



# Annual report 2014





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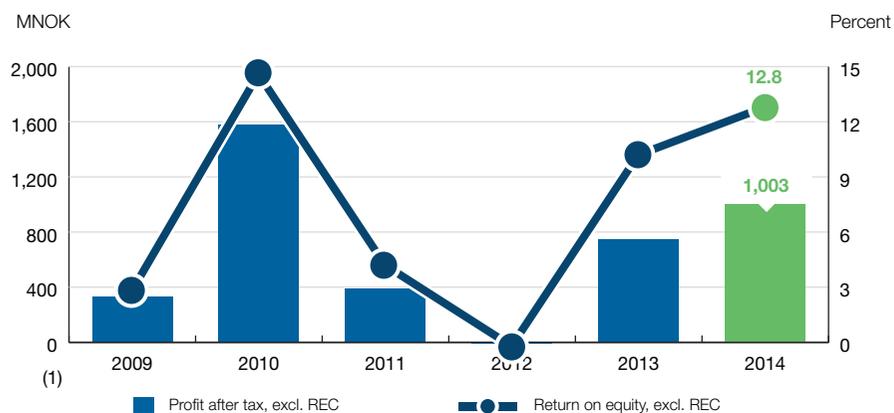
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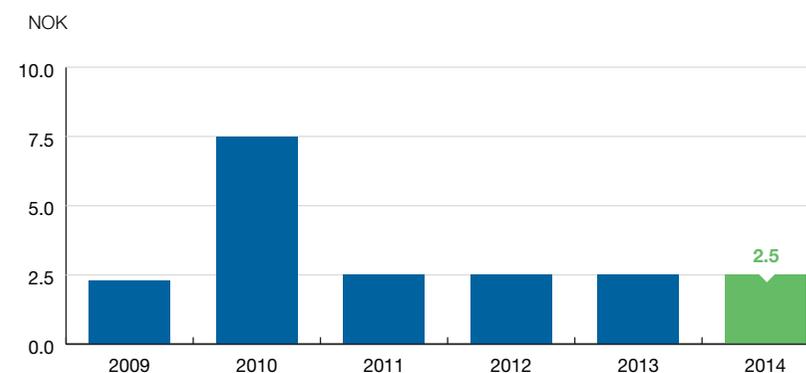
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# Key figures for the Hafslund Group

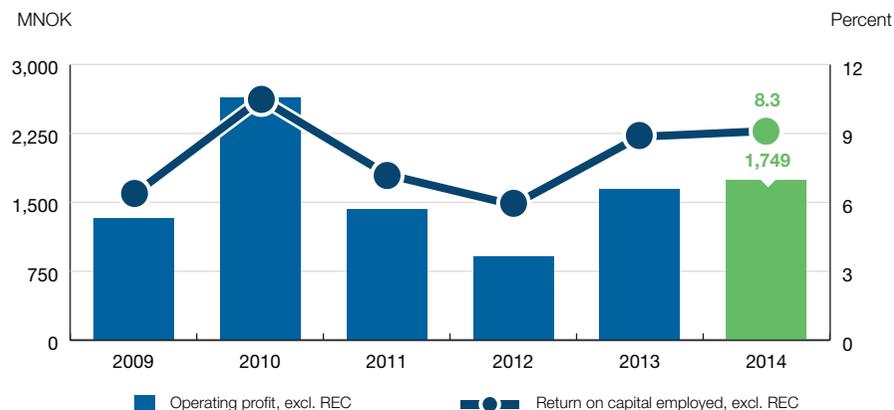
## Profit after tax and return on equity, excluding REC\*



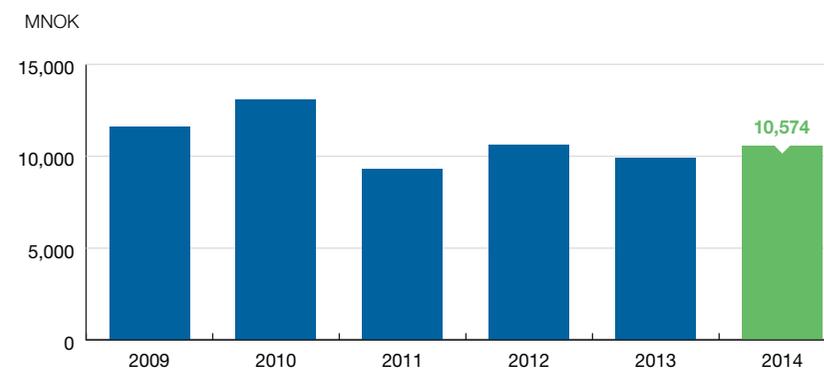
## Dividend per share



## Operating profit and return on capital employed, excluding REC\*



## Net interest-bearing liabilities



\* The figures include net non-recurring effects that impact the operating profit in the amount of NOK 575 million (NOK 659 million after tax) in 2010; NOK -511 million (NOK -551 million after tax) in 2012; NOK 74 million (NOK 131 million after tax) in 2013, and NOK -80 million (NOK 182 million after tax) in 2014.



# Message from the CEO

**Hafslund posted good financial results in 2014, despite a year of mild weather, and the lowest power prices seen in seven years. The company's four business areas – Networks, Markets, Heat and Production – are running efficiently, and as a whole returned stable and sound results. While we cannot influence the weather or power prices, we can naturally control our own operations and performance.**



Finn Bjørn Ruyter, President and CEO

In 2014 we increased the number of Networks customers from 571,000 to 683,000, primarily due to the acquisition of the distribution network in Østfold, south of Norway. As a result, new colleagues with new expertise are now helping to reinforce Hafslund Nett. We are moving even closer to achieving our aim of becoming the network company in Norway with the lowest cost per customer and the highest security of supply, not just in some years, but in all years to come.

We are making good progress in procuring the smart meters that have to be installed in the homes of all our networks customers by the end of 2018. New meters and advanced computer systems to manage and monitor the network will provide our customers, and us as a network company, with long-term benefits and savings. We are strengthening our expertise in order to leverage on these opportunities.

In 2014 the committee appointed by the government to evaluate the future networks organisation in Norway

submitted its recommendations, which Hafslund largely supports. We have been improving the efficiency of the operations for several years, which means we have already started to move in the direction recommended by the committee.

We have continued to expand the number of electricity retail customers, but in 2014 prioritised development of new products and reinforcement of the organisation ahead of high growth. Our Stockholm-based companies have merged and moved into new premises. A larger and more efficient SverigesEnergi, together with Gøta Energi and our electricity company in Finland, will provide a solid platform for further growth in the Nordic market.

Hafslund Strøm has launched its Link service, which will initially provide customers with information on electricity consumption in real time. Later in 2015 it will also offer lighting and heating management using a smartphone app. Business customers have been able to access information on energy

consumption and energy advice for many years through the Hafslund Online service. Energy-conscious customers with accurate information on their own consumption will be able to reduce their consumption and hence their bills.

The year of 2014 was the warmest ever recorded in Oslo. Naturally, this strongly impacted the district heating operations, as well as reminded us of the climate challenges we are now facing. After several years of major investments in new renewable heating facilities, we are now solely using fossils fuels for contingency purposes. We are continuing our initiatives to avoid using fossil fuels and gas by further improving operations. We are also strengthening control and quality assurance of the district heating network in order to prevent and reduce leaks.

In 2014 we reinforced operations and established a platform for increased growth and profitability for district heating in Oslo. It is important that as many customers as possible connect to the district heating network in the areas where

# Message from the CEO

we operate. Efficient, collective solutions such as district heating are difficult to implement if too many customers adopt individual solutions.

The floods in Glomma at the end of October proved challenging for Production, which normally uses the winter to carry out maintenance work in periods of low waterflow. We got the units ready for operation before the floods occurred, one of the reasons behind the record power production we achieved in 2014. Seasonal variations may become more marked moving forward, which in turn will impose new requirements for the scheduling of maintenance. Planning of a major new unit at Vamma is at an advanced stage, and in autumn 2015 the decision will be taken whether to proceed with construction.

Throughout 2014 Hafslund strengthened and improved all four business areas, and the company is now well positioned to continue growth that will be driven by significant population growth, higher sales to new customers and new opportunities for renewable power production. We will continue to boost expertise within new technologies and services, as well as identify opportunities for further structural growth.

In the coming years new framework conditions will result in greater changes than those we experienced in the previous decade. The energy markets are in flux, and our customers are adopting new technology and habits. We are well positioned in businesses that offer future-proof solutions, and possess both the ability and desire to exploit the opportunities offered by a fast-changing world.

**Finn Bjørn Ruyter**  
President and CEO, Hafslund



**We are well positioned in businesses that offer future-proof solutions, and possess both the ability and desire to exploit the opportunities offered by a fast-changing world**

# Report from the Board of Directors

In 2014 Hafslund consolidated its strong position as Norway's largest networks company through the acquisition of network business in Østfold. Hafslund gained more than 100,000 new network customers as a result of the transaction. While Networks and Markets posted improved results for the year, the result for Heat and Production was impacted by low power prices, which were partly offset by record-high hydropower production. Hafslund is well positioned to continue its focus on renewable energy, infrastructure for energy and the end-user market for electricity.



Following the acquisition of Fortum's networks business in Østfold, south of Norway, the regulated networks business accounts for almost half of Hafslund's capital employed. This guarantees Hafslund a stable return in a period characterised by low power prices and uncertain economic conditions. At the same time, the Networks business will grow organically over the next few years on the back of customer growth within the networks area, and make significant investments in the grid, in particular in connection with AMS.

The Production business area's year was characterised by record-high hydropower production and low power prices. The high production volume and positive result from hedging activities offset the effect of lower power prices on the operating result.

The Heat business area is Norway's largest district heating supplier, covering approximately 25 percent of Oslo's heating requirements. Heat's operating result for 2014 was adversely impacted by mild weather and ensuing lower energy demand, low power prices, and the recognition of extraordinary impairments as a result of poor profitability at the Bio-El Fredrikstad waste-to-energy plant and the secondary grid for supply of district heating to Søndre Nordstrand, south in Oslo.

The power sales business, which is included in Markets, returned improved results compared with the previous year, despite lower energy demand in a year of historically warm weather. Additional customers, improved margins and growth in sales of benefit products strengthened the result. Work to streamline the corporate structure and operating model is progressing. Here the intention is to establish a

more efficient operating organisation that will facilitate further customer growth, in particular in the Swedish and Finnish market.

Hafslund sees the results of the Group's improvement initiatives. Measures related to continuous improvement, efficient processes and cost control are constantly being enhanced in order to further leverage the company's competitive advantages.

## PERFORMANCE OVERVIEW

### Financial performance

The Hafslund Group posted a consolidated profit of NOK 1,003 million in 2014, a year-on-year increase of NOK 256 million. In addition to a sound result from Networks and Markets, the result was impacted by several non-

<sup>1</sup> Automatic electricity meters



## Report from the Board of Directors

recurring effects. The net profit for the year reflects positive non-recurring effects of NOK 182 million, compared with NOK 131 million in 2013. This includes NOK 127 million in extraordinary impairments for the Heat business area (NOK 93 million after tax), and a lapsed tax demand relating to the sale of the shares in Hatros I AS and Hatros II of NOK 268 million.

The Hafslund Group posted sales revenues of NOK 12.4 billion in 2014 (NOK 12.8 billion). The decrease in sales revenues is primarily attributable to lower power prices, with overall revenues falling despite the extra income generated by the acquisition of the network business in Østfold. Despite the above, and net non-recurring effects of NOK -80 million (NOK +74 million), the operating profit of NOK 1,749 million was up 6 percent on 2013. This equates to a return on capital employed of 8.3 percent (8.0 percent). At 5,359 GWh, total energy production is 442 GWh higher than the previous year. The mild and wet weather resulted in record-high hydropower production, while demand for district heating was lower due to historically warm weather during the year. In 2014 the unweighted wholesale price for power in the Oslo area was NOK 0.23 per kWh, down 22 percent on the previous year, and 24 percent lower than the average for the last ten years. Lower power prices are affecting earnings for the Production and Heat business areas, although positive results from hedging are partly offsetting the fall in the wholesale price. Networks improved its year-on-year results, in part due to lower grid losses and the maintenance of stable long-term tariffs. Despite lower energy demand due to mild weather, Markets posted an improved year-on-year result, partly as a result of an improved performance from power sales due to the increased number of customers, higher margins and growth in sales of benefit products.

Financial expenses of NOK 552 million (503 NOK million) for the year include a charge of NOK 73 million (NOK 9 million) due to an increase in the market value of the part of the loan portfolio that is recognised at market value in the financial statements caused by lower forward interest rates. Financial expenses also include a disagio of NOK 45 million (NOK 22 million) as a result of major currency fluctuations towards the end of the year. At 3.8 percent, the coupon rate on the loan portfolio remained unchanged during the year. The tax expense of NOK 194 million (NOK 402 million) includes a NOK 268 million reversal of previously recognised deferred tax, and resource rent tax of NOK 131 million (NOK 145 million) from the power production business.

The net profit of NOK 1,003 million (NOK 747 million) corresponds to a return on equity of 12.8 percent (10.2 percent) and earnings per share of NOK 5.14 (NOK 3.83). The financial statements have been prepared in accordance with IFRS. The board confirms that conditions exist for continued operation of the business on a going concern basis and that the annual financial statements have been prepared on this basis.

### Cash flow and capital

The Group's cash generated from operations before changes in working capital was NOK 2,127 million, a rise of NOK 503 million against 2013. The increase compared with the previous year is primarily attributable to higher EBITDA and lower paid taxes following the repayment of tax relating to a lapsed tax demand. At NOK 2,795 million, EBITDA were 567 NOK million higher than the associated cash flow from operations before changes in working capital. This is attributable to the payment of interest (NOK 452 million) and tax (NOK 48 million), in addition to cash items with no associated liquidity effect (NOK 67 million).

The net cash flow from investing activities of NOK 2,279 million (NOK 438 million) in 2014 is in part attributable to the second-quarter acquisition of Fortum's networks business in Østfold. In the year under review, a dividend of NOK 2.50 (NOK 2.50) per share was paid, corresponding to NOK 488 million.

At the reporting date the Group's net interest-bearing liabilities amounted to NOK 10.5 billion (NOK 9.9 billion) and the equity ratio came in at 30 percent (30 percent). Hafslund has a robust financing structure with long-term committed drawdown facilities. At the end of 2014 Hafslund had unutilised drawdown facilities of NOK 3.8 billion. None of Hafslund's loan agreements impose any financial covenants.

## THE BUSINESS AREAS

Hafslund is a leading power utility company in Norway with core activities within the business areas of Production, Heat, Networks and Markets. Hafslund is Norway's largest networks, district heating and power sales company, and a medium-sized power producer. Most of Production's, Networks' and Heat's assets are located in the south eastern part of Norway, while Markets targets customers in the entire Nordic region. The company is the only power company in Norway listed on the Oslo Stock Exchange.

### Production

The Production business area comprises the hydro power generation and a central power trading unit. Production is responsible for efficient management of the company's power plants in lower Glomma, as well as for targeting growth within renewable energy production. The Group's central power trading unit is responsible for trading in the spot market, trading in el-certificates, financial hedge trading and power trading.

## Report from the Board of Directors

In 2014 Production posted sales revenues of NOK 871 million (NOK 859 million) and an operating profit of NOK 552 million (NOK 568 million). The operating profit relates in the amount of NOK 521 million (NOK 549 million) to the power production business and NOK 31 million (NOK 19 million) to power trading. At the reporting date, Production had capital employed of NOK 4.4 billion, while the operating profit for the year corresponds to a return on capital employed of 12.8 percent (12.6 percent).

In 2014 the power production business posted record production of 3,452 GWh (2,845 GWh), which was 352 GWh higher than normal annual production of 3,100 GWh. The year was characterised by efficient operations and high uptime, despite record high water flow in Glomma for much of the year. In 2014 the volume-weighted wholesale power price for the Oslo area was NOK 0.22 per kWh, a reduction of 27 percent against the previous year. This negatively impacted earnings compared with the previous year, although a profit of NOK 53 million (NOK 16 million) from hedging partly offset the decrease in wholesale prices. At the reporting date the hedged volume for the next six months comprised 37 percent of normal production.

Project planning for a new generation unit at the Vamma power plant is proceeding in accordance with plan. The generator has a planned capacity of 125 MW, and the unit has an absorption capacity of 500 m<sup>3</sup>/s. The final investment decision is expected in the second half of 2015. In addition to expected future power prices and el-certificate prices, future maintenance requirements and operating risk in the power plants are key considerations in the investment decision. The provisional estimate of the investment cost is NOK 800 million, with an expected increase in annual production of 160 GWh.

### Networks

The Networks business area comprises the companies Hafslund Nett AS and Hafslund Driftssentral AS. On 30 May 2014 Hafslund completed the purchase of Fortum's networks business in Østfold, south of Norway, which increased the number of networks customers by 103,000 to 683,000 at the end of 2014. The purchased networks business was merged with Hafslund Nett AS at the end of 2014. An integration project is currently being implemented to establish an operating model and an organisation that will secure leveraging of synergy effects. At the same time a strong internal expertise pool is being established. The integration project is intended to help Hafslund Nett become an even more efficient grid company. Over time this will secure low tariffs for networks customers along with stable and solid returns on capital employed.

Networks posted sales revenues of NOK 4,147 million (NOK 4,052 million) and an operating profit of NOK 757 million (NOK 619 million) during the year. At the end of the year Networks had capital employed of NOK 10.5 billion, while the operating profit for the year corresponds to a return on capital employed of 7.8 percent (7.0 percent). The improvement in results for the year was partly attributable to lower grid losses, the maintenance of stable long-term tariffs and contributions from the acquired Networks business. The result includes positive non-recurring effects of NOK 50 million relating to lower pension expenses due to a change in the rules for mortality adjustments for the mandatory occupational pensions, and integration expenses of NOK 55 million. Measured against the allocated NVE income ceiling, the operating result reflects an income surplus of NOK 206 million (income deficit of NOK 120 million). At the reporting date Hafslund Nett's accumulated surplus income amounted to NOK 701 million.



The power production business posted record production of 3,452 GWh



Networks' customer base increased by more than 100,000



## Report from the Board of Directors

Assuming normal energy demand, planned network tariffs and maintenance, along with ongoing integration work, the operating profit for 2015 is expected to be slightly lower than in 2014. The above should be viewed in the context of a planned income deficit in 2015, compared with an income surplus in 2014.

In recent years investments in the regional distribution grid, in particular in Oslo's central areas, have been prioritised. The company plans to gradually step up investment levels (excluding AMS) in both the distribution and the regional grid for the period 2015–2017, in part to cater for population growth in Hafslund Nett's licensing area. The investment levels in the period 2015–2018 will also increase as a result of the introduction of AMS, where the final investment amount is estimated at NOK 2.4 billion.

Hafslund Nett endeavours to guarantee stable network tariffs for its customers. Hafslund Nett's grid tariff is among the lowest of any grid company in Norway. From 2015 Hafslund Nett will change its tariff structure for effect measured customers. Hafslund Nett's income will not be affected by the change in tariff; however, the distribution of customer tariffs over the year will change. Following the change, customers who use a lot of electricity at peak-load periods will have to pay more than customers who use electricity in off-peak periods.

Hafslund Nett must install AMS devices for all networks customers by 1 January 2019. With AMS, all households are equipped with a "smart meter" that records electricity consumption on an hourly basis and automatically transmits information on consumption to the grid company. Customers will be invoiced based on actual consumption, ongoing grid rental and hourly power prices, and thus have more control of the electricity bill than in the past. AMS meters will provide

networks companies with more information on conditions in the grid in the vicinity of customers, and thus allow them to address faults more quickly and plan network construction more efficiently. This will result in better security of supply, and, over time, deferred investments and lower tariffs of the customers. Hafslund Nett plans to start the first pilot for rollout of AMS during 2015.

### Heat

The Heat business area is responsible for district heating activities in Oslo and Akershus, and the delivery of heat and steam to industry in Østfold. In 2014, Heat posted sales revenues of NOK 1,080 million (NOK 1,153 million) and an operating profit of NOK 9 million (NOK 156 million). The operating profit reflects an extraordinary impairment of NOK 127 million due to weak profitability for the Bio-EI Fredrikstad waste-to-energy plant and secondary grid for supply of district heating to Søndre Nordstrand. At the reporting date the Heat business area had capital employed of NOK 5.2 billion. Adjusted for the extraordinary impairment, the operating profit equates to return on capital employed of 2.6 percent (2.9 percent).

In 2014, Heat achieved production of 1,907 GWh, which was down 165 GWh on the previous year, despite organic growth from new customers in district heating. The low production is attributable to mild weather. The level of, and changes in, wholesale power prices have a significant impact on Heat's results, as the wholesale price is included in the calculation of the district heating price for the customer. The fall in the wholesale price in 2014 negatively impacted year-on-year earnings, despite the fact that a contribution of NOK 37 million (NOK 35 million) from hedging activities and the successful harmonisation of tariff structures offset much of the effect of the fall in the wholesale prices. The gross contribution in the year under review was NOK 0.32 per

kWh (NOK 0.31 per kWh). At the reporting date the hedged volume for the next six months comprised 58 percent of normal production for the half-year.

From 1 January 2015 Hafslund Varme has changed its tariff structure for power-metered customers following changes to the grid tariffs for electricity in the licensing area. Following the change, customers who use a lot of electricity at peak-load periods will have to pay more than customers who use electricity in off-peak periods than in the past.

The share of electricity and other renewable energy sources used in district heating in Oslo increased to 97.3 percent in 2014, a rise of 0.8 percentage points against 2013. The increase is attributable to a higher percentage of heat from pellets, and the use of waste as a base load source delivered by the Oslo city Waste-to-Energy Agency (EGE).

In 2014, investments for Heat totalled NOK 95 million (NOK 61 million), and primarily related to higher organic growth in customer connections with an annual district heating requirement of 46 GWh for the existing district heating grid.

There were two significant district heating leaks in the centre of Oslo during 2014: on 12–14 February in Akersgata and 26 August in Pilestredet. On 26 January there was a third leak in Brenneriveien. In the wake of the incidents measures have been taken to reduce water losses in the event of leaks and to ensure a quicker return to ordinary operations. 2014 was also characterised by further optimisation measures and operating improvements, in particular in connection with optimisation of the fuel mix. Heat has also started to hedge the price of parts of the production volume that is exposed to the power price. In a market characterised by low power prices, the above contributed NOK 37 million.

## Report from the Board of Directors

### Markets

With activities in Norway, Sweden and Finland, the Markets business area comprises the results units power sales, invoicing services and the customer service centre. Markets is Norway's largest supplier of electricity to end users and one of the leading power sales companies in the Nordic region. Total sales for the year amounted to NOK 6.4 billion, down 0.4 billion on 2013. The decrease in sales is attributable to lower wholesale prices for power purchased on Nord Pool in 2014 compared with 2013. A total of 17.8 TWh of electricity was sold to customers in 2014, compared to 17.4 TWh in 2013.

Markets posted an operating profit of NOK 403 million in the reporting period (NOK 301 million). The increase compared with the previous year is attributable to operational improvements and low expenses for customer and invoicing services, as well as improved results from power sales on the back of more customers, higher margins and growth in sales of benefit products. At the end of the year, Markets had capital employed of NOK 1.6 billion. The operating profit for 2014 thus equates to a return on capital employed of 23.9 percent (16.1 percent).

The authorities are aiming to establish a joint Nordic end-user market for electricity by the end of 2016. Thanks to its strong position in the Norwegian power market, and activities in Sweden and Finland, Hafslund is well positioned to participate in a joint Nordic end-user market for electricity.

At the end of 2014 Hafslund had a total of 1,073,000 electricity customers, of whom 330,000 were outside of Norway. The power sales business includes eight different brands in Norway, Sweden and Finland.

In autumn 2013 Hafslund acquired all the shares in Energibolaget i Sverige Holding AB (EBS). In spring 2014,

following a joint analysis of the Swedish companies' position, brands and market reputation, the decision was taken to bundle the activities of SverigesEnergi and EBS under the brand SverigesEnergi. The merger involved a change of name for the EBS companies, and the transfer of all EBS employees to SverigesEnergi. EBS's Finnish business continues to operate under the brand name Suomen Energiayhtiö Oy.

Hafslund Tellier (previously Hafslund Fakturaservice) supplies metering, invoicing and collection services for the Group's companies. This includes ongoing invoicing of more than one million end-customers. Hafslund customer centre performs customer services for all companies in the Group that operate under the Hafslund brand.

### GOVERNMENT RELATIONS AND FRAMEWORK CONDITIONS

Hafslund's Networks business is regulated by the authorities as a natural monopoly. The framework for allowed income for the district heating business is established by statute. Both power production's and district heating's income is directly linked to prices in the power market, a market that is significantly impacted by political decisions.

It is critical for Hafslund to be able to provide the authorities with constructive feedback on the effect of framework conditions that impact its businesses and development opportunities. At the same time, Hafslund contributes to sensible political and regulatory decisions, by highlighting how decisions impact the key functions that Hafslund performs for modern society.

Proper follow-up of the proposals of the "Reiten Committee" will play a key role in securing a reasonable development of



**Markets is a leading power sales company in the Nordic region**



**97.3%**

Share of renewable energy sources used in district heating in Oslo

## Report from the Board of Directors



**Hafslund wishes to be a key sponsor of businesses that make a positive contribution to society and share the Group's values**

the Norwegian power industry. There will be major changes in the organisation of the end user market, including the rollout of AMS and introduction of Elhub over the next few years. It is important that the authorities' rule changes facilitate a sensible conversion without unnecessary expenses for networks and electricity companies and their customers.

Hafslund believes that the current restriction on use of electricity in district heating is inappropriate in light of the current power surplus in Norway and the Nordic region. The Norwegian Ministry of Finance is reviewing proposals from Hafslund to reduce undesired effects of the current regulatory framework. It is important that the forthcoming changes in the building regulations satisfy current requirements for flexible heating systems in homes and commercial buildings.

### CORPORATE SOCIAL RESPONSIBILITY

Hafslund is responsible for any social consequences caused by the Group's operations with regard to the external environment, human rights, working conditions and other social issues. This responsibility permeates Hafslund's entire value chain and business, and also covers Hafslund's procurements and investments. Hafslund adopts the Norwegian government's definition of corporate social responsibility issued in Report to the Storting no. 10 (2008–2009): Corporate Social Responsibility in a Global Economy.

During 2014 the Group continually focused on corporate social responsibility in the Group's companies. A guiding principle for the Group's work in this regard is its policy for the environment and corporate social responsibility, along with specific procedures for environmental management and

ethical trading. Hafslund has its own Code of Conduct that applies to all the company's suppliers, which is incorporated into all relevant contracts.

Hafslund wishes to be a key sponsor for businesses that make a positive contribution to society and support the Group's values.

### External environment

#### Environmental management

Effective environmental management is a natural part of Hafslund's corporate social responsibility remit, and an important means of securing efficient resource utilisation and operations. All the Group's units are expected to practise a systematic form of environmental management, and the Group has established requirements for such. The company that is responsible for the majority of energy consumption and emissions in the Group, Hafslund Varme, is certified to the international environmental standard ISO 14001. In addition, the head office at Drammensveien 144 and the conference centre at Hafslund Manor have both been certified as Eco-Lighthouses.

#### Production

The run-of-river plants produce environmentally friendly and renewable power, and it is in everyone's interests that the water resources of the Glomma river system to be exploited in the most efficient manner possible. In 2014 production uptime at Hafslund's electricity generating facilities was at 98.5 percent, which is in line with the previous year. There were no emissions of oil that had any significant environmental consequences.

#### Heat

The bulk of Hafslund's energy consumption and emissions

## Report from the Board of Directors

to air are associated with the production of heat. A high percentage of residual waste and renewable energy in the input factors means that emissions of greenhouse gases are low in relation to the amount of energy generated. In addition, district heating is increasingly replacing older oil boilers. The share of other fossil oil and gas was 2.7 percent in 2014, compared to 3.5 percent in 2013.

Incineration plants also produce emissions of a more local and regional nature, such as particle emissions, NOx and SOx. In 2014 these emission levels were generally lower than the maximum limits set by the authorities, and any emissions exceeding maximum limits were quickly handled with and reported to the authorities.

Hafslund Varme aim is to phase out fossil energy sources used in district heating production in a normal year, including peak loads. However, special conditions and lengthy periods of cold weather can result in some use of fossil energy sources for short periods, in order to maintain security of supply.

### Networks

Hafslund Nett regards it as part of its corporate social responsibility remit to guarantee a high security of supply for all its networks customers. The company also endeavours to keep expenses and losses at a low level. The ongoing conversion of the main distribution grid in Oslo to 132 kV will thus further reduce reactive grid losses against current levels.

There were one incident in 2014 where damage to cables resulted in emissions of cable oil to watercourses. Appropriate measures were taken, and there was no observable damage to either birds or fish.

### Other operations

The impact on the external environment of Hafslund's other operations largely derives from its buildings, transport and externally sourced services, including transport and contracting activities. Hafslund collaborates with Norsk Gjenvinning in connection with waste collection and return schemes. Hafslund is also a member of Renas, a collection and treatment scheme for industrial electrical waste.

One of Hafslund's aims is to increase the share of electrical vehicles in its fleet. All new vehicles shall essentially be rechargeable, unless special requirements dictate otherwise.

### Ethics and anti-corruption measures

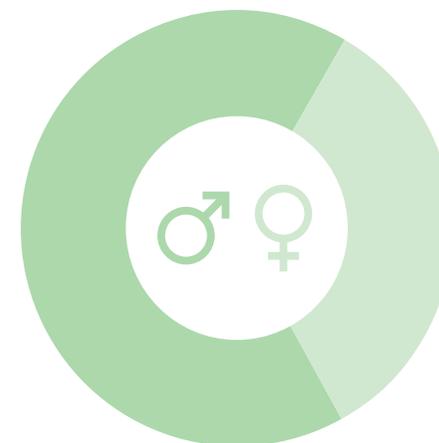
Hafslund is committed to maintaining high ethical standards in all its commercial operations. The Group has been a member of the Initiative for Ethical Trading (IEH) since 2008. Hafslund leverages its membership to continue to place clear demands on its suppliers in order to ensure that these exercise their business operations in line with Norwegian and internationally recognised principles and guidelines on human and employee rights, the environment and corruption. These requirements are incorporated into all contracts entered into by Hafslund. Hafslund has a framework for efficient corporate governance and a board-approved Code of Conduct for employees to combat corruption, bribery and conflicts of interest.

As a member of Sellicha, the Nordic energy industry's purchasing collaboration, Hafslund made a key contribution to the establishment of clearer ethical requirements in the year under review.



# 1,287

At the end of 2014 Hafslund employed 1,287 people



Hafslund strives to achieve a more equal gender balance in all business areas, and this is one of the focus areas within recruitment



# Report from the Board of Directors

## CORPORATE SOCIAL RESPONSIBILITY

### Employees

At the end of 2014 Hafslund employed 1,287 people (1257.6 full-time equivalents). 33.7 percent of the Group's employees are women, while 66.3 percent are men. Hafslund strives to achieve a more equal gender balance in all business areas, and this is one of the focus areas within recruitment. Hafslund's salary policy is based on individual salary establishment. Hafslund shall ensure that no discrimination takes place based on gender, ethnicity, national background, origin, skin colour, language, religion or belief with regard to areas such as salaries, promotion and recruitment. The Group's top management comprises three women and four men. The Group's management teams comprise 33 percent women and 67 percent men. Eight members serve on the board of Hafslund ASA, three of whom are women and five of whom are men. The company therefore complies with legislation regarding gender balance. Remuneration paid to executive management and the related management declaration is discussed in [Note 22](#) to the consolidated financial statements.

### Health, safety and the environment

Hafslund shall maintain high standards with regard to health, safety and the environment (HSE), and HSE considerations shall pervade all processes and activities.

The Group wishes all its companies to be attractive workplaces with a progressive and inclusive working environment, where the aim is that no employee should be injured at work or develop a work-related illness.

### Injuries

Five personal injuries were recorded involving own employees, one of which resulted in three days' lost time

(Hafslund Nett). This equates to a sickness absence rate for the Group of 2 lost-time injuries per million working hours (H1 indicator). A further four non-lost-time injuries were recorded. Two of the injuries were at Hafslund Varme, and two at the former Hafslund Nett Øst. This equates to an overall sickness absence rate per million working hours (H2 indicator) of 8.

Suppliers reported a total of eight lost-time injuries and twelve non-lost-time injuries while working at Hafslund's facilities. These injuries occurred on assignment for Hafslund Nett, Hafslund Varme and Hafslund Produksjon.

### Reporting of undesired incidents (RUI)

Reporting of undesired incidents is a particularly important tool to achieve the company's vision of zero injuries in the business. The aim is to ensure that all employees and suppliers notify undesired incidents, and that this information is used as a basis for preventing injuries and disseminating knowledge across the business. A total of 1,428 incidents were reported in 2014 (1,543).

### Sickness absence rate

In 2014 the Group's sickness absence rate was 4.6 percent (4.6 percent). The short-term sickness absence rate (up to 16 days) was 2.6 percent, while the long-term absence rate was 1.9 percent. The aim is for sickness absence not to exceed four percent in the Group as a whole.

## RISK

Hafslund is exposed to risk in a number of areas and along the entire value chain. The most important of these are regulatory, legal, reputational, financial, political and market risk, in addition to operational risk. Risk management at Hafslund is an integrated part of the Group's business

activities, and is designed to maintain risk at an acceptable level in order to help secure achievement of strategic and operational targets. Hafslund has established guidelines and frameworks for active and coordinated risk management in a number of areas. Overall Group-level risk is reviewed by the board.

### Market risk

The market price for electricity is one of several important factors affecting the Group's financial performance. This is in particular true for the sales of hydro power and district heating production. Hafslund has established hedging schemes to price-hedge future production of both hydropower and district heating. The company manages market risk by trading in financial instruments. The power sales business endeavours to reduce uncertainty regarding fluctuations in power prices through hedging, in order to achieve a balance in exposure to customers and purchases in the wholesale market. Counterparty risk in the power market is minimised through the use of standardised contracts that are settled via Nasdaq OMX Commodities. The key risk element for the power sales business relates to its customer base. At any given time the business has a substantial volume of accounts receivable due from customers. However, the bulk of these are relatively small receivables from private customers, and losses have traditionally been marginal. Hafslund is also exposed to raw material risk in connection with district heating and waste incineration. Group management evaluates and adopts strategies with which to manage this kind of risk within the risk profile determined by the board.

### Financial risk

The Group's finance department actively manages and hedges foreign currency exposure in order to reduce foreign exchange risk in relation to power trading, purchases of

## Report from the Board of Directors

### A SHARES

NOK 50.50 as of 31 December 2014  
and NOK 58.75 per share as of 18 March 2015  
Total 115,427,759 shares



### B SHARES

NOK 51.00 as of 31 December 2014  
and NOK 58.00 per share as of 18 March 2015  
Total 79,758,505 shares

# 14.9%

Share return  
(change in value + dividend in 2014)

goods and services, and foreign currency loans. Hafslund is exposed to interest rate risk in its interest-bearing borrowings, and in the Networks business due to the use of the five-year swap rate in the income ceiling. Normally changes in the interest rate curve will have an inverse effect on the loan portfolio, compared to the income ceiling for the Networks business. The Group seeks to reduce its interest rate risk through balanced management of fixed and variable interest rates on its interest rate portfolio. The board has approved the guidelines and frameworks which govern the management of financial risk.

The Group has several long-term committed drawdown facilities in order to secure availability of liquidity even in periods when it may be difficult to obtain financing in the capital markets.

#### Regulatory risk

Several of the Group's energy supply businesses are subject to public licenses and a large degree of public regulation. This applies in particular to Production, Heat and Networks. The Networks business is a natural monopoly with publicly-regulated earnings. Networks annual income ceiling is determined each year by the Norwegian Water Resources and Energy Directorate (NVE), and there can be unforeseen fluctuations due to changes in the regulatory model.

#### Operational risk

Hafslund is exposed to operational risk in all processes along the entire business chain. The highest operational risk attaches to project implementation and operations. Hafslund manages operational risk through detailed procedures for activities, controls and contingency plans. A key part of the Group's activities involve critical infrastructure which serves many of the population's basic needs. Consequently, security of supply is a cornerstone of Hafslund's operational

planning and operations. Risk relating to security of supply is also incorporated in the overall risk scenario at Group level, and is subject to review by the board.

The Group has established a system for registering and reporting censurable matters, undesired incidents and injuries. Insurance policies are also in place to cover all serious types of injury.

Risk analyses are performed for all projects at Hafslund over a certain scope and size with a view to evaluating and planning any required measures.

### OWNERSHIP STRUCTURE AND SHAREHOLDERS

Hafslund ASA has two classes of shares, with A shares granting voting rights at general meetings of the Group's shareholders. The reason for this is historical and deviates from the Norwegian Code of Practice for Corporate Governance. At the end of 2014 the Group's share capital totalled NOK 195,186,264, divided between 115,427,759 A shares and 79,758,505 B shares. At the reporting date the A shares were valued at NOK 50.50 and the B shares at NOK 51.00, and the company's total market capitalisation was NOK 9.9 billion. The return (change in value + dividend) in 2014 totalled 14.9 percent. By comparison, the Oslo Stock Exchange's main index OSEBX (OSEBX is adjusted for dividends) changed by 5.0 percent.

At the reporting date the City of Oslo was Hafslund ASA's largest shareholder, with 53.7 percent of share capital, comprising 58.5 percent of A shares and 46.8 percent of B shares. Fortum Forvaltning AS was the second-largest shareholder with 34.1 percent of the share capital, comprising 32.8 percent of A shares and 36.0 percent of B shares. At the close of the year Hafslund held 420,411 B shares.



# Report from the Board of Directors

## THE WORK OF THE BOARD OF DIRECTORS

Hafslund's Board of Directors has complied with the previously adopted board mandate and guidelines for the board's activities. Updated principles for corporate governance at Hafslund were adopted on 1 December 2014 in accordance with the Norwegian Code of Practice for Corporate Governance of 30 October 2014. A description of the principles, and a report on corporate governance are discussed at [www.hafslund.no](http://www.hafslund.no) (under "About Hafslund" and subsequently "Corporate governance"). There is agreement within Hafslund not to establish a Corporate Assembly. Consequently, the board reports directly to the general meeting.

Hafslund satisfies the statutory requirements for representation of both genders on the board. The board carries out an annual appraisal of its working practices, competence and working relationship with management. The board's Compensation Committee advises the board on a number of matters including the remuneration paid by the company to its President and CEO. The board's Audit Committee assist the board in the preparation of the financial statements and internal controls.

At the Annual General Meeting on 8 May 2014 the chairman of the board Birger Magnus and board members Maria Moræus Hanssen and Ellen Christine Christiansen were re-elected with a term of office until the Annual General Meeting of 2016. On 27 October 2014 employee representatives Per Orfjell, Per Luneborg and Jane Koppang were re-elected to the board of Hafslund ASA for a term of office of further two-years.

## DIVIDEND AND APPROPRIATION OF PROFIT

At the Annual General Meeting to be held on 7 May 2015, the board will propose that a dividend of NOK 2.50 per share, a total of NOK 488 million, be paid for the 2014 financial year. The board proposes that Hafslund ASA's loss for the year of NOK -11 million be distributed as follows:

Transferred from other equity:	NOK 498 million
Proposed dividend:	NOK -487 million
Total allocated:	NOK -11 million

## OUTLOOK

Hafslund is a focused energy company and one of Norway's leading networks, district heating and power sales companies, and a medium-sized power producer. Following the acquisition of the network business in Østfold the regulated networks business comprises almost half of Hafslund's employed capital. Network operations ensures Hafslund in a period marked by low power prices and uncertain economic conditions.

Production's and Heat's earnings are directly impacted by changes in power prices and the production volume. Power prices are determined by the hydrological balance, supply and demand for power, economic and regulatory conditions in the Nordic region and Europe. At the end of 2014 the listed system price for power delivered in 2015 was NOK 0.27 per kWh (NOK 0.30 per kWh). Assuming full spot-price exposure and normal production, an increase/decrease in

the power price over the year of NOK 0.1 per kWh would increase/decrease Production's and Heat's operating profit by NOK 29 million and NOK 12 million respectively. In order to secure cash flows and utilise market prospects some sales of produced energy are hedged.

Leveraging of operational synergies in the merged Networks business will play a key role in 2015. Networks' earnings are influenced to a large extent by the business area's relative efficiency compared with the rest of the networks industry, interest rate fluctuations, and changes in public regulations. A five percent change in relative efficiency or a one percent change in the NVE interest rate would impact Hafslund Nett's income ceiling by NOK 80 million.

Over the next few years Networks and power sales will face significant regulatory changes, including the introduction of AMS, the establishment of a national electricity hub (ehub) and a consumer-centric model. Power sales will continue its Nordic growth strategy in 2015. The business is exposed to tough competition, and profitability and growth will be contingent on Hafslund's ability to further develop and enhance its activities.

In addition to ongoing investments in operations and expansion, the Group's future investment requirements will be significantly impacted by statutory investments in AMS of around NOK 2.4 billion in the period leading up to 2019, and any decision to build a new generation unit at Vamma, projected at around NOK 800 million.

Hafslund is well equipped both operationally and financially to deliver a robust and future-proof energy supply to the expanding population in the south eastern part of Norway.

# Report from the Board of Directors

The Board of Directors of Hafslund ASA

Oslo, 18 March 2015

Birger Magnus  
Chairman of the Board

Maria Moræus Hanssen  
Deputy Chairman

Per Langer

Odd Håkon Hoelsæter

Ellen Christine Christiansen

Per Orfjell

Per Luneborg

Jane Koppang

Finn Bjørn Ruyter  
President and CEO



# Consolidated financial statements and notes

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## Income statement, statement of other comprehensive income

NOK million	Notes	1 January–31 December	
		2014	2013
Sales revenues	<a href="#">5</a>	12,396	12,818
Purchases of goods and energy		(6,866)	(7,867)
Salaries and other personnel expenses	<a href="#">18, 21, 22</a>	(879)	(901)
Other losses/(gains) – net	<a href="#">19</a>	67	75
Other operating expenses	<a href="#">20</a>	(1,972)	(1,747)
Share of profit/(loss) of associates	<a href="#">9, 25</a>	49	68
<b>Operating profit before depreciation, amortisation and impairments</b>		<b>2,795</b>	<b>2,446</b>
Depreciation and amortisation	<a href="#">6, 7, 8</a>	(898)	(789)
Impairments	<a href="#">6, 7, 8</a>	(148)	(5)
<b>Operating profit</b>		<b>1,749</b>	<b>1,652</b>
Finance costs	<a href="#">23</a>	(552)	(503)
<b>Profit before tax</b>		<b>1,197</b>	<b>1,149</b>
Income tax expense	<a href="#">17</a>	(194)	(402)
<b>Profit for the year</b>		<b>1,003</b>	<b>747</b>
<b>Attributable to:</b>			
Owners of the parent		1,003	747
<b>Earnings per share (NOK per share)</b>			
Earnings per share (= diluted earnings per share)	<a href="#">14</a>	5.14	3.83

Notes 1 to 26 are an integral part of the consolidated financial statements.

NOK million	Notes	1 January–31 December	
		2014	2013
<b>Profit for the year</b>		<b>1,003</b>	<b>747</b>
<b>Items that can subsequently be reclassified to the income statement</b>			
Gains (losses) deriving from cash flow hedging	<a href="#">10</a>	(23)	35
Translation differences		7	14
Income tax	<a href="#">17</a>	6	(10)
<b>Total items that can subsequently be reclassified to the income statement</b>		<b>(10)</b>	<b>40</b>
<b>Items that cannot subsequently be reclassified to the income statement</b>			
Estimate deviations pensions	<a href="#">18</a>	(307)	(19)
Income tax	<a href="#">17</a>	83	5
<b>Total items that cannot subsequently be reclassified to the income statement</b>		<b>(224)</b>	<b>(14)</b>
<b>Other comprehensive income for the year</b>		<b>(234)</b>	<b>26</b>
<b>Total comprehensive income for the year</b>		<b>769</b>	<b>773</b>
<b>Attributable to:</b>			
Owners of the parent		769	774
Non-controlling interests			(1)
<b>Total comprehensive income for the year</b>		<b>769</b>	<b>773</b>

Notes 1 to 26 are an integral part of the consolidated financial statements.

## Balance sheet

NOK million	Notes	31 December	
		2014	2013
<b>Assets</b>			
Property, plant and equipment	<a href="#">6</a>	19,011	18,251
Intangible assets	<a href="#">7</a>	2,970	2,575
Investments in associates	<a href="#">9</a>	646	204
Long-term receivables	<a href="#">10, 11, 18</a>	221	491
<b>Non-current assets</b>		<b>22,848</b>	<b>21,520</b>
Inventories		47	60
Trade and other receivables	<a href="#">10, 12</a>	2,435	2,428
Financial assets	<a href="#">3, 10</a>	140	202
Cash and cash equivalents	<a href="#">10, 13</a>	742	1,143
<b>Current assets</b>		<b>3,364</b>	<b>3,833</b>
<b>Total assets</b>		<b>26,212</b>	<b>25,353</b>
<b>Equity and liabilities</b>			
Paid-in equity	<a href="#">14</a>	4,275	4,275
Retained earnings		3,585	3,290
Non-controlling interests		17	18
<b>Equity</b>		<b>7,877</b>	<b>7,583</b>
Borrowings	<a href="#">10, 16</a>	9,047	9,432
Deferred income tax liability	<a href="#">17</a>	3,080	3,098
Pension liabilities	<a href="#">18</a>	416	235
<b>Long-term liabilities</b>		<b>12,543</b>	<b>12,765</b>
Trade and other current payables	<a href="#">10, 15</a>	2,395	2,002
Financial liabilities	<a href="#">3, 10</a>	199	168
Income tax payable	<a href="#">17</a>	340	299
Borrowings	<a href="#">10, 16</a>	2,857	2,536
<b>Current liabilities</b>		<b>5,792</b>	<b>5,004</b>
<b>Total liabilities</b>		<b>18,335</b>	<b>17,770</b>
<b>Total liabilities and equity</b>		<b>26,212</b>	<b>25,353</b>

The Board of Directors of Hafslund ASA  
Oslo, 18 March 2015

Birger Magnus  
Chairman of the Board

Maria Moræus Hanssen  
Deputy Chairman

Per Langer

Odd Håkon Hoelsæter

Ellen Christine Christiansen

Per Orfjell

Per Luneborg

Jane Koppang

Finn Bjørn Ruyter  
President and CEO

*Notes 1 to 26 are an integral part of the consolidated financial statements.*



## Statement of cash flow

NOK million	Notes	1 January–31 December	
		2014	2013
<b>Earnings before interest, taxes, depreciation and amortisation</b>		<b>2,795</b>	<b>2,446</b>
Adjustments for:			
- gains/losses on disposal of operating assets and activities		4	(18)
- gains/losses on financial assets at fair value through profit or loss		(22)	(3)
- other items with no cash flow effect		(49)	(27)
Changes in working capital:			
- Inventories		16	23
- Trade and other receivables		7	(10)
- Trade and other current payables		(124)	25
<b>Cash flow from operating activities</b>		<b>2,627</b>	<b>2,436</b>
Interest paid		(452)	(474)
Income tax paid		(48)	(338)
<b>Net cash flow from operating activities</b>		<b>2,127</b>	<b>1,624</b>
Investments in operations and expansion	<a href="#">6, 7</a>	(875)	(772)
Sales of property, plant and equipment		59	65
Purchased businesses, shares, etc.	<a href="#">25</a>	(1,463)	(101)
Disposals of shares, etc.			370
<b>Cash flow from investing activities</b>		<b>(2,279)</b>	<b>(438)</b>
New long-term borrowings	<a href="#">16</a>	2,225	3,635
Repayments of borrowings		(2,347)	(3,420)
Change in interest-bearing receivables	<a href="#">11</a>	368	
Dividends and other equity transactions		(501)	(487)
<b>Cash flow from financing activities</b>		<b>(255)</b>	<b>(272)</b>
<b>Change in cash and cash equivalents</b>		<b>(407)</b>	<b>914</b>
Cash and cash equivalents as of 1 January		1,143	223
Foreign exchange gains/(losses), cash and cash equivalents		6	6
<b>Cash and cash equivalents as of 31 December</b>	<a href="#">10, 13</a>	<b>742</b>	<b>1,143</b>

Notes 1 to 26 are an integral part of the consolidated financial statements.



## Statement of changes in equity

NOK million	Share capital	Share premium account	Other paid-in equity	Estimate deviations pensions	Translation differences	Retained earnings	Equity attributable to owners of the parent	Non-controlling interests	Total equity
<b>Equity as of 31 December 2012</b>	<b>195</b>	<b>4,080</b>	<b>76</b>	<b>469</b>	<b>2</b>	<b>2,446</b>	<b>7,268</b>	<b>20</b>	<b>7,289</b>
Result for the year						747	747		747
Other comprehensive income				(14)	14	26	26		26
<b>Total comprehensive income for the year</b>				<b>(14)</b>	<b>14</b>	<b>773</b>	<b>773</b>		<b>773</b>
<b>Transactions with owners:</b>									
Change in non-controlling interests								(2)	(2)
Dividend for 2012						(487)	(487)		(487)
Change in treasury shares						10	10		10
<b>Equity as of 31 December 2013</b>	<b>195</b>	<b>4,080</b>	<b>76</b>	<b>455</b>	<b>16</b>	<b>2,742</b>	<b>7,564</b>	<b>18</b>	<b>7,583</b>
Changes in policies and adjustments 1 January 2014						19	19		19
<b>Adjusted equity as of 1 January 2014</b>	<b>195</b>	<b>4,080</b>	<b>76</b>	<b>455</b>	<b>16</b>	<b>2,761</b>	<b>7,583</b>	<b>18</b>	<b>7,601</b>
Profit for the year						1,003	1,003		1,003
Other comprehensive income				(224)	7	(17)	(234)		(234)
<b>Total comprehensive income for the year</b>				<b>(224)</b>	<b>7</b>	<b>986</b>	<b>769</b>		<b>769</b>
<b>Transactions with owners:</b>									
Change in non-controlling interests								(1)	(1)
Dividend for 2013						(488)	(488)		(488)
Change in treasury shares						(13)	(13)		(13)
Other changes in equity						9	9		9
<b>Equity as of 31 December 2014</b>	<b>195</b>	<b>4,080</b>	<b>76</b>	<b>231</b>	<b>23</b>	<b>3,255</b>	<b>7,860</b>	<b>17</b>	<b>7,877</b>

The board has proposed a dividend of NOK 2.50 per share for the 2014 financial year. The corresponding figure for 2013 was NOK 2.50 per share.

Notes 1 to 26 are an integral part of the consolidated financial statements.

## Note 1, 2

### NOTE 1 ▶ GENERAL INFORMATION

Hafslund ASA (“the company”) and its subsidiaries (hereinafter referred to as Hafslund) is one of the largest listed power groups in the Nordic region. Hafslund is Norway’s largest network, power sales and district heating company, and a medium-sized Norwegian power producer.

The Hafslund Group operates its business through subsidiaries and associates and is primarily active within the Norwegian market. The company is headquartered in Oslo and is listed on the Oslo Stock Exchange. The consolidated financial statements were adopted by the company’s board on 18 March 2015.

### NOTE 2 ▶ KEY ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. Unless otherwise stated, these policies are applied in the same way for all accounting periods.

#### 2.1 Framework

Hafslund ASA’s consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) and interpretations issued by the IFRS Interpretation Committee (IFRIC), as established by the EU. These financial statements contain no differences between IFRSs as established by the EU and the IASB. The consolidated financial statements have been prepared under the historical cost convention. Exceptions to the above primarily relate to financial assets and liabilities (including derivatives) measured at fair value through profit or loss. The preparation of financial statements in accordance with IFRSs requires the use of estimates. It also requires management

to exercise its judgement in the process of applying the Group’s accounting policies. The areas involving a high degree of judgement or complexity, or areas where assumptions and estimates are material to the consolidated financial statements are disclosed in [Note 4](#).

The consolidated financial statements have been prepared in accordance with the going concern assumption.

#### a) New and amended standards adopted by the Group

Since 1 January 2014 the following standards have been adopted that affect the financial statements:

- *IFRS 10 Consolidated Financial Statements* is based on current policies which involve applying the control concept as the decisive criterion in determining whether a company should be included in the consolidated financial statements of a parent company. In accordance with IFRS 10, the associate Energy Future Invest AS (EFI) has changed its policy for recognising investments in subsidiaries. EFI is an investment company and in accordance with the amended IFRS 10, investments in EFI are now recognised at fair value in the financial statements. An amount of NOK 19 million was recognised directly in equity in respect of Hafslund’s share of the effect of the change in policy; see also [Note 9](#). With the exception of the above, the amendments to IFRS 10 have not impacted Hafslund’s consolidated financial statements.
- *IFRS 11 Joint Arrangements* focuses on the rights and obligations of parties covered by such arrangements other than with regard to the legal structure. There are two types of joint arrangements: joint operations and joint ventures. Joint operations arise when the participants have rights over the asset and are liable for the liabilities under the arrangement. A participant in a joint operation

recognises its share of assets, liabilities, income and expenses. Joint ventures arise when the participants have rights in connection with the net assets under the arrangement. These types of schemes are recognised in accordance with the equity method. The “gross” or “proportional consolidation” method are no longer applied. The amendment to IFRS 11 has not impacted Hafslund’s consolidated financial statements.

- *IFRS 12 Disclosures of Interests in other entities* contains all notes disclosures relating to interests in other entities, including joint arrangements, associates, structured entities and other non-consolidated companies.
- Amendments to *IAS 32 Financial Instruments* clarify when financial assets and liabilities can be recognised on a net basis. The right to set-off cannot be contingent on a future event. The set-off must also be legally enforceable in all situations (ordinary operations, breaches, insolvency or bankruptcy) that the company and counterparties may find themselves in. The amendment also addresses acquisition mechanisms. The amendment has not had a material impact on the consolidated financial statements.
- Amendments to *IAS 36 Impairment of Assets* abolishes the disclosure requirement regarding recoverable amounts for individual cash-generating units, which due to an omission had been included in IAS 36 on the implementation of IFRS 13.
- Amendment to *IAS 39 Financial instruments – recognition and measurement* on counterparty changes for derivatives and continuation of hedge accounting. The amendment deals with legislative changes introducing requirements for use of clearing houses for bilateral

## Note 2

agreements. In accordance with IAS 39, a change in counterparty for a clearing house will result in the termination of the hedge transaction. Following the amendment, hedge accounting will not cease if the change in counterparty for a hedging instrument satisfies certain criteria. The amendment has not had a material impact on the consolidated financial statements.

- *IFRIC 21 Levies* establishes the need to recognise an obligation to pay a levy that falls within the scope of IAS 37 Provisions. The interpretation deals with the nature of the obligating event that triggers the need to recognise a levy as an obligation. The interpretation did not result in any material changes at the time of recognition of levies for the Group.

### b) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early-adopted by the Group.

The Group has not early-adopted any new or amended IFRS standards or IFRIC interpretations.

- *IFRS 9 Financial Instruments* deals with the classification, measurement and recognition of financial assets and financial liabilities, as well as hedge accounting. The full version of IFRS 9 was published in July 2014. This replaces the sections of IAS 39 that deal with corresponding issues. In accordance with IFRS 9 financial assets are divided into three categories: fair value through other comprehensive income, fair value through profit or loss and amortised cost. The measurement category is established based on the method used for the first-time recognition of the asset. The classification is contingent on the entity's business model for management of its financial instruments and the nature of the cash flows for the individual instrument. Equity instruments are essentially measured at fair

value through profit or loss. The enterprise can elect to recognise changes in value through other comprehensive income; however the choice is binding, and on subsequent disposals gains/losses cannot be reclassified through profit or loss. Impairments attributable to credit risk are now recognised based on expected losses rather than the current model where losses must already have been incurred. The standard essentially continues the requirements of IAS 39 for financial liabilities. The greatest change lies in that – in cases where the fair value option has been utilised for a financial liability – changes in fair value that are attributable to changes in inherent credit risk are now recognised in other comprehensive income. IFRS 9 simplifies the requirements for hedge accounting by tying hedging efficiency more closely to management's risk management and providing greater scope for assessment. It also continues the requirement for hedging documentation. The standard enters into force for the financial year 2018, but may be early-adopted. The Group has still not reviewed the full impact of IFRS 9.

- *IFRS 15 Revenue from Contracts with Customers* deals with revenue recognition. The standard establishes that the customer contract be split into individual performance obligations. A performance obligation can be a product or a service. Revenue is recognised when a customer achieves control over a product or service, and thus has the opportunity to determine the use of, and can receive the benefits deriving from, the product or the service. The standard replaces *IAS 18 Revenue* and *IAS 11 Construction Contracts* and associated interpretations. The standard enters into force for the financial year 2017, but may be early-adopted. The Group has still not reviewed the full impact of IFRS 15.

There are no other IFRS standards or interpretations that

have not yet entered into force that are expected to have a material impact on the consolidated financial statements.

## 2.2 Basis of consolidation

### a) Subsidiaries

Subsidiaries are all entities over which the Group exercises control. Control over an entity arises when the Group is exposed to variability in the return from the entity and has the ability to impact this return by virtue of its influence over the entity. Subsidiaries are consolidated from the day control arises and deconsolidated when control ceases.

The purchase method is applied for business acquisitions. The consideration is measured at the fair value of any transferred assets, liabilities or issued equity instruments. Identifiable assets and liabilities and contingent liabilities assumed in a business combination are initially measured at their fair value at the acquisition date. Non-controlling interests in the acquired company are measured on an acquisition-by-acquisition basis, either at fair value, or at their proportionate share of the company's net assets. Acquisition-related costs are expensed as incurred.

When a business is acquired in stages the shareholding from previous purchases is revalued at fair value at the time control is established with changes in value being recognised in the income statement. Contingent consideration is measured at fair value at the time of acquisition. In accordance with IAS 39 subsequent changes in the fair value of contingent consideration are recognised in income or as a change in other comprehensive income depending on whether the contingent consideration is classified as an asset or liability. Contingent consideration classified as equity is not revalued, and subsequent settlement is recognised in equity.



## Note 2

If the consideration transferred (including any non-controlling interests and the fair value of previous assets) exceeds the fair value of identifiable net assets acquired, this is recognised as goodwill. If the consideration transferred (including any non-controlling interests and the fair value of previous assets) is less than the fair value of net assets in the subsidiary due to the fact that the purchase has been concluded on favourable terms, the difference is recognised as a gain in the income statement.

Intragroup transactions, intragroup balances and unrealised intragroup gains or losses are eliminated. Reported figures from the subsidiaries are restated when this is necessary to achieve consistency with the Group's accounting policies.

### b) Change in shareholding in subsidiaries without loss of control

Transactions with non-controlling interests in subsidiaries that do not involve loss of control are treated as equity transactions. When shares are purchased from non-controlling owners, the difference between the consideration and the proportionate percentage of net assets recognised in the subsidiary's balance sheet relating to such shares is recognised in the parent company's owners' equity. Gains or losses on disposals of non-controlling interests are similarly recognised in equity.

### c) Divestment of subsidiaries

When the Group no longer has control, any residual interest is measured at fair value with changes in value being recognised through profit or loss. Thereafter the fair value is deemed to equate to cost, and the interest is valued either as an investment in associates or joint ventures or as a financial asset. Amounts previously recognised in other comprehensive income relating to this company are treated as if the Group had disposed of the underlying assets

and liabilities. This could mean that amounts that were previously recognised in other comprehensive income are reclassified through profit or loss.

### d) Associates

Associates are all entities over which Hafslund exerts significant influence, but not control. Significant influence will generally exist when the Group has a shareholding of between 20 and 50 percent of the voting rights. Investments in associates are recognised in accordance with the equity method. Investments are recognised at cost at the time of acquisition, and the Group's share of the results in subsequent periods is recognised in income or expenses. Amounts recognised in the balance sheet include any implicit goodwill identified at the time of acquisition. On the reduction of a shareholding in an associate where the Group maintains significant influence, only a pro rata share of amounts previously recognised in other comprehensive income is reclassified in the income statement.

The Group's share of its associates' post-acquisition profits or losses is recognised in the income statement and added to the book value of the investment. The Group's share of other comprehensive income of the associate is recognised in consolidated comprehensive income and the value of the investment recognised in the balance sheet is adjusted accordingly. The Group does not recognise any share of an associate's losses in its income statement if this results in the book value of the investment falling below zero (including unsecured receivables from the entity), unless the Group has assumed liabilities or made payments on behalf of the associate.

At the end of each accounting period the Group determines whether there is any need to recognise an impairment of the investment in the associate. In such cases the impairment amount is measured as the difference between the

recoverable amount of the investment and its book value, and the difference is recognised in income on a separate line together with the item Share of profit/(loss) of associates.

In the event of any gains or losses on transactions between the Group and its associates, only the proportionate share relating to external shareholders is recognised. Unrealised losses are eliminated unless there is a need to recognise an impairment for the asset that was the subject of the transaction. Where necessary, the financial statements of associates have been restated where necessary to ensure consistency with the accounting policies adopted by the Group, with the exception of associates that are investment companies.

Dilution gains and losses arising on investments in associates are recognised in the income statement.

## 2.3 Segment information

The operating segments are reported using the same structure used in the management internal reporting to the Group's ultimate decision-maker. The Group's ultimate decision-maker, which is responsible for allocation of resources to and assessment of earnings generated by the operating segments, is defined as Group management.

## 2.4 Translation of foreign currency

### a) Functional currency and presentation currency

The Group's single entity financial statements are recorded in the currency that is used in the area where the entity primarily operates (functional currency). The consolidated financial statements are presented in NOK, which is both the parent company's functional currency and the Group's presentation currency.

## Note 2

### b) Transactions and balance sheet items

Transactions denoted in foreign currency are translated to the functional currency using the transaction rate. All monetary items denoted in foreign currency are translated at the rate in force at the balance sheet date. Realised foreign exchange gains or losses on the settlement and translation of monetary items denoted in foreign currency to the rate in force at the balance sheet date are recognised in the income statement.

