Full-time equivalents, excl. apprentices	number	187	165
Apprentices	number	3	3
Women	per cent	17	18

E-CO Energi strives to attract good resources and to develop co-workers in the best possible manner. Organisational development, employee surveys, initiatives to create visibility locally and to support different cultural, humanitarian and sporting activities contribute to a good reputation as an attractive employer. The means to achieve this include competitive wages, skills development, continuous improvement, good colleagues and focus on HSE and leadership.

GENDER EQUALITY

E-CO Energi aspires to increase the percentage of women it employs, but announcements of job vacancies often have few or no female applicants.

For certain types of positions, access is significantly better, and women will be given priority, provided they have the desired qualifications. This initiative also includes rendering the women in our organisation more visible both internally and externally. At the end of 2017, there were 33 female co-workers in regular employment positions, accounting for 17 per cent of our workforce. Among management, women accounted for 25 per cent. Routines have been established for hiring, promotions, wage and remuneration packages, and for competence measures to ensure the company does not discriminate due to gender or on other grounds.

The Board of Directors of E-CO Energi Holding AS consists of seven members, two of whom are women. Forty per cent of the shareholder-elected directors are women. Executive management consisted of two women and four men at the end of 2017.

THE OUTDOOR ENVIRONMENT

All E-CO's power production is based on renewable sources and is virtually free of GHG emissions. The company also draws up an Environmental Report. The report for 2017 includes a larger number of indicators to show the status of the most important environmental aspects of the Group's operations. The hydropower licence provisions regarding the maximum and minimum regulated water levels and the requirements for water releases are absolute limits that shall not be deviated from, and the internal control system with accompanying documentation is important for compliance with these requirements. In 2017, there was one deviation from the licence provisions related to the mandatory discharge of water from the Stranda Fjord in Hallingdal. The episode was brief, and most likely had no serious adverse consequences. The episode was reported to the NVE.

Hydropower is a clean renewable energy source, but the building, operation and maintenance of hydropower installations leave a footprint on the environment. The effects are generally local and associated with physical encroachments through changes in discharge and water temperature. In connection with development projects, dam revisions and re-investments in production facilities, E-CO Energi strives to ensure that environmental encroachments are as gentle as possible, using techniques that represent best practice. During periods of flooding, watercourse regulation has occasionally helped reduce volumes of water and thereby averted flooding and damage to the environment and property.



Hydropower is a clean renewable energy source, but the building, operation and maintenance of hydropower installations leave a footprint on the environment. The effects are generally local and associated with physical encroachments through changes in discharge and water temperature.

E-CO Energi has continued to work to implement environmental measures in the Aurland watercourse, based on analyses of bottlenecks in the watercourse. Special focus has been placed on tributaries and improvements in fish hiding places and spawning grounds in the main river. There are still some measures remaining to be implemented in tributaries and in the Vassbygd River, but the project is now moving into a phase of monitoring the fish stocks to assess the measures that have been implemented.

Assessments were made of the requirement to stock fish in four reservoirs in 2017. The network of stations for monitoring fish and benthic fauna in the Hallingdal River and its tributaries has been enlarged somewhat to learn more about conditions *inter alia* in Rukkedøla in Nesbyen. Data from the tests will be important in ongoing and imminent revisions of terms.

The voluntary minimum water flow in Hemsil downstream from the Eikre Dam was maintained in 2017 at a cost of MNOK 0.3. In autumn 2017, the discharge of water in connection with spawning migration was satisfactory, and counts showed that sea trout and salmon were found all along the accessible parts of the River Vassbygd in Aurland. To ensure that redds do not dry up, that important habitats for fry are maintained, and that there is no fish mortality in the River Vassbygd, E-CO released water from the Aurland 2 power station at a cost of MNOK 1.6 in 2017.

E-CO Energi is required to stock 33 major and minor reservoirs, including indirectly regulated lakes in Hallingdal and Aurland. Roughly MNOK 3.1 were spent on stocking trout in Hallingdal in 2017, and MNOK 0.3 were spent on hatchery fish in Aurland.

In Aurland, E-CO Energi has brood salmon that originated with wild salmon fry that have been fed. These fish are intended to strengthen the salmon stock in the watercourse. This allows us to avoid using wild salmon from the river, so that they can complete their spawning. Milking the brood salmon provided about 35.5 litres of fertilised roe. With ordinary mortality, this should yield roughly 170 000 roe that will be put to river in mid-March 2018.

FRAMEWORK CONDITIONS

Hydropower occupies a special position in Norway since future needs for renewable, regulatable and profitable power must be met. Hydropower is regulatable and can help offset variations in power production from other sources, e.g. wind and solar power. From this perspective, it is important that

Key HSE figures	Goals	2017	2016	2015
Sickness absence	< 4 per cent	2.8	3.3	4.0
Of which, company funded sick-pay period (1-16 days)		0.9	1.1	1.3
Of which, Government funded sick-pay period (>16 days)		1.9	2.2	2.7
Number of days of sick leave		1 037	1 274	1 489
Number of injuries		0	1	7
Lost time injury rate (LTI)*	Zero is the target	0	3.7	15.2
Total recordable injury rate (TRI)	Zero is the target	0	3.7	26.7
Registered absenteeism (F-factor)		0	99.0	346.8

LTI = number of injuries per million hours worked/total number of hours worked

LWDR = number of injuries x 1 million/Total number of hours worked

F = number days of sick leave due to occupational injuries x 1 million/total number of hours worked

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In the Government budget for 2018, the Norwegian parliament decided to increase the resource rent tax on hydropower production by another 1.4 percentage points to 35.7 per cent, at the same time as corporate tax will be reduced by one percentage point to 23 per cent. Altogether, this adds up to a net increase in E-CO Energi's marginal tax rate from 58.3 to 58.7 per cent.

the Norwegian authorities are cautious when placing limitations on existing power production.

For several years, E-CO Energi has worked actively with other players in the power industry to help ensure that water management plans were based on updated knowledge about the state of regulated watercourses and to take account of power production, flooding and the reliability of supply, as well as value creation. The water management plans were approved by the Ministry of Climate and Environment in 2016, and represent an important part of the framework conditions for Norwegian hydropower in future. The water management plans that have been adopted will form the basis for future decisions on revisions of terms. E-CO Energi's assessment of Norwegian water management plans is that national considerations for renewable hydropower, flooding and value creation are generally handled in a balanced manner.

In the years ahead, the authorities could decide to revise the terms of the company's hydropower licences. This could lead to significantly reduced power production and limited possibilities for system services to balance the power system. E-CO Energi has drawn up revision documents for the Hemsil and Hols regulation projects. An overall assessment has been made of the requirements that apply, and the company has weighed expected gains for fish/freshwater biology, the landscape/cultural environment and biodiversity, against the disadvantages for power production, reliability of supply, flood safety, climate and finances. The revision documents contain proposed amendments to the terms in addition to mitigation measures. E-CO Energi expects NVE to hand down its recommendation for the Hemsil and Hols regulation projects in 2018. Cooperation has been established on technical issues with affected municipalities regarding revisions of the terms for the Uste and Hallingdal watercourse. The draft audit report was out for a consultative hearing in 2017 and NVE will conduct public hearings and inspections in 2018. E-CO Energi had planned to collaborate with Aurland Municipality, following the model from Hallingdal for progress and technical issues on the Aurland regulation, but in 2017, the Aurland Municipal Council decided to call for a formal revision of the terms. E-CO Energi has requested that the implementation of the revision of terms for the Aurland regulation apply first in 2019.

Statnett's feed-in tariffs for the grid represent a significant cost for E-CO Energi. Feed-in costs have climbed in recent years, and Statnett has major ongoing investments and upgrades in the central grid that will continue to add to the overall

costs of the power system. Statnett's current tariff strategy applies until the end of 2018. Statnett has drawn up a proposal for a new tariff model as from 2019 that is out for administrative hearing with a deadline in March 2018. E-CO Energi is concerned that the feed-in tariffs for production could cause us to exceed our competitors' costs on the markets in which we operate. Furthermore, several of Statnett's costs for systems operation and imbalances should to a far greater extent be paid by those who are responsible for these costs rather than using today's system which, in our opinion, is not the right distribution, since large, regulatable hydropower activities must shoulder a disproportionately large share of these costs, which are incurred by other production and consumption.

In 2013 and 2014, roughly 7 TWh of E-CO Energi's production was transferred to the new NO5 price area from the NO1 price area. NO5 has had lower prices and more surplus production than NO1, and E-CO Energi is still vulnerable to losses of income if Statnett limits the capacity from the NO5 price area to Oslo. This situation has been improved by a number of measures initiated by E-CO Energi, but there are still challenges when temperatures are low, leading to high consumption in Oslo and associated high power prices in Oslo, as Statnett limits its capacity in respect of Oslo. E-CO Energi thereby ends up with lower power prices and lower volumes through its large-scale power stations in Aurland and Hallingdal than the case would have been with normal capacity utilisation. The company works actively in respect of Statnett, making suggestions and rendering visible E-CO Energi's interests and expenses. Throughout 2017 and the early winter of 2018, Statnett has introduced initiatives that have improved transmission capacity.

In the Government budget for 2018, the Norwegian parliament decided to increase the resource rent tax on hydropower production by another 1.4 percentage points to 35.7 per cent, at the same time as corporate tax will be reduced by one percentage point to 23 per cent. Altogether, this adds up to a net increase in E-CO Energi's marginal tax rate from 58.3 to 58.7 per cent. No change was adopted to the resource rent tax exemption rate, which is currently significantly lower than the interest rate the industry pays for funding operations. The net effect for E-CO Energi is a tax hike. E-CO Energi maintains that it is a paradox that growth-stimulating initiatives aimed at business and industry are not allowed to benefit Norway's leading renewable energy industry. E-CO Energi is positive to the fact that the Government has used the Jeløya platform to announce that it will appoint an expert committee to review the tax

regimen that applies to Norwegian hydropower. It is important that the committee finds a tax regimen that makes it at least as profitable to invest in Norwegian hydropower production as in other renewable energy or in other countries.

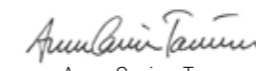
The Swedish-Norwegian power certificate market entails substantial stimulation on the supply side of the power market. E-CO Energi is of the opinion that the authorities must also pave the way for the consumption of more electricity. Renewable energy has no climate value if it fails to reach consumers inside and outside the Nordic countries to replace fossil fuels. E-CO Energi maintains that market-based, technology neutral and predictable instruments must be adopted so that climate targets can be reached in the most cost-effective manner possible.

PROSPECTS FOR THE FUTURE

E-CO's main focus will continue to be on creating more value through the optimal operation and management of power plants, as well as the optimal utilisation of the available water resources. The Group pursues a strategy that focuses on organic growth, combined with an ambition to play a pivotal role in the restructuring of the power industry in Norway, primarily through the ownership of physical power production rather than through financial ownership stakes.

Oslo, 21 March 2018

The Board of Directors of E-CO Energi Holding AS

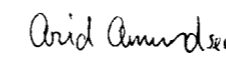

Anne Carine Tanum
Chair of the Board


Helge Skudal


Bård Vegar Solhjell


Mari Thjømøe


Gabriel Smith


Arvid Amundsen


Ola Tore Eggen


Tore Olaf Rimmereid
President and CEO

”

E-CO Energi's earnings are directly influenced by trends in power prices and production volumes. The annual contract price for supplying power in 2018 was 0.251 NOK/kWh at the end of 2017, compared with 0.231 NOK/kWh in 2017.

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E-CO Energi expects that the market will show a positive trend in the years immediately ahead, with rising demand for renewable energy. E-CO Energi's business model is robust and will be developed further as a result of new opportunities based on data-driven decision-making models, the further refinement of hydropower's "green" values, and new opportunities in the flexible utilisation of hydropower's regulatability.

The Board is aware that the owner, Oslo Municipality, is engaged in a process related to the structure and organisation of the Municipality's ownership in the energy sector.

The Board is well satisfied with the operations and the results, and extends its sincere gratitude to all employees for their sterling efforts in 2017.

Consolidated accounts 2017

Photo: Jong Marshes/unsplash



Consolidated statement of comprehensive income

1 JANUARY - 31 DECEMBER

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (Amounts in MNOK)	Note	2017	2016
Sales revenue	2.1	3 500	2 633
Other revenue	2.2	92	78
Total revenue		3 592	2 710
Energy purchases and transmission expenses	2.3	(261)	(275)
Salaries and other payroll expenses	2.4	(210)	(180)
Property tax and licence fees	2.5, 4.2	(269)	(278)
Depreciation and impairment	3.1	(339)	(308)
Other operating expenses	2.6	(279)	(231)
Total operating expenses		(1 357)	(1 271)
Operating profit		2 235	1 439
Financial income	5.12	54	51
Financial expenses	5.12	(302)	(242)
Net financial items		(248)	(192)
Income before tax		1 987	1 248
Taxes	6.1	(949)	(743)
Net profit or loss for the year		1 038	505
Net profit or loss for the year attributable to holder of the parent		923	439
Net profit or loss for the year attributable to non-controlling interests		115	66
Other Comprehensive Income			
<i>Items that can be reclassified through the profit or loss in subsequent periods</i>			
Net changes in the value of financial instruments		(4)	(37)
Tax effect of changes in the value of financial instruments		1	9
Total items that can be reclassified through the profit or loss in subsequent periods		(3)	(28)
<i>Items that cannot be reclassified through the profit or loss in subsequent periods</i>			
Unrecognised actuarial gains/losses, pensions		(33)	30
Tax effect, unrecognised actuarial gains/losses, pensions		18	(17)
Total items that cannot be reclassified through the profit or loss in subsequent periods		(15)	14
Total other income and expenses		(18)	(14)
Comprehensive income for the year		1 020	491
Total comprehensive income attributable to holder of the parent		905	425
Total comprehensive income attributable to non-controlling interests		115	66

Consolidated balance sheet

31. DECEMBER

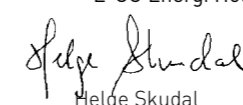
CONSOLIDATED BALANCE SHEET (Amounts in MNOK)	Note	31.12.2017	31.12.2016	1.1.2016
Assets				
Non-current assets				
Goodwill	8.2	2 916		
Property, plant and equipment	3.1	24 644	16 471	16 378
Deferred tax assets	6.1	293	198	203
Equity accounted investments		32	23	11
Derivatives	5.1	812	942	1 204
Other non-current financial assets	5.1	218	221	185
Total non-current assets		28 915	17 854	17 980
Current assets				
Accounts receivable and other receivables	5.10	246	133	141
Derivatives	5.1	54		216
Other short term investments	5.1	403	300	150
Cash and cash equivalents	5.9	840	916	232
Total current assets		1 543	1 349	739
Total assets		30 458	19 203	18 719
Equity and liabilities				
Equity				
Share capital	5.8	2 035	1 703	1 703
Share premium		5 571	1 903	1 903
Retained earnings		2 862	2 566	2 827
Non-controlling interests		1 896	991	924
Total equity		12 364	7 163	7 357
Long-term liabilities				
Pension liabilities	7.2	57	41	36
Deferred tax liabilities	6.1	3 295	407	428
Derivatives	5.1	140	131	98
Long-term provisions	4.1	753	720	697
Long-term interest-bearing liabilities	5.3	10 907	9 214	8 252
Total long-term liabilities		15 152	10 513	9 513
Short-term liabilities				
Tax payable	6.1	1 265	732	546
Derivatives	5.1	28	81	71
Accounts payable and other current liabilities	5.11	649	495	358
Short-term interest-bearing liabilities	5.3	1 000	219	873
Total short-term liabilities		2 941	1 527	1 849
Total liabilities		18 094	12 040	11 361
Total equity and liabilities		30 458	19 203	18 719

E-CO Energi Holding AS, Oslo, 21 March 2018




Anne Carine Tanum

Chair of the Board of Directors



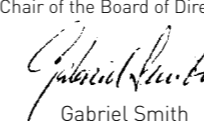
Helge Skudal



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Ola Tore Eggen



Tore Olaf Rimmereid
President and CEO

Consolidated statement of cash flows

1 JANUARY - 31 DECEMBER

Cash flow statement

The cash flow statement has been drawn up using the indirect method. Cash and cash equivalents include bank deposits, money market funds and other cash equivalents.

CONSOLIDATED STATEMENT OF CASH FLOWS (Amounts in MNOK)	Note	2017	2016
Cash flow from operating activities			
Income before tax		1 987	1 248
<i>Adjustments undertaken to reconcile the income before tax with the net cash flow:</i>			
Depreciation and impairment	3.1	339	308
Share of the profit or loss in companies recognised using the equity method		(2)	(6)
Unrealised change in value		(75)	218
Other non-cash generating income and expenses		9	
Changes in receivables, creditors and accrual items	5.10	(2)	101
<i>Other adjustments:</i>			
Taxes paid		(668)	(546)
Net cash flow from operating activities		1 587	1 322
Net cash flow from investing activities			
Investments in property, plant and equipment	3.1	(523)	(410)
Proceeds from the sale of property, plant and equipment			7
Investments in companies recognised using the equity method		(6)	(6)
Take-over of business activities	8.2	(4 061)	
Receipts/disbursements related to other investments		(12)	
Net cash flow from investing activities		(4 603)	(409)
Cash flow from financing activities			
Increase in interest-bearing debt		3 371	1 309
Repayment of interest-bearing debt		(218)	(403)
Net change in commercial loans		500	(300)
Dividends paid	5.8	(610)	(685)
Net cash flow from financing activities		3 043	(79)
Net change in cash and cash equivalents during the year		27	834
Cash and cash equivalents at the beginning of the year		1 216	382
Cash and cash equivalents at the end of the year		1 243	1 216

Consolidated statement of changes in equity

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (Amounts in MNOK)	Share capital	Share premium	Retained earnings	Hedging reserve	Equity to the parent company's shareholders	"Non-controlling interests"	Total equity
Equity at 1 January 2016		1 903	2 863	(36)	6 433	924	7 357
Net profit or loss for the year			439		439	66	505
Comprehensive profit or loss			14	(28)	(14)		(14)
Total comprehensive income for the year			453	(28)	425	66	491
Dividends			(685)		(685)		(685)
Equity at 31 December 2016	1 703	1 903	2 631	(64)	6 173	990	7 163
Net profit or loss for the year			923		923	115	1 038
Comprehensive profit or loss			(15)	(3)	(18)		(18)
Total comprehensive income for the year			909	(4)	905	115	1 020
Capital increase (see Note 5.8)	332	3 668			4 000		4 000
Non-controlling interests upon acquisition						791	791
Dividends			(610)		(610)		(610)
Equity at 31 December 2017	2 035	5 571	2 930	(68)	10 468	1 896	12 364

Notes

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- 2.2 Other revenue
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- 2.4 Salaries and other payroll expenses
- 2.5 Property tax and licence fees
- 2.6 Other operating expenses

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Note 1.1 Business information

E-CO Energi Holding AS "E-CO Energi" is a private company registered in Norway. The Group consists of E-CO Energi Holding AS with subsidiaries, and it is wholly owned by Oslo Municipality. The company's business address is C. J. Hambros plass 2C, 0164 OSLO.

