H1 REPORT

2017

CONSOLIDATED H1 REPORT

1 JANUARY 2017–30 JUNE 2017

(Comparable figures for 2016 in parentheses)

KEY FIGURES

(Amounts in MNOK)	H1 2017	H1 2016	Year 2016
Results			
Operating revenue	1 369	1 310	2 723
Operating income	837	753	1 559
Earnings before tax	740	638	1 340
Net profit	332	293	590
Capital structure and cash flow			
Total assets	17 029	15 654	16 373
Equity	6 223	6 204	5 891
Liquid assets	1 668	382	1 069
Equity ratio	37%	40%	38%
Cash flow from operating activities	218	(49)	1 213
Other			
Power production (GWh)	5 070	5 531	10 737

E-CO Energi earned a consolidated net profit in H1 2017 of MNOK 332, MNOK 39 more than during the corresponding months last year. This is primarily ascribable to a higher actual selling price of 0.271 NOK/kWh, compared with 0.238 NOK/kWh in H1 2016. The Group's power production in H1 aggregated 5 070 GWh, i.e. down 461 GWh year-on-year. A contract was signed for the acquisition of 90 per cent of Hafslund's power production. The acquisition will enhance the Group's annual normal production to roughly 13 TWh. The purchase is a good fit for E-CO Energi's strategy, strengthening the Group's position as Norway's second largest hydropower producer.

OPERATIONS

The Group's core activities are the ownership, operation and management of hydropower installations, including:

- Energy management – the sale of power on the wholesale market
- Production – operations, maintenance and project implementation
- Business development in energy and related fields

The Group consists of the parent company E-CO Energi Holding AS and the wholly-owned subsidiaries E-CO Energi AS and Oslo Lysverker AS. Through these companies, the Group owns stakes in Oppland Energi AS (61.4 per cent), Vinstra Kraftselskap DA (66.7 per cent), Opplandskraft DA (25 per cent), Embretsfosskraftverkene DA (50 per cent), Nedre Otta DA (26.9 per cent) and NGK Utbygging AS (25 per cent). Including production interests in co-owned power plants, E-CO has a normal production output of 10 TWh.

E-CO is wholly owned by Oslo Municipality.

ABOUT THE H1 REPORT

The report for H1 2017 is presented in accordance with Norwegian accounting standards and generally accepted accounting practices. The same accounting principles and estimation methods have been applied here as were applied to the financial statements for 2016. The accounts for H1 2017 have not been audited. As from 2017, E-CO Energi's financial reporting will change from quarterly reporting to semi-annual and annual reporting. As from the financial statements for 2017, E-CO Energi report in accordance with the International Financial Reporting Standards (IFRS).

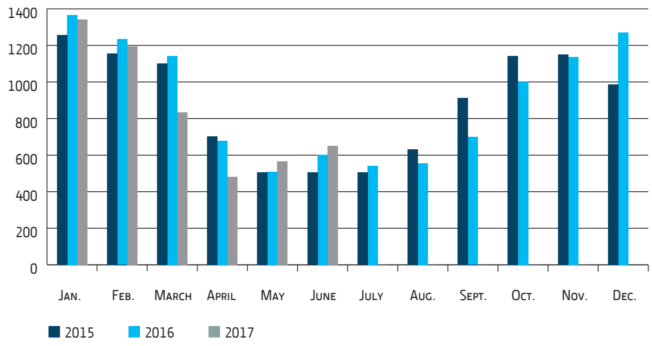
MARKET CONDITIONS, PRODUCTION AND PRICES

In the Nordic market, power prices were higher in H1 2017 than a year earlier. The system price increased by 19 per cent, while the weighted area price for E-CO Energi's production saw a 25 per cent increase. The hike can be ascribed to the combination of hydrological factors and higher European power prices. Higher coal prices are an important reason for the rise in the German power prices (EEX), which averaged 38 per cent higher than in the first half of 2016.

In early 2017, and through the winter, the Nordic reservoirs were lower than usual. The hydrological deficit is one of the main reasons for the price hike relative to last year, despite a relatively mild winter and record-high wind power and nuclear power production. Abundant precipitation from April to June meant that the hydrological resource level was approximately normal at the end of H1.

The filling ratio in the Nordic reservoirs was 67 per cent at the end of H1 (68 per cent), compared with a historic median level of 69 per cent at the same date.

PRODUCTION
(GWh)



Norwegian power production aggregated 74.6 TWh in H1 2017 (78.9 TWh). Gross power consumption added up to 68.8 TWh (70.2 TWh). Net exports totalled 5.7 TWh in H1 (8.6 TWh).