Foreign exchange gains and losses connected to borrowings and cash and cash equivalents are presented (net) as finance income or finance costs. Other foreign exchange gains and losses are presented under the item Other (losses)/gains – net.

The currency effect of non-monetary items (both assets and liabilities) is included as part of fair value recognition. Foreign exchange differences on non-monetary items, such as shares valued at fair value through profit or loss, are recognised in the income statement as part of total gains and losses. Foreign exchange differences on shares classified as available for sale are included in changes in value that are recognised in other comprehensive income.

### c) Group companies

The income statement and balance sheets of Group companies whose functional currency differs from the presentation currency are translated in the following manner:

- The balance sheet, including goodwill and excess values on acquisitions, is translated at the rate in force at the balance sheet date.
- Revenues and expenses are translated to NOK using the average exchange rate.

- Translation differences are recognised in other comprehensive income and specified separately in equity.

### 2.5 Property, plant and equipment

Property, plant and equipment is recognised in the balance sheet at cost less cumulative depreciation and impairments. Cost includes expenses directly connected to the acquisition of the operating asset, including directly attributable borrowing costs. Subsequent costs are included in the asset's book value or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The book value of the replaced part is de-recognised. Other repair and maintenance expenses are recognised through profit or loss in the period in which the expenses are incurred. Land is not depreciated. Depreciation on other operating assets is calculated using the straight-line method so as to allocate their cost to their residual values over their estimated useful lives, as follows:

Power facilities	20–50 years
District heating facilities	10–50 years
Network facilities	10–50 years
Technical equipment and chattels	3–30 years
Other property	20–50 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. If an asset's book value is greater than its estimated recoverable amount, it is written down to the recoverable

amount. (**Note 2.7**). Gains and losses on the disposal of operating assets are recognised in the income statement under Other (losses) gains – net, and comprise the difference between the cost to sell and book value.

### 2.6 Intangible assets

#### a) Waterfalls

Waterfall rights are recognised in the balance sheet at cost. Waterfall rights are deemed to constitute a perpetual asset where no right to reversion to state ownership exists, and are not amortised.

#### b) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill in connection with the acquisition of subsidiaries is classified as an intangible asset. Goodwill is recognised on the balance sheet at historical cost less write-downs. In subsequent evaluation of the need to recognise an impairment, goodwill is allocated to those cash-generating units that are expected to benefit from the acquisition. Impairment losses on goodwill are not reversed.

#### c) Customer portfolios

Customer portfolios are recognised at fair value in the balance sheet at the time of acquisition. The customer portfolios have a limited useful economic life and are recognised at cost less deductions for cumulative amortisation. Amortisation is calculated on a straight-line basis over the expected average agreement period.

#### d) Customer purchase orders

Acquisition costs for access to new customers are carried at cost less deductions for amortisation. Customer

## Note 2

purchase orders have a limited useful economic life and are recognised based on the estimated lifetime of the customer relationship. Hafslund has opted to amortise customer purchase orders on a straight-line basis over three to five years based on cumulative experience. Acquisition costs only include direct costs to sell only, and each customer portfolio is considered on an individual basis.

### 2.7 Impairment of non-financial assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation, but are tested annually for impairment. Assets that are subject to depreciation or amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the book value may no longer be recoverable. An impairment loss is recognised for the amount by which the asset's book value exceeds its recoverable amount. The recoverable amount is the higher of an asset's value in use and fair value less costs to sell. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that have suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

### 2.8 Non-current assets (or disposal groups) held for sale

Non-current assets (or disposal groups) are classified as assets held for sale when their book value is to be recovered principally through a sale transaction and a sale is considered highly probable. These are stated at the lower of book value and fair value less costs to sell.

### 2.9 Financial instruments

Financial instruments are recognised when the Group becomes party to contractual conditions relating to the instrument. Financial assets and financial liabilities are classified based on the type and purpose of holding the instruments as a) at fair value through profit or loss and b) loans and receivables. Classification depends on the purpose for which the financial assets were acquired.

#### a) Financial instruments valued at fair value through profit or loss

This category has two sub-categories: i) financial instruments held for trading purposes, and ii) financial instruments that management has initially elected to classify at fair value through profit or loss. Derivatives are classified as held for trading purposes, unless these are part of an accounting hedging relationship. Financial assets and financial liabilities recognised at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the income statement. Gains or losses arising from changes in the fair value of the financial instruments at fair value through profit or loss, including interest and dividends, are recognised in the income statement under Other (losses)/gains – net in the period in which they arise. Assets and liabilities in this category are classified as current assets or current liabilities if they are held for trading purposes, or if they are expected to be realised within 12 months of the balance sheet date.

#### b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are initially measured at fair value plus directly attributable transaction costs. Loans and receivables are subsequently recognised

at amortised cost applying the effective interest method and are included in current assets, unless they mature more than 12 months after the end of the balance sheet date. Loans and receivables are classified as trade and other receivables and as cash and cash equivalents in the balance sheet (See notes [2.12](#) and [2.13](#).)

#### c) Impairment of financial assets

The Group assesses whether there is objective evidence that a financial asset or group of financial assets is impaired at the end of each reporting period. Any significant or long-term fall in fair value below the cost of shares classified as available for sale will be deemed to indicate of an impairment in the value of the shares in question. Where such objective indicators exist, and impairments have previously been recognised in other comprehensive income, the cumulative loss that has been included in other comprehensive income is transferred to the consolidated income statement. The amount is measured as the difference between cost and the current fair value, less deductions for any impairment losses previously recognised in income. Impairment losses on shares and similar instruments classified as available for sale recognised in the income statement are not reversed through the income statement. When securities classified as available for sale are sold or impaired, the accumulated fair value adjustments recognised in other comprehensive income are reclassified in the income statement.

### 2.10 Derivatives and hedging

Derivatives are recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. Hafslund designates certain

## Note 2

derivatives as hedges in the following hedge types:

- Hedging of variable cash flows with a particular risk associated with a recognised asset, liability or a highly probable forecast transaction (cash flow hedge).

At the inception of the hedging arrangement, the Group documents the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. Hafslund documents whether the hedging instrument that is used in a hedging relationship is highly effective in offsetting changes in fair values or cash flows of the hedged items. Such assessments are documented both at hedge inception and on an ongoing basis during the hedge period.

The fair value of derivatives used in hedging relationships is shown in [Note 10](#). Changes in equity as a result of hedging activities, which are recognised in other comprehensive income, are listed under other comprehensive income. The fair value of a hedging derivative is classified as a non-current asset or long-term liability if the remaining term of the hedging item is more than 12 months and as a current asset or current liability if the remaining term of the hedging item is less than 12 months. Derivatives held for trading purposes are classified as current assets or liabilities.

### Cash flow hedging

The effective portion of changes in the fair value of derivatives that are designated and qualify as hedging instruments in cash flow hedges is recognised directly in other comprehensive income. Gains or losses relating to the ineffective portion are recognised as Other (losses)/gains – net.

Amounts previously recognised in other comprehensive income and accumulated in equity are reclassified to profit

or loss in the periods when the hedged item is recognised in profit or loss (for example, upon the planned sale of a hedged item). Gains or losses on the ineffective portion are recognised in the income statement as Other (losses)/gains – net.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss recognised in other comprehensive income and accumulated in equity are transferred from equity to profit or loss and recognised when the hedge transaction is recognised in the income statement. When a hedged transaction is no longer expected to be implemented, the cumulative gain or loss that was reported in equity is immediately transferred to the Other (losses)/gains – net line item.

### Licensed power

Hafslund has agreements to deliver licensed power to local authorities at prices established by the authorities. The purpose of licensed power is essentially to secure the provision of electrical power to local authorities at a reasonable price. Agreements on financial settlement have been entered into for some licensed power agreements and are expensed on an ongoing basis. Delivery of licensed power is deemed to be a statutory obligation, and is recognised in income on an ongoing basis in accordance with the established licensed price.

### El-certificates

El-certificates are recognised as a financial asset in accordance with IAS 32 and measured in accordance with IAS 39 and the rules for foreign currency in IAS 21. This means that the holdings of el-certificates, receivables from el-certificates, forward contracts on el-certificates and the cancellation liability with Statnett are measured at fair value through profit or loss. The effects of changes in fair value

are recognised as Other (losses)/gains – net in the income statement. El-certificate inventories are classified as cash and cash equivalents and forward contracts are classified as financial assets or financial liabilities in the balance sheet. The cancellation liability with Statnett is recognised under Other current liabilities.

### 2.11 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first-in, first-out (FIFO) method.

### 2.12 Trade receivables

Trade receivables are initially recognised at fair value. Trade receivables are subsequently recognised at amortised cost using the effective interest method less provision for any bad debts.

### 2.13 Cash and cash equivalents

Cash and cash equivalents include cash in hand, bank deposits, el-certificate holdings, and other short-term, highly liquid investments with original maturities of three months or less

### 2.14 Share capital and share premium account

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are reported in equity as a deduction from the proceeds. Where any Group company purchases the company's equity share capital (treasury shares), the consideration paid, including any transaction costs, net of taxes, is deducted from equity attributable to the parent company's equity holders until the

## Note 2

shares are cancelled or reissued. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable transaction costs and the related tax effects, is included in equity attributable to the parent company's equity holders.

### 2.15 Trade payables

Trade payables are valued at fair value on first-time recognition in the balance sheet. Subsequently trade payables are recognised at amortised cost calculated using the effective interest rate method.

### 2.16 Borrowings

Borrowings are measured, managed and followed up based on their fair value in accordance with internal risk management procedures, and changes in fair value are communicated in internal management reporting. Until 31 December 2009 these borrowings were recognised at fair value through profit or loss in accordance with the Fair Value Option (FVO), and will continue to be recognised in the same way until they are redeemed. These borrowings were recognised at fair value at the time of issue, and the transactions costs were expensed immediately. In the case of borrowings taken out after 1 January 2010, Hafslund has opted not to apply FVO and recognises these borrowings at amortised cost. Borrowings are initially recognised at fair value. Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

### 2.17 Income tax

The income tax expense comprises taxes payable and changes in deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In such cases the tax is also recognised in other comprehensive income or directly in equity, respectively. The current tax charge is calculated on the basis of tax rates, legislation and rules enacted at the balance sheet date. Management evaluates the tax positions on an ongoing basis, taking into account situations where the applicable tax legislation is subject to interpretation. Provisions are recognised for expected tax payments based on management assessments where such is deemed necessary. Deferred income tax is calculated on all temporary differences between the tax-written-down and consolidated financial values of assets and liabilities. Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary tax-reducing differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current income tax assets against current tax payable.

#### Taxation of power production business

Power production business is subject to special rules governing taxation of power companies. In addition to general income tax and property tax, power production is subject to natural resource tax and resource rent tax.

Natural resource tax is a profit-independent tax that is calculated on the basis of individual power plants' average power production over the last seven years. The tax rate is established as NOK 0.013 per kWh. Any amount of natural resource tax can be set off against general income tax, while non-settled natural resource tax is classified as an interest-bearing receivable.

Resource rent tax comprises 31 percent of the power stations' normalised result in excess of the tax-free allowance. Negative resource rent income can be carried forward against subsequent positive resource rent income including interest. Negative resource rent income is included in the basis used to calculate deferred income tax liabilities and assets connected to resource rent taxation together with deferred income tax assets/liabilities relating to temporary differences connected to operating assets used in power production.

Power production business is also subject to property tax and comprises up to 0.7 percent of the official property valuation. General income tax and resource rent tax are recognised as ordinary taxes. Property tax is recognised as an operating expense in the income statement.

### 2.18 Pension liabilities, bonus schemes and other employee remuneration schemes

#### a) Pension liabilities

The Group's companies operate various pension schemes. Hafslund has both defined benefit and defined contribution schemes.



## Note 2

### Defined benefit scheme

A defined benefit scheme is a pension scheme that defines the pension benefit that an employee will receive on retirement, and which is financed through payments to insurance companies or pension funds. The pension benefit is usually dependent on one or more factors such as age, years of service and compensation.

The accounting liability for the defined benefit schemes is the present value of the liability at the balance sheet date, less the fair value of the pension assets. The gross liability is calculated by an independent actuary applying the unit credit method. The gross liability is discounted to present value applying the interest rate on bonds issued by a company with a high credit rating (covered bonds rate) in the same currency in which the benefits will be paid, and with a term that is approximately the same as the term of the related pension liability.

Hafslund believes that it is appropriate to use the covered bonds rate as the discount rate due to the fact that there is a deep and liquid market for these types of bonds. The Norwegian market has become more advanced following the financial crisis and has a high credit-rating, which also indicates that the bonds have a high credit-worthiness. The alternative to applying the covered bond interest rate would be to apply the government bond rate. See [Note 18](#) for calculations and sensitivity to changes in the discount rate.

Gains and losses arising on the recalculation of the liability due to pension deviations and changes in actuarial assumptions are recognised in equity via other comprehensive income in the period in which they arise. The effects of changes in benefits under the scheme are immediately recognised in income.

### Defined contribution scheme

A defined contribution scheme is a pension scheme where the Group pays a fixed contribution to a separate legal entity. The Group has no legal or other obligation to pay further contributions should the entity have insufficient funds to pay all employees their benefits in line with their entitlements for the current and for previous periods. The contributions are recognised as an employee benefit expense when they are due.

### b) Bonus schemes

The Group recognises a liability and an expense for bonuses and profit-sharing, based on a formula that takes into consideration both the profit attributable to the parent company's shareholders and certain adjustments. The Group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

The Group recognises a liability and an expense on allocation of treasury shares to employees. Expenses are recognised on a straight-line basis over the vesting period and presented as salaries. The value is measured as the shares' market value at the time of allocation. When the expenses are recognised, a corresponding increase is recognised in other paid-in equity.

### c) Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result

of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after the end of the reporting period are discounted to their present value.

### 2.19 Provisions

The Group recognises provisions for any obligation as a result of past events, where it is probable that an outflow of resources will be required to settle the obligation and the size of the liability can be reliably estimated. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the net present value of expected payments to satisfy the liability. A pre-tax discount rate that reflects the current market situation and risk specific to the obligation is applied. The increase in the obligation due to passage of time is recognised as a financial expense.

### 2.20 Revenue recognition

#### a) Revenue recognition – general

Revenues from the sale of goods and services are recognised as they accrue. Revenues from the sale of goods primarily accrue once risk and control relating pertaining to the goods have been transferred to the purchaser. Revenues comprise the fair value of the consideration received or receivable for the sale of goods and services less any deductions for Value Added Tax or discounts. Intragroup sales are eliminated.

#### b) Sales of power and district heating

Sales of power are recognised in the income statement

## Note 2, 3

at the time of delivery to the customer. Realised revenues from physical and financial trading in power contracts are recognised as sales revenues. Sales of district heating are recognised in the income statement in accordance with the customer's estimated consumption of district heating. District heating revenues are calculated by multiplying the energy delivered to the customers by the district heating tariffs.

### c) Grid rental

The Networks business is subject to a revenue ceiling established by the Norwegian Water Resources and Energy Directorate (NVE). Permitted income comprises the revenue ceiling established by the regulator (the Norwegian Water Resources and Energy Directorate – NVE) plus transmission costs, Enova mark-ups and property tax less interruption costs. Income surpluses/shortfalls, which represent the difference between recognised grid rental and permitted income defined as regulatory liabilities/assets that do not qualify for recognition in the balance sheet. The amount recognised in income in individual years corresponds to the volume delivered in the period, settled at the established tariff in force at any one time. The result for 2014 was impacted by an income surplus of NOK 206 million. In 2013 there was an income shortfall of NOK 120 million. Cumulative surplus income of NOK 701 million at the end of 2014 does not satisfy the definition of a liability under the conceptual framework and has therefore not been recognised in the balance sheet.

### d) Dividend income

Dividend income is recognised when the right to receive payment is established.

### 2.21 Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are recognised in the income statement on a straight-line basis over the period of the lease.

Leases of property, plant and equipment where the Group bears substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance costs in order to achieve a constant periodic interest rate on the outstanding balance. The corresponding lease liability (less finance costs) is included in other long-term liabilities. The interest element in the financing cost is expensed over the lease term so as to achieve a constant periodic interest rate on the outstanding balance each period. Property, plant and equipment recognised as finance leases is amortised over the shorter of the asset's useful life and the lease term.

### 2.22 Dividends

Dividend distributions to the parent company's shareholders are recognised as a liability from the time the dividends are approved by the general meeting.

### NOTE 3 ► FINANCIAL RISK MANAGEMENT

The aim of Hafslund's risk management is to identify risks and opportunities facing the Group, and manage in the best possible way these within the Group's risk appetite with the aim of achieving its subsidiaries and the Group's objectives. This is best achieved through a proactive approach to risk and a comprehensive risk management model. Risk management should be an integral part of all major decision-making processes in the Group.

Risk management frameworks and instructions comply with the Board-approved policies and related risk mandates. Risk management is generally a key responsibility of each business unit's operational management. The Group's activities expose it to a variety of risks. Hafslund is exposed to inherent financial risk associated with the power market, as well as to foreign exchange risk, interest rate risk, liquidity risk, and credit risk. The Group uses financial derivatives to hedge certain financial risk exposures. Financial risks that share common features across business areas are largely centralised for optimal management of risk.

#### a) Power price and volume risk

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 generation facilities and power sales to customers. For the business area Heat, there is also risk associated with district heating activities in that prices are based on customers' alternative (electrical) heating costs. The same applies to the waste-to-energy plants in Sarpsborg and Fredrikstad, where price mechanisms contained in sales contracts mean that revenues are to a lesser or greater extent dependent on the power price. Hafslund also actively takes up contract positions in the power market through the

## Note 3

activities of the Group's power trading activities. The Group's power trading unit conducts all trading in the market. In the case of power sales activities, risk management is directed at minimising margin fluctuations.

Power price fluctuations, together with factors (primarily weather conditions) that affect production volumes, are thus of significant importance for the profitability of Hafslund's production and heat business. Hafslund hedges some of its hydropower production volume, as well as enters into hedging contracts in the Heat business area on an ongoing basis to reduce power price risk. In line with the Group's hedging policy, the extent of hedging is expected to be significantly higher in the upcoming six months than in the ensuing period. The extent of hedging may vary significantly, based on an overall assessment of market prices and outlook; the purpose is achieving satisfactory prices and reducing fluctuations in Hafslund's earnings. The extent of hedging is regulated by a risk mandate adopted by the Board of Hafslund ASA. Exposure should be kept within the limits set by the Board and monitored by the Group's risk management function and through reporting to management and the Board of Hafslund ASA.

Hafslund uses Value at Risk (VaR) as an operational risk management target for the power price risk. VaR describes the maximum loss that could be expected for a power portfolio during a given period for a given confidence level. Exposure reports are distributed daily to the Group's management, among others, and a summary of the reports is included in the Group's monthly management reporting. As of 31 December 2014, the Hafslund Group's aggregate power portfolio had a daily VaR within a 95 percent confidence interval of NOK 33 million (2013: NOK 42 million). Most of the risk is attributable to the open exposure in the business areas Production and Heat. Standardised power

market derivative products, such as futures, forwards, CFDs and options, are used to achieve the desired risk-reducing effect in respect of power portfolios. Hedging instruments are mainly traded at and cleared with the Nordic Power Exchange, Nasdaq OMX Commodities.

### b) Foreign exchange risk

Subsidiaries abroad make deposits or withdrawals in their country's currencies (SEK or EUR) in the Group's cash pool. The balance denominated in foreign currency is monitored at Group level. The overall exposure to foreign exchange fluctuations in foreign subsidiaries is largely netted off against Norwegian Group companies' withdrawals and deposits denominated in foreign currency in the Group's cash pool.

Hafslund has liabilities denominated in foreign currency. In addition, Group businesses conduct transactions that are exposed to currency fluctuations. Currently this applies in particular to EUR- and SEK-denominated trades in power and power derivatives.

The Group's 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. Primarily forward exchange contracts, and in some cases foreign exchange options, are used to reduce foreign exchange risk. Currency options have not been used in 2014, and the Group has no currency option contracts at the end of the year. In the case of foreign currency borrowings, principal amounts and basis interest rates are hedged using basis swaps when borrowings are taken out. Some currency derivatives are recognised in accordance with requirements for hedge accounting in IAS 39 and others at fair value through profit or loss on an ongoing basis. All derivative contracts are entered into for hedging purposes.

All other factors remaining unchanged, a 10 percent change in the EUR/NOK and SEK/NOK rates would have an effect on post-tax profits of +/- NOK 17 million as a result of changes in the value of Hafslund's portfolio of currency derivatives as of 31 December 2014 (2013: +/- NOK 2 million).

EUR- and SEK-denominated derivative contracts are primarily entered into to secure future currency positions associated with power derivatives which the power sales business holds for hedging purposes, as well as to reduce the foreign exchange risk associated with future EUR cash flows from sales of power production and income from heat production.

### c) Interest rate risk

Hafslund's operating revenues and cash flow from operations are largely independent of interest rate fluctuations. The exception is the Networks business where the revenue ceiling established by the authorities contains an interest element. The permitted yield in the Networks business is based to a certain degree on a percentage of the annual average five-year swap interest rate plus an average credit mark-up for bonds with a five-year term issued by power companies with good creditworthiness. The Group is nevertheless exposed to interest rate risk in relation to interest-bearing liabilities. The company's cash flow will be affected by interest rate fluctuations on variable-interest loans. The fair value of the company's borrowings taken out before 31 December 2009 will be affected by changes in interest rates, including changes in credit spreads. In the course of 2014, the change in credit spread, viewed in isolation, resulted in a NOK 17 million increase in the fair value of the loan portfolio (2013: increase of NOK 34 million). Credit spreads are affected by terms, liquidity and risk. The major banks publish estimates for Hafslund's credit



## Note 3

spreads with differing terms based on observable prices on the bond market. In calculating changes in the fair value of the loan portfolio due to changes in Hafslund's credit spreads, an interpolated average change in credit spreads is applied for a duration corresponding to the duration of Hafslund's borrowings and interest rate derivatives.

Hafslund's loan portfolio comprises a mixture of fixed-interest and variable-interest loans. Interest rate derivatives are used to reduce fluctuations in cash flow associated with finance costs. By applying frameworks adopted to manage interest rate risk, the board has determined that the proportion of fixed-interest rate loans in the loan portfolio should lie between 30 and 60 percent. As of 31 December 2014 approximately 52 percent of the Group's borrowings were subject to variable interest rates (2013: 51 percent of the Group's aggregate loans). In a simulation test of sensitivity to major interest rate fluctuations, the portfolio of loans and interest rate derivatives as of 31 December 2014 was tested against a change of +/- 1.5 percent across the entire yield curve. Based on historical data, there is approximately 90 percent certainty that interest rate fluctuations will not exceed this spread during any one year. However, such a change in interest rates would increase/decrease annual finance costs (adjusted for tax effect) by around NOK 77 million (2013: +/- NOK 103 million). This takes into account changes in interest expenses as a result of fluctuations in the variable interest rate, changes in the fair value of fixed-rate loans and changes in the fair value of interest rate derivatives. Because Networks' regulated revenue ceiling also varies with interest rate fluctuations, the overall effect of interest rate fluctuations on profits would in fact be less marked.

### d) Liquidity risk

Liquidity risk arises to the extent that cash flows from the business do not correspond with financial obligations. The cash flow from the business areas will vary according to a number of factors including spot-market price levels. Accordingly the Group has established long-term, committed drawdown facilities in order to secure availability of liquidity, including in periods when it may be difficult to obtain financing in the markets. Unused drawdown facilities as of 31 December 2014 totalled NOK 3.8 billion (2013: NOK 3.7 billion). See also [Note 16](#).

### Maturity profile for borrowings:

NOK million	0–6 months	6–12 months	1–3 years	3–5 years	>5–50 years	Total
2014	(2,251)	(799)	(3,860)	(3,538)	(2,596)	<b>(13,044)</b>
2013	(1,526)	(1,242)	(4,400)	(3,256)	(3,064)	<b>(13,488)</b>

### e) Credit risk

Most of the Group's debtors are private individuals or businesses who purchase electricity or district heating. Hafslund therefore has no material concentration of credit risk. Follow-up and collection of trade receivables in the Group are centralised in a separate unit in the Group (Hafslund Tellier AS). Counterparty risk relating to power trading activities is minimised primarily by clearing the contracts via Nasdaq OMX Commodities, as well as entering into bilateral agreements with municipal or state-owned companies.

Interest and foreign currency risk mandates, which are determined by the board, contain guidelines as to the creditworthiness of financial counterparties. The majority of overdue trade receivables as of 31 December 2014 relate to the Markets business area, and primarily to trade receivables with private electricity customers. A provision of NOK 21 million has been recognised to cover potential losses on these receivables (2013: NOK 24 million). Trade receivables that were unpaid within 30 days of invoicing amounted to NOK 76 million (2013: NOK 90 million) in Markets.

### The ageing profile of trade receivables as of 31 December was as follows:

NOK million	Not yet due	30–60 days	60–90 days	90–120 days	>120 days	Total
2014	678	64	15	9	90	<b>856</b>
2013	874	75	23	14	71	<b>1,057</b>



## Note 3

### Maturity profile for financial items:

#### 2014

NOK million	0–6 months	6–12 months	1–3 years	3–5 years	>5 years	Total
Interest rate derivatives			(44)	52	(66)	(58)
Foreign exchange derivatives	(12)	(8)				(20)
Power derivatives	18	7	1			25
El-certificate derivatives	(8)		1			(7)
Trade payables	(528)					(528)
<b>Net financial items</b>	<b>(531)</b>	<b>(1)</b>	<b>(43)</b>	<b>52</b>	<b>(66)</b>	<b>(587)</b>

#### 2013

NOK million	0–6 months	6–12 months	1–3 years	3–5 years	>5 years	Total
Interest rate derivatives	(2)		(24)	(25)	39	(12)
Foreign exchange derivatives	(6)	(5)	9			(2)
Power derivatives	102	(1)	(36)	(4)		61
El-certificate derivatives	(7)		(6)			(13)
Trade payables	(502)					(502)
<b>Net financial items</b>	<b>(415)</b>	<b>(6)</b>	<b>(56)</b>	<b>(29)</b>	<b>39</b>	<b>(468)</b>

### Capital management

The Group's capital management shall ensure the Group's financial room to manoeuvre in the short and long term. The aim is to have a financial structure that ensures good long-term creditworthiness and a good return to the shareholders through equity and cash flow.

The available liquidity shall cover the maturing loans for the coming 12 months and a certain reserve beyond this at all times. In addition to cash and cash equivalents, the Group's liquidity reserve consists of an unused long-term committed syndicated credit facility. Hafslund uses primarily banks and the bond market as borrowing sources. Hafslund has long-term financing that ensures financial room to manoeuvre even when it is difficult to gain financing in the markets. At the end of 2014, the Group had unused credit facilities deemed sufficient to cover the Group's refinancing requirements over the next 12 months. External borrowing has been centralised at the parent company level, and the capital needs of subsidiaries are normally covered through internal loans, primarily through corporate cash pooling systems, in combination with equity. The capital structure in the subsidiaries is adapted to commercial considerations, as well as legal and tax-related considerations.

Hafslund does not have an official credit rating, but the quantitative and qualitative factors that affect the Group's creditworthiness are monitored actively. The Group aims to maintain its unofficial credit rating of BBB+ from the major Norwegian banks. Hafslund monitors its capital management by following the development of its equity ratio, non interest-bearing liabilities and cash flow from operations. The Group's capital consists of net interest-bearing liabilities and equity:

NOK million	2014	2013
Total interest-bearing liabilities	<b>11,360</b>	11,483
Total interest-bearing receivables	<b>786</b>	1,551
<b>Net interest-bearing liabilities</b>	<b>10,574</b>	<b>9,932</b>
Equity	<b>7,877</b>	7,583
Equity ratio	<b>30 %</b>	30 %
Unused credit lines	<b>3,800</b>	3,700

## Note 3

### Fair value estimates

#### Financial instruments

The table below shows financial instruments at fair value based on the valuation method. The different levels are defined as follows:

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.

The following table presents the Group's assets and liabilities measured at fair value as at:

2014				
NOK million	Level 1	Level 2	Level 3	Total
Foreign exchange derivatives		6		6
Power derivatives		114	8	122
<b>Total investments at fair value through profit or loss</b>		<b>120</b>	<b>8</b>	<b>128</b>
Borrowings		3,959		3,959
El-certificate derivatives	4			4
Power derivatives	126	11		137
Interest rate derivatives		58		58
<b>Financial liabilities at fair value through profit or loss</b>	<b>130</b>	<b>4,028</b>		<b>4,158</b>

#### 2013

NOK million	Level 1	Level 2	Level 3	Total
Foreign exchange derivatives		19		19
Power derivatives		139	9	148
<b>Total investments at fair value through profit or loss</b>		<b>158</b>	<b>9</b>	<b>167</b>
Borrowings		4,742		4,742
El-certificate derivatives	13			13
Power derivatives	122	21		143
Interest rate derivatives		12		12
<b>Financial liabilities at fair value through profit or loss</b>	<b>135</b>	<b>4,775</b>		<b>4,910</b>

There were no transfers between the respective levels during the year. The general principles concerning level-allocation primarily depend on whether the asset or liability is listed or not, and whether the listing can be deemed to be in a listed market. On any change between the levels the basic rule is that values at the end of the reporting date are used.

#### a) Financial instruments at level 1

The fair value of financial instruments that are traded in active markets is the market price at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, broker, industry group, pricing service, or regulatory agency, and these prices represent actual and regularly occurring market transactions on an arm's length basis. The market price used for financial assets is the current bid price. The same applies to power derivatives traded on the Nordic power exchange Nasdaq OMX Commodities that are valued based on the current prices on Nasdaq OMX Commodities at the balance sheet date.

## Note 3

### b) Financial instruments at level 2

The fair value of financial instruments that are not traded in an active market is determined by means of various valuation methods. These valuation methods maximise the use of observable data where available and to the least possible extent on the Group's own estimates. If all the significant data inputs that are required to determine the fair value of an instrument are observable data, then the instrument will be included at level 2.

### Borrowings

Borrowings that are valued at fair value are measured by discounting the borrowings' cash flows. The discount rate applied is the yield curve for the Norwegian swap interest rate, adjusted upwards for Hafslund's credit spreads.

### Interest rate, foreign exchange and power derivatives

The fair value of interest rate swap agreements is calculated as the present value of estimated, future cash flows, based on effective swap rates at the balance sheet date. The fair value of foreign exchange contracts is calculated by using effective rates in the forward market at the balance sheet date. The fair value of currency options is calculated by applying option pricing models based on the listed rates in the forward market at the balance sheet date. The value of power derivatives traded outside an exchange is estimated as the present value of future cash flows, based on forward prices from Nasdaq OMX Commodities at the balance sheet date. In the case of material long-term contracts, the cash flows are discounted.

### c) Financial instruments at level 3

Asian options are valued by means of the underlying Nasdaq prices and the expected future volatility, as well as an estimated mark-up. The change in level 3 relates to unrealised changes in Asiatic options.



## Note 3

### Net presentation of financial assets and liabilities

The following financial assets and liabilities are recognised net:

2014

NOK million			Amounts not presented on a net basis in the balance sheet		
	Gross financial assets	Net financial assets in the balance sheet	Net financial assets in the balance sheet	Financial instruments	Net
El-certificate derivatives	2	(5)	(3)		(3)
Foreign exchange derivatives	22	(15)	7		7
Power derivatives	165	(41)	124		124
Hedging derivatives	39	(27)	12		12
<b>Total financial assets</b>	<b>228</b>	<b>(88)</b>	<b>140</b>		<b>140</b>

2013

NOK million			Amounts not presented on a net basis in the balance sheet		
	Gross financial assets	Financial liabilities recognised on a net basis	Net financial assets in the balance sheet	Financial instruments	Net
Foreign exchange derivatives	27	(8)	19		19
Power derivatives	148	(9)	139		139
Hedging derivatives	57	(23)	35		35
Asian options	9		9		9
<b>Total financial assets</b>	<b>241</b>	<b>(40)</b>	<b>202</b>		<b>202</b>

2014

NOK million			Amounts not presented on a net basis in the balance sheet		
	Gross financial liabilities	Financial assets recognised on a net basis	Net financial liabilities in the balance sheet	Financial instruments	Net
El-certificate derivatives	4		4		4
Power derivatives	143	(6)	137	(10)	127
Interest rate derivatives	116	(58)	58		58
<b>Total financial liabilities</b>	<b>263</b>	<b>(64)</b>	<b>199</b>	<b>(10)</b>	<b>189</b>

2013

NOK million			Amounts not presented on a net basis in the balance sheet		
	Gross financial liabilities	Financial assets recognised on a net basis	Net financial liabilities in the balance sheet	Financial instruments	Net
El-certificate derivatives	34	(21)	13		13
Power derivatives	151	(8)	143	(11)	132
Interest rate derivatives	54	(42)	12		12
<b>Total financial liabilities</b>	<b>239</b>	<b>(71)</b>	<b>168</b>	<b>(11)</b>	<b>157</b>

## Note 4

### NOTE 4 ▶ ACCOUNTING ESTIMATES AND JUDGEMENTS

Hafslund prepares estimates and makes assumptions/presumptions with regard to the future. By definition, the accounting estimates that are made as a result of the above processes will rarely fully correspond with the final outcome. Estimates and assumptions are reviewed on an ongoing basis and are based on past experience and a number of other factors, including expectations of future events that are regarded as likely. Any deviations between estimates and fair values are recognised in the period in which these become known where such deviations relate to this period. If the deviations relate to both the current and future periods, the deviation is recognised over the various periods affected.

Estimates and assumptions that may have a material effect on the balance sheet value of assets or liabilities in the coming financial year are discussed below:

#### Sale and distribution of electricity and heat

For a large proportion of the Group's electricity, heat and network customers, final settlement of sales and distribution of power and heat is made after the Group has finalised its annual financial statements. The above revenues are estimated based on the power volumes that have been physically delivered during the period. The physically delivered volume is apportioned in accordance with consumption forecasts for each customer group and price plan. Some uncertainty attaches to the volume apportioned to the various price segments. Accrued revenues recognised in the balance sheet at the end of 2014 amounted to NOK 1,181 million. Total revenues from the sale and distribution of electricity and heat amounted to NOK 11,353 million in 2014.

#### Estimated impairments of goodwill and property, plant and equipment

The value of assets recognised in the balance sheet will to a large extent be based on judgements and estimates. This applies in particular in the case of assets which are essentially not depreciated or amortised. In the Hafslund Group, such assets will primarily be goodwill and waterfall rights with indefinite useful lives. Hafslund performs annual tests to assess impairment of goodwill and property, plant and equipment, cf. [Note 2.7](#). The recoverable amount from cash-generating units is established using calculations of value in use. These calculations require the use of estimates. See [Note 8](#) for a description of implemented impairment tests.

#### Fair value borrowings

Borrowings that are valued at fair value are measured by discounting the borrowings' cash flows. The discount rate applied is the Norwegian swap interest rate, adjusted upwards for Hafslund's credit spreads. Viewed in isolation, the change in credit spreads during 2014 results in an increase in the loan portfolio's fair value of NOK 17 million.

#### Pensions

The present value of pension liabilities depends on several different factors that are determined by a number of actuarial assumptions. The assumptions employed for the calculation of the net pension cost (income) include a discount rate. Changes in these assumptions will affect the balance sheet value of pension liabilities. Hafslund determines the applicable discount rate at the start of each financial year. This is the rate that must be used to calculate the present value of future estimated out-going cash flows that will be required to settle pension liabilities. When setting this discount rate, Hafslund takes into account interest rates on high quality corporate bonds that will mature at approximately the same time as the relevant pension liability, see also [Note 2.18](#) and [Note 18](#).

A number of other pension-related assumptions are partly based on market conditions. A change in discount rate by 0.5 percent, would change the gross pension liabilities by an estimated 7–8 percent.

#### Contingencies

When evaluating contingencies, management must exercise its judgement in order to determine the extent to which, on the balance of probabilities, an event would be likely impose a financial liability on the Group. Management must also use its best estimates to assess the likely amount of future payments. In previous years, Hafslund has recognised deferred income tax liabilities in respect of Hatros. In 2014 the Norwegian Tax Administration ceded that there is no basis for taxing gains on shares on the sale of Hatros I AS and Hatros II AS in 2006 and 2007. Consequently, in 2014 the previously recognised provision for deferred income tax was written back in the amount of NOK 268 million. Hafslund has also been repaid previously paid tax relating to the above. See [Note 17](#) for further information.



## Note 5

### NOTE 5 ▶ SEGMENT INFORMATION

Group management is the Group's chief operating decision-maker. Hafslund reports business areas as operating segments.

In recent years the company has adopted a sharper focus on renewable energy from hydro-power and heating, together with further development of infrastructure for energy and Nordic growth within power sales. Hafslund's business is organised into the business areas Production, Heat, Networks and Markets.

Group management evaluates the performance and profitability of the operating segments based on operating results and return on capital employed. The operating result in the segment information is the same as that presented in the consolidated income statement. Finance costs are also allocated to the segments, but not interest income, since this is an activity that is controlled by the central finance department as part of the Group's overall liquidity situation. Intersegmental sales are made in accordance with the arm's length principle.

	Production		Heat		Networks		Markets		Other business		Eliminations		Group	
NOK million	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013
Gross segment sales	871	859	1 080	1 153	4 147	4 052	6 416	6 850	385	383	(503)	(479)	12 396	12 818
Intersegmental sales	16	15	2	3	56	2	225	262	205	197	(503)	(479)		
<b>Sales revenues</b>	<b>856</b>	<b>844</b>	<b>1 077</b>	<b>1 150</b>	<b>4 091</b>	<b>4 050</b>	<b>6 191</b>	<b>6 588</b>	<b>181</b>	<b>186</b>			<b>12 396</b>	<b>12 818</b>
Operating profit	552	568	9	156	757	619	403	301	29	9			1 749	1 652
Finance costs	(68)	(71)	(62)	(77)	(77)	(73)	21	64	(367)	(347)			(552)	(503)
Income tax expense	(263)	(290)	24	(8)	96	(108)	(119)	(97)	67	100			(194)	(402)
<b>Profit/(loss) for the year</b>	<b>220</b>	<b>208</b>	<b>(29)</b>	<b>71</b>	<b>776</b>	<b>439</b>	<b>305</b>	<b>268</b>	<b>(269)</b>	<b>(238)</b>			<b>1 003</b>	<b>747</b>
Depreciation of operating assets	(47)	(46)	(172)	(168)	(557)	(488)	(30)	(30)	(40)	(45)			(846)	(777)
Impairment of operating assets			(127)	(5)									(127)	(5)
Amortisation of intangible assets							(52)	(8)					(52)	(8)
Impairment of intangible assets									(21)	(5)			(21)	(5)
Losses on receivables					(40)	(11)		(29)		(1)			(40)	(41)
<b>Capital employed</b>	<b>4 383</b>	<b>4 270</b>	<b>5 190</b>	<b>5 464</b>	<b>10 537</b>	<b>9 325</b>	<b>1 606</b>	<b>1 987</b>	<b>159</b>	<b>(144)</b>			<b>21 875</b>	<b>20 902</b>
Investments (excluding acquisitions)	26	26	112	61	674	532	65	120	24	47			901	786

See also analytical information for other key figures for the segments.

## Note 5

### Reconciliation of capital employed with equity:

NOK million	2014	2013
Capital employed	21,875	20,902
Income tax payable	(340)	(299)
Deferred income tax liability	(3,080)	(3,098)
Borrowings	(11,904)	(11,764)
Cash and cash equivalents	742	1,143
Interest-bearing receivables	41	408
Other	543	291
<b>Equity</b>	<b>7,877</b>	<b>7,583</b>

### Revenue analysed by category:

NOK million	2014	2013
Power sales	5,853	6,397
Power production	805	797
District heating sales	1,000	1,089
Distribution	3,773	3,709
Other revenues	965	825
<b>Total</b>	<b>12,396</b>	<b>12,818</b>

The majority of revenue derives from energy customers localised in and around Oslo, Akershus and Østfold, where a significant number of Hafslund's assets are located. Revenue from the Group's power sales companies in Sweden amounted to NOK 1,237 million, while capital employed in the Swedish companies totalled NOK 296 million.

## Note 6

### NOTE 6 ► PROPERTY, PLANT AND EQUIPMENT

NOK million	Technical equipment and chattels	Power facilities	Heating facilities	Networks	Facilities under construction	Other property	Total
<b>Book value as of 31 December 2012</b>	<b>300</b>	<b>4,030</b>	<b>4,356</b>	<b>8,265</b>	<b>1,257</b>	<b>157</b>	<b>18,365</b>
<b>2013 accounting year</b>							
Book value as of 1 January 2013	300	4,030	4,356	8,265	1,257	157	18,365
Investments in operations	70	3	13		627	6	719
Capitalised borrowing costs					13		13
Transferred from facilities under construction	267		188	387	(865)	23	
Disposals (cost)	(13)		(74)	(19)	(385)	(138)	(629)
Disposals cumulative depreciation	5		5	18		8	36
Disposals cumulative impairments	5		69		385	70	529
Depreciation 2013	(108)	(46)	(168)	(452)	(1)	(2)	(777)
Impairments 2013			(5)				(5)
<b>Book value as of 31 December 2013</b>	<b>526</b>	<b>3,987</b>	<b>4,384</b>	<b>8,199</b>	<b>1,031</b>	<b>124</b>	<b>18,251</b>
<b>Balance as of 31 December 2013</b>							
Cost	2,062	7,238	5,704	14,182	1,049	161	30,396
Cumulative depreciation	(1,515)	(3,251)	(1,075)	(5,982)	(18)	(37)	(11,878)
Cumulative impairments	(21)		(245)	(1)			(267)
<b>Book value as of 31 December 2013</b>	<b>526</b>	<b>3,987</b>	<b>4,384</b>	<b>8,199</b>	<b>1,031</b>	<b>124</b>	<b>18,251</b>

Table continued



## Note 6

NOK million	Technical equipment and chattels	Power facilities	District heating facilities	Networks	Facilities under construction	Other property	Total
<b>2014 accounting year</b>							
Book value as of 1 January 2014	526	3,987	4,384	8,199	1,031	124	18,251
Investments in operations	15	17	23		768	7	830
Company acquisition	6			922	54		982
Capitalised borrowing costs					13		13
Transferred from facilities under construction	95	73	281	648	(1,097)		
Disposals (cost)	(140)		(32)	(29)	(28)	(23)	(252)
Disposals cumulative depreciation	120		5	27		8	160
Depreciation 2014	(116)	(46)	(172)	(510)		(2)	(846)
Impairments 2014			(127)				(127)
<b>Book value as of 31 December 2014</b>	<b>506</b>	<b>4,031</b>	<b>4,362</b>	<b>9,257</b>	<b>741</b>	<b>114</b>	<b>19,011</b>
<b>Balance as of 31 December 2014</b>							
Cost	2,038	7,328	5,976	15,723	759	145	31,969
Cumulative amortisation	(1,511)	(3,297)	(1,242)	(6,465)	(18)	(31)	(12,564)
Cumulative impairments	(21)		(372)	(1)			(394)
<b>Book value as of 31 December 2014</b>	<b>506</b>	<b>4,031</b>	<b>4,362</b>	<b>9,257</b>	<b>741</b>	<b>114</b>	<b>19,011</b>
Capitalisation rate borrowing costs					4.1%		
Amortisation percentage	3–33	2–5	2–10	2–7		0–5	

As of 31 December 2014 Hafslund's total future lease commitments associated with office premises and transformer substations recognised at nominal value amounted to NOK 915 million:

NOK million	
2015	121
2016	123
2017	126
2018	121
2019	82
2020 and later	342
<b>Total lease commitments</b>	<b>915</b>

The leases are operating leases and have varying payment dates, price-regulating clauses, and lease prolongation rights. In 2014, rent amounting to NOK 125 million was recognised in the income statement for leases of office premises and transformer substations (NOK 122 million).

Hafslund recognised borrowing costs of NOK 13 million for qualifying assets in 2014. The Group's average-weighted interest rate has been applied. Future investment obligations are estimated at NOK 1,574 million. Please refer to [Note 8](#) for details of the performed impairment tests.

## Note 7

### NOTE 7 ▶ INTANGIBLE ASSETS

NOK million	Customer portfolios	Waterfall rights	Customer orders	Total	Goodwill	Total intangible assets
<b>Book value as of 31 December 2012</b>	<b>20</b>	<b>253</b>	<b>45</b>	<b>318</b>	<b>2,114</b>	<b>2,432</b>
<b>2013 accounting year</b>						
Investments in operations	7		54	61	8	69
Investments in expansion					95	95
Disposals (cost)					(3)	(3)
Amortisation	(8)		(19)	(27)		(27)
Impairments					(5)	(5)
Translation differences					14	14
<b>Book value as of 31 December 2013</b>	<b>19</b>	<b>253</b>	<b>80</b>	<b>352</b>	<b>2,223</b>	<b>2,575</b>
<b>Balance as of 31 December 2013</b>						
Cost	97	356	99	552	2,746	3,298
Cumulative amortisation	(78)	(103)	(19)	(200)	(518)	(718)
Cumulative impairments					(5)	(5)
<b>Book value as of 31 December 2013</b>	<b>19</b>	<b>253</b>	<b>80</b>	<b>352</b>	<b>2,223</b>	<b>2,575</b>
<b>2014 accounting year</b>						
Investments in operations			49	49	9	58
Investments in expansion					357	357
Disposals (cost)					(5)	(5)
Disposals cumulative impairments					5	5
Amortisation	(21)		(31)	(52)		(52)
Impairments					(21)	(21)
Reclassification	119		5	124	(73)	51
Translation differences					2	2
<b>Book value as of 31 December 2014</b>	<b>117</b>	<b>253</b>	<b>103</b>	<b>473</b>	<b>2,497</b>	<b>2,970</b>
<b>Balance as of 31 December 2014</b>						
Cost	209	356	160	725	3,036	3,761
Cumulative amortisation	(92)	(103)	(57)	(252)	(513)	(765)
Cumulative impairments					(26)	(26)
<b>Book value as of 31 December 2014</b>	<b>117</b>	<b>253</b>	<b>103</b>	<b>473</b>	<b>2,497</b>	<b>2,970</b>
Amortisation period	10 years		3–5 years			

Please refer to [Note 8](#) for information on impairment testing.



## Note 8

### NOTE 8 ▶ IMPAIRMENT TESTING

The Hafslund Group holds significant non-current assets, both tangible (property, plant and equipment) and intangible assets. Changes in these assets are presented in [Notes 6 and 7](#). Both property, plant and equipment and intangible assets are subject to estimate uncertainty. Both the valuation and estimated useful life are based on forward-looking information that is encumbered by a high level of uncertainty. Intangible assets are regarded as representing the greatest uncertainty. The intangible assets do not have any direct "cost price" and the values are derived essentially from the Group's own valuations and are generally recognised in the balance sheet in connection with the Group's acquisition of new business. Goodwill is to be regarded as residual in the same acquisition. The sum total of all excess values from acquisitions, including goodwill, is deemed to represent the market value (fair value) of the total assets and the allocation to different types of assets is derived from this. Tangible assets (property, plant and equipment) are essentially recognised in the balance sheet at cost, and if they have a

limited useful life they are systematically depreciated over their useful life. The disposal value is taken into account. The useful life and disposal value are based on estimates of the future developments.

The book value of intangible assets with an undefined useful life and goodwill is tested annually for impairment. Hafslund constantly monitors any indications of potential impairment. In case of indications of a possible impairment in value, impairment tests will be performed immediately, and in any case once a year. If the valuation tests indicate that the book values are no longer recoverable, assets are written down to their recoverable amounts. Impairment tests are carried out by identifying and discounting the cash flows linked to the cash-generating units. The recoverable amount of a cash-generating unit is calculated based on the value the asset is expected to generate for the business. Impairment tests carried out in 2014 revealed a need to recognise a further impairment of NOK 66 million in respect of the Bio-EI Fredrikstad waste-to-energy plant in Østfold, and an impairment of NOK 61 million in respect of

the secondary grid for delivery of district heating supplies to Søndre Nordstrand in Oslo (both included in Heat). At the reporting date Bio-EI Fredrikstad, for which a previous impairment of NOK 240 million was recognised in 2012, had a book value of NOK 30 million. Bio-EI Fredrikstad has displayed weak profitability since start-up. The premises for future profitability were further weakened by the impairment recognised in 2012. The impairment of the secondary grid at Søndre Nordstrand in Oslo was recognised to reflect the fact that income from customers was not sufficient to cover costs relating to the technical condition of the district heating grid and operating and maintenance requirements. The secondary grid primarily comprises heating infrastructure for detached and row houses and blocks of flats at Søndre Nordstrand in Oslo, most of which were built in the 1980s and 90s. The average annual district heating delivery to customers in the secondary grid is 90 GWh.

The table below shows the book values allocated to the individual cash-generating units at the end of 2014:

NOK million	Operating	Intangible		Total	Impairments			Growth in
Cash-generating unit	assets	assets	Goodwill	book value	2014	Cumulative	Terminal year	terminal year
Production	4,048	253	7	4,308			2020	2.0 %
Networks	10,042		623	10,665			2045	2.0 %
Heat	4,509		585	5,094	127	372	2030	2.0 %
Markets	185	220	1,230	1,635			2020	0.0 %
Other business	227		51	278	21	48	2020	2.0 %
<b>Group</b>	<b>19,011</b>	<b>473</b>	<b>2,497</b>	<b>21,981</b>	<b>148</b>	<b>420</b>		

## Note 8

### Budget and forecast assumptions

The impairment tests performed for 2014 are based on the budget for 2015 and forecasts for the four following years before the terminal value is established. For the networks and district heating operations, cash flows for a longer period are used before the terminal value is established. This is due to a gradual change in the profile for el-certificates for the district heating operations and the long-term development of efficiency and the NVE interest rate in the revenue ceiling model for the network operations. Future cash flows are based on a number of assumptions. The level and development of power prices are key to the profitability of the business areas Production and Heat. The impairment tests applied the system forward price for power listed on Nasdaq OMX on 31 October 2014. The system price for 2019 was NOK 0.27 per kWh. Normal production is assumed for the power production business (included in Production) and the district heating business in Oslo (included in Heat). The assumption of normal power production of 3,100 GWh is based on ten years' hydropower data adjusted for efficiency improvements. Normal production for the district heating business of 1,721 GWh for 2015 is based on average temperatures for the last ten years, adjusted for existing and planned customer connections. The customer base for the power sales business (included in Markets) is expected to remain relatively unchanged in Norway, though expand in Sweden/Finland until 2019. No changes are expected in consumption patterns or earnings per customer. The current revenue ceiling model for network activities is expected to continue until the terminal year.

### Discount rate

The discount rate that is used is based on the Group's cost of capital and uses a weighted average required rate of return for equity and loan capital (WACC) for the Group.

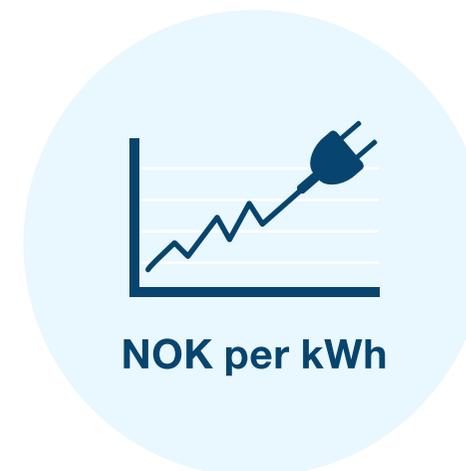
The required return on equity capital is estimated using the capital asset pricing model (CAPM). The required return on loan capital is estimated based on the long-term risk-free interest rate plus a credit margin derived from Hafslund's marginal long-term borrowing rate. The discount rate is adjusted for the assumed debt ratio and business risk for the individual cash-generating units. A discount rate before tax for the various cash-generating units has been applied in the interval 6.4 percent to 11.4 percent (7.0 percent to 12.1 percent).

### Sensitivity

The sensitivity tests carried out reveal robustness for the Group's core activities (Production, District Heating Oslo, Networks and Markets). Estimation of recoverable amounts is based on assumptions regarding future developments in a number of areas. These include, for example, the development of framework conditions, energy prices, temperature, economic growth and consumption patterns. The Hafslund Group has performed sensitivity analyses on the consequences of various changes in assumptions relating to the recoverable amount. This applies, for example, to a 20 percent reduction in power prices, lower energy production, a 20 percent reduction in the cash flow in the terminal year or an increase of 20 percent in the discount rate. The Group's recoverable amount is most sensitive to changes in the power price and regulatory changes within the Networks business. All other factors remaining unchanged, a permanent reduction in power prices of 20 percent could necessitate the recognition of an impairment for the district heating business in Oslo (included in Heat).

The financial robustness of the waste-to-energy plants Sarpborg Avfallsenergi and Bio-El Fredrikstad, and the district heating business at Gardermoen (included in Heat), are low. I.e. at the reporting date, the discounted values were

only marginally higher than the book values of respectively NOK 311 million, NOK 30 million and NOK 97 million. All other factors remaining unchanged, a weakening of any of the key assumptions for these cash-generating units, for example lower power prices or volumes, would necessitate the recognition of an impairment.



**The power price is a key driver  
of profitability for Production and Heat**

## Note 9

### NOTE 9 ▶ INVESTMENTS IN ASSOCIATES

NOK million	Date of acquisition	Registered office	Shareholding	Voting rights
Rakkestad Energiverk AS	2001	Rakkestad	33 %	33 %
Glommens og Laagens Brukseierforening	1903	Lillehammer	22.3 %	22.3 %
Energy Future Invest AS	2012	Gjøvik	49.5 %	49.5 %
Fredrikstad Energi AS	2014	Fredrikstad	49 %	49 %
Fredrikstad EnergiNett AS	2014	Fredrikstad	35 %	35 %
Trøgstad Energiverk AS	2014	Trøgstad	49 %	49 %

NOK million	2014	2013
<b>Book value as of 1 January</b>	<b>204</b>	<b>560</b>
Additions/disposals incl. costs	<b>389</b>	(381)
Share of profit/loss	<b>49</b>	68
Dividends	<b>(15)</b>	(43)
Change in accounting policy 1)	<b>19</b>	
<b>Book value as of 31 December</b>	<b>646</b>	<b>204</b>
Amortisation of excess value for the year	<b>1</b>	1
Excess value as of 31 December	<b>10</b>	5
<b>Total result from associates</b>	<b>49</b>	<b>(46)</b>

1) The associate Energy Future Invest AS has changed its policy for recognising investments in subsidiaries following the implementation of IFRS 10. Following the change, investments are now recognised at fair value. Hafslund's share of the effect of the policy change was recognised directly in equity in the amount of NOK 19 million in 2014. Apart from the above, the amendments to IFRS 10 and 11 have not impacted the consolidated financial statements.

The Hafslund Group purchased Fortum's networks business in Norway effective 30 May 2014. The agreement covers 100 percent of the shares in the networks company Fortum Distribution AS (Hafslund Nett Øst AS), which also owns 49 percent of the shares in Trøgstad Elverk AS, and 100 percent of the shares in the holding company Fortum Power and Heat AS (Hafslund Handel Øst AS), which in turn owns 49 percent of the shares in Fredrikstad Energi AS (FEAS) and 35 percent of the shares in Fredrikstad Energi Nett AS (FEN). Hafslund Nett Øst AS was merged with Hafslund Nett AS in December 2014. Shares in associates are recognised on the same line as other Group associates in accordance with the equity method. See also [Note 25](#) for further information relating to the acquisition.

## Note 10

### NOTE 10 ► FINANCIAL INSTRUMENTS BY CATEGORY

The following principles have been applied for subsequent measurement of financial assets and financial liabilities in the balance sheet.

NOK million	Derivatives used for hedging purposes	Assets at fair value through profit or loss	Loans and receivables	Total
<b>Assets as of 31 December 2014</b>				
Long-term receivables			64	64
Derivatives	12	128		140
Trade and other receivables			2,435	2,435
Cash and cash equivalents			742	742
<b>Total financial assets as of 31 December 2014</b>	<b>12</b>	<b>128</b>	<b>3,241</b>	<b>3,381</b>
<b>Assets as of 31 December 2013</b>				
Long-term receivables			327	327
Derivatives	35	167		202
Trade and other receivables			2,428	2,428
Cash and cash equivalents			1,143	1,143
<b>Total financial assets as of 31 December 2013</b>	<b>35</b>	<b>167</b>	<b>3,898</b>	<b>4,100</b>



Table continued



## Note 10

NOK million	Liabilities at fair value through profit or loss	Other financial liabilities	Total
<b>Liabilities as of 31 December 2014</b>			
Current borrowings	702	2,155	2,857
Long-term borrowings	3,257	5,791	9,047
Derivatives	199		199
Trade and other current payables		2,395	2,395
<b>Total financial liabilities as of 31 December 2014</b>	<b>4,158</b>	<b>10,340</b>	<b>14,498</b>
<b>Liabilities as of 31 December 2013</b>			
Borrowings	4,742	7,226	11,968
Derivatives	168		168
Trade and other current payables		1,406	1,406
<b>Total financial liabilities as of 31 December 2013</b>	<b>4,910</b>	<b>8,632</b>	<b>13,542</b>

Changes in financial assets at fair value through profit or loss are recognised in the income statement as Other (losses)/gains, see also [Note 19](#).

Hafslund hedges some of its hydropower production volume, as well as enters into hedging contracts in the district heating operations, for the next 36 months on an ongoing basis to reduce the power price risk. Hedging arrangements are recognised as cash flow hedging in accordance with IAS 39, and changes in value in hedging instruments are recognised in other comprehensive income. However, as of 31 December 2014 the residual term of the hedging item is less than 24 months.

Derivatives held for trading purposes are classified as current assets or liabilities. The entire fair value of hedging instruments is classified as a current asset or liability. No amount has been recognised for 2014 due to the ineffective portion of the Group's cash flow hedges. The following derivatives are included in the cash flow hedges:

### a) Forward currency contracts

The nominal amount of outstanding forward foreign currency contracts as of 31 December 2014 was NOK -26.5 million.

The hedged, highly probable transactions denominated in a foreign currency are expected to occur at various dates over the next 24 months. Gains and losses recognised in the hedging reserve in equity on forward foreign exchange contracts as of 31 December 2014, will be recognised in the same period or the same periods in which the hedged transaction affects profit or loss.

### b) Power contracts

The nominal amount of outstanding power contracts as of 31 December 2014 was NOK 38.4 million.

The hedged, highly probable transactions denominated in a foreign currency are expected to occur at various dates over the next 24 months. Gains and losses recognised in the hedging reserve in equity on forward foreign exchange contracts as of 31 December 2014 will be recognised in income in the same period or the same periods in which the hedged transaction affects profit or loss.

## Note 11, 12, 13

### NOTE 11 ▶ LONG-TERM RECEIVABLES

NOK million	2014-12-31	2013-12-31
Interest-bearing loans and receivables	34	291
Contributions to pension funds	116	116
Net pension assets	41	48
Other	30	36
<b>Total long-term receivables</b>	<b>221</b>	<b>491</b>

Interest-bearing loans and receivables have decreased following the redemption of a loan that was issued as a vendor loan note in connection with the sale of the shares in Hafslund Fibernett AS in 2010. Hafslund received NOK 312 million in connection with the redemption of the loan. See also [Note 19](#) for further details.

All long-term receivables mature more than one year from the reporting date. The fair value of long-term receivables corresponds to the book value.

### NOTE 12 ▶ TRADE AND OTHER RECEIVABLES

NOK million	2014-12-31	2013-12-31
Trade receivables	856	1,057
Bad debt provision	(53)	(41)
<b>Net trade receivables</b>	<b>803</b>	<b>1,017</b>
Accrued, non-invoiced income	1,181	1,057
Interest-bearing receivables	7	2
Other receivables	444	353
<b>Total trade and other receivables</b>	<b>2,435</b>	<b>2,428</b>

The fair value of trade and other receivables corresponds to the book value. See also [Note 3](#) for further details.

### NOTE 13 ▶ CASH AND CASH EQUIVALENTS

NOK million	2014-12-31	2013-12-31
Cash and cash equivalents group account	343	414
Cash and cash equivalents non-group account	202	542
El-certificate holdings	197	187
<b>Total cash and cash equivalents</b>	<b>742</b>	<b>1143</b>

Of the Group's total bank deposits of NOK 545 million, NOK 18 million is pledged as security for Group power trading activities. Hafslund has a corporate cash pooling system with Nordea. A corporate cash pooling system entails joint and several liability among the participating companies. Hafslund ASA's accounts constitute single, direct accounts for transactions with its bank, while deposits into and withdrawals from subsidiaries' accounts are treated as intercompany balances with Hafslund ASA. Companies participating in the group account scheme have joint and several unconditional liability for total drawdowns on the group account scheme up to a limit of NOK 200 million, which is the overall limit on bank drawdown facilities.

## Note 14, 15

### NOTE 14 ► SHARE CAPITAL AND SHARE PREMIUM ACCOUNT

As of 31 December Hafslund ASA's share capital comprised the following categories of shares:

NOK million	A shares	B shares	Total shares	Share premium	Total
Balance as of 31 December 2013	115	80	195	4,080	4,275
<b>Balance as of 31 December 2014</b>	<b>115</b>	<b>80</b>	<b>195</b>	<b>4,080</b>	<b>4,275</b>

The shares have a par value of NOK 1. There are no outstanding share options. The B shares do not confer any voting rights. In all other respects each share grants the same rights in the company. As of 31 December 2014 Hafslund ASA held 420,411 treasury B shares (2013: 170,411 B shares).