E-CO Energi is one of Norway's leading energy groups. Its core activities are the ownership, operation and development of hydropower plants. The parent company's main duties are strategic development, financial affairs, accounting and information. The Group is Norway's second largest hydropower producer with normal annual production of some 14 TWh. This satisfies the energy requirements of approximately 700 000 households.

E-CO Energi Holding AS' consolidated accounts for the 2017 financial year were adopted at the Board meeting on 21 March 2018, and are available at C.J. Hambros plass 2C, 0164 Oslo, or at www.e-co.no. This is the first year the Group's annual financial statements are being submitted in accordance with the International Financial Reporting Standards (IFRS), see note 10.3 for more information.

Note 1.2 Transactions and events in 2017

On 26 April 2017, E-CO Energi Holding AS signed an agreement for the acquisition of 90 per cent of the shares in Hafslund Produksjon Holding AS (formerly Hafslund ASA) following the demerger of activities other than power production. The background for the acquisition is the Group's growth strategy, and Hafslund's hydropower plant is a good fit with E-CO Energi's power plant portfolio. The Group will coordinate hydropower production at Hafslund Produksjon with E-CO Energi's current business activities. The date of acquisition was 4 August 2017.

For further information and the purchase price allocation, see Note 8.2.

Note 2.1 Sales revenue

SIGNIFICANT ACCOUNTING POLICIES

Income - general

E-CO Energi is a producer of clean hydropower, and the Group's sales revenues mainly consist of the sale of power on the wholesale market, where spot sales on Nord Pool make up the majority. Sales are recognised when the income can be measured reliably, and it is likely that the financial advantages associated with the transaction will accrue to the Group. The income is assessed at the fair value of the remuneration.

Income from the production and sale of power

Sales are recognised when the power has been delivered, based on the actual prices obtained. Power revenues from proprietary production are usually presented gross on the income statement. Similarly, procurements recognised gross as the cost of materials, to the extent purchases and sales are managed independently, are nominated gross on Nord Pool and fall within the scope of the Group's business-related need to buy power as a step in its ordinary operations.

Concessionary power

The Group is required to supply concessionary power at regulated prices that are usually lower than market prices. The delivery of concessionary power at a fixed price is recognised as revenue on an ongoing basis. Otherwise, see Note 4.2 for further information.

Power derivatives

E-CO Energi uses derivatives related to power prices and currency to hedge future sales revenues. The Group does not use hedge accounting under IFRS for hedging power. Realised and unrealised changes in value related to derivatives signed for financial hedging on future revenue are recognised as sales revenues. Otherwise, see Note 5.1 Financial instruments

SIGNIFICANT ESTIMATES AND ASSUMPTIONS

Power contracts

Pursuant to IAS 39 Financial instruments - recognition and measurement, contracts for the purchase or sale of non-financial objects, e.g. power, are recognised as though these contracts were financial instruments if the contracts can be settled net in cash. The spot market for power in Norway is precisely such a liquid market, where power contracts can easily be converted to cash. Excepted from this requirement, however, are contracts that are signed and remain commensurate with the enterprise's need to buy, sell or use. This exception is often referred to as the "own use" exception. E-CO Energi's business is to generate and sell power. Thus, sales contracts signed to sell projected production will normally be regarded as "own use" contracts, provided the volumes in the contracts are in keeping with projected production. E-CO Energi considers all the company's current physical contracts to be within the scope of "own use".

To the extent that E-CO Energi enters into physical power contracts that are, for example, indexed against a currency other than the parties' functional currency or commodities prices, the contracts may include an embedded derivative. Such embedded derivatives are assessed at fair value.

2.1 Sales revenues continued

SALES REVENUE (amounts in MNOK)	2017	2016
Income from the sale of power*	3 358	2 773
Concessionary power	85	85
Unrealised gains/losses on derivatives	57	(225)
Total sales revenues	3 500	2 633

The power production is generally traded on Nord Pool Spot in the price areas NO1 and NO5 or through bilateral agreements at spot prices. A share of E-CO's spot sales has been hedged by financial price hedging agreements signed at different times, cf. Note 5.2.

*Includes the sale of el-certificates and guarantees of origin.

2.2 Other revenue

SIGNIFICANT ACCOUNTING POLICIES

Income from the sale of other goods and services

Income from the sale of other goods or services is recognised when the goods or services have been delivered and the risk and yield have been transferred to the buyer.

OTHER REVENUE (amounts in MNOK)	2017	2016
Transmission income	51	49
Other revenue	41	29
Total other revenue	92	78

Other revenue mainly consists of income from the sale of services.

Note 2.3 Energy purchases and transmission expenses

ENERGY PURCHASES AND TRANSMISSION CONTRACTS (amounts in MNOK)	2017	2016
Regular contracts	49	67
Transmission expenses	211	208
Total cost of energy purchases and transmission expenses	261	275

Oslo Lysverker AS has a perpetual purchase contract for 175.2 GWh per year from Hafslund Produksjon AS. As from the acquisition of Hafslund Produksjon Holding AS in 2017, the contract is intra-Group and eliminated in the consolidated accounts at 31 December 2017.

Transmission costs mainly refer to the cost of feeding into the central grid.

Note 2.4 Salaries and other payroll expenses

PAYROLL EXPENSES (amounts in MNOK)	2017	2016
Wages and salaries	167	147
Employers' national insurance contributions	22	19
Pension expenses*	22	13
Total salaries and other payroll expenses	210	180
Average number of full-time equivalents (FTEs) employed during the fiscal year:	180	167

*Pension expenses are discussed in more detail in Note 7.2

Note 2.5 Property tax and licence fees

SIGNIFICANT ACCOUNTING POLICIES

Property tax

Property tax is classified and recognised as an operating cost in the year in which the tax is levied.

Licence fees

Licence fees are paid to the State and municipality annually in return for the right to exploit the waterfall. Such fees are expensed on an ongoing basis as period costs. See Note 4.2 for a more detailed description of power obligations.

PROPERTY TAX AND LICENCE FEES (amounts in MNOK)	2017	2016
Property tax	185	198
Licence fees	84	80
Total property tax and licence fees	269	278

Property tax is calculated on the basis of assessed values for taxation purposes stipulated pursuant §8 of the Act relating to Property Tax. The maximum tax rate is 0.7 per cent.

Note 2.6 Other operating expenses

OTHER OPERATING EXPENSES (amounts in MNOK)	2017	2016
Purchase of external services	34	20
Jointly-owned power plants	39	46
Compensation and miscellaneous fees	37	52
Insurances	12	12
Costs to own investment projects	(12)	(16)
Other operating expenses	169	118
Total other operating expenses	279	231

Specification of auditing fees (amounts in NOK 1 000)	2017	2016
Mandatory audits	1 855	1 040
Other assurance services	336	55
Tax consultancy services	227	12
Other services	1 069	28
Total auditing fees	3 486	1 135

The specification includes auditing fees for auditing the entire Group. Value-added tax (VAT) is not included in the specified fee.

Note 3.1 Property, plant and equipment

SIGNIFICANT ACCOUNTING POLICIES

Property, plant and equipment are measured at acquisition cost, less accumulated depreciation and impairment. When assets are sold or disposed of, the carrying value is derecognised and any loss or profit is recognised in the income statement.

The acquisition cost for property, plant and equipment is the purchase price, including levies/taxes and expenses directly related to making the property, plant and equipment ready for use. Borrowing costs that can be attributed to an acquisition, structure, or the production of a qualifying asset, are added to the acquisition cost. The term 'qualifying asset' refers to an asset that requires a long period of time to be ready for its intended use or sale, e.g. a hydropower plant.

Expenses incurred after production equipment is taken into use, such as ongoing maintenance, are recognised, while other expenses (periodic maintenance) that are expected to offer future financial advantages are capitalised.

The term of depreciation and the method are considered each year, and any changes are recognised as changes in accounting estimates.

'Plant under construction' is classified as a non-current asset and booked at cost until construction or development is completed. Plant under construction is not depreciated until the non-current asset has been taken into use.

Waterfall and land rights are recognised at historic acquisition cost. Production activities have perpetual licences (no right of reversion), so acquired rights are not time-limited and therefore not depreciated. Rights are classified as property, plant and equipment because E-CO Energi is of the opinion that such rights have physical substance (acquisition cost for land, with the accompanying right to exploit the water).

Note 3.1 Property, plant and equipment continued

Further, waterfall rights are closely associated with the power plant as such.

For principles related to impairment of property, plant and equipment, see Note 3.3.

SIGNIFICANT ESTIMATES AND ASSUMPTIONS

Property, plant and equipment are depreciated over the estimated useful life of the asset. The useful life of an asset is estimated in the light of experience, history and discretionary opinions, then adjusted if expectations change. Consideration is taken of residual value when stipulating depreciation and the assessment of residual value is also subject to estimates.

E-CO Energi does not make provisions for removal obligations, as there is no right of reversion associated with the Group's power plants.

(amounts in MNOK)	Rights to waterfalls and land	Hydro-power and regulation facilities	Transmission plants	Buildings	Tele facilities	Vehicles and other equipment	Plant under construction	Total
Cost of acquisition 1 January 2016	8 820	12 750	268	145	38	78	473	22 571
Additions		207	34			3	237	481
Disposals		(9)				(2)	(70)	(80)
Cost of acquisition 31 December 2016								
Additions	8 820	12 948	302	145	38	79	640	22 971
Disposals	30	223				4	373	630
Procurements in connection with business combinations		(5)				(1)	(75)	(81)
Cost of acquisition 31 December 2017	3 501	3 928					534	7 962
Anskaffelseskost 31.12.2017	12 350	17 094	302	145	38	82	1 471	31 483
Accumulated depreciation and impairment 1 January 2016		5 951	157	44	14	28		6 193
Depreciation		289	8	3	2	6		308
Impairment								
Disposals								
Accumulated depreciation and impairment 31 December 2016		6 240	165	47	16	33		6 501
Depreciation		324	8	3	2	2		339
Impairment								
Disposals								
Accumulated depreciation and impairment 31 December 2017		6 564	173	50	17	35		6 839
Balance sheet value at 1 January 2016	8 820	6 799	111	101	25	50	473	16 378
Balance sheet value at 31 December 2016	8 820	6 708	138	98	23	45	640	16 471
Balance sheet value at 31 December 2017	12 350	10 531	130	95	21	46	1 471	24 644

DEPRECIATION PERIODS	Year	Method
Rights to waterfalls and land	Perpetual	
Waterfall regulation and structural engineering	50	Linear
Machinery	25-40	Linear
Electrical equipment	15-30	Linear
Buildings	50	Linear
Telecommunications facilities	4-15	Linear
Vehicles and other equipment	5-15	Linear

The table above also includes joint operations

In 2017, E-CO Energi acquired Hafslund's hydropower production. The effect of this is recognised as a separate line item. See Note 8.2 for a more detailed description of the business combination.

Note 3.2 Joint arrangements and associates

SIGNIFICANT ACCOUNTING POLICIES

Joint arrangements

A joint arrangement is a regimen in which two or more parties have joint control. Joint control is present when decisions about relevant activities call for unanimity between the parties that share control.

Pursuant to IFRS 11, investments in joint arrangements are classified either as joint operations or as joint ventures. Joint operations are arrangements under which the parties that have joint control of the arrangement have rights to the assets and responsibility for the obligations associated with the joint arrangement. Such arrangements are posted to the accounts by E-CO Energi recognising the arrangement's income, expenses, assets and obligations (proportionate consolidation) on a line-by-line basis.

Joint ventures are arrangements under which the parties that have joint control of the arrangement have rights to the arrangement's net assets. Such arrangements are recognised using the equity method.

Associates

Companies in which the parent company or subsidiaries have considerable influence, i.e. usually companies in which E-CO Energi owns 20 to 50 per cent of the share capital, are classified in the consolidated accounts as associates and recognised using the equity method. The equity method initially recognises the investment at acquisition cost, then the carrying amount is regulated by the stake of the profit or loss, as well as the stake of the comprehensive income. Any write-down of the proportionate value is presented on the same line. When the Group's proportion of the loss in an associate exceeds its carrying value, no further losses are recognised, unless obligations have been incurred.

Such investments are tested for impairment when there are indications of possible impairment loss. Investments are written down to the recoverable amount, estimated as the higher of the fair value less selling costs or the value in use, whichever is lower than the carrying value.

SIGNIFICANT ESTIMATES AND ASSUMPTIONS

Determining whether investments with a third party comprise a subsidiary, joint operation/venture or associate requires discretionary assessments, especially as regards the degree of control. Control is assessed based on the facts and circumstances that apply to each individual investment.

For power companies and power plants, typical decisions about relevant activities might be related to production decisions and mechanisms related to who can draw electricity at what times. The parameters for the operation of jointly-owned power plants are often micro-managed through an agreement between the owners which, depending on how strictly regulated operations are under this agreement, may be indicative of joint control. By analysing the operator agreement, E-CO Energi considers whether there is joint control associated with influencing relevant activities and value drivers, and whether or not the agreement affords enough flexibility to affect business plans and budgets.

If it is concluded that joint control exists, E-CO Energi considers whether the arrangement should be classified as a joint operation or a joint venture. To determine whether a joint arrangement is a joint operation or a joint venture, it is necessary to make a comprehensive assessment, taking into account shareholder agreements, which rights and obligations the participants have, and other underlying facts.

E-CO Energi consider power plants organised in a separate legal unit, where there is an independent business that sells power production on the market in its own name and where the owners share the net return proportionately on a pro-rated basis, to be a joint venture. If there are agreements that require a distribution of total power production, total assets and obligations among the parties, E-CO Energi classifies the investment as a joint operation. This will always be the case for the investments not involving a separate legal entity.

Note 3.2 Joint arrangements and associates continued

Joint arrangements	Classification	Registered office	Stake	Share of votes
Glomma and Laagens Water Management Association	Joint operation	Lillehammer		26.9%
The Hallingdal Watercourse Water Management Association	Joint operation	Oslo		73.5%
The Bæгна Watercourse Water Management Association	Joint operation	Hønefoss		38.3%
Vinstra Kraftselskap DA	Joint operation	Lillehammer	66.7%	
Opplandskraft DA	Joint operation	Lillehammer	50.0%	
Øvre Otta DA	Joint operation	Lillehammer	36.7%	
Nedre Otta DA	Joint operation	Lillehammer	26.9%	
Storbrofoss Kraftanlegg DA	Joint operation	Lillehammer	80.0%	
Bagn Kraftverk DA	Joint operation	Porsgrunn	16.0%	
Embretsfosskraftverkene DA	Joint operation	Drammen	50.0%	
The Aurland plants	Joint operation	Oslo	93.0%	
The Solbergfoss Plant	Joint operation	Oslo	66.7%	
Usta Power Plant	Joint operation	Oslo	57.1%	
Nes Power Plant	Joint operation	Oslo	57.1%	
Rosten Power Plant	Joint operation	Lillehammer	72.0%	
The Uvdal Plants	Joint operation	Porsgrunn	10.0%	

Associates	Classification	Registered office	Stake
NGK Utbygging	Equity method	Oslo	25.0%

At 31 December 2017, E-CO Energi considered all its investments in joint arrangements to be joint operations, which are recognised using the proportionate consolidation method.

The Group cooperates with other companies on the development and operation of power plants. The co-owners control their proportional shares of the power production, less deductions based on their obligations to supply concessionary power, etc.

Co-owners' shares of votes usually corresponds to their stake, but legislation and agreements may entail requirements for unanimity in all or certain decisions. Each watercourse management association includes a number of watercourse regulations. Members' stakes depend on the individual watercourse regulations. The stated share of votes applies to the share of votes at the general meeting.

Indirect stakes:

Øvre Otta DA is owned by Opplandskraft DA. The specified stake is the Group's indirect stake.

Bagn Kraftverk DA is owned by Storbrofoss Kraftanlegg DA. The specified stake is the Group's indirect stake.

The Group is responsible for its share of the liabilities of the joint operations.

Note 3.3 Impairment

SIGNIFICANT ACCOUNTING POLICIES

E-CO Energi's property, plant and equipment are tested for impairment each year. When there are indications that future earnings cannot justify carrying values, the recoverable amount is calculated to assess whether it is necessary to recognise the impairment losses. The recoverable amount is the highest of the fair values less selling costs or the value in use of the fixed assets.

In considering impairment, fixed assets are grouped at the lowest level at which it is possible to distinguish independent cash flows. This level is defined as the fixed asset's cash-generating unit. E-CO Energi has defined power plants located on the same watercourse and run collectively as a cash-generating unit.

