Hafslund

SHAREHOLDERS' REPORT 4th QUARTER 2016

Contents:

Hafslund

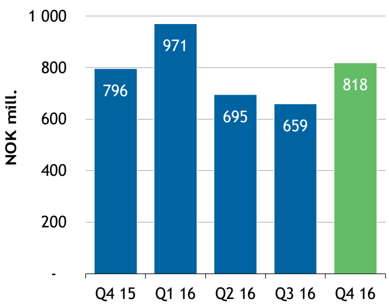
Fourth-quarter highlights 2016

- Operating profit before depreciation (EBITDA) of NOK 818 million in the quarter is up NOK 22 million from last year - solid operations and result improvements in all business areas.
- Profit after tax of NOK 384 million - down NOK 27 million on the prior year primarily due to a lower positive tax effect of NOK 53 million compared with NOK 97 million in 2015.
- Improvement initiatives, higher power prices and appreciation on futures contracts contribute positively.
- Milder weather than normal in the quarter, but slightly colder weather compared with last year.
- Low water flow and hydropower production.
- The Board proposes a dividend of 3.25 (3.00) per share for 2016.

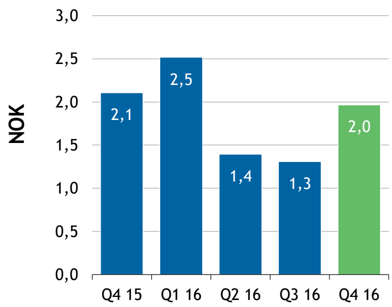
Earnings per share

NOK 2.0

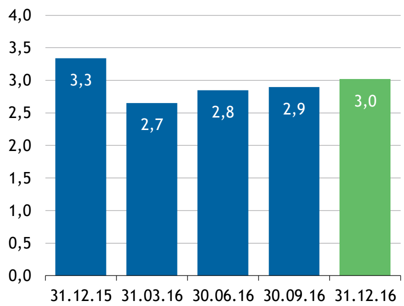
> EBITDA



> Earnings per share



> Net debt / EBITDA last 12 months



Key figures

Q4 15	Q4 16	Income statement (NOK million)	2016	2015
3 360	**4 222**	Operating revenues	**13 803**	11 905
796	**818**	EBITDA	**3 143**	2 920
522	**557**	Operating profit	**2 193**	1 973
429	**497**	Profit before tax and discontinued operations	**1 976**	1 686
411	**384**	Profit after tax	**1 402**	1 284
		Capital matters		
34 %	**36 %**	Equity ratio	**36 %**	34 %
3.3	**3.0**	Net debt / EBITDA	**3.0**	3.3
9 752	**9 480**	Net interest-bearing debt	**9 480**	9 752
		Per-share figures (NOK)		
2.1	**2.0**	Profit (EPS)	**7.2**	6.6
0.6	**0.7**	Cash flow from operations	**10.5**	11.3
		Key figures		
0.22	**0.28**	Revenues Hydropower (NOK per kWh)	**0.23**	0.20
5 498	**5 882**	Energy deliveries Network (GWh)	**19 524**	18 960
511	**585**	District heat production (GWh)	**1 705**	1 567
681	**595**	Hydropower production (GWh)	**2 964**	3 290
5 183	**5 791**	Power sales (GWh)	**19 565**	17 872

Figures in NOK unless otherwise stated. The figures for 2015 are stated in parentheses.

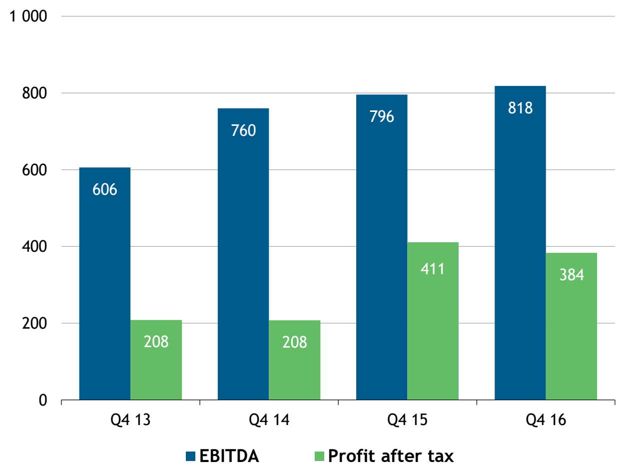
Fourth-quarter performance

Hafslund posted a profit after tax of NOK 384 million for the fourth quarter, which was down NOK 27 million on the corresponding prior-year period. A solid profit for the year of NOK 1,402 million, and the 4th consecutive year of profit growth. EBITDA of NOK 818 million for the quarter were slightly up on the previous year (NOK 796 million). The four business areas generated results improvements despite mild weather in the quarter. The power price for price area NO1 was 0.32 NOK/kWh (0.20 NOK/kWh), which was up 0.12 NOK/kWh on the historically low level in the fourth quarter of 2015.

At NOK 60 million (NOK 92 million), financial expenses for the quarter were down on the previous year, in part due to exchange rate losses of NOK 9 million, compared with losses of NOK 20 million in the fourth quarter of 2015. Higher forward interest rates also impacted the market value of the portion of the loan portfolio that is recognised at fair value, reducing financial expenses by NOK 30 million (NOK 33 million). At the reporting date Hafslund had net interest-bearing liabilities of NOK 9.5 billion and an average interest rate for the loan portfolio of 3.1 percent.

The tax expense of NOK 113 million (NOK 18 million) includes resource rent tax for the hydropower business of NOK 28 million (NOK 21 million), and a positive effect of NOK 53 million (NOK 97 million) as a result of a lower deferred tax liability at the reporting date due to a one percent reduction in the general tax rate in Norway to 24 percent from 2017. The profit after tax of NOK 384 million (NOK 411 million) equates to an earnings per share figure of NOK 2.0 (NOK 2.1).