The largest shareholders in Hafslund ASA as of 31 December 2014 comprised the following:

'000 shares	A shares	B shares	Total	Share-holding	Voting rights
City of Oslo	67,525	37,343	104,868	53.7 %	58.5 %
Fortum Forvaltning AS	37,853	28,706	66,559	34.1 %	32.8 %
Kommunal Landspensjonskasse (KLP)	5,201	2848	8,049	4.1 %	4.5 %
MP Pensjon PK	5	1,979	1,984	1.0 %	
<b>Total &gt; 1% shareholding</b>	<b>110,584</b>	<b>70,876</b>	<b>181,460</b>	<b>92.9 %</b>	<b>95.8 %</b>
Total other	4,844	8,882	13,726	7.1 %	4.2 %
<b>Total number of shares</b>	<b>115,428</b>	<b>79,758</b>	<b>195,186</b>	<b>100 %</b>	<b>100 %</b>

The largest shareholders in Hafslund ASA as of 31 December 2013 comprised the following:

'000 shares	A shares	B shares	Total	Share-holding	Voting rights
City of Oslo	67,525	37,343	104,868	53.7 %	58.5 %
Fortum Forvaltning AS	37,853	28,706	66,559	34.1 %	32.8 %
Østfold Energi AS	5,201	4	5,205	2.7 %	4.5 %
Odin Norge		3,801	3,801	1.9 %	
<b>Total &gt; 1% shareholding</b>	<b>110,579</b>	<b>69,854</b>	<b>180,433</b>	<b>92.4 %</b>	<b>95.8 %</b>
Total other	4,849	9,904	14,753	7.6 %	4.2 %
<b>Total number of shares</b>	<b>115,428</b>	<b>79,758</b>	<b>195,186</b>	<b>100 %</b>	<b>100 %</b>

### NOTE 15 ► TRADE AND OTHER CURRENT PAYABLES

NOK million	2014-12-31	2013-12-31
Trade payables	528	502
Public taxes due	804	554
Accrued costs	657	596
Other liabilities	406	351
<b>Total trade and other current payables</b>	<b>2,395</b>	<b>2,002</b>

## Note 16

### NOTE 16 ► BORROWINGS

NOK million	2014-12-31	2013-12-31
Fixed-interest bonds	4,846	4,636
Floating rate notes	2,943	2,327
Other borrowings	1,258	2,469
<b>Total long-term borrowings</b>	<b>9,047</b>	<b>9,432</b>
Fixed-interest bonds	302	372
Floating rate notes	380	400
Commercial papers	600	1,000
Accrued interest	190	204
Other borrowings	1,385	560
<b>Total current borrowings</b>	<b>2,857</b>	<b>2,536</b>
<b>Total borrowings</b>	<b>11,904</b>	<b>11,968</b>

All borrowings taken out before 1 January 2010 are recognised at fair value, which is calculated by applying a discount factor to the borrowings' cash flows. The fair value includes accrued interest. The discount rate applied is the Norwegian swap interest rate, adjusted upwards for Hafslund's credit spreads.

From 1 January 2010 new borrowings are measured at amortised cost, which amounted to NOK 7,751 million at the year-end. The fair value of the borrowings measured at amortised cost is estimated at NOK 8,086 million as of 31 December 2014.

The nominal amount as of 31 December 2014 was NOK 11,356 million. The corresponding amount as of 31 December 2013 was NOK 11,483 million.

The following credit spreads have been applied:

Term (years)	2014-12-31	2013-12-31
0.25	30	45
0.5	30	45
1	30	48
2	36	57
3	48	73
4	57	83
5	65	93
6	72	101
7	78	108
8	82	113
9	86	118
10	90	123

Viewed in isolation, the change in credit spreads during 2014 results in an estimated increase in the loan portfolio's fair value of NOK 17 million. The corresponding change in 2013 was an increase of NOK 34 million.

## Note 16

The Group's borrowings are exposed to market interest rate fluctuations based on the following loan interest maturities.

NOK million	2014-12-31	2013-12-31
0–6 months	6,596	6,411
6–12 months	296	1,005
1–3 years	1,332	842
More than 3 years	3,680	3,710
<b>Total borrowings</b>	<b>11,904</b>	<b>11,968</b>

Hafslund has entered into a syndicated NOK 3,600 million drawdown facility maturing on 17 June 2018. The lender is a banking syndicate comprising six Nordic banks. The drawdown facility is used as a back-stop for current commercial papers and as a general liquidity reserve. At the end of the year the entire facility remained unused. The Group also has a NOK 200 million overdraft facility with Nordea that was unused at the end of the reporting period.

Hafslund's loan covenants prohibit the pledging of assets as loan security. Some loan agreements also stipulate that material assets cannot be disposed of without bank approval, and an ownership clause requiring more than 50 percent of shares issued by Hafslund to be held by current shareholders, or by shareholders with a credit rating of at least A- from Standard & Poor's or A3 from Moody's, or by shareholders approved by the lending banks.

### Debt maturity profile:

NOK million	2014-12-31	2013-12-31
0–6 months	2,149	1,424
6–12 months	709	1,112
1–3 years	3,370	3,776
4–5 years	3,412	2,920
More than 5 years	2,264	2,736
<b>Total borrowings</b>	<b>11,904</b>	<b>11,968</b>

### Loan movement:

NOK million	2014-12-31	2013-12-31
<b>Total borrowings as of 1 January</b>	<b>11,968</b>	<b>11,541</b>
New borrowings	2,225	3,635
Matured loans	(1,942)	(2,671)
Buyback of loans	(406)	(749)
Change in accrued interest	(14)	204
Change in fair value	73	8
<b>Total borrowings as of 31 December</b>	<b>11,904</b>	<b>11,968</b>

## Note 17

### NOTE 17 ► INCOME TAX

#### Income tax expense:

NOK million	2014	2013
Income tax payable	126	297
Deferred income tax liability	68	105
<b>Total income tax expense</b>	<b>194</b>	<b>402</b>

#### Income tax payable in the balance sheet:

NOK million	2014-12-31	2013-12-31
Income tax payable	126	297
Repaid tax relating to resolution amendment Hatros	218	
Repaid tax, change previous year	13	
Opening balance tax payable, acquired company	12	2
Natural resource tax	(31)	
Translation differences	2	
<b>Total tax payable in the balance sheet</b>	<b>340</b>	<b>299</b>

The tax on the profit before tax deviates from the amount that would have resulted had the Group's average tax rate for general income been applied. The difference can be reconciled as follows:

NOK million	2014	2013
Profit before tax	1,197	1,149
Tax calculated at nominal tax rate (27 %/28 %)	(323)	(322)
Resource rent tax	(131)	(145)
Repaid tax relating to resolution amendment Hatros	218	
Change in deferred tax relating to resolution amendment Hatros	50	
Profit/(loss) from sale or change in value of shares		30
Reduced deferred income tax liability at changed tax rate from 2014		45
Change in deferred income tax assets not recognised in balance sheet	(29)	9
Over/underprovision relating to previous years	13	(5)
Share of profit/(loss) from associates	13	(6)
Permanent differences	(6)	(9)
Other matters	1	1
<b>Total tax expense</b>	<b>(194)</b>	<b>(402)</b>
Effective tax rate	16 %	35 %

The change in the effective tax rate with regard to the general company taxation is primarily attributable to repaid tax and change in deferred tax primarily as a result of the resolution amendment for Hatros, and charging of resource rent tax for the power production business.

## Note 17

### Deferred income tax liability

Deferred income tax is recognised in the balance sheet at the date the Group assumes a legal right to offset deferred income tax assets against deferred income tax liabilities.

#### The following items have been recognised on a net basis:

NOK million	2014	2013
Deferred income tax assets that reverse after more than 12 months	109	248
Deferred income tax assets that reverse within 12 months	117	50
<b>Total deferred income tax assets as of 31 December</b>	<b>226</b>	<b>298</b>
Deferred income tax liabilities that reverse after more than 12 months	3,296	3,216
Deferred income tax liabilities that reverse within 12 months	10	180
<b>Total deferred income tax liabilities as of 31 December</b>	<b>3,306</b>	<b>3,396</b>
<b>Total deferred income tax – net as of 31 December</b>	<b>3,080</b>	<b>3,098</b>
<b>Change in recognised value deferred tax:</b>		
<b>Book value deferred income tax as of 1 January</b>	<b>3,098</b>	2,992
Recognised in income in the period	68	105
Recognised as a result of acquisition	5	
Recognised in other comprehensive income in the period	(89)	10
Reclassification	(2)	(9)
<b>Total book value deferred income tax as of 31 December</b>	<b>3,080</b>	<b>3,098</b>

#### Change in deferred income tax liabilities:

NOK million	Property, plant and equipment/ intangible assets	Current assets	Profit and loss account	Total
<b>Deferred income tax liability as of 31 December 2012</b>	<b>3,098</b>	<b>195</b>	<b>104</b>	<b>3,397</b>
Recognised in income in the period	76	(19)	(59)	(2)
Recognised in other comprehensive income in the period		10		10
Reclassification		(6)	(3)	(9)
<b>Deferred income tax liability as of 31 December 2013</b>	<b>3,174</b>	<b>180</b>	<b>42</b>	<b>3,396</b>
Recognised in income in the period	117	(72)	(42)	3
Recognised in other comprehensive income in the period		(6)		(6)
Company acquisition	5			5
Reclassification		(92)		(92)
<b>Deferred income tax liability as of 31 December 2014</b>	<b>3,296</b>	<b>10</b>		<b>3,306</b>

Deferred tax continued



## Note 17, 18

### Change in deferred income tax assets:

NOK million	Pensions	Loans and liabilities	Tax loss carryforwards	Profit and loss account	Total
<b>Deferred income tax assets as of 31 December 2012</b>	<b>(85)</b>	<b>(254)</b>	<b>(66)</b>		<b>(405)</b>
Recognised in income in the period	35	40	32		107
<b>Deferred income tax assets as of 31 December 2013</b>	<b>(50)</b>	<b>(214)</b>	<b>(34)</b>		<b>(298)</b>
Recognised in income in the period	30	16	33	(14)	65
Recognised in other comprehensive income in the period	(83)				(83)
Reclassification		90			90
<b>Deferred income tax assets as of 31 December 2014</b>	<b>(103)</b>	<b>(108)</b>	<b>(1)</b>	<b>(14)</b>	<b>(226)</b>

Deferred income tax assets are recognised for tax loss carryforwards to the extent that the realisation of the related tax benefit through future taxable profits is probable.

The Group has recognised deferred tax assets related to tax loss carryforwards for all wholly owned subsidiaries.

### NOTE 18 ► PENSION COSTS, LIABILITIES AND ASSETS

Group companies operate different pension plans organised through pension funds and insurance companies. The pension plans are generally funded through contributions made by the companies at levels largely determined on the basis of actuarial calculations. The Group operates both defined contribution and defined benefit plans. In accordance with the

Norwegian Act on Mandatory Occupational Pension Schemes, effective from 1 July 2006, agreements have been entered into concerning defined contribution plans for all companies that had not previously operated occupational pension plans for their employees. Since 1 January 2010 most of the companies have taken out disability pension insurance for employees with defined contribution pensions. 335 employees were covered through defined benefit plans in Hafslund's two pension funds as of 31 December 2014 and 78 employees in KLP. The pension funds and KLP also paid pensions to 1,131 individuals. In addition to the above, the Group has defined contribution plans with various insurance companies. Hafslund reorganised its pension plans with effect from 1 January 2007. As a consequence, the existing pension funds were closed to new members. At the same time, defined contribution plans were introduced for all new employees.

Pension assets are valued at fair value at the end of the year. Pension liabilities (net present value of pension benefits accrued at the reporting date adjusted for expected future salary increases) are valued in accordance with best estimates based on assumptions at the reporting date. The actuarial calculations of pension liabilities have been prepared by an independent actuary. The assumptions regarding salary growth, increases in pension payments, and adjustments to the National Insurance Scheme's basic amount (G) are tested against historic observations, established collective agreements, and the relationships between individual assumptions.

Employees who terminate their employment before reaching retirement age receive paid-up policies. Hafslund's pension funds manage these paid-up policies, which are associated with vesting rights in municipal defined benefit plans. Hafslund is financially committed to adjusting these paid-up policies in line with increases in the social security basic amount. From the time paid-up policies earned in other defined benefit plans are issued, Hafslund is released from further obligations towards the employee to whom the policy pertains. Assets and liabilities are valued at the time of issuance of the paid-up policy and are separated from pension liabilities and assets.

Table next page



## Note 18

NOK million	2014-31-12	2013-13-31
<b>Liability recognised in the balance sheet:</b>		
Present value of accrued pension liabilities for funded defined benefit plans	2,789	2,237
Fair value of pension assets	(2,548)	(2,220)
<b>Actual net pension liabilities for funded defined benefit plans</b>	<b>241</b>	<b>17</b>
Present value of pension liabilities for unfunded plans	134	171
<b>Net pension liabilities in balance sheet (incl. employers' National Insurance contributions)</b>	<b>375</b>	<b>189</b>
Net pension liabilities in balance sheet	(416)	(235)
Net pension assets in balance sheet	41	48
<b>Fluctuations in the defined benefit pension liabilities over the year:</b>		
Pension liabilities as of 1 January	2,408	2,232
Employer's National Insurance contributions	6	3
Present value of accrued pension entitlements for the year	34	26
Interest expenses	101	87
Plan changes	(105)	
Estimate changes	388	189
Benefits paid	(114)	(117)
Liabilities from plan changes and acquisitions	204	(12)
<b>Pension liabilities as of 31 December</b>	<b>2,923</b>	<b>2,408</b>
<b>Change in fair value of pension assets over the year:</b>		
Fair value of pension assets as of 1 January	2,220	1,950
Expected return on plan assets	94	78
Estimate changes	90	178
Total contributions	106	116
Total payments from fund	(87)	(88)
Pension assets on settlements and acquisitions	125	(14)
<b>Fair value of pension assets as of 31 December</b>	<b>2,548</b>	<b>2,220</b>

## Note 18

The minimum pension liability, which is the net present value of pension liabilities based on the current income from which pension earnings are derived at the balance sheet date, amounted to NOK 2,495 million as of 31 December 2014 and NOK 2,207 million as of 31 December 2013. Expected contributions in 2015 total NOK 110 million.

<b>The following financial assumptions were applied:</b>	<b>2014</b>	<b>2013</b>
Discount rate	<b>2.30 %</b>	4.00 %
Annual salary increase	<b>2.50 %</b>	3.50 %
Expected adjustment of the National Insurance Scheme's Basic Amount (G)	<b>2.50 %</b>	3.50 %
Adjustments to current pensions, public plan	<b>0,0 % / 1,75 %</b>	0,6 % / 2,75 %

The discount rate is calculated on the basis of a comprehensive interest rate curve that takes into account that pension payments will mature at different times in the future. The curve is calculated based on prices from the Norwegian Covered Bonds market as of 31 December 2014, as calculated by the Norwegian Accounting Standards Board. The annual salary increase is calculated based on a curve by reference to historical data. The salary increase is set to an average of 2.5 percent over the service period for the population in the pension funds.

Demographic assumptions that form the basis of the calculations are based on the IR73 disability rate table (restated using the intensity method) and the K2013FT mortality rate table drawn up by the Financial Supervisory Authority of Norway. Hafslund considers the Financial Supervisory Authority of Norway's K2013FT to be unbiased and take into account the development of the life expectancy of the Group's employees. The assumptions for K2013FT will be followed up systemically each year. The table is unbiased and dynamic so that the life expectancy is improved every year.

The actual yield on pension assets in 2014 amounted to NOK 99 million (NOK 230 million).

NOK million	<b>2014</b>	<b>2013</b>
Accrued pension benefits for the year	<b>34</b>	26
Net interest expense	<b>5</b>	9
Planned changes recognised in income statement	<b>(105)</b>	
Employer's National Insurance contributions	<b>5</b>	4
Member contributions	<b>(2)</b>	(1)
<b>Pension costs defined benefit plans</b>	<b>(64)</b>	<b>38</b>
<b>Pension costs defined contribution plans</b>	<b>31</b>	<b>31</b>
<b>Total pension costs</b>	<b>(33)</b>	<b>69</b>

The pension cost associated with defined benefit plans is impacted by the plan change equating to an amount of NOK 105 million. The above is attributable to the adjustment of mortality rates, which is expected to result in a reduction in the pension liability. The mortality adjustment will be recognised as a plan change in 2015 with a positive effect on the pension cost.

## Note 18

The sensitivity of pension liabilities to changes in the weighted financial assumptions are as follows:

	Impact on pension liabilities		
	Change	Increase in assumption	Decrease in assumption
Discount rate	0.5 %	(7 %)	8 %
Salary increase	0.5 %	2 %	(1 %)
Expected adjustment in the National Insurance Scheme's Basic Amount (G)	0.5 %	6 %	(6 %)
Life expectancy	1 year	3 %	(3 %)

Pension assets are invested in bonds and money-market placements issued by the Norwegian government, Norwegian municipalities, financial institutions and businesses. Foreign currency bonds are hedged. Investments in shares are limited to 37 percent of total pension assets. Investments are made in both Norwegian and foreign shares. Any estimate deviation is distributed pro-rata between the individual asset categories.

Pension assets comprise:

NOK million	2014		2013	
Equity instruments	1,172	46 %	799	36 %
Interest-bearing instruments	1,376	54 %	1,354	61 %
Other			67	3 %
<b>Fair value pension assets</b>	<b>2,548</b>	<b>100 %</b>	<b>2,220</b>	<b>100 %</b>

In 2014 the plan's contributions were invested as follows:

NOK million	Level 1 Exchange-listed prices	Level 2 Observable prices	Level 3 Non-observable prices	Total
Equity instruments		892	280	1,172
Interest-bearing instruments		1,376		1,376
<b>Total</b>		<b>2,268</b>	<b>280</b>	<b>2,548</b>

### Risk

The measurement of pension liabilities is based on IAS 19 and on assumptions for discount rates, real wage developments, inflation, age-based career development, adjustment of retirement benefits, development of the National Insurance Scheme's basic amount (G), expected retirement of employees, retirement age and disability. Estimation of the obligation is performed by an independent actuary.

Pension assets are measured at fair value and are invested in Hafslund Offentlige Pensjonskasse, Hafslund Private Pensjonskasse and KLP. From 1 January 2015 Hafslund's two pension funds will be merged under the name Hafslund Infratek Pensjonskasse. The pension funds also cover a business that is not part of the Group (Infratek AS including subsidiaries in Norway). In addition, the pension fund includes paid-up policies. The Group's pension assets are managed as a "collective portfolio", which entails that the board of the pension funds determine how the pension assets will be invested.

The Group is exposed to several types of risk through its defined benefit pension plans, the most significant of which are as follows:

### Interest rate risk

Pension assets exposure to interest rate risk is deemed to be moderate due to the fact that the market value weighted term is approximately 3 years. The portfolio value of Hafslund's pension funds would fall by around 1.5 percent (around NOK 20 million) in the event of a parallel shift in the interest rate curve (interest increase) of + 0.5 percentage points. The value would rise correspondingly in the event of a fall in interest rates.

## Note 18

The pension liabilities are exposed to interest rate risk, due to the fact that the covered bond interest rate is used as the basis for determining the discount rate. The pension liabilities would increase by around 8 percent (NOK 230 million) in the event of a parallel shift in the entire yield curve (fall in interest rates) of -0.5 percentage points. The value would decrease by around 7 percent (NOK 205 million) in the event of a 0.5 percentage point increase in interest rates. See also the sensitivity table on the previous page.

### Credit risk

Pension assets exposure to credit risk is deemed to be moderate. The credit risk is managed through limits for the largest exposure and rating for individual investments. The majority of the pension fund's fixed income investments shall be "investment grade". The pension liabilities are exposed to credit risk, since the covered bond interest rate is used as the basis for determining the discount rate. An increase in the credit mark-up would reduce the pension liability.

### Share price risk

The pension assets are invested in equity instruments and shares in various Norwegian and foreign equity funds. Four of Hafslund's equity funds have market exposure to Norway, while certain other equity funds are exposed to foreign equity markets. The pension assets also include investments in the private equity asset category. The overall equity exposure varied from 25 to 30 percent throughout the year. In total, equity instruments and shares comprised 46 percent of the overall portfolio at the end of 2014. Most of the equity exposure is to the global equity market. The pension fund's equity investments are widely diversified.

### Foreign exchange risk

All the investments in foreign fixed income funds are hedged. Investments are made in currency-hedged funds. Foreign equity investments are in general not currency-hedged. At any one time at least 70 percent of the pension assets in Hafslund's pension funds shall be invested in NOK. At the reporting date pension assets were exposed to foreign exchange risk due to the fact that some funds were invested in foreign equities and due to one property fund. Together, these represented 13.6 percent of the assets under management. The pension liabilities are solely exposed to NOK.

### Liquidity risk

The liquidity risk of the pension assets is considered low, since the current investments exceed the current liabilities at all times. The investments are considered adequately liquid.

Overview of pension liabilities and the fair value of pension assets related to funded plans:

NOK million	2014	2013	2012	2011
Present value of defined benefit pension liabilities	2,923	2,408	2,232	2,734
Fair value of pension assets	2,548	2,220	1,950	1,775
<b>Deficit</b>	<b>375</b>	<b>188</b>	<b>282</b>	<b>959</b>

Expected maturity of the defined benefit plans:

NOK million	< 1 year	1–2 years	2–5 years	> 5 years	Total
Defined benefit pension	111	111	432	2,269	2,923

## Note 19, 20, 21

### NOTE 19 ▶ OTHER (LOSSES)/GAINS NET

NOK million	Notes	2014	2013
<b>Other financial assets and liabilities at fair value through profit or loss</b>			
Other finance income	<a href="#">11</a>	99	37
<b>Unrealised gains/(losses) on derivatives</b>			
Interest rate derivatives		(46)	16
Foreign exchange derivatives		3	18
Power derivatives and el-certificates		11	(15)
<b>Sale of financial assets</b>			
Accounting profit on shares in step acquisitions	<a href="#">25</a>		18
<b>Total other (losses)/gains – net</b>		<b>67</b>	<b>75</b>

The redemption of a vendor loan note on the sale of the Hafslund Fibernett AS in 2010 generated a profit of NOK 52 million in 2014. See also [Note 11](#).

### NOTE 20 ▶ OTHER OPERATING EXPENSES

NOK million	2014	2013
Maintenance	621	649
Purchase of services	171	130
Rent, power, etc.	199	167
Sales and marketing	219	179
Other	762	622
<b>Total other operating expenses</b>	<b>1,972</b>	<b>1,747</b>

In 2014 auditors' fees were recognised in the total amount of NOK 9.5 million (NOK 8.0 million). The fees break down as follows: NOK 5.6 million (NOK 5.6 million) for statutory auditing; NOK 0.6 million (NOK 0.2 million) for other certification services; NOK 1.6 million (NOK 1.7 million) for tax consultancy services and NOK 1.7 million (NOK 0.5 million) for non-auditing services).

### NOTE 21 ▶ SALARIES AND OTHER PERSONNEL EXPENSES

NOK million	2014	2013
Salaries	740	659
Employer's National Insurance contributions	121	108
Pension costs – defined benefit plans	(64)	38
Pension costs – defined contribution plans	31	31
Other benefits	51	65
<b>Total salaries and other personnel expenses</b>	<b>879</b>	<b>901</b>

At the end of 2014, Hafslund employed a total of 1,287 staff (1,220) and 1,258 annual equivalents (1,178).



## Note 22

### NOTE 22 ▶ OVERVIEW OF REMUNERATION PAID TO SENIOR EXECUTIVES AND BOARD MEMBERS

Name	Position	Salary, holiday pay and fees (4)	Bonus (2)	Benefits in kind	Pension costs	Loans 31 December 2014	Number of shares 31 December 2014
Finn Bjørn Ruyter	President and CEO	3,504,313	1,420,872	200,002	450,441	350,000	10,600
Kari Ekelund Thørud	Senior Vice President /Deputy President and CEO	2,674,106	89,364 <sup>(2)</sup>	198,536	193,585	520,000	1,027
Heidi Ulmo	Senior Vice President	2,462,271	619,367	199,977	292,918	460,000	6,600
Jan Presttun	Senior Vice President	2,214,107	447,415	143,615	91,560	285,000	3,656
Anders Østby	Senior Vice President	1,693,083	365,220	156,521	265,273	425,000	4,037
Kristin Lian	Senior Vice President	1,802,454	518,414	166,649	311,577	500,000	1,293
Johan Hovland	Senior Vice President	1,844,560	370,019	173,689	190,810	470,000	4,600
Birger Magnus (3)	Chairman	537,700					7,000
Per Langer (1, 3)	Board member	240,700					
Maria Moræus Hanssen (3)	Board member	274,750					
Odd Håkon Hoelsæter (3)	Board member	274,750					
Ellen Christine Christiansen	Board member	240,700					
Per Orfjell (3)	Board member (employee representative)	1,144,470		80,204	127,480	267,500	852
Per Luneborg (3)	Board member (employee representative)	722,531		7,961	114,859		277
Jane Koppang	Board member (employee representative)	930,642		7,961	96,172		862

1) Per Langer and his related parties do not own any shares in Hafslund. Per Langer is employed in Fortum, which owns 37,853,110 A shares and 28,706,339 B shares in Hafslund.

2) Applies to bonuses earned in 2014 and paid in 2015. Kari E. Thørud had maternity leave most of 2014.

3) Includes remuneration for work on the Audit Committee and Compensation Committee.

4) The base salaries of the CEO and each EVP, increased by 3.6 % in 2014. The increase in “salary, holiday and pay and fees” from last year differ from the increase in base salaries, due to effects of the Norwegian holiday pay system of last year bonuses are included in the figures.



## Note 22

### **Terms and conditions of employment, President and CEO**

The President and CEO has a six-month period of notice. On leaving the company's employment he is entitled, on certain conditions being met, to continue receiving salary payments (severance pay) for 12 months after the notice period has come to an end. Upon receipt of salary from any new employer during the severance period, severance pay is reduced in line with special terms. The retirement age is 67 years and the CEO is a member of the Group's occupational pension plan (OTP) which provides 5 percent of salary between 1 and 6 times the National Insurance Scheme's basic amount (G) and 8 percent of salary between 6 and 12 G. For basic salary over 12 G, a pension compensation that provides a net additional income after tax of 8 percent will be paid. The CEO has the right to terminate his employment with an early retirement plan (AFP), pursuant to regulations in force at any one time. The CEO has a disability pension plan with a compensation of 66 percent of salary between 12 and 30 G. The CEO is entitled to a bonus capped at 50 percent of fixed salary. The bonus is determined annually based on Group targets, company targets/business targets, objective individual targets and a subjective individual evaluation.

### **Terms and conditions relating to other members of Group management**

Other members of Group management are entitled, under certain circumstances, to 6–12 months' salary on leaving the company (after the end of the notice period). Upon receipt of salary from any new employer during the severance period, severance pay is reduced in line with special terms. Remuneration consists of a fixed salary and a bonus scheme capped at 30 percent of fixed salary. The bonus is determined annually based on Group targets, company targets/business targets, objective individual targets and a subjective individual evaluation. Group management, with

certain exceptions, are members of the ordinary defined benefit pension plans. Ulmo and Hovland were employed after the defined benefit pension plan was closed to new members, and are covered by the same defined contribution plan as the CEO. Group management has a disability pension plan with a compensation of 66 percent of salary between 12 and 30 G.

### **The Board's Compensation Committee**

The board of Hafslund ASA has a dedicated Compensation Committee. The Compensation Committee will advise the board in all matters pertaining to the company's remuneration to the CEO. The committee will keep up to date on and propose guidelines for determination of remuneration to senior executives in the Group. In addition, the committee will function as the advisory body for the CEO as regards compensation schemes that essentially cover all employees, including Hafslund's bonus system and pension plan.

### **The Board's declaration regarding determination of salaries and other remuneration for senior executives**

The Board of Hafslund ASA will present the following guidelines and declaration regarding determination of salary and other remuneration for senior executives for the coming financial year to the Annual General Meeting, in accordance with the Public Limited Companies Act, § 6–16a and §5–6 (3).

### **Remuneration paid to the CEO**

Remuneration paid to the CEO shall be competitive in relation to responsibilities and the industry. The remuneration must furthermore act as an incentive to long-term creation of value through development of the enterprise, positive profit and share price performance, and reflect the experience and expertise level of the employee. Remuneration will consist of a fixed salary, a bonus of up to 50 percent of the basic

salary, pension and interest and instalment-free loans. The CEO will receive benefits in kind on the same level as other senior executives in the Group. The period of notice must equal at least six months.

### **Remuneration paid to senior executives and other executives**

Remuneration for the Group management is adopted by the CEO, but must be submitted to the board for approval if the remuneration deviates from these guidelines. Remuneration paid to other executives is adopted by the relevant senior vice presidents. Remuneration paid to senior executives and other executives must be based on the guidelines below.

### **Fixed salary**

The fixed salary is based on the duties performed and level of responsibility, as well as the incumbent's expertise and length of service in the position. Salary should be competitive in relation to responsibility and industry levels.

### **Loans**

Interest-free loans that are written down over 10 years in accordance with adopted guidelines can be given for car purchases. In addition, an annual operating subsidy can be awarded, as determined by the administration. Should the senior executive not have need for a car, the loan can still be taken out on the same terms against satisfactory surety. Benefits relating to loans are included in the benefits in kind column in the table.

### **Benefits in kind**

Benefits in kind must mainly be in connection with expenses for broadband/ADSL connection (home office), mobile telephones and newspapers.



## Note 22, 23, 24

### Holidays

Senior executives are entitled to holidays in line with the provisions of the Norwegian Annual Holidays Act and the current internal rules of the Group. Holiday pay is calculated on the basis of basic salary. Additional benefits are not included in the calculation.

### Annual bonus

An annual bonus system has been established to create an incentive for additional effort and value creation. Bonuses will be paid based on the added value which the employee or group of employees has generated. The bonus scheme is limited upwards to 50 percent of fixed salary depending on the level of the position. The main rule is a ceiling of 30 percent of basic salary for the Group management (level 1) and a ceiling of 20 percent of basic salary for level 2. Any exception from the main rule shall be specifically agreed with the CEO or Board. The bonus is established annually and Group targets are determined by the Board. The measurement criteria in addition to the Group targets for the individual employee, as well as weighting of targets are set by the employee's immediate supervisor based on:

- Group targets X percentage of maximum bonus
- Company targets/business targets X percent of the maximum bonus
- Individual objective targets X percent of the maximum bonus
- Subjective individual assessment up to X percent of the maximum bonus

The targets and the weighting must be adapted to the needs of the individual company/enterprise.

The annual bonus will be disbursed after presentation of the Group's annual financial statements. The disbursed bonus

is not included in the calculation of holiday pay and pension benefits. Should legislation require such benefits to be calculated on the basis of salary including bonus, the bonus will be reduced by as much as necessary to limit the bonus including other benefits to the total value determined by the provisions above.

### Share schemes

The CEO and Group management are covered by the Group's share schemes for all employees. To promote employee loyalty to the Group, the company should annually consider giving all employees the opportunity to buy shares in Hafslund. The share offer should be viewed in the context of the total salary settlement for the Group. Share offer to all employees was last given in 2013.

### Option schemes

The Group does not use option schemes.

### Pension

The CEO and Group management shall have a pension plan in accordance with the current pension plan for the Group, unless otherwise agreed with the Board. For those in Group management who are members of the Group's mandatory occupational pension (OTP) and have a basic salary over 12 times the National Insurance Scheme's basic amount (G), a pension compensation that provides a net additional income after tax of 8 percent will be paid. The retirement age for these individuals should normally be 67. The CEO and Group management are entitled to take early retirement in accordance with the AFP agreement in force at any given time. The CEO and Group management have a disability pension plan with a compensation of 66 percent of salary between 12 and 30 G.

### Period of notice and severance pay

The CEO and Group management should have a six-month period of notice. In specific cases and depending on the position concerned, salary payments may continue to be made for 6 to 12 months after employment has been terminated. If the employee should begin a new job while receiving severance pay, payments will be reduced by 66 percent of the lower of these monthly severance payments and the new monthly salary. Partly for historical reasons, remuneration deviates in some cases from the Group's guidelines for senior executive pay.

## NOTE 23 ► FINANCE COSTS

NOK million	2014	2013
Interest expense borrowings	446	464
Change in borrowings recognised at fair value	73	9
Capitalised construction loan interest	(13)	(13)
Disagios	45	22
Other finance costs	1	21
<b>Total finance costs</b>	<b>552</b>	<b>503</b>

## NOTE 24 ► RELATED PARTY TRANSACTIONS

As of 31 December 2014, the City of Oslo owned 53.7 percent of the shares in Hafslund ASA. Hafslund buys and sells goods and services from/to the City of Oslo and all transactions between the parties are carried out on market terms. Receivables from related parties primarily arise from the sale of goods and services. Trade payables to related parties mainly arise from the purchase of goods and services.

## Note 24, 25

NOK million	City of Oslo	
<b>Income statement:</b>	<b>2014</b>	<b>2013</b>
Sale of goods and services	155	202
Purchase of goods and services	178	204
<b>Balance sheet:</b>	<b>2014-12-31</b>	<b>2013-12-31</b>
Receivables	20	19
Purchases recognised as investments	4	9
Trade payables	29	27

### Borrowings

Hafslund has two bond loans of NOK 500 million and NOK 740 million with Oslo Pensjonsforsikring AS, established in 2007 and 2008, respectively. The loans have ten-year terms. Both loans were taken out on market terms and conditions and are listed on the Oslo Stock Exchange. Norsk Tillitsmann is a counterparty to the agreement. Oslo Pensjonsforsikring AS is a life insurance company that is wholly owned by the City of Oslo. The loans are included in Non-current loans, fixed-interest-rate bonds, in [Note 16](#).

### NOTE 25 ► BUSINESS ACQUISITIONS

#### Purchase of Fortum's networks business in Norway

The Hafslund Group purchased Fortum's networks business in Norway effective 30 May 2014. The agreement covers 100 percent of the shares in the networks company Fortum Distribution AS, which also owns 49 percent of the shares in Trøgstad Elverk AS, and 100 percent of the shares in the

holding company Fortum Power and Heat AS, which in turn owns 49 percent of the shares in Fredrikstad Energi AS (FEAS) and 35 percent of the shares in Fredrikstad Energi Nett AS (FEN). Fortum Distribusjon AS changed name to Hafslund Nett Øst AS after the share transfer and merged with Hafslund Nett AS at the end of 2014. Fortum Power and Heat AS changed name to Hafslund Handel Øst AS. The purchase of the shares took place at the same time, but was regulated in two different share purchase agreements and with two separate purchase prices. The Norwegian anti-trust authorities approved the transaction on 2 May 2014.

#### Hafslund Nett Øst AS

The aggregate purchase price for Hafslund Nett Øst AS's shares was NOK 1,035 million, including interest for the period 31 December 2013 until the acquisition date. The net assets in accordance with IFRSs amounted to NOK 659 million, meaning that the excess values on acquisition amounted to NOK 376 million. Identified excess values on the acquisition primarily relate to network facilities, net after deduction of the fair value of the surplus income. Excess income at the time of acquisition represented reduced networks income in the future and is not recognised in the balance sheet separately, but is deducted from the value of the networks facilities as a separate negative component. The negative value adjustment will reduce the depreciation of the network facilities in the period until the surplus income is expected to be reset to zero. The networks business as part of Hafslund Nett Øst AS, is included in the Networks business area.

The purchase price allocation associated with the acquisition of the shares in Hafslund Nett Øst AS as of 30 May 2014 breaks down as follows:

NOK million	2014-05-30
Purchase price	1,035
Of which fair value of net assets acquired	673
Of which goodwill	362

NOK million	Fair value	Book value
Property, plant and equipment	984	964
Financial assets	44	50
Current receivables	207	207
Long-term liabilities	(179)	(179)
Trade and other current payables	(383)	(383)
<b>Net assets acquired</b>	<b>673</b>	<b>659</b>

#### Excess values relating to the acquisition:

After the fair value of all the identifiable assets and liabilities has been assessed, the Group is left with a net item that is recognised in the balance sheet as goodwill. The goodwill calculated has been recognised in the Group's balance sheet based on an expectation that the synergy effects with the existing business will provide the Group opportunities for increased earnings growth in the future.

#### Hafslund Handel Øst AS

The total purchase price for the shares in Hafslund Handel Øst AS was NOK 388 million. The company's total assets comprised NOK 23 million in cash and cash equivalents,

## Note 25

and the shares in FEAS and FEN that are recognised in accordance with the equity method. At the time of acquisition the fair value of the assets amounted to NOK 422 million, which would appear to represent a profit on a favourable purchase of NOK 34 million. However, this amount has been identified as a negative value of the networks facilities as a result of the income surplus. This negative value adjustment will reduce depreciation of the network facilities in the period until the surplus income is expected to be set to zero in a similar way as to Hafslund Nett Øst AS. The shareholdings in FEAS and FEN are reported as investments in associates under Other business.

### **Purchase of Energibolaget i Sweden Holding AB**

In October 2013 Hafslund exercised its purchase option to acquire the remaining 51 percent of shares in Energibolaget i Sverige Holding AB (EBS). Following the above transaction Hafslund owns all the shares in EBS. The cost of 100 percent of the shares in the step acquisition totalled SEK 474 million and the net assets of EBS amounted to SEK 272 million at the exercise date. Following the final purchase price allocation, the total book value of the customer portfolios amounted to SEK 129 million, the deferred tax liability to SEK 32 million and goodwill to SEK 104 million (SEK 201 million). See also [Note 19](#) for the accounting profit on the step acquisition in 2013.



## Note 26

### NOTE 26 ► COMPANIES INCLUDED IN THE CONSOLIDATION IN 2014

Company	Country/registered office	Shareholding/Voting rights %
Hafslund ASA	Oslo	100
Hafslund Produksjon AS	Askim	100
Sarp Kraftstasjon AS	Askim	100
Skankraft AS	Oslo	100
Hafslund Nett AS	Oslo	100
Hafslund Driftsentral AS	Oslo	100
Hafslund Varme AS	Oslo	100
Bio-El Fredrikstad AS	Fredrikstad	100
Sarpsborg Avfallsenergi AS	Sarpsborg	100
Hafslund Marked AS	Oslo	100
Hafslund Strøm AS	Oslo	100
NorgesEnergi AS	Kristiansand	100
Hallingkraft AS	Ål	100
Røyken Kraft AS	Røyken	51
Fredrikstad EnergiSalg AS	Fredrikstad	100
Mitt Hjem Norge AS	Vestby	100
Göta Energi AB	Kungälv	100
SverigesEnergi AB	Stockholm	100
Energibolaget i Sverige Holding AB	Haninge	100

Company	Country/registered office	Shareholding/Voting rights %
Suomen Energiyhtiö OY	Helsinki	100
Hafslund Tellier AS	Oslo	100
Hafslund Kundesenter AS	Oslo	100
Hafslund Handel AS	Oslo	100
Hafslund Handel Øst AS	Oslo	100
Embriq AS	Oslo	89
Embriq Metering Services AS	Oslo	89
Embriq AB	Göteborg	89
Hafslund Hedging AS	Oslo	100
Balder Energy AS	Oslo	100
RåEl Kraft AS	Oslo	78
Vestfjorden Kraft AS	Oslo	80
Hornnes Kraft AS	Oslo	75
Oslo Energi AS	Oslo	100
Hafslund Eiendom AS	Oslo	100
Hafslund USA Inc	USA	100
Hafslund Energy LLC	USA	100
Hafslund Energy Trading LLC	USA	100

# Financial statements and notes Hafslund ASA

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## Income statement

NOK million	Notes	1 January–31 December	
		2014	2013
<b>Operating revenues</b>		<b>210</b>	<b>197</b>
Salaries and other personnel expenses	<u>3, 4</u>	77	114
Depreciation, amortisation and impairments	<u>8</u>	31	28
Other operating expenses	<u>5</u>	127	121
<b>Operating profit/loss</b>		<b>(25)</b>	<b>(67)</b>
Result of share investments	<u>6</u>	(35)	295
Net financial items	<u>6</u>	62	95
<b>Total financial items</b>		<b>27</b>	<b>391</b>
<b>Profit before tax</b>		<b>2</b>	<b>324</b>
Income tax expense	<u>7</u>	(13)	(8)
<b>Profit/loss for the year</b>		<b>(11)</b>	<b>316</b>
<b>Appropriations:</b>			
Dividends	<u>18</u>	487	488
Transferred (from)/to equity		(498)	(172)

## Balance sheet

NOK million	Notes	31 December	
		2014	2013
<b>Assets</b>			
<b>Deferred income tax assets</b>	<u>7</u>	<b>25</b>	<b>18</b>
<b>Total property, plant and equipment</b>	<u>8</u>	<b>158</b>	<b>177</b>
Shares in subsidiaries	<u>9</u>	<b>13,965</b>	14,000
Other long-term receivables	<u>4, 10</u>	<b>2,844</b>	3,101
<b>Total financial assets</b>		<b>16,809</b>	<b>17,100</b>
<b>Total non-current assets</b>		<b>16,992</b>	<b>17,295</b>
Trade and other receivables	<u>11</u>	<b>280</b>	422
Cash and cash equivalents	<u>17</u>	<b>1,119</b>	1,360
<b>Total current assets</b>		<b>1,398</b>	<b>1,782</b>
<b>Total assets</b>		<b>18,391</b>	<b>19,077</b>
<b>Equity and liabilities</b>			
Paid-in equity		<b>4,334</b>	4,334
Retained earnings		<b>1,872</b>	2,437
<b>Total equity</b>	<u>18, 19</u>	<b>6,206</b>	<b>6,771</b>
Provisions	<u>4</u>	<b>118</b>	105
Long-term interest-bearing liabilities	<u>14, 15</u>	<b>10,756</b>	10,483
<b>Total long-term liabilities and provisions</b>		<b>10,874</b>	<b>10,588</b>
Current interest-bearing liabilities	<u>12</u>	<b>600</b>	1,000
Trade and other current payables	<u>13</u>	<b>224</b>	230
Proposed dividend	<u>18</u>	<b>487</b>	488
<b>Total current liabilities</b>		<b>1,311</b>	<b>1,718</b>
<b>Total equity and liabilities</b>		<b>18,391</b>	<b>19,077</b>

The Board of Directors of Hafslund ASA  
Oslo, 18 March 2015

Birger Magnus  
Chairman of the Board

Maria Moræus Hanssen  
Deputy Chairman

Per Langer

Odd Håkon Hoelsæter

Ellen Christine Christiansen

Per Orfjell

Per Luneborg

Jane Koppang

Finn Bjørn Ruyter  
President and CEO



## Statement of Cash Flow

NOK million	Notes	1 January–31 December	
		2014	2013
Profit before tax		2	324
Depreciation, amortisation and impairments		31	28
Other result items adjusted for liquidity effects		35	(232)
Change in working capital, etc.		5	(11)
<b>Net cash flow from operating activities</b>		<b>73</b>	<b>109</b>
Purchases of property, plant and equipment	8	(17)	(31)
Investments in subsidiaries			(225)
Capital reduction subsidiaries			1,280
Accrued Group contributions		(238)	(372)
Group contributions received		372	416
Sale of operating assets or subsidiaries		4	1
Change in other share investments			382
Change in long-term receivables		250	(4)
<b>Net cash flow from investing activities</b>		<b>371</b>	<b>1,447</b>
New long-term borrowings		2,225	3,635
Repayment of borrowings		(2,347)	(3,420)
Change in other long-term liabilities		(62)	(33)
Dividends paid		(488)	(487)
Treasury shares		(13)	
<b>Net cash flow from financing activities</b>		<b>(685)</b>	<b>(305)</b>
Net change in cash and cash equivalents		(241)	1,251
Cash and cash equivalents as of 1 January		1,360	109
<b>Cash and cash equivalents as of 31 December</b>		<b>1,119</b>	<b>1,360</b>



# Note 1

## NOTE 1 ▶ ACCOUNTING POLICIES

Hafslund ASA's financial statements have been prepared in accordance with the Norwegian Accounting Act and generally accepted accounting practice in Norway (NGAAP).

### Operating revenues

Revenues from sale of goods and services are recognised at fair value of the consideration. Revenues from the sale of goods and services are recognised at the time of delivery to the customer, provided that the customer has assumed the risks and rights pertaining to the property.

### Classification

Assets intended for permanent ownership or long-term use are classified as non-current assets. Assets relating to goods circulation, receivables due to be repaid within one year, and assets that are not intended for permanent ownership or long-term use in the business are deemed to be current assets. Liabilities falling due more than one year after the end of the financial year are recognised as long-term liabilities. Other liabilities are classified as current liabilities.

### Valuation principles

#### Assets and liabilities denominated in foreign currency

Balance sheet items denominated in foreign currency that are not hedged against changes in exchange rates are valued at the rate in force at the balance sheet date. Balance sheet items that are hedged against fluctuations in exchange rates using financial instruments are valued at the hedging rate. Balance sheet items denominated in foreign currency that hedge each other are valued at the rate in force at the balance sheet date. Gains and losses as a result of fluctuations in exchange rates on other balance sheet items are classified as financial items.

### Trade and other receivables

Trade and other receivables are recognised at nominal value less bad debt provisions. Bad debt provisions are based on an individual assessment of each receivable. A non-specific provision is also recognised to cover expected bad debts on other trade receivables.

### Treasury shares

Hafslund offers discounted treasury shares to employees in order to encourage employee ownership in the company. Any treasury shares sold to employees below market price are recognised as the difference between market price and sales price in the income statement under salaries and other personnel expenses. Treasury shares are recognised in the balance sheet as a reduction in equity.

### Investments in subsidiaries, associates and joint ventures

Investments in subsidiaries, associates and joint ventures are valued in accordance with the cost method. Dividends and other distributions received from subsidiaries are recognised as financial income. The Group values single-entity companies in accordance with IAS 36.

### Investments in long-term shareholdings

Long-term investments in companies in which Hafslund controls more than 20 percent of equity rights, but does not exercise significant influence or long-term ownership, are recognised at cost less any permanent diminutions in value. Individual investments are valued on a case-by-case basis. Dividends and other distributions received from subsidiaries are recognised as financial income. Realised gains and losses and any impairments attributable to permanent diminutions in value are recognised in the income statement under financial items.

### Property, plant and equipment

Property, plant and equipment is recognised in the balance sheet at cost less cumulative depreciation and impairments. Own investment activities are recognised in the balance sheet at full production cost. Property, plant and equipment is depreciated on a straight-line basis over its expected useful life from the time it enters operation. Profits and losses on the sale of operating assets are recognised as operating revenues and operating expenses respectively.

### Retirement benefit obligations

See [Note 2.18](#) to the consolidated financial statements. Hafslund ASA has opted to switch to NRS 6A which refers to IAS 19, regarding the accounting treatment of pension expenses.

### Income tax expense, deferred income tax liabilities and deferred income tax assets

The income tax expense is based on the profit/(loss) on ordinary activities before tax. The income tax expense comprises taxes payable and changes in deferred income tax liabilities/deferred income tax assets. Tax payable is calculated based on the taxable result for the year. Deferred income tax recognised in the balance sheet is calculated in accordance with the offset method, with full provision for net tax-increasing temporary differences based on tax rates and nominal amounts at the balance sheet date. Recognition of deferred income tax assets relating to net tax-reducing temporary differences and tax loss carryforwards is based on an assessment of the probability of there being sufficient future earnings or ability to utilise tax positions that can be offset through Group contributions.

### Financial derivatives

The accounting treatment adopted for financial derivatives depends on the purpose of the underlying agreement.

## Note 1, 2, 3, 4

Currency derivatives are considered cash items recognised at fair value. Unrealised gains/losses are recognised in the income statement.

### Borrowings

Borrowings are recognised at nominal value. Borrowing costs on the taking out of borrowings are recognised directly in the income statement.

### Contingencies

Contingencies are recognised if, on the balance of probabilities, it is more likely that these will be settled than not settled. Best estimates are used to calculate settlement values for the contingencies. Provisions are recognised in the event that decisions are taken to implement measures (such as restructuring measures) that materially change the scope of the business or way in which it is operated, and when such measures result in termination benefits. Provisions are calculated based on best estimates of the expenses that are expected to accrue.

### Basis of preparation of statement of cash flow

The cash flow statement has been prepared in accordance with the indirect method. This means that the statement starts from the entity's result for the year in order to be able to present cash flows from ordinary operating activities, investing activities and financing activities, respectively.

### NOTE 2 ▶ MAJOR INDIVIDUAL TRANSACTIONS

There was a change in the legal structure of the companies in the Markets business area in 2014. This involved the incorporation of a holding company Hafslund Marked AS, which is owned by Hafslund ASA. The company was incorporated using shares as contributions in kind. At

the same time, ownership of all companies recognised in Markets was transferred from Hafslund ASA to Hafslund Marked AS.

### NOTE 3 ▶ SALARIES AND OTHER PERSONNEL EXPENSES

NOK million	2014	2013
Salaries	77	82
Employer's National Insurance contributions	11	11
Pension costs (Note 4)	(18)	10
Other benefits	7	11
<b>Total salaries and other personnel expenses</b>	<b>77</b>	<b>114</b>
<b>Number of employees as of 31 December</b>	<b>84</b>	<b>88</b>

Information on remuneration paid to the Board of Directors and senior executives can be found in [Note 22](#) to the consolidated financial statements.

### NOTE 4 ▶ PENSION COSTS, ASSETS AND LIABILITIES

Hafslund ASA is obliged to operate pension schemes for its employees in accordance with the Norwegian Act on Occupational Pension Schemes. The company operates pension schemes that satisfy the requirements of this Act and the schemes cover both defined benefit and defined contribution schemes. As of 31 December 2014 the company's pension schemes covered a total of 84 employees, of whom 25 were in a public scheme, 19 were in a private scheme and 40 were in a defined contribution scheme. The defined benefit schemes provide the right to defined future benefits. These are mainly dependent on the number of years of service and salary level upon reaching retirement age. The pension schemes are funded either through Hafslund's own pension funds, through insurance companies or directly by the companies.

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next page



## Note 4

### TABLE CONTINUED

NOK million	2014	2013
Present value of accrued pension entitlements for the year	3	5
Interest expense on pension liabilities	29	28
Yield on pension assets	(27)	(25)
Planned changes recognised in income statement	(27)	
<b>Pension costs defined benefit schemes</b>	<b>(22)</b>	<b>8</b>
Employer contributions	4	2
<b>Total pension expenses</b>	<b>(18)</b>	<b>10</b>
	<b>2014-12-31</b>	<b>2013-12-31</b>
<b>Liability recognised in balance sheet:</b>		
Present value of accrued pension liabilities for funded defined benefit plans	785	683
Fair value of pension assets	(737)	(682)
<b>Actual net pension liabilities for funded defined benefit plans</b>	<b>48</b>	<b>1</b>
Present value of pension liabilities for unfunded plans	42	67
<b>Net pension liabilities in balance sheet</b>	<b>90</b>	<b>68</b>
Net pension liabilities in balance sheet	(118)	(105)
Net over-financed scheme recognised in balance sheet	28	37
Net pension liabilities as of 1 January	68	98
Pension expense for the year	(22)	8
Pension payments and payment of pension premiums	(31)	(34)
Actuarial losses/(gains) recognised in equity	75	(4)
<b>Net pension liabilities as of 31 December</b>	<b>90</b>	<b>68</b>

Assumptions	2014	2013
Discount rate	2.30 %	4.00 %
Expected yield on pension assets	2.30 %	4.00 %
Annual salary increase	2.50 %	3.50 %
Expected adjustment in the National Insurance Scheme's Basic Amount (G)	3.50 %	3.50 %

The discount rate is calculated on the basis of a comprehensive interest rate curve that takes into account that pension payments will mature at different times in the future. The curve is calculated based on prices from the Norwegian Covered Bonds market as of 31 December 2014, as calculated by the Norwegian Accounting Standards Board.

The annual salary increase is calculated based on a curve by reference to historical data. The salary increase is set to an average of 2.5 percent over the service period for the population in the pension funds. See also [Note 18](#) to the consolidated financial statements for further details.

## Note 5, 6, 7

### NOTE 5 ▶ OTHER OPERATING EXPENSES

NOK million	2014	2013
Purchase of services	16	15
Rent, power, etc.	8	8
Sales and marketing	6	13
Operating and maintenance costs	25	22
Operation of ICT services	38	40
Other operating expenses	35	24
<b>Total other operating expenses</b>	<b>127</b>	<b>121</b>

Auditor's fees recognised in 2014 comprise NOK 1.8 million (NOK 1.9 million). The fees relate to the following:

Statutory auditing NOK 1.0 million (NOK 1.1 million).

Tax consultancy NOK 0.1 million (NOK 0.6 million).

Other consultancy NOK 0.7 million (NOK 0.2 million).

### NOTE 6 ▶ RESULT OF SHARE INVESTMENTS AND NET FINANCIAL ITEMS

NOK million	2014	2013
Impairment of shares in subsidiaries	(35)	
Profit on the sale of Infratek ASA		254
Dividends		41
<b>Profit/loss on share investments</b>	<b>(35)</b>	<b>295</b>
Interest income 1)	282	282
Interest expenses	(501)	(525)
Group contributions	238	372
Other financial income/(financial costs) 2)	43	(34)
<b>Net financial items</b>	<b>62</b>	<b>95</b>

1) Hafslund ASA's interest income includes intragroup interest for 2014 and 2013 of respectively NOK 265 million and NOK 269 million.

2) The redemption of a vendor loan note on the sale of the fibre-networks business in 2010 generated a profit of NOK 52 million in 2014.

### NOTE 7 ▶ TAXES

NOK million	2014	2013
<b>Profit before tax</b>	<b>2</b>	<b>324</b>
Permanent differences	47	(292)
Estimate deviations on pensions recognised in equity	(75)	2
Change in temporary differences	26	(33)
<b>Tax basis, tax payable</b>	<b>0</b>	<b>0</b>
<b>The total tax expense comprises:</b>		
Change in deferred tax liabilities	(7)	4
Opening Balance Effect of change in tax rate		(1)
Opening Balance Effect of change in tax value of interest-rate swaps		6
Deferred tax on estimate deviations for pensions recognised in equity	20	(1)
<b>Income tax expense</b>	<b>13</b>	<b>8</b>
<b>Reconciliation of tax rate:</b>		
Profit before tax	2	324
Expected tax expense at nominal tax rate	1	91
Tax effect of non-taxable income and non-deductible expenses	13	(82)
Effect of change in tax rate		(1)
<b>Income tax expense</b>	<b>13</b>	<b>8</b>
<b>Basis deferred tax liabilities/assets</b>		
Temporary differences	26	36
Operating assets	(29)	(32)
Accrued pension liabilities	(90)	(69)
<b>Basis deferred tax liabilities/assets</b>	<b>(93)</b>	<b>(65)</b>
<b>Deferred tax assets recognised in the balance sheet</b>	<b>(25)</b>	<b>(18)</b>
Change in deferred tax applying same tax rate for opening and closing balances		3
Change in deferred tax as a result of new tax rate closing balance		1
<b>Change in deferred tax</b>		<b>4</b>

## Note 8

### NOTE 8 ► PROPERTY, PLANT AND EQUIPMENT

NOK million	Machinery, technical equipment, furniture, etc.	Land and other property	Work under construction	Total
<b>Book value as of 31 December 2012</b>	<b>107</b>	<b>67</b>	<b>2</b>	<b>176</b>
<b>2013 accounting year</b>				
Investments	5		26	31
Transferred from facilities under construction	2		(2)	
Disposals	(2)			(2)
Depreciation for the year	(26)	(2)		(28)
<b>Book value as of 31 December 2013</b>	<b>86</b>	<b>65</b>	<b>26</b>	<b>177</b>
Cost	287	96	28	411
Cumulative depreciation and impairments	(201)	(31)	(2)	(234)
<b>Book value as of 31 December 2013</b>	<b>86</b>	<b>65</b>	<b>26</b>	<b>177</b>
<b>2014 accounting year</b>				
Investments	1	7	10	17
Transferred from facilities under construction	26		(26)	
Disposals	(1)	(5)		(6)
Depreciation for the year	(29)	(2)		(31)
<b>Book value as of 31 December 2014</b>	<b>83</b>	<b>65</b>	<b>10</b>	<b>158</b>
Cost	214	93	12	319
Cumulative depreciation and impairments	(131)	(28)	(2)	(161)
<b>Book value as of 31 December 2014</b>	<b>83</b>	<b>65</b>	<b>10</b>	<b>158</b>
Amortisation percentage	3-33 %	0-5 %		

## Note 9

### NOTE 9 ▶ SHARES IN SUBSIDIARIES

NOK million	Date of acquisition	Registered office	Shareholding/ voting rights %	Share of recognised shareholding in company as of 31 Dec 2014	Book value as of 31 Dec 2014
Hafslund Handel AS	1,986	Oslo	100	613	305
Sarp Kraftstasjon AS	1987	Askim	100	114	61
Hafslund Nett AS	2009	Oslo	100	5,699	4,422
Skankraft AS	2007	Oslo	100	76	0
Hafslund Eiendom AS	2009	Oslo	100	97	162
Hafslund Marked AS	2014	Oslo	100	1,844	1,844
Hafslund Varme AS	2009	Oslo	100	1,648	3,219
Bio-Ei Fredrikstad AS	2014	Fredrikstad	100	15	15
Sarpsborg Avfallsenergi AS	2014	Sarpsborg	100	146	139
Hafslund Produksjon AS	2009	Askim	100	926	3,076
Hafslund Driftssentral AS	2009	Oslo	100	211	722
<b>Total shares in subsidiaries</b>				<b>11,389</b>	<b>13,965</b>

Hafslund Marked AS was incorporated using the shares in Hafslund Strøm AS, Hafslund Kundesenter AS, Hafslund Tellier AS, Mitt Hjem Norge AS, Göta Energi AB and Energibolaget i Sverige Holding AB as contributions in kind. Bio-Ei Fredrikstad AS and Sarpsborg Avfallsenergi AS were incorporated after being spun off from Hafslund Varme AS in 2014. BioWood Norway AS has changed name to Skankraft AS.

## Note 10, 11, 12, 13

### NOTE 10 ▶ OTHER LONG-TERM RECEIVABLES

NOK million	2014-12-31	2013-12-31
Net pension assets in balance sheet (See Note 4)	28	37
Interest-bearing loans and receivables		244
Contributions to pension funds	116	116
Loans to Group companies	2,700	2,704
<b>Total other long-term receivables</b>	<b>2,844</b>	<b>3,101</b>

### NOTE 11 ▶ TRADE AND OTHER RECEIVABLES

NOK million	2014-12-31	2013-12-31
Trade receivables	16	22
Receivable due from Group companies	239	372
Other receivables	24	28
<b>Total trade and other receivables</b>	<b>280</b>	<b>422</b>

### NOTE 12 ▶ CURRENT INTEREST-BEARING LIABILITIES

NOK million	Interest % as of 31 Dec 2014	Interest % as of 31 Dec 2013	Liabilities as of 31 Dec 2014	Liabilities as of 31 Dec 2013
Miscellaneous certificates and current loans	1.9-2.0	2.3-2.4	600	1,000
<b>Total current interest-bearing liabilities</b>			<b>600</b>	<b>1,000</b>

### NOTE 13 ▶ TRADE AND OTHER CURRENT PAYABLES

NOK million	2014-12-31	2013-12-31
Trade payables	16	19
Public taxes due	2	2
Accrued interest	181	184
Other non-interest-bearing liabilities	22	22
Liabilities due to other Group companies	3	3
<b>Total trade and other current payables</b>	<b>224</b>	<b>230</b>

## Note 14, 15

### NOTE 14 ▶ LONG-TERM INTEREST-BEARING LIABILITIES

NOK million	Interest % as of 31 Dec 2014	Interest % as of 31 Dec 2013	Liabilities as of 31 Dec 2014	Liabilities as of 31 Dec 2013
Fixed-interest bonds	3.7-6.3	3.7-6.3	4,795	4,642
Floating rate notes	2.0-5.6	2.4-5.6	3,323	2,643
Other borrowings	1.9-3.0	2.0-4.1	2,638	3,198
<b>Total long-term interest-bearing liabilities</b>			<b>10,756</b>	<b>10,483</b>

NOK million	2015	2016	2017	2018	2019	Later	Total
Maturity profile, long-term interest-bearing liabilities Hafslund ASA	2,066	1,850	1,410	1,460	1,706	2,264	10,756

Hafslund has entered into a syndicated NOK 3,600 million drawdown facility maturing on 17 June 2018. The lender is a banking syndicate comprising six Nordic banks. The drawdown facility is used as a back-stop for current commercial papers and as a general liquidity reserve. At the end of the year the entire facility remained unused. The Group also has a NOK 200 million overdraft facility with Nordea that was unused at the end of the reporting period.

Hafslund's loan covenants prohibit the pledging of assets as loan security. Some loan agreements also stipulate that significant assets cannot be disposed of without bank approval, while some have an ownership clause requiring more than 50 percent of shares issued by Hafslund ASA to be held by current shareholders, or by shareholders with a credit rating of at least A- from Standard & Poor's or A3 from Moody's, or by shareholders approved by the lending banks.

### NOTE 15 ▶ RELATED PARTIES

Hafslund has two bond loans of NOK 500 million and NOK 740 million with Oslo Pensjonsforsikring AS, established in 2007 and 2008, respectively. The loans have ten-year terms. Both loans were taken out on market terms and conditions and are listed on the Oslo Stock Exchange. Norsk Tillitsmann is a counterparty to the agreement. Oslo Pensjonsforsikring AS is a life insurance company that is wholly owned by the City of Oslo. The loans are recognised under fixed-interest bond loans in long-term borrowings in [Note 16](#) to the consolidated financial statements.

## Note 16

### NOTE 16 ► RISK MANAGEMENT AND FINANCIAL DERIVATIVES

The table below shows outstanding interest rate swaps as of 31 December 2014:

NOK million

CURRENCY	AMOUNT	HAFSLUND PAYS		HAFSLUND RECEIVES		START	MATURITY
NOK	100	Fixed/annual	2.4%	Variable	3M Nib + 85	21 May 2013	17 Feb 2015
NOK	200	Fixed/quarterly	4.0%	Variable	3M Nib	29 Apr 2011	29 Apr 2016
NOK	200	Fixed/semi-annual	3.8%	Variable	6M Nib	26 Aug 2013	25 Aug 2016
NOK	200	Fixed/quarterly	4.1%	Variable	3M Nib	21 May 2013	21 May 2017
NOK	200	Fixed/quarterly	4.0%	Variable	3M Nib	21 May 2012	22 May 2017
NOK	200	Fixed/quarterly	2.2 %	Variable	3M Nib	9 Sep 2014	9 Mar 2018
NOK	500	Variable	6M Nib+200	Fixed/annual	6.30%	21 Jan 2009	21 Jan 2019
NOK	300	Fixed/quarterly	3.2%	Variable	3M Nib	14 Mar 2015	14 Mar 2020
NOK	200	Fixed/quarterly	3.4%	Variable	3M Nib	30 Aug 2015	30 Aug 2020
NOK	200	Fixed/quarterly	3.2%	Variable	3M Nib	19 Jun 2015	19 Jun 2022

As of 31 December 2014, the fair value of interest rate swaps amounted to NOK -58 million excluding incurred interest.