SIGNIFICANT ESTIMATES AND ASSUMPTIONS

Whether or not an asset has indicators that can show the need for impairment rests on discretionary assessments. Typical indicators of impairment may, for example, be changes in market prices, agreements, negative events or other operational conditions.

The calculation of value in use is based on a number of discretionary estimates and assumptions pertaining to future cash flows, where future power prices, foreign currency exchange rates, sales volumes and required rates of return are the most important factors.

E-CO Energi monitors indications of possible impairment on an ongoing basis. Where possible impairment is indicated, impairment tests are carried out immediately. If the impairment tests indicate that carrying values are no longer justified, the asset is impaired to the recoverable amounts. The impairment tests are carried out by identifying cash flows related to the cash-generating unit, then discounting them to their present value (DCF), using a risk-adjusted, market-related rate of return. There is also a test to gauge the sensitivity to DCF related to the various assumptions.

There were no indications of impairment at 31 December 2017. The cash-generating units with the lowest buffer between the recoverable amount and the recognised value are the Embretsfoss Power Plants, and Rosten when it comes online in 2018.

Note 4.1 Long-term provisions

SIGNIFICANT ACCOUNTING POLICIES

Long-term provisions

A provision is recognised only when there is a present obligation that has arisen as a result of a past event, where there is a likelihood of more than 50 per cent that it will be paid, and where the obligation can be measured reliably. To the extent the probability is less than 50 per cent, information is disclosed in the notes only. The amount recognised as a provision is an expression of a best estimate of the expenses required to settle the present obligation at the end of the reporting period.

Onerous contracts

Liabilities resulting from significant loss-making contracts are recognised and measured as provisions. An onerous contract is defined as a contract in which the unavoidable expenses of meeting the obligations required by the contract exceed the financial benefits expected to accrue from the same contract. The unavoidable expenses under a contract reflect the lowest net cost of withdrawing from the contract, which is the lower amount of either the expenses to perform the contract, along with any compensation, or sanctions that arise if the contract is not satisfied.

For a description and discussion of significant accounting policies relating to power obligations, see Note 4.2.

LONG-TERM PROVISIONS (AMOUNTS IN MNOK)	Recognised value 1 January		Recognised value 31 December		Recognised value 31 December
	2016	Changes 2016	2016	Changes 2017	2017
Non-current liabilities					
Compensation to landowners	654	25	680	39	719
Other provisions to meet obligations	43	(3)	40	(7)	34
Total non-current liabilities	697	23	720	33	753

Obligations generally encompass agreed benefits to landowners, as described in Note 4.2.

Note 4.2 Power obligations

SIGNIFICANT ACCOUNTING POLICIES

Licence-related liabilities

The Group has been awarded perpetual licences for the development and operation of hydropower plants. In return, the Group is required to supply concessionary power. E-CO Energi considers waterfall concessions to be outside the scope of the term 'contract' in IAS 39, so licence-related obligations are not capitalised.

Licence fees

Paid licence fees are expensed as they accrue.

Supplying concessionary power

The supply of concessionary power is recognised on an ongoing basis as sales revenues, based on a fixed price for concessionary power. E-CO Energi follows a practice of settling some of its physical concessionary power purchase obligations financially, and E-CO Energi covers the difference between the spot price and the concessionary price. E-CO Energi considers this simply to be a modified form of settlement, and does not view it as creating further financial obligations beyond those that existed before any such agreement was signed.

Obligations to landowners

Pursuant to different agreements, the Group is required to pay compensation and to supply free power to landowners as compensation for the right to use waterfalls and land. The obligations are measured at fair value to the extent that they are influenced by fluctuations in underlying factors, e.g. power prices. Obligations related to fixed annual volumes are measured at amortised cost.

Cash compensation (compensation in NOK):

E-CO Energi treats perpetual annual cash compensation as financial liabilities which, when initially recognised, are capitalised at fair values

Note 4.2 Power obligations continued

by discounting future payments, then they are subsequently recognised at amortised cost, since the cash compensation values are fixed annual amounts.

Free power – physical consideration:

E-CO Energi considers its contracts related to the physical delivery of free power to fall within the scope of the "own use" exception. Further, the contracts are treated as loss contracts pursuant to IAS 37, meaning that E-CO Energi sets aside an amount comparable to future self-costs under the contracts.

Free power – agreement regarding net financial settlement:

Free power contracts signed with landowners, which are settled for financial consideration (and which are influenced by fluctuations in power prices), are recognised and measured at fair values (as derivatives) with changes in value recognised through the profit or loss, see Note 5.2.

Assets associated with power obligations

Benefits to landowners which, pursuant to IFRS, lead to recognised liabilities, are considered remuneration for waterfall rights, thus entailing balance sheet recognition of the associated waterfall rights/land rights. See Note 3.1.

SIGNIFICANT ESTIMATES AND ASSUMPTIONS

Estimates of liabilities are made in accordance with the principles described above. Discretionary assessments are required in connection with the stipulation of the discount rate and future market prices.

Concessionary power

The Group has an annual obligation to supply concessionary power to municipalities and counties. Concessionary power with physical delivery is recognised as income on an ongoing basis using the fixed price of concessionary power, which is either the price used by the Ministry of Petroleum and Energy or the estimated full-cost. Concessionary power is not recognised as a liability on the balance sheet. There is precedent for some concessionary power to be settled as financial consideration. In other words, E-CO Energi sells the volume on the spot market and pays the difference between the actual price obtained on the spot market and the fixed price of concessionary power to the party entitled to the concessionary power. At the end of 2017, concessionary power supplied in return for financial consideration added up to a total volume of 129 GWh.

Note 4.3 Leases, collateral and guarantee liabilities**SIGNIFICANT ACCOUNTING POLICIES***Financial leases*

E-CO Energi has no financial leases.

Operating lease agreements

Leasing agreements for which the greatest risk and reward associated with the ownership of assets are not transferred are classified as operating lease agreements. Lease payments are classified as operating costs and recognised on a straight-line basis over the term of the contract.

MINIMUM PROVISION FOR LEASES - OPERATING LEASE AGREEMENTS (amounts in MNOK)	Current year	Between 1 and		Total
		Up to one year after the close of the period	5 years after the close of the period	
Property rental agreements	5	5	3	13
Other leases	4	3	6	14
Total provisions for leases	9	8	9	26

Collateral and guarantee liabilities

E-CO Energi has no assets pledged as collateral or guarantee liabilities.

Note 5.1 Financial instruments**SIGNIFICANT ACCOUNTING POLICIES**

Financial instruments are recognised when the Group is party to contractual terms related to the instrument.

Classification of financial instruments

E-CO Energi's financial instruments are classified in the following categories:

- *Financial assets and liabilities at fair value through profit or loss*
- *Lending and receivables*
- *Other financial liabilities*

For the categorisation of the Group's Financial instruments in the different classes, see the list further down in this note.

Financial assets and liabilities at fair value through profit or loss

Financial instruments held primarily for the purpose of selling or to buy back in the short term, financial instruments that are part of a portfolio of identified instruments that are managed together and where there are provable traces of short-term gains, or derivatives that are not designated as hedge instruments are classified as being held for trading. These instruments belong to the category financial instruments recognised at fair value through profit or loss.

Lending and receivables

Financial assets with fixed or determinable cash flows that are not listed in an active market are classified as loans and receivables. These are initially measured at fair value plus directly attributable transaction costs and, in subsequent periods, at amortised cost.

Other financial liabilities

Financial liabilities which do not fit into the category 'held for trading' and which have not been designated at fair value through profit or loss are classified as other financial liabilities. These are initially measured at fair value plus directly attributable transaction costs, then at amortised cost in subsequent periods.

Impairment of financial assets

Financial assets valued at amortised cost are impaired when, based on objective evidence, it is likely that the instrument's cash flows have been adversely affected by one or more events that have taken place after initial recognition of the instrument. The amount is recognised through profit or loss. If the cause of the impairment no longer applies, and its cessation can be objectively associated with an event that takes place after the impairment has been recognised, the earlier write-down will be reversed. The reversal should not cause the carrying value of the financial asset to exceed the amount the amortised cost would have been, had the impairment not been recognised on the date on which the write-down was reversed. The reversal of earlier impairment is presented as income.

Derecognition of financial instruments

A financial asset is derecognised when the rights to receive cash flows from the asset have expired, or the Group has transferred its rights to receive cash flows from the asset and either (i) the Group has transferred all significant risks and benefits related to the instrument, or (ii) the Group has not transferred or retained all significant risks and rewards related to the instrument but has transferred control of the asset.

A financial liability is derecognised when it is satisfied, cancelled or expires. When a current financial liability is replaced by another liability to the same lender on significantly different terms, or the conditions for an existing liability are significantly changed, this is treated as a cancellation of the original liability and recognised as a new liability. The difference between the book values is recognised on the income statement.

Offset of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated accounts for financial position if there is a legally binding right to a offset, and there is an intention to settle net before realising the assets and liabilities.

Note 5.1 Financial instruments continued

The table below shows the Group's financial assets and financial liabilities, categorised pursuant to IAS 39:

31 DECEMBER 2017 (amounts in MNOK)	Fair value - hedge accounting through other comprehensive income	Fair value through profit or loss	Lending and receivables	Other financial assets/liabilities	Total
Assets					
Derivatives (Note 5.2)	812	54			866
Pension fund assets (Note 7.2)				118	118
Other financial non-current assets				100	100
Accounts receivable and other receivables (Note 5.10)			246		246
Other financial assets				840	840
Money market fund (Note 5.9)				403	403
Total financial assets	812	54	246	1 462	2 573
Liabilities					
Derivatives (Note 5.2)	116	52			168
Long-term interest-bearing debt (Note 5.3)				10 907	10 907
Accounts payable and other current liabilities (Note 5.11)				649	649
Short-term interest-bearing debt (Note 5.3)				1 000	1 000
Power obligations (Note 4.2)				753	753
Total financial liabilities	116	52		13 309	13 477

31 DECEMBER 2016 (amounts in MNOK)	Fair value - hedge accounting through other comprehensive income	Fair value through profit or loss	Lending and receivables	Other financial assets/liabilities	Total
Assets					
Derivatives (Note 5.2)	942				942
Pension fund assets (Note 7.2)				133	133
Other financial non-current assets				88	88
Accounts receivable and other receivables (Note 5.10)			133		133
Other financial assets				916	916
Money market fund (Note 5.9)				300	300
Total financial assets	942		133	1 437	2 511
Liabilities					
Derivatives (Note 5.2)	66	145			212
Long-term interest-bearing debt (Note 5.3)				9 214	9 214
Accounts payable and other current liabilities (Note 5.11)				495	495
Short-term interest-bearing debt (Note 5.3)				219	219
Power obligations (Note 4.2)				720	720
Total financial liabilities		145		10 648	10 859

Note 5.1 Financial instruments continued

1 JANUARY 2016 (amounts in MNOK)	Fair value hedge accounting through other comprehensive income	Fair value through profit or loss	Lending and receivables	Other financial assets/liabilities	Total
Assets					
Derivatives (Note 5.2)	1 204	216			1 420
Pension fund assets (Note 7.2)				105	105
Other financial non-current assets				80	80
Accounts receivable and other receivables (Note 5.10)			141		141
Other financial assets				232	232
Money market fund (Note 5.9)				150	150
Total financial assets	1 204	216	141	567	2 128
Liabilities					
Derivatives (Note 5.2)		169			169
Long-term interest-bearing debt (Note 5.3)				8 252	8 252
Accounts payable and other current liabilities (Note 5.11)				358	358
Short-term interest-bearing debt (Note 5.3)				873	873
Power obligations (Note 4.2)				697	697
Total financial liabilities		169		10 181	10 351

Note 5.2 Derivatives and hedging

INTRODUCTION

E-CO Energi has derivatives associated both with power sales and with the hedging of interest rates and exchange rates for new loans.

The Group's instruments for hedging of future power revenues are signed bilateral price hedging contracts, futures, forward contracts, and EPADs (Electricity Price Area Differentials), as well as options for the sale of future power production. The instruments for power hedging are settled in EUR, and the Group seeks to hedge the settlement amount in EUR within an interval of +/-10% to NOK using currency futures or currency options. Price hedging is not considered to satisfy the criteria in IAS 39 for hedge accounting. The derivatives are recognised on the balance sheet at fair value, and measured in subsequent periods at fair value with the changes in value taken to the profit or loss.

The Group has a loan portfolio consisting of loans in foreign currencies and NOK (cf. Note 5.3). Foreign currency loans are hedged to NOK using cross currency swap agreements, and additionally entered into interest swap agreements - either from fixed to floating interest rates or from floating to fixed interest rates. See the description below to see how this kind of hedging arrangement is treated.

Interest rate swaps signed to change the terms from fixed to floating interest rates on bond issues raised in NOK are considered to satisfy the criteria for hedge accounting and are treated for accounting purposes as fair value hedges. Beyond this, other interest swaps are not considered to satisfy the criteria in IAS 39 for hedge accounting so the changes in value of both loans and derivatives are recognised through the profit or loss.

SIGNIFICANT ACCOUNTING POLICIES

Hedging

Before making a hedging transaction, the Group considers whether a derivative (or in the case of currency hedging, another financial instrument, if any) will be used to hedge the fair value of a booked asset or liability or a fixed obligation, the hedge of a future cash flow from a booked asset or liability, or an identified highly likely future transaction.

The IAS 39 criteria for classifying a derivative or other financial instrument as a hedge instrument are as follows:

The hedge is expected to be very effective because it offsets changes in the fair value of an identified object - the effectiveness of the hedge must be expected to be within the interval 80-125%,

- The effectiveness of the hedge can be measured reliably,
- Satisfactory documentation has been established upon entry into the hedge, showing *inter alia* that the hedge is effective,
- The hedge is considered on an ongoing basis and has actually proven to be highly effective throughout the life of the hedge.

Note 5.2 Derivatives and hedging continued

Hedging of loans in NOK with a fixed interest rate

Bond loans denominated in NOK, where interest rate swaps from fixed to floating interest rates are considered fair value hedges, where the change in value of the underlying hedged item is matched by corresponding changes in the value of the hedge instrument through the profit or loss.

Hedging of foreign currency loans with fixed interest rates – combined interest and currency hedging

Loans denominated in foreign currency are hedged against NOK by entering into interest rate and currency swap agreements upon raising the loans, where fixed interest and principle payments in foreign currency are swapped for floating interest and principle payments in NOK. The hedging position is considered to satisfy the Group's criteria for hedging for accounting purposes. Hedging of interest rate exposure in foreign currency, where a fixed interest rate is swapped for a floating interest rate, is treated as fair value hedging, while the hedging of foreign currency exposure is treated as cash flow hedges, where the changes in value of the component of the combined interest rate and currency swap agreement related to currency are recognised as hedging reserve over other comprehensive income (OCI) until the hedged risk has an impact on the profit or loss.

Hedging of power sales

In accordance with the established risk strategy and criteria for risk management, the Group hedges expected future power production using financial instruments. The instruments used are bilateral price hedging contracts, futures, forward contracts, EPADs (Electricity Price Area Differentials) and options. The Group's policy is not to take currency risk when hedging power, so signed financial power contracts, all of which are priced in EUR, are hedged in NOK using currency futures or currency options within a corridor of +/- 10 per cent. Hedging of power is not considered to satisfy the criteria in IAS 39 for hedging for accounting purposes, so the derivatives are recognised at fair value and measured in subsequent periods at fair value with the changes in value through profit or loss.

Other derivatives that are not hedged

For loans denominated in foreign currency, where both a cross currency swap and an interest swap agreement have been signed, the latter is not considered to satisfy the criteria in IAS 39 for hedge accounting, and the changes in value of both derivatives and loans are recognised through profit or loss.

Note 5.2 describes the fair value hierarchy and other estimates and assumptions applied when the price of the derivatives cannot be inferred from an active market.

CONTRACTS AND FINANCIAL DERIVATIVES

All power derivatives traded on the power exchange are presented net on the balance sheet. Beyond that, derivatives with positive and negative fair values, respectively, are presented gross on the balance sheet. Derivatives are only stated net on the balance sheet when there is a legal right to offset the derivative and there is an actual intention to offset the derivative.

Changes in the fair value of power derivatives are shown as revenue, while changes in the fair value of derivatives signed in connection with new loans, and which are not part of a hedging arrangement for accounting purposes, are stated as either financial expenses or financial income.

FAIR VALUE OF DERIVATIVES - NET (amounts in MNOK)	31 Dec. 2017	31 Dec. 2016	1 Jan. 2016
Power derivatives	54	(77)	216
Currency futures	(28)	(4)	(71)
Total	27	(81)	144
Cross currency swap	671	838	1 153
Interest swap agreements	1	(27)	(48)
Total	672	811	1 105

Note 5.3 Interest-bearing debt

SIGNIFICANT ACCOUNTING POLICIES

Liabilities denominated in foreign currency are translated to NOK using the exchange rate on the balance date. First-year instalments on long-term debt are classified as short term.