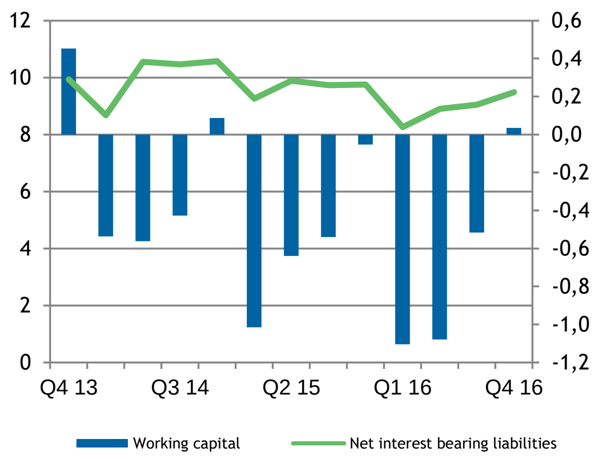
Earnings fourth quarter 2013–2016
(NOK million)



Cash flow in the fourth quarter

The cash flow from operating activities of NOK 140 million (NOK 124 million) includes NOK 555 million (NOK 517 million) in increased working capital in the quarter. At the end of the quarter net working capital totalled negative NOK 35 million (positive NOK 53 million). EBITDA of NOK 818 million in the fourth quarter were NOK 123 million higher than the related cash flow from operations before changes in working capital. This was attributable to payment of interest and tax totalling NOK 91 million, in addition to result effects of non-cash items of NOK 33 million. Net investments during the quarter totalled NOK 578 million (NOK 159 million). Net interest-bearing liabilities rose NOK 0.5 billion during the quarter to NOK 9.5 billion. The graph below shows changes in net interest-bearing liabilities and working capital over the last 13 quarters.

Changes in net interest-bearing liabilities and working capital
(NOK billion)



Hafslund maintains solid financial key figures and had a net debt / EBITDA ratio of 3.0 at the end of the fourth quarter. This represents a decrease of 0.3 compared with the previous year, and a slight increase on the previous quarter. Hafslund has a robust financing structure with long-term committed drawdown facilities. Unutilised drawdown facilities at the end of the quarter amounted to NOK 3.8 billion, which is deemed sufficient to cover both working capital requirements and refinancing of liabilities over the next 12 months.

Summary 2016

Financial performance 2016

At NOK 1,402 million, Hafslund's profit after tax for 2016 was up NOK 117 million on the previous year and was the 4th consecutive year with profit growth. All four business areas returned improved year-on-year results contributions. The rise in profits was primarily attributable to solid operations and a 0.07 NOK/kWh increase in the power price compared with the previous year. Financial expenses include net positive effects of NOK 133 million (NOK 100 million).

Hafslund posted sales revenues of NOK 13.8 billion (NOK 11.9 billion) in the year under review. Higher power prices and an increase in the number of power sales customers were the main reasons for the year-on-year increase. At NOK 2,193 million, the operating profit was up 11 percent on the prior year. Heat and Production's earnings are in particular being impacted by higher power prices, while effects from acquired network operations and appreciation of forward contracts in Markets contributes positively. The return on capital employed in 2016 was 10.0 percent (9.4 percent).

At NOK 217 million, financial expenses in 2016 were down NOK 70 million on the previous year. The decrease was primarily attributable to a currency gain of NOK 47 million, compared with a currency loss of NOK 45 million in 2015. Financial expenses were further positively impacted by NOK 87 million (NOK 137 million) due to a reduction in the market value of loans recognised at fair value as a result of a higher forward interest curve.

The tax expense of NOK 573 million (NOK 401 million) includes resource rent tax for Hydropower of NOK 130 million (NOK 70 million), plus a positive effect of NOK 53 million (NOK 97 million) due to a lower deferred tax liability at the reporting date following a one percent reduction in the general tax rate in Norway from 2017.

The net profit for the year of NOK 1,402 million equates to an earnings per share figure of NOK 7.2 (NOK 6.6) and a return on equity of 15.1 percent (15.5 percent).

Cash flow in 2016

The cash flow from operating activities came in at NOK 2,041 million (NOK 2,201 million) in 2016. At NOK 1,126 million, the net cash flow from investing activities includes an equity release of NOK 387 million from the sale of businesses / shares in Other business. In addition to a dividend payment of NOK 586 million for the 2015 financial year, which equates to NOK 3.00 per share, the net cash flow was used to repay interest-bearing liabilities of NOK 329 million in 2016.

At the reporting date net interest-bearing liabilities amounted to NOK 9.5 billion (NOK 9.8 billion). The net debt / EBITDA ratio and the equity ratio improved to respectively 3.0 (3.3) percent and 36 (34) percent during the year under review.

Hafslund

Business areas in the fourth quarter

> Networks

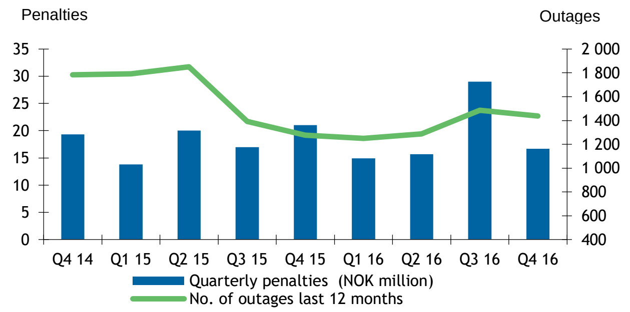
NOK million	Q4 16	Q4 15	2016	2015
Operating revenues	**1 357**	1 218	**4 757**	4 361
Gross margin	**852**	830	**3 028**	2 943
EBITDA	**459**	403	**1 654**	1 388
Operating profit	**308**	222	**1 056**	822
Energy deliveries (GWh)	**5 882**	5 498	**19 524**	18 960
Number of customers ('000)	**697**	689	**697**	689
Investments	**404**	331	**1 009**	926

Networks posted sales revenues of NOK 1,357 million (NOK 1,218 million) in the quarter. At 5,882 GWh, delivered energy was up 7 percent on the previous year. Combined costs for the overhead network (Statnett) and energy purchases/network losses of NOK 502 million were up NOK 114 million on the previous year. This generated a gross contribution of NOK 852 million (NOK 830 million) for the fourth quarter.

At NOK 393 million, operating expenses for the quarter were down NOK 34 million on the previous year. The reduction was attributable to cost-efficiency measures. Fourth-quarter EBITDA of NOK 459 million were NOK 56 million higher than the previous year.

Hafslund Nett's security of supply is among the best of any network operator in Norway. The table below shows the change in operating downtime (X-axis) and the KILE cost (Y-axis). KILE is the quality-adjustment of the income ceiling for non-delivered energy.

KILE cost and operating downtime



There were more operating stoppages in 2016 than in 2015, primarily due to storms in the third quarter of the year. The KILE cost for the quarter was normal. Customers in Hafslund Nett's supply area were only marginally affected by "Storm Urd".

Investments for the quarter came in at NOK 404 million (NOK 331 million). The increase relates to the automated meter (AMS) project, which has now entered the meter roll-out phase. This is proceeding well, and around 100,000 of the total of 700,000 smart meters have been installed. At the reporting date accumulated investments in the AMS project totalled NOK 586 million.

The operating profit for the year was up 28 percent on 2015, both due to higher gross margin and lower operating expenses. Depreciation and amortisation were NOK 32 million higher in 2016 than the previous year as a result of higher investments and thus higher capital employed. At the end of the fourth quarter Networks had capital employed of NOK 11.9 billion (NOK 11.1 billion).