## Note 17, 18, 19

### NOTE 17 ▶ GUARANTEES

The Group purchases bank guarantees to secure some liabilities. As of 31 December 2014 these guarantees amounted to NOK 305 million for trading in the power market, NOK 58 million in tax deduction guarantees, NOK 38 million in rental guarantees and NOK 19 million in contract and payment guarantees.

### NOTE 18 ▶ EQUITY

NOK million	Share capital	Share premium account	Other paid-in equity	Retained earnings	Total paid-in equity and retained earnings
<b>EQUITY AS OF 31 DECEMBER 2012</b>	<b>195</b>	<b>4,080</b>	<b>72</b>	<b>2,584</b>	<b>6,931</b>
Profit for the year 2013				316	316
Estimate deviations on pensions recognised in equity				3	3
Change in treasury shares			(14)	24	10
Proposed dividend (NOK 2.50 per share)				(488)	(488)
<b>EQUITY AS OF 31 DECEMBER 2013</b>	<b>195</b>	<b>4,080</b>	<b>59</b>	<b>2,437</b>	<b>6,771</b>
Loss for 2014				(11)	(11)
Estimate deviations on pensions recognised in equity				(55)	(55)
Change in treasury shares				(13)	(13)
Proposed dividend (NOK 2.50 per share)				(487)	(487)
Other changes				1	1
<b>EQUITY AS OF 31 DECEMBER 2014</b>	<b>195</b>	<b>4,080</b>	<b>59</b>	<b>1,872</b>	<b>6,206</b>

At the reporting date Hafslund held 420,411 treasury B shares. The average bid price was NOK 73.19 per share, making a total overall cost price of NOK 30,769,315.

### NOTE 19 ▶ SHARE CAPITAL AND SHAREHOLDER INFORMATION

Please refer to [Note 14](#) to the consolidated financial statements.

# Management declaration

## Management declaration regarding the content of the annual report

### We declare to the best of our knowledge that:

- The consolidated financial statements for 2014 have been prepared in accordance with IFRS as adopted by the EU, including additional disclosures pursuant to the Norwegian Accounting Act.
- The parent company's 2014 annual financial statements have been prepared in accordance with the Norwegian Accounting Act and generally accepted accounting practice in Norway.
- The accounting information provides a true and fair view of the company's and the Group's assets, liabilities and financial position and performance as a whole.
- The report from the Board of Directors provides a true and fair picture of the development, performance and position of the company and the Group, as well as a description of the most important risk factors and uncertainties facing the business.

### The Board of Directors of Hafslund ASA

Oslo, 18 march 2015

---

#### Birger Magnus

Chairman of the Board

---

#### Maria Moræus Hanssen

Deputy Chairman

---

#### Per Langer

---

#### Odd Håkon Hoelsæter

---

#### Ellen Christine Christiansen

---

#### Per Orfjell

---

#### Per Luneborg

---

#### Jane Koppang

---

#### Finn Bjørn Ruyter

President and CEO

# Auditor's report



To the Annual Shareholders' Meeting of Hafslund ASA

## Independent auditor's report

### Report on the Financial Statements

We have audited the accompanying financial statements of Hafslund ASA, which comprise the financial statements of the parent company and the financial statements of the group. The financial statements of the parent company comprise the balance sheet as at 31 December 2014, and the income statement and cash flow statement, for the year then ended, and a summary of significant accounting policies and other explanatory information. The financial statements of the group comprise the balance sheet at 31 December 2014, income statement, statement of comprehensive income, changes in equity and cash flow for the year then ended, and a summary of significant accounting policies and other explanatory information.

#### *The Board of Directors and the Managing Director's Responsibility for the Financial Statements*

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

#### *Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

PricewaterhouseCoopers AS, Postboks 748 Sentrum, NO-0106 Oslo  
T: 02316, org. no.: 987 009 713 MVA, www.pwc.no  
Statsautoriserte revisorer, medlemmer av Den norske Revisorforening og autorisert regnskapsførerselskap



Independent auditor's report - 2014 - Hafslund ASA, page 2

#### *Opinion on the financial statements of the parent company*

In our opinion, the financial statements of the parent company are prepared in accordance with the law and regulations 2014, and present fairly, in all material respects, the financial position for Hafslund ASA as at 31 December 2014, and 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.

#### *Opinion on the financial statements of the group*

In our opinion, the financial statements of the group present fairly, in all material respects, the financial position of the group Hafslund ASA as at 31 December 2014, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by EU.

#### **Report on Other Legal and Regulatory Requirements**

##### *Opinion on the Board of Directors' report and the statement on Corporate Social Responsibility*

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 and in the statement on Corporate Social Responsibility concerning the financial statements, the going concern assumption and the proposal for coverage of the loss 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 produce a proper and clearly set out registration and documentation of the company's accounting information in accordance with the law and bookkeeping standards and practices generally accepted in Norway.

Oslo, 18 March 2015  
**PricewaterhouseCoopers AS**

Thomas Fraurud  
State Authorised Public Accountant (Norway)

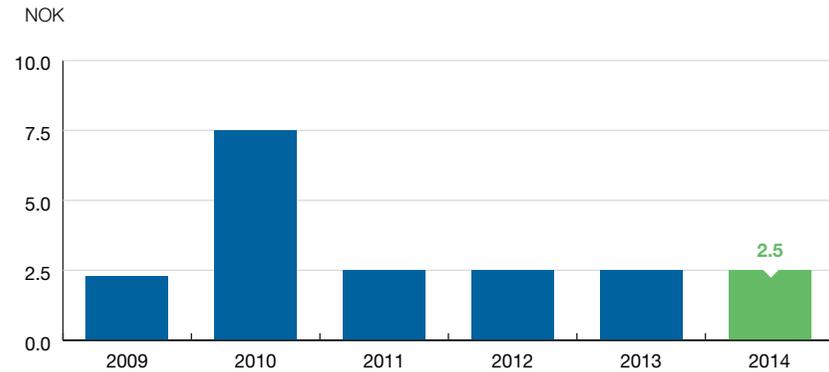
Note: This translation from Norwegian has been prepared for information purposes only.

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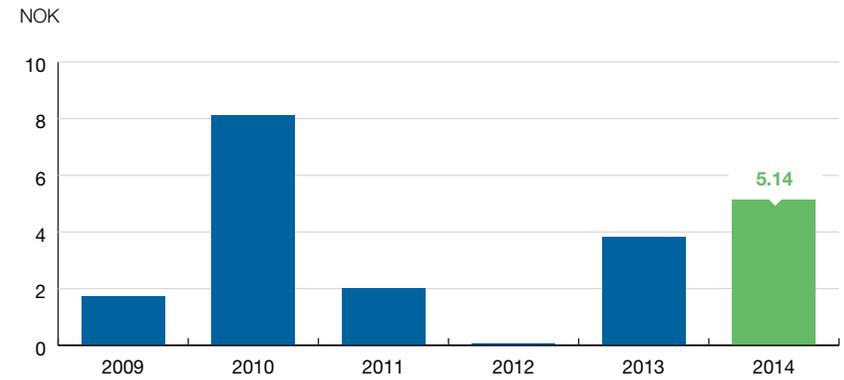


# Analytic information – Group

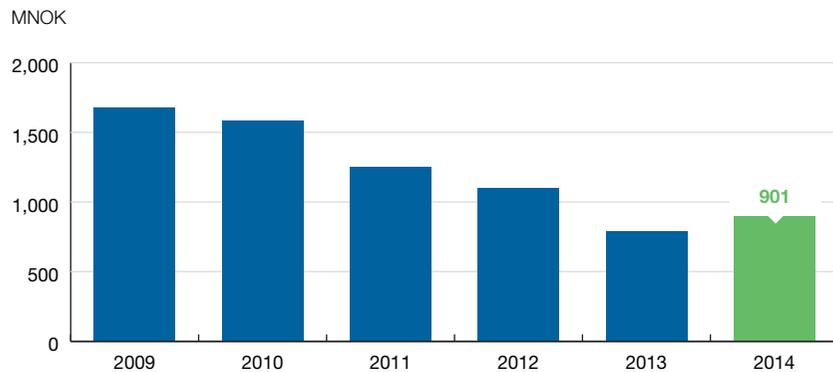
## Dividend per share



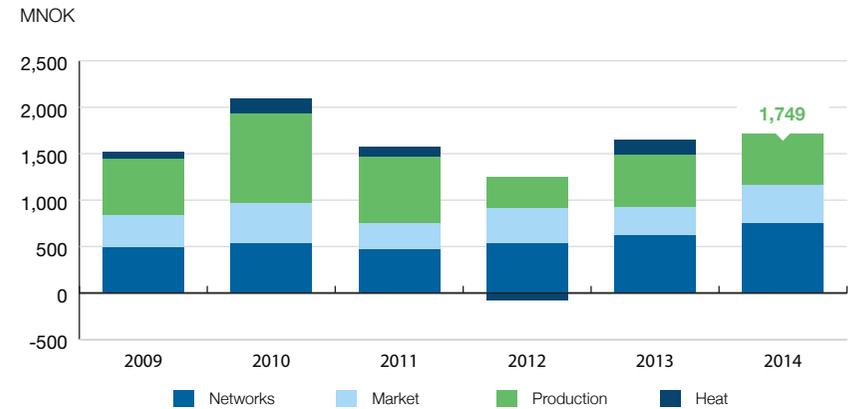
## Earnings per share, excl. REC



## Investments, excl. acquisitions



## Allocation of operating profit, excl. REC



## Analytic information – Group

NOK million	Definition	2014	2013	2012	2011	2010	2009
<b>INCOME STATEMENT</b>							
Sales revenues		12,396	12,818	11,466	13,704	15,829	10,670
Other (losses)/gains – net		116	143	137	(1,050)	(883)	(40)
Purchases of goods and energy		(6,866)	(7,867)	(6,830)	(9,015)	(10,871)	(6,364)
Personnel expenses		(879)	(901)	(851)	(864)	(582)	(772)
Other operating expenses		(1,972)	(1,747)	(1,752)	(1,630)	(1,571)	(1,418)
<b>EBITDA</b>		<b>2,795</b>	2,446	2,170	1,145	1,923	2,076
Depreciation, amortisation and impairments		(1,046)	(795)	(1 259)	(803)	(1,270)	(882)
<b>Operating profit</b>		<b>1,749</b>	1 652	911	343	653	1,194
Finance costs		(552)	(503)	(557)	(584)	(471)	(661)
Profit/loss before tax and discontinued operations		1,197	1 149	354	(241)	182	533
Income tax expense		(194)	(402)	(366)	(456)	(574)	(336)
<b>Profit/loss for the year</b>		<b>1,003</b>	747	(12)	(698)	(392)	198
- of which operating profit/loss for prior shareholding in REC					(1,090)	(1,991)	(137)
- of which profit/loss for the year for prior shareholding in REC					(1,086)	(1,975)	(137)
<b>RESULT AND RETURN, excl. prior shareholding in REC</b>							
Operating profit		1,749	1,653	911	1,433	2,644	1,331
Profit/loss for the year		1,003	747	(12)	388	1,583	335
Return on equity (ROE)	<b>2</b>	<b>12.8 %</b>	10.0 %	(0.1 %)	4.2 %	14.6 %	2.8 %
Return on capital employed (ROCE)	<b>3</b>	<b>8.3 %</b>	8.0 %	4.4 %	6.0 %	10.0 %	5.0 %

Table continued





## Analytic information – Group

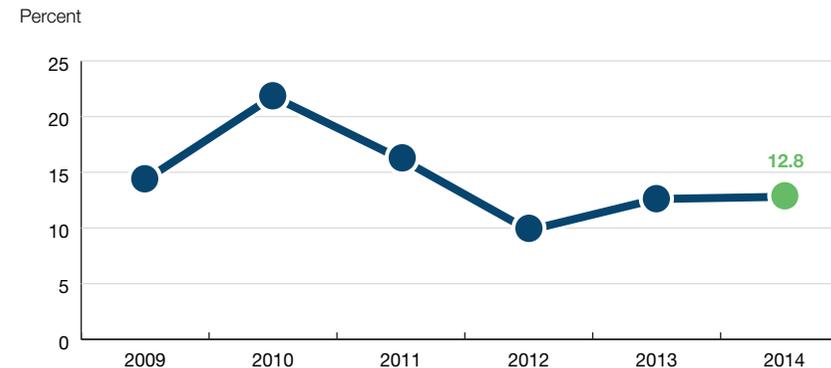
NOK million	Definition	2014	2013	2012	2011	2010	2009
<b>CASH FLOW</b>							
Net cash flow from operating activities	<a href="#">1</a>	2,127	1,624	236	3 513	565	1,879
Investments (excl. acquisitions)		901	786	1,102	1,253	1,588	1,681
<b>CAPITAL AS OF 31 DECEMBER</b>							
Total assets		26,212	25,352	24,549	24,710	29,613	28,918
Capital employed	<a href="#">4</a>	21,875	20,902	21,269	20,919	27,028	25,870
- of which working capital		87	453	587	(248)	3 505	636
Equity		7,877	7,583	7,289	8,131	10,464	11,154
Equity ratio	<a href="#">5</a>	30 %	30 %	30 %	33 %	35 %	39 %
Market capitalisation		9,897	9,042	8,877	11,321	13,603	13,537
Net interest-bearing liabilities	<a href="#">6</a>	10,574	9,931	10,648	9,321	13,067	11,601
Net interest-bearing liabilities/EBITDA	<a href="#">9</a>	3.9	4.2	4.8	4.0	4.6	5.2
Unused overdraft facilities		3,800	3,700	3,900	4,400	3,692	4,558
Percentage of borrowings subject to variable interest rates		48 %	51 %	52 %	53 %	67 %	58 %
<b>KEY SHARE FIGURES</b>							
Number of A shares ('000)		115,428	115,428	115,428	115,428	115,428	115,465
Number of B shares ('000)		79,759	79,759	79,759	79,759	79,759	79,759
Number of treasury B shares ('000)		420	170	397	397	451	451
Share price as of 31 December A shares (NOK)		50.50	46.20	45.60	58.00	70.00	69.75
Share price as of 31 December B shares (NOK)		51.00	46.50	45.30	58.00	69.25	68.75
Earnings per share (excl. REC) (NOK)	<a href="#">7</a>	5.14	3.83	(0.06)	1.99	8.11	1.71
Cash flow per share from operating activities (NOK)		10.90	8.32	1.21	18.00	2.89	9.62
Dividend per share (NOK)		2.50	2.50	2.50	2.50	7.50	2.25
Number of employees as of 31 December		1,287	1,220	1,216	1,207	1,123	979

# Analytic information – Production

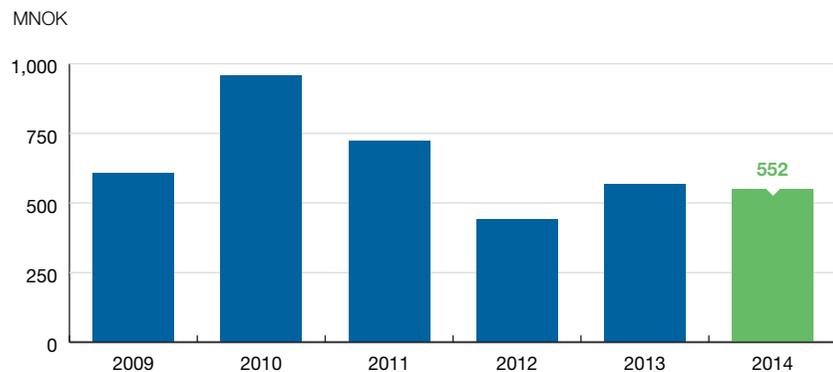
## Achieved power price and hydropower production



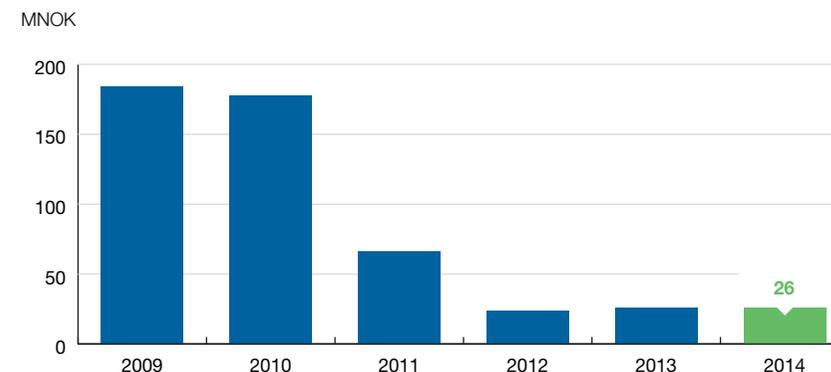
## Return on capital employed



## Operating result



## Investments, excl. acquisitions



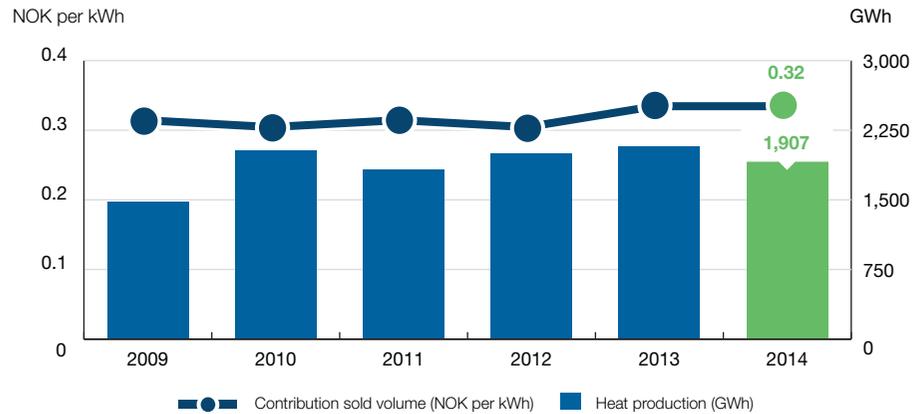


## Analytic information – Production

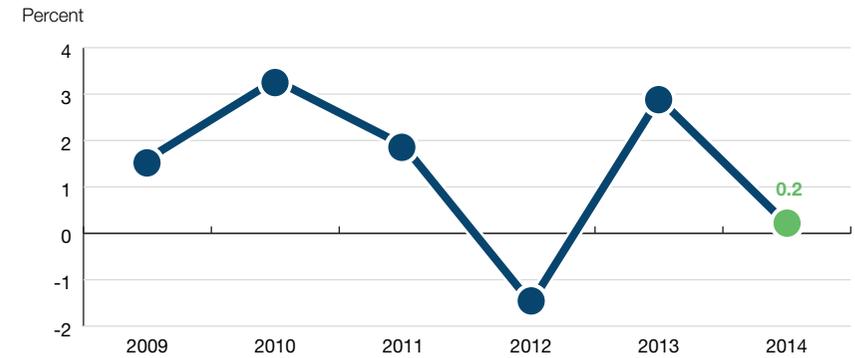
NOK million	<u>Definition</u>	2014	2013	2012	2011	2010	2009
<b>INCOME STATEMENT</b>							
Sales revenues		871	859	755	1,024	1,220	866
Other (losses)/gains – net		11	9	6	(24)	20	(4)
Personnel expenses		(52)	(51)	(48)	(37)	(34)	(35)
Other operating expenses		(231)	(203)	(225)	(194)	(205)	(176)
<b>EBITDA</b>		<b>599</b>	614	488	769	1 001	651
Depreciation, amortisation and impairments		(47)	(46)	(45)	(45)	(43)	(43)
<b>Operating profit</b>		<b>552</b>	568	443	724	958	608
<b>OTHER KEY FIGURES</b>							
Investments (excl. acquisitions)		26	26	24	66	178	184
Capital employed as of 31 December		4,383	4 270	4,782	4,464	4,395	4,314
Power (NOK per kWh)		0.24	0.28	0.22	0.32	0.39	0.27
Production volume (GWh)		3,452	2,845	3,273	3,135	3,041	3,018
Production as a percentage of normal production	8	111	92	106	101	101	97
Distribution of operating profit/loss for:							
- Hydropower		521	549	435	743	929	618
- Power trading		31	19	8	(19)	29	(10)
Number of employees as of 31 December		50	47	46	42	40	37

# Analytic information – Heat

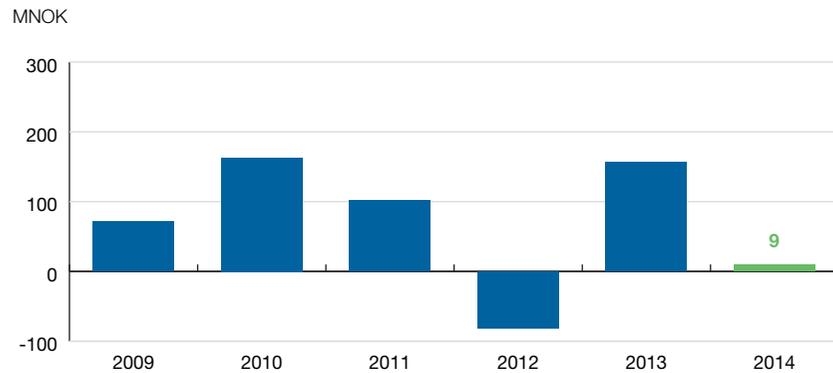
## Contribution sold volume and heat production



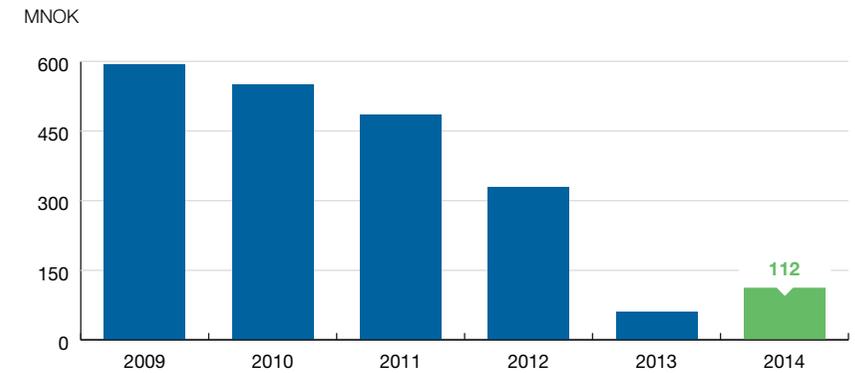
## Return on capital employed



## Operating result



## Investments, excl. acquisitions



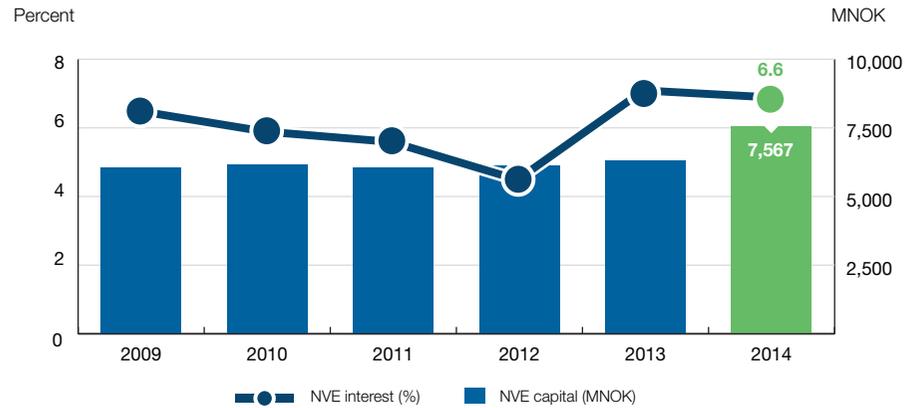


## Analytic information – Heat

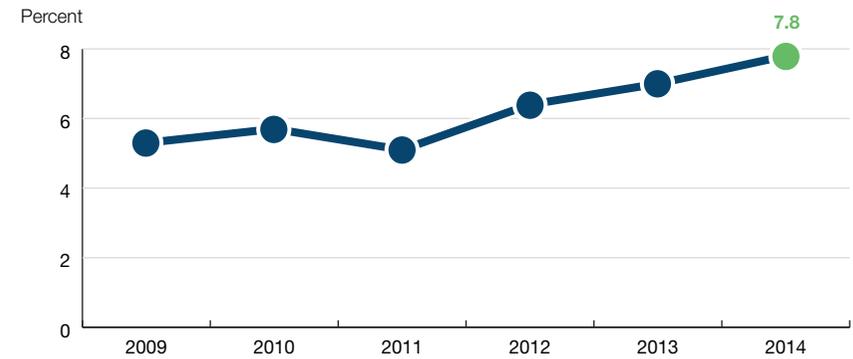
NOK million	Definition	2014	2013	2012	2011	2010	2009
<b>INCOME STATEMENT</b>							
Sales revenues		1,080	1,153	1,107	1,120	1,259	796
Purchases of goods and energy		(457)	(545)	(510)	(598)	(727)	(406)
Personnel expenses		(69)	(66)	(70)	(67)	(47)	(49)
Other operating expenses		(246)	(213)	(214)	(196)	(171)	(133)
<b>EBITDA</b>		<b>308</b>	<b>329</b>	<b>313</b>	<b>259</b>	<b>314</b>	<b>208</b>
Depreciation, amortisation and impairments		(299)	(173)	(395)	(157)	(151)	(136)
<b>Operating profit/loss</b>		<b>9</b>	<b>156</b>	<b>(82)</b>	<b>102</b>	<b>163</b>	<b>72</b>
<b>OTHER KEY FIGURES</b>							
Investments (excl. acquisitions)		112	61	329	485	550	594
Capital employed as of 31 December		5,190	5,464	5,562	5,464	5,280	4,756
<b>District heating business</b>							
District heating price, incl. distribution (NOK per kWh)		0.61	0.63	0.59	0.71	0.72	0.61
Energy production (GWh)		1,600	1,775	1,720	1,548	1,782	1,382
Fuel costs (NOK per kWh)		0.26	0.29	0.27	0.36	0.39	0.28
Gross contribution sold volume (NOK per kWh)		0.32	0.32	0.29	0.30	0.29	0.30
Percentage renewable energy sources	12	97 %	97 %	93 %	84 %	74 %	86 %
<b>Industrial heating</b>							
Energy production (GWh)		307	297	274	280	246	93
Sales price (NOK per kWh)		0.27	0.25	0.27	0.28	0.25	0.25
Waste (thousand tonnes)		126	131	131	129	114	57
Gross contribution (NOK per kWh)		0.31	0.28	0.33			
Number of employees as of 31 December		71	77	77	71	72	67

# Analytic information – Networks

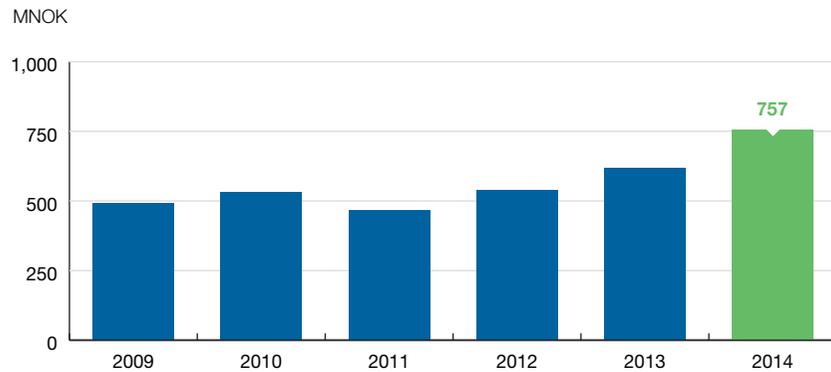
## NVE interest and NVE capital



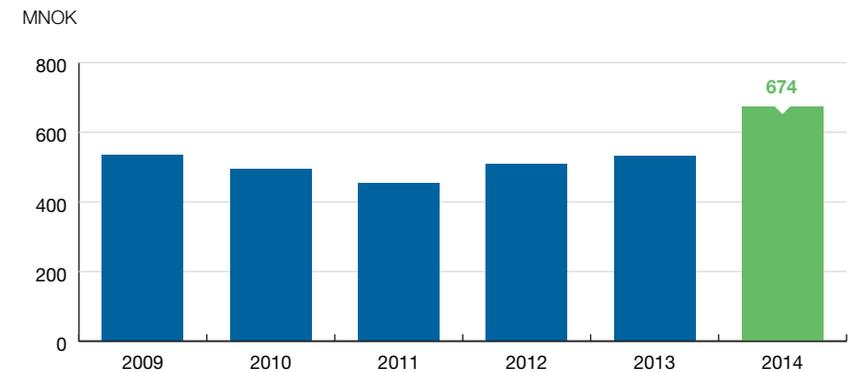
## Return on capital employed



## Operating result



## Investments, excl. acquisitions



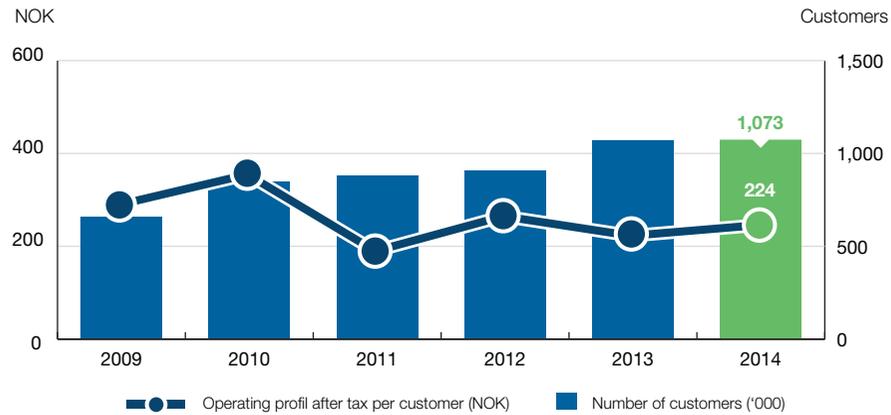


## Analytic information – Networks

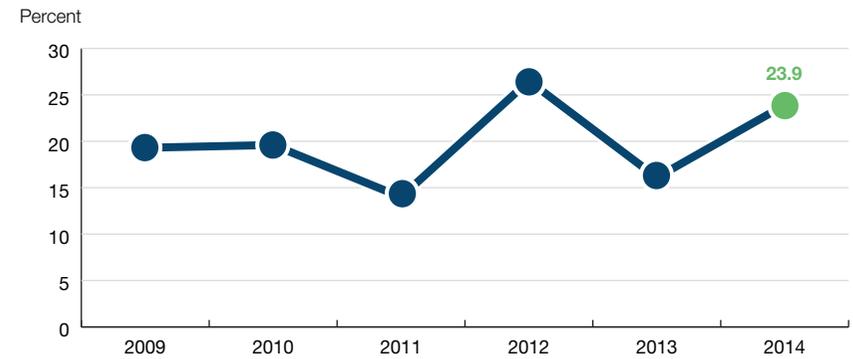
NOK million	Definition	2014	2013	2012	2011	2010	2009
<b>INCOME STATEMENT</b>							
Sales revenues		4,147	4,052	3,992	4,202	4,804	3,385
Purchases of goods and energy		(1,318)	(1,554)	(1,577)	(1,909)	(2,608)	(1,217)
Personnel expenses		(206)	(194)	(174)	(166)	(64)	(177)
Other operating expenses		(1,310)	(1,197)	(1,195)	(1,143)	(1,054)	(956)
<b>EBITDA</b>		<b>1,314</b>	<b>1,107</b>	<b>1,045</b>	<b>983</b>	<b>1,077</b>	<b>1,035</b>
Depreciation, amortisation and impairments		(557)	(488)	(504)	(514)	(546)	(542)
<b>Operating profit</b>		<b>757</b>	<b>619</b>	<b>541</b>	<b>469</b>	<b>532</b>	<b>493</b>
<b>OTHER KEY FIGURES</b>							
Investments (excl. acquisitions)		674	532	509	456	494	536
Capital employed as of 31 December		10,537	9,325	8,949	9,257	9,668	9,396
NVE capital as of 31 December		7,567	6,324	6,149	6,063	6,160	6,045
NVE interest		6.6 %	6.8 %	4.2 %	5.3 %	5.6 %	6.2 %
Revenue ceiling, excl. transmission costs		2,653	2,733	2,170	2,312	2,891	2,461
Energy deliveries to end customers (TWh)		17.5	17.1	17.1	16.5	17.8	16.9
Volume network losses (GWh)		890	1,128	990	1,019	1,249	1,141
CNES cost	10	87	68	61	90	67	62
Regulated contribution	13	2,432	2,382	1,926	1,916	2,287	2,106
Result effect income surpluses/(shortfalls)	11	206	(120)	268	212	(203)	(16)
Accumulated income surpluses/(shortfalls) as of 31 December	11	701	312	425	155	(57)	143
Number of customers ('000) as of 31 December		683	571	563	552	545	541
Number of employees as of 31 December		347	248	223	212	203	198

# Analytic information – Markets

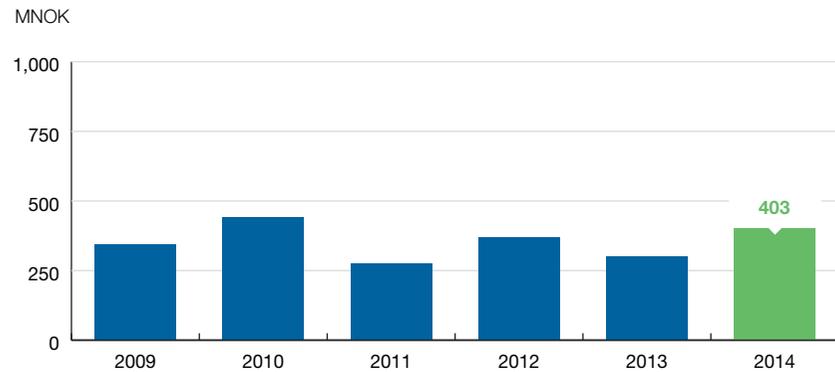
## Operating profit after tax per customer and number of customers



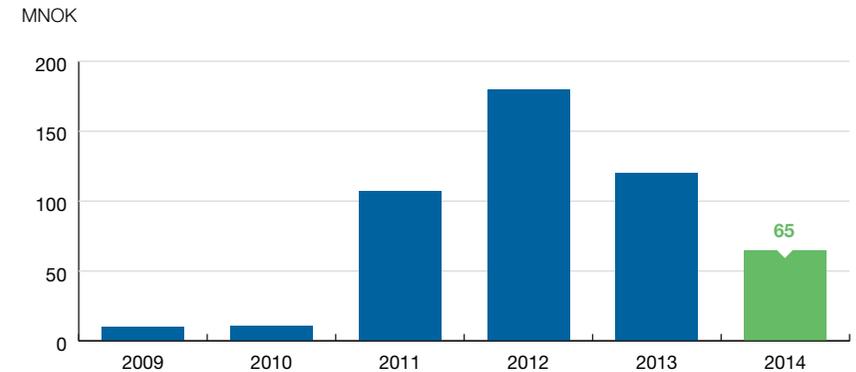
## Return on capital employed



## Operating result



## Investments, excl. acquisitions





## Analytic information – Markets

NOK million	Definition	2014	2013	2012	2011	2010	2009
<b>INCOME STATEMENT</b>							
Sales revenues		6,416	6,850	5,537	7,275	8,289	5,062
Other (losses)/gains – net		3	14	44	(85)	16	19
Purchases of goods and energy		(5,032)	(5,693)	(4,489)	(6,297)	(7,323)	(4,292)
Personnel expenses		(326)	(311)	(273)	(233)	(173)	(154)
Other operating expenses		(577)	(517)	(429)	(366)	(350)	(278)
<b>EBITDA</b>		<b>484</b>	<b>342</b>	<b>390</b>	<b>293</b>	<b>460</b>	<b>356</b>
Depreciation, amortisation and impairments		(81)	(41)	(20)	(16)	(17)	(12)
<b>Operating profit</b>		<b>403</b>	<b>301</b>	<b>370</b>	<b>277</b>	<b>442</b>	<b>344</b>
<b>OTHER KEY FIGURES</b>							
Investments (excl. acquisitions)		65	120	180	107	11	10
Capital employed as of 31 December		1,606	1,987	1,730	1,215	3,391	2,080
Sales volume power sales (GWh)		17,764	17,388	16,374	15,474	15,867	13,238
Number of wholly and partially owned customers ('000) as of 31 December		1,073	1,069	905	878	850	656
Operating profit after tax per customer (NOK)		224	201	243	168	333	268
Distribution of operating profit/loss:							
Power sales		329	275	301	201	348	240
- of which change in value of derivatives		3	(4)	44	(85)	16	19
Invoicing and customer services		74	26	70	76	95	103
Number of employees as of 31 December		581	579	560	492	447	293



## Analytic information – Other business

NOK million	Definition	2014	2013	2012	2011	2010	2009
<b>INCOME STATEMENT</b>							
Sales revenues		(119)	(96)	76	84	257	562
Other (losses)/gains – net		103	120	87	(940)	(920)	(55)
Purchases of goods and energy		(59)	(75)	(254)	(211)	(213)	(449)
Personnel expenses		(226)	(278)	(285)	(360)	(264)	(357)
Other operating expenses		391	383	312	269	210	126
<b>EBITDA</b>		<b>90</b>	<b>54</b>	<b>(65)</b>	<b>(1,159)</b>	<b>(930)</b>	<b>(174)</b>
Depreciation, amortisation and impairments		(62)	(45)	(295)	(70)	(513)	(149)
<b>Operating profit/loss</b>		<b>29</b>	<b>9</b>	<b>(361)</b>	<b>(1,228)</b>	<b>(1,442)</b>	<b>(323)</b>
<b>OTHER KEY FIGURES</b>							
Investments (excl. acquisitions)		24	60	59	139	355	389
Capital employed as of 31 December		159	(144)	246	519	4,294	5,324
Distribution of operating profit/loss for:							
- Staff and support services		(4)	(55)	(45)	(133)	(104)	(151)
- Embriq		(21)	(18)	(33)	(1)	(49)	(52)
- REC, prior shareholding					(1,090)	(1,991)	(137)
- Other		54	80	(282)	(4)	701	17
Number of employees as of 31 December		238	266	310	390	361	384

## Analytic information

### DEFINITIONS

1. Net cash flow from operating activities = as defined in the consolidated statement of cash flow
2. Return on equity = Profit/loss for the year excl. prior shareholding in REC / Average equity including non-controlling interests
3. Return on capital employed = Operating profit/loss excl. prior shareholding in REC / Average capital employed
4. Capital employed = Equity + Net interest-bearing liabilities + Net tax positions
5. Equity ratio = Equity / Total assets
6. Net interest-bearing liabilities = Interest-bearing liabilities - Interest-bearing receivables and cash equivalents
7. Earnings per share = Profit/loss for the year, excl. prior shareholding in REC / Average number of shares
8. Production compared to average production volume over the last ten years, adjusted for efficiency improvements
9. EBITDA = EBITDA from core activities: Production, Heat, Networks and Markets
10. CNES cost = Quality adjustment of revenue ceiling for energy not supplied
11. See comment in Note 2.20 c to the annual financial statements
12. Corresponds to the use of renewable energy sources incl. electricity
13. Regulated contribution = Revenue ceiling excl. transmission costs from Statnett, less costs for network losses





### **PC or Mac**

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### **Printing**

This document is designed to be printed in A4 landscape format. For best results print as 100% size (without adapting the size).



# Annual report 2015

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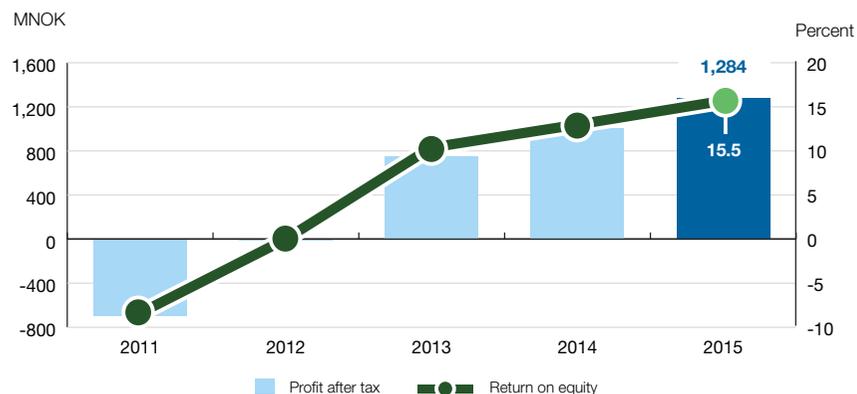
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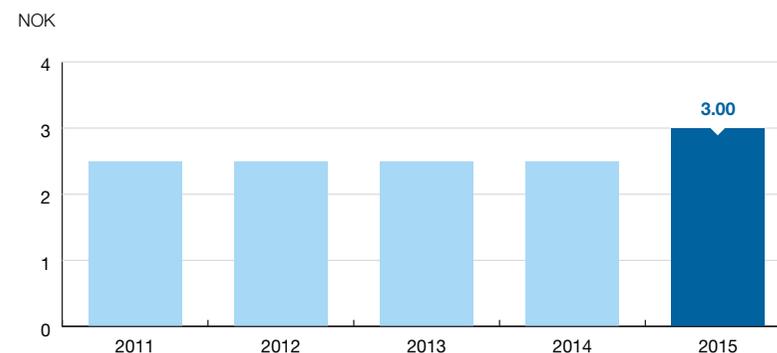
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# Key figures for the Hafslund Group

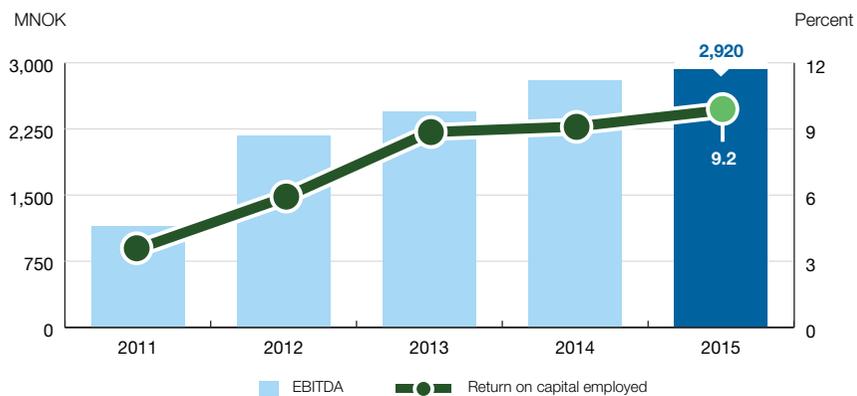
## ► Profit after tax and return on equity



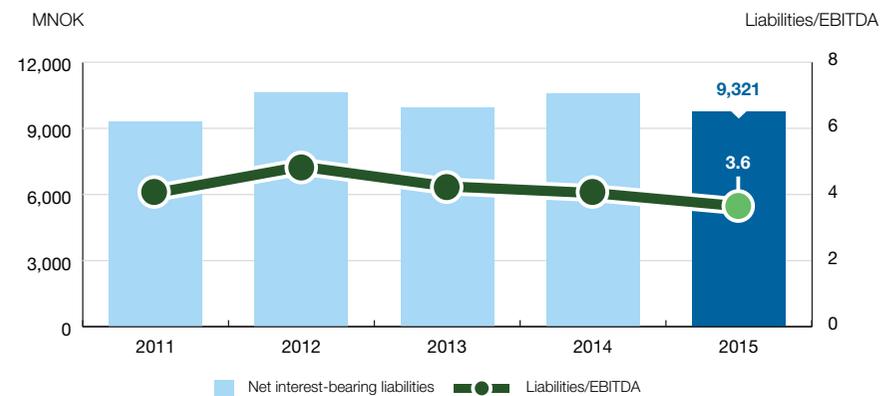
## ► Dividend per share



## ► EBITDA and return on capital employed



## ► Net interest-bearing liabilities and liabilities/EBITDA



# A successful year

For the second year in a row Hafslund posted solid financial results, despite mild weather and low power prices. Our four business areas – Networks, Production, Heat and Markets – together generated solid results improvements. We have decided to invest in new power production facilities at Vamma, and started work on a separation and potential initial public offering of Hafslund Marked. Improvement and development work is a key focus area for Hafslund, and the year 2015 proved that the company can generate profitable growth and leverage opportunities in constantly changing markets.



Finn Bjørn Ruyter, President and CEO

## Smart meters and electricity network upgrades

Hafslund Nett currently has many different projects underway. The year of 2015 was characterised by preparatory work for the roll-out of new smart meters and integration of the Networks business in Østfold, which was acquired the previous year. Preparations for the installation of 700,000 new smart meters are on track. New meters and advanced computer systems to manage and monitor the network will provide our customers, and us as a networks company, with a number of long-term benefits and savings. The integration of the Networks business in Østfold reduced year-on-year operating expenses, thus confirming Hafslund's ability to leverage economies of scale and operate the Networks business efficiently for the benefit of our customers. In parallel with these major projects, we are making a number of general improvements to the electricity network in order to guarantee high quality and security of supply, and to prepare for a strong population growth in our catchment area.

## Power production

The year 2015 was a warm and wet year in Norway, with the lowest power prices for many years. The forward price for Nordic power over the next three to four years is low. We have to expect low results contributions from power production during such periods. Hafslund Produksjon adopts a long-term perspective to its perpetual hydropower concessions, and plans its maintenance and expansions accordingly. The upgrading and development project at Vamma involves the necessary modernisation of old facilities, along with increased production of renewable energy. This work is in full swing, and the first kilowatt hours will be delivered to the network in spring 2019.

## More district heating

The district heating price to the customer fluctuates in line with power prices, which are currently low. Furthermore, warm weather reduces demand for heat, which in turn adversely impacts results. In parallel with the above, we

have also completed important improvement work at Hafslund Varme in recent years, which has strengthened both operations and underlying profitability.

Over the next five years the remaining oil heating in Oslo's residential and commercial buildings will be phased out in order to improve air quality and reduce climate emissions. We aim to cover a high percentage of the needs of customers who are looking to replace oil-fired boilers with renewable district heating. We have reinforced the district heating system by removing vulnerable air valves, and improving monitoring of the pipe network. Over the next few years the capacity of our heating plants and pipe network will be expanded to deliver heat to a wider customer base. Hafslund Varme is currently developing district-heating-based cooling systems. This will enable us to utilise surplus waste heat from waste incineration during the summer.

## Message from the CEO

### Leading Nordic power player

In 2015 Markets established a joint Nordic operating platform in order to generate strong and profitable customer growth in the coming years, in particular in the Swedish and Finnish markets. We aim to become the Nordic region's leading power sales company.

The decision to start work on a separation and a potential initial public offering of Hafslund Marked represents an important milestone. Hafslund Marked is operating in a Nordic market developing at rapid speed, characterised by tough competition, exacting innovation demands and rapid decision-making. Markets will be able to generate even more robust growth as a pure-play listed company.

### Energy and infrastructure

Hydropower, district heating and the Networks business are capital-intensive businesses, with long-term investments that make stringent demands in terms of the quality of decision-making. To ensure further improvement, our capital intensive businesses will adopt new technologies continuously. Following a spin-off of the power sales business, Hafslund will enjoy a higher profile as a pure-play energy and infrastructure company.

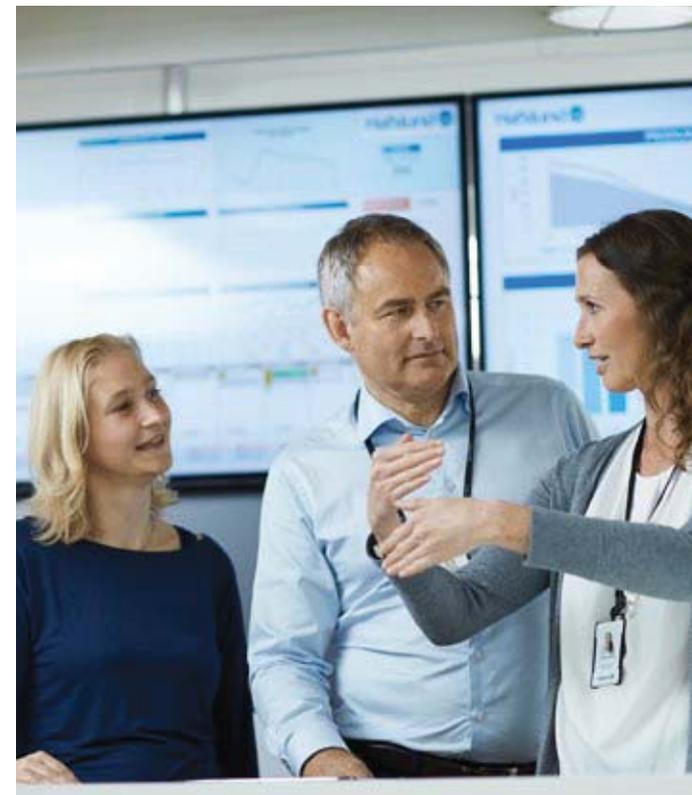
### Important contributor to society

Hafslund's employees create values for society and shareholders. We are living in a rapidly changing world. We should be at the forefront of development in order to guarantee the competitiveness of all our businesses. We are part of the solution when it comes to climate challenges, and increased deliveries of our products will help to improve air quality in cities and towns. We have stepped up our initiatives within health, safety and the environment. We have reduced the number of injuries and

accidents at work, even though we still have some way to go to achieving our goal of zero incidents. We delivered satisfactory financial results in 2015, not least as a result of each individual employee making further improvements in the performance of their own and their departments' work tasks.

Last but not least, we enter 2016 with a solid base, with many exciting assignments and new opportunities to look forward to!

**Finn Bjørn Ruyter**  
President and CEO  
Hafslund



**Hafslund's employees create values for society and shareholders. We are living in a rapidly changing world. We should be at the forefront of development in order to guarantee the competitiveness of all our businesses.**

# Report from the Board of Directors 2015

Hafslund delivered a solid result in challenging times, despite mild weather and the lowest power prices for many years. In 2015 the company made further progress towards its goal of becoming a more streamlined infrastructure company within renewable energy. An important step in this regard was the decision to construct a new unit at Vamma power plant, which on its own will generate 1 TWh, or enough electricity for 50,000 households each year.

The Networks business in Østfold has become an integral part of a larger and more efficient Hafslund Nett, and the first of 700,000 new smart meters have already been installed at customers. Work on a spin-off and potential initial public offering of the Group's power sales business is underway. Consequently, Hafslund is well positioned for further streamlining and growth.



The regulated Networks business accounts for around half of Hafslund's employed capital. This guarantees Hafslund a stable return in a period characterised by low power prices. At the same time, Networks will also have substantial organic growth in the next few years as a result of customer growth in the Networks area, as well as investments in and modernisation of the network, including the roll-out of new smart meters.

In October Hafslund started work to expand Vamma power plant through the construction of a new unit. This work is due to be completed in the first half-year of 2019, when it will provide Hafslund with 220 GWh of new renewable power production. Another feature of the year was high production and low power prices. High production volumes and a positive result from hedging activities partially offset the impact of lower power prices on the operating result.

The Heat business area is Norway's largest district heating supplier, covering around 25 percent of Oslo's heating requirements. In recent years, Heat has implemented major operational improvements, which enabled it to post an improved annual operating result in 2015.

In December 2015 Hafslund announced that it intended to commence work on a spin-off and potential initial public offering of its power sales business, Markets. A spin-off and

## Report from the Board of Directors 2015



**“ The Group will work on a spin-off and potential stock exchange listing of the power sales business, Markets, in 2016.**

broader ownership base would help to further strengthening power sales' growth opportunities. It would also facilitate the establishment of two, more streamlined, companies and release equity to help generate further growth within Hafslund's other business areas.

Markets posted an improved result in 2015 compared to 2014. This was primarily attributable to higher margins on electricity sales, increased sales of benefit products and lower expansion costs. In 2015 Markets focused on establishing a joint Nordic operating platform in order to be better positioned to generate profitable customer growth in the coming years, in particular in the Swedish and Finnish markets.

Hafslund is now seeing the results of the Group's improvement initiatives. Measures relating to continual improvements, more efficient processes and cost control are constantly being enhanced in order to further leverage the company's competitive advantages.

### **INCOME STATEMENT, CASH FLOW AND CAPITAL MATTERS**

#### **Financial performance**

Hafslund posted sales revenues of NOK 11.9 billion (NOK 12.4 billion) in 2015. The reduction in sales revenues compared with the previous year is primarily attributable to lower power prices, despite one year's full financial impact from the purchase of the Networks business in Østfold. At NOK 1,973 million, the operating profit was up NOK 224 million on the previous year. Adjusted for net positive non-recurring effects of NOK 76 million (NOK -80 million), the operating profit was NOK 67 million higher than the previous year, and was achieved despite a 23 percent fall in the wholesale power price for the Oslo area compared to 2014.

Lower wholesale prices for power are impacting earnings from Production, Heat and Networks, although this trend is being partially offset by hedging activities within Production and Heat. The improved results for Heat, Networks and Markets are more than offsetting lower profits from Production as a result of lower power prices and production volumes. The return on capital employed in 2015 was 9.2 percent (8.3 percent).

At NOK 288 million, financial expenses were NOK 264 million lower than in 2014. The reduction was primarily attributable to a positive impact of NOK 137 million on financial expenses due to a reduction in the market value of loans recognised at fair value as a result of higher forward interest curve, compared with a negative impact of NOK 73 million in 2014. Financial expenses include an exchange loss of NOK 37 million (NOK 45 million), which should be viewed in the context of a weakening NOK during the year. A reduction in the coupon rate from 3.8 to 3.4 percent during the year and lower interest-bearing liabilities also helped to reduce financial expenses.

The tax expense of NOK 402 million (NOK 194 million) includes resource rent tax from the power production business of NOK 70 million (NOK 131 million). The tax expense also includes a positive non-recurring effect of NOK 97 million as a result of a lower deferred tax liability at the reporting date following a two percent reduction in the general tax rate in Norway from 2016. For purposes of comparison, the low tax expense in 2014 reflects the reversal of previously recognised tax of NOK 268 million relating to a waived tax claim.

The net profit for the year of NOK 1,284 million represented a year-on-year increase of NOK 281 million. The result includes net positive non-recurring effects of NOK 158 million (NOK 182 million). The net profit for the year equates to a return on

## Report from the Board of Directors 2015

equity of 15.5 percent (12.8 percent) and earnings per share of NOK 6.58 (NOK 5.14).

The financial statements have been prepared in accordance with IFRS. The Board confirms that conditions exist for continued operation of the enterprise on a going concern basis and that the annual financial statements have been prepared on this basis.

### CASH FLOW AND CAPITAL MATTERS

The cash flow from operations came in at NOK 2,201 million (NOK 2,127 million) in 2015. EBITDA of NOK 2,920 million were NOK 719 million higher than the net cash flow from operations, primarily due to the payment of interest and tax totalling NOK 762 million. At NOK 919 million, the net cash flow from investing activities was down NOK 386 million due to the release of equity from the sale of businesses/shares within the Other business area. Including the payment of a dividend in 2015 of NOK 487 million for accounting year 2014, which equates to NOK 2.50 per share, the net cash flow available to repay debt amounted to NOK 0.8 billion in 2015.

At the reporting date the Group's net interest-bearing liabilities amounted to NOK 9.8 billion (NOK 10.6 billion) and the equity ratio came in at 34 percent (30 percent). Hafslund has a robust financing structure with long-term committed drawdown facilities. At the end of 2015 Hafslund had unutilised drawdown facilities of NOK 3.8 billion. None of Hafslund's loan agreements impose any covenants.

### BUSINESS AREAS

Hafslund is a leading power group in Norway with core activities within hydropower production, district heating,

networks and power sales. Hafslund is Norway's largest networks, district heating and power sales company, and a medium-sized power producer. Most of Production's, Networks' and Heat's customers are located in the Østlandet region (south-east of Norway), while Markets targets the entire Nordic region. The company is the only power business in Norway listed on the Oslo Stock Exchange.

### Networks

Networks comprises the companies Hafslund Nett AS and Hafslund Driftssentral AS. The number of networks customers increased by 6,000, from 683,000 to 689,000 during 2015. One key activity in 2015 involved the integration of network in Østfold, which was acquired in 2014. The integration project, which has now been concluded, has helped to make Hafslund Nett an even more efficient networks company.

Networks posted sales revenues of NOK 4,361 million (NOK 4,147 million) and an operating profit of NOK 822 million (NOK 757 million) in 2015. At the end of 2015 Network had capital employed of NOK 11.1 billion, while the operating profit for the year corresponded to a return on capital employed of 8.0 percent (7.8 percent). The year-on-year results improvement was in part due to contributions from the acquired Networks business. The cost of the central network increased by NOK 160 million; however, lower grid losses and realised synergy effects made a positive contribution. The annual synergy effect for 2016 is around NOK 45 million, and will gradually increase to around NOK 60 million following the roll-out of the smart meters. The result includes integration expenses of NOK 40 million. Measured against the regulatory income ceiling for 2015, the operating result reflects an income surplus of NOK 153 million (income surplus of NOK 206 million). At the reporting

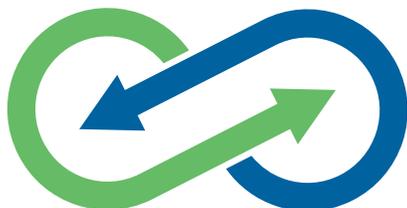
# 1,284

The net profit for the year increased by NOK 281 million to NOK 1,284 million.



The construction of a new unit at Vamma will boost production volumes from 2019.

## Report from the Board of Directors 2015



The integration of the acquired Networks business has been completed and NOK 45 million in synergy effects will be realised in 2016.



District heating, with 99 percent renewable energy sources.

date Hafslund Nett's accumulated surplus income amounted to NOK 873 million. Accumulated surplus income will fall significantly in 2016, in part due to the fact that the income ceiling for 2016 will include a positive non-recurring effect due to a harmonisation effect generated by the merger of the acquired Networks business in Østfold with Hafslund Nett AS in 2014. This harmonisation effect comprises non-recurring compensation issued by NVE as a result of the merged company's lower efficiency score. Assuming normal energy demand, current network tariffs, forward power prices and synergy effects from the acquired Networks business, as well as planned maintenance, the operating profit for 2016 is expected to come in around 10 percent higher than in 2015.

In recent years investments in the regional distribution grid, in particular in Oslo's central areas, have been prioritised. The company plans to step up investment levels in the period 2016-2018, due to the introduction of smart metering and the upgrading of the distribution and regional networks. Hafslund Nett endeavours to guarantee stable network tariffs for its customers. For the first time since 1 January 2010, Hafslund Nett increased its network rental charge from 1 January 2016. The increase for domestic customers was NOK 0.0435 per kWh (incl. public taxes). The increase is primarily attributable to higher consumption tax, higher rental costs in the central network and higher investments at Hafslund Nett. Even after the price increase, Hafslund Nett remains one of Norway's lowest-price network owners.

The smart metering project is on schedule and development of IT systems and preparations for the roll-out are proceeding according to plan. At the end of 2015 the installation of meters in Pilot 1 was fully underway. Preparations for Pilot 2 have been implemented as planned.

In December 2015 Hafslund entered into an agreement with Fredrikstad Energi AS (FEAS) to sell Hafslund's 35 percent shareholding in Fredrikstad Nett AS (FEN) to the parent company FEAS. The sale released equity of NOK 315 million, and Hafslund retained its 49 percent shareholding in the parent company FEAS.

### Heat

The Heat business area comprises the district heating businesses in Oslo and Akershus. In 2015 Heat posted sales revenues of NOK 977 million (NOK 952 million) and an operating profit of NOK 231 million (NOK 70 million). The operating profit in 2014 reflects an extraordinary impairment of NOK 61 million relating to technical condition of the secondary network for delivery of district heating in Søndre Nordstrand. At the reporting date Heat had capital employed of NOK 4.7 billion, and posted a return on capital employed of 5.0 percent (1.4 percent).

Heat generated production of 1,567 GWh (1,547 GWh) in 2015, which was up 20 GWh on the previous year. The connection of new district heating customers compensated for the mild weather and low consumption during the year. The level of and changes in the wholesale price for power are included in the calculation of the price to the customer, and are thus an important results driver for Heat. The fall in the wholesale price in 2015 negatively impacted year-on-year earnings, although this was to a large extent offset by a contribution of NOK 43 million (NOK 37 million) from hedging activities and the successful harmonisation of tariff structures. The gross margin in 2015 was NOK 0.41/kWh (NOK 0.32/kWh). At the reporting date the hedged volume for the next six months comprised 39 percent of normal production.

## Report from the Board of Directors 2015

The share of electricity and other renewable energy sources used in district heating in Oslo increased to 99 percent in 2015, a rise of two percentage points against 2014. The increase is attributable to a larger share of heat from the incineration of residual waste delivered by the Oslo Waste-to-Heat Agency (EGE) and the company's own heat production from renewable energy sources.

In 2015 investments for Heat totalled NOK 112 million (NOK 85 million), primarily related to organic growth in customer connections for the existing district heating network with an annual district heating requirement of 37 GWh. The year 2015 was characterised by a large number of improvement measures following district heating leaks in Oslo over the previous two winters. These included the installation of equipment to increase sectioning of the district heating network, quicker refilling of reservoirs and other measures to return to a normal supply situation following an undesired incident. These activities will continue in the coming year. Heat is implementing measures to achieve its target of 100 percent fossil-free district heating production in a normal year, and to develop new products and services with a view to becoming an end-to-end supplier of thermal energy.