INTEREST-BEARING DEBT (amounts in MNOK)	Loan amounts	Currency	Due date	31 Dec. 2017	31 Dec. 2016	1 January 2016
Private placement on the US market	65	USD	2016			572
Commercial paper on the Norwegian market	300	NOK	2016			300
Commercial paper on the Norwegian market	500	NOK	2018	500		
Bond loan on the Norwegian market	500	NOK	2018	500	500	500
Bond loan on the Norwegian market	100	NOK	2019	100	100	100
Private placement on the US market	50	USD	2019	410	431	441
Bond loan on the Norwegian market	500	NOK	2022	500	500	500
Private placement on the US market	75	USD	2023	615	647	661
Private placement on the US market	290	NOK	2024	290		
Private placement on the US market	25	USD	2026	205	216	220
The Nordic Investment Bank	200	NOK	2017-2027	200	300	300
Private placement on the US market	910	NOK	2027	910		
Private placement on the Japanese market	5 000	JPY	2028	363	368	366
Bond loan on the Norwegian market	250	NOK	2029	250	250	250
Private placement on the Japanese market	5 000	JPY	2029	363	368	366
Private placement on the US market	723	NOK	2029	723		
Bond loan on the Norwegian market	200	NOK	2030	200	200	200
Loan from Eidsiva Vannkraft AS	248	NOK	2030	248	367	295
Bond loans on the Norwegian market	200	NOK	2031	200	200	
Private placement on the US market	125	USD	2031	1025	1 078	
Private placement on the German market	30	EUR	2031	295	273	289
Private placement on the US market	848	NOK	2032	848		
Private placement on the US market	600	NOK	2033	600		
Subordinated loan (Oslo Municipality)	2 347	NOK	2037	2347	3 347	3 347
Total interest-bearing debt translated to NOK				11 691	9 145	8 706
Capitalised value of loans related to fair value hedges				216	289	418
Recognised value of interest-bearing debt				11 907	9 433	9 124
<i>Of which, recognised value of long-term debt</i>				10 907	9 214	8 252
<i>Of which, recognised value of short-term debt</i>				1 000	219	873

The loans raised in foreign currencies are hedged against NOK with fixed or floating interest rates in NOK by entering into cross currency swaps. The table above shows the original value of the loan, translated to the exchange rate on the reporting date, before the effect of cross currency swaps and hedging for accounting purposes, and the last line shows the value of hedging arrangements capitalised on the loan as a result of fair value hedging. See Note 5.2 for a description of derivatives and hedging and Note 5.6 for Financial risk.

CHANGES IN SHORT-TERM DEBT FROM FINANCIAL ACTIVITIES*	01 Jan. 2017	Cash flows received during the period	Repay-ments during the period	Other changes	31 Dec. 2017
Short-term interest-bearing debt	219	500	(219)	500	1 000
Long-term interest-bearing debt**	8 926	3 371		(1 606)	10 691
Dividends paid			(610)		(610)
Total changes in liabilities from financial activities	9 145	3 871	(829)	(1 106)	11 081

* See the Statement of Cash Flows

** NOK 1.0 billion refers to the conversion of a subordinated loan (from Oslo Municipality) to equity in connection with the acquisition of Hafslund Produksjon in August 2017. The effect is presented in the column "Other changes"

Note 5.4 Maturity structure for financial obligations

The table shows undiscounted cash flows for each interval. As regards derivatives, the table includes only derivatives with negative fair value (liabilities).

31 DECEMBER 2017 (amounts in MNOK)	Less than 6 months	1 to 3 years	More than 3 years	Total
Interest rate and currency derivatives			1 036	1 036
Long-term interest-bearing debt		510	10 181	10 691
Accounts payable and other current liabilities	649			649
Short-term interest-bearing debt	1 000			1 000
Total	1 649	510	11 217	13 376

31 DECEMBER 2016 (amounts in MNOK)	Less than 6 months	1 to 3 years	More than 3 years	Total
Interest rate and currency derivatives			1 036	1 036
Long-term interest-bearing debt		1 031	7 895	8 926
Accounts payable and other current liabilities	495			495
Short-term interest-bearing debt	219			219
Total	714	1 031	8 931	10 676

1 DECEMBER 2016 (amounts in MNOK)	Less than 6 months	1 to 3 years	More than 3 years	Total
Interest rate and currency derivatives				
Long-term interest-bearing debt		500	7 334	7 834
Accounts payable and other current debt	358			358
Short-term interest-bearing debt	873			873
Total	1 231	1 310	8 503	9 065

Power obligations (landowner compensation) is estimated using a perpetual annuity based on the amount paid out in the year of calculation, so the due dates are not included in the table above.

Note 5.5 Fair value

SIGNIFICANT ACCOUNTING POLICIES

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Fair value hierarchy

Fair value measurements are classified in the following levels:

Level 1: Fair value is based on the quoted prices for identical assets or liabilities in active markets

Level 2: Fair value is based on data inputs other than quoted prices included in Level 1, which are observable for the asset or liability, either directly or indirectly

Level 3: The valuation is based on unobservable data inputs for the asset or liability.

E-CO Energi tries to maximise the use of observable data insofar as possible.

SIGNIFICANT ESTIMATES AND ASSUMPTIONS

Fair value is determined by discounting future cash flows when there is no quoted market price on an active market. The market interest curve is used for discounting future cash flows. The market interest curve is calculated on the basis of available swap rates.

For currency futures, cross currency swaps, and interest rate swaps, the estimated present value is compared with valuations from the counterparty to the contract to assess how reasonable it is.

The following categories of financial instruments are recognised at fair value (FV) or, where there is disclosure in the notes only, in accordance with IFRS 13:

31 DECEMBER 2017 (amounts in MNOK)	FV - Level 1	FV - Level 2	FV - Level 3	Total
Financial assets recognised at fair value				
Power derivatives		54		54
Interest rate and currency derivatives		812		812
Total financial assets		866		866

Financial liabilities assessed at fair value				
Power derivatives		28		28
Interest rate and currency derivatives		140		140
Compensation to landowners			719	719
Total financial obligations		168	719	887

31 DECEMBER 2016 (amounts in MNOK)	FV - Level 1	FV - Level 2	FV - Level 3	Total
Financial assets recognised at fair value				
Power derivatives				
Interest rate and currency derivatives		942		942
Total financial assets		941		942

Financial liabilities assessed at fair value				
Power derivatives		81		81
Interest rate and currency derivatives		131		131
Compensation to landowners			680	680
Total financial obligations		211	680	891

1 JANUARY 2016 (amounts in MNOK)	FV - Level 1	FV - Level 2	FV - Level 3	Total
Financial assets recognised at fair value				
Power derivatives		216		216
Interest rate and currency derivatives		1 204		1 204
Total financial assets		1 419		1 419

Financial liabilities assessed at fair value				
Power derivatives		71		71
Interest rate and currency derivatives		98		98
Compensation to landowners			654	654
Total financial obligations		170	654	753

During the reporting period, there was no change in fair value measurements that led to transfers between Level 1 and Level 2, and there were no transfers into or out of Level 3

FINANCIAL LIABILITIES RECOGNISED AT AMORTISED COST	31 Dec. 2017	31 Dec. 2016	1 Jan. 2016
Long-term interest-bearing debt	10 907	9 214	8 252
Short-term interest-bearing debt	1 000	219	872
Other current liabilities (cf. Note 5.11)	191	139	137
Total financial liabilities recognised at amortised cost	12 098	9 572	9 261

Financial assets recognised at their amortised cost mainly consist of accounts receivable and other receivables, where the fair value is almost the same as the recognised value.

Note 5.6 Financial risk

E-CO Energi's business activities are associated with risk related to operations, credit and liquidity. The objective of risk management is to select for the right level of risk based on the Group's propensity and willingness to accept risk, expertise, financial strength and development plans.

The two most important factors for risk associated with the sale of power are related to volume and price. Produced volume depends on inflow and production management. The greatest uncertainty involves future power prices, so the company enters into forward contracts for price hedging, accompanied by currency hedging. Power hedging and currency hedging for the power hedging portfolio reduce fluctuations in the income from the sale of power. The company has not many bilateral power contracts, so it has limited counterparty risk.

The operation and production of power also expose the company to currency and interest rate risk that can potentially impact the Group's results. E-CO Energi has operating guidelines for the Group's exposure on the financial and the power market in order to limit its exposure to different financial risks.

Market risk

Power price

The Group's main activity is the production of electricity for sale on the wholesale market. Power market prices are volatile and influenced by factors that vary and are unpredictable, the Nordic and European power markets and precipitation and temperature in particular. The Group's risk management consists of optimal exploitation of water resources in the reservoirs and on entering into physical and financial contracts. A strategy, systems and reporting routines have been established for overall risk management of power production. Risk management includes set upper and lower limits for price hedging in future periods, and the reporting of expected prospects for the financial result.

In accordance with the established risk strategy and criteria for risk management, the Group hedges estimated future power production using financial instruments. The instruments used are bilateral price hedging contracts, futures, forward contracts, EPADs (Electricity Price Area Differentials) and options.

Most of the contracts are settled against the system price. Since the Group earns area prices on physical sales, hedges may be less effective when there is a gap between the area price and system price. Accordingly, to a certain extent, the Group uses EPADs to hedge against such gaps. EPADs are traded on the power exchange, but there is relatively poor liquidity in these contracts, limiting the extent to which the Group finds them useful. For currency hedging against NOK, the Group uses futures and options, mainly to hedge the net profit or loss.

Financial power contracts give the Group the following exposure and sensitivity with +/- 30% change in power prices:

FINANCIAL POWER CONTRACTS (amounts in MNOK)	31 Dec. 2017	+30%	-30%
Forward contracts	42	(158)	216
Options	6		14
Total financial power contracts/Total effect on consolidated net profit or loss	47	(158)	230

Interest rate risk

The Group is vulnerable to interest rate risk through its financial activities in NOK and foreign currency (Note 5.3). Some interest-bearing debt has floating interest rates, meaning that the Group is impacted by interest level fluctuations. E-CO Energi also bears indirect interest rate risk in currency and power derivatives, but it is smaller. Efforts are made to reduce interest risk through the balanced management of fixed and floating rates upon entering into forward contracts and swap agreements. There is no observable correlation between interest rate levels and prices in the power market. At 31 December 2017, the duration of the portfolio (excluding the subordinated loan) was estimated at 3.6 years and the average interest rate was 2.6%.

The Group's profit and loss will be influenced as follows by a change in the interest level of +/- 0.5%:

LOANS AND INVESTMENTS IN INTEREST-BEARING SECURITIES (amounts in MNOK)	31 Dec. 2017	+ 0,5%	- 0,5%
Bank deposits	599	2	(2)
Money market funds	403	2	(2)
Bank loan	200	(1)	1
Subordinated loan	2 347	(9)	9
Interest swap agreements	4 106	(15)	15
Total loans and investments in interest-bearing securities/total effect on the consolidated net profit		(22)	22

The Group has private placements, commercial papers and bond loans with fixed interest rates. These are not influenced by rising interest levels, so they are not included in the table. For several of these loans, interest rate swaps have been made from fixed to floating interest rates, so that the impact on the consolidated profit or loss of any change in interest level will originate with these instruments. E-CO Energi had a subordinated loan from Oslo Municipality valued at MNOK 2 347 at 31 Dec. 2017 (MNOK 3 347). For 2017, the interest rate was 5.13%.

Where the net profit for the year for the Group shows a deficit after interest, the interest is to be reduced by the amount of the deficit or to 0. The reduction is final and the interest amount shall not be paid at a later date. This means that this loan does not have the same interest rate exposure as the other loans.

Currency risk

Loans denominated in foreign currency are hedged against NOK by entering into cross currency swap agreements. Financial items denominated in foreign currency are translated at the exchange rate on the date of balance sheet recognition. Exchange losses or gains translated at the exchange rate on the date of balance sheet recognition are recognised as exchange gains or losses, unless the item is part of a hedging arrangement for accounting purposes (cf. Note 5.2). The Group has no significant receivables or investments in foreign currency.

The Nordic power markets use the Euro (EUR) as their trading and clearing currency. This implies that the Group earns most of its energy revenues from physical and financial trading in EUR. The Group's expenses are generally in NOK. The Group uses currency futures to reduce/hedge the consequences of a lack of correspondence between earnings in foreign currency and expenses in NOK. Pursuant to the established risk strategy and criteria for risk management, the currency hedging strategy shall, insofar as possible, adhere to the strategy adopted for hedging power production. The timeline for hedging currency is limited to five years into the future. Currency hedging is to be undertaken for future power sales that are hedged by power derivatives with a certain defined possibility for deviating from this.

Spot sales of power are recognised in the accounts at the exchange rate on the date of the transaction. Other foreign currency transactions are recognised in the accounts at their transaction exchange rates.

The Group's profit and loss will be influenced as follows by a change in the exchange rate of +/- 15%:

ASSETS AND LIABILITIES IN FOREIGN CURRENCIES (amounts in MNOK)	31 Dec. 2017	+15% rise in the exchange rate against NOK	-15% drop in the exchange rate against NOK
Interest-bearing debt denominated in foreign currency	3 275	(497)	486
Cross currency swap agreements	3 275	497	(486)
Total assets and short-term liabilities in currency/total effect on consolidated net profit	3 275		

Credit risk

The Group is mainly exposed to credit risk involving accounts receivable and other current assets (Note 5.10), and counterparty risk when contracting financial derivatives (Note 5.2). This risk has been limited by diversifying and defining a lower limit for the approval of counterparty creditworthiness (i.e. an official "credit rating"). An upper limit has also been placed on total credit exposure through investments and derivative positions in respect of the individual counterpart. E-CO Energi AS and E-CO Energi Holding AS have signed agreements that allow the offsetting of gains against losses (ISDA agreements) with all counterparts in financial derivatives. Trade in power derivatives is generally handled through NASDAQ OMX Commodities. The Group's counterparts for physical power sales are generally Nord Pool Spot and reliable large-scale players in the power industry in Norway.

The credit risk inherent in the Group's actual commitments is monitored constantly. When new commitments are made, the counterpart's financial soundness is considered. The other parties to contracts with the Group are generally major players in the power industry, Nord Pool Spot, NASDAQ OMX Commodities and financial institutions.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to service its financial obligations as they fall due. The Group's strategy for dealing with liquidity risk is to have sufficient cash on hand and short-term deposits at all times so that it can pay financial liabilities on their due dates, also in the case of extraordinary events, without risking unacceptable losses or the Group's reputation.

The Group's interest-bearing debt and due dates are listed in Note 5.3. The maturity structure for other financial liabilities, including derivatives and other current liabilities, is shown in Note 5.4.

To reduce liquidity risk, the Group has a liquid reserve in the form of bank deposits and money market funds. Furthermore, as extra protection against turbulent financial markets and the possible disappearance of some sources of funding, the Group has established an ordinary line of credit of MNOK 100 in a bank (undrawn) and a credit facility of NOK 1.5 billion, which will continue to apply until 2022, with an option to extend for another 1 year.

Note 5.7 Capital management

THE GROUP'S CAPITAL (amounts in MNOK)	31 Dec. 2017	31 Dec. 2016	1 Jan. 2016
Long-term interest-bearing debt	10 907	9 214	8 251
Short-term interest-bearing debt	1 000	219	873
Cash and cash equivalents	(840)	(916)	(232)
Money market funds	(403)	(300)	(150)
Net interest-bearing debt	10 664	8 217	8 742

E-CO Energi pursues a capital management strategy to ensure that the Group has satisfactory financial flexibility in the short and the long term, and that the Group can maintain a high credit rating. One objective is to have a financial structure that ensures a competitive return to shareholders through a combination of dividends and growing share value, without this being at the expense of the Group's creditors.

The Group's operating activities and hydropower investment activities require external funding. The Group's loan portfolio has a balanced composition of loans with a due date structure ranging from 1 to 15 years, an average maturity of 7.5 years and an average fixed-rate interest period, including derivatives, of 3.6 years. The due date structure on the Group's interest-bearing loans and other financial liabilities is shown in Notes 5.3 and 5.4.

The Group strives to have a balanced and reasonable capital structure that supports a sound level of equity based on risk and the size of the enterprise. E-CO Energi will ensure that its equity is still sound after the pay out of dividends.

A higher burden of debt will lead to a higher risk for existing creditors, and the majority of loan contracts contain covenants about negative pledges of assets as collateral and equal treatment of creditors, and they contain an ownership clause. This means that creditors can demand the loans be redeemed if Oslo Municipality divests to less than 50.1 per cent of E-CO Energi Holding AS. The Group has no other covenants or restrictions attached to any of its loans.

External borrowing is centralised at the parent company level, and capital requirements in subsidiaries are usually met through, the corporate account system. The capital structure of subsidiaries is adapted to business-related consideration as well as to legal and tax-related parameters.

Note 5.8 Share capital and shareholder information

SHARE CAPITAL AT 31 DEC. 2016 (amounts in MNOK)	Number	Nominal value	Carrying value
Share capital at 31 Dec. 2016 (amounts in MNOK)	1 702 642	1 703	1 703
Share issue	332 224	332	332
Share capital at 31 Dec. 2017 (amounts in MNOK)	2 034 866	2 035	2 035

All shares in the company have equal voting rights and an equal right to dividends. E-CO Energi Holding AS has no treasury shares.

All shares are owned by Oslo Municipality.

The number of shares increased by 332 224 through capital increases in 2017.

DIVIDENDS (amounts in MNOK)	2017	2016
Dividends paid out during the period	610	685

Note 5.9 Cash and cash equivalents

SIGNIFICANT ACCOUNTING POLICIES

Cash and cash equivalents are the company's liquid assets. Restricted assets are funds that are available to the Group otherwise to a limited extent.

CASH AND CASH EQUIVALENTS (amounts in MNOK)	31 Dec. 2017	31 Dec. 2016	1 Jan. 2016
Bank deposits	599	625	147
Money market funds	403	300	150
Withholding tax (restricted assets)	13	13	12
Other restricted assets	228	279	73
Total cash and cash equivalents	1 243	1 216	382

The Group's available liquid monetary means mainly consist of bank deposits. Moreover, E-CO Energi has established an ordinary line of credit of MNOK 100 with the bank (undrawn) and a credit facility of NOK 1.5 billion, that will continue to apply until 2022 with an option for a one-year extension. The Group has a corporate account system in which the subsidiaries participate. E-CO Energi Holding AS is the account holder and the subsidiaries are jointly and severally liable for withdrawals from the corporate account. Other restricted assets consist of deposits in restricted accounts as collateral for power trading.