With normal energy demand, planned network tariffs and forward power prices as well as planned maintenance and cost developments, expected operating profit for 2017 to be about 10 percent lower than in 2016.

> Heat

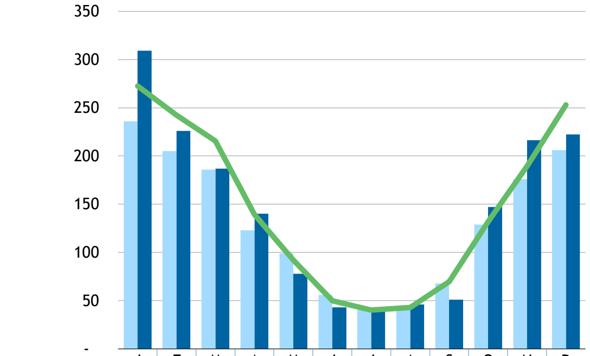
NOK million	Q4 16	Q4 15	2016	2015
Operating revenues	**414**	331	**1 152**	977
Gross margin	**228**	222	**699**	619
EBITDA	**159**	157	**437**	383
Operating profit	**121**	112	**291**	231
Gross margin (NOK/kWh)	**0.45**	0.45	**0.46**	0.41
Total production (GWh)	**585**	511	**1 705**	1 567
Investments	**56**	30	**175**	112

Heat posted sales revenues of NOK 414 million (NOK 331 million) in the quarter. Higher district heating prices and volumes are pushing up sales revenues. Rising fuel costs resulted in a gross contribution of NOK 228 million (NOK 222 million). Total operating expenses and depreciation and amortisation for the quarter closed on NOK 107 million (NOK 110 million). This resulted in an operating profit of NOK 121 million for the fourth quarter, which was up NOK 9 million on the previous year, and which represents Heat's best-ever fourth-quarter result.

Energy mix and prices	Q4 16	Q4 15	2016	2015
Waste (GWh)	**334**	304	**983**	932
Heat pumps (GWh)	**62**	47	**136**	136
Pellets (GWh)	**24**	11	**60**	52
Electricity (GWh)	**156**	136	**476**	414
Biooil, natural gas, oil (GWh)	**9**	13	**49**	33
Total production (GWh)	**585**	511	**1 705**	1 567
Production cost (NOK/kWh)	**0.32**	0.21	**0.27**	0.23
Avg. sales price (NOK/kWh)	**0.76**	0.64	**0.73**	0.63
Gross margin (NOK/kWh)	**0.45**	0.45	**0.46**	0.41

District heating production of 585 GWh was 74 GWh higher than the previous year, primarily due to organic growth and slightly colder weather in the fourth quarter compared with in 2015. The base-load plants have performed satisfactorily. The fuel cost of 0.32 NOK/kWh was up 0.11 NOK/KWh on the previous year, primarily due to higher electricity prices. The district heating price of 0.76 NOK/kWh was 0.12 NOK/kWh higher than in the comparable prior-year period as a result of higher power prices and a higher network rental. At 0.45 NOK/kWh, the gross contribution was on a par with the previous year.

District heating – monthly production profile
(GWh)



	J	F	M	A	M	J	J	A	S	O	N	D
2015	236	205	186	123	99	56	41	42	68	129	176	206
2016	309	226	187	140	78	43	39	46	51	147	216	222
Mean *	273	242	216	139	92	50	40	43	70	132	190	253

* Normal = expected production in 2016, given normal temperature conditions (average of the past ten years), as well as existing and planned customer connections.

Hafslund hedges the price of some of its district heating production. Please refer to Note 4 later in the shareholders' report for further information on the company's hedging policy. The hedging ratio in the fourth quarter was 80 percent (293 GWh). Hedge trading contributed minus NOK 18 million (positive NOK 14 million) during the quarter due to rising power prices. The table below shows the hedging position in relation to net power price exposure for the district heating business for the next six months:

Hedge position	0-6 months
Hedge ratio as of 31 December 2016	58%
Hedge price minus market price listed 1 February 2017 (NOK/kWh)	0.00

Investments of NOK 56 million relate to the construction of a new systems control centre, reinvestments in the district heating network and heating centres, and the connection of new district heating customers. A total of 36 new customers with a combined annual district heating requirement of 23 GWh were connected during the quarter. At the reporting date Heat had capital employed of NOK 4.6 billion (NOK 4.7 billion).

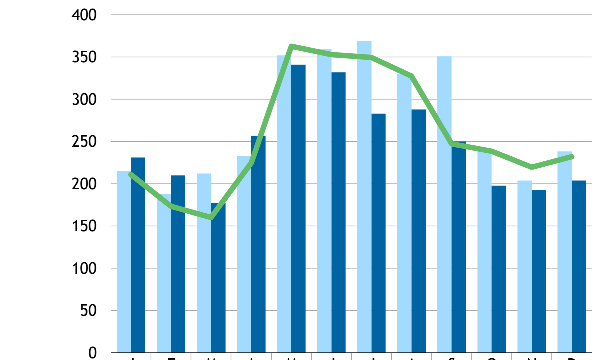
> Production

NOK million	Q4 16	Q4 15	2016	2015
Operating revenues	**168**	151	**687**	654
EBITDA	**107**	91	**462**	391
Operating profit	**95**	81	**417**	346
Revenues (NOK/kWh)	**0.28**	0.22	**0.23**	0.20
Result from hedging activity	**(13)**	18	**(4)**	121
Production (GWh)	**595**	681	**2 964**	3 290
Investments	**95**	136	**274**	156

Production posted sales revenues of NOK 168 million (NOK 151 million) in the quarter. This represents an increase of 11 percent on the previous year, primarily on the back of higher power prices. Despite lower production in the quarter, the operating profit came in at NOK 95 million, NOK 14 million higher than the previous year.

At 595 GWh, hydropower production was 13 percent lower than the previous year and 95 GWh lower than the normal due to lower water flow. The Nord Pool Spot price for price area NO1 was 0.32 NOK/kWh in the quarter, which was up 0.12 NOK/kWh on the historically low level in the previous year. Achieved income for the quarter amounted to 0.28 NOK/kWh (0.22 NOK/kWh) and includes negative earnings from hedging activities of NOK 13 million (positive earnings of NOK 18 million) due to rising power prices. The average hedging ratio in the fourth quarter was 41 percent. A total of 62 GWh of concessionary and compensatory power was sold at an average price of 0.15 NOK/kWh (0.15 NOK/kWh) during the quarter.

Hydropower – monthly production profile
(GWh)



	J	F	M	A	M	J	J	A	S	O	N	D
2015	215	188	212	233	352	359	369	330	351	239	204	239
2016	231	210	177	257	341	332	283	288	250	198	193	204
Mean	211	174	160	225	363	353	350	328	247	238	220	232

Normal = 10 years' hydropower history adjusted for efficiency improvements.