The Group's power production came to 5 070 GWh in H1 this year (5 531 GWh).

The average system price was 0.268 NOK/kWh in H1 2017 (0.226 NOK/kWh). The weighted area price proportional to E-CO Energi's production (about 1/3 in NO1 and 2/3 in NO5), came to 0.266 NOK/kWh (0.215 NOK/kWh).

The average selling price for the six-month period, excluding concessionary power, was 0.271 NOK/kWh (0.238 NOK/kWh). The actual selling price was 2 per cent higher than the H1 area price (11 per cent).

PERFORMANCE IN H1

Operating revenues in H1 2017 came to MNOK 1 369 (MNOK 1 310), i.e. an increase of 5 per cent. The increase is ascribable to higher selling prices. Lower production has pulled in the opposite direction. The increase in the selling price is related to higher prices for the physical production. Financial power and currency hedging, where the Group has reduced its volume relative to the level in recent years, have resulted in a minor negative contribution to revenues.

Operating expenses in H1 2017 were MNOK 532, i.e. a decrease of MNOK 25, or 4 per cent, from H1 last year. The cost of feeding into the central grid was MNOK 25 lower and property tax was MNOK 18 lower. The reduction in feed-in costs is related to the variable part of the tariff (marginal loss rates). The reduction in property tax is primarily ascribable to lower power prices in recent years, leading in turn to lower valuations of power stations for property tax purposes. Salaries and other operating expenses have increased by MNOK 16, of which MNOK 9 is a provision related to an offer of early retirement for employees over the age of 61. It will be clarified in H2 how many will take advantage of the offer.

The operating profit in H1 was MNOK 837 (MNOK 753), i.e. an increase of 11 per cent.

Net financial expenses came to MNOK 97 (MNOK 115). The decline of MNOK 18 breaks down into MNOK 12 in changes in gains/losses on currency exchange. Net interest-bearing liabilities added up to MNOK 7 632 at 30 June 2016, a decrease of MNOK 502 year-on-year. The effective interest rate on loans (excl. subordinated loans) was 2.7 per cent at 30 June (2.7 per cent). The estimated interest rate on subordinated loans was 1.8 per cent (1.8 per cent).

Earnings before tax came to MNOK 740 (MNOK 638), i.e. up 16 per cent year-on-year.

Taxes came to MNOK 408 in H1 2017 (MNOK 345). The resource rent tax added up to MNOK 230 (MNOK 186) and tax on ordinary income totalled MNOK 178 (MNOK 159). The effect of changing tax rates from 2016 to 2017 amounted to a reduction of roughly MNOK 7 in income tax and an increase of MNOK 7 in resource rent tax.

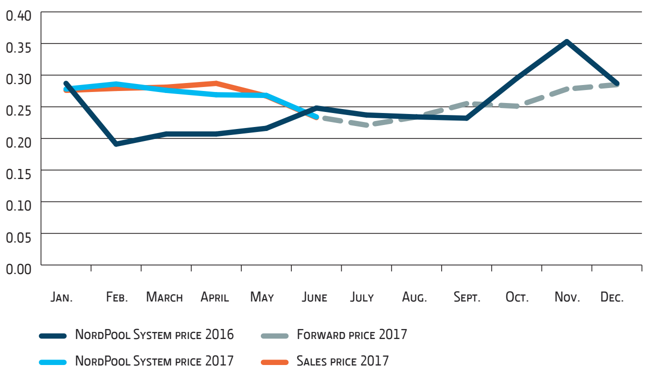
The profit after taxes came to MNOK 332 (MNOK 293), i.e. an improvement of 13 per cent.

INVESTMENTS, CASH FLOW AND CAPITAL STRUCTURE

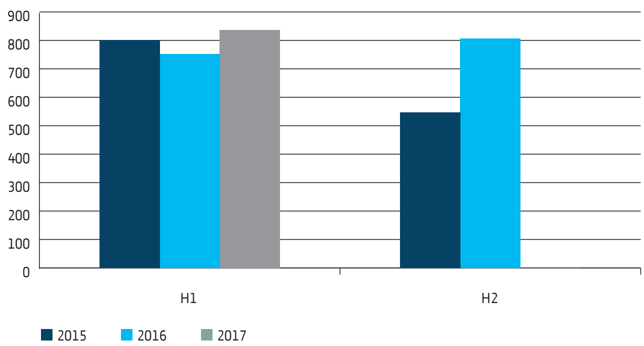
Investments in tangible fixed assets amounted to MNOK 147 (MNOK 120). Most of the investments are ascribable to ongoing development of the Rosten and Nedre Otta power plants.