### Production

The Production business area comprises the power production business and a central power trading unit. Power production is responsible for efficient management of the company's power plants in Lower Glomma, as well as for targeting growth within renewable energy production. The Group's central power trading unit is responsible for trading on the spot market, trading in electricity certificates, financial hedge trading and power trading. Due to the potential spin-off of the Markets business area in 2016, the Group's central power trading unit is expected to be relocated to this business area, which is the unit's largest customer.

In 2015 Production posted sales revenues of NOK 703 million (NOK 871 million) and an operating profit of NOK 382 million (NOK 552 million). The operating profit relates in the amount of NOK 355 million (NOK 521 million) to the power production business and NOK 27 million (NOK 31 million) to power trading. At the reporting date Production had capital employed of NOK 4.4 billion, while the operating profit for the year corresponds to a return on capital employed of 8.8 percent (12.8 percent).

In 2015 the power production business posted production of 3,290 GWh (3,452 GWh), which was 190 GWh higher than normal annual production of 3,100 GWh. The year was characterised by efficient operations, high production uptime and high water flow in Glomma. The wholesale price for power in the Oslo area was NOK 0.18/kWh in 2015, compared with NOK 0.23/kWh in 2014. This negatively impacted earnings compared with the previous year, although a profit of NOK 121 million (NOK 59 million) from hedging activities partly offset the decrease in wholesale prices. At the reporting date the hedged volume for the next six months comprised 24 percent of normal production.

In September the Board ratified the construction of a new unit in Vamma with an investment framework of NOK 920 million. The new unit, Vamma 12, which has an absorption capacity of 500 m<sup>3</sup>/s and installed capacity of 128 MW, will generate around 1 TWh of power each year and increase the annual production of the Vamma overall power plant area by 220 GWh. Vamma 12 will replace a significant share of production currently generated by Vamma's other units, while the oldest units, 100 years old, will continue to be used in flood periods. The construction of Vamma 12 started in earnest in October. The new unit is due to enter operation in spring 2019.

### Markets

With activities in Norway, Sweden and Finland, the Markets business area comprises the results units Power Sales, Invoicing Services and the Customer Service Centre. Markets is Norway's largest supplier of electricity and one of the leading power sales companies in the Nordic region. Total sales for the year amounted to NOK 5.9 billion, down 0.5 billion on 2014. The decrease in sales is attributable to lower wholesale prices for power purchased on Nord Pool in 2015 compared with 2014. A total of 17.9 TWh (17.8 TWh) of electricity was sold to customers in 2015.

Markets posted an operating profit of NOK 441 million in 2015 (NOK 403 million). The increase against 2014 is attributable to general operating improvements, individual positive non-recurring effects and an improved performance from the power sales business on the back of better margins and higher contributions from benefit products. However, the result was negatively impacted by NOK 49 million (positive impact of NOK 4 million) in changes in value of power derivatives. In accordance with IFRSs, these changes are recognised at market value; however, the change in value of associated fixed price contracts to customers are not recognised at fair value until delivery. At the end of the year, Markets had capital employed of NOK 1.5 billion. The operating profit for 2015 equates to return on capital employed of 26.5 percent (22.7 percent).

In 2015 Markets expanded its activities, including by establishing a new organisation to facilitate growth in Sweden and Finland. Tellier Services AB was founded to perform invoicing services for SverigesEnergi and Kotimaan Energia. Markets also established a debt collection business through Solvencia AS and the acquisition of Galant Inkasso AS.

# Report from the Board of Directors 2015

At the end of 2015 Hafslund had a total of 1,050,000 (1,073,000) electricity customers, of whom 326,000 were outside Norway. The power sales business pursues a multi-brand strategy covering eight different brands in Norway, Sweden and Finland. Thanks to its strong position in the Norwegian power market, and activities in Sweden and Finland, Hafslund is well placed to participate in a joint Nordic end-user market for electricity, as well as further organic and structural growth.

In December 2015, Hafslund announced that it had decided to start work on a spin-off and potential public offering of Hafslund Marked. A spin-off and a broader ownership base would help to further strengthen the business' growth opportunities. Given suitable market conditions, Hafslund intends to complete the stock exchange listing at some point in 2016.

## GOVERNMENT RELATIONS AND FRAMEWORK CONDITIONS

Hafslund's Networks business is regulated by the authorities as a natural monopoly. The income ceilings for the district heating business are established by statute. Both power production's and district heating's income is directly linked to prices in the power market, a market that is significantly impacted by political decisions.

It is critical for Hafslund to be able to provide the authorities with constructive feedback on the effect of framework conditions that impact its businesses and their development opportunities. At the same time, Hafslund contributes to sensible political and regulatory decisions, by highlighting how decisions impact the key functions that Hafslund performs for modern society.

We have raised our climate- and environment-related targets, globally, nationally and within the sphere of operations of Hafslund Nett and the district heating and hydropower businesses. Energy consumption efficiency will be improved, and all remaining fossil energy consumption in the transport sector and buildings will be phased out over the next couple of decades. This will be achieved through increased electrification and a transition from fossil fuel heating to renewable district heating. Hafslund is playing a key role in the current "green shift"; however, realistic achievement of the company's goals are contingent on the authorities facilitating further growth for the Group's businesses.

In November 2015 the Norwegian government adopted new energy policy in the construction regulations, in line with Hafslund's recommendations. These regulations continue requirements for water-borne heat in larger buildings. The regulations also impose requirements for a building's overall energy needs, and places renewable energy delivered from the electricity and district heating network on an equal footing with locally produced energy. The same principle should also now be applied to the official Energy Labelling Scheme for buildings, when this is relocated from NVE to Enova in summer 2016.

## CORPORATE SOCIAL RESPONSIBILITY

Hafslund is responsible for any social consequences caused by the Group's operations with regard to the external environment, working conditions, human rights and other social issues. This responsibility permeates Hafslund's entire value chain and business, and also covers Hafslund's procurements and investments. Hafslund adopts the Norwegian government's definition of corporate social responsibility issued in Report to the Storting no 10 (2008:2009): Corporate Social Responsibility in a Global Economy.

A guiding principle for the Group's work in this regard is its policy for the environment and corporate social responsibility, along with specific procedures for environmental management and ethical trading. Hafslund has its own Code of Conduct that applies to all the company's suppliers, which is incorporated into all relevant contracts.

Hafslund wishes to be a key collaboration partner of businesses that make a positive contribution to society and share the Group's values.

## EXTERNAL ENVIRONMENT

### Environmental management

Effective environmental management is a natural part of Hafslund's corporate social responsibility remit, and an important means of securing efficient resource utilisation and operations. All the Group's units are expected to practise a systematic form of environmental management, and the Group has established requirements for such. The company that is responsible for the majority of energy consumption and emissions in the Group, Hafslund Varme, is certified to the international environmental standard ISO 14001. In addition, the head office at Drammensveien 144 in Oslo, and the Conference Centre at Hafslund Manor in Sarpsborg have both been certified as Environmental Lighthouses.

### Production

The run-of-river plants produce environmentally friendly and renewable power, and it is in everyone's interests that the water resources of the Glomma river system be exploited in the most efficient manner possible. In 2015 production uptime at Hafslund's electricity generating facilities stood at 99.4 percent compared with 98.5 percent in the previous year. There were no discharges of oil that had any significant environmental consequences.

## Report from the Board of Directors 2015

### Heat

The bulk of Hafslund's energy consumption and emissions to air are associated with the production of heat. Due to a high percentage of unsorted residual waste and renewable input factors, greenhouse gas emissions are extremely low in relation to the volume of produced energy. In addition, district heating is increasingly replacing older, more polluting, oil boilers. The share of other fossil oil and gas was 1.3 percent in 2015, compared with 2.7 percent in 2014. In Oslo the fossil fuel share in 2015 was 1.2 percent.

Hafslund Varme's plants also produce emissions of a more local and regional nature, such as particle emissions, NOx and SOx. In 2015 these emission levels were generally lower than the maximum limits set by the authorities, and any emissions exceeding maximum limits were quickly dealt with and routinely reported to the authorities.

Hafslund Varme aims to fully phase out fossil energy sources from district heating production in a normal year, including peak loads, a goal that has almost been achieved. However, on contingency grounds, particular conditions and lengthy periods of cold weather can result in some use of fossil energy sources for short periods, including to maintain security of supply,

### Networks

Hafslund Nett regards it as part of its corporate social responsibility remit to guarantee a high security of supply for all its networks customers. The company also endeavours to keep expenses and losses at a low level. The ongoing conversion of the main distribution grid in Oslo to 132 kV will thus further reduce relative grid losses against current levels.

In 2015 there was no damage to cables resulting in discharges of cable oil to the watercourse.

### Other operations

The impact on the external environment of Hafslund's other operations largely derives from its buildings, transport and externally sourced services, including transport and contracting activities. Hafslund collaborates with Norsk Gjenvinning in connection with waste collection and return schemes. Hafslund is also a member of Renas, a collection and treatment scheme for industrial electrical waste.

Hafslund aims to have a high percentage of rechargeable vehicles in its car fleet. All new vehicles shall essentially be rechargeable, unless special requirements dictate otherwise. The share of rechargeable vehicles increased in 2015.

### Ethics and anti-corruption measures

Hafslund is committed to maintaining high ethical standards in all its commercial operations. Hafslund places clear demands on the Group's suppliers in order to ensure that these exercise their business operations in line with Norwegian and internationally recognised principles and guidelines on human and employee rights, the environment and corruption. These requirements are incorporated into all contracts entered into by Hafslund. Hafslund has a framework for efficient corporate governance and a Board-approved Code of Conduct for employees to combat corruption, bribery and conflicts of interest.

## CORPORATE SOCIAL RESPONSIBILITY

### Employees

At the end of 2015 Hafslund employed 1,117 staff (1,097 full-time equivalents). In total, 38 percent of the Group's employees are women. Hafslund is endeavouring to establish a more equal gender balance in all business areas. Initiatives to achieve the above include more targeted recruitment, an internal development programme and



Hafslund is specifically targeting management and competence development in order to secure future skills requirements.

**Hafslund shall maintain high standards with regards to health, safety and environment.**

## Report from the Board of Directors 2015

competence development measures. Hafslund's salary policy is based on individual salary establishment, where the Group strives to attract and retain skilled employees.

Hafslund is specifically targeting management and competence development in order to secure future skills requirements. In 2016 the Group will introduce a competence management system in order to further enhance performance management and strategic competence development. Hafslund also carries out management and employee surveys in order to measure employees' motivation, support from managers and co-workers, development opportunities, competence exchange and relations with line managers, with a view to enhancing the working environment and creating an attractive workplace.

Hafslund shall ensure that no discrimination takes place based on gender, ethnicity, national background, origin, skin colour, language, religion or belief with regard to areas such as salaries, promotion and recruitment.

Group management comprises three women and five men. In total, 22 percent of the Group companies' management groups are women. Eight members serve on the Board of Hafslund ASA, three of whom are women and five of whom are men. The company therefore complies with legislation regarding gender balance. Remuneration paid to executive management and the related management declaration is discussed in [Note 22](#) to the consolidated financial statements.

### Health, safety and the environment

Hafslund shall maintain high standards with regard to health, safety and the environment (HSE), and HSE considerations shall pervade all processes and activities.

The Group wishes all companies to be attractive workplaces with a progressive and inclusive working environment, where the aim is that no employee should be injured at work or develop a work-related illness.

### Injuries

In 2015 a total of twelve lost-time injuries and eight non-lost-time injuries were registered among Hafslund employees and hired-in staff who work at Hafslund's sites. This corresponds to an injury rate for the Group of 3.5 (5.3 without Markets) lost-time injuries per million working hours (H1 indicator) and a total injury frequency (number of lost-time and non-lost-time injuries per million working hours (H2 indicator)) of 6.2 (8.4 without Markets). Three injuries were registered involving own employees, one of which resulted in an absence of 10 days (Hafslund Nett). Suppliers reported a total of 11 lost-time injuries and six non-lost-time injuries while working at Hafslund's facilities. These injuries occurred on assignment for Hafslund Nett, Hafslund Varme and Hafslund Produksjon. The causes of all injuries are thoroughly investigated in order to improve knowledge and prevent any repetitions. Hafslund aims to experience zero injuries in the workplace.

### Reporting of undesired incidents (RUI)

Reporting of undesired incidents is a particularly important tool in initiatives to achieve the company's vision of zero injuries in the business. The aim is to ensure that all employees and suppliers notify undesired incidents, and that this information is used as a basis for preventing injuries and disseminating knowledge across the business. A total of 1,484 (1,428) incidents were reported in 2015.

### Sickness absence

The overall sickness absence rate for the Group in 2015 was 5.5 percent (4.6 percent). The short-term sickness absence rate (up to 16 days) was 2.3 percent, while the long-term absence rate was 3.2 percent. The Group has been a Working Life (IA) business since 2005 and over time has developed efficient procedures for monitoring sickness absence. The target is for the sickness absence rate not to exceed four percent in the Group as a whole, and measures are constantly being developed to reduce overall absence.

### RISK

Hafslund is exposed to risk in a number of areas and along the entire value chain. The most important of these are regulatory, legal, reputational, financial, political and market risk, in addition to operational risk. Risk management at Hafslund is an integral part of the Group's business activities, and is designed to maintain risk at an acceptable level in order to help secure achievement of strategic and operational targets. Hafslund has established guidelines and frameworks for active and coordinated risk management in a number of areas. In the fourth quarter a project was implemented with external assistance to map the Group's frameworks for fighting economic crime. In 2016 the company will further reinforce this framework and raise internal awareness of this topic. Overall Group-level risk is reviewed by the Board and the Audit Committee.

### Market risk

Market prices of power are one of several important value drivers for the Group's earnings, in particular in connection with the sale of power and district heating production. Hafslund has established hedging schemes to price-hedge future production of both hydropower and district heating. The power sales business endeavours to reduce uncertainty

## Report from the Board of Directors 2015

regarding fluctuations in power prices through hedging, in order to achieve a balance in exposure to customers and purchases in the wholesale market. The company manages market risk by trading in financial instruments. Counterparty risk in the power market is minimised through the use of standardised contracts that are settled via Nasdaq OMX Commodities. The key risk element for the power sales business relates to its customer base. At any given time the business has a substantial volume of accounts receivable due from customers. However, the bulk of these are relatively small receivables from private customers, and losses have traditionally been marginal. Hafslund is also exposed to commodity risk for its district heating activities. Group management evaluates and adopts strategies with which to manage this kind of risk within the risk profile determined by the Board.

### Financial risk

The Group's finance department actively manages and hedges foreign currency exposure in order to reduce the Group's foreign exchange risk in relation to power trading, purchases of goods and services, and foreign currency borrowings. Hafslund is exposed to interest rate risk on its interest-bearing borrowings, and due to the inclusion of the five-year swap rate in the income ceiling established for the Networks business, and the fact that the network rental is included in the calculation of revenues for Heat. In addition, resource rent tax for hydropower production is exposed to interest on government bills of exchange through the tax-free allowance. Normally changes in the interest rate curve will have an inverse effect on the loan portfolio, and on the income ceiling for the Networks business. In 2015 the Group adjusted its parameters for interest rate risk, and over time the Group's debt portfolio will be adapted to changed parameters. The Group endeavours to reduce interest rate risk by leveraging the Group's inherent interest-hedging by endeavouring

to correlate the interest rate exposure in connection with the reference index for the Networks' revenue ceiling and Production's tax-free allowance with interest on borrowings. The Board has approved the guidelines and frameworks which govern the management of financial risk.

The Group has several long-term committed drawdown facilities in order to secure financing, even in periods when it may be difficult to obtain financing in the capital markets.

### Regulatory risk

Several of the Group's energy supply businesses are subject to public licences and a large degree of public regulation. This applies in particular to Production, Heat and Networks. The Networks business is a natural monopoly with publicly-regulated earnings. Networks' annual income ceiling is established each year by the Norwegian Water Resources and Energy Directorate (NVE), and there can be unforeseen fluctuations due to changes in the regulatory model.

### Operational risk

Hafslund is exposed to operational risk in all processes along the entire business chain. The highest operational risk attaches to project implementation and operations. Hafslund manages operational risk through detailed procedures for activities, controls and contingency plans. A key part of the Group's activities involve critical infrastructure which serves many of the population's basic needs. Consequently, security of supply is a cornerstone of Hafslund's operational planning and operations. Risk relating to security of supply is also included in the overall risk profile at Group level.

The Group has established systems for registering and reporting censurable matters, undesired incidents and injuries. Insurance policies are also in place to cover all serious types of injury.



# Report from the Board of Directors 2015

Risk analyses are performed for all projects at Hafslund over a certain scope and size with a view to evaluating and planning any required measures.

## OWNERSHIP STRUCTURE AND SHAREHOLDERS

Hafslund ASA has two classes of shares, with A shares granting voting rights at general meetings of the Group's shareholders. The reason for this is historical and deviates from the Norwegian Code of Practice for Corporate Governance. At the end of 2015 the Group's share capital totalled NOK 195,186,264, divided between 115,427,759 A shares and 79,758,505 B shares. At the reporting date the A shares were valued at NOK 59.75 and the B shares at NOK 58.75, and the company's total market capitalisation was NOK 11.6 billion. The return (change in value + dividend) in 2015 totalled 22.0 percent. By comparison, the Oslo Stock Exchange's main index OSEBX (OSEBX is adjusted for dividends) changed by 5.9 percent.

At the reporting date the City of Oslo was Hafslund ASA's largest shareholder, with 53.7 percent of share capital, comprising 58.5 percent of A shares and 46.8 percent of B shares. Fortum Forvaltning AS was the second-largest shareholder with 34.1 percent of the share capital, comprising 32.8 percent of A shares and 36.0 percent of B shares. At the end of the year Hafslund owned 263,289 treasury B shares and one treasury A share.

### The work of the Board of Directors

Hafslund's Board of Directors has complied with the previously adopted Board mandate and guidelines for the Board's activities. Hafslund's principles for corporate governance, and the Board's declaration on corporate governance, are discussed at [www.hafslund.no](http://www.hafslund.no) (under "About Hafslund" and subsequently "Corporate

governance"). There is agreement within Hafslund not to establish a Corporate Assembly. Consequently, the Board reports directly to the general meeting.

Hafslund satisfies the statutory requirements for representation of both genders on the Board. The Board carries out an annual appraisal of its working practices, competence and working relationship with management. The Board's Compensation Committee advises the Board on a number of matters including the remuneration paid by the company to its President and CEO. In 2015 the Compensation Committee comprised Birger Magnus (Chair), Per Langer, Ellen Christine Christiansen and Per Orfjell. The Board's Audit Committee assists the Board in the preparation of the financial statements and internal controls, and in 2015 comprised Odd Håkon Hoelsæter (Chair), Maria Moræus Hanssen and Per Luneborg.

At the Annual General Meeting held on 7 May 2015 Board members Odd Håkon Hoelsæter and Per Langer were re-elected with a term of office until the 2017 Annual General Meeting. Stig Bech, Kjell O. Viland and Timo Karttinen serve on the Nominations Committee.

## DIVIDEND AND APPROPRIATION OF THE ANNUAL RESULT

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. At the Annual General Meeting to be held on 3 May 2016, the Board will propose that a dividend of NOK 3.00 (NOK 2.50) per share, a total of NOK 585 million, be paid for the 2015 financial year. The Board proposes the following appropriation of Hafslund ASA's net loss for the year of NOK 10 million:

Transferred from other equity	<b>NOK 595 million</b>
Proposed dividend	<b>NOK -585 million</b>
<b>Total appropriation of the net result for the year</b>	<b>NOK -10 million</b>

## 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, and is a medium-sized power producer. The regulated networks business accounts for around half of Hafslund's employed capital. Networks guarantees Hafslund a stable return in a period marked by low power prices and uncertain economic conditions.

Production's and Heat's earnings are directly impacted by changes in power prices and the production volume. Power prices are determined by the hydrological balance, supply and demand for power, economic and regulatory conditions in the Nordic region and Europe. At the end of 2015 the listed system price for power delivered in 2016 was NOK 0.19/kWh (2015: NOK 0.19/kWh). Assuming full spot-price exposure and normal production, an increase/decrease in the power price over the year of NOK 0.01/kWh would increase/decrease Production's and Heat's operating profit by NOK 29 million and NOK 12 million respectively. In order to secure cash flows and utilise market prospects some sales of produced energy are hedged.

The acquisition of the Networks business in Østfold in 2014 is expected to generate a synergy effect of NOK 45 million in 2016, rising to NOK 60 million a year following the roll-out of smart metering in 2019. Over time, Networks' long-term

## Report from the Board of Directors 2015

earnings are influenced by the business area's relative efficiency compared with the rest of the networks industry, interest rate fluctuations, and changes in public regulations. A five percent change in relative efficiency or a one percent change in the NVE interest rate would impact Networks' income ceiling by around NOK 80 million.

Over the next few years Networks and power sales will face significant regulatory changes, including the introduction of smart metering, and greater differences between the Networks and power sales business. The power sales business is exposed to tough competition, and profitability and growth will be contingent on the company's ability to further develop and enhance its activities. The electricity business follows a long-term Nordic growth strategy, and in December 2015 Hafslund announced that it would start work on a spin-off and potential stock exchange listing of Hafslund Markets. Given suitable market conditions, Hafslund intends to complete the stock exchange listing at some point in 2016. A spin-off and broader ownership base would help to further boost power sales' growth opportunities.

The Group expects to make aggregate investments of around NOK 3.7 billion for 2016 and 2017. The Group's future investments will, in addition to ongoing investments in operations and expansion, be characterised by statutory investments in smart metering of around NOK 2.4 billion and the construction of a new unit at Vamma with an investment framework of NOK 920 million in the period leading up to 2019. A potential initial public offering of Markets, together with increased investments, will help to streamline and strengthen the Group as an infrastructure company within renewable energy. The Group has a strategy of continuing organic and structural growth to support development of the Group's activities.

The Board of Directors of Hafslund ASA  
Oslo, 10 March 2016

Birger Magnus  
Chairman of the Board

Maria Moræus Hanssen  
Deputy Chairman

Per Langer

Odd Håkon Hoelsæter

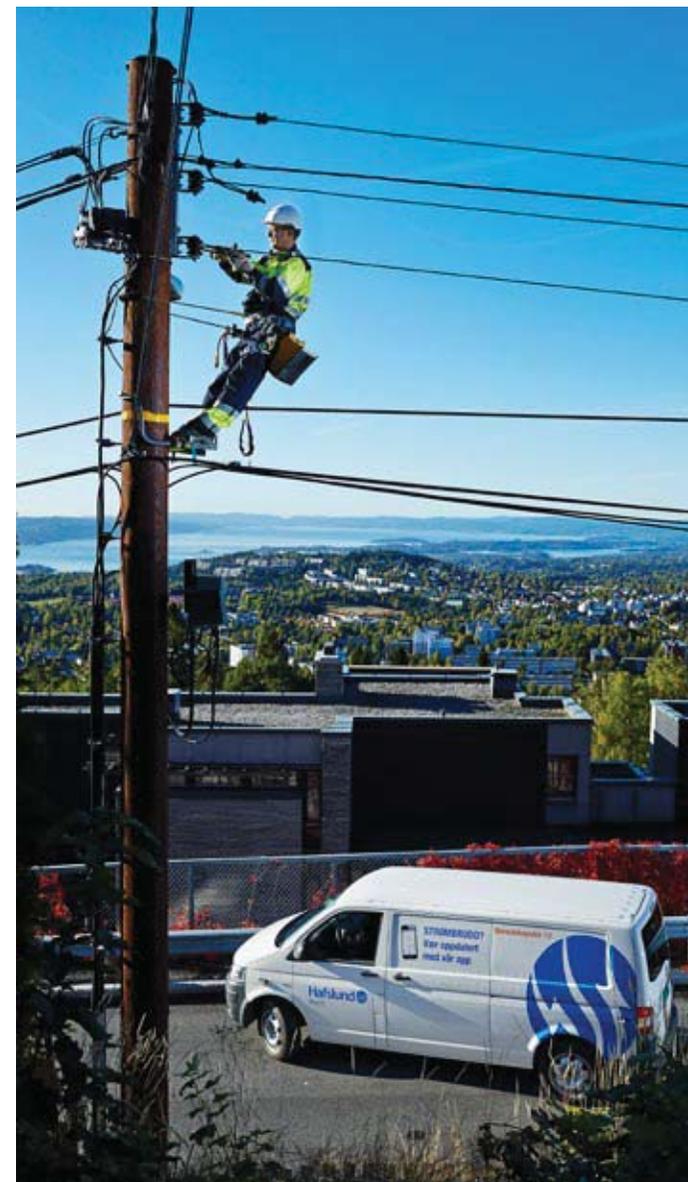
Ellen Christine Christiansen

Per Orfjell

Per Luneborg

Jane Koppang

Finn Bjørn Ruyter  
President and CEO



# Consolidated financial statements

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## Income statement, Statement of comprehensive income

NOK million	Notes	1 January – 31 December	
		2015	2014
Sales revenues	<a href="#">5</a>	11,905	12,396
Purchases of goods and energy		(6,264)	(6,866)
Salaries and other personnel expenses	<a href="#">18, 21, 22</a>	(992)	(879)
Other (losses)/gains – net	<a href="#">19</a>	67	67
Other operating expenses	<a href="#">20</a>	(1,841)	(1,972)
Share of profit of associates	<a href="#">9, 25</a>	45	49
<b>Operating profit before depreciation, amortisation and impairments</b>		<b>2,920</b>	<b>2,795</b>
Amortisation	<a href="#">6, 7, 8</a>	(920)	(898)
Impairments	<a href="#">6, 7, 8</a>	(27)	(148)
<b>Operating profit</b>		<b>1,973</b>	<b>1,749</b>
Financial expenses	<a href="#">23</a>	(288)	(552)
<b>Profit before tax</b>		<b>1,686</b>	<b>1,197</b>
Tax expense	<a href="#">17</a>	(402)	(194)
<b>Profit before tax</b>		<b>1,284</b>	<b>1,003</b>
<b>Attributable to:</b>			
Owners of the parent		1,282	1,003
Non-controlling interests		(1)	
<b>Earnings per share (NOK per share)</b>			
Earnings per share (= diluted earnings per share)	<a href="#">14</a>	6.58	5.14

Notes 1 to 26 are an integral part of the consolidated financial statements.

NOK million	Notes	1 January – 31 December	
		2015	2014
<b>Profit for the year</b>		<b>1,284</b>	<b>1,003</b>
<b>Items that can subsequently be reclassified to the income statement</b>			
Gains (losses) deriving from cash flow hedging	<a href="#">10</a>	109	(23)
Translation differences		48	7
Tax	<a href="#">17</a>	(27)	6
<b>Total items that can subsequently be reclassified to the income statement</b>		<b>130</b>	<b>(10)</b>
<b>Items that cannot subsequently be reclassified to the income statement</b>			
Estimate deviations pensions	<a href="#">18</a>	304	(307)
Tax	<a href="#">17</a>	(76)	83
<b>Total items that cannot subsequently be reclassified to the income statement</b>		<b>228</b>	<b>(224)</b>
<b>Other comprehensive income for the year</b>		<b>358</b>	<b>(234)</b>
<b>Total comprehensive income for the year</b>		<b>1,642</b>	<b>769</b>
<b>Attributable to:</b>			
Owners of the parent		1,641	769
Non-controlling interests		1	
<b>Total comprehensive income for the year</b>		<b>1,642</b>	<b>769</b>

Notes 1 to 26 are an integral part of the consolidated financial statements.

## Balance sheet

NOK million	Notes	31 December	
		2015	2014
<b>Assets</b>			
Property, plant and equipment	<a href="#">6</a>	19,302	19,011
Intangible assets	<a href="#">7</a>	2,933	2,970
Investments in associates	<a href="#">9</a>	338	646
Long-term receivables etc.	<a href="#">10, 11, 18</a>	199	221
<b>Non-current assets</b>		<b>22,772</b>	<b>22,848</b>
Inventories		61	47
Trade and other receivables	<a href="#">10, 12</a>	2,494	2,435
Financial assets	<a href="#">3, 10</a>	501	140
Cash and cash equivalents	<a href="#">10, 13</a>	724	742
<b>Current assets</b>		<b>3,780</b>	<b>3,364</b>
<b>Total assets</b>		<b>26,552</b>	<b>26,212</b>
<b>Equity and liabilities</b>			
Paid-in equity	<a href="#">14</a>	4,275	4,275
Retained earnings		4,734	3,585
Non-controlling interests		4	17
<b>Equity</b>		<b>9,013</b>	<b>7,877</b>
Borrowings	<a href="#">10, 16</a>	8,547	9,047
Deferred tax liability	<a href="#">17</a>	3,251	3,080
Pension liabilities	<a href="#">18</a>	58	416
<b>Long-term liabilities</b>		<b>11,856</b>	<b>12,543</b>
Trade and other current payables	<a href="#">10, 15</a>	2,601	2,395
Financial liabilities	<a href="#">3, 10</a>	431	199
Tax payable	<a href="#">17</a>	340	340
Borrowings	<a href="#">10, 16</a>	2,311	2,857
<b>Current liabilities</b>		<b>5,683</b>	<b>5,792</b>
<b>Total liabilities</b>		<b>17,539</b>	<b>18,335</b>
<b>Total liabilities and equity</b>		<b>26,552</b>	<b>26,212</b>

Board of Directors of Hafslund ASA  
Oslo, 10 March 2016

Birger Magnus  
Board Chairman

Maria Moræus Hanssen  
Deputy Chairman

Per Langer

Odd Håkon Hoelsæter

Ellen Christine Christiansen

Per Orfjell

Per Luneborg

Jane Koppang

Finn Bjørn Ruyter,  
President and CEO



## Statement of cash flow

NOK million	Notes	1 January – 31 December	
		2015	2014
<b>EBITDA</b>		<b>2,920</b>	<b>2,795</b>
Adjustments for:			
– gains/losses on disposal of operating assets & activities		(62)	4
– gains/losses on financial assets at fair value through profit or loss		89	(22)
– other items with no cash flow effect		(45)	(49)
Changes in working capital:			
– Inventories		(14)	16
– Trade and other receivables		(73)	7
– Trade and other current payables		149	(124)
<b>Cash flow from operating activities</b>		<b>2,963</b>	<b>2,627</b>
Interest paid		(419)	(452)
Tax paid		(343)	(48)
<b>Net cash flow from operating activities</b>		<b>2,201</b>	<b>2,127</b>
Investments in operations	6, 7	(1,282)	(875)
Sales of property, plant and equipment		186	59
Purchased businesses, shares etc.	25	(24)	(1,463)
Disposals of shares etc.		200	
<b>Cash flow from investing activities</b>		<b>(919)</b>	<b>(2,279)</b>
New long-term borrowings	16	1,800	2,225
Repayments of borrowings	16	(2,674)	(2,347)
Change in interest-bearing receivables	11	30	368
Dividends and other equity transactions		(487)	(501)
<b>Cash flow from financing activities</b>		<b>(1,331)</b>	<b>(255)</b>
<b>Change in cash and cash equivalents</b>		<b>(49)</b>	<b>(407)</b>
Cash and cash equivalents as of 1 January		742	1,143
Foreign exchange gains/(losses) cash and cash equivalents		31	6
<b>Cash and cash equivalents as of 31 December</b>	10, 13	<b>724</b>	<b>742</b>

Notes 1 to 26 are an integral part of the consolidated financial statements.

## Statement of changes in equity

NOK million	Share capital	Share premium	Other paid-in equity	Pension estimate deviations	Translation differences	Retained earnings	Equity attributable to owners of the parent	Non-controlling interests	Total equity
<b>Equity as of 31 December 2013</b>	<b>195</b>	<b>4,080</b>	<b>76</b>	<b>455</b>	<b>16</b>	<b>2,742</b>	<b>7,564</b>	<b>18</b>	<b>7,583</b>
Changes in policies and adjustments 1 January 2014						19	19		19
<b>Adjusted equity as of 1 January 2014</b>	<b>195</b>	<b>4,080</b>	<b>76</b>	<b>455</b>	<b>16</b>	<b>2,761</b>	<b>7,583</b>	<b>18</b>	<b>7,601</b>
Profit for the year						1,003	1,003		1,003
Other comprehensive income				(224)	7	(17)	(234)		(234)
<b>Total comprehensive income for the year</b>				<b>(224)</b>	<b>7</b>	<b>986</b>	<b>769</b>		<b>769</b>
<b>Transactions with owners:</b>									
Change in non-controlling interests								(1)	(1)
Dividend for 2013						(488)	(488)		(488)
Change in treasury shares						(13)	(13)		(13)
Other changes in equity						9	9		9
<b>Equity as of 31 December 2014</b>	<b>195</b>	<b>4,080</b>	<b>76</b>	<b>231</b>	<b>23</b>	<b>3,255</b>	<b>7,860</b>	<b>17</b>	<b>7,877</b>
Profit for the year						1,284	1,284		1,284
Other comprehensive income				228	48	82	358		358
<b>Total comprehensive income for the year</b>				<b>228</b>	<b>48</b>	<b>1,366</b>	<b>1,642</b>		<b>1,642</b>
<b>Transactions with owners:</b>									
Change in non-controlling interests								(13)	(13)
Dividend for 2014						(487)	(487)		(487)
Change in treasury shares			(3)			11	8		8
Other changes in equity			(17)			3	(14)		(14)
<b>Equity as of 31 December 2015</b>	<b>195</b>	<b>4,080</b>	<b>56</b>	<b>459</b>	<b>71</b>	<b>4,148</b>	<b>9,009</b>	<b>4</b>	<b>9,013</b>

The Board has proposed a dividend of NOK 3.00 per share for the 2015 financial year. The corresponding figure for 2014 was NOK 2.50 per share.

Notes 1 to 26 are an integral part of the consolidated financial statements.

## Note 1, 2

### NOTE 1 ► GENERAL INFORMATION

Hafslund ASA (the Company) and its subsidiaries (subsequently referred to as Hafslund) is listed on the Oslo Stock Exchange. Hafslund is Norway's largest network, district heating and power sales company and a medium-sized Norwegian power producer. While power sales essentially operates in Norway, Sweden and Finland, the other business areas perform its activities in Norway. Hafslund Group operates its business through subsidiaries and associates. The headquarter is in Oslo. The consolidated financial statements were approved by the Company's board on March 10, 2016.

### NOTE 2 ► KEY ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. Unless otherwise stated, these policies are applied in the same way for all accounting periods.

#### 2.1 Framework for presentation of financial statements

Hafslund ASA's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) and interpretations issued by the IFRS Interpretation Committee (IFRIC), as established by the EU. These financial statements contain no differences between IFRSs as established by the EU and the IASB. The consolidated financial statements have been prepared under the historical cost convention. Exceptions to the above primarily relate to financial assets and liabilities (including derivatives) measured at fair value through profit or loss. The preparation of financial statements in accordance with IFRSs

requires the use of estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. Areas involving a high degree of judgement or complexity, or areas where assumptions and estimates are material to the consolidated financial statements are disclosed in [Note 4](#).

The consolidated financial statements have been prepared in accordance with the going concern assumption.

#### a) New and amended standards adopted by the Group

The Group did not adopt any new or amended standards in 2015 that affected the financial statements.

#### b) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early-adopted by the Group.

The Group has not early-adopted any new or amended IFRS standards or IFRIC interpretations.

- *IFRS 9 Financial Instruments* deals with the classification, measurement and recognition of financial assets and financial liabilities, as well as hedge accounting. The full version of IFRS 9 was published in July 2014. This replaces the sections of IAS 39 that deal with corresponding issues. In accordance with IFRS 9 financial assets are divided into three categories: fair value through other comprehensive income, fair value through profit or loss and amortised cost. The measurement category is established based the method used for the first-time recognition of the asset. The classification is contingent on the entity's business model for management of its financial instruments and the nature of the cash flows for the individual instrument. Equity instruments are essentially measured at fair value through profit or loss. The enterprise can elect to recognise changes in value

through other comprehensive income; however the choice is binding, and on subsequent disposals gains/ losses cannot be reclassified through profit or loss. Impairments attributable to credit risk are now recognised based on expected losses rather than the current model where losses must already have been incurred.

The standard essentially continues the requirements of IAS 39 for financial liabilities. The greatest change lies in that – in cases where the fair value option has been utilised for a financial liability – changes in fair value that are attributable to changes in inherent credit risk are now recognised in other comprehensive income. IFRS 9 simplifies the requirements for hedge accounting by tying hedging efficiency more closely to management's risk management and providing greater scope for assessment. It also continues the requirement for hedging documentation.

The standard enters into force for the 2018 financial year, but may be early-adopted. Hafslund is considering early-adopting IFRS 9 in order to be able to benefit from new hedging rules, and in particular 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 other comprehensive income. However, implementation is contingent on the EU adopting the standard.

- *IFRS 15 Revenue from Contracts with Customers* deals with revenue recognition. The standard establishes that the customer contract be split into individual performance obligations. A performance obligation can be a product or a service. Revenue is recognised when a customer achieves control over a product or service, and thus has the opportunity to determine the use of, and can receive

## Note 1, 2

the benefits deriving from, the product or the service. The standard replaces *IAS 18 Revenue and IAS 11 Construction Contracts* and associated interpretations. The standard enters into force for the financial year 2018, but may be early-adopted. The Group has still not reviewed the full impact of IFRS 15. There are no other IFRS standards or interpretations that have not yet entered into force that are expected to have a material impact on the consolidated financial statements.

### 2.2 Basis of consolidation

#### a) Subsidiaries

Subsidiaries are all entities over which the Group exercises control. Control over an entity arises when the Group is exposed to variability in the return from the entity and has the ability to impact this return by virtue of its influence over the entity. Subsidiaries are consolidated from the day control arises and deconsolidated when control ceases.

The purchase method is applied for business acquisitions. The consideration is measured at the fair value of any transferred assets, liabilities or issued equity instruments. Identifiable assets and liabilities and contingent liabilities assumed in a business combination are initially measured at their fair value at the acquisition date. Non-controlling interests in the acquired company are measured on an acquisition-by-acquisition basis, either at fair value, or at their proportionate share of the company's net assets. Acquisition-related costs are expensed as incurred.

When a business is acquired in stages the shareholding from previous purchases is revalued at fair value at the time control is established with changes in value being recognised in the income statement. Contingent consideration is measured at fair value at the time of

acquisition. In accordance with IAS 39 subsequent changes in the fair value of contingent consideration are recognised in income or as a change in other comprehensive income depending on whether the contingent consideration is classified as an asset or liability. Contingent consideration classified as equity is not revalued, and subsequent settlement is recognised in equity.

If the consideration transferred (including any non-controlling interests and the fair value of previous assets) exceeds the fair value of identifiable net assets acquired, this is recognised as goodwill. If the consideration transferred (including any non-controlling interests and the fair value of previous assets) is less than the fair value of net assets in the subsidiary due to the fact that the purchase has been concluded on favourable terms, the difference is recognised as a gain in the income statement.

Intragroup transactions, intragroup balances and unrealised intragroup gains or losses are eliminated. Reported figures from the subsidiaries are restated when this is necessary to achieve consistency with the Group's accounting policies.

#### b) Change in shareholding in subsidiaries without loss of control

Transactions with non-controlling interests in subsidiaries that do not involve loss of control are treated as equity transactions. When shares are purchased from non-controlling owners, the difference between the consideration and the proportionate percentage of net assets recognised in the subsidiary's balance sheet relating to such shares is recognised in the parent company's owners' equity. Gains or losses on disposals of non-controlling interests are similarly recognised in equity.

#### c) Divestment of subsidiaries

When the Group no longer has control, any residual interest is measured at fair value with changes in value being recognised through profit or loss. Thereafter the fair value is deemed to equate to cost, and the interest is valued either as an investment in associates or joint ventures or as a financial asset. Amounts previously recognised in other comprehensive income relating to this company are treated as if the Group had disposed of the underlying assets and liabilities. This could mean that amounts that were previously recognised in other comprehensive income are reclassified through profit or loss.

#### d) Associates

Associates are all entities over which Hafslund exerts significant influence, but not control. Significant influence will generally exist when the Group has a shareholding of between 20 and 50 percent of the voting rights. Investments in associates are recognised in accordance with the equity method. Investments are recognised at cost at the time of acquisition, and the Group's share of the results in subsequent periods is recognised in income or expenses. Amounts recognised in the balance sheet include any implicit goodwill identified at the time of acquisition. On the reduction of a shareholding in an associate where the Group maintains significant influence, only a pro rata share of amounts previously recognised in other comprehensive income is reclassified in the income statement.

The Group's share of its associates' post-acquisition profits or losses is recognised in the income statement and added to the book value of the investment. The Group's share of other comprehensive income of the associate is recognised in consolidated comprehensive income and the value of the investment recognised in the balance sheet is adjusted accordingly. The Group does not recognise any share of an

## Note 2

associate's losses in its income statement if this results in the book value of the investment falling below zero (including unsecured receivables from the entity), unless the Group has assumed liabilities or made payments on behalf of the associate.

At the end of each accounting period the Group determines whether there is any need to recognise an impairment of the investment in the associate. In such cases the impairment amount is measured as the difference between the recoverable amount of the investment and its book value, and the difference is recognised in income on a separate line together with the item Share of profit/(loss) from associates. In the event of any gains or losses on transactions between the Group and its associates, only the proportionate share relating to external shareholders is recognised. Unrealised losses are eliminated unless there is a need to recognise an impairment for the asset that was the subject of the transaction. Where necessary, the financial statements of associates have been restated to ensure consistency with the accounting policies adopted by the Group, with the exception of associates that are investment companies.

Dilution gains and losses arising on investments in associates are recognised in the income statement.

### 2.3 Segment information

The operating segments are reported using the same structure used in the Group's internal reporting to the chief operating decision-maker. The Group's chief operating decision-maker, which is responsible for allocation of resources to and assessment of earnings generated by the operating segments, is defined as Group management.

### 2.4 Translation of foreign currency

#### a) Functional currency and presentation currency

The Group's single entity financial statements are recorded in the currency that is used in the area where the entity primarily operates (functional currency). The consolidated financial statements are presented in NOK, which is both the parent company's functional currency and the Group's presentation currency.

#### b) Transactions and balance sheet items

Transactions denoted in foreign currency are translated to the functional currency using the transaction rate. All monetary items denoted in foreign currency are translated at the rate in force at the balance sheet date. Realised foreign exchange gains or losses on the settlement and translation of monetary items denoted in foreign currency to the rate in force at the balance sheet date are recognised in the income statement.

Foreign exchange gains and losses connected to borrowings and cash and cash equivalents are presented (net) as financial income or financial expenses. Other foreign exchange gains and losses are presented under the item other (losses)/gains – net.

The currency effect of non-monetary items (both assets and liabilities) is included as part of fair value recognition. Foreign exchange differences on non-monetary items, such as shares valued at fair value through profit or loss, are recognised in the income statement as part of total gains and losses. Foreign exchange differences on shares classified as available for sale are included in changes in value that are recognised in other comprehensive income.

#### c) Group companies

The income statements and balance sheets of Group companies whose functional currency differs from the presentation currency are translated in the following manner:

- a) The balance sheet, including goodwill and excess values on acquisitions, is translated at the rate in force at the balance sheet date.
- b) Revenues and expenses are translated to NOK using the average exchange rate.
- c) Translation differences are recognised in other comprehensive income and specified separately in equity.

### 2.5 Property, plant and equipment

Property, plant and equipment is recognised in the balance sheet at cost less accumulated depreciation and impairments. Cost includes expenses directly connected to the acquisition of the operating asset, including directly attributable borrowing costs. Subsequent costs are included in the asset's book value or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The book value of the replaced part is de-recognised. Other repair and maintenance expenses are recognised through profit or loss in the period in which the expenses are incurred. Land is not depreciated. Depreciation of other operating assets is calculated using the straight-line method so that the assets' cost is written down to net realisable value over the assets' expected useful economic life as follows:

## Note 2

Power facilities	20 years
Heating facilities	10–50 years
Network facilities	10–50 years
Fibre optic networks, technical equipment and chattels	3–30 years
Other property	20–50 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. If an asset's book value is greater than its estimated recoverable amount, it is written down to the recoverable amount. (Note 2.7).

Gains and losses on the disposal of operating assets are recognised in the income statement under Other (losses) gains – net, and comprise the difference between the cost to sell and book value.

### 2.6 Intangible assets

#### a) Waterfalls

Waterfall rights are recognised in the balance sheet at historical cost. Waterfall rights are deemed to constitute a perpetual asset where no right to reversion to state ownership exists, and are not amortised.

#### b) Goodwill

Goodwill represents the excess of the cost of acquisition over the fair value of the Group's share of the net identifiable assets of the acquired business at the date of acquisition. Goodwill in connection with the acquisition of subsidiaries is classified as an intangible asset. Goodwill is recognised in the balance sheet at historical cost less impairments.

In subsequent evaluation of the need to recognise an impairment, goodwill is allocated to those cash-generating units that are expected to benefit from the acquisition. Impairment losses on goodwill are not reversed.

#### c) Customer portfolios

Customer portfolios are recognised at fair value in the balance sheet at the time of acquisition. The customer portfolios have a limited useful economic life and are recognised at cost less deductions for accumulated amortisation. Amortisation is calculated on a straight-line basis over the expected average agreement period.

#### d) Customer purchase orders

Purchase orders for new customers are carried at cost less deductions for amortisation. Customer purchase orders have a limited useful economic life and are recognised based on the estimated lifetime of the customer relationship. Hafslund has opted to amortise customer purchase orders on a straight-line basis over three to five years based on cumulative experience. Acquisition costs only include direct costs to sell, and each customer portfolio is considered on an individual basis.

### 2.7 Impairment of non-financial assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation, but are tested annually for impairment. Assets that are subject to depreciation or amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the book value may no longer be recoverable. An impairment loss is recognised for the amount by which the asset's book value exceeds its recoverable amount. The recoverable amount is the higher of an asset's value in use and fair value less costs to sell. For the purposes of assessing impairment, assets are

grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that have suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

### 2.8 Non-current assets (or disposal groups) held for sale

Non-current assets (or disposal groups) are classified as assets held for sale when their book value is to be recovered principally through a sale transaction and a sale is considered highly probable. These are stated at the lower of book value and fair value less costs to sell.

### 2.9 Financial instruments

Financial instruments are recognised when the Group becomes party to contractual conditions relating to the instrument. Financial assets and financial liabilities are classified based on the type and purpose of holding the instruments as a) at fair value through profit or loss and b) loans and receivables. Classification depends on the purpose for which the financial assets were acquired.

#### a) Financial instruments valued at fair value through profit or loss

This category has two sub-categories: i) financial instruments held for trading purposes, and ii) financial instruments that management has initially elected to classify at fair value through profit or loss. Derivatives are classified as held for trading purposes, unless these are part of an accounting hedging relationship. Financial assets and financial liabilities recognised at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the income statement. Gains or losses arising from chan-

## Note 2

ges in the fair value of the financial instruments at fair value through profit or loss, including interest and dividends, are recognised in the income statement under “Other (losses)/gains – net” in the period in which they arise. Assets and liabilities in this category are classified as current assets or current liabilities if they are held for trading purposes, or if they are expected to be realised within 12 months of the balance sheet date.

### b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are initially measured at fair value plus directly attributable transaction costs. These items are subsequently recognised at amortised cost using the effective interest method, and are included in current assets, unless they mature more than 12 months after the balance sheet date. Loans and receivables are classified as trade and other receivables and as cash and cash equivalents in the balance sheet (See [Notes 2.12](#) and [2.13](#)).

### c) Impairment of financial assets

The Group assesses whether there is objective evidence that a financial asset or group of financial assets is impaired at the end of each reporting period. Any significant or long-term fall in fair value below the cost of shares classified as available for sale will be deemed to indicate of an impairment in the value of the shares in question. Where such objective indicators exist, and impairments have previously been recognised in other comprehensive income, the accumulated loss that has been included in other comprehensive income is transferred to the consolidated income statement. The amount is measured as the difference between cost and the current fair value, less deductions for any impairment losses previously recognised

in income. Impairment losses on shares and similar instruments classified as available for sale recognised in the income statement are not reversed through the income statement. When securities classified as available for sale are sold or impaired, the accumulated fair value adjustments recognised in other comprehensive income are reclassified in the income statement.

### 2.10 Derivatives and hedging

Derivatives are recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at fair value on an ongoing basis. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. Hafslund designates certain derivatives as hedges in the following hedge types:

- Hedging of variable cash flows in connection with a particular risk associated with a recognised asset, liability or a highly probable forecast transaction (cash flow hedge)

At the inception of the hedging arrangement, the Group documents the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. Hafslund documents whether the hedging instrument that is used in a hedging relationship is highly effective in offsetting changes in fair values or cash flows of the hedged items. Such assessments are documented both at hedge inception and on an ongoing basis during the hedge period.

The fair value of derivatives used in hedging relationships is shown in [Note 10](#). Changes in equity as a result of hedging activities, which are recognised in other comprehensive

income, are shown in the statement of comprehensive income. The fair value of a hedging derivative is classified as a non-current asset or long-term liability if the remaining term of the hedged item is more than 12 months and as a current asset or current liability if the remaining term of the hedged item is less than 12 months. Derivatives held for trading purposes are classified as current assets or liabilities.

### Cash flow hedging

The effective portion of changes in the fair value of derivatives that are designated and qualify as hedging instruments in cash flow hedges is recognised directly in other comprehensive income. Gains or losses relating to the ineffective portion are recognised as Other (losses)/gains – net.

Amounts previously recognised in other comprehensive income and accumulated in equity are reclassified to profit or loss in the periods when the hedged item is recognised in profit or loss (for example, upon the planned sale of a hedged item). Gains or losses on the ineffective portion are recognised in the income statement as Other (losses)/gains – net.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any accumulated gain or loss recognised in other comprehensive income and accumulated in equity is transferred from equity to profit or loss and recognised when the hedge transaction is recognised in the income statement. When a hedged transaction is no longer expected to be implemented, the accumulated gain or loss that was reported in equity is immediately transferred to Other (losses)/gains – net.

## Note 2

### Licensed power

Hafslund has agreements to deliver licensed power to local authorities at prices established by the authorities. The purpose of licensed power is essentially to secure the provision of electrical power to local authorities at a reasonable price. Agreements on financial settlement have been entered into for some licensed power agreements and are expensed on an ongoing basis. Delivery of licensed power is deemed to be a statutory obligation, and is recognised in income on an ongoing basis in accordance with the established licensed price.

### El-certificates

El-certificates are recognised as a financial asset in accordance with IAS 32 and measured in accordance with IAS 39 and the rules for foreign currency in IAS 21. This means that the holdings of el-certificates, receivables from el-certificates, forward contracts on el-certificates and the cancellation liability with Statnett are measured at fair value through profit or loss. The effects of changes in fair value are recognised as Other (losses)/gains – net in the income statement. El-certificate holdings are classified as cash and cash equivalents and forward contracts are classified as financial assets or financial liabilities in the balance sheet. The cancellation liability with Statnett is recognised under Other current liabilities.

### 2.11 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first-in, first-out (FIFO) method.

### 2.12 Trade receivables

Trade receivables are initially recognised at fair value. Trade receivables are subsequently recognised at amortised cost using the effective interest method less provision for any bad debts.

### 2.13 Cash and cash equivalents

Cash and cash equivalents include cash in hand, bank deposits, el-certificate holdings, and other short-term, highly liquid investments with original maturities of three months or less

### 2.14 Share capital and share premium account

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are reported in equity as a deduction from the proceeds. Where any Group company purchases the company's equity share capital (treasury shares), the consideration paid, including any transaction costs, net of taxes, is deducted from equity attributable to the parent company's equity holders until the shares are cancelled or reissued. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable transaction costs and the related tax effects, is included in equity attributable to the parent company's equity holders.

### 2.15 Trade payables

Trade payables are valued at fair value on first-time recognition in the balance sheet. Subsequently trade payables are recognised at amortised cost calculated using the effective interest rate method.

### 2.16 Borrowings

Borrowings are measured, managed and followed up based on their fair value in accordance with internal risk management procedures, and changes in fair value are communicated in internal management reporting. Until 31 December 2009 these borrowings were recognised at fair value through profit or loss in accordance with the Fair Value Option (FVO), and will continue to be recognised in the same way until they are redeemed. These borrowings were recognised at fair value at the time of issue, and the transactions costs were expensed immediately. In the case of borrowings taken out after 1 January 2010 Hafslund has opted not to apply FVO and recognises these borrowings at amortised cost. Borrowings are initially recognised at fair value. Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

## Note 2

### 2.17 Tax

The tax expense comprises taxes payable and changes in deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In such cases the tax is also recognised in other comprehensive income or directly in equity, respectively. The current tax charge is calculated on the basis of tax rates, legislation are rules enacted at the balance sheet date. Management evaluates the tax positions on an ongoing basis, taking into account situations where the applicable tax legislation is subject to interpretation. Provisions are recognised for expected tax payments based on management assessments where such is deemed necessary. Deferred tax is calculated on all temporary differences between the tax-written-down and consolidated financial values of assets and liabilities. Deferred tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary tax-reducing differences can be utilised.

Deferred tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax payable.

### Taxation of power production business

Power production business is subject to special rules governing taxation of power companies. In addition to general income tax and property tax, power production is subject to natural resource tax and resource rent tax.

Natural resource tax is a profit-independent tax that is calculated on the basis of individual power plants' average power production over the last seven years. The tax rate is established as NOK 0.013 per kWh. Any amount of natural resource tax can be set off against general income tax, while non-settled natural resource tax is classified as an interest-bearing receivable.

Resource rent tax comprises 31 percent (will increase to 33 percent in 2016) of the power station's normalised result in excess of a calculated tax-free allowance. Negative resource rent income can be carried forward against subsequent positive resource rent income including interest. Negative resource rent income is included in the basis used to calculate deferred tax liabilities and assets connected to resource rent taxation together with deferred tax assets/liabilities relating to temporary differences connected to operating assets used in power production.

Power production business is also subject to property tax and comprises up to 0.7 percent of the official property valuation. General income tax and resource rent tax are recognised as ordinary taxes. Property tax is recognised as an operating expense in the income statement.

### 2.18 Pension liabilities, bonus schemes and other employee remuneration schemes

#### a) Pension liabilities

The Group's companies operate various pension plans. Hafslund has both defined benefit and defined contribution plans.

#### Defined benefit plan

A defined benefit plan is a pension plan that defines the pension benefit that an employee will receive on retirement, and which is financed through payments to insurance companies or pension funds. The pension benefit is usually dependent on one or more factors such as age, years of service and compensation.

The accounting liability for the defined benefit plans is the present value of the liability at the balance sheet date, less the fair value of the pension assets. The gross liability is calculated by an independent actuary applying the unit credit method. The gross liability is discounted to present value applying the interest rate on bonds issued by a company with a high credit rating (covered bonds rate) in the same currency in which the benefits will be paid, and with a term that is approximately the same as the term of the related pension liability.

Hafslund believes that it is appropriate to use the covered bonds rate as the discount rate due to the fact that there is a deep and liquid market for these types of bonds. The Norwegian market has become more advanced following the financial crisis and has a high credit-rating, which also indicates that the bonds have a high credit-worthiness. The alternative to applying the covered bond interest rate would be to apply the government bond rate. See [Note 18](#) for calculations of and sensitivity to changes in the discount rate.

## Note 2

Gains and losses arising on the recalculation of the liability due to pension deviations and changes in actuarial assumptions are recognised in equity via other comprehensive income in the period in which they arise. The effects of changes in benefits under the plan are immediately recognised in income.

### Defined contribution plan

A defined contribution plan is a pension plan where the Group pays a fixed contribution to a separate legal entity. The Group has no legal or other obligation to pay further contributions should the entity have insufficient funds to pay all employees their benefits in line with their entitlements for the current and for previous periods. The contributions are recognised as an employee benefit expense when they are due.

### b) Bonus schemes

The Group recognises a liability and an expense for bonuses and profit-sharing, based on a formula that takes into consideration both the profit attributable to the parent company's shareholders and a number of adjustments. The Group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

The Group recognises a liability and an expense on allocation of treasury shares to employees. Expenses are recognised on a straight-line basis over the vesting period and presented as employee benefits. The value is measured as the shares' market value at the time of allocation. When the expenses are recognised, a corresponding increase is recognised in other paid-in equity.

### c) Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date,

or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after the end of the reporting period are discounted to their present value.

### 2.19 Provisions

The Group recognises provisions for any obligation as a result of past events, where it is probable that an outflow of resources will be required to settle the obligation and the size of the liability can be reliably estimated. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small. Provisions are measured at the net present value of expected payments to satisfy the liability. A pre-tax discount rate that reflects the current market situation and risk specific to the obligation is applied. The increase in the obligation due to passage of time is recognised as a financial expense.

### 2.20 Revenue recognition

#### a) Revenue recognition – general

Revenues from the sale of goods and services are recognised as they accrue. Revenues from the sale of goods primarily accrue once risk and control relating pertaining to the goods have been transferred to the purchaser. Revenues comprise the fair value of the consideration received or receivable for the sale of goods and services less any

deductions for Value Added Tax or discounts. Intragroup sales are eliminated.

#### b) Sales of power and district heating

Sales of power are recognised in the income statement at the time of delivery to the customer. Realised revenues from physical and financial trading in power contracts are recognised as sales revenues. Sales of district heating are recognised in the income statement in accordance with the customer's estimated consumption of district heating. District heating revenues are calculated by multiplying the energy delivered to the customers by the district heating tariffs.

#### c) Grid rental

#### 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

Actual income for a network company comprises the tariffs, power output and actually transmitted energy volumes at any one time in the network company's supply area. In accordance with IFRSs, income is recognised in the Networks business based on actual income for the year,

## Note 2

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/shortfalls

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 end of 2015 Networks had accumulated surplus income of NOK 873 million (NOK 720 million), an increase of around 21 percent since the end of 2014. The reason for the increase in 2015 was that actual income exceeded permitted income, and a desire to facilitate as stable as possible networks tariffs for customers. Accumulated surplus income is expected to be significantly lower in 2016 due to positive non-recurring compensation following the consolidation of the Networks business in Østfold in 2014. The compensation is called harmonisation income, and is non-recurring compensation issued by NVE to offset the fact that NVE is reducing the future income ceiling for the merged company.

### d) Dividend income

Dividend income is recognised when the right to receive payment is established.

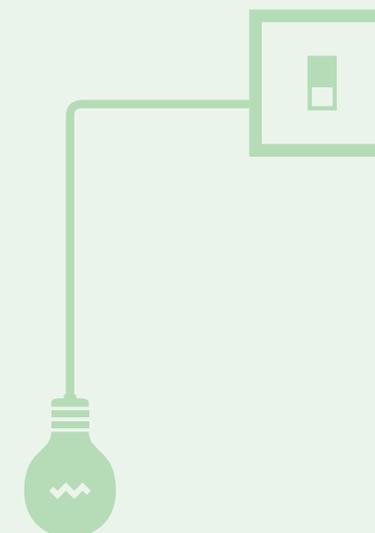
### 2.21 Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are recognised in the income statement on a straight-line basis over the period of the lease.

Leases of property, plant and equipment where the Group bears substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments. Each lease payment is allocated between the liability and financial expenses in order to achieve a constant periodic interest rate on the outstanding balance. The corresponding lease liability (less financial expenses) is included in other long-term liabilities. The interest element in the financing cost is expensed over the lease term so as to achieve a constant periodic interest rate on the outstanding balance each period. Property, plant and equipment recognised as finance leases is amortised over the shorter of the asset's useful life and the lease term.

### 2.22 Dividends

Dividend distribution to the parent company's shareholders is recognised as a liability from the time the dividends are approved by the company's shareholders.



## Note 3

### NOTE 3 ► FINANCIAL RISK MANAGEMENT

The aim of Hafslund's risk management is to identify risks and opportunities facing the Group, and manage these in the best possible way within the Group's risk appetite with the aim of achieving its subsidiaries' and the Group's objectives. This is best achieved through a proactive approach to risk and a comprehensive risk management model. Risk management should be an integral part of all major decision-making processes in the Group.

Risk management frameworks and instructions comply with the Board-approved policies and related risk mandates. Risk management is generally a key responsibility of each business unit's operational management. The Group's activities expose it to a variety of risks. Hafslund is exposed to inherent financial risk associated with the power market, as well as to foreign exchange risk, interest rate risk, liquidity risk, and credit risk. The Group uses financial derivatives to hedge certain financial risk exposures. Financial risks that share common features across business areas are largely centralised for optimal management of risk.

#### a) Power price and volume risk

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 generation facilities and power sales to customers. The Heat business area is also exposed to risk associated with district heating activities in that prices are based on customers' alternative (electrical) heating costs. The same applies to the waste-to-energy plants in Sarpsborg and Fredrikstad, where price mechanisms contained in sales contracts mean that revenues are to a lesser or greater extent dependent on the power price. Hafslund also actively

takes up contract positions in the power market through the activities of the Group's power trading unit. The Group's power trading unit conducts all trading in the market. In the case of power sales activities, risk management is directed at minimising margin fluctuations.

Power price fluctuations, together with other factors (primarily weather conditions) that affect production volumes, are thus of significant importance for the profitability of Hafslund's Production and Heat businesses. Hafslund hedges some of its hydropower production volume, as well as enters into hedging contracts in the Heat business area on an ongoing basis to reduce power price risk. In line with the Group's hedging policy, the extent of hedging is expected to be significantly higher in the upcoming six months than in the ensuing period. The extent of hedging may vary significantly, based on an overall assessment of market prices and outlook; the purpose is achieving satisfactory prices and reducing fluctuations in Hafslund's earnings. Hedging is regulated by a risk mandate adopted by the Board of Hafslund ASA. Exposure should be kept within the limits set by the Board and monitored by the Group's risk management function and through reporting to management and the Board of Hafslund ASA.