Hafslund hedges some of its hydropower production. Please refer to Note 4 for further information on the company's hedging policy. The table below shows the hedging position for the next six months:

Hedge position	0-6 months
Hedge ratio as of 31 December 2016	31%
Hedge price minus market price listed 1 February 2017 (NOK/kWh)	0.01

At the start of the first quarter the overall hydrological reservoir level in Hafslund's catchment area was somewhat below normal for the time of the year in both water and snow reservoirs. Based on current reservoir levels and a normal weather situation, production in the first quarter of 2017 is expected to come in at about the normal which is 545 GWh.

Investments of NOK 95 million (NOK 136 million) in the quarter primarily relate to the new generator at Vamma. The generator is expected to produce more than 1 TWh, of which approximately 800 GWh will replace production from old generators and around 230 GWh will relate to new renewable energy. Work to expand the power plant is on schedule for completion before the spring flood in 2019. The groundworks are essentially finished, and ongoing work at the site relates to concrete pouring in the intake and in the power station. At the reporting date accumulated investments amounted to NOK 393 million.

At the same date Production had capital employed of NOK 4.6 billion (NOK 4.4 billion).

> Markets

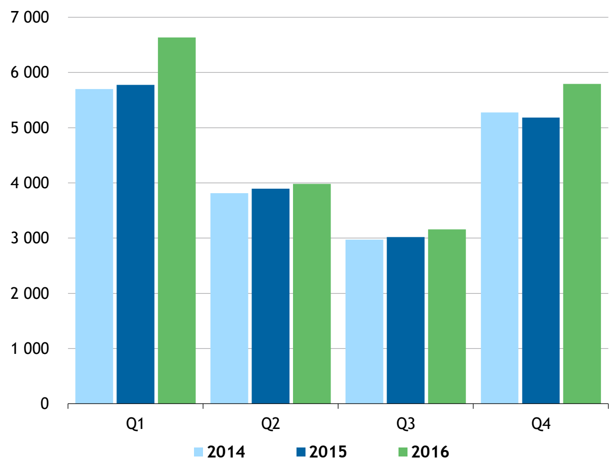
NOK million	Q4 16	Q4 15	2016	2015
Operating revenues	**2 308**	1 704	**7 303**	5 939
Gross margin	**417**	359	**1 675**	1 524
EBITDA	**122**	92	**585**	560
Operating profit	**102**	69	**498**	476
Operating profit power sales	**127**	41	**479**	390
Operating profit support functions	**(25)**	28	**19**	86
Number of customers ('000)	**1 093**	1 050	**1 093**	1 050
Sales volume (GWh)	**5 791**	5 183	**19 565**	17 872

Markets posted sales revenues of NOK 2,308 million in the fourth quarter, an increase of 35 percent against the previous year. This was primarily attributable to an increase in power prices, and a higher delivery volume due to 43,000 new customers over the last 12 months.

In total, 5,791 GWh was sold in the quarter, up 12 percent on the previous year. Hafslund had 1,093,000 customers at the reporting date, 375,000 of whom were outside Norway. A total of 9,000 new customers were acquired in the quarter, bringing the total for the year to 43,000.

The operating profit of NOK 102 million (NOK 69 million) represents a satisfactory result in a quarter normally characterised by high energy demand. Power sales' operating profit of NOK 127 million (NOK 41 million) equates to an operating profit of around NOK 116 (NOK 39) per customer for the quarter. The result reflects higher revenues due to a wider customer base, higher sales and marketing activities, and slightly higher operating expenses than the previous year. The result includes income of NOK 42 million (charge of NOK 49 million) in changes in the value of power derivatives which are recognised at market value in accordance with IFRSs. Please refer to Note 4 for further details of the accounting treatment of hedging of end user contracts.

Power sales – volume
(GWh)



Markets had capital employed of NOK 1.4 billion (NOK 1.6 billion) at the end of 2016. Capital employed will to a large extent vary in line with changes in working capital during the year due to fluctuating energy demand and wholesale power prices on Nord Pool Spot.

> Other business

NOK million	Q4 16	Q4 15	2016	2015
Coporate functions	**(14)**	(8)	**(48)**	(31)
Other acitivities	**(56)**	45	**(21)**	129
Total operating profit Other	**(70)**	37	**(69)**	98

Other business activities made an operating loss of NOK 70 million in the quarter, compared with a profit of NOK 37 million in the same period last year. Other business' result primarily derives from impairments of assets in associates and Other business.

Hafslund

Other matters

> List of shareholders as of 31 December 2016

('000)	A shares	B shares	Total	Share-holding
City of Oslo	67,525	37,343	104,868	53.73 %
Fortum Forvaltning AS	37,853	28,706	66,559	34.10 %
Kommunal Landspensjonskasse (KLP)	5,327	4,042	9,370	4.80 %
MP Pensjon PK	5	1,979	1,984	1.02 %
Folketrygdfondet	60	709	769	0.39 %
The Northern Trust Company	279	372	651	0.33 %
Greenwich Land Securities AS	84	323	408	0.21 %
Avanza Bank AB	89	311	400	0.20 %
Nordnet	69	317	386	0.20 %
JP Morgan Chase Bank	10	336	347	0.18 %
Total 10 largest	111,301	74,440	185,741	95.16 %
Other shareholders	4,127	5,318	9,445	4.84 %
Total	115,428	79,758	195,186	100.00 %

Hafslund's market capitalisation of NOK 18.5 billion on the Oslo Stock Exchange at the reporting date was based on a price of NOK 94.25 for A shares and NOK 95.00 for B shares. At the end of 2016 Hafslund ASA had 6,307 shareholders and owned 263,289 treasury B shares and 1 treasury A share.

Outlook

Hafslund is a pure-play energy and infrastructure company with a leading position as Norway's largest networks, district heating and power sales company, as well as a medium-sized power producer.

The regulated networks business accounts for around half of Hafslund's employed capital and guarantees Hafslund a stable and predictable return. Networks has set itself the target of becoming Norway's most cost-effective network operator. Networks' long-term earnings are influenced by the business area's relative cost efficiency compared with the rest of the networks industry, interest rate fluctuations and changes in public regulations.

Over the next few years Networks and power sales will face significant regulatory changes, including the introduction of automated meters and requirements for greater differentiation between Networks and other business. The power sales business is highly exposed to tough competition, and profitability and growth will be contingent on the company's ability to further develop and enhance its activities. Power sales will continue to pursue its long-term Nordic growth strategy.

Heat's and Production's earnings are directly impacted by changes in power prices and production volumes, while Heat's earnings are also affected by the network tariff. At the end of January 2017 the listed power price in price area NO1 for deliveries of power in 2017 was 0.24 NOK/kWh, and in line with 2016.