Note 5.10 Accounts receivable and other receivables

SIGNIFICANT ACCOUNTING POLICIES

Accounts receivable and other receivables are recognised and presented at original invoice amounts, then written down if loss-bringing events have occurred that can be measured reliably and will have an impact on the payment of the receivable. Accounts receivable and other receivables are therefore measured at amortised cost.

SIGNIFICANT ESTIMATES AND ASSUMPTIONS

Incorrect assessment of customers' ability to pay could lead to losses on accounts receivable that must be written down through profit or loss. Provisions are made for losses on accounts receivable, and the provisions cover potential losses. The credit risk is considered acceptable. Otherwise, see the description of credit risk in Note 5.6.

ACCOUNTS RECEIVABLE AND OTHER RECEIVABLES (amounts in MNOK)	31 Dec. 2017	31 Dec. 2016	1 Jan. 2016
Accounts receivable	107	69	61
Other accrual items	33	32	18
Share of current assets in joint ventures	47	31	21
Natural resource tax carry forwards	59		42
Total accounts receivable and other receivables	246	133	141

Note 5.11 Accounts payable and other current liabilities

SIGNIFICANT ACCOUNTING POLICIES

Accounts payable are obligations to pay for goods or services that have been delivered by suppliers for ordinary operations. The general rule is that accounts payable and other current liabilities are classified as short-term if they fall due within one year or less. Accounts payable and other current liabilities are measured at fair value for initial recognition and then subsequently at amortised cost.

SIGNIFICANT ESTIMATES AND ASSUMPTIONS

All forms of accruals/provisions will be encumbered by a certain uncertainty associated with estimates and discretionary assessments. The provisions that constitute other current liabilities are recognised according to management's best estimate.

ACCOUNTS PAYABLE AND OTHER CURRENT LIABILITIES (amounts in MNOK)	31 Dec. 2017	31 Dec. 2016	1 Jan. 2016
Accounts payable	89	71	70
Indirect taxes payable (withholding tax, social security contribution, VAT etc.)	194	188	93
Accrued interest	191	139	137
Other short-term liabilities	175	97	58
Total accounts payable and other current liabilities	649	495	358

Note 5.12 Financial items

SIGNIFICANT ACCOUNTING POLICIES

Interest income and interest expenses on loans and receivables are estimated using the effective interest rate method. Exchange gains or losses that arise from operational hedging of power sales are reported as operating income or operating expenses. The revaluation of receivables and liabilities in foreign currencies are recognised as exchange gains/losses under financial income/financial expenses.

(amounts in MNOK)	The equity method	Fair value through profit or loss	Lending and receivables	Liabilities measured at amortised cost	2017	2016
Financial income						
Income on investments in associates	X				2	6
Interest income			X		9	7
Currency gains					30	1
Gains associated with currency and interest rate derivatives		X			12	34
Other financial income					1	4
Total financial income					54	51
Financial expenses						
Interest expenses on subordinated loan				X	119	60
Interest expenses, other liabilities				X	191	161
Currency losses					8	13
Capitalised interest on building loans					[28]	
Other financial expenses					12	9
Total financial expenses					302	242

Note 6.1 Tax

SIGNIFICANT ACCOUNTING POLICIES

E-CO Energi is subject to the special rules for the taxation of energy companies. The Group is therefore subject to natural resource tax and resource rent tax in addition to general income tax.

General income tax

General income tax consists of taxes payable and changes in deferred tax. Payable income tax is estimated at 24% of the taxable income of the year. Deferred tax is calculated based on temporary differences between tax and accounting values of fixed assets and liabilities, as well as losses carried forward, which are subject to a 23% tax rate.

Deferred tax assets are recognised at nominal values and classified as fixed assets on the balance sheet. Deferred tax liabilities are recognised at nominal values and classified as long-term liabilities on the balance sheet. Deferred tax assets that cannot be offset against deferred tax liabilities, including assets related to losses carried forward and negative resource rent income, are capitalised if it is highly likely that the Group will have sufficient tax-related profits in subsequent periods to benefit from the deferred tax asset.

Resource rent tax

The resource rent tax in the income statement consists of this year's payable resource rent tax plus the change in deferred resource rent tax. Deferred resource rent tax is calculated the same way as deferred tax on ordinary income tax, using a nominal resource rent rate.

Natural resource tax

The natural resource tax can be used to reduce income tax, and natural resource tax that exceeds the year's income tax is dealt with as a tax advance. Natural resource tax is classified as either a short-term or long-term advance payment based on the probability that it will be offset within 12 months or later. If it is likely that the natural resource tax represents a final payment, where a set-off is not likely, it should be expensed on the income statement.

Tax rate

For 2017 (2016), the following tax rates are used:

General income tax 24% (25%), and 23% (24%) for deferred tax

Resource rent tax 34.3% (33%), and 35.7% (34.3%) for deferred tax

TAX	2017	2016
Payable income tax	412	322
Resource rent tax payable	655	431
Natural resource tax	174	140
Natural resource tax offset against income tax	(115)	(140)
Natural resource tax carried forward	(59)	
Change in deferred tax/tax asset	(104)	(24)
Too little (much) tax set aside in previous years	(13)	14
Tax expenses for the year	949	743
Reconciliation of nominal tax rate against effective tax rate	2017	2016
Profit before taxes	1 987	1 248
24%/25% of earnings before tax	477	312
24%/25% of permanent differences, dividends	(31)	(1)
24%/25% of income from associates	(1)	(2)
Resource rent tax payable	655	431
Deferred resource rent tax 35.7%/34.3%	(144)	5
Change, tax rate general income tax from 24%/25% to 23%/24%	(6)	(10)
Change, tax rate resource rent tax from 34.3%/33% to 35.7%/34.3%	4	5
Other corrections, tax returns	(6)	2
Tax	949	743
Effective tax rate	48%	60%

DEFERRED TAX	31 Dec. 2017	31 Dec. 2016	1 Jan. 2016
<i>General income tax</i>			
Current assets	33	(11)	197
Non-current assets	6 659	1 768	1 624
Short-term liabilities	(37)	(119)	(101)
Long-term provisions	(843)	(794)	(742)
Pensions	47	92	69
Total	5 859	937	1 047
Tax rate applied	23%/18,74%	24%/19,4%	25%/20%
Total deferred tax (deferred tax asset)	1 314	189	222
<i>Resource rent tax</i>			
Non-current assets	5 199	185	31
Other temporary differences	22	247	268
Negative resource rent income, incl. interest	(1 615)	(1 941)	(1 879)
Total	3 607	(1 509)	(1 581)
Tax rate applied	35,7%	34,3%	33,0%
Total deferred tax (deferred tax asset)	1 288	(518)	(522)
Total ordinary tax (tax asset) and resource rent tax	2 601	(328)	(300)
Deferred tax (deferred tax asset) on the balance sheet:			
Deferred tax	3 295	407	428
Capitalised deferred tax asset	(293)	(198)	(202)
Uncapitalised deferred tax asset	(399)	(538)	(526)

Note 7.1 Remuneration to executive management and members of the Board of Directors

(Amounts in NOK 1 000)			
REMUNERATION TO KEY MANAGEMENT PERSONNEL			
PERSONNEL	TITLE	2017	2016
Anne Carine Tanum	Chair of the Board of Directors	274	300
Mari Thjømmø*	Member of the Board of Directors	194	227
Helge Skudal*	Member of the Board of Directors	184	217
Eli Skrøvset*	Member of the Board of Directors (until September 2017)	130	186
Gabriel Smith*	Member of the Board of Directors	175	118
Bård Vegar Solhjell	Member of the Board of Directors (from September 2017)	46	
Arvid Amundsen	Member of the Board of Directors	154	88
Ola Tore Eggen	Member of the Board of Directors	154	88
Total		1 311	1 224

* Member of the Audit Committee

CORPORATE MANAGEMENT	Wages and salaries	Other remuneration	Bonus	Pension defined benefit plans	Pension defined deposit plans
Tore Olaf Rimmereid	2 334	214	260	0	464
Tore Kolstad	2 060	90	46	197	279
Per-Arne Torbjørnsdal	1 686	197	185	246	172
Torill Berdal	1 501	248	160	277	104
Alf Inge Berget	1 917	371	205	232	269
Stine Rolstad Brenna	1 712	196	180	0	299

The amounts show bonuses for 2016, paid out in 2017.

President and CEO Tore Olaf Rimmereid has a bonus agreement with a ceiling of 15 per cent of his basic salary. The criteria for earning a bonus are to some extent based on the same criteria as in the bonus scheme for all employees (see the next paragraph), associated with contributions to setting and achieving strategic objectives, and to the Board's qualitative assessment of the president and CEO's efforts in defined fields. The president and CEO, and Stine Rolstad Brenna have a defined contribution pension schemes. The other members of corporate management have defined benefit plans through the E-CO Energi Pension Fund, as well as a 20 per cent defined contribution plan for income in excess of 12 G.

If dismissed, the president and CEO is entitled to severance pay comparable to 12 months of regular salary. Upon accepting a new position or receiving other remuneration during the 12-month period, severance will be reduced, on a NOK by NOK basis, by the income from the new position. When the president and CEO reaches age 62, s/he or the company can request a transfer to a less demanding position with the company. The less demanding position will carry a salary of 70 per cent of the president and CEO's regular salary at the time of retirement.

Members of corporate management employed by E-CO Energi have individual bonus agreements stipulated in accordance with defined criteria and with a ceiling of 15 per cent of their basic salary. The schemes are based on the achievement of defined, quantitative goals related to the company's total value creation and individual goals related to a particular manager's sphere of responsibility. All bonuses for 2017 will be paid out in 2018. In 2016, Tore Kolstad had a bonus from a collective bonus scheme for all employees. The bonus paid in 2017 is in accordance with this bonus scheme. From 2017, Tore Kolstad has an individual bonus agreement with the same upper limit and criteria as other members of corporate management.

Stine Rolstad Brenna, former CFO, chose to leave her position as from 1 January 2018. By agreement, the CFO receives severance equal to his/her ordinary benefits, incl. agreed benefits on the order of NOK 2 630 000.

Note 7.2 Pensions

SIGNIFICANT ACCOUNTING POLICIES

The Group has both defined benefit and defined contribution pension plans.

Defined benefit pension plans

A defined benefit plan is a pension plan that defines the pension benefit an employee will receive upon retirement, and which is funded through payments to insurance companies or pension funds. Payments are normally dependent on one or more factors such as age, number

of years in the company and salary. Pension fund assets are assessed at their fair value, less pension liabilities on the balance sheet. Profit or loss related to improvements, restrictions, closing or other changes in pension plans are recognised to the profit or loss when this takes place. Changes in obligations due to changes in and departures from the calculation assumptions (unrecognised actuarial gains/losses) are recognised direct in other comprehensive income statement.

Defined contribution pension plans

A deposit-based pension plan is a pension plan where the Group pays regular contributions to a separate legal unit. The Group has no legal or other obligation to pay further contributions if the unit does not have sufficient funding to pay all employees benefits related to accruals in the current and earlier periods. The deposits are recognised as payroll expenses when they fall due.

SIGNIFICANT ESTIMATES AND ASSUMPTIONS

Calculating pension liabilities implies the use of discretionary judgment and estimates of a number of inputs. Net pension liabilities are stipulated on the basis of actuarial estimates based on assumptions such as the discount rate, future wage growth, pension adjustments, anticipated rate of return on pension funds, as well as demographic factors like disability and mortality. The assumptions are stipulated based on observable market prices and historical development trends in the company and in society at large. Changes in the assumptions will have a significant impact on calculated pension liabilities/costs.

The discount rate is set on the basis of covered bonds (OMF).

This year's actuarial gains/losses recognised on the comprehensive profit or loss are primarily attributable to changes in the assumptions related to the yield on pension fund assets. The projected yield on pension fund assets is calculated using the discount rate. The actual yield will deviate from this.

The Group has a collective defined benefit pension plan that covers individuals hired prior to 1 Jan. 2009. The scheme is funded through E-CO Energi Pension Fund. At 31 Dec. 2017, the pension scheme covered E-CO Energi AS. The acquisition of Hafslund Produksjon included an increase in the number of employees. These will be transferred to the E-CO Energi Pension Fund in 2018. The description of the defined benefit scheme below reflects the E-CO Energi Pension Fund.

A deposit-based plan has been set up for employees hired after 1 January 2009. The scheme gives approximately the same rights to disability pensions and survivor's benefits as the defined benefit scheme.

The Group's pension plans satisfy the statutory requirements in the Act relating to Obligatory Service Pensions.

The defined benefit scheme entitles employees to a pension on reaching the age of 67. The pension consists of 66 per cent of an employee's pay up to 12 times the basic amount under the National Insurance Scheme, based on full accrual of pension rights. The figure is 70 per cent of their salary for individuals hired prior to 31 May 2002. Pension benefits are reconciled with benefits from the National Insurance Scheme. Full accrual takes a minimum of 30 years. In addition to a retirement pension, employees are entitled to disability pensions and survivor's benefits. In addition to the funded scheme, the company has unfunded schemes, generally related to early retirement schemes. Supplementary pensions are provided through a deposit-based scheme for those with salaries in excess of 12 times the National Insurance Scheme's basic amount.

At 31 Dec. 2017, E-CO Energi's pension scheme covered 97 of the Group's employees, as well 475 pensioners and former employees, including 3 pensioners under the early retirement scheme and 2 individuals with agreements for other types of early retirement pensions. The deposit-based scheme covers 69 individuals. In connection with the acquisition of Hafslund, E-CO Energi assumed the pension obligations of 176 individuals (active employees and pensioners) from Hafslund Produksjon and Hafslund Produksjon Holding, 172 of whom belong to a closed private service pension scheme and the remaining 4 to a closed public scheme.

Pension expenses and pension liabilities are calculated on the basis of actuarial tables. Pension liabilities are estimated based on the assumptions on the balance sheet date. The 2017 yield on pension fund assets was 8.53 per cent.

PENSION EXPENSES	All schemes	
	2017	2016
Present value of the year's pension earnings	12	11
Interest expenses on pension liabilities	(3)	(3)
Changes in plan scheme	6	0
Pension expenses, defined benefit plans	15	9
Unrecognised actuarial gains/losses on pension expenses before tax through comprehensive profit or loss	33	(31)
Pension expenses in total comprehensive income for the defined benefit plan	48	(22)
Pension expenses, defined contribution plans	6	5
Pension expenses in total comprehensive income for the defined benefit and defined contribution scheme	55	(17)
Of which, total pension expenses in the consolidated net profit	22	13

Note 7.2 Pensions continued

PENSION LIABILITIES	31 Dec. 2017	31 Dec. 2016	1 Jan. 2016
Funded schemes			
Estimated pension liabilities	945	802	803
Fair value of pension fund assets	1 063	935	908
Total capitalised pension fund assets, funded schemes	118	133	105
Unfunded schemes			
Estimated pension liabilities	57	41	36
Total capitalised pension liabilities, unfunded schemes	(57)	(41)	(36)
Total net capitalised pension fund assets	61	93	69

MOVEMENT IN NET PENSION LIABILITIES COMMITMENTS	2017	2016
Total net capitalised pension fund assets 1.1	93	69
Pension expenses in total comprehensive income for the defined benefit plan	(48)	22
Payments into/out of pensions	3	2
Acquisitions	14	-
Total net capitalised pension fund assets 31 Dec.	61	93

ASSUMPTIONS FOR CALCULATING PENSION OBLIGATIONS	2017	2016
Discount rate	2.40%	2.60%
Estimated remaining useful life	30.3 years	30.4 years
Salary scale increase	2.50%	2.50%
Pension base level adjustment	2.25%	2.25%
Adjustment of retirement pension during pay-out period	1.50%	1.50%
Propensity to take early retirement	30%	30%

Other actuarial assumptions are based on what is normal in insurance with regard to demographic factors and retirement.

The sensitivity calculation below reflects the percentage effect on gross pension liabilities of a change of +/- 1 in the said assumptions.

SENSITIVITY ANALYSIS	Change	Increase in liability	Decrease in liability
Discount rate	+/- 1%	-13%	17%
Salary scale increase	+/- 1%	4%	-3%
Pension base level adjustment	+/- 1%	13%	-11%
Change in useful life tariff	+/- 1 år	6%	-6%

AVERAGE DISTRIBUTION OF ASSETS IN HEDGED DEFINED BENEFIT PLANS	2017
Equity instruments	43%
Interest-bearing instruments	49%
Property	8%
Total	100%

The interest-bearing instruments are in bond loans issued by Norwegian public institutions, financial institutions, companies and states. Bond loans in foreign currencies are hedged in currency. Equity instruments are in both Norwegian and foreign shares. Currency hedging of equity instruments are assessed per investment.

The investment in property is in Norwegian property investment funds without debt financing.

Note 8.1 Consolidated companies

SIGNIFICANT ACCOUNTING POLICIES

The consolidated accounts include E-CO Energi Holding AS and its subsidiaries. The term 'subsidiaries' includes all enterprises in which the Group has control. The Group has control of an enterprise if the following conditions are satisfied:

E-CO Energi has power over the enterprise in which it has invested,
E-CO Energi is exposed to or has rights to a variable yield on its involvement in the enterprise in which it has invested,
E-CO Energi has an opportunity to use its power over the enterprise in which it has invested, to influence the amount of yield for the investors.

Normally, E-CO Energi considers that they have control when the Group has at least 50% of the voting rights in an enterprise.

Subsidiaries are consolidated from the date on which the Group has obtained control, and is derecognised from the date on which the Group loses control.

All significant transactions and intra-Group accounts have been eliminated. The acquisition prices of shares in subsidiaries are eliminated against equity in the subsidiary on the date of acquisition. Excess/negative values are attributable to their corresponding balance sheet items.