Hafslund uses Value at Risk as one of its operational risk management targets for the power price risk. Value at Risk (VaR) describes the maximum loss that could be expected for a power portfolio during a given period for a given confidence level. Exposure reports are distributed daily to the Group's management, among others, and a summary of the reports is included in the Group's monthly management reporting. At the reporting date the Hafslund Group's overall portfolio had a daily VaR within a 95 percent confidence interval of NOK 153 million before tax based on open exposure over a time horizon of 10 years. Most of the risk

is attributable to the open exposure in the business areas Production and Heat. Standardised power market derivative products, such as futures, forwards, CFDs and options, are used to achieve the desired risk-reducing effect in respect of power portfolios. Hedging instruments are mainly traded at and cleared with the Nordic Power Exchange, Nasdaq OMX Commodities.

#### b) Foreign exchange risk

Subsidiaries abroad make deposits or withdrawals in their country's currencies (SEK or EUR) in the Group's cash pool. The balance denominated in foreign currency is monitored at Group level. The overall exposure to foreign exchange fluctuations in foreign subsidiaries is largely netted off against Norwegian Group companies' withdrawals and deposits denominated in foreign currency in the Group's cash pool.

Hafslund has no liabilities denominated in foreign currency. However, some of the Group's businesses conduct transactions that are exposed to currency fluctuations. Currently this applies in particular to EUR- and SEK-denominated trades in power and power derivatives.

The Group's 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. Forward exchange contracts are primarily used to reduce foreign exchange risk. Some currency derivatives are recognised in accordance with requirements for hedge accounting in IAS 39 and others at fair value through profit or loss on an ongoing basis. All derivative contracts are entered into for hedging purposes.

## Note 3

All other factors remaining unchanged, a 10 percent change in the EUR/NOK and SEK/NOK rates would have an effect on post-tax profits of +/- NOK 10 million due to changes in the value of Hafslund's portfolio of currency derivatives as of 31 December 2015 (+/- NOK 17 million).

EUR- and SEK-denominated derivative contracts are primarily entered into to secure future currency positions associated with power derivatives which the power sales business holds for hedging purposes, as well as to reduce the foreign exchange risk associated with future EUR cash flows from sales of power production and income from heat production.

### c) Interest rate risk

The permitted yield in the Networks business is based to a certain degree on a percentage of the annual average five-year swap interest rate plus an average credit mark-up for bonds with a five-year term issued by power companies with good creditworthiness. In addition, the network rental is also included in the calculation of Heat's revenues. In addition, resource rent tax for hydropower production is exposed to interest on government bills of exchange through the tax-free allowance. The Group is exposed to interest rate through its interest-bearing liabilities.

The company's cash flow will be affected by interest rate fluctuations on variable-interest loans. The fair value of the company's borrowings taken out before 31 December 2009 will be affected by changes in interest rates, including changes in credit spreads. During 2015 the change in credit spreads, viewed in isolation, reduced the fair value of the loan portfolio by NOK 47 million (increase of NOK 17 million). Credit spreads are affected by terms, liquidity, company and market risk.

Hafslund's loan portfolio comprises a mixture of fixed-interest and variable-interest loans. Interest rate derivatives are used to reduce fluctuations in cash flow associated with financial expenses. The Group endeavours to reduce interest rate risk by correlating the interest rate exposure in connection with Networks, Heat and Production with interest on borrowings. The Board has amended and approved new guidelines and frameworks which govern the management of financial risk from 2016.

In a simulation test of sensitivity to major interest rate fluctuations, the portfolio of loans and interest rate derivatives as of 31 December 2015 was tested against a change of +/- 1.5 percent across the entire yield curve. Based on historical data, there is approximately 90 percent certainty that interest rate fluctuations will not exceed this spread during any

one year. An increase/decrease in interest rates of 1.5 percent would result in a respective increase/decrease in direct borrowing expenses (adjusted for the tax effect) of NOK 43 million (2014: (-/+ NOK 38 million). A 1.5 percent decrease/increase in interest rates would respectively increase/decrease the portfolio of loans measured at fair value and interest derivatives, and financial expenses, (adjusted for the tax effect) by around NOK 52 million +/- NOK 87 million.

### d) Liquidity risk

Liquidity risk arises to the extent that cash flows from the business do not correspond with financial obligations. The cash flow from the business areas will vary according to a number of factors including market price levels. Accordingly the Group has established long-term, committed drawdown facilities in order to secure availability of liquidity, including in periods when it may be difficult to obtain financing in the markets. Unused drawdown facilities as of 31 December 2015 totalled NOK 3.8 billion (NOK 3.8 billion). See [Note 16](#).

### Maturity profile for borrowings:

NOK million	0–6 months	6–12 months	1–3 years	3–5 years	>5 years	Total
2015	(1,049)	(1,449)	(3,929)	(2,681)	(2,860)	<b>(11,967)</b>
2014	(2,251)	(799)	(3,860)	(3,538)	(2,596)	<b>(13,044)</b>

## Note 3

### e) Credit risk

Most Group debtors are private individuals and businesses who purchase electricity or district heating. Hafslund has the largest credit exposure to corporate customers related to physical delivery and financial settlement with government customers. Procedures have been established for the creation, detection, management and monitoring of credit risk exposure to corporate customers. There is nevertheless no significant concentration of credit risk. Monitoring and collection of receivables are centralized in a separate unit within the group (Hafslund Tellier). Counterparty risk relating to power trading activities is minimized through extensive clears contracts via Nasdaq OMX Commodities and included bilateral agreements with municipal and state companies.

The majority of overdue trade receivables as of 31 December 2015 relate to the Markets business area, and primarily to trade receivables with private electricity customers. A provision of NOK 40 million has been recognised to cover potential losses on these receivables (NOK 38 million). Trade receivables that were unpaid within 30 days of invoicing amounted to NOK 100 million (NOK 127 million) for Markets.

The ageing profile (number of days) of trade receivables as of 31 December was as follows:

NOK million	Not yet due	30–60 days	60–90 days	90–120 days	>120 days	Total
2015	680	58	14	10	60	<b>822</b>
2014	678	64	15	9	90	<b>856</b>

### Maturity profile for financial items:

#### 2015

NOK million	0–6 months	6–12 months	1–3 years	3–5 years	>5 years	Total
Interest rate derivatives			(6)	4	(22)	(24)
Foreign exchange derivatives	(11)	(7)	(11)	(1)	(9)	(39)
Power derivatives	79	46	(16)	(3)		105
EI-certificate derivatives	30		(1)	(1)		29
Trade payables	457	4	1	11		472
<b>Net financial items</b>	<b>555</b>	<b>43</b>	<b>(33)</b>	<b>10</b>	<b>(31)</b>	<b>545</b>

#### 2014

NOK million	0–6 months	6–12 months	1–3 years	3–5 years	>5 years	Total
Interest rate derivatives			(44)	52	(66)	(58)
Foreign exchange derivatives	(12)	(8)				(20)
Power derivatives	18	7	1			25
EI-certificate derivatives	(8)		1			(7)
Trade payables	(528)					(528)
<b>Net financial items</b>	<b>(531)</b>	<b>(1)</b>	<b>(43)</b>	<b>52</b>	<b>(66)</b>	<b>(587)</b>

## Note 3

### Capital management

The Group's capital management shall secure the Group financial room to manoeuvre in the short and long term. The aim is to have a financial structure that ensures good long-term creditworthiness and a good return to the shareholders through equity and cash flow.

The available liquidity shall cover the maturing loans for the coming 12 months and a certain reserve beyond this at all times. In addition to cash and cash equivalents, the Group's liquidity reserve consists of an unused long-term drawdown facility. Hafslund primarily uses banks and the bond market as borrowing sources. Hafslund has long-term financing that ensures financial room to manoeuvre even when it is difficult to gain financing in the markets. At the end of 2015 the Group had unused credit facilities deemed sufficient to cover the Group's refinancing requirements over the next 12 months. External borrowing has been centralised at parent company level, and the capital needs of subsidiaries are normally covered through internal loans, primarily through corporate cash pooling systems, in combination with equity. The capital structure in the subsidiaries is adapted to commercial considerations, as well as legal and tax-related considerations.

Hafslund does not have an official credit rating, but the quantitative and qualitative factors that affect the Group's creditworthiness are monitored actively. The Group aims to maintain its unofficial credit rating of BBB+ from the major Norwegian banks. Hafslund monitors its capital management by following the development of its equity ratio, net interest-bearing liabilities and cash flow from operations. The Group's capital consists of net interest-bearing liabilities and equity:

NOK million	2015	2014
Total interest-bearing liabilities	10,486	11,360
Total interest-bearing receivables	841	786
<b>Net interest-bearing liabilities</b>	<b>9,645</b>	<b>10,574</b>
Equity	9,013	7,877
Equity ratio %	34%	30%
Unused credit lines	3,800	3,800

### Fair value estimates

#### Financial instruments

The table below shows financial instruments at fair value based on the valuation method. The different levels are defined as follows:

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.

The following table presents the Group's assets and liabilities measured at fair value as at:

2015	Level 1	Level 2	Level 3	Total
NOK million				
El-certificate derivatives	31			31
Foreign exchange derivatives		1		1
Power derivatives		339	8	347
<b>Total financial assets at fair value through profit or loss</b>	<b>31</b>	<b>340</b>	<b>8</b>	<b>379</b>
Borrowings		3,114		3,114
El-certificate derivatives	2			2
Power derivatives	377	29		406
Interest rate derivatives		23		23
<b>Financial liabilities at fair value through profit or loss</b>	<b>379</b>	<b>3,166</b>		<b>3,545</b>

## Note 3

### 2014

NOK million	Level 1	Level 2	Level 3	Total
Foreign exchange derivatives		6		6
Power derivatives		114	8	122
<b>Total financial assets at fair value through profit or loss</b>		<b>120</b>	<b>8</b>	<b>128</b>
Borrowings		3,959		3,959
El-certificate derivatives	4			4
Power derivatives	126	11		137
Interest rate derivatives		58		58
<b>Financial liabilities at fair value through profit or loss</b>	<b>130</b>	<b>4,028</b>		<b>4,158</b>

There were no transfers between the respective levels during the year. The general principles concerning level-allocation primarily depend on whether the asset or liability is listed or not, and whether the listing can be deemed to be in an active market. On any change between the levels the basic rule is that values at the end of the reporting date are used.

#### a) Financial instruments at level 1

The fair value of financial instruments that are traded in active markets is the market price at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, broker, industry group, pricing service, or regulatory agency, and these prices represent actual and regularly occurring market transactions on an arm's length basis. The market price used for financial assets is the current bid price. The same applies to power derivatives traded on the Nordic power exchange Nasdaq OMX Commodities that are valued based on the current prices on Nasdaq OMX Commodities at the balance sheet date.

#### b) Financial instruments at level 2

The fair value of financial instruments that are not traded in an active market is determined by means of various valuation methods. These valuation methods maximise the use of

observable data where available and are based to the least possible extent on the Group's own estimates. If all the significant data inputs that are required to determine the fair value of an instrument are observable data, then the instrument will be included at level 2.

#### Borrowings

Borrowings that are valued at fair value are measured by discounting the borrowings' cash flows. The discount rate applied is the yield curve for the Norwegian swap interest rate, adjusted upwards for Hafslund's credit spreads.

#### Interest rate, foreign exchange and power derivatives

The fair value of interest rate swap agreements is calculated as the present value of estimated, future cash flows, based on effective swap rates at the balance sheet date. The fair value of foreign exchange contracts is calculated by using effective rates in the forward market at the balance sheet date. The fair value of currency options is calculated by applying option pricing models based on the listed rates in the forward market at the balance sheet date. The value of power derivatives traded outside an exchange is estimated as the present value of future cash flows, based on forward prices from Nasdaq OMX Commodities at the balance sheet date. In the case of material long-term contracts, the cash flows are discounted.

#### c) Financial instruments at level 3

Asian options are valued by means of the underlying Nasdaq prices and the expected future volatility, as well as an estimated mark-up. The change in level 3 relates to unrealised changes in Asiatic options.

#### Movements at level 3:

NOK million	2015
Financial assets:	
Book value as of 1 January	8
Unrealised change in value Asiatic options	
<b>Book value as of 31 December</b>	<b>8</b>

## Note 3

### Net presentation of financial assets and liabilities

The following financial assets and liabilities are recognised Net:

2015

NOK million	Gross financial assets	Amounts not presented on a net basis in the balance sheet			Net
		Net financial assets in the balance sheet	Net financial assets in the balance sheet	Financial instruments	
El-certificate derivatives	34	(3)	31		31
Foreign exchange derivatives	59	(58)	1		1
Power derivatives	446	(63)	383	(37)	346
Hedging derivatives	166	(43)	123		123
<b>Total financial assets</b>	<b>704</b>	<b>(166)</b>	<b>538</b>	<b>(37)</b>	<b>501</b>

2014

NOK million	Gross financial assets	Amounts not presented on a net basis in the balance sheet			Net
		Net financial assets in the balance sheet	Net financial assets in the balance sheet	Financial instruments	
El-certificate derivatives	2	(5)	(3)		(3)
Foreign exchange derivatives	22	(15)	7		7
Power derivatives	165	(41)	124		124
Hedging derivatives	39	(27)	12		12
<b>Total financial assets</b>	<b>228</b>	<b>(88)</b>	<b>140</b>		<b>140</b>

2015

NOK million	Gross financial liabilities	Amounts not presented on a net basis in the balance sheet			Net
		Financial assets recognised on a net basis	Net financial liabilities in the balance sheet	Financial instruments	
El-certificate derivatives		(2)	(2)		(2)
Power derivatives	12	(388)	(377)	(29)	(405)
Interest rate derivatives	49	(73)	(24)		(24)
<b>Total financial liabilities</b>	<b>61</b>	<b>(463)</b>	<b>(403)</b>	<b>(29)</b>	<b>(431)</b>

2014

NOK million	Gross financial liabilities	Amounts not presented on a net basis in the balance sheet			Net
		Financial assets recognised on a net basis	Net financial liabilities in the balance sheet	Financial instruments	
El-certificate derivatives	4		4		4
Power derivatives	143	(6)	137	(10)	127
Interest rate derivatives	116	(58)	58		58
<b>Total financial liabilities</b>	<b>263</b>	<b>(64)</b>	<b>199</b>	<b>(10)</b>	<b>189</b>

## Note 4

### NOTE 4 ▶ ACCOUNTING ESTIMATES AND JUDGEMENTS

Hafslund prepares estimates and makes assumptions/presumptions with regard to the future. By definition, the accounting estimates that are made as a result of the above processes will rarely fully correspond with the final outcome. Estimates and assumptions are reviewed on an ongoing basis and are based on past experience and a number of other factors, including expectations of future events that are regarded as likely. Any deviations between estimates and fair values are recognised in the period in which these become known where such deviations relate to this period. If the deviations relate to both the current and future periods, the deviation is recognised over the various periods affected. Estimates and assumptions that may have a material effect on the balance sheet value of assets or liabilities in the coming financial year are discussed below:

#### Sale and distribution of electricity and heat

For a large proportion of the Group's electricity, heat and networks customers, final settlement of sales and distribution of power and heat is made after the Group has finalised its annual financial statements. The above revenues are estimated based on the power volumes that have been physically delivered during the period. The physically delivered volume is apportioned in accordance with consumption forecasts for each customer group and price plan. Some uncertainty attaches to the volume apportioned to the various price segments. Accrued revenues recognised in the balance sheet at the end of 2015 amounted to NOK 1,380 million. Total revenues from the sale and distribution of electricity and heat amounted to NOK 10,414 million in 2015.

#### Estimated impairments of goodwill and property, plant and equipment

The value of assets recognised in the balance sheet will to a large extent be based on judgements and estimates. This applies in particular in the case of assets which are essentially not depreciated or amortised. In the Hafslund Group, such assets will primarily be goodwill and waterfall rights with indefinite useful lives. Hafslund performs annual tests to assess impairment of goodwill and property, plant and equipment, cf. [Note 2.7](#). The recoverable amount from cash-generating units is established using calculations of value in use. These calculations require the use of estimates. See [Note 8](#) for a description of implemented impairment tests.

#### Fair-value borrowings

Borrowings that are valued at fair value are measured by discounting the borrowings' cash flows. The discount rate applied is the Norwegian swap interest rate, adjusted upwards for Hafslund's credit spreads. Viewed in isolation, the change in credit spreads during 2015 increased the loan portfolio's fair value by NOK 47 million. See [Note 16 Borrowings](#)

#### Pensions

The present value of pension liabilities depends on several different factors that are determined by a number of actuarial assumptions. The assumptions employed for the calculation of the net pension expense (income) include a discount rate. Changes in these assumptions will affect the balance sheet value of pension liabilities. Hafslund determines the applicable discount rate at the start of each financial year. This is the rate that must be used to calculate the present value of future estimated outgoing cash flows that will be required to settle pension liabilities. When setting this discount rate, Hafslund takes into account interest

rates on high quality corporate bonds that will mature at approximately the same time as the relevant pension liability, see also [Note 2.18](#) and [Note 18](#). A number of other pension-related assumptions are partly based on market conditions. Were the discount rate applied to differ by 0.5 percent, gross pension liabilities would change by an estimated 7–8 percent.



## Note 5

### NOTE 5 ▶ SEGMENT INFORMATION

Group management is the Group's chief operating decision-maker. Hafslund reports business areas as operating segments.

In recent years the company has adopted a sharper focus on renewable energy from hydro-power and heating, together with further development of infrastructure for energy and Nordic growth within power sales. Hafslund's business is organised into the Production, Heat, Networks and Markets business areas. The result from associates are presented in the area "Other business". In accordance with Hafslund's strategic focus on its core business, a minor organisational change was implemented at the start of 2015. The Group's two waste-to-energy plants in Østfold were transferred from Heat to Other business at the start of 2015. The comparative figures for 2014 have been amended accordingly.

Group management evaluates the performance and profitability of the operating segments based on operating results and return on capital employed. The operating result in the segment information is the same as that presented in the consolidated income statement. Finance costs are also allocated to the segments, but not interest income, since this is an activity that is controlled by the central finance department as part of the Group's overall liquidity situation. Intersegmental sales are made in accordance with the arm's length principle.

	Production		Heat		Networks		Markets		Other business		Eliminations		Group	
	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014
NOK million														
Gross segment sales	703	871	977	952	4,361	4,147	5,902	6,416	610	512	(647)	(503)	11,905	12,396
Intersegmental sales	19	16	7		66	56	229	225	326	206	(647)	(503)		
<b>Sales revenues</b>	<b>684</b>	<b>856</b>	<b>969</b>	<b>952</b>	<b>4,294</b>	<b>4,091</b>	<b>5,673</b>	<b>6,191</b>	<b>284</b>	<b>306</b>			<b>11,905</b>	<b>12,396</b>
Operating profit/loss	382	552	231	70	822	757	441	403	98	(31)			1,973	1,749
Financial expenses	(50)	(68)	(35)	(53)	(63)	(77)	41	21	(181)	(376)			(288)	(552)
Tax expense	(146)	(263)	(18)	5	(129)	96	(131)	(119)	22	86			(402)	(194)
<b>Profit/loss for the year</b>	<b>186</b>	<b>220</b>	<b>179</b>	<b>22</b>	<b>629</b>	<b>776</b>	<b>351</b>	<b>305</b>	<b>(61)</b>	<b>(321)</b>			<b>1,284</b>	<b>1,003</b>
Depreciation of operating assets	(46)	(47)	(152)	(147)	(566)	(557)	(28)	(30)	(65)	(66)			(857)	(846)
Impairment of operating assets				(61)						(66)				(127)
Amortisation of intangible assets							(55)	(52)	(9)				(63)	(52)
Impairment of intangible assets									(27)	(21)			(27)	(21)
Losses on receivables					(23)	(40)	26						3	(40)
<b>Capital employed</b>	<b>4,381</b>	<b>4,383</b>	<b>4,709</b>	<b>4,835</b>	<b>11,116</b>	<b>10,537</b>	<b>1,542</b>	<b>1,606</b>	<b>607</b>	<b>514</b>			<b>22,355</b>	<b>21,875</b>
Investments (excluding acquisitions)	158	26	112	85	926	674	65	65	37	51			1,298	901

See also [analytical information](#) for other key figures for the segments.

## Note 5

### Reconciliation of capital employed and equity:

NOK million	31 Dec 2015	31 Dec 2014
Capital employed	22,355	21,875
Tax payable	(340)	(340)
Deferred tax liability	(3,251)	(3,080)
Borrowings	(10,858)	(11,904)
Cash and cash equivalents	724	742
Interest-bearing receivables	10	41
Other	373	543
<b>Equity</b>	<b>9,013</b>	<b>7,877</b>

### Income analysed by category:

NOK million	2015	2014
Power sales	5,277	5,853
Power production	645	805
District heating sales	1,072	1,000
Distribution	4,066	3,773
Other revenues	846	965
<b>Total</b>	<b>11,905</b>	<b>12,396</b>

The majority of revenue derives from energy customers located in and around Oslo, Akershus and Østfold, where a significant number of Hafslund's assets are located. Revenue from the Group's power sales companies in Sweden and Finland amounted to NOK 1,209 million, while capital employed in the non-Norwegian companies totalled NOK 399 million.

## Note 6

### NOTE 6 ► PROPERTY, PLANT AND EQUIPMENT

NOK million	Technical equipment and chattels	Power-generating facilities	Heating facilities	Networks	Facilities under construction	Other property	Total
<b>Book value as of 31 December 2013</b>	<b>526</b>	<b>3,987</b>	<b>4,384</b>	<b>8,199</b>	<b>1,031</b>	<b>124</b>	<b>18,251</b>
<b>2014 accounting year</b>							
Book value as of 1 January 2014	526	3,987	4,384	8,199	1,031	124	18,251
Investments in operations	15	17	23		768	7	830
Company acquisition	6			922	54		982
Capitalised borrowing costs					13		13
Transferred from facilities under construction	95	73	281	648	(1,097)		
Disposals (cost)	(140)		(32)	(29)	(28)	(23)	(252)
Disposals accumulated depreciation	120		5	27		8	160
Disposals accumulated impairments							
Depreciation 2014	(116)	(46)	(172)	(510)		(2)	(846)
Impairments 2014			(127)				(127)
<b>Book value as of 31 December 2014</b>	<b>506</b>	<b>4,031</b>	<b>4,362</b>	<b>9,257</b>	<b>741</b>	<b>114</b>	<b>19,011</b>
<b>Balance as of 31 December 2014</b>							
Cost	2,038	7,328	5,976	15,723	759	145	31,969
Accumulated depreciation	(1,511)	(3,297)	(1,242)	(6,465)	(18)	(31)	(12,564)
Accumulated impairments	(21)		(372)	(1)			(394)
<b>Book value as of 31 December 2014</b>	<b>506</b>	<b>4,031</b>	<b>4,362</b>	<b>9,257</b>	<b>741</b>	<b>114</b>	<b>19,011</b>

Table continued



## Note 6

NOK million	Technical equipment and chattels	Power-generating facilities	Heating facilities	Networks	Facilities under construction	Other property	Total
<b>2015 accounting year</b>							
Book value as of 1 January 2015	506	4,031	4,362	9,257	741	114	19,011
Investments in operations	29	24	12		1,165		1,230
Company acquisition					2		2
Capitalised borrowing costs					16		16
Transferred from facilities under construction	272	8	67	535	(882)		
Disposals (cost)	(141)		(127)	(48)	(2)	(6)	(324)
Disposals accumulated depreciation	116		48	33			197
Disposals accumulated impairments	21		5	1			27
Depreciation 2015	(131)	(46)	(175)	(502)		(3)	(857)
<b>Book value as of 31 December 2015</b>	<b>672</b>	<b>4,017</b>	<b>4,192</b>	<b>9,276</b>	<b>1,040</b>	<b>105</b>	<b>19,302</b>
<b>Balance as of 31 December 2015</b>							
Cost	2,198	7,360	5,928	16,210	1,058	139	32,893
Accumulated depreciation	(1,526)	(3,343)	(1,369)	(6,934)	(18)	(34)	(13,224)
Accumulated impairments			(367)				(367)
<b>Book value as of 31 December 2015</b>	<b>672</b>	<b>4,017</b>	<b>4,192</b>	<b>9,276</b>	<b>1,040</b>	<b>105</b>	<b>19,302</b>
Capitalisation rate borrowing costs					2.1%		
Amortisation percentage	3–33	2–5	2–10	2–7		0–5	

As of 31 December 2015 Hafslund's total future lease commitments associated with office premises and transformer substations recognised at nominal value amounted to NOK 972 million:

NOK million	
2016	148
2017	151
2018	154
2019	105
2020	105
2021 and later	309
<b>Total lease commitments</b>	<b>972</b>

The leases are operating leases and have varying payment dates, price-regulating clauses, and lease prolongation rights. In 2015 rent amounting to NOK 188 million was recognised in the income statement for leases of office premises and transformer substations.

Hafslund recognised borrowing costs of NOK 16 million for qualifying assets in 2015. The Group's average-weighted interest rate has been applied. Future investment obligations are estimated at NOK 3,860 million. These primarily relate to the delivery of smart meters and obligations relating to expansion of the regional network and Vamma 12. Please refer to [Note 8](#) for details of the performed impairment tests.

## Note 7

### NOTE 7 ► INTANGIBLE ASSETS

NOK million	Customer portfolios	Waterfall rights	Customer purchase orders	Total	Goodwill	Total intangible assets
<b>Book value as of 31 December 2013</b>	<b>19</b>	<b>253</b>	<b>80</b>	<b>352</b>	<b>2,223</b>	<b>2,575</b>
<b>2014 accounting year</b>						
Investments in operations			49	49	9	58
Investments in expansion					357	357
Disposals (cost)					(5)	(5)
Disposals accumulated impairments					5	5
Amortisation	(21)		(31)	(52)		(52)
Impairments					(21)	(21)
Reclassification	119		5	124	(73)	51
Translation differences					2	2
<b>Book value as of 31 December 2014</b>	<b>117</b>	<b>253</b>	<b>103</b>	<b>473</b>	<b>2,497</b>	<b>2,970</b>
<b>Balance as of 31 December 2014</b>						
Cost	209	356	160	725	3,036	3,761
Accumulated amortisation	(92)	(103)	(57)	(252)	(513)	(765)
Accumulated impairments					(26)	(26)
<b>Book value as of 31 December 2014</b>	<b>117</b>	<b>253</b>	<b>103</b>	<b>473</b>	<b>2,497</b>	<b>2,970</b>
<b>2015 accounting year</b>						
Investments in operations			41	41	10	52
Investments in expansion	11			11	11	22
Disposals (cost)					(129)	(129)
Disposals accumulated depreciation					32	32
Disposals accumulated impairments					53	53
Amortisation	(14)		(40)	(54)	(9)	(63)
Impairments					(27)	(27)
Translation differences	8			8	15	23
<b>Book value as of 31 December 2015</b>	<b>122</b>	<b>253</b>	<b>104</b>	<b>479</b>	<b>2,454</b>	<b>2,933</b>
<b>Balance as of 31 December 2015</b>						
Cost	231	356	201	789	2,944	3,732
Accumulated amortisation	(109)	(103)	(97)	(310)	(490)	(800)
<b>Book value as of 31 December 2015</b>	<b>122</b>	<b>253</b>	<b>104</b>	<b>479</b>	<b>2,454</b>	<b>2,933</b>
Amortisation period	10 years		3–5 years			

Please refer to [Note 8](#) for details of the performed impairment tests.

## Note 8

### NOTE 8 ► IMPAIRMENT TESTING

The Hafslund Group holds significant non-current assets, both tangible (property, plant and equipment) and intangible assets. Changes in these assets are presented in [Notes 6](#) and [7](#). Both property, plant and equipment and intangible assets are subject to estimate uncertainty. The valuation and estimated useful life are based on forward-looking information to which a high level of uncertainty attaches. The greatest uncertainty is deemed to attach to intangible assets. The intangible assets do not have any direct "cost price" and the values are derived essentially from the Group's own valuations and are generally recognised in the balance sheet in connection with the Group's acquisition of new business. Residual goodwill is deemed to exist for

such acquisitions. The sum total of all excess values from acquisitions, including goodwill, is deemed to represent the market value (fair value) of the total assets and the allocation to different types of assets is derived from this. Tangible assets (property, plant and equipment) are essentially recognised in the balance sheet at cost, and if they have a limited useful life they are systematically depreciated over their useful life. The disposal value is taken into account. The useful life and disposal value are based on estimates of the future developments.

The book value of intangible assets with an undefined useful life and goodwill is tested annually for impairment. Hafslund constantly monitors any indications of potential impairment. In case of indications of a possible impairment in value,

impairment tests will be performed immediately, and in any case once a year. If the valuation tests indicate that the book values are no longer recoverable, assets are written down to their recoverable amounts. Impairment tests are carried out by identifying and discounting the cash flows linked to the cash-generating units. The recoverable amount of a cash-generating unit is calculated based on the value the asset is expected to generate for the business. Impairment tests carried out in 2015 justified the assets' carrying values.

The table below shows the book values allocated to the individual cash-generating units at the end of 2015:

NOK million					Impairments			
Cash-generating unit	Operating assets	Intangible assets	Goodwill	Total book value	2015	Accumulated	Terminal year	Growth in terminal year
Production	4,151	253	7	4,411			2021	1.7%
Networks	10,396		626	11,022			2046	1.0%
Heat	4,040		556	4,596		61	2031	1.0%
Markets	185	225	1,258	1,669			2021	0.0%
Other business	530		7	537	27	306	2021	1.0%
<b>Group</b>	<b>19,302</b>	<b>479</b>	<b>2,454</b>	<b>22,235</b>	<b>27</b>	<b>367</b>		

## Note 8

### Budget and forecast assumptions

The impairment tests performed in 2015 were based on the budget for 2016 and forecasts for the four following years before the terminal value is established. For Networks and district heating operations, cash flows for a longer period are applied before the terminal value is established. This is due to a gradual change in the profile for el-certificates for district heating operations and the long-term changes in efficiency (DEA) and NVE interest in the revenue ceiling model for the Networks business. Future cash flows are based on a number of assumptions. The current revenue framework model for grid activities is expected to continue until the terminal year. The level and development of power prices are key to the profitability of the business areas Production and Heat. The impairment tests applied the system forward price for power listed on Nasdaq OMX on 30 October 2015. The system price for 2020 was NOK 0.23 per kWh. Normal production is assumed for the power production business (recognised in Production) and the district heating business (recognised in Heat). The assumption of normal power production of 3,100 GWh is based on ten years' hydropower data adjusted for efficiency improvements. Normal production for the district heating business of 1,740 GWh for 2016 is based on average temperatures for the last ten years, adjusted for existing and planned customer connections. Forecasts for power sales activities (recognised in Markets) assume moderate customer growth in Norway and significant customer growth in Sweden/Finland in the period leading up to 2020, and a gross margin (NOK) per customer on a par with 2015.

The discount rate that is used is based on the Group's cost of capital and uses a weighted average required rate of return for equity and loan capital (WACC) for the Group. The required return on equity capital is estimated using the capital asset pricing model (CAPM). The required return on

loan capital is estimated based on the long-term risk-free interest rate plus a credit margin derived from Hafslund's marginal long-term borrowing rate. The discount rate is adjusted for the assumed debt ratio and business risk for the individual cash-generating units. A discount rate before tax for the various cash-generating units has been applied in the interval 5.9 percent to 10.6 percent (6.4 percent to 11.4 percent).

### Sensitivity

The performed sensitivity tests revealed robust values for Production, Heat, Networks and Markets. Estimation of recoverable amounts is based on assumptions regarding future developments in a number of areas with regard to changes in, for example, framework conditions, energy prices, temperatures, economic growth and consumption patterns. Hafslund has carried out sensitivity analyses on the effect of various changes in assumptions on the recoverable amount. The scenarios covered included a 20 percent reduction in power prices, lower energy production, lower customer numbers, lower earnings per customer and an increase of 20 percent in the discount rate. The sensitivity tests revealed robust values for all four of the Group's business areas.

The robustness of the waste-to-energy facility at Sarpsborg Avfallsenergi (recognised in Other business) is low by the end of 2015. All other factors remaining unchanged, a weakening of any of the key assumptions (steam price/power price, waste price or volume) for this facility could necessitate the recognition of an impairment.



## Note 9

### NOTE 9 ▶ INVESTMENTS IN ASSOCIATES

	Year of acquisition	Registered office	Shareholding 31 Dec 2015	Voting rights 31 Dec 2015
Rakkestad Energiverk AS	2001	Rakkestad	33%	33%
Glommens og Laagens Brukseierforening	1903	Lillehammer	22.3%	22.3%
Energy Future Invest AS	2012	Gjøvik	49.5%	49.5%
Fredrikstad Energy AS	2014	Fredrikstad	49%	49%
Trøgstad Energiverk AS	2014	Trøgstad	49%	49%

NOK million	2015	2014
<b>Book value as of 1 January</b>	<b>646</b>	<b>204</b>
Additions/disposals 1)	(325)	389
Share of profit	45	49
Dividends	(63)	(15)
Change in accounting policy 2)	35	19
<b>Book value as of 31 December</b>	<b>338</b>	<b>646</b>
Amortisation of goodwill for the year	1	1
Excess value as of 31 December	9	10
<b>Total comprehensive income attributable to associates</b>	<b>73</b>	<b>49</b>

1) The Hafslund Group purchased Fortum's Networks business in Norway effective 30 May 2014. The agreement covers 100 percent of the shares in the Networks company Fortum Distribution AS, which also owned 49 percent of the shares in Trøgstad Elverk AS, and 100 percent of the shares in the holding company Fortum Power and Heat AS (now Hafslund Handel Øst AS), which in turn owned 49 percent of the shares in Fredrikstad Energi AS (FEAS) and 35 percent of the shares in Fredrikstad Energi Nett AS (FEN). Fortum Distribution AS merged with Hafslund Nett AS in December 2014. Shares in associates are recognised on the same line as other Group associates in accordance with the equity method. See also [Note 25](#) for further information relating to the acquisition.

On 18 December 2015 Hafslund entered into an agreement with FEAS to sell Hafslund's 35 percent shareholding in FEN to the parent company FEAS. Following this transaction, FEAS owns 100 percent of FEN. Hafslund has retained a 49 percent stake in the parent company FEAS. Hafslund's shareholding of 35 percent in FEN was sold at a book value of NOK 315 million. Hafslund will also receive a dividend from FEN for the 2015 accounting year. All the above sales have been included in Other business and the gains have been recognised in the income statement under Net financial items.

2) In 2014 the associate Energy Future Invest AS changed its policy for recognising investments in subsidiaries following the implementation of IFRS 10. Following the change, investments are now recognised at fair value. Hafslund's share of the effect of the policy change was recognised directly in equity in the amount of NOK 19 million in 2014.

## Note 10

Since 31 December 2014 the associates Fredrikstad Energi AS (FEAS) and Fredrikstad Energi Nett AS (FEN) have prepared their financial statements in accordance with International Financial Reporting Standards (IFRSs). The effect on the book value in associates has been recognised directly in Hafslund's equity following the change in accounting policy.



### NOTE 10 ► FINANCIAL INSTRUMENTS BY CATEGORY

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

NOK million	Derivatives used for hedging purposes	Assets at fair value through profit or loss	Loans and receivables	Total
<b>Financial assets</b>				
Long-term receivables			199	199
Derivatives	122	379		501
Trade and other receivables			2,494	2,494
Cash and cash equivalents			724	724
<b>Total financial assets as of 31 December 2015</b>	<b>122</b>	<b>379</b>	<b>3,417</b>	<b>3,918</b>
<b>Financial liabilities</b>				
Current borrowings		661	1,650	2,311
Long-term borrowings		2,608	5,939	8,547
Derivatives		431		431
Trade and other current payables			2,600	2,600
<b>Total financial liabilities as of 31 December 2015</b>		<b>3,700</b>	<b>10,189</b>	<b>13,889</b>

## Note 10

NOK million	Derivatives used for hedging purposes	Liabilities at fair value through profit or loss	Other financial liabilities	Total
<b>Financial assets</b>				
Long-term receivables			64	64
Derivatives	12	128		140
Trade and other receivables			2,435	2,435
Cash and cash equivalents			742	742
<b>Total financial assets as of 31 December 2014</b>	<b>12</b>	<b>128</b>	<b>3,241</b>	<b>3,381</b>
<b>Financial liabilities</b>				
Current borrowings		702	2,155	2,857
Long-term borrowings		3,257	5,790	9,047
Derivatives		199		199
Trade and other current payables			2,395	2,395
<b>Total financial liabilities as of 31 December 2014</b>		<b>4,158</b>	<b>10,339</b>	<b>14,498</b>

Changes in financial assets at fair value through profit or loss are recognised in the income statement as Other (losses)/gains, see [Note 19](#).

Hafslund hedges some of its hydropower production volume, as well as enters into hedging contracts in the district heating operations, for the next 36 months on an ongoing basis to reduce the power price risk. 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. However, at the reporting date, the residual term of the hedged item was less than 24 months.

Derivatives held for trading purposes are classified as current assets or liabilities. The entire fair value of hedging instruments is classified as a current asset or liability. No amount has been recognised for 2015 due to the ineffective portion of the Group's cash flow hedges.

The following derivatives included in the cash flow hedges:

### a) Forward currency contracts

The nominal total of outstanding forward foreign currency contracts as of 31 December 2015 was NOK -40.6 million. The hedged, highly probable transactions denominated in a foreign currency are expected to occur at various dates over the next 24 months. Gains and losses recognised in the hedging reserve in equity on forward foreign exchange contracts as of 31 December 2015 will be recognised in the same period or the same periods in which the hedged transaction affects profit or loss.

### b) Power contracts

The nominal amount of outstanding power contracts as of 31 December 2015 was NOK 162.8 million. The hedged, highly probable transactions denominated in a foreign currency are expected to occur at various dates over the next 24 months. Gains and losses recognised in the hedging reserve in equity on forward foreign exchange contracts as of 31 December 2015 will be recognised in income in the same period or the same periods in which the hedged transaction affects profit or loss.

## Note 11, 12, 13

### NOTE 11 ▶ LONG-TERM RECEIVABLES ETC.

NOK million	31 Dec 2015	31 Dec 2014
Interest-bearing loans and receivables	4	34
Equity contributions to pension funds	116	116
Net pension assets	61	41
Other	19	30
<b>Total long-term receivables etc.</b>	<b>199</b>	<b>221</b>

All long-term receivables mature more than one year from the reporting date. The fair value of long-term receivables corresponds to the book value.

### NOTE 12 ▶ TRADE AND OTHER RECEIVABLES

NOK million	31 Dec 2015	31 Dec 2014
Trade receivables	822	856
Bad debt provision	(53)	(53)
<b>Net trade receivables</b>	<b>769</b>	<b>803</b>
Accrued, non-invoiced income	1,380	1,181
Interest-bearing receivables	6	7
Other receivables	338	444
<b>Total trade and other receivables</b>	<b>2,494</b>	<b>2,435</b>

The fair value of trade and other receivables corresponds to the book value. See also [Note 3](#) for further details.

### NOTE 13 ▶ CASH AND CASH EQUIVALENTS

NOK million	31 Dec 2015	31 Dec 2014
Cash and cash equivalents group account	324	343
Cash and cash equivalents non-group account	128	202
El-certificate holdings	272	197
<b>Total cash and cash equivalents</b>	<b>724</b>	<b>742</b>

Of the Group's non-group-account bank deposits, NOK 26 million is pledged as security for power trading activities. Hafslund has a corporate cash pooling system with Nordea. A corporate cash pooling system entails joint and several liability among the participating companies. Hafslund ASA's accounts constitute single, direct accounts for transactions with its banks, while deposits into and withdrawals from subsidiaries' accounts are treated as intercompany balances with Hafslund ASA. Companies participating in the group account schemes have joint and several unconditional liability for total drawdowns on the two group account schemes up to a limit of NOK 200 million, which is the overall limit on bank drawdown facilities.

## Note 14, 15

### NOTE 14 ► SHARE CAPITAL AND SHARE PREMIUM ACCOUNT

As of 31 December Hafslund ASA's share capital comprised the following categories of shares:

NOK million	A shares	B shares	Share capital	Share premium	Paid in equity
Balance as of 31 December 2014	115	80	195	4,080	4,275
<b>Balance as of 31 December 2015</b>	<b>115</b>	<b>80</b>	<b>195</b>	<b>4,080</b>	<b>4,275</b>

The shares have a par value of NOK 1. There are no outstanding share options. The B shares do not confer any voting rights. In all other respects each share grants the same rights in the company. As of 31 December 2015 Hafslund held 263,289 treasury B shares (420,411 B shares) and 1 A share.

Hafslund ASA's ten largest shareholders as of 31 December 2015 comprised the following:

'000 shares	A shares	B shares	Total	Share-holding	Voting rights
City of Oslo	67,525	37,343	104,868	53.7 %	58.5 %
Fortum Forvaltning AS	37,853	28,706	66,559	34.1 %	32.8 %
Kommunal Landspensjonskasse (KLP)	5,327	3,953	9,280	4.8 %	4.6 %
MP Pensjon PK	5	1,929	1,934	1.0 %	
<b>Total &gt; 1% shareholding</b>	<b>110,710</b>	<b>71,931</b>	<b>182,641</b>	<b>93.6 %</b>	<b>95.9 %</b>
Total other	4,718	7,827	12,545	6.4%	4.1%
<b>Total number of shares</b>	<b>115,428</b>	<b>79,758</b>	<b>195,186</b>	<b>100%</b>	<b>100%</b>

The largest shareholders in Hafslund ASA as of 31 December 2014 comprised the following:

'000 shares	A shares	B shares	Total	Share-holding	Voting rights
City of Oslo	67,525	37,343	104,868	53.7%	58.5%
Fortum Forvaltning AS	37,853	28,706	66,559	34.1%	32.8%
Kommunal Landspensjonskasse (KLP)	5,201	2,848	8,049	4.1%	4.5 %
MP Pensjon PK	5	1,979	1,984	1.0 %	
<b>Total &gt; 1% shareholding</b>	<b>110,584</b>	<b>70,876</b>	<b>181,460</b>	<b>92.9%</b>	<b>95.8 %</b>
Total other	4,844	8,882	13,726	7.1 %	4.2 %
<b>Total number of shares</b>	<b>115,428</b>	<b>79,758</b>	<b>195,186</b>	<b>100%</b>	<b>100%</b>

### NOTE 15 ► TRADE AND OTHER CURRENT PAYABLES

NOK million	31 Dec 2015	31 Dec 2014
Trade payables	473	528
Public taxes due	928	804
Accrued costs	670	570
El-certificates obligation	197	165
Other liabilities	332	328
<b>Total trade and other current payables</b>	<b>2,601</b>	<b>2,395</b>

## Note 16

### NOTE 16 ► BORROWINGS

NOK million	31 Dec 2015	31 Dec 2014
Fixed-interest bonds	4,198	4,846
Variable-interest bond loans	1,893	2,943
Other borrowings	2,456	1,258
<b>Total long-term borrowings</b>	<b>8,547</b>	<b>9,047</b>
Fixed-interest bonds	506	302
Floating rate notes	1,350	380
Commercial papers	300	600
Accrued interest	155	190
Other borrowings		1,385
<b>Total current borrowings</b>	<b>2,311</b>	<b>2,857</b>
<b>Total borrowings</b>	<b>10,858</b>	<b>11,904</b>

All borrowings taken out before 1 January 2010 are recognised at fair value, which is calculated by applying a discount factor to the borrowings' cash flows. The fair value includes accrued interest. The discount rate applied is the Norwegian swap interest rate, adjusted upwards for Hafslund's margin spreads.

Since 1 January 2010 new borrowings have been measured at amortised cost, and at the reporting date these amounted to NOK 7,586 million. The fair value of the borrowings measured at amortised cost was estimated at NOK 7,808 million as of 31 December 2015. The nominal amount for the entire loan portfolio as of 31 December 2015 was NOK 10,483 million. The corresponding amount as of 31 December 2014 was NOK 11,356 million.

The following credit spreads have been applied:

Term (years)	31 Dec 2015	31 Dec 2014
0.25	90	30
0.5	90	30
1	105	30
2	115	36
3	127	48
4	132	57
5	137	65
6	144	72
7	150	78
8	154	82
9	158	86
10	163	90

Viewed in isolation, the change in credit spreads during 2015 reduced the loan portfolio's fair value to NOK 47 million. The corresponding change in 2014 was an increase of NOK 17 million.

## Note 16

The Group's borrowings are exposed to market interest rate fluctuations based on the following loan interest maturities.

NOK million	31 Dec 2015	31 Dec 2014
0–6 months	5,697	6,596
6–12 months	805	296
1–3 years	1,911	1,332
More than 3 years	2,445	3,680
<b>Total borrowings</b>	<b>10,858</b>	<b>11,904</b>

Hafslund has entered into a syndicated NOK 3,600 million drawdown facility maturing on 17 June 2018. The lender is a banking syndicate comprising six Nordic banks. The drawdown facility is used as a back-stop for current commercial papers and as a general liquidity reserve. At the end of the year the entire facility remained unused. The Group also has a NOK 200 million overdraft facility with Nordea that was unused at the end of the reporting period.

Hafslund's loan covenants prohibit the pledging of assets as loan security. Some loan agreements also stipulate that significant assets cannot be disposed of without bank approval, while some have an ownership clause requiring more than 50 percent of shares issued by Hafslund ASA to be held by current shareholders, or by shareholders with a credit rating of at least A- from Standard & Poor's or A3 from Moody's, or by shareholders approved by the lending banks.

### Debt maturity profile:

NOK million	31 Dec 2015	31 Dec 2014
0–6 months	950	2,149
6–12 months	1,365	709
1–3 years	3,473	3,370
4–5 years	2,508	3,412
More than 5 years	2,563	2,264
<b>Total borrowings</b>	<b>10,858</b>	<b>11,904</b>

### Movement in borrowings:

NOK million	31 Dec 2015	31 Dec 2014
<b>Total borrowings 1 January</b>	<b>11,904</b>	<b>11,968</b>
New borrowings	1,800	2,225
Matured loans	(2,666)	(1,942)
Buyback of loans	(8)	(406)
Change in accrued interest	(35)	(14)
Change in fair value	(137)	73
<b>Total borrowings as of 31 December</b>	<b>10,858</b>	<b>11,904</b>

## Note 17

### NOTE 17 ► TAX

#### Tax expense:

NOK million	2015	2014
Tax payable	373	126
Deferred tax liability	29	68
<b>Total tax expense</b>	<b>402</b>	<b>194</b>

#### Tax payable in the balance sheet

NOK million	31 Dec 2015	31 Dec 2014
Tax payable	373	126
Repaid tax relating to resolution amendment Hatros		218
Repaid tax, change previous year	(4)	13
Tax payable, acquired company		12
Natural resource tax	(29)	(31)
Translation differences		2
<b>Tax payable in the balance sheet</b>	<b>340</b>	<b>340</b>

The tax on the profit before tax deviates from the amount that would have resulted had the Group's average tax rate for general income been applied. The difference is reconciled below:

NOK million	2015	2014
Profit before tax	1,686	1,197
Tax calculated at nominal tax rate (27%)	(455)	(323)
Resource rent tax	(70)	(131)
Changed in deferred tax liability relating to resource rent tax	10	
Reduced deferred tax liability at changed tax rate from 2016	97	
Repaid tax relating to resolution amendment Hatros		218
Change in deferred tax relating to resolution amendment Hatros		50
Profit from sale or change in value of shares	9	
Change in deferred tax assets not recognised in balance sheet		(29)
Over/underprovision relating to previous years		13
Share of profit of associates	10	13
Permanent differences	(3)	(6)
Other matters		1
<b>Total tax expense</b>	<b>(402)</b>	<b>(194)</b>
Effective tax rate	24 %	16 %

The change in the effective tax rate with regard to general company tax is primarily attributable to the resource rent tax for power production activities, as well as the lower deferred tax liability as of 31 December 2015, as a result of a change in the tax rate from 27 to 25 percent from 2016 in Norway.

## Note 17

### Deferred tax liability

Deferred tax is recognised in the balance sheet at the date the Group assumes a legal right to offset deferred tax assets against deferred tax liabilities.

The following items have been recognised on a net basis:

NOK million	31 Dec 2015	31 Dec 2014
Deferred tax assets that reverse after more than 12 months	65	109
Deferred tax assets that reverse within 12 months	13	117
<b>Total deferred tax assets as of 31 December</b>	<b>78</b>	<b>226</b>
Deferred tax liabilities that reverse after more than 12 months	3,286	3,296
Deferred tax liabilities that reverse within 12 months	43	10
<b>Total deferred tax liabilities</b>	<b>3,329</b>	<b>3,306</b>
<b>Total deferred tax – net as of 31 December</b>	<b>3,251</b>	<b>3,080</b>
<b>Change in recognised deferred tax:</b>		
<b>Book value as of 1 January</b>	<b>3,080</b>	<b>3,098</b>
Recognised in income in the period	29	68
Exits on company disposals	(17)	
Recognised as a result of acquisition		5
Recognised in other comprehensive income in the period	103	(89)
Change in deferred tax liability recognised in equity	54	
Reclassification	2	(2)
<b>Book value as of 31 December</b>	<b>3,251</b>	<b>3,080</b>

### Change in deferred income tax liabilities:

NOK million	Property, plant and equipment/ intangible assets	Current assets	Profit and loss account	Total
<b>Deferred tax liability as of 31 December 2013</b>	<b>3,174</b>	<b>180</b>	<b>42</b>	<b>3,396</b>
Recognised in income in the period	117	(72)	(42)	3
Recognised in other comprehensive income in the period		(6)		(6)
Company acquisition	5			5
Reclassification		(92)		(92)
<b>Deferred tax liability as of 31 December 2014</b>	<b>3,296</b>	<b>10</b>		<b>3,306</b>
Recognised in income in the period	7	(50)		(43)
Recognised in other comprehensive income in the period		27		27
Exits on company disposals	(17)			(17)
Change in deferred tax liability recognised in equity		54		54
Reclassification		2		2
<b>Deferred tax liability as of 31 December 2015</b>	<b>3,286</b>	<b>43</b>		<b>3,329</b>

Deferred tax  
continued



## Note 17, 18

### Change in deferred tax assets:

NOK million	Pensions	Loans and liabilities	Tax loss carryforwards	Profit and loss account	Total
<b>Deferred tax assets as of 31 December 2013</b>	<b>(50)</b>	<b>(214)</b>	<b>(34)</b>		<b>(298)</b>
Recognised in income in the period	30	16	33	(14)	65
Recognised in other comprehensive income in the period	(83)				(83)
Reclassification		90			90
<b>Deferred tax assets as of 31 December 2014</b>	<b>(103)</b>	<b>(108)</b>	<b>(1)</b>	<b>(14)</b>	<b>(226)</b>
Recognised in income in the period	26	45	(1)	2	72
Recognised in other comprehensive income in the period	76				76
Reclassification					0
<b>Deferred tax assets as of 31 December 2015</b>	<b>(1)</b>	<b>(63)</b>	<b>(2)</b>	<b>(12)</b>	<b>(78)</b>

Deferred tax assets are recognised for tax loss carryforwards to the extent that it is probable that the Group will be able to utilise these against future taxable profits. The Group has recognised deferred tax assets relating to tax loss carryforwards in their entirety in the balance sheet.

### NOTE 18 ► PENSION EXPENSES, LIABILITIES AND ASSETS

Group companies operate different pension plans organised through pension funds and insurance companies. The pension plans are generally funded through contributions made by the companies at levels largely determined on the basis of actuarial calculations. The Group operates both defined contribution and defined benefit plans. In accordance with the Norwegian Act on Mandatory Occupational pension plans, effective from 1 July 2006, agreements have been entered into concerning defined contribution plans for all companies that had not previously operated occupational pension plans for their employees. Hafslund reorganised its pension plans with effect from 1 January 2007. As a consequence, the existing pension funds were closed to new members. At the same time, defined contribution plans were introduced for all new employees. Since 1 January 2010 most of the companies have taken out disability pension insurance for employees with defined contribution pensions. As of 31 December 2015 a total of 372 employees were covered by defined benefit plans through Hafslund's two pension funds. The pension funds also paid pensions to 1,218 individuals. In addition to the above, the Group has defined contribution plans with various insurance companies.

Pension assets are valued at fair value at the end of the year. Pension liabilities (net present value of pension benefits accrued at the reporting date adjusted for expected future salary increases) are valued in accordance with best estimates based on assumptions at the reporting date. The actuarial calculations of pension liabilities have been prepared by an independent actuary. The assumptions regarding salary growth, increases in pension payments, and adjustments to the National Insurance Scheme's basic amount (G) are tested against historic observations, established collective agreements, and the relationships between individual assumptions.

Employees who terminate their employment before reaching retirement age receive paid-up policies. Hafslund's pension funds manage these paid-up policies, which are associated with vesting rights in municipal defined benefit plans. Hafslund is financially committed to adjusting these paid-up policies in line with increases in the National Insurance Scheme's basic amount. From the time paid-up policies earned in other defined benefit plans are issued, Hafslund is released from further obligations towards the employee to whom the policy pertains. Assets and liabilities are valued at the time of issue of the paid-up policy and are separated from pension liabilities and assets.

Table next page



## Note 18

NOK million	31 Dec 2015	31 Dec 2014
<b>Liability recognised in the balance sheet:</b>		
Present value of accrued pension liabilities for funded defined benefit plans	2,469	2,789
Fair value of pension assets	(2,591)	(2,548)
<b>Actual net pension liabilities for funded defined benefit plans</b>	<b>(122)</b>	<b>241</b>
Present value of pension liabilities for unfunded plans	119	134
<b>Net pension liabilities in balance sheet (incl. employers' National Insurance contributions)</b>	<b>(3)</b>	<b>375</b>
Net pension liabilities in balance sheet	(58)	(416)
Net pension assets in balance sheet	61	41
<b>Fluctuations in the defined benefit pension liabilities over the year:</b>		
Pension liabilities as of 1 January	2,923	2,408
Employer's National Insurance contributions	5	6
Present value of accrued pension entitlements for the year	38	34
Interest expenses	66	101
Plan changes		(105)
Estimate changes	(297)	388
Benefits paid	(129)	(114)
Liabilities on sale and purchase of businesses	(19)	204
<b>Pension liabilities as of 31 December</b>	<b>2,587</b>	<b>2,923</b>
<b>Change in fair value of pension assets over the year:</b>		
Fair value of pension assets as of 1 January	2,548	2,220
Interest income	58	94
Estimate changes	13	90
Total contributions	91	106
Total payments from fund	(105)	(87)
Pension assets on settlements and acquisitions	(14)	125
<b>Fair value of pension assets as of 31 December</b>	<b>2,591</b>	<b>2,548</b>

## Note 18

The minimum pension liability, which is the net present value of pension liabilities based on the current income from which pension earnings are derived at the balance sheet date, amounted to NOK 2,444 million as of 31 December 2015 and NOK 2,495 million as of 31 December 2014. Expected contributions in 2016 total NOK 108 million.

### Movement in actuarial gains and losses recognised in other comprehensive income:

NOK million	2015	2014
Accumulated amount recognised in other comprehensive income as of 1 January adjusted for deferred tax	231	455
Recognised in other comprehensive income in the period in accordance with the actuarial calculation before tax	310	(298)
Additions/disposals of subsidiaries during the period	(6)	(9)
<b>Accumulated amount recognised in other comprehensive income as of 31 December</b>	<b>535</b>	<b>148</b>
Deferred tax liability relating to actuarial losses recognised in other comprehensive income during the period.	(76)	83
<b>Accumulated amount after tax recognised in other comprehensive income as of 31 December</b>	<b>459</b>	<b>231</b>
<b>The following financial assumptions have been applied:</b>	<b>2015</b>	<b>2014</b>
Discount rate	2.70%	2.30%
Annual salary increase	2.50%	2.50%
Adjustment of National Insurance Scheme's basic amount (G)	2,25%	2.50%
Adjustments to current pensions, public plan	1,50%	1.75%

The discount rate is calculated on the basis of a comprehensive interest rate curve that takes into account that pension payments will mature at different times in the future. The curve is calculated based on prices from the Norwegian Covered Bonds market as of 31 December 2015, as calculated by the Norwegian Accounting Standards Board. The annual salary increase is calculated based on a curve by reference to historical data. The salary increase is set to an average of 2.5 percent over the service period for the population in the pension funds.

Demographic assumptions that form the basis of the calculations are based on the IR73 disability rate table (restated using the intensity method) and the K2013FT mortality rate table drawn up by the Financial Supervisory Authority of Norway. Hafslund considers the Financial Supervisory Authority of Norway's K2013FT to be unbiased and take into account the development of the life expectancy of the Group's employees. The assumptions for K2013FT will be followed up systemically each year. The table is unbiased and dynamic, so that life expectancy is increased every year.

The actual yield on pension assets in 2015 amounted to NOK 69 million (NOK 99 million).

### Total pension expenses:

NOK million	2015	2014
Accrued pension benefits for the year	38	34
Net interest expense	8	5
Plan changes recognised in income statement		(105)
Employer's National Insurance contributions	5	5
Member contributions		(2)
<b>Pension expenses defined benefit plans</b>	<b>51</b>	<b>(64)</b>
<b>Pension expenses defined contribution plans</b>	<b>41</b>	<b>31</b>
<b>Total pension expenses</b>	<b>92</b>	<b>(34)</b>

## Note 18

The sensitivity of pension liabilities to changes in the weighted financial assumptions are as follows:

	Change	Impact on pension liabilities:	
		Increase in assumption	Decrease in assumption
Discount rate	0.5 %	(7 %)	8 %
Salary increase	0.5 %	2 %	(2 %)
National Insurance Scheme's basic amount (G)	0.5 %	6 %	(5 %)
Life expectancy	1 year	3 %	(3 %)

Pension assets are invested in bonds and money-market placements issued by the Norwegian government, Norwegian municipalities, financial institutions and businesses. Foreign currency bonds are hedged. Investments in shares are limited to 37 percent of total pension assets. Investments are made in both Norwegian and foreign shares. Any estimate deviation is distributed pro-rata between the individual asset categories.

Pension assets comprise:

NOK million	31 Dec 2015		31 Dec 2014	
	Value	Percentage	Value	Percentage
Equity instruments	1,176	45%	1,172	46%
Interest-bearing instruments	1,415	55%	1,376	54%
<b>Fair value pension assets</b>	<b>2,591</b>	<b>100%</b>	<b>2,548</b>	<b>100%</b>

As of 31 December 2015 the plan's contributions were invested as follows:

NOK million	Level 1 Exchange-listed prices	Level 2 Observable prices	Level 3 Non-observable prices	Total
Equity instruments		907	285	1,192
Interest-bearing instruments		1,399		1,399
<b>Fair value pension assets</b>		<b>2,306</b>	<b>285</b>	<b>2,591</b>

As of 31 December 2014 the plan's contributions were invested as follows:

NOK million	Level 1 Exchange-listed prices	Level 2 Observable prices	Level 3 Non-observable prices	Total
Equity instruments		892	280	1,172
Interest-bearing instruments		1,376		1,376
<b>Fair value pension assets</b>		<b>2,268</b>	<b>280</b>	<b>2,548</b>

## Note 18

### Risk

The measurement of pension liabilities is based on IAS 19 and on assumptions for discount rates, real wage developments, inflation, age-based career development, adjustment of retirement benefits, development of the National Insurance Scheme's basic amount (G), expected retirement of employees, retirement age and disability. Estimation of the obligation is performed by an independent actuary.

Pension assets are measured at fair value and are invested in Hafslund Offentlige Pensjonskasse, Hafslund Private Pensjonskasse and KLP. From 1 January 2015 Hafslund's two pension funds were merged under the name Hafslund Infratek Pensjonskasse. The pension funds also cover a business that is not part of the Group (Infratek AS). In addition, the pension fund includes paid-up policies. The Group's pension assets are managed as a "collective portfolio", which entails that the Board of the pension funds determine how the pension assets will be invested.

The Group is exposed to several types of risk through its defined benefit pension plans, the most significant of which are as follows:

### Interest rate risk

Pension assets exposure to interest rate risk is deemed to be moderate due to the fact that the market value weighted term is approximately 3 years. The portfolio value of Hafslund's pension funds would fall by around 1.5 percent (around NOK 39 million) in the event of a parallel shift in the interest rate curve (interest rate rise) of + 0.5 percentage points. The value would rise correspondingly in the event of a fall in interest rates.

The pension liabilities are exposed to interest rate risk, due to the fact that the covered bond interest rate is used as the basis for determining the discount rate. Pension liabilities would rise by around NOK 8 million (NOK 207 million) in the event of a parallel shift in the entire yield curve (fall in interest rates) of -0.5 percentage points. The value would decrease by around NOK 7 million (NOK 181 million) in the event of a 0.5 percentage point rise in interest rates. See also the sensitivity table on [page 57](#).

### Credit risk

Pension assets' exposure to credit risk is deemed to be moderate. The credit risk is managed through limits for the largest commitment and rating for individual investments. The majority of the pension funds' fixed-income investments shall be "investment grade".

The pension liabilities are exposed to credit risk, since the covered bond interest rate is used as the basis for determining the discount rate. An increase in the credit mark-up would reduce the pension liability.

### Share price risk

The pension assets are invested in equity instruments and shares in various Norwegian and foreign equity funds. Approximately nine percent of Hafslund Pensjonskasse's equity exposure is to the Norwegian market and the rest to global markets. The remaining exposure relates in the amount of 3 percent to private equity and 21 percent to property funds. The overall equity exposure varied from 25 to 30 percent throughout the year. In total, equity instruments and shares comprised 45 percent of the overall portfolio at the end of 2015. Most of the equity exposure is to the global equity market. The pension fund's equity investments are widely diversified.

### Foreign exchange risk

All the investments in foreign fixed-income funds are hedged. Investments are made in currency-hedged funds. Foreign equity investments are in general not be currency-hedged. At any one time at least 70 percent of the pension assets in Hafslund's pension funds shall be invested in NOK. At the reporting date the pension assets were exposed to foreign exchange risk due to the fact that some funds were invested in foreign equities. The pension liabilities are solely exposed to NOK.

## Note 18, 19

### Liquidity risk

The liquidity risk of the pension assets is considered low, since the current investments exceed the current liabilities at all times. The investments are considered adequately liquid.