Hafslund will ramp up its investments to a yearly average of NOK 2.1 billion in 2017 and 2018, compared with an average of NOK 1.0 billion between 2013 and 2015 and NOK 1.5 billion in 2016. In addition to ongoing investments in operations and expansion, the Group's future investments will be characterised by investments in automated meters and the construction of a new generator at Vamma with total investment frameworks of NOK 2.4 billion and NOK 920 million respectively.

The improvement in results means Hafslund is well positioned to move forward. The Group will continue to pursue existing organic growth opportunities, and seek out further areas for both organic and structural growth. The Group's activities will deliver renewable energy and contribute with environmentally friendly solutions. New technology and digitalisation will be leveraged to create new business opportunities and to develop the organisation and processes. Ongoing improvement work will continue to give the Group a competitive advantage. The Group's long-term dividend policy is to make stable distributions which over time equate to at least 50 percent of the net result for the year. The Board proposes a dividend of NOK 3.25 (NOK 3.00) per share for the 2016 financial year.

Oslo, 8 January 2017

Hafslund ASA

Board of Directors

> Consolidated income statement

Q4 15	Q4 16	NOK million	2016	2015
3 360	**4 222**	Operating revenues	**13 803**	11 905
(1 823)	**(2 644)**	Purchased materials and energy	**(7 954)**	(6 264)
1 538	**1 578**	**Gross margin**	**5 849**	5 641
34	**47**	Gain/loss financial items	**154**	112
(259)	**(289)**	Salaries and other personnel expenses	**(922)**	(992)
(516)	**(517)**	Other operating expenses	**(1 938)**	(1 841)
796	**818**	**EBITDA**	**3 143**	2 920
(274)	**(232)**	Depreciation	**(919)**	(920)
(1)	**(30)**	Impairment losses	**(31)**	(27)
522	**557**	**Operating profit**	**2 193**	1 973
(125)	**(90)**	Financial interest, etc	**(304)**	(425)
33	**30**	Change in market value loan portfolio	**87**	137
(92)	**(60)**	**Financial expenses**	**(217)**	(288)
429	**497**	**Profit before tax and discontinued operations**	**1 976**	1 686
(18)	**(113)**	Tax	**(573)**	(401)
411	**384**	**Profit after tax**	**1 402**	1 284
2.1	**2.0**	Earnings per share (in NOK) = diluted profit	**7.2**	6.6

> Consolidated statement of Other comprehensive income

411	**384**	**Profit after tax**	**1 402**	1 284
38	**(13)**	Value change hedging instruments	**(124)**	109
21	**12**	Translation differences	**(63)**	52
(8)	**3**	Tax	**31**	(27)
51	**2**	**Other comprehensive income that may be reclassified to profit or loss in subsequent periods**	**(156)**	134
304	**(135)**	Change in actuarial pensions	**(137)**	304
(76)	**34**	Tax	**34**	(76)
228	**(101)**	**Other comprehensive income that will not be reclassified to profit or loss in subsequent periods**	**(103)**	228
690	**285**	**Profit attributable to**	**1 143**	1 646
689	**284**	Profit to shareholders of Hafslund ASA	**1 143**	1 645
1	**0**	Profit attributable to minority interests	**1**	1
690	**285**		**1 143**	1 646

Hafslund

> Consolidated balance sheet

NOK million	31-12-16	31-12-15	30-09-16	30-09-15
Intangible assets	**2 880**	2 933	2 890	2 966
Fixed assets	**19 610**	19 302	19 297	19 133
Financial assets	**542**	841	459	1 164
Accounts receivable and inventory	**3 135**	2 752	1 875	1 727
Cash and cash equivalents	**572**	724	421	337
Assets	**26 740**	26 552	24 941	25 328
Equity, majority	**9 567**	9 009	9 288	8 372
Equity, minority	**4**	4	4	16
Allocations for liabilities	**3 553**	3 528	3 679	4 043
Long-term interest-bearing liabilities	**7 870**	8 330	7 719	8 136
Short-term interest-bearing liabilities	**2 193**	2 156	1 794	1 989
Short term non-interest-bearing liabilities	**3 553**	3 526	2 458	2 772
Equity and liabilities	**26 740**	26 552	24 941	25 328

> Equity reconciliation

NOK million	2016	2015
Equity beginning of period	**9 013**	7 877
Comprehensive income	**1 143**	1 646
Change own shares	**-**	9
Dividend	**(587)**	(487)
Change, minority interests	**-**	(13)
Other changes affecting equity	**1**	(19)
Equity at end of reporting period	**9 570**	9 013

> Consolidated statement of cash flow

NOK million	Q4 16	Q4 15	2016	2015
EBITDA	**818**	796	**3 143**	2 920
Paid interest	**(73)**	(88)	**(350)**	(419)
Paid taxes	**(18)**	(87)	**(380)**	(344)
Market value changes and other items without cash flow effect	**(33)**	20	**(132)**	(45)
Change in accounts receivables, etc.	**(1 296)**	(1 017)	**(525)**	(87)
Change in liabilities, etc.	**741**	500	**284**	176
Cash flow from operations	**140**	124	**2 041**	2 201
Investments (operation and expansion)	**(571)**	(510)	**(1 513)**	(1 282)
Net capital release shares, etc.	**(7)**	350	**387**	362
Cash flow investment activities	**(578)**	(159)	**(1 126)**	(919)
Change net interest-bearing debt and dicontinued operations	**588**	423	**(482)**	(814)
Dividend and other equity changes	**-**	-	**(586)**	(487)
Cash flow financing activities	**588**	423	**(1 068)**	(1 301)
Change in cash and cash equivalents in period	**150**	387	**(153)**	(19)
Cash and cash equivalents at beginning of period	**421**	337	**724**	743
Cash and cash equivalents at end of period	**571**	724	**571**	724

Hafslund

> Segment reporting

Q4 15	Q4 16	NOK million	2016	2015
1 218	**1 357**	Network	**4 757**	4 361
331	**414**	Heat	**1 152**	977
151	**168**	Production	**687**	654
1 704	**2 308**	Markets	**7 303**	5 939
(43)	**(26)**	Other activities/eliminations	**(95)**	(25)
3 360	**4 222**	**Total operating revenues**	**13 803**	11 905
16	**19**	Network	**59**	66
3	**(0)**	Heat	**-**	7
0	**0**	Production	**0**	2
60	**29**	Markets	**164**	233
76	**55**	Other activities	**236**	326
156	**103**	**Of which, sales between segments**	**460**	634
222	**308**	Network	**1 056**	822
112	**121**	Heat	**291**	231
81	**95**	Production	**417**	346
69	**102**	Markets	**498**	476
37	**(70)**	Other activities/eliminations	**(69)**	98
522	**557**	**Total operating profit**	**2 193**	1 973

Notes to the financial statements

1) Framework conditions and key accounting policies

The consolidated financial statements for the fourth quarter of 2016, the period ending 31 December 2016, have been prepared in accordance with International Financial Accounting Standards (IRFSs) as established by the EU and include Hafslund ASA and its associates and subsidiaries. This interim report, which has not been audited, has been prepared in accordance with IAS 34, Interim Financial Reporting. The interim financial statements do not provide the same scope of information as the annual financial statements and should therefore be viewed in the context of the consolidated financial statements for 2015. The accounting policies and calculation methods applied in the interim reporting are the same as those described in Note 2 to the consolidated annual financial statements for 2015.