SUBSIDIARIES OWNED DIRECTLY BY E-CO ENERGI HOLDING AS	Registered office	Stake	Share of votes
E-CO Energi AS	Oslo	100%	100%
Hafslund Produksjon Holding AS	Oslo	90%	90%

COMPANIES CONTROLLED BY SUBSIDIARIES	Registered office	Stake	Share of votes
Mork Kraftverk AS	Oslo	67%	67%
Oslo Lysverker AS	Oslo	100%	100%
Oppland Energi AS	Lillehammer	61%	61%
Hafslund Produksjon AS	Askim	100%	100%
Sarp Kraftstasjon AS	Askim	100%	100%
Hallingfisk AS	Hol	68%	68%

Note 8.2 Business combinations and the sale of businesses

SIGNIFICANT ACCOUNTING POLICIES

For the accounting of business combinations, the acquisition method is applied and remuneration is measured at fair value on the transaction date, which is also the date for measuring the fair value of identifiable assets, liabilities and contingent liabilities in compliance with IFRS 3.

A positive difference between the fair value of the remuneration for acquisition and the fair value of identifiable assets and liabilities is recognised as goodwill. Any negative difference is recognised at the profit or loss immediately.

If a business combination is not fully recognised at the end of the period in which the transaction is completed, the preliminary values of the relevant assets and liabilities are reported. If need be, preliminary values are adjusted on an ongoing basis during the measurement period, i.e. a maximum of 12 months, to reflect new information that would have affected the valuation, had it been known. New assets and liabilities are recognised if so required. The transaction date is defined as when risk and control are transferred and it usually coincides with the date of implementation.

If there are non-controlling stakes in the acquired company, these will be attributed their shares of identifiable assets and liabilities.

Transaction costs are recognised as they are incurred.

SIGNIFICANT ESTIMATES AND ASSUMPTIONS

Allocation of the purchase price to repossessed assets and liabilities is based on their estimated fair value on the date of acquisition. The assessments are made by E-CO Energi's executive management, with the help of independent evaluators if the valuation is complicated. The various assets are valued based on different models, and goodwill is a residual in such an allocation of value. Errors in estimates and assumptions can lead to that the breakdown in the value of the various assets is wrong, but the sum of the total recognised values (including goodwill) will be in line with the purchase price.

Note 8.2 Business combinations and the sale of businesses continued

On 4 August 2017, E-CO Energi Holding AS acquired 90% of the shares in Hafslund ASA, now Hafslund Produksjon Holding AS, after businesses other than the production of hydropower were demerged from this company. The background for the acquisition is the Group's growth strategy, and Hafslund's hydropower plant is a good fit with E-CO Energi's power plant portfolio. The Group will try to coordinate Hafslund's hydropower production with E-CO Energi's current activities.

Remuneration for E-CO Energi's 90 per cent share of equity was MNOK 7 118. For that amount, E-CO Energi acquired employees and power-producing activities with normal annual production of 3.1 TWh, thereby increasing the Group's normal power production to roughly 14 TWh.

Remuneration for 100% of Hafslund Produksjon Holding AS was MNOK 7 908, where the Group's identifiable assets and liabilities came to MNOK 4 992. The difference, equivalent to MNOK 2 916, is recognised as goodwill.

The acquisition analysis below is preliminary. That is, there may be changes in reported values for assets and liabilities.

ASSETS (amounts in MNOK)	Fair value upon acquisition
Waterfall rights	3 501
Property, plant and equipment	4 461
Deferred tax assets	20
Derivatives	40
Accounts receivable and other receivables	73
Cash and cash equivalents	56
Total assets	8 152
LIABILITIES (amounts in MNOK)	
Tax payable	89
Deferred tax liabilities	2 938
Other provisions	13
Accounts payable and other current liabilities	23
Other short-term liabilities	97
Total liabilities	3 160
Total identifiable net assets at fair value	4 992
Goodwill	2 916
Total remuneration for the shares	7 908
Of which, cash	7 908
Cash flows from the acquisition	
Total remuneration (90%)	(7 118)
Net cash from the acquired company (included in cash flows from investing activities)	56
Settlement of remuneration in shares - share issue	3 000
Net cash flow from the acquisition	(4 061)

Note 9.1 Transactions with related parties

All subsidiaries, associates and joint arrangements as specified in Notes 8.1 and 3.2 are parties related to the Group. The Group's management and board are also defined as closely related parties, as specified in Note 7.1. Transactions with subsidiaries are eliminated in the consolidated accounts and not disclosed in this note.

The City of Oslo owns 100 per cent of the shares in E-CO Energi Holding AS. Oslo Municipality was a shareholder in Hafslund ASA before the company demerged activities other than power production. The remaining company, Hafslund Produksjon Holding AS, was subsequently transferred to E-CO Energi Holding AS. See Note 8.2 for more details about the transaction.

In 2017, parts of a subordinated loan from Oslo Municipality were converted to MNOK 1 000 in equity. The outstanding amount of loan amounted to MNOK 2 347 at 31 Dec. 2017, see Note 5.3. Accrued interest on the subordinated loan from Oslo Municipality was MNOK 119 in 2017.

E-CO Energi has participated with 6 247 000 in a share issue in NGK Utbygging, in which E-CO Energi holds 25% of the shares in the company.

Apart from said transactions, other transactions are related to the ordinary purchase/sale of goods and services and are not considered significant. No provisions were made for bad debts related to inter-Group accounts with related parties.

All transactions within the Group or with other related parties were conducted in accordance with the arm's length principle.

Note 9.2 Disputes

In connection with the Øvre Vinstra power plant owned by Opplandskraft DA, Opplandskraft DA has acquired roughly 45% of the waterfall rights associated with power production. The remaining waterfall rights are leased from Statskog SF. On 28 August 2017, a new lease was signed between the parties Opplandskraft DA and Statskog SF, superseding the agreement of 7 September 1955. The new lease will continue to apply until 9 September 2065. Upon expiry of the lease on 9 September 2065, Statskog SF has the right of redemption to real property and rights, as well as power plants at their technical value upon expiration of the lease.

Note 9.3 Events subsequent to the reporting period**Events subsequent to the reporting period**

The accounts are considered approved for publication once the Board has endorsed the accounts. Subsequent to that, the Annual General Meeting and regulatory authorities can refuse to endorse the accounts, but not to amend them. Events up until the accounts are considered approved for publication, and which affect factors that were already known on the balance sheet date, will be part of the disclosure for stipulating estimates for accounting purposes, meaning they are fully reflected in the accounts. Events that affect factors that were not known on the balance sheet date will be disclosed if they are significant. The accounts are submitted based on the going concern assumption. In the Directors' opinion, this assumption applied when the accounts were approved for publication.

No significant events have been identified subsequent to the balance sheet date

Note 10.1 General accounting principles**Basis for the preparation of the financial statements**

The consolidated accounts for 2017 for E-CO Energi Holding AS have been submitted in compliance with the International Financial Reporting Standards (IFRS) that are approved by the EU. The consolidated accounts for 2017 are the first financial statements submitted in accordance with IFRS. As a result of the transition to IFRS, the Group is presenting a third balance sheet, dated 1 January 2016, the date of the transition to IFRS. For information about the transition to IFRS, see Note 10.3.

The basis for measuring the consolidated accounts is historical cost with the exception of certain assets and obligations classified at fair value through the profit or loss. See Note 5.1 for a more detailed explanation of these. Drawing up the accounts in compliance with IFRS calls for the use of estimates and discretionary assessments. Where there is a high degree of discretionary assessment or assumptions and significant estimates, this is described in the relevant notes.

Currency

The presentation currency is Norwegian kroner (NOK), which is also the parent company's and the subsidiaries' functional currency. All amounts are specified in MNOK, unless stated otherwise. Balance sheet items in foreign currency are translated at the exchange rate on the date of balance sheet recognition. Transactions in foreign currencies are translated to NOK on the transaction date.

Note 10.1 General accounting principles continued

Short- and long-term presentation

An asset is classified as short-term if it is:

- Expected to be realised through the enterprise's ordinary operating cycle
- Held for the main purpose of selling it
- Expected to be realised within 12 months from the reporting date, or
- Constitutes cash money or cash equivalents that are not tied-up for more than 12 months

All other assets are classified as long term.

A liability is classified as short-term when:

- Expected to be settled through the enterprise's ordinary operating cycle
- Hold with sales as main goal
- Expected to be settled within 12 months after the reporting period, or
- The company has the right to defer payment for at least 12 months after the reporting period

Alle other liabilities are classified as long-term.

Note 10.2 Amendment to IFRS and future standards

A number of new standards, amendments to standards and interpretations, not yet effective, will take effect for the annual accounts that will begin after 1 January 2018. E-CO Energi has not opted to implement any of the standards early.

IFRS 15 Income from contracts with customers

IFRS 15 Income from contracts with customers regulate the recognition of income and supersede all existing standards and interpretations for the recognition of income. The core principle of IFRS 15 is that income is recognised to reflect the transfer of agreed goods or services to customers, and then at an amount that reflects the remuneration to which the company is expected to be entitled in return for these goods or services. With just a few exceptions, the standard applies to income-generating contracts with customers and contain a model for recognising and measuring the sale of certain non-financial assets (e.g. the sale of property, plant and equipment). The Group is also considering the clarifications in IFRS 15, published by IASB in April 2016.

As from 1 January 2018, IFRS 15 will be implemented for accounting purposes, and be implemented using the full retrospective method.

In 2017, the Group performed an analysis of its income recognition principles and considered necessary changes relative to the implementation of IFRS 15 as from 1 January 2018. The main content of these assessments has been the identification of delivery obligations and an assessment of the timing of the income pursuant to the five-step model in IFRS 15.

E-CO Energi's income is mainly generated by the production and sale of power sold on a market-based stock exchange (Nord Pool), where the current income recognition principle is not seen to be influenced by the implementation of IFRS 15. The Group has no significant bilateral power contracts either. Thus, the Group expects no major changes in measurement or in the recognition of the Group's income at the date of entry into effect (1 January 2018) and the standards are not expected to lead to major changes in income recognition in future.

IFRS 16 Leases

IFRS 16 Leases supersede current the IFRS-standard for leases, IAS 17 Leases. IFRS 16 states principles for recognition, measurement, presentation and disclosure related to leases for both parties in a leasing agreement, that is, the customer (lessee) and the supplier (lessor). The new standard requires tenants to recognise assets and liabilities in most leases, something that is a significant change from today's principles. The standard will enter into force on 1 January 2019 and is approved by the EU. The new standard will take effect for financial years commencing on 1 January 2019 or later.

IFRS 16 Leases will entail a significant change in accounting policies related to lease expenses. For financial years beginning in 2019 or later, all significant leases shall be capitalised. This will create a right of use on the asset side and a corresponding obligation on the liability side.

The Group's preliminary assessment is that IFRS 16 will mainly comprise leases on buildings and premises and that the implementation of the standard will not entail major changes on the date of entry into force, compared with total assets and obligations. The Group has not taken a final position on how the standard should be implemented (fully retrospective method or modified retrospective method) and will complete the analysis of anticipated effects in 2018.

IFRS 9 Financial instruments

IFRS 9 Financial instruments supersedes today's IAS 39 Financial instruments – recognition and measurement. IFRS 9 deals with recognition and derecognition, classification and measurement, impairment, and hedge accounting. IFRS 9 is applicable from 1 January 2018 and has been approved by the EU.

E-CO Energi has assessed the consequences of the new standard for accounting purposes, and has concluded that at the date of implementation, the standard will not have a significant impact on the accounts. New principles for impairment of financial assets with more focus on forward-looking disclosure could increase the volatility of the accounts in future. At the time of the transition, the plan is to maintain hedge accounting at the current level. Upon entering into future hedge transactions, E-CO Energi will consider the opportunities offered by the new standard.

Classification and measurement

Financial assets

Pursuant to IFRS 9, financial assets are classified in one of three measurement categories: fair value through profit or loss, fair value through other comprehensive income and amortised cost. For financial assets, a distinction is made between debt instruments, derivatives and equity instruments, where debt instruments are all financial assets that are not derivatives or equity instruments.

Financial assets that are debt instruments

Debt instruments with contractual cash flows that are only payment of interest and principle on certain dates and which are held in a business model for the purpose of receiving contractual cash flows are to be measured at amortised cost. Instruments with contractual cash flows which are only payment of interest and principle on certain dates and which are held in a business model both to receive contractual cash flows and for sales shall be measured at fair value through other comprehensive income statement, with interest income, currency translation effects and any write-downs presented in the profit or loss. The changes in value recognised over the other comprehensive income statement are to be reclassified to the profit or loss in connection with the sale or other divestment of the assets.

Other debt instruments shall be measured at fair value through the profit or loss. This refers to instruments with cash flows that are not limited to the payment of interest and principle, and instruments held in a business model whose purpose is not to receive contractual cash flows.

Instruments initially to be measured at amortised cost or at fair value through other comprehensive income can be selected for measurement at fair value through profit or loss if doing so eliminates or significantly reduces discrepancies for accounting purposes.

Derivatives and investments in equity instruments

All derivatives shall initially be measured at fair value through profit or loss, but derivatives that are designated hedge instruments are to be recognised in accordance with the principles for hedge accounting. Investments in equity instruments shall be measured on the balance sheet at fair value. The changes in value shall generally be recognised in the ordinary profit or loss, but an equity instrument not held for commercial purposes and not a contingent remuneration for a transfer of business activities can be selected for the measurement of fair value through other comprehensive income.

Hedge accounting

IFRS 9 simplifies the requirements for hedge accounting by linking the effectiveness of the hedge more closely to the administration's risk management. The requirement for hedging effectiveness of 80–125 per cent has been removed and replaced by more qualitative requirements, e.g. that there is to be a financial connection between the hedging instrument and the underlying hedged item, and that credit risk shall not dominate the changes in value of the hedge instrument. Pursuant to IFRS 9, effectiveness is to be assessed prospectively, while IAS 39 required both a retrospective and a prospective test. Hedging documentation is still required.

Impairment of financial assets

Under today's rules, impairment shall only be taken for losses when there is objective evidence that a loss event has occurred subsequent to initial balance sheet recognition. Pursuant to IFRS 9, provisions for losses are recognised based on expected credit losses (ECL). The general model for the write downs of financial assets in IFRS 9 will apply to financial assets measured at amortised cost or at fair value over the OCI, and which had not sustained losses at the initial balance sheet recognition. In addition, it covers loan approvals, financial guarantee contracts that are not measured at fair value through profit or loss, and lease receivables.

The measurement of the provision for anticipated losses in the general model depend on whether credit risk has increased significantly since initial balance sheet recognition. Upon initial balance sheet recognition and when credit risk has not increased significantly subsequent to first-time balance sheet recognition, a provision shall be made for 12 months of anticipated losses. Twelve months of anticipated losses constitute the losses expected to occur over the useful life of the instrument, but which can be associated with events occurring subsequent to the first 12 months. If the credit risk has increased significantly after initial recognition, provisions shall be made for anticipated losses throughout useful life. Anticipated credit losses are calculated on the basis of the present value of all cash flows over the remaining useful life, that is, the difference between the contractual cash flows pursuant to the contract and the cash flow the company expects to receive, discounted by the effective interest rate on the instrument.

For accounts receivable without significant funding components, a simplified model can be used, where provisions are made for anticipated losses over the entire useful life subsequent to first-time balance sheet recognition. It is possible to apply a simplified model for accounts receivable with significant funding elements and rent receivables, but this is not relevant for E-CO Energi.

Note 10.3 First time adoption of IFRS

The financial statements for 2017 are the Group's first financial statements submitted in compliance with IFRS. For the periods up to and including 31 December 2016, the Group applied the Norwegian Accounting Act and generally accepted accounting principles (NGAAP) as its accounting language.

E-CO Energi has drawn up consolidated accounts that are IFRS-compliant at 31 December 2017, with the period from 1 January 2016 to 1 December 2016 as the period for comparison. The Group's opening balance sheet has been drawn up at 1 January 2016, the date of transition to IFRS.

This note describes adjustments in the Group's income statement, balance sheet and cash flows as a result of the transition to IFRS, as well as the choices taken upon the transition to IFRS.

Exemption in accordance with IFRS 1

IFRS 1 allows first-time users of IFRS certain exemptions from a full retrospective application of IFRS. E-CO Energi AS has taken advantage of the following exemption:

- Exemption for the translation of business combinations undertaken before 1 January 2016
- Fair value is estimated as the acquisition cost for rights to land
- Exemption from capitalisation of interest on building loans accrued prior to 1 January 2016
- Exemption from new assessment of whether an agreement contains a lease

The transition to IFRS has had the following effects on E-CO Energi's opening balance sheet at 1 January 2016, and on the profit or loss, balance sheet and cash flows for the 2016 financial year:

1) Classification of waterfall rights

Waterfall rights were classified as intangible assets under previous accounting policies (NGAAP). Waterfall rights are classified as property, plant and equipment with no time limit on useful life under IFRS and they are expected to have substance in the form of physical waterfalls. At 1 January 2016 and 31 December 2016, waterfall rights were reclassified as property, plant and equipment.

2) Consolidation of joint ventures and power plants

Under NGAAP, E-CO Energi chose to recognise its stake in Oppland Energi AS and other joint ventures as jointly controlled arrangements, that is, gross consolidation using the actual percentage. Pursuant to IFRS, E-CO Energi is considered to have full control of Oppland Energi AS, entailing that Oppland Energi AS is fully consolidated with a presentation of non-controlling interests on the income statement and balance sheet. The profit or loss, balance sheet and excess value are adjusted by up to 100 % and considered non-controlling interests on the profit or loss and the balance sheet.

3) Compensation to landowners and licence obligations

Under NGAAP, E-CO Energi chose not to recognise obligations associated with perpetual compensation to landowners and licence obligations. Under IFRS, compensation to landowners and licence obligations with financial settlements are recognised at fair value, where the changes in value are recognised through the profit or loss. At 1 January 2016, liabilities and assets for compensation to landowners are recognised at fair value. Licence obligations with financial settlements are recognised at fair value and offset in other equity.