### Overview of pension liabilities and the fair value of pension assets related to funded plans:

NOK million	2015	2014	2013	2012
Present value of defined benefit pension liabilities	2,587	2,923	2,408	2,232
Fair value of pension assets	2,591	2,548	2,220	1,950
<b>Surplus/deficit</b>	<b>(3)</b>	<b>375</b>	<b>188</b>	<b>282</b>

### Expected maturity of the pension liabilities defined benefit plans:

NOK million	< 1 year	1–2 years	2–5 years	> 5 years	Total
2015	118	115	425	1,928	2,587
2014	111	111	432	2,269	2,923

### NOTE 19 ► OTHER (LOSSES)/GAINS – NET

NOK million	Notes	2015	2014
<b>Other financial assets and liabilities at fair value through profit or loss</b>			
Other financial income 1)		17	99
<b>Unrealised gains/(losses) on derivatives</b>			
Interest rate derivatives		34	(46)
Foreign exchange derivatives		(6)	3
Power derivatives and el-certificate derivatives		(30)	11
<b>Sale of financial assets</b>			
Gain on the sale of shares	25	52	
<b>Total other (losses)/gains – net</b>		<b>67</b>	<b>67</b>

1) The redemption of a vendor loan on the sale of Hafslund Fibernett AS in 2010 generated a profit of NOK 52 million in 2014. Realised loss on interest rate derivatives in 2015 is presented in other financial income (NOK – 19 million).

## Note 20, 21

### NOTE 20 ► OTHER OPERATING EXPENSES

NOK million	2015	2014
Maintenance	671	621
Purchase of services	210	171
Rent, power, etc.	188	199
Sales and marketing	245	219
Other	527	762
<b>Total other operating expenses</b>	<b>1,841</b>	<b>1,972</b>

In 2015 auditors' fees were recognised in the total amount of NOK 7.4 million (NOK 9.5 million). The fees break down as follows: NOK 6.0 million (NOK 5.6 million) for statutory auditing, NOK 0.2 million (NOK 0.6 million) for other certification services, NOK 0.7 million (NOK 1.6 million) for tax consultancy services and NOK 0.5 million (NOK 1.7 million) for other non-auditing services).

### NOTE 21 ► SALARIES AND OTHER PERSONNEL EXPENSES

NOK million	2015	2014
Salaries	717	740
Employer's National Insurance contributions	128	121
Pension expenses – defined benefit plans	51	(64)
Pension expenses – defined contribution plans	41	31
Other benefits	56	51
<b>Total salaries and other personnel expenses</b>	<b>992</b>	<b>879</b>

At the end of 2015, Hafslund employed a total of 1,098 FTEs (1,258) and 1,117 employees (1,287).

## Note 22

### NOTE 22 ► OVERVIEW OF REMUNERATION PAID TO SENIOR EXECUTIVES AND BOARD MEMBERS

Name	Position	Salaries, holiday pay and fees	Bonus (2)	Benefits in kind	Pension expenses	Loans 31 Dec 2015	Number of shares 31 Dec 2015
Finn Bjørn Ruyter (4)	President and CEO	3,560,329	1,714,249	204,332	481,252	300,000	18,107
Kari Ekelund Thørud	Senior Vice President/Deputy CEO	2,674,471	749,472	210,217	296,697	470,000	1,457
Heidi Ulmo	Senior Vice President	2,535,847	737,364	218,595	312,876	410,000	20,030
Jan Presttun	Senior Vice President	2,262,953	604,503	144,460		235,000	4,086
Anders Østby	Senior Vice President	1,724,928	311,318	107,525	195,873	375,000	10,467
Kristin Lian	Senior Vice President	1,936,731	540,461	182,892	232,980	450,000	1,723
Johan Hovland	Senior Vice President	1,929,450	487,639	190,793	207,146	420,000	8,530
Tarjei Lie	Senior Vice President (from 1 April 2015)	1,396,212	462,000	130,974	238,438	570,000	10,430
Birger Magnus (3)	Chairman	554,200					7,000
Per Langer (1, 3)	Board member	242,700					
Maria Moræus Hanssen (3)	Board member	283,200					
Odd Håkon Hoelsæter (3)	Board member	283,200					
Ellen Christine Christiansen	Board member	242,700					
Per Orfjell (3)	Board member (employee representative)	1,174,638		48,079	97,687	247,500	1,282
Per Luneborg (3)	Board member (employee representative)	720,424		11,590			707
Jane Koppang	Board member (employee representative)	941,619		16,053	87,673		1,292

- 1) Per Langer and related parties do not own any shares in Hafslund. Fortum, on the other hand, which Langer represents, owns 37,853,110 A shares and 28,706,339 B shares in Hafslund.
- 2) Applies to bonuses earned in 2015 and paid in 2016, plus increased holiday pay entitlements to be paid in 2017.
- 3) Includes remuneration for work on the Audit Committee and Compensation Committee.
- 4) The CEO's basic salary was increased by 3.0 percent in 2015.

## Note 22

### Terms and conditions of employment, President and CEO

The President and CEO has a six-month period of notice. On leaving the company's employment he is entitled, on certain conditions being met, to continue receiving salary payments (severance pay) for 12 months after the notice period has come to an end. Upon receipt of salary from any new employer during the severance period, severance pay is reduced in line with special terms. The retirement age is 67 years and the CEO is a member of the Group's mandatory occupational pension (OTP) with 5 percent of salary between 1 and 6 times the National Insurance Scheme's basic amount (G) and 8 percent of salary between 6 and 12 G. Pension compensation that provides a net additional income after tax of 8 percent will be paid for the basic salary over 12 G. The CEO has the right to terminate his employment with an early retirement plan (AFP), pursuant to regulations in force at any one time. The CEO has a disability pension plan with a compensation of 66 percent of salary between 12 and 30 G. The CEO is entitled to a bonus capped at 50 percent of fixed salary. The bonus is determined annually based on Group targets, company targets/business targets, objective individual targets and a subjective individual evaluation.

### Terms and conditions relating to other members of Group management

Other members of Group management are entitled, under certain circumstances, to 6–12 months' salary on leaving the company (after the end of the notice period). Upon receipt of salary from any new employer during the severance period, severance pay is reduced in line with special terms. Remuneration consists of a fixed salary and a bonus scheme capped at 30 percent of fixed salary. The bonus is determined annually based on Group targets, company

targets/business targets, objective individual targets and a subjective individual evaluation. Four other members of Group management are covered by the defined benefit pension plans, while a further three members are covered by the defined contribution plan. Ulmo, Hovland and Lie were employed after the defined benefit pension plan was closed to new members, and are covered by the same defined contribution plan as the CEO. Group management has a disability pension plan providing compensation of 66 percent of salary between 12 and 30 G.

### The Board's Compensation Committee

The Board of Hafslund ASA has a dedicated Compensation Committee. The Compensation Committee will advise the Board on all matters pertaining to the company's remuneration to the CEO. The Committee will keep up to date on and propose guidelines for determination of remuneration to senior executives in the Group. In addition, the Committee will function as the advisory body for the CEO as regards compensation schemes that essentially cover all employees, including Hafslund's bonus system and pension plan.

### The Board's declaration regarding determination of salaries and other remuneration for senior executives

The Board of Hafslund ASA will present the following guidelines and declaration regarding determination of salary and other remuneration for senior executives for the coming financial year to the Annual general Meeting, in accordance with the Public Limited Companies Act, § 6-16a and §5-6 (3).

### Remuneration paid to the CEO

Remuneration paid to the CEO must be competitive in

relation to responsibilities and the industry. The remuneration must furthermore act as an incentive to long-term creation of value through development of the enterprise, positive profit and share price performance, and reflect the experience and expertise level of the employee. Remuneration will consist of a fixed salary, a bonus of up to 50 percent of the basic salary, pension and interest and instalment-free loans. The CEO will receive benefits in kind on the same level as other senior executives in the Group. The period of notice must equal at least six months.

### Remuneration paid to senior executives

Remuneration for the Group management is adopted by the CEO, but must be submitted to the Board for approval if the remuneration deviates from these guidelines. Remuneration paid to other executives is adopted by the relevant senior vice presidents. Remuneration paid to senior executives and other executives must be based on the guidelines below.

### Fixed salary

The fixed salary is based on the duties performed and level of responsibility, as well as the incumbent's expertise and length of service in the position. Salary should be competitive in relation to responsibility and industry levels.

### Borrowings

Interest-free loans that are written down over 10 years in accordance with adopted guidelines can be given for car purchases. In addition, an annual operating subsidy can be awarded, as determined by the administration. Should the senior executive not have need for a car, the loan can still be taken out on the same terms against satisfactory surety.

### Benefits in kind

Benefits in kind mainly relate to expenses for broadband (home office), mobile phones and newspapers.

## Note 22

### Holidays

Senior executives are entitled to holidays in line with the provisions of the Norwegian Annual Holidays Act and the current internal rules of the Group. Holiday pay is calculated on the basis of basic salary. Additional benefits are not included in the calculation.

### Annual bonus

An annual bonus system has been established to create an incentive for additional effort and value creation. Bonuses will be paid based on the added value which the employee or group of employees has generated. The bonus scheme is limited upwards to 50 percent of fixed salary depending on the level of the position. However, the main rule is a ceiling of 30 percent of basic salary for the Group management (level 1) and a ceiling of 20 percent of basic salary for level 2. Any exception from the main rule shall be specifically agreed with the CEO or Board. The bonus is established annually and Group targets are determined by the Board. The measurement criteria in addition to the Group targets for the individual employee, as well as weighting of targets are set by the employee's immediate supervisor based on:

- Group targets X percentage of maximum bonus
- Company targets/business targets X percent of the maximum bonus
- Individual objective targets X percent of the maximum bonus
- Subjective individual assessment up to X percent of the maximum bonus

The targets and the weighting must be adapted to the needs of the individual company/enterprise.

The annual bonus will be disbursed after presentation of the Group's annual financial statements. The disbursed bonus is not included in the calculation of holiday pay and pension benefits. Should legislation require such benefits to be calculated on the basis of salary including bonus, the bonus will be reduced by as much as necessary to limit the bonus including other benefits to the total value determined by the provisions above.

### Share schemes

Senior Executives are covered by the Group's share schemes for all employees. To promote employee loyalty to the Group, the company should annually consider giving all employees the opportunity to buy shares in Hafslund. The share offer should be viewed in the context of the total salary settlement for the Group. There was share offer for employees in 2015.

### Option schemes

The Group does not use option schemes.

### Pension

The CEO and Group management shall have a pension plan in accordance with the current pension plan for the Group, unless otherwise agreed with the Board. Members of Group management who are covered by the Group's mandatory occupational pension (OTP) and have a basic salary over 12 times the National Insurance Scheme's basic amount (G) receive pension compensation that provides a net additional income after tax of 8 percent. The retirement age for these individuals should normally be 67. The CEO and Group management are entitled to take early retirement in accordance with the AFP agreement in force at any given time. The CEO and Group management have a disability pension plan with a compensation of 66 percent of salary between 12 and 30 G.

### Period of notice and severance pay

The CEO and Group management should have a six-month period of notice. In specific cases and depending on the position concerned, salary payments may continue to be made for 6 to 12 months after employment has been terminated. If the employee should begin a new job while receiving severance pay, payments will be reduced by 66 percent of the lower of these monthly severance payments and the new monthly salary. Partly for historical reasons, remuneration deviates in some cases from the Group's guidelines for senior executive pay.

## Note 23, 24

### NOTE 23 ► FINANCIAL EXPENSES

NOK million	2015	2014
Interest expense borrowings	384	446
Change in borrowings recognised at fair value	(137)	73
Capitalised construction loan interest	(16)	(13)
Disagios	37	45
Other financial expenses	20	1
<b>Total financial expenses</b>	<b>288</b>	<b>552</b>

### NOTE 24 ► RELATED PARTY TRANSACTIONS

Hafslund enters into purchase and sales transactions with related parties as part of normal business operations. In 2015 Hafslund purchased goods and services from and sold goods and services to the City of Oslo and the Fortum Group. The City of Oslo and Fortum Forvaltning AS own respectively 53.7 percent and 34.1 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 waste heat from the Norwegian Waste-to-Energy Agency (EGE). In 2015 Fortum delivered temporary invoicing and customer service centre services to network customers in the Østfold area, and consultancy services relating to the conversion of customer data. All transactions between the parties are conducted on the arm's length principle. The table below shows transactions with related parties:

NOK million	City of Oslo		Fortum	
	2015	2014	2015	2014
<b>Income statement:</b>				
Sale of goods and services	120	155		
Purchase of goods and services	117	178	15	39
<b>Balance sheet:</b>	<b>31 Dec 2015</b>	<b>31 Dec 2014</b>	<b>31 Dec 2015</b>	<b>31 Dec 2014</b>
Receivables	4	20		
Purchases recognised as investments	3	4		
Trade payables	12	29		

### Borrowings

Hafslund has two bond loans of NOK 500 million and NOK 740 million with Oslo Pensjonsforsikring AS, established in 2007 and 2008, respectively. The loans have ten-year terms. Both loans were taken out on market terms and conditions and are listed on the Oslo Stock Exchange. Norsk Tillitsmann is a counterparty to the agreement. Oslo Pensjonsforsikring AS is a life insurance company that is wholly owned by the City of Oslo. The loans are recognised in Non-current loans, fixed-interest-rate bonds, in [Note 16](#).

## Note 25

### NOTE 25 ► ACQUISITIONS AND SALES OF BUSINESSES

#### Sales of subsidiaries and associates in 2015

On 25 September 2015 Hafslund entered into an agreement with Statkraft Varme concerning the transfer of shares in the wholly owned subsidiary Gardermoen Energi AS. On 21 October 2015 Hafslund entered into an agreement with Rejlers AB to transfer Hafslund's 88.5 percent stake in Embriq AS. In addition, on 18 December 2015 Hafslund entered into an agreement with Fredrikstad Energi AS (FEAS) to sell Hafslund's 35 percent shareholding in Fredrikstad Nett AS (FEN) to the parent company FEAS. Following this transaction, FEAS owns 100 percent of FEN. Hafslund has retained a 49 percent stake in the parent company FEAS. The total equity released from the three transactions, which was recognised in Other business, amounted to NOK 498 million. The aggregate gain of NOK 60 million was recognised under Other (losses)/gains – net, and Share of profit/(loss) from associates in the income statement.

#### Acquisition of Galant Inkasso in 2015

Effective 1 May 2015 Hafslund acquired all the shares in Galant Inkasso AS. The purchase price for the shares amounted to NOK 22 million, and after the fair value of all the identifiable assets and liabilities had been assessed, the Group was left with a net item that was recognised in the balance sheet as goodwill in the amount of NOK 11 million. The calculated goodwill was recognised in the Group's balance sheet on the expectation that the synergy effects with the existing business will provide the Group with opportunities for increased earnings growth in the future.

#### Acquisition of Fortum's networks business in Norway in 2014.

The Hafslund Group purchased Fortum's Networks business in Norway effective 30 May 2014. The agreement covered 100 percent of the shares in the networks company Fortum Distribution AS, which also owned 49 percent of the shares in Trøgstad Elverk AS, and 100 percent of the shares in the holding company Fortum Power and Heat AS, which in turn owned 49 percent of the shares in Fredrikstad Energi AS (FEAS) and 35 percent of the shares in Fredrikstad Energi Nett AS (FEN). Fortum Distribusjon AS changed name to Hafslund Nett Øst AS after the share transfer and merged with Hafslund Nett AS at the end of 2014. Fortum Power and Heat AS changed name to Hafslund Handel Øst AS. The shares were purchased at the same time, but was regulated in two different share agreements and with two separate purchase prices. The Norwegian anti-trust authorities approved the transaction on 2 May 2014.

#### Hafslund Nett Øst AS

The aggregate purchase price for Hafslund Nett Øst AS's shares was NOK 1,035 million, including interest for the period 31 December 2013 until the acquisition date. The net assets in accordance with IFRSs amounted to NOK 659 million, meaning that the excess values on acquisition amounted to NOK 376 million. Identified excess values on the acquisition primarily relate to network facilities, net after deduction of the fair value of the surplus income. Excess income at the time of acquisition represented reduced networks income in the future and is not recognised in the balance sheet separately, but is deducted from the value of the networks facilities as a separate negative component. The negative value adjustment will reduce the depreciation of the network facilities in the period until the surplus income is expected to be reset to zero. The purchased networks business is included in the Networks business area.

After the fair value of all the identifiable assets and liabilities had been assessed, the Group was left with a net item that was recognised as goodwill of NOK 362 million in the balance sheet. The goodwill calculated has been recognised in the Group's balance sheet based on an expectation that the synergy effects with the existing business will provide the Group opportunities for increased earnings growth in the future.

#### Hafslund Handel Øst AS

The total purchase price for the shares in Hafslund Handel Øst AS was NOK 388 million. The company's total assets comprised NOK 23 million in cash and cash equivalents, and the shares in FEAS and FEN that are recognised in accordance with the equity method. At the time of acquisition the fair value of the assets amounted to NOK 422 million, which indicates a profit on a favourable purchase of NOK 34 million. However, this amount has been identified as a negative value of the networks facilities as a result of the income surplus. This negative value adjustment will reduce depreciation of the network facilities in the period until the surplus income is expected to be reset to zero in a similar way as to Hafslund Nett Øst AS. The shareholdings in FEAS and FEN are reported as investments in associates under Other business.

## Note 26

### NOTE 26 ► COMPANIES INCLUDED IN THE SCOPE OF CONSOLIDATION IN 2015

Company	Country/registered office	Shareholding/Voting rights %
Hafslund ASA	Oslo	100
Hafslund Produksjon AS	Askim	100
Sarp Kraftstasjon AS	Sarpsborg	100
Skankraft AS	Oslo	100
Hafslund Nett AS	Oslo	100
Hafslund Driftsentral AS	Oslo	100
Hafslund Varme AS	Oslo	100
Bio-El Fredrikstad AS	Fredrikstad	100
Sarpsborg Avfallsenergi AS	Sarpsborg	100
Hafslund Marked AS	Oslo	100
Hafslund Strøm AS	Oslo	100
NorgesEnergi AS	Kristiansand	100
Hallingkraft AS	Ål	100
Røyken Kraft AS	Røyken	51
Fredrikstad Energisalg AS	Fredrikstad	100
Mitt Hjem Norge AS	Oslo	100
Gøta Energi AB	Kungälv	100
SverigesEnergi AB	Stockholm	100
Energibolaget i Sverige AB	Stockholm	100

Company	Country/registered office	Shareholding/Voting rights %
Kotimaan Energia Oy	Helsinki	100
Solvencia AS	Oslo	100
Galant Inkasso AS	Oslo	100
Hafslund Tellier AS	Oslo	100
Hafslund Tellier AB	Stockholm	100
Hafslund Kundesenter AS	Oslo	100
Hafslund Handel AS	Oslo	100
Hafslund Handel Øst AS	Oslo	100
Hafslund Hedging AS	Oslo	100
Balder Energy AS	Oslo	100
RåEl Kraft AS	Oslo	100
Vestfjorden Kraft AS	Oslo	100
Hornnes Kraft AS	Oslo	100
Oslo Energi AS	Oslo	100
Hafslund Eiendom AS	Oslo	100
Hafslund USA Inc	USA	100
Hafslund Energy LLC	USA	100
Hafslund Energy Trading LLC	USA	100

# Hafslund ASA financial statements and notes

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## Income statement

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## Balance sheet

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## Statement of cash flow

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**Note 2** Major individual transactions

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**Note 3** Salaries and other personnel expenses

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**Note 15** Related parties

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**Note 16** Risk management and financial derivatives

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**Note 17** Guarantees

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**Note 18** Equity

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**Note 19** Share capital and shareholder information

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## Income statement

NOK million	Notes	1 January – 31 December	
		2015	2014
<b>Operating revenues</b>		<b>221</b>	<b>210</b>
Salaries and other personnel expenses	<a href="#">3, 4</a>	109	77
Depreciation, amortisation and impairments	<a href="#">8</a>	30	31
Other operating expenses	<a href="#">5</a>	114	127
<b>Operating loss</b>		<b>(33)</b>	<b>(25)</b>
Result of share investments	<a href="#">6</a>	(16)	(35)
Net financial items	<a href="#">6</a>	44	62
<b>Total financial items</b>		<b>28</b>	<b>27</b>
<b>Profit/loss before tax</b>		<b>(5)</b>	<b>2</b>
Tax expense	<a href="#">7</a>	(5)	(13)
<b>Net loss for the year</b>		<b>(10)</b>	<b>(11)</b>
<b>Appropriations:</b>			
Dividends	<a href="#">18</a>	585	487
Transferred (from)/to equity		(595)	(498)

## Balance sheet

NOK million	Notes	31 December	
		2015	2014
<b>Assets</b>			
<b>Deferred tax assets</b>	<a href="#">7</a>		<b>25</b>
<b>Total property, plant and equipment</b>	<a href="#">8</a>	<b>143</b>	<b>158</b>
Shares in subsidiaries	<a href="#">9</a>	13,931	13,965
Other long-term receivables	<a href="#">4, 10</a>	2,858	2,844
<b>Total financial assets</b>		<b>16,789</b>	<b>16,809</b>
<b>Total non-current assets</b>		<b>16,932</b>	<b>16,992</b>
Trade and other receivables	<a href="#">11</a>	390	280
Cash and cash equivalents	<a href="#">17</a>	14	1,119
<b>Total current assets</b>		<b>404</b>	<b>1,398</b>
<b>Total assets</b>		<b>17,336</b>	<b>18,391</b>
<b>Equity and liabilities</b>			
Paid-in equity		4,331	4,334
Retained earnings		1,350	1,872
<b>Total equity</b>	<a href="#">18, 19</a>	<b>5,681</b>	<b>6,206</b>
Provisions	<a href="#">4</a>	38	118
Long-term interest-bearing liabilities	<a href="#">14, 15</a>	10,183	10,756
<b>Total long-term liabilities and provisions</b>		<b>10,221</b>	<b>10,874</b>
Current interest-bearing liabilities	<a href="#">12</a>	656	600
Trade and other current payables	<a href="#">13</a>	193	224
Proposed dividend	<a href="#">18</a>	585	487
<b>Total current liabilities</b>		<b>1,434</b>	<b>1,311</b>
<b>Total equity and liabilities</b>		<b>17,336</b>	<b>18,391</b>

The Board of Directors of Hafslund ASA  
Oslo, 10 March 2016

Birger Magnus  
Board Chairman

Maria Moræus Hanssen  
Deputy Chairman

Per Langer

Odd Håkon Hoelsæter

Ellen Christine Christiansen

Per Orfjell

Per Luneborg

Jane Koppang

Finn Bjørn Ruyter  
President and CEO

## Statement of cash flow

NOK million	Notes	1 January – 31 December	
		2015	2014
Profit/loss before tax		(5)	2
Depreciation, amortisation and impairments	8	30	31
Result items adjusted for liquidity effects	6	16	35
Change in working capital etc.		(50)	5
<b>Net cash flow from operating activities</b>		<b>(9)</b>	<b>73</b>
Investments in operating assets	8	(15)	(17)
Accrued Group contributions	6	(329)	(238)
Group contributions received		238	372
Sale of shares or operating assets	10	27	4
Change in long-term receivables		(15)	250
<b>Net cash flow from investing activities</b>		<b>(94)</b>	<b>371</b>
New long-term borrowings		1,800	2,225
Repayment of borrowings		(2,317)	(2,347)
Change in other long-term liabilities		2	(62)
Dividends paid		(487)	(488)
Treasury shares			(13)
<b>Net cash flow from financing activities</b>		<b>(1,002)</b>	<b>(685)</b>
Net change in cash and cash equivalents		(1,105)	(241)
Cash and cash equivalents as of 1 January		1,119	1,360
<b>Cash and cash equivalents as of 31 December</b>		<b>14</b>	<b>1,119</b>

# Note 1

## NOTE 1 ► ACCOUNTING POLICIES

Hafslund ASA's financial statements have been prepared in accordance with the Norwegian Accounting Act and generally accepted accounting practice in Norway (NGAAP).

### Operating revenues

Revenues from sale of goods and services are recognised at fair value of the consideration. Revenues from the sale of goods and services are recognised at the time of delivery to the customer, provided that the customer has assumed the risks and rights pertaining to the property.

### Classification

Assets intended for permanent ownership or long-term use are classified as non-current assets. Assets relating to goods circulation, receivables due to be repaid within one year, and assets that are not intended for permanent ownership or long-term use in the business are deemed to be current assets. Liabilities falling due more than one year after the end of the financial year are recognised as long-term liabilities. Other liabilities are classified as current liabilities.

### Valuation principles

#### Assets and liabilities denominated in foreign currency

Balance sheet items denominated in foreign currency that are not hedged against changes in exchange rates are valued at the rate in force at the balance sheet date. Balance sheet items that are hedged against fluctuations in exchange rates using financial instruments are valued at the hedging rate. Balance sheet items denominated in foreign currency that hedge each other are valued at the rate in force at the balance sheet date. Gains and losses as a result of fluctuations in exchange rates on other balance sheet items are classified as financial items.

#### Trade and other receivables

Trade and other receivables are recognised at nominal value less bad debt provisions. Bad debt provisions are based on an individual assessment of each receivable. A non-specific provision is also recognised to cover expected bad debts on other trade receivables.

#### Treasury shares

Hafslund offers discounted treasury shares to employees in order to encourage employee ownership in the company. Any treasury shares sold to employees below market price are recognised as the difference between market price and sales price in the income statement under salaries and other personnel expenses. Treasury shares are recognised in the balance sheet as a reduction in equity.

#### Investments in subsidiaries, associates and joint ventures

Investments in subsidiaries, associates and joint ventures are valued in accordance with the cost method. Dividends and other distributions group contributions received from subsidiaries are recognised as financial income. The Group values single-entity companies in accordance with IAS 36.

#### Investments in long-term shareholdings

Long-term investments in companies in which Hafslund controls more than 20 percent of equity rights, but does not exercise significant influence or long-term ownership, are recognised at cost less any permanent diminutions in value. Individual investments are valued on a case-by-case basis. Dividends and other distributions received from subsidiaries are recognised as financial income. Realised gains and losses and any impairments attributable to permanent diminutions in value are recognised in the income statement under financial items.

#### Property, plant and equipment

Property, plant and equipment is recognised in the balance sheet at cost less cumulative depreciation and impairments. Own investment activities are recognised in the balance sheet at full production cost. Property, plant and equipment is depreciated on a straight-line basis over its expected useful life from the time it enters operation. Profits and losses on the sale of operating assets are recognised as operating revenues and operating expenses respectively.

#### Retirement benefit obligations

See [Note 2.18](#) to the consolidated financial statements. Hafslund ASA has opted to switch to NRS 6A which refers to IAS 19, regarding the accounting treatment of pension expenses.

## Note 1, 2, 3

### Tax expense, deferred tax liabilities and deferred tax assets

The tax expense is based on the profit/loss on ordinary activities before tax. The tax expense comprises taxes payable and changes in deferred tax liabilities/deferred tax assets. Tax payable is calculated based on the taxable result for the year. Deferred tax recognised in the balance sheet is calculated in accordance with the offset method, with full provision for net tax-increasing temporary differences based on tax rates and nominal amounts at the balance sheet date. Deferred tax assets relating to net tax-reducing temporary differences and tax loss carryforwards are recognised based on an assessment of the probability of there being sufficient future earnings or ability to utilise tax positions that can be offset through Group contributions.

### Financial derivatives

The accounting treatment adopted for financial derivatives depends on the purpose of the underlying agreement. Currency derivatives are considered cash items and recognised at fair value. Unrealised gains/losses are recognised in the income statement.

### Borrowings

Borrowings are recognised at nominal value. Borrowing costs on the taking out of borrowings are recognised directly in the income statement.

### Contingencies

Contingencies are recognised if, on the balance of probabilities, it is more likely that these will be settled than not settled. Best estimates are used to calculate settlement values for the contingencies. Provisions are recognised in the event that decisions are taken to implement measures (such as restructuring measures) that materially change the scope of the business or way in which it is operated, and when such measures result in termination benefits. Provisions are calculated based on best estimates of the expenses that are expected to accrue.

### Basis of preparation of statement of cash flow

The cash flow statement has been prepared in accordance with the indirect method. This means that the statement starts from the entity's result for the year in order to be able to present cash flows from ordinary operating activities, investing activities and financing activities, respectively.

### NOTE 2 ► MAJOR INDIVIDUAL TRANSACTIONS

Hafslund ASA sold the shares in Gardermoen Energi AS to Statkraft Varne AS in 2015. The business was sold as part of the company's focus on further growth and development of district heating in Oslo.

### NOTE 3 ► SALARIES AND OTHER PERSONNEL EXPENSES

NOK million	2015	2014
Salaries	79	77
Employer's National Insurance contributions	11	11
Pension expenses ( <a href="#">Note 4</a> )	10	(18)
Other benefits	9	7
<b>Total salaries and other personnel expenses</b>	<b>109</b>	<b>77</b>
<b>Number of employees as of 31 December</b>	<b>80</b>	<b>84</b>

Information on remuneration paid to the Board of Directors and senior executives can be found in [Note 22](#) to the consolidated financial statements

## Note 4

### NOTE 4 ► PENSION EXPENSES, ASSETS AND LIABILITIES

Hafslund ASA is obliged to operate pension schemes for its employees in accordance with the Norwegian Act on Occupational Pension Schemes. The company operates pension schemes that satisfy the requirements of this Act and the schemes cover both defined benefit and defined contribution schemes. As of 31 December 2015 the company's pension schemes covered a total of 76 employees, of whom 20 were in a public scheme, 20 were in a private scheme and 36 were in a defined contribution scheme. The defined benefit schemes provide the right to defined future benefits. These are mainly dependent on the number of years of service and salary level upon reaching retirement age. The pension schemes are funded either through Hafslund's own pension funds, through insurance companies or directly by the companies.

NOK million	2015	2014
<b>Pension expenses</b>		
Present value of accrued pension entitlements for the year	4	3
Interest expense on pension liabilities	19	29
Yield on pension assets	(17)	(27)
Plan changes recognised in income statement		(27)
<b>Pension expenses defined benefit plans</b>	<b>6</b>	<b>(22)</b>
Employer contributions	4	4
<b>Total pension expenses</b>	<b>10</b>	<b>(18)</b>

NOK Million	31 Dec 2015	31 Dec 2014
<b>Liability recognised in the balance sheet</b>		
Present value of accrued pension liability for funded defined benefit schemes	703	785
Pension fund assets	(746)	(737)
<b>Actual net pension liabilities for funded defined benefit plans</b>	<b>(43)</b>	<b>48</b>
Present value of pension liabilities for unfunded plans	38	42
<b>Net pension liabilities in balance sheet</b>	<b>(4)</b>	<b>90</b>
Net pension liabilities in balance sheet	(38)	(118)
Net pension assets in balance sheet	43	28
Net pension liabilities as of 1 January	90	68
Pension expense for the year	6	(22)
Pension payments and payment of pension premiums	(19)	(31)
Actuarial losses/(gains) recognised in equity	(82)	75
<b>Net pension liabilities as of 31 December</b>	<b>(4)</b>	<b>90</b>
<b>Assumptions</b>	<b>2015</b>	<b>2014</b>
Discount rate	2.70%	2.30%
Expected yield on pension assets	2.70%	2.30%
Annual salary increase	2.50%	2.50%
Adjustment of National Insurance Scheme's basic amount (G)	2.25%	2.50%

The discount rate is calculated on the basis of a comprehensive interest rate curve that takes into account that pension payments will mature at different times in the future. The curve is calculated based on prices from the Norwegian Covered Bonds market as of 31 December 2015, as calculated by the Norwegian Accounting Standards Board.

The annual salary increase is calculated based on a curve by reference to historical data. The salary increase is set to an average of 2.5 percent over the service period for the population in Hafslund's pension funds. See also [Note 18](#) to the consolidated financial statements for further details.

## Note 5, 6, 7

### NOTE 5 ▶ OTHER OPERATING EXPENSES

NOK million	2015	2014
Purchase of services	13	16
Rent, power, etc.	8	8
Sales and marketing	5	6
Operating and maintenance costs	23	25
Operation of ICT services	42	38
Other operating expenses	24	35
<b>Total other operating expenses</b>	<b>114</b>	<b>127</b>

Auditor's fees recognised in 2015 comprise NOK 1.1 million (NOK 1.8 million). The fees relate to the following:

- Statutory auditing NOK 1.0 million (NOK 1.0 million).
- Tax consultancy NOK 0.05 million (NOK 0.1 million).
- Other consultancy NOK 0.05 million (NOK 0.7 million).

### NOTE 6 ▶ RESULT OF SHARE INVESTMENTS AND NET FINANCIAL ITEMS

NOK million	2015	2014
Impairment of shares in subsidiaries		(35)
Loss on the sale of shares in subsidiaries	(16)	
<b>Loss on share investments</b>	<b>(16)</b>	<b>(35)</b>
Interest income 1)	217	282
Interest expenses	(433)	(501)
Group contributions	329	238
Currency loss	(31)	(7)
Other financial income/(financial expenses)2	(38)	50
<b>Net financial items</b>	<b>44</b>	<b>62</b>

1) Hafslund ASA's interest income includes intragroup interest for 2015 and 2014 of respectively NOK 216 million and NOK 265 million.

2) The redemption of a vendor loan note on the sale of the fibre-networks business in 2010 generated a profit of NOK 52 million in 2014.

### NOTE 7 ▶ TAX EXPENSE

NOK million	2015	2014
<b>Profit/loss before tax</b>	<b>(5)</b>	<b>2</b>
Permanent differences	16	47
Estimate deviations on pensions recognised in equity	82	(75)
Change in temporary differences	(93)	26
<b>Tax basis, tax payable</b>	<b>0</b>	<b>0</b>
<b>The total tax expense comprises:</b>		
Change in deferred tax liabilities	25	(7)
Deferred tax on estimate deviations for pensions recognised in equity	(20)	20
<b>Tax expense</b>	<b>5</b>	<b>13</b>
<b>Reconciliation of tax rate</b>		
Profit/loss before tax	(5)	2
Expected tax expense at nominal tax rate	(1)	1
Tax effect of non-taxable income and non-deductible expenses	6	13
<b>Tax expense</b>	<b>5</b>	<b>13</b>
<b>Basis deferred tax liabilities/assets</b>		
Temporary differences	19	26
Operating assets	(24)	(29)
Accrued pension liabilities	4	(90)
<b>Basis deferred tax liabilities/assets</b>	<b>(1)</b>	<b>(93)</b>
<b>Deferred tax assets recognised in the balance sheet</b>	<b>0</b>	<b>(25)</b>

## Note 8

### NOTE 8 ► PROPERTY, PLANT AND EQUIPMENT

NOK million	Machinery, technical equipment, furniture etc.	Land and other property	Work under construction	Total
<b>Book value as of 31 December 2013</b>	<b>86</b>	<b>65</b>	<b>26</b>	<b>177</b>
<b>2014 accounting year</b>				
Investments	1	7	10	17
Transferred from facilities under construction	26		(26)	
Disposals	(1)	(5)		(6)
Depreciation for the year	(29)	(2)		(31)
<b>Book value as of 31 December 2014</b>	<b>83</b>	<b>65</b>	<b>10</b>	<b>158</b>
Cost	214	93	12	319
Cumulative depreciation and impairments	(131)	(28)	(2)	(161)
<b>Book value as of 31 December 2014</b>	<b>83</b>	<b>65</b>	<b>10</b>	<b>158</b>
<b>2015 accounting year</b>				
Investments	12		4	15
Transferred from facilities under construction	10		(10)	
Depreciation for the year	(28)	(2)		(30)
<b>Book value as of 31 December 2015</b>	<b>77</b>	<b>63</b>	<b>3</b>	<b>143</b>
Cost	231	93	5	330
Cumulative depreciation and impairments	(155)	(30)	(2)	(187)
<b>Book value as of 31 December 2015</b>	<b>77</b>	<b>63</b>	<b>3</b>	<b>143</b>
Depreciation percentage	3-33 %	0-5 %		

## Note 9

### NOTE 9 ► SHARES IN SUBSIDIARIES

NOK million	Date of acquisition	Registered office	Shareholding/ voting rights %	Share of recognised shareholding in company as of 31 Dec 2015	Book value 31 Dec 2015
Hafslund Handel AS	1986	Oslo	100	635	305
Sarp Kraftstasjoner AS	1987	Askim	100	131	61
Hafslund Nett AS	2009	Oslo	100	5,552	4,422
Skankraft AS	2007	Oslo	100	125	0
Hafslund Eiendom AS	2009	Oslo	100	103	162
Hafslund Marked AS	2014	Oslo	100	2 070	1,844
Hafslund Varme AS <sup>1)</sup>	2009	Oslo	100	1,749	3,185
Bio-El Fredrikstad AS	2014	Fredrikstad	100	24	15
Sarpsborg Avfallsenergi AS	2014	Sarpsborg	100	152	139
Hafslund Produksjon AS	2009	Askim	100	1,003	3,076
Hafslund Driftssentral AS	2009	Oslo	100	276	722
<b>Total shares in subsidiaries</b>				<b>11,820</b>	<b>13,931</b>

<sup>1)</sup> Hafslund Varme AS demerged Gardermoen Energi AS in 2015 and Hafslund ASA sold the shares in the company to Statkraft Varme AS in 2015.

## Note 10, 11, 12, 13

### NOTE 10 ► OTHER LONG-TERM RECEIVABLES

NOK million	31 Dec 2015	31 Dec 2014
Net pension assets in balance sheet (see <a href="#">Note 4</a> )	43	28
Contributions to pension funds	116	116
Loans to Group companies	2,700	2,700
<b>Total other long-term receivables</b>	<b>2,858</b>	<b>2,844</b>

### NOTE 11 ► TRADE AND OTHER RECEIVABLES

NOK million	31 Dec 2015	31 Dec 2014
Trade receivables	38	16
Receivable due from Group companies	329	239
Other receivables	23	24
<b>Total trade and other receivables</b>	<b>390</b>	<b>280</b>

### NOTE 12 ► CURRENT INTEREST-BEARING LIABILITIES

NOK million	Interest % as of 31 Dec 2015	Interest % as of 31 Dec 2014	Liabilities as of 31 Dec 2015	Liabilities as of 31 Dec 2014
Miscellaneous certificates and current loans	1.3	1.9-2.0	300	600
The Group overdraft facility relates to drawdowns at subsidiaries.			356	
<b>Total current interest-bearing liabilities</b>			<b>656</b>	<b>600</b>

### NOTE 13 ► TRADE AND OTHER CURRENT PAYABLES

NOK million	31 Dec 2015	31 Dec 2014
Trade payables	15	16
Other non-interest-bearing liabilities	23	24
Liabilities due to other Group companies		3
Accrued interest	155	181
<b>Total trade and other current payables</b>	<b>193</b>	<b>224</b>

## Note 14, 15

### NOTE 14 ► LONG-TERM INTEREST-BEARING LIABILITIES

NOK million	Interest % as of 31 Dec 2015	Interest % as of 31 Dec 2014	Liabilities as of 31 Dec 2015	Liabilities as of 31 Dec 2014
Fixed-interest bonds	3.7-6.3	3.7-6.3	4,488	4,795
Floating rate notes	1.6-5.6	2.0-5.6	3,243	3,323
Other borrowings	1.6-2.2	1.9-3.0	2,452	2,638
<b>Total long-term interest-bearing liabilities</b>			<b>10,183</b>	<b>10,756</b>

NOK million	2016	2017	2018	2019	2020	Later	Total
Maturity profile, long-term interest-bearing liabilities Hafslund ASA	1,843	1,410	1,960	1,706	701	2,563	<b>10,183</b>

Hafslund has entered into a syndicated NOK 3,600 million drawdown facility maturing on 17 June 2018. The lender is a banking syndicate comprising six Nordic banks. The drawdown facility is used as a back-stop for current commercial papers and as a general liquidity reserve. At the end of the year the entire facility remained unused. The Group also has a NOK 200 million overdraft facility with Nordea that was unused at the end of the reporting period.

Hafslund's loan covenants prohibit the pledging of assets as loan security. Some loan agreements also stipulate that material assets cannot be disposed of without bank approval, while some have an ownership clause requiring more than 50 percent of shares issued by Hafslund to be held by current shareholders, or by shareholders with a credit rating of at least A- from Standard & Poor's or A3 from Moody's, or by shareholders approved by the lending banks.

### NOTE 15 ► RELATED PARTIES

Hafslund has two bond loans of NOK 500 million and NOK 740 million with Oslo Pensjonsforsikring AS, established in 2007 and 2008, respectively. The loans have ten-year terms. Both loans were taken out on market terms and conditions and are listed on the Oslo Stock Exchange. Norsk Tillitsmann is a counterparty to the agreement. Oslo Pensjonsforsikring AS is a life insurance company that is wholly owned by the City of Oslo. The loans are recognised under fixed-interest bond loans in long-term borrowings in [Note 16](#) to the consolidated financial statements.

## Note 16, 17

### NOTE 16 ► RISK MANAGEMENT AND FINANCIAL DERIVATIVES

The table below shows outstanding interest rate swaps as of 31 December 2015:

NOK million							
CURRENCY	AMOUNT	HAFSLUND PAYS		HAFSLUND RECEIVES		START	MATURITY
NOK	200	Fixed/quarterly	2.2%	Variable	3M Nib	9 Sep 2014	9 Mar 2018
NOK	500	Variable	6M Nib+200	Fixed/annual	6.30%	21 Jan 2009	21 Jan 2019
NOK	300	Fixed/quarterly	3.2%	Variable	3M Nib	14 Mar 2015	14 Mar 2020
NOK	200	Fixed/quarterly	3.4%	Variable	3M Nib	30 Aug 2015	30 Aug 2020
NOK	200	Fixed/quarterly	3.2%	Variable	3M Nib	19 Jun 2015	19 Jun 2022

As of 31 December 2015, the fair value of interest rate swaps amounted to NOK -24 million. This amount excludes accrued interest.

### NOTE 17 ► GUARANTEES

The Group purchases bank guarantees to secure some liabilities. As of 31 December 2015 these guarantees amounted to NOK 485 million for trading in the power market, NOK 49 million in tax deduction guarantees, NOK 41 million in rental guarantees and NOK 28 million in contract and payment guarantees.

## Note 18, 19

### NOTE 18 ► EQUITY

NOK million	Share capital	Share premium account	Other paid-in equity	Retained earnings	Total paid-in equity and retained earnings
<b>EQUITY AS OF 31 DECEMBER 2013</b>	<b>195</b>	<b>4,080</b>	<b>59</b>	<b>2,437</b>	<b>6,771</b>
Loss for the year 2014				(11)	(11)
Estimate deviations on pensions recognised in equity				(55)	(55)
Change in treasury shares				(13)	(13)
Dividend (NOK 2.50 per share)				(487)	(487)
Other changes				1	1
<b>EQUITY AS OF 31 DECEMBER 2014</b>	<b>195</b>	<b>4,080</b>	<b>59</b>	<b>1,872</b>	<b>6,206</b>
Loss for the year 2015				(10)	(10)
Estimate deviations on pensions recognised in equity				61	61
Change in treasury shares			(3)	11	8
Proposed dividend (NOK 3.00 per share)				(585)	(585)
<b>EQUITY AS OF 31 DECEMBER 2015</b>	<b>195</b>	<b>4,080</b>	<b>56</b>	<b>1,350</b>	<b>5,681</b>

As of 31 December 2015 Hafslund held 263,289 treasury B shares. The average purchase price was NOK 73.19 per share, making the total cost price NOK 19,269,768.

### NOTE 19 ► SHARE CAPITAL AND SHAREHOLDER INFORMATION

Please refer to [Note 14](#) to the consolidated financial statements.



# Management declaration

## Management declaration regarding the content of the annual report

### We declare to the best of our knowledge that:

- The consolidated financial statements for 2015 have been prepared in accordance with IFRS as adopted by the EU, including additional disclosures pursuant to the Norwegian Accounting Act.
- The parent company's 2015 annual financial statements have been prepared in accordance with the Norwegian Accounting Act and generally accepted accounting practice in Norway.
- The accounting information provides a true and fair view of the company's and the Group's assets, liabilities and financial position and performance as a whole.
- The report from the Board of Directors provides a true and fair picture of the development, performance and position of the company and the Group, as well as a description of the most important risk factors and uncertainties facing the business.

### The Board of Directors of Hafslund ASA

Oslo, 10 march 2016

#### Birger Magnus

Chairman of the Board

#### Maria Moræus Hanssen

Deputy Chairman

#### Per Langer

#### Odd Håkon Hoelsæter

#### Ellen Christine Christiansen

#### Per Orfjell

#### Per Luneborg

#### Jane Koppang

#### Finn Bjørn Ruyter President and CEO

# Auditor's report



To the Annual Shareholders' Meeting of Hafslund ASA

## Independent auditor's report

### Report on the Financial Statements

We have audited the accompanying financial statements of Hafslund ASA, which comprise the financial statements of the parent company and the financial statements of the group. The financial statements of the parent company comprise the balance sheet as at 31 December 2015, and the income statement and cash flow statement, for the year then ended, and a summary of significant accounting policies and other explanatory information. The financial statements of the group comprise the balance sheet as at 31 December 2015, income statement, statement of comprehensive income, changes in equity and cash flow for the year then ended, and a summary of significant accounting policies and other explanatory information.

#### *The Board of Directors and the Managing Director's Responsibility for the Financial Statements*

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

#### *Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

PricewaterhouseCoopers AS, Postboks 748 Sentrum, NO-0106 Oslo  
T: 02316, org. no.: 987 009 713 MVA, www.pwc.no  
Statsautoriserte revisorer, medlemmer av Den norske Revisorforening og autorisert regnskapsførerselskap



Independent auditor's report - 2015 - Hafslund ASA, page 2

#### *Opinion on the financial statements of the parent company*

In our opinion, the financial statements of the parent company are prepared in accordance with the law and regulations and present fairly, in all material respects, the financial position for Hafslund ASA as at 31 December 2015, and 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.

#### *Opinion on the financial statements of the group*

In our opinion, the financial statements of the group are prepared in accordance with the law and regulations and present fairly, in all material respects, the financial position of the group Hafslund ASA as at 31 December 2015, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by EU.

#### **Report on Other Legal and Regulatory Requirements**

##### *Opinion on the Board of Directors' report and the statement on Corporate Social Responsibility*

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 and in the statement on Corporate Social Responsibility concerning the financial statements, the going concern assumption and the proposal for coverage of the loss 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 produce a proper and clearly set out registration and documentation of the company's accounting information in accordance with the law and bookkeeping standards and practices generally accepted in Norway.

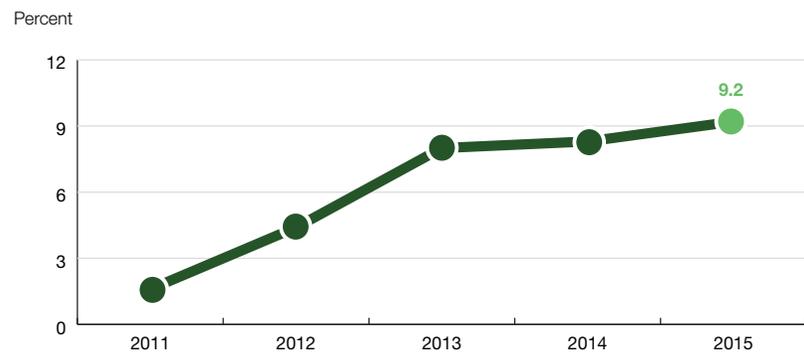
Oslo, 10 March 2016  
**PricewaterhouseCoopers AS**

Thomas Fraurud  
State Authorised Public Accountant (Norway)

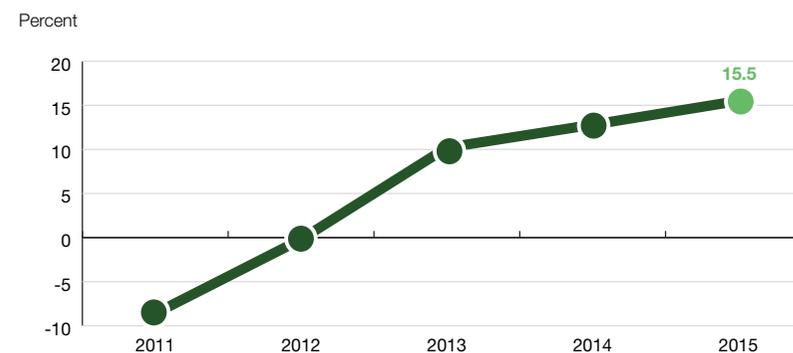
Note: This translation from Norwegian has been prepared for information purposes only.

## Group - analytical information

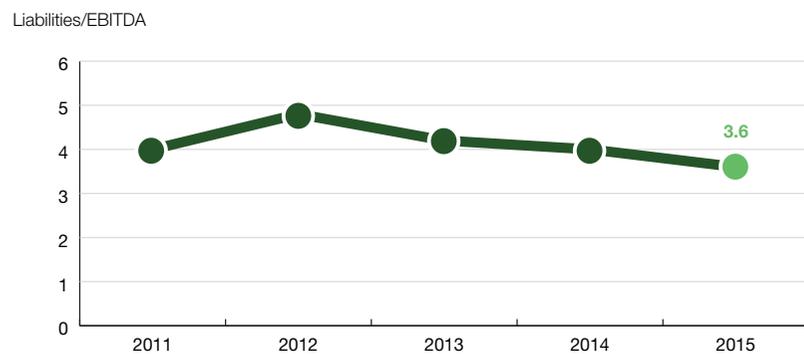
### Return on capital employed



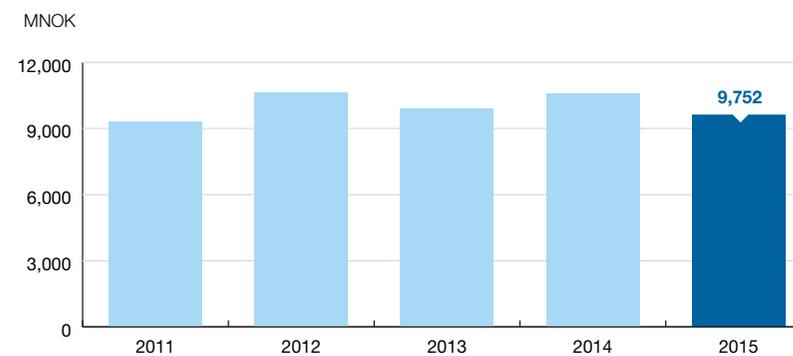
### Return on equity



### Liabilities / EBITDA

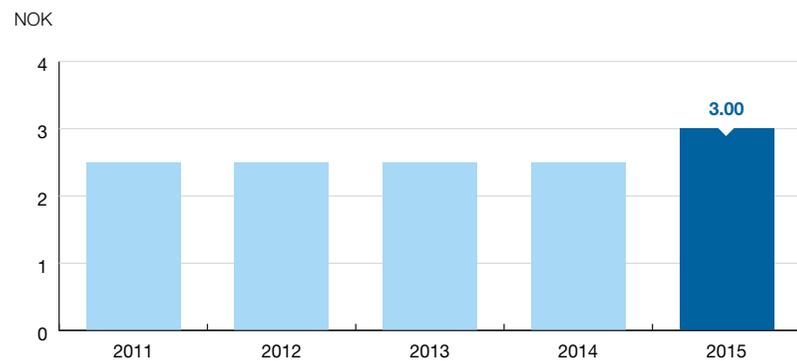


### Net interest-bearing liabilities

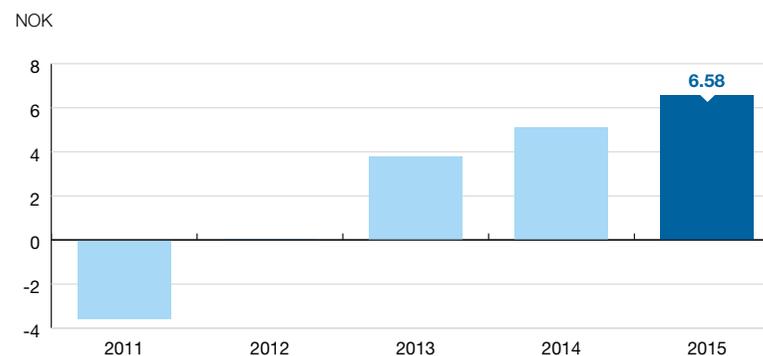


## Group – analytical information

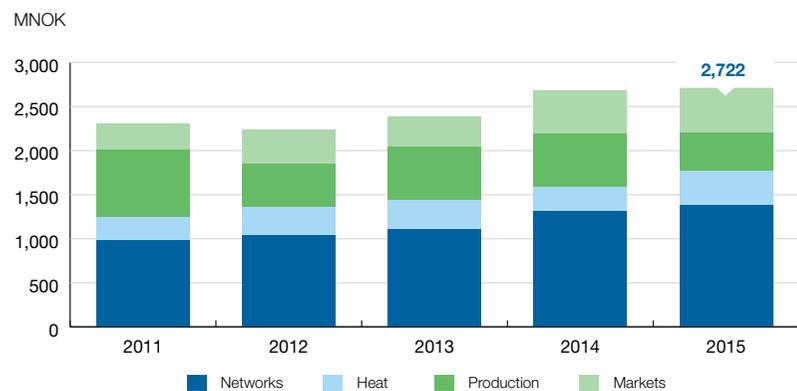
### ▶ Dividend per share



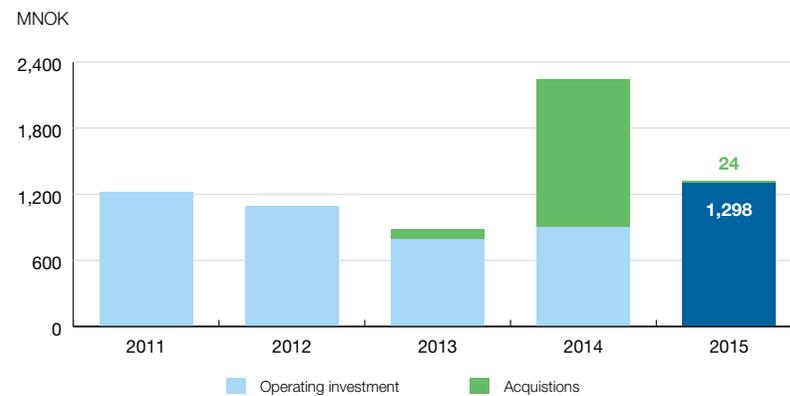
### ▶ Earnings per share



### ▶ EBITDA for the four business areas



### ▶ Investments



## Group – analytical information

NOK Million	Definition	2015	2014	2013	2012	2011
<b>INCOME STATEMENT</b>						
Sales revenues		11,905	12,396	12,818	11,466	13,704
Other (losses)/gains – net		112	116	143	137	(1,050)
Purchases of goods and energy		(6,264)	(6,866)	(7,867)	(6,830)	(9,015)
Personnel expenses		(992)	(879)	(901)	(851)	(864)
Other operating expenses		(1,841)	(1,972)	(1,747)	(1,752)	(1,630)
<b>EBITDA</b>		2,920	2,795	2,446	2,170	1,145
Depreciation, amortisation and impairments		(947)	(1,046)	(795)	(1,259)	(803)
<b>Operating profit</b>		1,973	1,749	1,652	911	343
Financial expenses		(288)	(552)	(503)	(557)	(584)
Profit before tax and discontinued operations		1,686	1,197	1,149	354	(241)
Tax expense		(401)	(194)	(402)	(366)	(456)
<b>Profit after tax</b>		1,284	1,003	(747)	(12)	(698)
<b>EARNINGS</b>						
Return on equity (ROE)	<a href="#">2</a>	15.5%	12.8%	10.2%	(0.2%)	(8.6%)
Return on capital employed (ROCE)	<a href="#">3</a>	9.2%	8.3%	8.0%	4.4%	1.6%

Table  
continued



## Group – analytical information

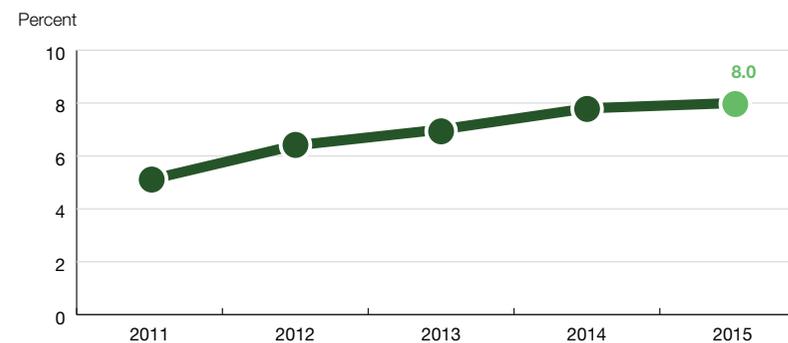
NOK Million	Definition	2015	2014	2013	2012	2011
<b>CASH FLOW, EQUITY AND SOLVENCY</b>						
Net cash flow from operating activities	<a href="#">1</a>	2,201	2,127	1,624	236	3,513
Investments		1,322	2,241	881	1,088	1,215
Capital employed	<a href="#">4</a>	22,355	21,875	20,901	21,269	20,919
Equity ratio	<a href="#">5</a>	34%	30%	30%	30%	33%
Net interest-bearing liabilities	<a href="#">6</a>	9,752	10,574	9,932	10,648	9,321
Net interest-bearing liabilities / EBITDA	<a href="#">9</a>	3.6	4.0	4.2	4.8	4.0
Unused overdraft facilities		3,800	3,800	3,700	3,900	4,400
<b>KEY EQUITY FIGURES</b>						
Earnings per share (NOK)	<a href="#">7</a>	6.58	5.14	3.83	(0.06)	(3.58)
Dividend per share (NOK)		3.00	2.50	2.50	2.50	2.50
Dividend yield (percentage)	<a href="#">12</a>	46%	49%	65%	N/A	N/A
Number of treasury B shares ('000)		263	420	170	397	397
Share price as of 31 Dec A shares (NOK)		59.75	50.50	46.20	45.60	58.00
Share price as of 31 Dec B shares (NOK)		58.75	51.00	46.50	45.30	58.00
Number of employees as of 31 December		1,117	1,287	1,220	1,216	1,207

## Networks – analytical information

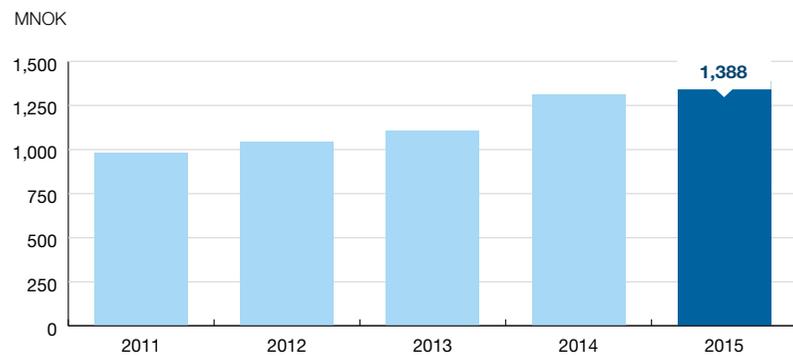
### ► NVE interest and NVE capital



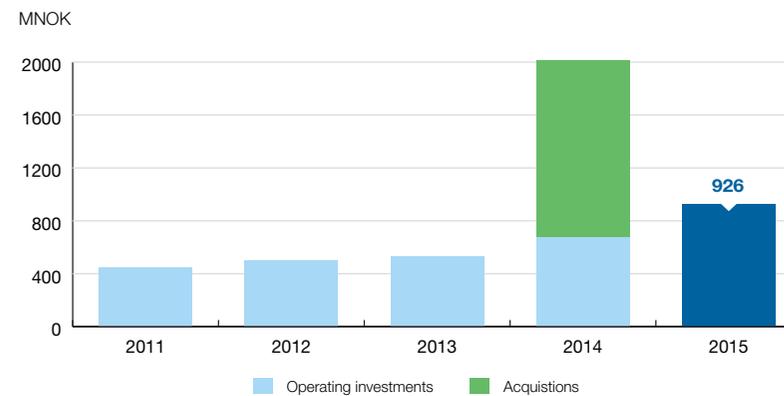
### ► Return on capital employed



### ► EBITDA



### ► Investments

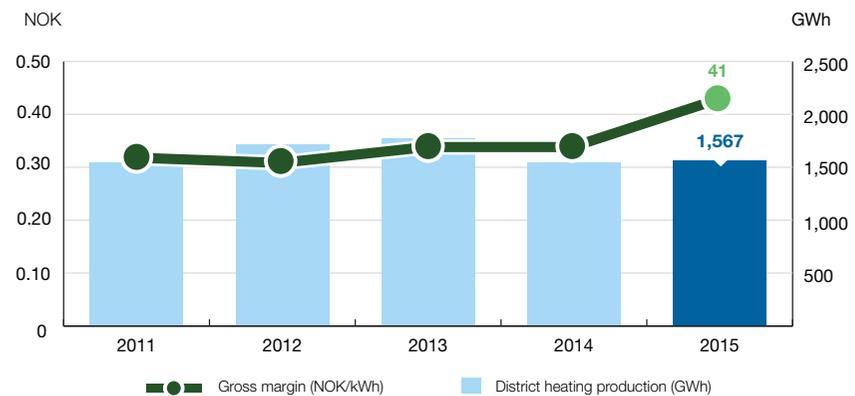


## Networks – analytical information

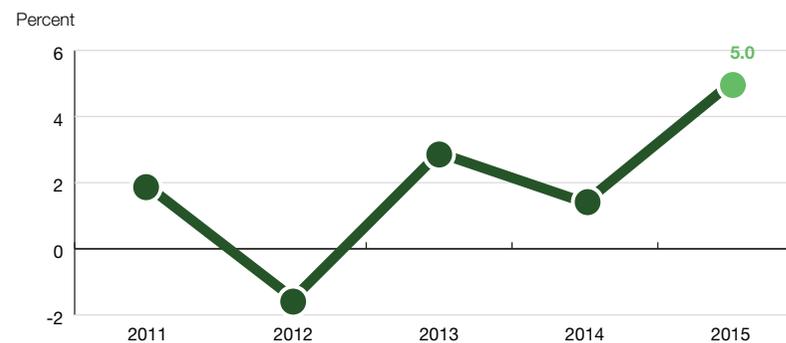
NOK Million	Definition	2015	2014	2013	2012	2011
<b>INCOME STATEMENT</b>						
Sales revenues		4 361	4,147	4,052	3,992	4,202
Purchases of goods and energy		(1,418)	(1,318)	(1,554)	(1,577)	(1,909)
Personnel expenses		(261)	(206)	(194)	(174)	(166)
Other operating expenses		(1,294)	(1,310)	(1,197)	(1,195)	(1,143)
<b>EBITDA</b>		<b>1,388</b>	1,314	1,107	1,045	983
Depreciation, amortisation and impairments		(566)	(557)	(488)	(504)	(514)
<b>Operating profit</b>		<b>822</b>	757	619	541	469
<b>OTHER KEY FIGURES</b>						
Investments		926	2,014	532	497	444
Capital employed	<a href="#">4</a>	11,116	10,537	9,325	8,949	9,257
Return on capital employed (ROCE)	<a href="#">3</a>	8.0%	7.8%	7.0%	6.4%	5.2%
Energy deliveries to end customers (TWh)		19.0	17.5	17.1	17.1	16.5
Average tariff distribution network, excl. charges (NOK/kWh)		0.20	0.20	0.20	0.20	0.23
Volume of network losses (GWh)		986	961	1,128	990	1,019
Costs for central network		1,166	1,021	1,101	1,238	1,424
Number of customers ('000)		689	683	571	563	552
Number of employees as of 31 December		319	347	248	223	212
<b>REGULATORY ISSUES</b>						
NVE capital		7,907	7,567	6,324	6,149	6,063
NVE interest		6.3%	6.6%	6.8%	4.2%	5.3%
Permitted income	<a href="#">11</a>	3,995	3,668	3,824	3,405	3,736
CNES cost	<a href="#">10</a>	72	87	68	61	90
Result effect income surpluses/(shortfalls)	<a href="#">11</a>	153	206	(120)	268	212
Accumulated income surpluses/(shortfalls) as of 31 Dec	<a href="#">11</a>	873	701	312	425	155

# Heat – analytical information

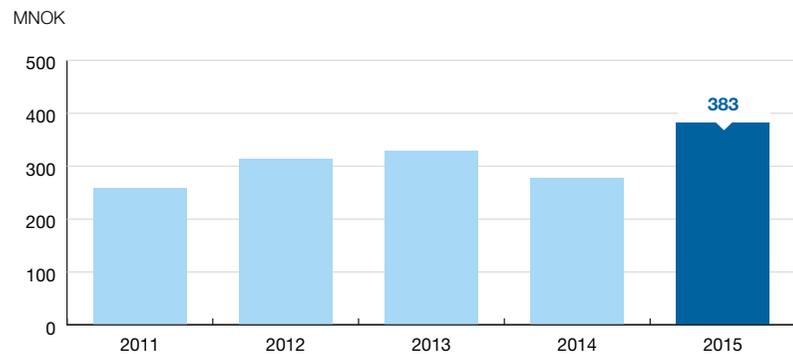
## ► Gross margin (NOK/kWh) and district heating production (GWh)



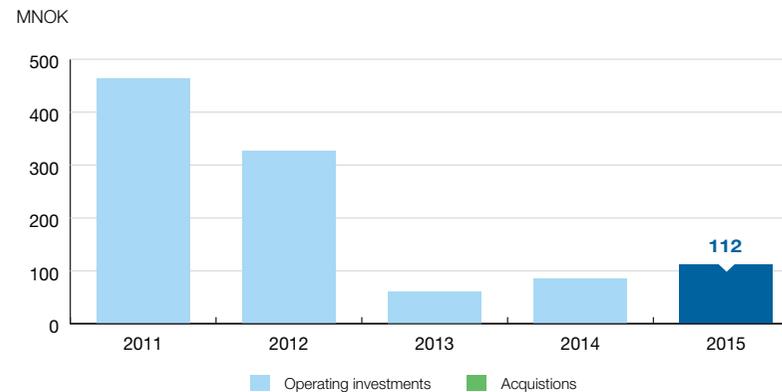
## ► Return on capital employed



## ► EBITDA



## ► Investments



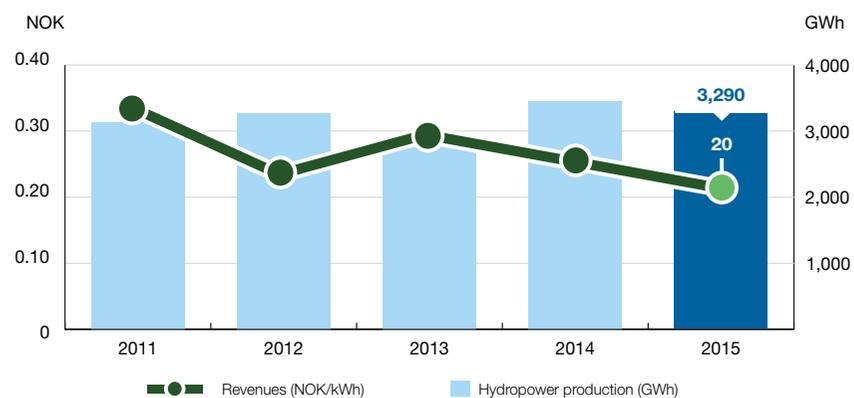
## Heat – analytical information

NOK Million	Definition	2015	2014	2013*	2012*	2011*
<b>INCOME STATEMENT</b>						
Sales revenues		977	952	1,153	1,107	1,120
Purchases of goods and energy		(358)	(423)	(545)	(510)	(598)
Personnel expenses		(68)	(60)	(66)	(70)	(67)
Other operating expenses		(168)	(192)	(213)	(214)	(196)
<b>EBITDA</b>		<b>383</b>	<b>277</b>	<b>329</b>	<b>313</b>	<b>259</b>
Depreciation, amortisation and impairments		(152)	(207)	(173)	(395)	(157)
<b>Operating profit</b>		<b>231</b>	<b>70</b>	<b>156</b>	<b>(82)</b>	<b>102</b>
<b>OTHER KEY FIGURES</b>						
Investments		112	85	61	326	463
Capital employed	4	4,709	4,835	5,464	5,562	5,464
Return on capital employed (ROCE)	3	5.0%	1.4%	2.9%	(1.5%)	1.9%
Average district heating price (NOK/kWh)		0.63	0.61	0.63	0.59	0.71
Production cost (GWh)		1,567	1,547	1,775	1,720	1,548
Fuel costs (NOK/kWh)		0.23	0.26	0.29	0.27	0.36
Gross margin (NOK/kWh)		0.41	0.32	0.32	0.29	0.30
Result of hedging transactions		43	37	4	0	0
Number of employees as of 31 December		67	71	80	77	71

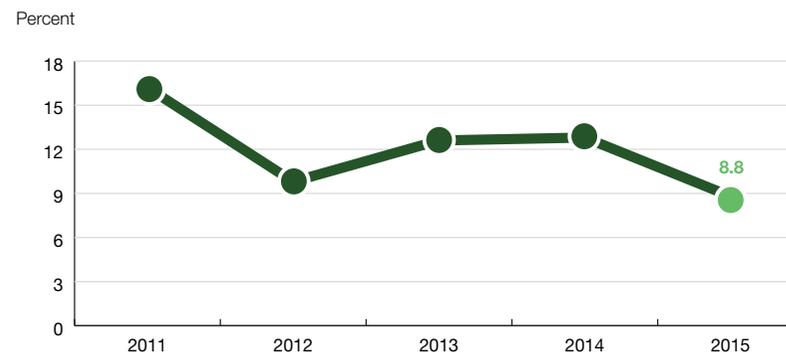
\* Includes profit/loss, investments and equity relating to the incineration plants in Østfold which have been recognised in Other business since 2014.