2) Networks – income ceiling and income surpluses/shortfalls

- ✓ **Permitted income for the year**

Electrical power is distributed via networks, which represent a natural monopoly within the individual network business' geographic area. The Norwegian Water Resources and Energy Directorate (NVE) therefore establishes an income ceiling that represents the maximum income level the networks businesses are allowed to collect in network rental, and which is intended to provide a reasonable return on invested capital, and to cover normal operating and maintenance expenses. The regulated income ceiling, plus re-invoicing of expenses from the overhead network (Statnett) are referred to as permitted income and established for the year as a whole.

- ✓ **Actual income for the year**

A networks company's actual income (tariff income) comprises the tariffs, power consumption and actual transferred energy volume in the company's supply area. In accordance with IFRSs, income is recognised in the Networks business based on actual income for the year, and not permitted income as described above. However, the tariffs, or network rental, are established based on the premise that over time actual income will correspond to the permitted income for the Networks business.

- ✓ **Annual income surpluses and deficits**

Permitted income will normally deviate from actual income for the year due to the effect of the weather and temperatures on the transmitted volume in the network. If actual income is higher than permitted income, this results in an income surplus; and if it is lower, in an income deficit. Under IFRSs, income surpluses and income deficits are defined as regulated liabilities or assets that do not qualify for balance-sheet recognition. This is justified on the grounds that a contract has not been entered into with a particular customer and therefore the resulting receivable/liability is theoretically contingent on a future delivery.

At the reporting date Networks had an accumulated income surplus of NOK 187 million. The accumulated income surplus in 2016 was significantly reduced, in part due to positive non-recurring compensation following the consolidation of the Networks business in Østfold in 2014. This compensation is called harmonisation income, and NVE has notified Hafslund Nett that it will receive compensation of NOK 619 million. Harmonisation income is allocated by NVE to offset loss of income in the form of reduced future income ceilings for the merged company. At the end of 2015 Networks had an accumulated income surplus of NOK 873 million.

3) Interest-bearing loans and interest and currency derivatives

At the end of the fourth quarter of 2016 the value of the loan portfolio recognised in the balance sheet amounted to NOK 10,190 million, of which NOK 7,997 million related to long-term liabilities and NOK 2,193 million to current liabilities. The change in the fair value of loans boosted profits by NOK 30 million in the reporting period. The change in the fair value of interest and currency derivatives had a combined negative effect on results of NOK 5 million in the fourth quarter of 2016. In the fourth quarter of 2016 Hafslund's credit spreads widened by around 30 basis points for maturities of less than one year, and by around 10 basis points for maturities of 1 to 2 years, and remained virtually unchanged for longer maturities. The Nibor and swap interest rates remained virtually unchanged for maturities of up to one year, widened by around 10 basis points for maturities of 2–3 years and by 23–30 basis points for maturities of 4–5 years and by 35–45 points for longer maturities. The net effect of the above was that the market interest rate (including Hafslund's credit spreads) widened by around 30 basis points for maturities up to one year, by around 10 basis points for maturities of 1 to 3 years and by around 20 to 30 basis points for maturities of 4 to 5 years and 35 to 45 basis points for longer maturities.

The change in the fair value of loans is recognised in income as financial expenses, while the change in value of interest and currency derivatives is recognised in income as net financial items before the operating result.

Hafslund has a drawdown facility of NOK 3,600 million with a syndicate of six Nordic banks that matures in 2018. The company has negotiated favourable terms and no financial covenants attach to the loan agreement. The facility is intended to be used as a general liquidity reserve. Hafslund also has a NOK 200 million overdraft facility with Nordea which was unused at the end of the reporting period.

Some of Hafslund's businesses carry out transactions that are exposed to fluctuations in exchange rates. Currently this applies in particular to EUR- and SEK-denominated trades in power, power derivatives and el certificates. The Group's central finance department is responsible for managing the Group's overall foreign exchange exposure on behalf of the individual operating units, and performs all transactions with the market. Until 31 December 2009 Hafslund's entire loan portfolio was valued at fair value through profit or loss. Since 2010 new loans have been measured at amortised cost. At the end of the fourth quarter of 2016 these comprised NOK 7,656 million.

4) Financial Instruments by category, including hedging

The following principles have been applied in the subsequent measurement of financial instruments for financial instruments recognised in the balance sheet:

NOK million	Derivatives used for hedging purposes	Assets at fair value through profit or loss	Loans and receivables	Total
Long-term receivables			185	185
Derivatives	22	165		187
Trade and other receivables			2 852	2 852
Cash and cash equivalents			572	572
Total financial assets as of 31 December 2016	**22**	**165**	**3 609**	**3 796**

NOK million	Derivatives used for hedging purposes	Liabilities at fair value through profit or loss	Other financial liabilities	Total
Borrowings		2 534	7 656	10 190
Derivatives	23	124		147
Trade and other current payables			2 928	2 928
Total financial liabilities as of 31 December 2016	**23**	**2 658**	**10 584**	**13 265**

Hafslund classifies its financial instruments in the following categories; financial assets, loans and receivables and financial liabilities. Derivative financial instruments are valued as either "at fair value through profit or loss" or "for hedging purposes". Hafslund has four main groups of derivatives; power derivatives, interest and currency derivatives, and forward contracts relating to el certificates. Spot contracts used in the purchase of el certificates are recognised under cash and cash equivalents in the table above.

Several of the Group's results units are exposed to risk associated with the power market. The inherent exposure to the market primarily derives from the Group's ownership of power and heat production facilities, networks business and power sales to customers. In recent years the power market has been relatively volatile, which has increased the desire for greater predictability regarding the Production and Heat business areas. Some of the power price is hedged in order to reduce the risk relating to future cash flows from the sale of power. Hafslund hedges some of its hydropower production volume and enters into hedging contracts in the Heat business area for the next 36 months in order to reduce the power price risk. In line with the Group's hedging policy, the extent of hedging is expected to be significantly higher in the next six months than in the ensuing period. The extent of hedging may vary significantly, based on an overall assessment of market prices and prospects, where the purpose is to achieve satisfactory prices and reduce downside risk in Hafslund's earnings. Hedging arrangements are recognised as cash flow hedging in accordance with IAS 39, while changes in value in hedging instruments are recognised in other comprehensive income and are presented in the above table as Derivatives used for hedging purposes. The Group has introduced frameworks for hedging hydropower production volumes for up to 15 years to further reduce the risk relating to future cash flows.