The cash flow from operating activities was MNOK 218 in H1 2017 (MNOK -49). The increase is mainly ascribable to lower tax payments. Dividends of MNOK 610 were paid out in April.

PRICES, MONTHLY AVERAGE
(NOK/kWh)



OPERATING PROFIT
(NOK million)



At end-June, the Group's liquid reserves amounted to MNOK 1 668 (MNOK 382). At 30 June, the Group had MNOK 5 953 (MNOK 5 169) in long- and short-term interest-bearing liabilities, excluding subordinated loans. Short-term commercial papers added up to MNOK 1 250 at the end of H1.

In July, loans were secured on the US market for NOK 2.8 billion. The loans have terms to maturity ranging from 7 to 15 years. The additional borrowing is a result of the announced acquisition of Hafslund's hydropower production.

At 30 June 2017, the Group had an equity ratio of 36.5 per cent (39.6 per cent).

THE ACQUISITION OF HAFSLUND PRODUKSJON

On 26 April 2017, Oslo Municipality announced a substantial restructuring of the Municipality's ownership in the energy sector. The restructuring was approved by the Oslo City Council on 14 June. As a step in this, E-CO Energi Holding acquired 90 per cent of the shares in Hafslund ASA. The Finnish energy company Fortum is acquiring the remaining 10 per cent of the shares. Hafslund has a normal power output of 3.1 TWh of power in the lower Glomma River. The acquisition boosts the Group's normal production to approximately 13 TWh. The agreed debt and cash free enterprise value is MNOK 7 750. E-CO Energi's 90 ownership stake accounts for MNOK 6 975. The transaction was completed on 4 August and will be booked in the latter half of 2017.

Prior to completing the transaction, activities other than power production were demerged from Hafslund ASA. The company has changed its name to Hafslund Produksjon Holding AS and has been delisted from the Oslo Stock Exchange.

At an extraordinary general meeting on 26 June, it was decided to conduct a share issue in E-CO Energi Holding AS for a total of NOK 4 billion. The shares were subscribed by Oslo Municipality and the wholly-owned municipal company Oslo Energi Holding AS, against a set-off of NOK 1 billion in reduction of subordinated loans and NOK 3 billion as a set-off against the purchase price for the shares in Hafslund Produksjon Holding AS. The set-offs as of the 4 August transaction date have been verified as completed.

Upon completion of the share purchase agreement, certain adjustments will be made in the purchase price, based on Hafslund's balance sheet at 31 July. Following adjustments based on the estimated balance sheet at 31 July, as well as set-offs of NOK 3 billion, on 4 August, E-CO Energi paid out MNOK 4 135.

According to the agreement, a final balance sheet will be prepared and be subject to the approval of the parties prior to the final settlement.

The employees of Hafslund Produksjon will be hired by E-CO Energi AS through a transfer of business activities in autumn 2017.

RISK, EVENTS AND UNCERTAINTY FACTORS

E-CO Energi's financial risk is primarily associated with production volume and power prices, including hedging transactions and trends in currency exchange rates. E-CO Energi's policy involves hedging parts of future production. The value of hedged production is hedged from EUR to NOK. There is risk associated with the difference between the system price and the area price. Since the Group has substantial debt, there is also financial risk associated with the interest rate trend. E-CO Energi's policy is to bind interest rates on parts of the portfolio. Foreign loans are hedged against NOK in their entirety.

At 30 June 2017, the Group had hedged a percentage of expected production for the rest of 2017. The percentage of price-hedged power is somewhat higher than at the same date last year, but lower than what has been the norm in recent years.

Fluctuations in forward prices can lead to large unrealised changes in the value of the hedging portfolio which, pursuant to the Group's accounting policies, are not recognised. The unrealised negative value in the Group's hedging portfolio (including currency hedging) was MNOK 18 at 30 June this year (positive value MNOK 43). At year end, there was an unrealised negative value of MNOK 94.

PROSPECTS FOR THE FUTURE

The Group has a significant position and expertise in the efficient planning, management and operation of hydropower production, and it has a sound financial position. The Group's strategy going forward will primarily be to invest in hydropower production in Norway to the extent that profitable investment alternatives exist. The acquisition of Hafslund's hydropower production strengthens the Group's position as Norway's second largest power producer from a business perspective, as well as strategically and industrially.