4) Derivatives: interest and currency hedging

in compliance with NGAAP, E-CO Energi chose not to recognise derivatives at fair value on the balance sheet and did not make currency adjustments on loans at the current rates of exchange. Pursuant to IFRS, all derivatives are recognised on the balance sheet and measured at fair value. Foreign currency loans shall translated to the current rate of exchange on the date of balance sheet recognition. Combined interest rate and currency swap agreements signed on fixed interest loans in foreign currency to swap against new loans in foreign currency to NOK qualify for hedge accounting under IFRS. Hedging of interest rate exposure in foreign currency, where the fixed interest rate is swapped to a floating interest rate, is treated as a fair value hedge. The hedging of foreign currency exposure is treated as a cash flow hedge where the changes in value of the component of the combined interest rate and currency swap agreement related to foreign currency is charged against hedging differences through other comprehensive income (OCI) until the hedged risk influences the profit or loss.

In connection with new loans in NOK with fixed interest rates, interest rate swaps have been signed to switch the terms from fixed to floating interest rates; these instruments qualifies for hedge accounting (fair value hedges), where the changes in value of the underlying hedged item and the hedging instrument are both recognised through the profit or loss and netted. Interest rate swaps that are signed in addition

to interest rate and currency swap agreements on new loans in foreign currency are not considered to qualify for hedge accounting and changes in the value of the derivative are recognised through the profit or loss. At 1 January 2016, the fair value of derivatives associated with interest and currency hedging loans is recognised under liabilities and assets on the balance sheet and offset in other equity. Foreign currency loans translated at the current exchange rate on the balance sheet date are offset in other equity.

5) Derivatives: power contracts

Under NGAAP, E-CO Energi chose not to recognise derivatives at fair value on the balance sheet. Pursuant to IFRS, all derivatives are recognised on the balance sheet and measured at fair value. Realised and unrealised changes in value are recognised through the profit or loss under revenue. At 1 January 2016, power derivatives were recognised as assets and liabilities on the balance sheet with equity as the cross entry.

6) Reclassification of the first year's instalments on interest-bearing debt

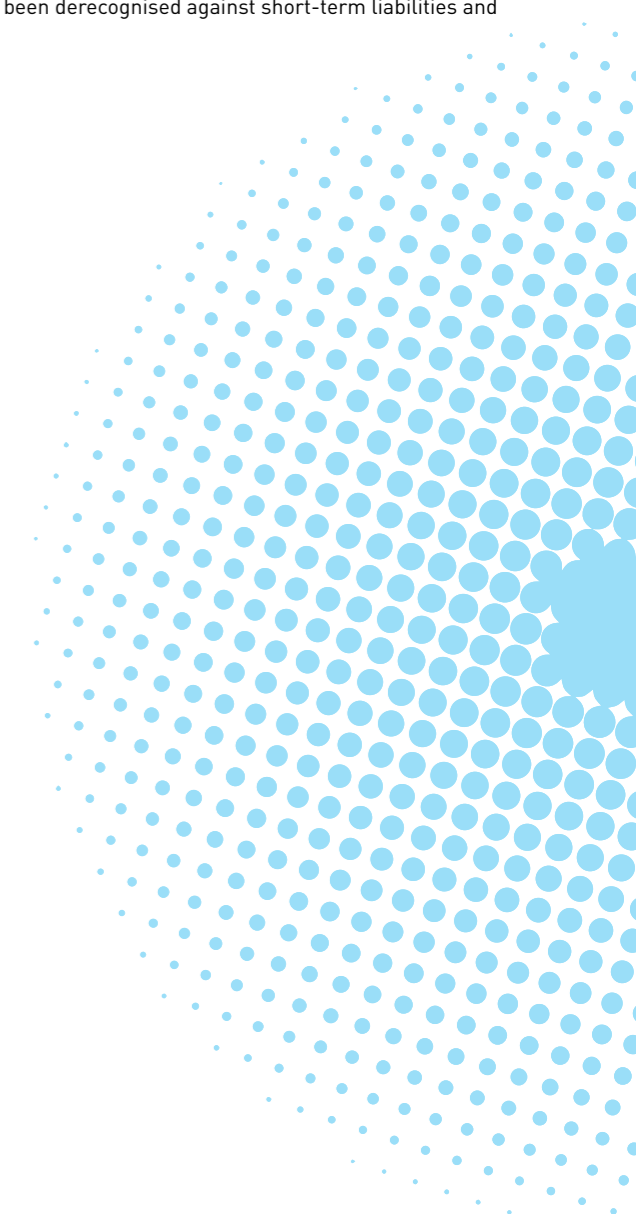
Pursuant to IFRS, the first year's instalments on interest-bearing debt are classified as current. This is not a requirement under NGAAP. The balance sheets at 1 January 2016 and at 31 December 2016 have been reclassified.

7) Pension liabilities

E-CO Energi has chosen to use the corridor method of accounting under NGAAP. This cannot be applied under IFRS. Pursuant to IFRS, the period's actuarial gains and losses shall be recognised as other income and expenses. At 1 January 2016, cumulative actuarial gains and losses are recognised as increased liabilities and decreased pension fund assets and offset in other equity.

8) Adjustment, dividends

Under NGAAP, anticipated dividends are recognised in keeping with the proposal made to the Annual General Meeting. Under IFRS, it is not possible to recognise dividends as a liability before the accounts on which the dividend is estimated have been adopted. On the balance sheets at 1 January 2016 and 31 December 2016, the liability related to dividends has been derecognised against short-term liabilities and offset in other equity.



Balance sheet

AT 1 JANUARY 2016

BALANCE SHEET AT 1 JANUARY 2016 (MNOK)	Note	NGAAP	IFRS adjustments	IFRS
Assets				
Non-current assets				
Intangible assets	1	8 081	(8 081)	
Property, plant and equipment	1,2,3	6 615	9 763	16 378
Deferred tax assets	2		203	203
Equity accounted investments		11		11
Derivatives	4		1 204	1 204
Other financial non-current assets	2	424	(238)	185
Total non-current assets		15 131	2 850	17 980
Current assets				
Accounts receivable and other receivables	2	156	(15)	141
Derivatives			216	216
Other short term investments		150		150
Cash and cash equivalents	2	199	33	232
Total current assets		505	234	739
Total assets		15 635	3 083	18 719
Equity and liabilities				
Equity				
Share capital		1 703		1 703
Share premium		1 903		1 903
Retained earnings	2,3,4,5,7,8	2 305	523	2 827
Non-controlling interests	2		924	924
Total equity		5 911	1 446	7 357
Long-term liabilities				
Pension liabilities	7	27	9	36
Deferred tax liabilities	3,4,5,7	516	(88)	428
Derivatives	4		98	98
Long-term provisions	2,3	50	647	697
Long-term interest-bearing liabilities	2,4,6	7 617	636	8 252
Total long-term liabilities		8 210	1 303	9 513
Short-term liabilities				
Tax payable	2	520	26	546
Derivatives	5		71	71
Long-term provisions				
Accounts payable and other current liabilities	2,4,8	996	(637)	358
Short-term interest-bearing liabilities	6		873	873
Total short-term liabilities		1 515	333	1 849
Total liabilities		9 725	1 636	11 361
Total equity and liabilities		15 636	3 083	18 719

Balance sheet

AT 31 DECEMBER 2016

BALANCE SHEET AT 31 DECEMBER 2016 (MNOK)	Note	NGAAP	IFRS adjustments	IFRS
Assets				
Non-current assets				
Intangible assets	1	8 069	(8 069)	
Property, plant and equipment	1,2,3	6 665	9 807	16 471
Deferred tax assets	2		198	198
Equity accounted investments		23		23
Derivatives	4		942	942
Other financial non-current assets	2	409	(188)	221
Total non-current assets		15 165	2 690	17 854
Current assets				
Accounts receivable and other receivables	2	139	(6)	133
Derivatives				
Other short term investments		300		300
Cash and cash equivalents	2	769	148	916
Total current assets		1 208	141	1 349
Total assets		16 373	2 831	19 203
Equity and liabilities				
Equity				
Share capital		1 703		1 703
Share premium		1 903		1 903
Retained earnings	2,3,4,5,7,8	2 285	281	2 566
Non-controlling interests	2		991	991
Total equity		5 891	1 272	7 163
Long-term liabilities				
Pension liabilities	7	27	13	41
Deferred tax liabilities	3,4,5,7	532	(124)	407
Derivatives	4		131	131
Long-term provisions	2,3	44	676	720
Long-term interest-bearing liabilities	2,4,6	8 150	1 065	9 214
Total long-term liabilities		8 753	1 761	10 513
Short-term liabilities				
Tax payable	2	687	45	732
Derivatives	5		81	81
Long-term provisions				
Accounts payable and other current liabilities	2,4,8	1 043	(547)	495
Short-term interest-bearing liabilities	6		219	219
Total short-term liabilities		1 729	(202)	1 527
Total liabilities		10 482	1 559	12 040
Total equity and liabilities		16 373	2 831	19 203

PROFIT OR LOSS FOR 2016 * (MNOK)	Note	NGAAP	IFRS adjustments	IFRS
Sales revenue	2	2 699	66	2 633
Other revenue	2	24	(54)	78
Total revenue		2 723	12	2 710
Energy purchases and transmission costs	2	(253)	(23)	(275)
Salaries and other payroll expenses	7	(195)	16	(180)
Property tax and licence fees	2	(258)	(20)	(278)
Depreciation and impairment	2	(279)	(29)	(308)
Other expenses	2,3	(179)	(52)	(231)
Operating profit		1 559	(95)	1 439
Financial income	2	16	35	51
Financial expenses	2,4	(235)	(8)	(242)
Net financial items		(219)	27	(192)
Income before tax		1 340	(68)	1 248
Tax	2,3,4,7	(750)	7	(743)
Net profit or loss for the year		590	(61)	505
Net profit or loss for the year attributable to holder of the parent	2	-	439	439
Net profit or loss for the year attributable to non-controlling interests	2	-	66	66

* Total comprehensive income is not included in this table inasmuch as such reconciliation does not exist under NGAAP. The included items are booked directly against equity in the Group's NGAAP financial statements

Cash flow for 2016

CASH FLOW FROM OPERATING ACTIVITIES (MNOK)	Note	NGAAP	IFRS adjustments	IFRS
Profit or loss before tax		1 340	(92)	1 248
<i>Adjustments undertaken to reconcile the profit before tax with the net cash flow:</i>				
Depreciation and write-downs		278	30	308
Share of the profit in companies recognised using the equity method		(6)		(6)
Unrealised changes in value			218	218
Changes in receivables, creditors and accrual items		114	(13)	101
<i>Other adjustments:</i>				
Tax paid		(520)	(26)	(546)
Net cash flow from operating activities		1 206	116	1 322
Net cash flow from investing activities				
Investments in property, plant and equipment		(335)	(75)	(410)
Proceeds from the sale of property, plant and equipment		7		7
Investments in companies recognised using the equity method		(6)		(6)
Net cash flow from investing activities		(334)	(7)	(409)
Cash flow from financing activities				
Increase in interest-bearing debt		1 236	73	1 309
Repayment of interest-bearing debt		(403)		(403)
Net changes in commercial loans		(300)		(300)
Dividends paid		(685)		(685)
Net cash flow from financing activities		(152)	73	(79)
Net change in cash and cash equivalents during the year		720	114	834
Cash and cash equivalents at the beginning of the year		349	33	382
Cash and cash equivalents at the end of the year		1 069	147	1 216

E-CO Energi Holding AS

Company accounts 2017

Income statement

1 JANUARY - 31 DECEMBER

NOTE	INCOME STATEMENT (AMOUNTS IN MNOK)	2017	2016
	Revenue	4	4
3	Salaries and other payroll expenses	(5)	(5)
4	Other expenses	(8)	(6)
	Expenses	(13)	(11)
	Operating profit	(9)	(7)
8	Income on investments in subsidiaries	1 313	700
5	Financial income	102	100
6	Financial expenses	(322)	(224)
	Net financial items	1 093	576
	Ordinary profit before taxes	1 084	569
7	Taxes on ordinary profit/(loss)	(234)	(80)
	Net profit for the year	850	489
	Net profit for the year		
	Transferred to/from Other equity	200	(121)
	Dividends	650	610
	Total allocations	850	489

Balance sheet

AT 31 DECEMBER

NOTE	ASSETS (AMOUNTS IN MNOK)	2017	2016
8	Investments in subsidiaries	17 294	10 177
	Loans to subsidiaries	4 710	4 700
	Other long-term receivables and investments	50	50
	Total fixed assets	22 054	14 927
	Accounts receivable	4	0
10	Other current receivables	1 356	750
11	Short-term investments	403	300
12	Bank deposits, cash in hand, etc.	160	280
	Total current assets	1 923	1 330
	Total assets	23 977	16 257

Balance sheet

AT 31 DECEMBER

NOTE	EQUITY AND LIABILITIES (AMOUNTS IN MNOK)	2017	2016
	Share capital	2 035	1 703
	Share premium	5 571	1 903
	Paid-in capital	7 606	3 606
	Other equity	2 544	2 343
	Retained earnings	2 544	2 343
13	Total equity	10 150	5 949
7	Deferred tax liabilities	11	3
14	Other provisions	418	418
	Total provisions for liabilities	429	421
15	Subordinated loan	2 347	3 347
15	Other long-term liabilities	9 073	5 766
	Total long-term liabilities	11 420	9 113
15	Current interest-bearing liabilities	953	0
	Accounts payable	3	1
	Tax payable	226	77
	Public duties payable	0	1
	Dividends	650	610
	Other short-term liabilities	146	85
	Total short-term liabilities	1 978	774
	Total liabilities	13 827	10 308
	Total equity and liabilities	23 977	16 257
16	Assets pledged as collateral or guarantee liabilities		

Oslo, 21 March 2018
The Board of Directors of E-CO Energi Holding AS


Anne Carine Tanum
Chair of the Board of Directors

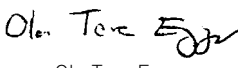

Helge Skudal


Bård Vegar Solhjell


Mari Thjømøe


Gabriel Smith


Arvid Amundsen


Ola Tore Eggen


Tore Olaf Rimmereid
President and CEO

Cash flow analysis

1 JANUARY - 31 DECEMBER

NOTE	CASH FLOW ANALYSIS (AMOUNTS IN MNOK)	2017	2016
	Cash flow from operating activities		
	Earnings before tax	1 084	569
	Changes in Group contribution recognised as income and dividends from Group companies	(613)	900
	Changes in other receivables, creditors and accrual items	67	(43)
	Tax paid	(77)	(172)
A	Cash flow from operating activities	461	1 254
	Cash flow from investment activities		
	Investments in subsidiaries	(4 118)	0
	Changes in other investments	(10)	645
B	Cash flow from investment activities	(4 128)	(645)
	Cash flow from financing activities		
	Increase in long-term liabilities	3 371	1 236
	Repayment of long-term debt	(100)	(403)
	Change in short-term liabilities	989	(431)
	Dividend paid	(610)	(685)
C	Cash flow from financing activities	3 650	(283)
A+B+C	Net cash flow for the year	(17)	326
+	Liquidity reserve at 1 January	580	254
=	Liquidity reserve at 31 December *	563	580

* Liquid reserves consist of bank deposits and the parent company's short-term investments in money market funds.

In general

E-CO Energi Holding's financial statements for the 2017 fiscal year were adopted by the Board at its meeting on 21 March 2018.

E-CO Energi Holding AS is a private company and has its head office in Oslo. All shares are owned by Oslo Municipality.

E-CO Energi Holding AS is the parent company in the E-CO Energi Group.

Notes

Note 1 Accounting policies

The accounts for 2017 are presented in accordance with the provisions of the Norwegian Accounting Act and Norwegian Generally Accepted Accounting Practices.

Recognition of income

E-CO Energi Holding's revenue consists essentially of services provided to members of the Group. They are recognised as income once the service has been delivered.

Interest income is recognised in the accounts as it accrues.

Group contributions are recognised in the fiscal year in which they are made. The part of the Group contribution that represents retained earnings during the period of ownership is recognised as income on investments in subsidiaries. Group contributions that do not represent retained earnings during the period of ownership are recorded as repayment of the investment and recognised as a reduction in the value of the shares in subsidiaries.

Dividends allocated in the subsidiaries are recognised as income during the year in which the dividend is allocated. Dividends received from other companies are recognised as income during the year in which the dividends are received. Dividends that do not represent retained earnings during the period of ownership are recognised as repayment of the investment.

Foreign currency

Financial items in foreign currency are translated at the exchange rate on the date of balance sheet recognition. Loans denominated in foreign currency that are hedged against NOK through interest rate and currency swap agreements are recognised at the exchange rate for the currency hedge. Exchange losses or exchange gains translated at the exchange rate on the date of balance sheet recognition are recognised as exchange gains or losses.

Taxes

Deferred tax is calculated using the liability method on the temporary differences between the tax-related and accounting-related values of operating assets and liabilities, together with any loss carried forward. When calculating deferred tax liability, the nominal tax rate is used for income tax.

Fixed assets

Fixed assets, including investments in subsidiaries, are valued at cost price. Impairment is taken in the event of a lasting reduction. Previous impairment is reversed to the extent the reason for the impairment no longer exists.

Short-term investments and receivables

Short-term investments and receivables classified as current assets are measured at cost price or fair value, whichever is lower. For financial instruments traded on a market, the market value on the date of balance sheet recognition is used as the fair value.

Loans

Liabilities in foreign currencies are translated at the exchange rates that apply on the date on which the accounts are closed. Loans denominated in foreign currency that are hedged against NOK through interest rate and currency swap agreements are recognised at the exchange rate for the currency hedge.