The power sales business hedges the margins on all electricity products offering customers various types of fixed price schemes or price offers for a fixed period of time. Hedging is carried out by entering into financial power contracts to purchase physical volumes corresponding to the supply obligation to the customers. The Group enters into contract trading to hedge the margins on its customer portfolios. Financial power contracts are recognised at fair value through profit or loss. A gain of NOK 42 million was recognised in respect of changes in the unrealised value of power contracts in the fourth quarter of 2016, compared with a loss of NOK 49 million in the same quarter the previous year.

Gains deriving from changes in the value of power contracts will to some extent be offset by a corresponding decrease in the unrealised value of end-user contracts. However, losses deriving from changes in the value of power contracts will not be offset by a corresponding increase in the unrealised value of end-user contracts, since the Group’s end-user contracts are not deemed to fall within the scope of IAS 39 and are recognised in accordance with the lowest value principle.

Hafslund has decided to early-adopt IFRS 9 from 1 January 2017 in order to be able to benefit from new hedging rules, the option to reduce accounting volatility by measuring end customer contracts at fair value and to recognise changes in value relating to own credit risk in comprehensive income.

The table below shows financial instruments at fair value through profit or loss based on valuation method. The levels are:

1. Listed price in an active market for an identical asset or liability (level 1).
2. Valuation based on observable factors other than listed prices (level 1) either directly (prices) or indirectly (derived from prices) for the asset or liability (level 2).
3. In cases where it is not appropriate to employ the quoted share price or the transaction value, shares are valued on the basis of discounted future cash flows, as well as the Group’s own estimates.

NOK million	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss:				
Power derivatives	114	16	2	132
		30		30
Foreign exchange derivatives		3		3
Total assets	**114**	**49**	**2**	**165**
Financial liabilities at fair value through profit or loss:				
Borrowings		2 534		2 534
El-certificate derivatives	34			34
Power derivatives		85		85
Foreign exchange derivatives		5		5
Total liabilities	**34**	**2 624**		**2 658**

5) New tax rates in the Norwegian State Budget for 2017

The Norwegian government’s Budget for 2017 included a reduction in the general corporation tax rate from 25 percent to 24 percent from 1 January 2017. To offset this, the special tax rate for resource rent tax for hydropower production was increased from 33 percent to 34.3 percent from the same date. This reduced the deferred tax liability for the Hafslund Group by NOK 53 million at the end of 2016, and generated a corresponding positive results effect through the tax expense for the fourth quarter of 2016.

6) Sale of subsidiaries in Other business

On 25 July 2016 Hafslund completed the sale of Sarpsborg Avfallsenergi AS (SAE) to Sarpsborg Infrastructure AS. SAE is a waste-to-energy plant in Sarpsborg, Østfold municipality, which delivers energy in the form of industrial steam to the Borregaard industrial area. The agreed purchase sum, on a debt-free basis, is around NOK 280 million. The transaction generated an accounting profit of around NOK 20 million before transaction costs, which was recognised in Other business in the third quarter of 2016.

7) Retirement benefit obligations, liabilities and assets

Hafslund has updated its actuarial calculations using the assumptions recommended by the Norwegian Accounting Standards Board as of 31 December 2016. In accordance with the updated actuarial calculation, the Norwegian Covered Bonds interest rate, and expected return, decreased by 0.1 percentage points compared with the calculation as of 31 December 2015. In overall terms this increases the pension liability by NOK 137 million for the year. The change has correspondingly impacted the statement of comprehensive income by NOK 103 million after tax for the year.

8) Impairment testing

The Group constantly tests for indications of the need to recognise impairments. Impairment tests performed for non-core activities in wholly owned subsidiaries and associates in Other business revealed low robustness and high sensitivity to changes in value drivers. Consequently, impairments totalling NOK 54 million were recognised in the fourth quarter of 2016 in the business area Other business.

9) Operating assets

Investments in operating assets for the fourth quarter and 2016 as a whole came in at NOK 571 million and NOK 1,513 million respectively. All the investments relate to investments in operations and expansion.

10) Segment information

Hafslund reports business areas as operating segments. The power sales business, Hafslund Hedging AS, was transferred from Production to Markets effective the first quarter of 2016. The change was made retrospectively and the comparative figures for 2015 and 2014 have been restated accordingly. The table below shows the items that have been transferred from Production to Markets.

NOK million	Q4 15	Q3 15	Q2 15	Q1 15	Year 15	Year 14
EBITDA	25	2	4	5	36	35
Operating profit	25	3	3	4	35	32

11) Related party transactions

Hafslund enters into purchase and sales transactions with related parties as part of normal business operations. In 2016 Hafslund has bought and sold goods and services from/to the City of Oslo, which owns 53.7 percent of the shares in Hafslund ASA. Examples of sales to the City of Oslo include power sales, as well as associated maintenance and investments. Examples of purchases from the City of Oslo include district heating from the Waste-to-Energy Agency (EGE). All transactions between the parties are conducted on the arm’s length principle. The table below shows transactions with related parties:

NOK million	Sales of goods and services	Purchases of goods and services	Purchases recognised as investments	Trade receivables	Trade payables
Q4 2016					
City of Oslo	59	7	-		
2016					
City of Oslo	163	55	3	19	13

Hafslund

Historical quarterly information for the Group

> Consolidated income statement

NOK million	Q4 16	Q3 16	Q2 16	Q1 16	Q4 15	Q3 15	Q2 15	Q1 15	Q4 14
Operating revenues	4 222	2 580	2 779	4 222	3 360	2 158	2 610	3 777	3 605
Purchased materials and energy	(2 644)	(1 268)	(1 451)	(2 590)	(1 823)	(836)	(1 295)	(2 311)	(2 052)
Gross margin	1 578	1 312	1 328	1 632	1 538	1 322	1 315	1 466	1 552
Gain/loss financial item	47	28	82	(2)	34	19	49	11	44
Salaries and other personnel expenses	(289)	(180)	(211)	(242)	(259)	(221)	(249)	(263)	(283)
Other operating expenses	(517)	(501)	(504)	(416)	(516)	(457)	(430)	(438)	(553)
EBITDA	818	659	695	971	796	663	684	777	760
Depreciation and amortization	(262)	(234)	(225)	(229)	(275)	(236)	(232)	(204)	(246)
Operating profit	557	425	470	742	522	427	452	573	514
Financial interest etc	(90)	(72)	(73)	(69)	(125)	(123)	(81)	(95)	(165)
Change in market value loan portfolio	30	30	17	10	33	44	33	28	(28)
Financial expenses	(60)	(42)	(56)	(59)	(92)	(79)	(49)	(67)	(194)
Profit before tax and discon. operations	497	383	414	683	429	348	403	506	320
Tax	(113)	(127)	(141)	(192)	(18)	(111)	(124)	(149)	(112)
Profit after tax	384	255	273	491	411	237	279	357	208
Majority's share of profit	383	255	272	491	410	236	279	357	209
Minority's share of profit	0	0	0	0	1	0	(0)	(0)	(1)
Earnings per share (in NOK)	1.97	1.31	1.40	2.52	2.11	1.21	1.43	1.83	1.06