Based on the reservoir status at 30 June and with normal precipitation for the rest of the year, in 2017, production is expected to be close to normal. The forward price on the NASDAQ for the rest of 2017 was roughly 0.25 NOK/kWh at the end of H1.

Oslo, 24 August 2017
The Board of Directors of E-CO Energi Holding AS

INCOME STATEMENT

(Amounts in MNOK)	2017 H1	2016 H1	2016 Year
Energy revenue	1 328	1 273	2 651
Other operating revenue	41	37	72
Operating revenue	**1 369**	**1 310**	**2 723**
Energy purchases, transmission	(97)	(122)	(253)
Property tax and concession fee	(112)	(130)	(258)
Other operating expenses	(182)	(166)	(374)
Depreciation	(141)	(139)	(279)
Operating expenses	**(532)**	**(557)**	**(1 164)**
Operating income (EBIT)	**837**	**753**	**1 559**
Net financial expenses	(97)	(115)	(219)
Earnings before tax (EBT)	**740**	**638**	**1 340**
Taxes	(408)	(345)	(750)
Net profit	**332**	**293**	**590**
Earnings per share (NOK)	195	172	347

BALANCE SHEET

(Amounts in MNOK)	2017 30 June	2016 30 June	2016 31 Dec.
Assets:			
Intangible assets	8 071	8 070	8 068
Tangible fixed assets	6 670	6 595	6 665
Financial fixed assets	444	450	432
Fixed assets	**15 185**	**15 115**	**15 165**
Short-term receivables	176	157	139
Short-term investments	0	0	300
Bank deposits, cash in hand etc.	1 668	382	769
Current assets	**1 844**	**539**	**1 208**
Assets	**17 029**	**15 654**	**16 373**
Equity and liabilities:			
Paid-in capital	3 606	3 606	3 606
Retained earnings	2 617	2 598	2 285
Equity	**6 223**	**6 204**	**5 891**
Provisions	615	602	603
Subordinated loan	3 347	3 347	3 347
Other long-term liabilities	5 703	5 169	4 803
Long-term liabilities	**9 665**	**9 118**	**8 753**
Short-term liabilities	**250**	**0**	**0**
To dividends	0	0	610
Other current liabilities	891	332	1 119
Current liabilities	**1 141**	**332**	**1 729**
Equity and liabilities	**17 029**	**15 654**	**16 373**

CASH FLOW ANALYSIS

(Amounts in MNOK)	2017 H1	2016 H1	2016 Year
From operating activities	477	440	891
Changes in taxes payable	(111)	(373)	208
Change in working capital items	(148)	(116)	114
Cash flow from operating activities	**218**	**(49)**	**1 213**
Investments in tangible fixed assets	(147)	(120)	(335)
Other investments/sales	(12)	(13)	(6)
Cash flow from investment activities	**(159)**	**(133)**	**(341)**
Change in short-term loans	1 250	700	(300)
New long-term loans	0	200	1 236
Repayment of long-term loans	(100)	0	(403)
Dividends	(610)	(685)	(685)
Cash flow from financing activities	**540**	**215**	**(152)**
Cash flow throughout the period	**599**	**33**	**720**
Liquidity reserves at opening of period	**1 069**	**349**	**349**
Liquidity reserves at closing of period	**1 668**	**382**	**1 069**

EQUITY

(Amounts in MNOK)	2017 H1	2016 H1	2016 Year
Equity at opening of period	**5 891**	**5 911**	**5 911**
Net profit for the reporting period	332	293	590
Provision for dividends	0	0	(610)
Equity at close of period	**6 223**	**6 204**	**5 891**

STATEMENT PURSUANT TO § 5-6 OF NORWAY'S SECURITIES TRADING ACT

THE DIRECTORS AND THE CEO DECLARE THE FOLLOWING:

- To the best of our knowledge, the half-yearly financial statements for 2017 have been drawn up in accordance with Norwegian accounting standards, and the information disclosed therein gives a true and fair view of assets, liabilities, financial position and profit or loss for the Group as a whole.
- To the best of our knowledge, the half-yearly report for 2017 gives a true and fair review of important events during the accounting period and of their impact on the half-yearly financial statements, together with a description of the principal risks and uncertainties facing the Group during the next accounting period.

Oslo, 24 August 2017

Anne Carine Tanum Chair of the board	Gabriel Smith	Eli Skrøvset	Mari Thjømøe
Helge Skudal	Arvid Amundsen	Ola Tore Eggen	Tore Olaf Rimmereid President and CEO

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