In connection with interest rate hedging, interest instruments are recognised in an amount comparable to the interest on the underlying loans. Unrealised losses or gains are not recognised on the balance sheet. Any cessation of a hedging position prior to its due date is recognised as an accrued gain or loss over the remaining term of the hedge.

Other liabilities and debt

Other liabilities and debt are recognised on the balance sheet at their fair value.

Cash flow statement, and cash and cash equivalents

The Group uses the indirect method for drawing up the cash flow statement. Cash and cash equivalents consist of cash reserves, bank deposits and investments in money market funds.

Note 2. Transactions and events in 2017

On 4 August, E-CO Energi Holding AS acquired 90 per cent of the shares in Hafslund Produksjon Holding AS from Oslo Energi Holding AS, which is wholly-owned by Oslo Municipality. The purchase price was MNOK 7 118. See Note 8.2 in the consolidated accounts for a more detailed description of the acquisition. In connection with the transaction, the company's equity was increased by MNOK 4 000. MNOK 3000 in fresh shares were issued as partial settlement for the acquisition of Hafslund Produksjon Holding, and MNOK 1 000 was converted from the subordinated loan to shares.

Note 3. Salaries, remuneration and pension expenses

(amounts in MNOK)	2017	2016
Salaries, fees, etc.	4	4
Social security expenses	1	1
Pension expenses	0	0
Total	5	5
Average number of FTEs	1	1

Information on directors' fees and the salaries of key management personnel is given in Note 7.1 to the Group accounts.

Note 4. Other expenses

AUDITOR'S FEES (AMOUNTS IN NOK 1 000, EXCL. VAT)	2017	2016
Mandatory audits	846	337
Other assurance services	193	6
Tax-related assistance	150	0
Other services	699	0
Total	1 888	343

Note 5. Financial income

(amounts in MNOK)	2017	2016
Interest income on bank deposits and securities	3	4
Interest income from Group companies	94	94
Gains on investments in unit trusts	5	1
Total	102	100

Note 6. Financial expenses

(amounts in MNOK)	2017	2016
Interest expenses on subordinated loan	119	60
Interest expenses on other loans	185	154
Interest to Group companies related to Group account	9	3
Other financial expenses*	9	7
Total	322	224

*Other financial expenses comprise expenses associated with new loans, fees, interest expenses, tax due, etc.

Note 7. Taxes

(amounts in MNOK)	2017	2016
Payable income tax (24%/25%)	226	77
Change in deferred tax/tax asset (24%/23%)	8	2
Tax expenses for the year	234	80

Reconciliation of the company's taxes (amounts in MNOK)	2017	2016
24 per cent of earnings before tax	260	142
24 % of the tax-exempt portion of dividends from subsidiaries*	(26)	(63)
Tax expenses for the year	234	80

* 3% of the dividends recognised as income of MNOK 113 from Hafslund Produksjon Holding AS is liable to taxation.

Deferred tax (deferred tax asset) (amounts in MNOK)	2017	2016
Current assets	3	(0)
Short-term liabilities	44	12
Total	48	12
Tax rate applied*	23 %	24 %
Total deferred tax (deferred tax asset)	11	3

Note 8. Shares in subsidiaries

(amounts in MNOK)	The company's share capital	Stake and voting interest	Nominal value	Recognised value	Group entries	Dividends	Total Income
E-CO Energi AS	3 000	100 %	3 000	10 176	1 075	0	1 075
Hafslund Produksjon Holding AS	75	90 %	75	7 118	0	113	113
Oslo Lysverker AS*					125		125
Total				17 294	1 200	113	1 313

* Oslo Lysverker AS is owned by E-CO Energi AS. See Note 8.1 to the consolidated accounts for all the consolidated companies. All subsidiaries have their registered offices in Oslo.

Note 9. Receivables that mature in more than one year

(amounts in MNOK)	2017	2016
E-CO Energi AS	4 700	4 700
Hafslund Produksjon Holding AS	10	0
Total	4 710	4 700

Note 10. Other current receivables

(amounts in MNOK)	2017	2016
Group contribution	1 200	450
Dividends from subsidiaries	113	250
Other intra-Group items	43	50
Total	1 356	750

Note 11. Short-term investments

(amounts in MNOK)	Cost value	Market value	Recognised value
Money market fund	403	403	403

Note 12. Bank deposits, cash in hand, etc.

E-CO Energi has a Group account in which the subsidiaries participate. E-CO Energi Holding AS is the account holder and the subsidiaries are jointly and severally liable for withdrawals from the Group account. The total balance of the group account is recorded to the parent company's balance sheet. Subsidiaries' deposits or drawings are recorded in the parent company's accounts as liabilities to or receivables from Group companies.

RESTRICTED BANK DEPOSITS (amounts in MNOK)	2017	2016
Withholding tax	1	1

Note 13. Equity

(amounts in MNOK)	Number of shares	Share capital	Share premium	Other equity	Total equity
Equity 31 Dec. 2015	1 702 642	1 703	1 903	2 464	6 070
Net profit/(loss) for the year				489	489
Provision for dividends				(610)	(610)
Equity 31 Dec. 2016	1 702 642	1 703	1 903	2 343	5 949
Capital increase	332 224	332	3 668	0	4 000
Net profit/(loss) for the year				850	850
Provision for dividends				(650)	(650)
Equity 31 Dec. 2017	2 034 866	2 035	5 571	2 544	10 150

Each share has a nominal value of NOK 1 000. Oslo Municipality owns 100% of the shares.

Note 14. Other provisions

The liability of MNOK 418 in the parent company's balance sheet, applies to deferred income recognition of the gain on the sale of shares in Oslo Lysverker to E-CO Energi.

Note 15. Short-term and long-term liabilities

SHORT-TERM AND LONG-TERM LIABILITIES (amounts in MNOK)	Currency unit	Amount (in foreign currency)		Due date
		Amount (NOK)		
Intra-Group debt	NOK	1 453		
Certificate loans on the Norwegian market	NOK	500		2018
Bond loans on the Norwegian market	NOK	500		2018
Bond loans on the Norwegian market	NOK	100		2019
Private placement on the US market	USD	50	310	2019
Bond loans on the Norwegian market	NOK	500		2022
Private placement on the US market	USD	75	430	2023
Private placement on the US market	NOK		290	2024
Private placement on the US market	USD	25	143	2026
The Nordic Investment Bank	NOK	200		2017–2027
Private placement on the US market	NOK		910	2027
Private placement on the Japanese market	JPY	5 000	301	2028
Bond loans on the Norwegian market	NOK	250		2029
Bond loans on the Norwegian market	JPY	5 000	296	2029
Private placement on the US market	NOK		723	2029
Bond loans on the Norwegian market	NOK	200		2030
Bond loans on the Norwegian market	NOK	200		2031
Private placement on the US market	USD	125	1 036	2031
Private placement on the German market	EUR	30	237	2031
Private placement on the US market	NOK		848	2032
Private placement on the US market	NOK		600	2033
Total			10 026	
Short-term share			953	
Long-term share			9 073	

Loans denominated in foreign currency are hedged against NOK by entering into interest rate and currency swap agreements with fixed or floating interest rates in NOK. Unrealised gains or losses on hedge instruments are not capitalised.

The average interest rate on the Group's loan portfolio at 31 Dec. 2017 was 2.6 per cent (31 Dec. 2016: 2.7 per cent). At 31 Dec. 2017, the term to maturity on the Group's loan portfolio (except subordinated loans) was 3.6 years (31 Dec. 2016: 2.7 years).

E-CO Energi Holding AS has a credit facility of NOK 1.5 billion that will continue to apply until 2022, with an option for a one-year extension. At 31 Dec. 2017, the facility was undrawn. Short-term liabilities within the parameters of the undrawn part of the credit facility are classified as long-term liabilities on the balance sheet at 31 Dec. 2017.

MARKET VALUE OF CURRENCY AND INTEREST HEDGING INSTRUMENTS (amounts in MNOK)	31 Dec. 2017	31 Dec. 2016
Interest rate and currency swap agreements	671	809
Interest hedging instruments	1	10
Total	672	819

MATURITY STRUCTURE, DEBT PORTFOLIO (amounts in MNOK)	Balance 2017	2018	2019	2020	2021	2022	After 2022
31 Dec. 2017							
Liabilities related to the Group account	1 453	1 453					0
Commercial papers	500	500					0
Bond loans	1 750	500	100			500	650
Bank loans/other long-term loans	6 324		310				6 014
Total	10 026	2 453	410	0	0	500	6 664

Note 15. Short-term and long-term liabilities continued

MATURITY STRUCTURE, DEBT PORTFOLIO (amounts in MNOK)	Balance 2016	2017	2018	2019	2020	2021	After 2021
31 Dec. 2016							
Liabilities related to the Group account	963	963					0
Bond loans	1 750		500	100			1 150
Bank loans/other long-term loans	3 053	100		310			2 643
Total	5 766	1 063	500	410	0	0	3 793

The Group's loan agreements include negative pledge clauses that prevent individual lenders from obtaining higher priorities than others by way of liens. Further, most of the Group's loan contracts contain an ownership clause stating that in the event Oslo Municipality's ownership in the parent company drops below 50.1 per cent, the lender is entitled to call the loans.

Subordinated loan

E-CO Energi has a subordinated loan from Oslo Municipality valued at MNOK 2 347 at 31 Dec. 2017 (31 Dec. 2016: MNOK 3 347). For 2017, the interest rate was 5.13 per cent. If the net profit for the year for the Group shows a deficit after interest has been charged, the interest is to be reduced by the amount of the deficit or to 0. The reduction is final and the interest amount shall not be paid at a later date. Thus, this loan does have the same interest rate exposure as the other loans.

The loan is interest-only and irrevocable on the part of the lender until its due date on 31 Dec. 2037.

Note 16. Mortgages or guarantees

E-CO Energi Holding AS has furnished no collateral or guarantee liabilities.

Note 17. Related party disclosures

The following are considered closely related parties by E-CO Energi Holding AS:

- Oslo Municipality (owner)
- Subsidiaries (Note 8.1 in the consolidated accounts)
- Associates and joint operations (Note 3.2 in the Group)
- The E-CO Energi Pension Fund

The City of Oslo owns 100 per cent of the shares in E-CO Energi Holding AS. Oslo Municipality was a shareholder in Hafslund ASA before the company demerged activities other than power production. E-CO Energi Holding AS purchased 90 per cent of the shares in the remaining company, Hafslund Produksjon Holding AS. In 2017, parts of a subordinated loan from Oslo Municipality were converted to MNOK 1 000 in equity. The outstanding amount of loan amounted to MNOK 2 347 at 31 Dec. 2017. Accrued interest on the subordinated loan from Oslo Municipality was MNOK 119 in 2017.

Transactions and inter-Group accounts with subsidiaries:

INCOME STATEMENT (amounts in MNOK)	2017	2016
Revenue	4	4
Expenses	(2)	(2)
Interest income	94	94
Interest expenses	(8)	(3)
Group contribution and dividends	1 313	700
Total	1 399	793

BALANCE SHEET (amounts in MNOK)	2017	2016
Long-term receivables	4 710	4 700
Accounts receivable	4	0
Group contribution and dividends	1 313	700
Other current receivables	43	51
Total assets	6 069	5 451
Corporate account	1 453	963
Accounts payable	2	0
Total liabilities	1 455	963

Paid-in capital in the E-CO Energy Pension Fund is recognised on E-CO Energi Holding AS's balance sheet at MNOK 50.

Outside said transactions, other transactions are related to the ordinary purchase/sale of goods and services and are not considered significant. Transactions with closely related parties are conducted on market terms and based on the arm's length principle.



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INDEPENDENT AUDITOR'S REPORT

To the Annual Shareholders' Meeting of E-CO Energi Holding AS

Report on the audit of the financial statements

Opinion

We have audited the financial statements of E-CO Energi Holding AS comprising the financial statements of the parent company and the Group. The financial statements of the parent company comprise the balance sheet as at 31 December 2017, the income statement and statements of cash for the year then ended and notes to the financial statements, including a summary of significant accounting policies. The consolidated financial statements comprise the balance sheet as at 31 December 2017, the statements of other comprehensive income, cash flows and changes in equity for the year then ended and notes to the financial statements, including a summary of significant accounting policies.

In our opinion,

- ▶ the financial statements are prepared in accordance with the law and regulations;
- ▶ the financial statements present fairly, in all material respects, the financial position of the parent company as at 31 December 2017, and of its financial performance and its cash flows for the year then ended in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway;
- ▶ the consolidated financial statements present fairly, in all material respects the financial position of the Group as at 31 December 2017 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Basis for opinion

We conducted our audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of the Company and the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in Norway, and we have fulfilled our ethical responsibilities as required by law and regulations. We have also complied with our other ethical obligations in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other information

Other information consists of the information included in the Company's annual report other than the financial statements and our auditor's report thereon. The Board of Directors and Chief Executive Officer (management) is responsible for the other information. Our opinion on the financial statements does not cover the other information, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information, and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.



Responsibilities of management for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway for the financial statements of the parent company and International Financial Reporting Standards as adopted by the EU for the financial statements of the Group, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with law, regulations and generally accepted auditing principles in Norway, including ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- ▶ identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- ▶ obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control
- ▶ evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- ▶ conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- ▶ evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- ▶ obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.



Report on other legal and regulatory requirements

Opinion on the Board of Directors' report

Based on our audit of the financial statements as described above, it is our opinion that the information presented in the Board of Directors' report concerning the financial statements, the going concern assumption and proposal for the allocation of the result is consistent with the financial statements and complies with the law and regulations.

Opinion on registration and documentation

Based on our audit of the financial statements as described above, and control procedures we have considered necessary in accordance with the International Standard on Assurance Engagements (ISAE) 3000, «Assurance Engagements Other than Audits or Reviews of Historical Financial Information», it is our opinion that management has fulfilled its duty to ensure that the Company's accounting information is properly recorded and documented as required by law and bookkeeping standards and practices accepted in Norway.

Oslo, 21 March 2018
ERNST & YOUNG AS

Finn Espen Sellæg
State Authorised Public Accountant (Norway)

(This translation from Norwegian has been made for information purposes only.)

Statement pursuant to §5-5 of Norway's Securities Trading Act

The Directors and the President and CEO hereby declare:

- To the best of our knowledge, the consolidated financial statements for 2017 have been drawn up in compliance with IFRS, as established by the EU, with requirements for additional disclosure pursuant to the Norwegian Accounting Act, and the financial statements for the parent company for 2017 have been submitted in compliance with the Norwegian Accounting Act and generally accepted accounting principles in Norway, and the accounting information disclosed in the financial statements gives a correct impression of the enterprise's and the Group's assets, liabilities, financial position and overall performance.
- To the best of our knowledge, the Director's Report for 2017 gives a true picture of the development, profit and the position of the enterprise and the Group, along with a description of the principal risks and uncertainties the enterprises face.

Oslo, 21 March 2018
The Board of Directors of E-CO Energi Holding AS

Anne Carine Tanum
Chair of the Board

Helge Skudal

Bård Vegar Solhjell

Mari Thjømøe

Gabriel Smith

Arvid Amundsen

Ola Tore Eggen

Tore Olaf Rimmereid
President and CEO

Words and expressions

UNITS OF ENERGY

V	Volt	unit of measurement for voltage
A	Ampere	unit of measurement for current
W	Watt	unit of measurement for output
kW	kilowatt	1 000 W
kWh	kilowatt hour	1 000 kWh
MW	megawatt	1 000 kW
MWh	megawatt hour	1 000 kWh
GW	gigawatt	1 000 MW
GWh	gigawatt hour	1 000 MWh
TW	terawatt	1 000 GW
TWh	terawatt hour	1 000 GWh

A UNIT SET

is a production unit for electrical energy.
A unit set includes both a turbine and a generator.

OUTPUT

is the energy or work performed per time unit.
Output can be specified *inter alia* in Watts (W).

BOTTLENECKS

arise when the transmission grid system does not have the capacity to transmit enough power. A bottleneck arises due to insufficient availability of production capacity in connection with limited import opportunities, or due to a production surplus related to limited export opportunities.

A MULTI-YEAR RESERVOIR

is a reservoir in which filling and draw-off take place on a multi-year basis to even out annual fluctuations in inflow and runoff from adjacent catchment areas

GENERATOR

is a rotating engine that converts mechanical energy into electrical energy.

A YEAR-ROUND RESERVOIR

is a reservoir that has a filling and draw-off cycle of one year.

TRANSMISSION CAPACITY

is the output a power line is allowed to transfer.

PRICE AREAS

are created by Statnett when there is expected to be a shortage of energy in a geographically limited area or in order to deal with bottlenecks in the grid system. The number of price areas Statnett uses in Norway varies, and price areas often lead to price differences between various price areas.

PUMPING STORAGE POWER STATIONS

are power plants that can be used either for power production or to pump water up to an intake pound for use at a later date. The filling period is the time the pumps in a pumped storage power plant run. In Norway, this is usually done in summer, but in some countries, pumps can also be run at night.

REGULATING POWER

is used to adjust the power system so that there is a balance between consumption and production at all times. The players in the power market report prices to lower or raise production/consumption.

A SEASONAL RESERVOIR

is a reservoir in which filling and draw-down take place on a seasonal basis, e.g. so that surplus water in the summer is retained to make up for shortfalls in the winter.

THERMAL POWER PRODUCTION

is the production of electricity using gas and/or steam turbines. Production can be based on fossil fuels such as coal, oil or natural gas, or on different types of biofuel, e.g. waste.

TRANSFORMER

is an apparatus that transforms alternating current of one voltage into alternating current of another voltage.

AVAILABILITY

is the designation for the percentage of the total time a generator in a power plant is available to produce electricity.

TURBINE

is a machine in which the water in a hydropower plant and the steam or combustion gases in a thermal energy plant are fed into one or more blades fixed to an axle so that it leads to rotation that converts the energy of the water, steam or gas into mechanical energy.



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