> Consolidated balance sheet

NOK million	31-12-16	30-09-16	30-06-16	31-03-16	31-12-15	30-09-15	30-06-15	31-03-15	31-12-14
Intangible assets	2 880	2 890	2 909	2 923	2 933	2 966	2 956	2 962	2 970
Fixed assets	19 610	19 297	19 404	19 310	19 302	19 133	19 074	19 021	19 011
Financial assets	542	459	593	761	841	1 164	1 046	832	786
Accounts receivable and inventory	3 135	1 875	1 615	2 420	2 752	1 727	1 866	2 307	2 703
Cash and cash equivalents	572	421	527	1 676	724	337	265	1 060	742
Assets	26 740	24 941	25 048	27 090	26 552	25 328	25 207	26 182	26 212
Equity, majority	9 567	9 288	9 093	9 448	9 009	8 372	8 139	8 230	7 861
Equtiy, minority	4	4	3	4	4	16	15	16	17
Allocations for liabilities	3 553	3 679	3 663	3 613	3 528	4 043	4 018	3 937	3 858
Long-term interest-bearing liabilities	7 870	7 719	7 409	8 332	8 330	8 136	8 485	8 188	8 692
Short-term interest-bearing liabilitis	2 193	1 794	2 059	1 653	2 156	1 989	1 723	2 186	2 668
Short term non-interest-bearing liabilities	3 553	2 458	2 821	4 040	3 526	2 772	2 827	3 624	3 117
Equity and liabilities	26 740	24 941	25 048	27 090	26 552	25 328	25 207	26 182	26 212

Hafslund

> Consolidated statement of cash flow

NOK million	Q4 16	Q3 16	Q2 16	Q1 16	Q4 15	Q3 15	Q2 15	Q1 15	Q4 14
EBITDA	818	659	695	971	796	663	684	777	760
Interest paid	(73)	(49)	(84)	(144)	(88)	(53)	(105)	(173)	(110)
Taxes paid	(18)	0	(226)	(136)	(87)	(29)	(123)	(105)	74
Value change and other non cashflow effect	(33)	(38)	(68)	7	20	(40)	(18)	(6)	(34)
Change in receivables	(1 296)	(269)	768	272	(1 017)	65	519	347	(749)
Change in trade credit etc	741	(281)	(820)	644	500	(204)	(808)	688	290
Cash flow from operations	140	22	265	1 614	124	402	148	1 528	231
Investments (operation and expansion)	(571)	(392)	(314)	(236)	(510)	(296)	(271)	(205)	(322)
Net capital release shares, etc.	(7)	266	7	121	350	12	0	0	(20)
Cash flow to investments activities	(578)	(126)	(307)	(115)	(159)	(284)	(271)	(205)	(342)
Change interest-bearing debt and dicon. operations	588	(2)	(521)	(547)	423	(46)	(185)	(1 005)	253
Dividend and other equity changes	0	0	(586)	0	0	0	(487)	0	0
Cash flow financing activities	588	(2)	(1 107)	(547)	423	(46)	(672)	(1 005)	253
Change in cash and cash equivalents in period	150	(106)	(1 149)	952	387	72	(795)	318	142
Cash and cash equivalents at beginning of period	421	527	1 676	724	337	265	1 060	743	601
Cash and cash equivalents at end of period	571	421	527	1 676	724	337	265	1 060	743

> Segment information

NOK million	Q4 16	Q3 16	Q2 16	Q1 16	Q4 15	Q3 15	Q2 15	Q1 15	Q4 14
Network	1 357	1 103	1 115	1 182	1 218	1 019	1 053	1 071	1 187
Heat	414	67	126	545	331	76	131	439	337
Production	168	167	199	152	151	176	176	150	221
Markets	2 308	1 273	1 368	2 353	1 704	887	1 247	2 101	1 898
Other activities/eliminations	(26)	(30)	(29)	(11)	(43)	(0)	3	16	(38)
Total sales income	4 222	2 580	2 779	4 222	3 360	2 158	2 610	3 777	3 605
Network	459	411	400	384	403	350	332	304	378
Heat	159	(12)	5	285	157	6	19	201	116
Production	107	113	147	95	91	119	117	65	153
Markets	122	131	124	208	92	145	137	186	85
Other activities/eliminations	(29)	16	20	(2)	53	43	80	22	28
Total EBITDA	818	659	695	971	796	663	684	777	760
Network	308	255	256	236	222	201	212	186	218
Heat	121	(50)	(30)	250	112	(30)	(17)	166	82
Production	95	101	136	84	81	107	105	53	142
Markets	102	111	99	186	69	125	116	166	60
Other activities/eliminations	(70)	8	8	(14)	37	23	35	2	12
Total operating profit	557	425	470	742	522	427	452	573	514

Definitions

Return on equity	Profit after tax for the last 12 months / Average 12-month equity incl. non-controlling interests
Return on capital employed	Operating profit / loss for the last 12 months / (average capital employed)
Capital employed	Equity + net interest-bearing liabilities + net tax positions
Equity ratio	Equity / total assets
Net interest-bearing liabilities	Interest-bearing liabilities - interest-bearing receivables and cash equivalents
Earnings per share	Profit after tax / average number of outstanding shares
Net debt / EBITDA	Net interest-bearing liabilities / EBITDA for the last 12 months
Cash flow per share	Cash flow from operations / average number of outstanding shares
Hedge ratio, Production	Hedged amount of estimated production portfolio
Hedge ratio, Heat	Hedged amount of estimated production. Net power price exposure by sales reduced by use of electricity and one-third of heat pumps

Financial calendar

1. Fourth Quarter 2016 Report and preliminary annual result – 9 February 2017
2. First Quarter 2017 Report – 3 May 2017
3. Annual General Meeting – 3 May 2017
4. Second Quarter 2017 Report – 11 July 2017
5. Third Quarter 2017 Report – 24 October 2017

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