## Production – analytical information

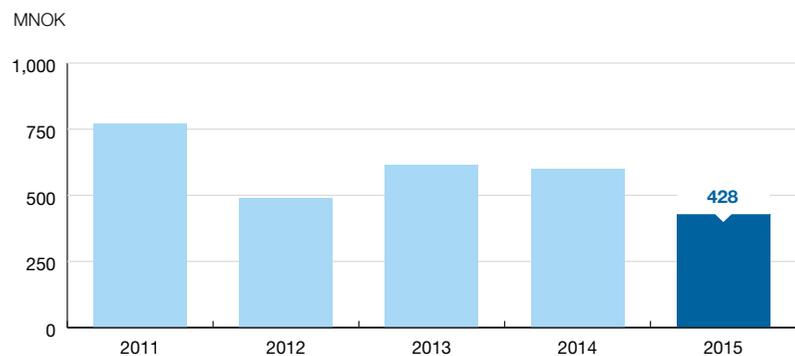
### ► Revenues (NOK/kWh) and hydropower production (GWh)



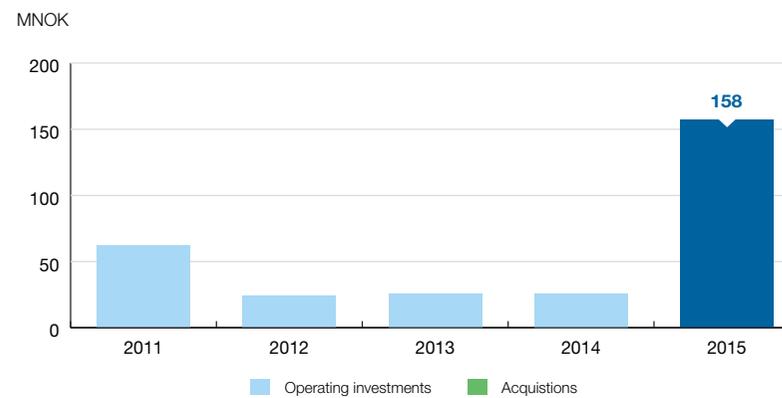
### ► Return on capital employed



### ► EBITDA



### ► Investments

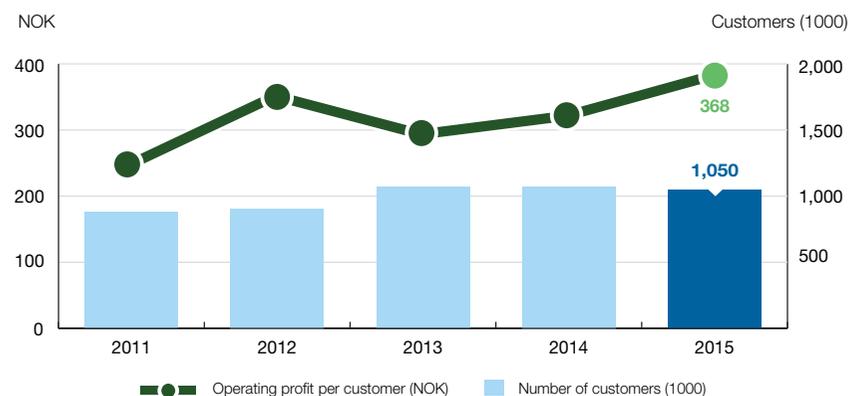


## Production – analytical information

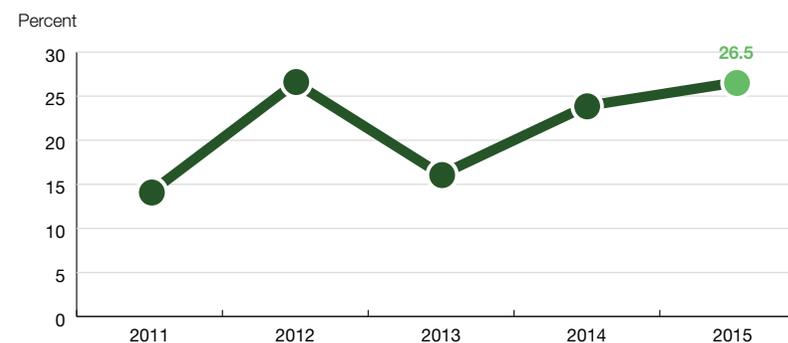
NOK Million	Definition	2015	2014	2013	2012	2011
<b>INCOME STATEMENT</b>						
Sales revenues		703	871	859	755	1,024
Other (losses)/gains – net		15	11	9	6	(24)
Personnel expenses		(60)	(52)	(51)	(48)	(37)
Other operating expenses		(230)	(231)	(203)	(225)	(194)
<b>EBITDA</b>		<b>428</b>	<b>599</b>	<b>614</b>	<b>488</b>	<b>769</b>
Depreciation, amortisation and impairments		(46)	(47)	(46)	(45)	(45)
<b>Operating profit</b>		<b>382</b>	<b>552</b>	<b>568</b>	<b>443</b>	<b>724</b>
<b>OTHER KEY FIGURES</b>						
Investments		158	26	26	24	62
Capital employed	4	4,381	4,383	4,270	4,782	4,464
Return on capital employed (ROCE)	3	8.8%	12.8%	12.6%	9.8%	16.1%
Income (NOK/kWh)		0.20	0.24	0.28	0.22	0.32
Result of hedging transactions		121	59	15	38	
Production volume (GWh)		3,290	3,452	2,845	3,273	3,135
Production as a percentage of normal production	8	106%	11%	92%	106%	101%
Distribution of operating profit for:						
- Hydropower		355	521	549	435	743
- Power trading		27	31	19	8	(19)
Number of employees as of 31 December		50	50	47	46	42

## Markets – analytical information

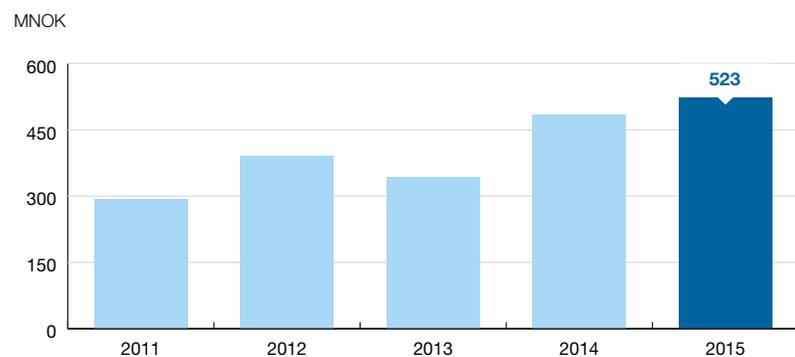
### ▶ Operating profit per customer (NOK) and number of customers



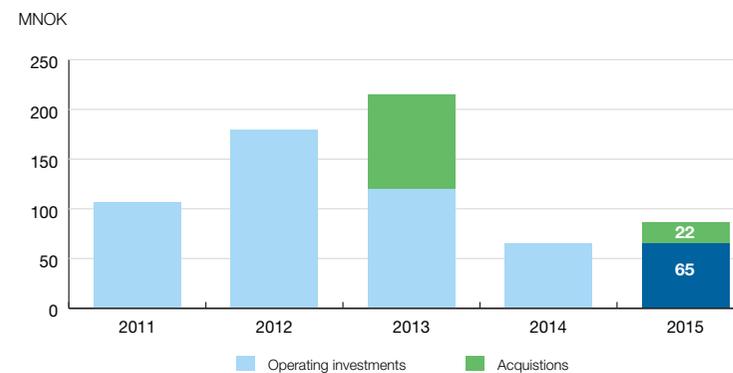
### ▶ Return on capital employed



### ▶ EBITDA



### ▶ Investments



## Markets – analytical information

NOK Million	Definition	2015	2014	2013	2012	2011
<b>INCOME STATEMENT</b>						
Sales revenues		5,902	6,416	6,850	5,537	7,275
Other (losses)/gains – net		(51)	3	14	44	(85)
Purchases of goods and energy		(4,379)	(5,032)	(5,693)	(4,489)	(6,297)
Personnel expenses		(377)	(326)	(311)	(273)	(233)
Other operating expenses		(571)	(577)	(517)	(429)	(366)
<b>EBITDA</b>		523	484	342	390	293
Depreciation, amortisation and impairments		(82)	(81)	(41)	(20)	(16)
<b>Operating profit</b>		441	403	301	370	277
<b>OTHER KEY FIGURES</b>						
Investments		87	65	215	180	107
Capital employed	<a href="#">4</a>	1,542	1,606	1,987	1,730	1,215
Return on capital employed (ROCE)	<a href="#">3</a>	26.5%	22.7%	16.1%	26.5%	24.8%
Sales volume power sales (GWh)		17,872	17,764	17,388	16,374	15,474
Number of wholly and partially owned customers ('000)		1050	1073	1069	905	878
Distribution of operating profit/loss:						
Power sales		390	329	275	301	201
Support functions etc.		51	74	26	70	76
Operating profit per customer Power sales (NOK)		368	307	279	337	233
Number of employees as of 31 December		569	581	579	560	492

## Other business – analytical information

MNOK	Definition	2015	2014	2013	2012	2011
<b>INCOME STATEMENT</b>						
Sales revenues / eliminations		(37)	9	(96)	76	84
Other (losses)/gains – net		147	103	120	87	(940)
Purchases of goods and energy		(110)	(93)	(75)	(254)	(211)
Personnel expenses		(225)	(235)	(278)	(285)	(360)
Other operating expenses		422	337	383	312	269
<b>EBITDA</b>		<b>197</b>	<b>121</b>	<b>54</b>	<b>(65)</b>	<b>(1,159)</b>
Depreciation, amortisation and impairments		(100)	(153)	(46)	(295)	(70)
<b>Operating profit/loss</b>		<b>98</b>	<b>(32)</b>	<b>8</b>	<b>(361)</b>	<b>(1,228)</b>
<b>OTHER KEY FIGURES</b>						
Investments		37	52	47	59	139
Capital employed	<a href="#">4</a>	607	513	(144)	246	519
Distribution of operating profit/loss for:						
- Staff and support services		(26)	(4)	(55)	(45)	(133)
- Embriq		56	(21)	(18)	(33)	(1)
- Incineration plants Østfold *		7	(61)			
- REC, prior shareholding						(1,090)
- Other		61	54	80	(282)	(4)
Number of employees as of 31 December		112	238	266	310	390

\* Results up to and including 2013 are recognised in the Heat business area

## Definitions – analytical information

### DEFINITIONS

1. Net cash flow from operating activities = as defined in the consolidated statement of cash flow
2. Return on equity = Profit after tax / Average 12-month equity incl. non-controlling interests
3. Return on capital employed = Operating profit/loss / Average 12-month capital employed
4. Capital employed = Equity + Net interest-bearing liabilities + Net tax positions
5. Equity ratio = Equity / Total assets
6. Net interest-bearing liabilities = Interest-bearing liabilities - Interest-bearing receivables and cash equivalents
7. Earnings per share = Profit after tax / Average number of shares
8. Production compared to average production volume over the last ten years, adjusted for efficiency improvements
9. EBITDA = EBITDA from core activities: Production, Heat, Networks and Markets
10. CNES cost = Quality adjustment of revenue ceiling for energy not supplied
11. See comment in [Note 2.20 c](#) to the annual financial statements
12. Dividend yield = Dividend as a percentage of profit after tax for the year



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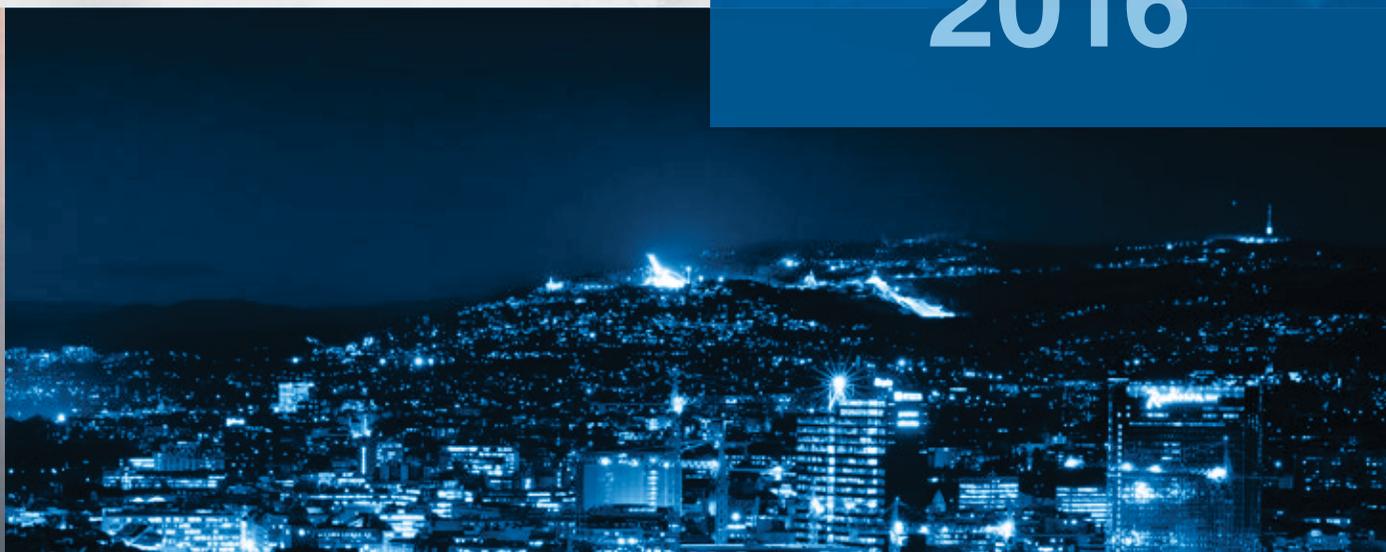
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# Annual report

Networks  
Heat  
Production  
Markets



2016





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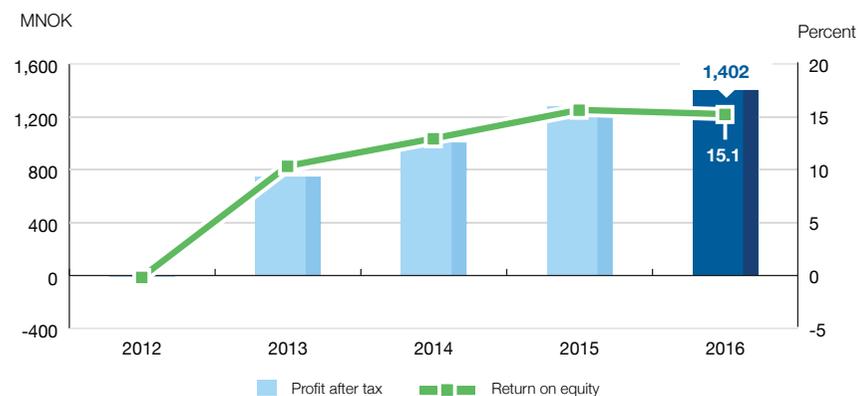
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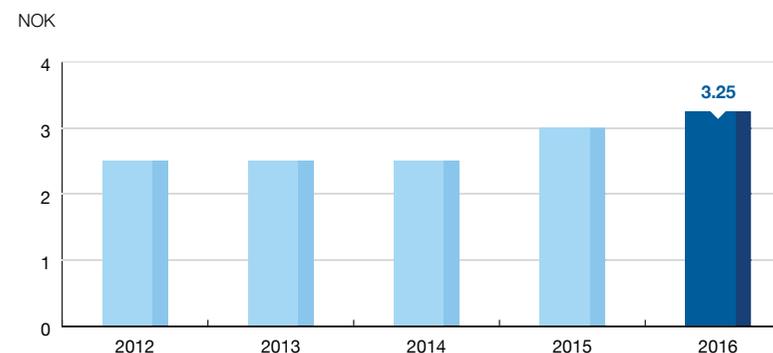
<a href="#">Key figures for the Hafslund Group</a> .....	<a href="#">3</a>
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# Key figures for the Hafslund Group

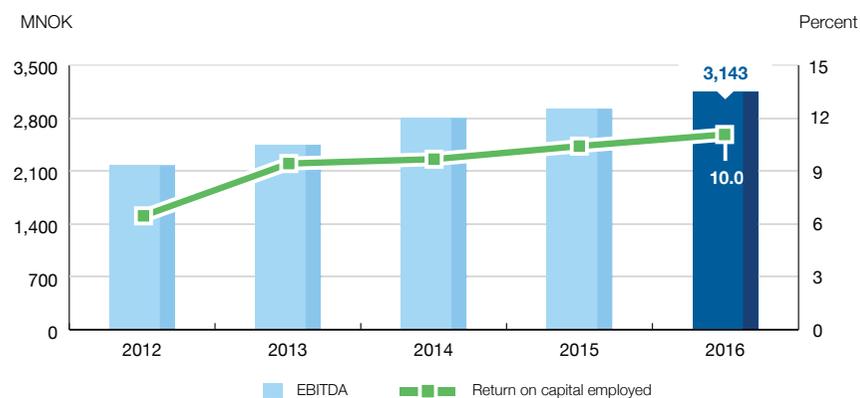
## ► Profit after tax and return on equity



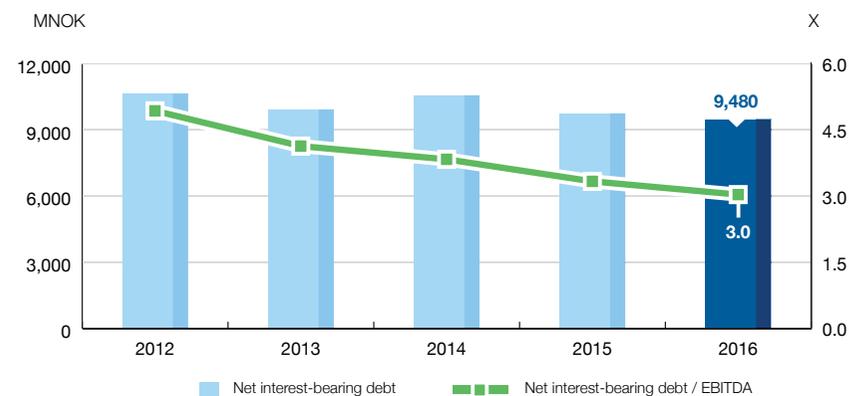
## ► Dividend per share



## ► EBITDA and return on capital employed



## ► Net interest-bearing debt and Net interest-bearing debt / EBITDA



## Message from the CEO

# Accelerating rate of change

Hafslund can look back on another successful year. Continuous improvement work at all levels of the business resulted in the fourth consecutive year of profit growth – a notable achievement in a period when power prices were falling.



Finn Bjørn Ruyter, CEO

Everyone at Hafslund is proud of the company's long history of power activities, which have been part of the business since the company was established in 1898. Even today, some of our power plants and network infrastructure are more than 100 years old. In our building in Rosenkrantzgate just by the Norwegian Parliament, where Oslo's first power infrastructure were installed 125 years ago, both transformer substations and district heating infrastructure are still in operation.

For more than 100 years our main activity has been building, operating and maintaining energy infrastructure. Expertise requirements have changed significantly over these years. Equipment technology has changed, IT technology is now central to all processes, and the commercial premises were changed with the deregulation of the power market 25 years ago.

Efficient operations, continuous improvements and effective measures relating to health, safety and the environment underpin all our activities, and will always be accorded a high priority.

Hafslund systematically adopt new IT systems, sensors and working methods in order to constantly produce improving customer and operational solutions. At the end of 2016 we were installing more than 1,000 new remotely-read electricity meters a day. These smart meters are important sensors of the state of the network. By 2019 we will have installed 700,000 new smart meters across our entire network area. Together with other sensors in our network, heat and power infrastructure, these will generate an enormous increase in

data, which can be used to provide better decision-making bases for investments, improve operational quality and maintenance and produce new customer solutions.

The amount of data will provide greater opportunities for efficiency-improvements and better decision-making platforms than at any time in the past. Hafslund constantly embraces new technology to leverage new opportunities, and has increased the speed of the company's improvement initiatives. Systems and solutions that were our pride and joy a short time ago have already been replaced by even better solutions. We prioritise flexible IT solutions that can be rapidly implemented.

Experience and expertise in energy technology and customer solutions, combined with the ability to adapt and utilise new technology define Hafslund's organisation. Together with robust, future-proof positions within renewable energy, this means we are well positioned to face the future. Business development and new customer solutions offer significant potential. This makes it even more vital to come up with good ideas, to prioritise, and to implement measures to realise these ideas, faster and faster.

Everyone at Hafslund can make a vital contribution to increasing the share of renewable and sustainable energy consumption in line with our and the society's goals, and help to provide our customers with cost-efficient and future-oriented solutions.

Our vision:  
Energy solutions for the future – for you and the environment.

# Report from the Board of Directors 2016

2016 was yet another good year for Hafslund. Operational improvements and cost reductions over time have produced good results. Stable and improving results demonstrate that Hafslund is well positioned for further development and growth. To be able to leverage on future opportunities the Group focused in particular on building up expertise in business development, innovation and digitalisation in 2016.

2016 started with cold weather, which gave a high demand for energy, while autumn was characterised by mild weather and low consumption. At the same time power prices rose in 2016 compared with 2015, when prices were very low. High power prices made a positive contribution to Heat's and Production's earnings. Networks, which accounts for more than half of the Group's employed capital, posted a good result, in part due to synergies from the purchased networks business in 2014. Markets achieved customer growth and increased sales volumes. The Group continued its growth strategy in 2016 through increased investment levels, including the roll-out of smart meters and the construction of a new aggregate at Vamma.

Hafslund's listed shares showed a very strong performance in 2016, generating dividend-adjusted growth of 64.4 percent and closing the year with a market value of NOK 18.5 billion.

In order to facilitate continued growth in the coming years, the Group has focused on business development and competence – in particular in digitalisation and innovation. Digitalisation projects are being implemented to improve both the efficiency of existing operations and customer experience, and to develop new products and services. Ongoing improvement work will continue to give the Group a competitive advantage. All four business areas are well positioned for further organic and structural growth.



## INCOME STATEMENT, CASH FLOW AND CAPITAL MATTERS

### Income statement

At NOK 1,402 million, Hafslund's profit after tax for 2016 was up NOK 120 million on the previous year, and represented the fourth consecutive year of results improvements. All four business areas provided increased results contributions from 2015. The rise in profits was primarily attributable to solid operations and a 7 øre/kWh increase in the power price compared with the previous year. Financial expenses included net positive effects of NOK 133 million (NOK 100 million) due to exchange rate gains and changes in the market value of loans.

## Report from the Board of Directors 2016

# 1.4

NOK 1.4 BILLION IN PROFIT AFTER TAX.  
THIS WAS THE FOURTH CONSECUTIVE  
YEAR OF RESULTS IMPROVEMENTS.



Hafslund posted sales revenues of NOK 13.8 billion (NOK 11.9 billion) in 2016. Higher power prices, synergies from the purchased networks business and an increase in the number of power sales customers were the main reasons behind the increase from 2015. At NOK 2,193 million, the operating profit was up 11 percent on the previous year. Heat and Production's earnings are in particular being impacted by higher power prices. The return on capital employed in 2016 was 10.0 percent (9.2 percent).

At NOK 217 million, financial expenses in 2016 were NOK 70 million lower than in 2015. The decrease was primarily attributable to a foreign exchange gain of NOK 47 million, compared with a 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 402 million) includes resource rent tax from the power production business of NOK 130 million (NOK 70 million). The tax expense also includes a positive non-recurring effect of NOK 53 million as a result of 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).

The financial statements have been prepared in accordance with IFRS. The Board confirms that conditions exist for continued operation of the enterprise on a going concern basis and that the annual financial statements have been prepared on this basis.

### Cash flow and capital matters

The cash flow from operations was NOK 2,041 million (NOK 2,201 million) in 2016. At NOK 1,125 million, the net cash flow from investing activities was down NOK 387 million due to the release of capital from the sale of businesses/shares in the Other business area. 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 debt of NOK 330 million in 2016.

At the end of 2016 net-interest-bearing debt 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) and 36 (34) percent during the year under review. Hafslund has a robust financing structure with long-term committed drawdown facilities. At the end of 2016 the Group had unutilised drawdown facilities of NOK 3.8 billion. None of Hafslund's loan agreements impose any covenants.

### BUSINESS AREAS

Hafslund is a leading energy and infrastructure company in Norway. The Group owns and operates the electricity network in Oslo, Akershus and large parts of Østfold, the district heating network in Oslo, as well as three large power plants in Glomma. The Group is also the largest power sales business in Norway and one of the five largest in the Nordic region. Hafslund is the only energy and infrastructure company in Norway listed on the Oslo Stock Exchange.

### Networks

Hafslund Nett is Norway's largest network operator, and shall remain one of Norway's most efficient network operators. The company gained 8,000 new customers in 2016, bringing the total to 697,000 at the year-end. The high

## Report from the Board of Directors 2016

delivery quality to network customers (99.99 percent) was maintained in 2016.

In addition to high delivery quality, the main focus in 2016 was on targeted efficiency-improvement and digitalisation initiatives. Drivers of the efficiency improvements included establishment of a new IT architecture and a focus on utilising data to provide simpler and better decision-making support, as well as analysis and automation. Synergies from the integration of the purchased networks business in Østfold have been leveraged, and the roll-out of smart meters is progressing as planned. By the end of 2016 it is installed approximately 100,000 of the 700,000 smart meters that are due to be in place by the deadline of 1 January 2019.

Networks posted sales revenues of NOK 4,757 million (NOK 4,361 million) and an operating profit of NOK 1,056 million (NOK 822 million) in the year under review. The improvement in results was attributable to efficiency improvements and synergies from the acquired networks business. At the reporting date Networks had capital employed of NOK 11.9 billion, and the return on capital employed closed on 9.7 percent (8.1 percent). At the end of 2016 Networks had accumulated surplus income of NOK 180 million. The decrease from NOK 873 million at the previous year-end was attributable to harmonisation effects from the merger of the purchased networks business in Østfold that was acquired in 2014.

Hafslund increased its network tariff charge on 1 January 2017. The increase for households equates to 1.65 øre/kWh, and was made after Statnett increased its network tariff for the central network by around 1.25 øre/kWh and a rise in the national tax for electrical power of 0.40 øre/kWh (all prices inclusive of VAT). Even after the price increase, Hafslund Nett remains one of Norway's lowest-price network owners.

In recent years investments in the regional network, in particular in Oslo's central areas, have been prioritised. Networks' total investments amounted to NOK 1,009 million (NOK 926 million) in 2016. The company plans to step up investment levels in the period 2017– 2020, due to both the roll out of smart meters and further upgrading of the distribution and regional networks. The roll-out and installation of smart meters is progressing well.

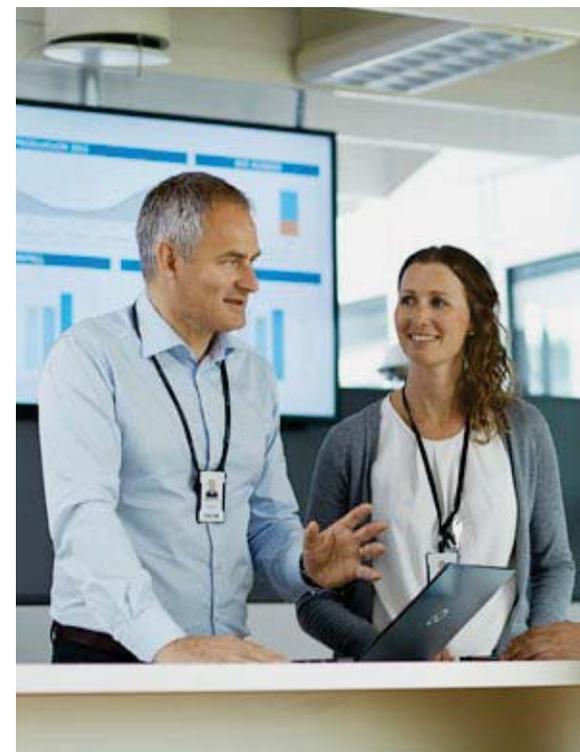
### Heat

The Heat business area comprises the district heating business in Oslo and is Norway's largest district heating supplier. In 2016 Heat posted sales revenues of NOK 1,152 million (NOK 977 million) and an operating profit of NOK 291 million (NOK 231 million). The operating profit for 2016 reflects efficient operations throughout the year. At the reporting date Heat had capital employed of NOK 4.6 billion, and the return on capital employed closed on 6.3 percent (5.0 percent).

Heat generated production of 1,704 GWh (1,567 GWh) in 2016, which was up 137 GWh on the previous year. 2016 started with cold weather, which created high power and energy consumption. This generated higher district heating revenues in the first quarter than in the same quarter the year before. In contrast, autumn featured mild weather and lower energy demand. Sales activities rose, with the connection of new customers contributing to the improved result. The power price is included in the calculation of the price to the customer, and is thus an important results driver for Heat.

Key areas of the focus on digitalisation and efficiency improvements in 2016 included a new information platform, a digital field solution, automated and cloud-based meter reading collection and tariff automation.

**In addition to maintaining high delivery quality the main focus in 2016 was on targeted efficiency-improvement and digitalisation initiatives.**



## Report from the Board of Directors 2016



DISTRICT HEATING, WITH 99 PERCENT  
RENEWABLE ENERGY SOURCES.



NEW CUSTOMERS ARE CONTINUALLY  
BEING CONNECTED TO THE DISTRICT  
HEATING NETWORK.

The contribution for the year amounted to 46 øre/kWh (41 øre/kWh). At the reporting date the hedged volume for the next six months comprised 58 percent (39 percent) of expected production.

More than half of the energy from district heating in Oslo is waste heat from the City of Oslo's waste-to-energy plants Klemetsrudanlegget AS and Energigjenvinningsetaten at Haraldrud. The remaining energy supply derives from heat pumps, electricity and other renewable energy sources. The renewable share of district heating in 2016 was 99 percent (99 percent). Work to further reduce the use of fossil fuel in energy production will continue in 2017.

In 2016 Heat's total investments amounted to NOK 175 million (NOK 112 million). The investments are mainly related to higher organic growth in customer connections, in addition to the implementation of a number of upgrade activities and improvement measures following district heating leaks. In 2016 Hafslund Varme signed its first agreement to supply district-heating-based cooling to a new commercial building in the Oslo city centre. An agreement was also signed to deliver thermal energy to the Oslo Public Library and the Munch Museum, and both projects are under construction in Oslo. Hafslund Varme is establishing itself as a total supplier of heat and cooling in Oslo.

### Production

Production is responsible for efficient management of the company's hydropower plants in lower Glomma, as well as for targeting growth within renewable energy production. In 2016 Production posted sales revenues of NOK 672 million (NOK 654 million) and an operating profit of NOK 417 million (NOK 346 million).

At the reporting date Production had capital employed of NOK 4.6 billion, and the return on capital employed closed on 9.1 percent (7.9 percent).

In 2016 Production started work on migrating to a new digital field solution, new information platform and cloud-based databases for control systems and use of data analysis in order to improve and automate forecasting.

In 2016 Hafslund's hydropower plants produced 2,964 GWh (3,290 GWh), which was 136 GWh lower than normal annual production of 3,100 GWh. The year was characterised by efficient operations, high production uptime, but slightly low water flow. The power price for the Oslo area in 2016 was 24 øre/kWh, compared with 18 øre/kWh in 2015. The higher prices were offset by a loss of NOK 4 million (gain of NOK 121 million) from trading activities. At the reporting date the hedged volume for the next six months comprised 31 percent (24 percent) of expected production.



Illustration picture of the new aggregate at Vamma.

## Report from the Board of Directors 2016

In 2016 Production's total investments amounted to NOK 274 million (NOK 156 million). In 2015 the Board approved the construction of a new aggregate at Vamma power plant with an investment framework of NOK 920 million. The new aggregate which has an absorption capacity of 500 m<sup>3</sup>/s and installed capacity of 128 MW, will generate around 1 TWh of power each year and increase the annual production of the Vamma power plant by 230 GWh. The new aggregate will replace production from the oldest aggregate at Vamma, which are more than 100 years old. The oldest aggregates will continue to be used in flood periods. Construction work was in full swing in 2016, and the new aggregate is due to enter operation in spring 2019.

### Markets

The Markets business area comprises the power sales business in Norway, Sweden and Finland, and customer service and invoicing services activities. Hafslund Marked is Norway's largest and one of the Nordic region's leading power sales companies. At NOK 7.3 billion, sales for the year were up NOK 1.4 billion on 2015. The increase in sales is attributable to higher power prices on Nord Pool in 2016 compared with 2015, and an increase in the sold volume to customers. A total of 19.6 TWh (17.9 TWh) of electricity was sold to customers in 2016.

Markets posted an operating profit of NOK 498 million in 2016 (NOK 476 million), in part due to an increase in the value of forward contracts. At the reporting date Markets had capital employed of NOK 1.4 billion, and the return on capital employed closed on 36.8 percent (32.1 percent).

Competition in the power sales segment intensified in 2016. Despite the fierce competition Hafslund Marked expanded its customer base during the year, and is delivering solid results. At the reporting date Hafslund had a total of

1,093,000 (1,050,000) electricity customers, of whom 375,000 (327,000) were outside Norway. The Power Sales business includes nine different brands in Norway, Sweden and Finland. Thanks to its strong position in the Nordic power market, Hafslund is well placed to participate in further growth, both organic and structural.

Markets implemented several digitalisation activities throughout the year, with the aim of improving both the efficiency of operations and the customer experience. Examples of the above include a new app for Hafslund Strøm, the Vipps mobile payment app, use of robot technology, and a cloud-based operations and analysis platform for the electricity companies.

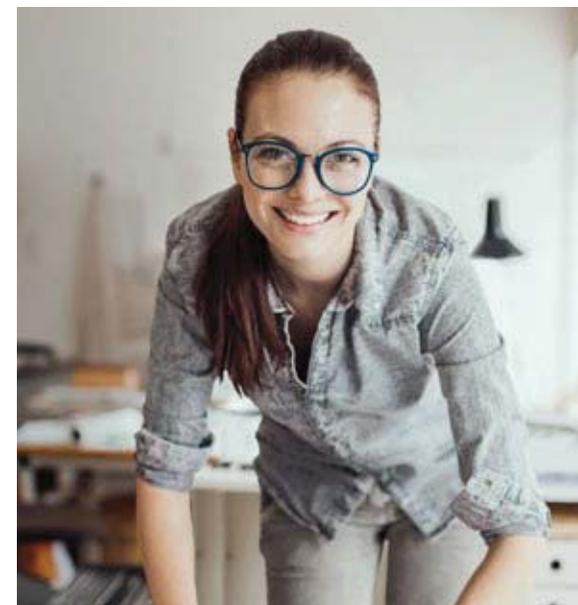
At the start of 2016 work was initiated to examine a spin-off and potential public offering of Hafslund Marked. This work was stopped in April 2016 as Hafslund's largest shareholder, the City of Oslo, wanted this spinoff to be evaluated in connection with the City of Oslo's overall ownership strategy. Work to adapt Hafslund Marked's organisation to satisfy future framework requirements, and to pursue the power sales business' Nordic growth strategy, is continuing.

### GOVERNMENT RELATIONS AND FRAMEWORK CONDITIONS

It is critical for Hafslund to be able to provide the authorities with constructive feedback on the effect of framework conditions that impact its businesses and their development opportunities. At the same time, Hafslund contributes to sensible political and regulatory decisions, by highlighting how decisions impact the key functions that Hafslund performs for modern society.



**Markets implemented several digitalisation activities throughout the year, with the aim of improving both the efficiency of operations and the customer experience.**



## Report from the Board of Directors 2016

Both The City of Oslo and national authorities have set ambitious emission-reduction targets. A reliable and modern power network will be essential for phasing out greenhouse gas emissions from the transport sector, and electricity and district heating will be required to phase out oil-based heating. Hafslund believes it is realistic to reach set targets, provided that suitable conditions are facilitated.

NVE is responsible for economic regulation of the networks business in Norway and is currently reviewing its regulations. Network operators face major investments and probable sector consolidation over the next few years. In its dialogue with NVE Hafslund emphasises the importance of long-term stability in regulations, in order to secure the realisation of appropriate socio-economical investments.

### CORPORATE SOCIAL RESPONSIBILITY

Hafslund is responsible for any social consequences caused by the Group's operations with regard to the external environment, working conditions, human rights and other social issues. This responsibility is a high strategic priority and permeates the company's entire value chain and business. Hafslund's statement on corporate social responsibility is discussed in more detail at [www.hafslund.no](http://www.hafslund.no).

#### Materiality analysis, Corporate Social Responsibility

Hafslund has performed a materiality analysis in order to prioritise the most relevant areas within corporate social responsibility. Starting with the areas deemed important for the Group's stakeholders, as well as strategically important for the Group, four areas stand out as particularly important for Hafslund's target achievement: i) securing a reliable energy supply, ii) ethics and anti-corruption, iii) reducing greenhouse gas emissions and iv) a responsible supply chain.

#### Securing a reliable energy supply

Hafslund owns, builds and operates critical infrastructure for society. Society expects no interruption in supply of energy. The most important task for Hafslund is therefore to guarantee a safe and reliable supply of renewable energy to its customers – every hour, all year round. Networks' and Heat's uptime in 2016 closed on 99.99 percent and 99.90 percent respectively, including both planned and non-planned incidents.

#### Ethics and anti-corruption

The Group's policy for the external environment and corporate social responsibility and policies for procurements and compliance, as well as the ethical guidelines, are governing for work on ethics and anti-corruption. Hafslund has separate ethical guidelines that applies to all the company's suppliers, which is incorporated into all relevant contracts.

#### Environment – dedicated initiatives to reduce greenhouse gas emissions

Efficient environmental management is a natural part of Hafslund's corporate social responsibility remit, and an important means of securing efficient resource utilisation and operations. All the Group's units are expected to implement a systematic form of environmental management. Hafslund Varme, the company that is responsible for the majority of energy consumption and emissions in the Group, is certified to the international environmental standard ISO 14001. The head office in Oslo and the Conference Centre at Hafslund Manor in Sarpsborg have both been certified as Environmental Lighthouses.



## Report from the Board of Directors 2016

The bulk of Hafslund's energy consumption and emissions to air are associated with the production of heat. High utilisation of waste heat from the incineration of residual waste and deliberate use of other renewable energy sources mean that greenhouse gas emissions from this type of business are extremely low. District heating therefore makes an important contribution to reducing greenhouse gas emissions and local pollution in Oslo. In recent years district heating has played a key role in the phasing out of remaining oil-fired boilers in Oslo, and moving forward will help to secure renewable heat deliveries to a rapidly expanding population via a shared and efficient infrastructure. District heating represents a new and sustainable source of energy for heating construction sites and for cooling solutions.

The share of fossil oil and gas used in production was 1 percent in 2016, the same as in 2015. Hafslund has set a target of fully phasing out fossil oil used in district heating production in a normal year. However, on contingency grounds, particular conditions and lengthy periods of cold weather can result in some use of fossil oil, including to maintain security of supply. Hafslund Varme's production plants also emit discharges of a more local and regional nature, for example, particles and NOx. In 2016 these emission levels were generally lower than the maximum limits set by the authorities, and any emissions exceeding maximum limits were quickly dealt with and routinely reported to the authorities.

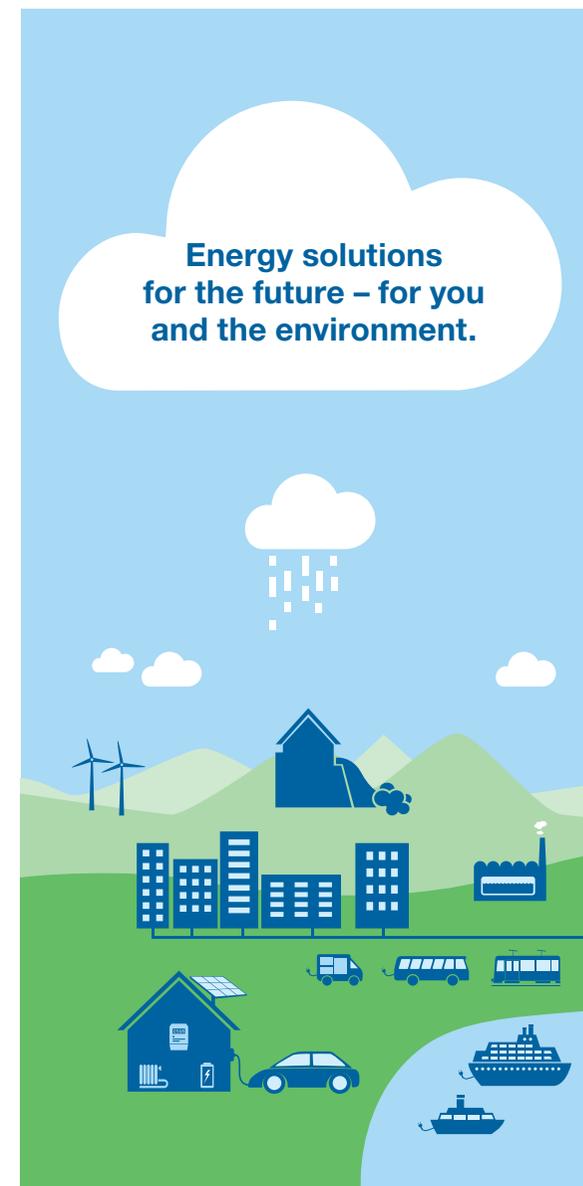
Electrification of the transport sector will make an important contribution to enabling Oslo to achieve its climate targets, and reduce local emissions from road traffic. The ongoing conversion of the main network to a higher voltage (132 kV) together with the roll-out of smart meters and increased digitalisation mean that Oslo will be well equipped to meet forthcoming challenges. Work is also being performed to

reduce power losses in the network, while opportunities for energy efficiency improvements and "smart consumption" are also growing. In 2016 there was no damage to cables resulting in discharges of cable oil to the watercourse. Hafslund's run-of-river power plants produce environmentally friendly and renewable electricity, and it is in society's interests that the Glomma's water resources are utilised in the most efficient way possible. In 2016 production uptime at Hafslund's electricity generating facilities stood at 99.7 percent, compared with 99.4 percent in the previous year.

The impact on the external environment of Hafslund's other operations largely derives from its buildings, transport and externally sourced services, including transport and contracting activities. Hafslund aims to have a high percentage of chargeable vehicles in its car fleet. All new vehicles shall essentially be chargeable, provided that they satisfy functionality and safety requirements. Hafslund also collaborates with Norsk Gjenvinning in connection with waste collection and return schemes. Hafslund is also a member of Renas, a collection and treatment scheme for industrial electrical waste.

### Responsible supply chain

Hafslund makes clear demands of the Group's suppliers in order to ensure that these perform their business activities in accordance with Norwegian and internationally recognised principles and guidelines on human and employee rights, the environment, anti-corruption and health, safety and the environment (HSE). These requirements are part of all contracts entered into by Hafslund, and also apply to subcontractors. The Sellihca qualification scheme is used to select suppliers who satisfy the above requirements applying guidelines based on International Labour Organization (ILO) and UN conventions. Hafslund audits its own suppliers to verify that its guidelines are being met and that non-



## Report from the Board of Directors 2016



### Strong focus on health, safety and the environment.



HAFSLUND SHALL BE AN ATTRACTIVE WORKPLACE THAT PROMOTES INNOVATION AND CREATIVITY.

conformances are rectified. Sellihca also performs audits on behalf of Hafslund and other energy businesses.

#### Employees

Hafslund aims to be an attractive workplace that promotes innovation and inventiveness in accordance with the company's vision: "Energy solutions for the future – for you and the environment". At the reporting date the Group employed 1,155 (1,117) staff 1,136 (1,098) full-time equivalents.

Hafslund aims to have an equal gender balance at all levels of the business. In 2016, 39 (38) percent of the Group's employees were women, and 61 (62) percent were men. Hafslund shall ensure that no discrimination takes place based on gender, ethnicity, national background, origin, skin colour, language, religion or belief with regard to areas such as salaries, promotion and recruitment. In 2016 the Group focused on increasing the share of female applicants in order to improve gender balance among applicants. Eight members serve on the Board of Hafslund ASA, three of whom are women and five of whom are men. Group management comprises three women and five men. The subsidiaries' management teams comprise on average 24 (22) percent women and 76 (78) percent men.

Management development programmes are held each year in order to further improve the Group's management competence. The "Power" and "Growth" management development programmes were held in 2016. A competence management system has been introduced in parts of the Group in order to enhance performance management and strategic competence development, identify future competence requirements and implement measures to develop and attract the right skills.

#### Health, safety and environment

Health, safety and environment is accorded a high priority throughout the Group. Hafslund aims to achieve zero injuries among its own employees and suppliers. The Group thus systematically works to reduce the number of injuries. Reporting of undesired incidents and close follow-up of serious incidents and near misses are an important part of the systematic HSE work. A total of 1,762 incidents were reported in 2016 (1,484).

In total 8 (12) lost-time injuries and 18 (8) non-lost-time injuries were registered among Hafslund employees and suppliers working at Hafslund's sites. This corresponds to an injury rate for the Group of 2 (3.5) lost-time injuries per million working hours (H1 indicator) and a total injury frequency (number of lost-time and non-lost-time injuries per million working hours (H2 indicator) of 8 (6.2). One lost-time injury related to an employee, while the other injuries occurred in connection with supplier activities at Hafslund's sites.

#### Sickness absence

Hafslund has a target of ensuring that overall sickness absence in the Group remains below 4 percent. Sickness absence declined in 2016, and closed the year on 4.4 percent (4.6 percent). Long-term absence (more than 16 days) accounted for the majority of absence (2.3 percent). Measures have been implemented in the areas of the Group where sickness absence has been highest. These have focused on mapping, training activities and closer follow-up from managers.

## Report from the Board of Directors 2016

### RISK

Hafslund is exposed to risk in a number of areas, including risk of a market-related, regulatory, financial, operational, reputational and political nature. Risk management at Hafslund is an integral part of the Group's business activities, designed to secure achievement of strategic and operational targets. Hafslund has established guidelines and frameworks for active and coordinated risk management. Overall Group-level risk is reviewed by the Board and the Audit Committee.

### Market risk

The market price of electricity affects all the business areas, and is one of several important factors affecting the Group's results. Programmes for hedging future hydropower and district heating production have been established with a view to stabilising the Group's earnings. The Power Sales business uses hedging in order to balance its exposure to customers and purchases of the power in the spot market. Networks has to cover power losses in the network through ongoing purchases of power. The company manages market risk by trading in financial instruments. The key risk

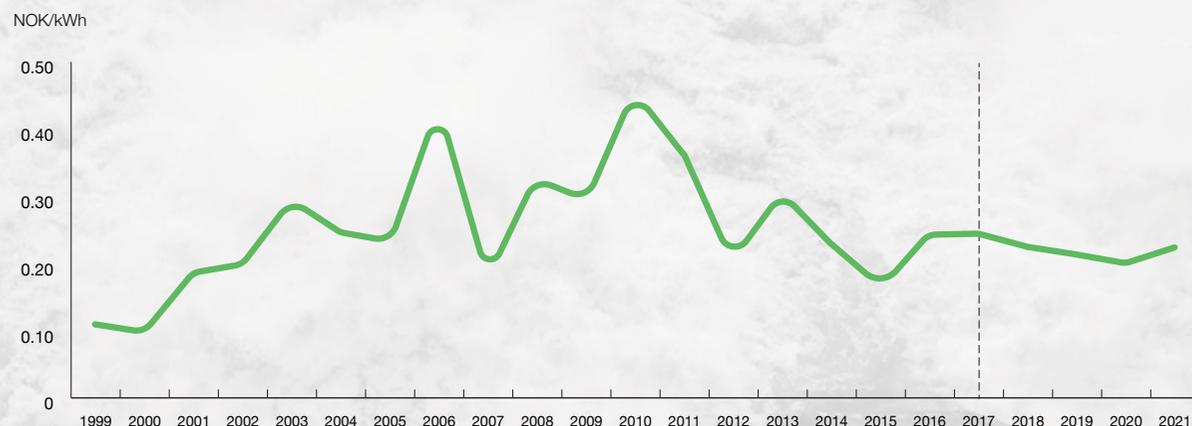
element for the power sales business relates to its customer base. Hafslund is also exposed to changes in prices of raw materials relating to waste and other fuels used for district heating.

### Financial risk

The Group's finance department manages and hedges foreign currency exposure in order to reduce the Group's foreign exchange risk in relation to power trading, purchases of goods and services, and foreign currency borrowings. Hafslund is exposed to interest rate risk on its interest-bearing debt. Interest is also included as an element of income for several of the Group's business areas. The Group endeavors to reduce interest rate risk by leveraging the Group's inherent interest-hedging by endeavoring to correlate the interest rate exposure in connection with the reference rate for Networks' regulated revenue, which in turn affects Heat, and Production's tax-free allowance used in the calculation of resource rent tax with interest on the debt. The Group has long-term committed drawdown facilities in order to secure financing, even in periods when it may be difficult to obtain financing in the capital markets. Insurance policies are also in place to cover all material types of claims.

Counterparty risk in the power market is minimised through the use of standardised contracts that are settled via Nasdaq OMX Commodities. The Group has historically experienced low losses on receivables due to its diversified receivables portfolio. Following the introduction of joint invoicing in 2016, the network operator now invoices the power supplier for network rental, who includes the network rental in its electricity invoice. Changes in the Group's receivables as a result of joint invoicing are managed using guarantees. The Board has approved the guidelines and frameworks that govern the management of financial risk.

### ► Power price development



Source: NO1, NordPool Spot, Nasdaq OMX per 1 March 2017.

## Report from the Board of Directors 2016

### Regulatory risk

Production's, Heat's and Networks' activities are regulated and subject to public regulation. The Networks business is a natural monopoly with publicly-regulated earnings. Networks annual regulated income is determined each year by the Norwegian Water Resources and Energy Directorate (NVE), and there can be unforeseen fluctuations due to changes in the regulatory model. Changes in interest rates also impact Heat's earnings, since the network tariff is included in the price regulation. Regulatory changes relating to other areas, for example electricity tax and el-certificates, also represent a potential risk.

### Operational risk

Hafslund is exposed to operational risk along the entire business chain. The greatest operational risk attaches to ongoing operations and project implementation. Hafslund manages operational risk through detailed procedures for activities, controls and contingency plans. Risk relating to security of supply is also included as a key element of the overall risk profile at Group level.

The Group has established systems for registering and reporting censurable matters, undesired incidents and injuries. Risk analyses are performed annually with a view to evaluating and planning any required measures.

### OWNERSHIP STRUCTURE AND SHAREHOLDERS

Hafslund ASA has two classes of shares, with A shares granting voting rights at general meetings of the Group's shareholders. The reason for this is historical and deviates from the Norwegian Code of Practice for Corporate Governance. At the end of 2016 the Group's share capital totaled NOK 195,186,264, divided between 115,427,759 A

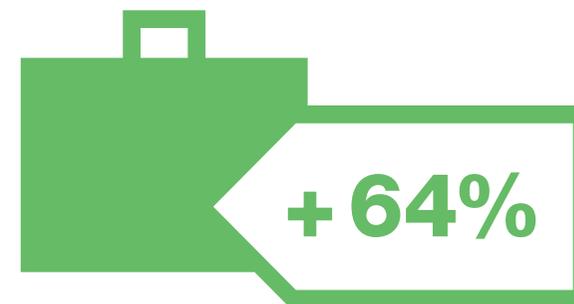
shares and 79,758,505 B shares. At the reporting date the A shares were valued at NOK 94.25 (NOK 59.75) and the B shares at NOK 95.00 (NOK 58.75), and the company's total market capitalisation was NOK 18.5 billion. The return (change in value + dividend) in 2016 totaled 64.4 percent. By comparison, the Oslo Stock Exchange's main index OSEBX (OSEBX is adjusted for dividends) was up 12.1 percent.

At the reporting date the City of Oslo was Hafslund ASA's largest shareholder, with 53.7 percent of share capital, comprising 58.5 percent of A shares and 46.8 percent of B shares. Fortum Forvaltning AS was the second-largest shareholder with 34.1 percent of the share capital, comprising 32.8 percent of A shares and 36.0 percent of B shares. At the end of the year Hafslund owned 263,289 B shares and one treasury A share, and Hafslund ASA had a total of 6,307 shareholders.

### The work of the Board of Directors

Hafslund's Board has worked in accordance with the adopted rules of procedure for the Board. Hafslund's principles for and statement on corporate governance are discussed at [www.hafslund.no](http://www.hafslund.no). There is agreement within Hafslund not to establish a Corporate Assembly. Consequently, the Board reports directly to the general meeting.

The Board participates in strategic discussions throughout the year, and reviews the Group's strategy once a year. In 2016 the Board focused in particular on developing expertise on digitalisation and innovation throughout the Group, the investment projects for smart meters and the new aggregate at Vamma, operational improvements and further development of the Markets business area.



HAFSLUND'S SHARES  
INCLUDING DIVIDENDS ROSE BY  
64 PERCENT IN 2016.



**Key focus areas in 2016 included digitalisation and innovation, investment projects and development of the Markets business area.**

## Report from the Board of Directors 2016

At the Annual General Meeting on 3 May 2016 Birger Magnus and Ellen Christine Christiansen were re-elected to the Board with a term of office until the Annual General Meeting of 2018. Katrine Mourud Klaveness was elected as a new Board member with a term of office until the Annual General Meeting in 2018. Anders Berg was elected as a new member of the Nomination Committee, while Stig Bech and Timo Karttinen were re-elected to the Nomination Committee with a term of office until the Annual General Meeting in 2018.

Hafslund satisfies the statutory requirements for representation of both genders on the Board. The Board carries out an annual appraisal of its working practices, competence and working relationship with management, as a basis for change measures. In 2016 external assistance was used to evaluate the work of the Board. The Board's Compensation Committee prepares matters for review by the Board and resolutions on compensation and other associated matters concerning the company's senior executives. In 2016 the Compensation Committee comprised Birger Magnus (Chair), Per Langer, Ellen Christine Christiansen and Per Orfjell. The Board's Audit Committee assists the Board in the preparation of the financial statements and internal controls, and since the 2016 Annual General Meeting has comprised Odd Håkon Hoelsæter (Chair), Katrine Mourud Klaveness and Per Luneborg.

### DIVIDEND AND APPROPRIATION OF THE ANNUAL RESULT

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. At the Annual General Meeting to be held on 3 May 2017, the Board will propose that a

dividend of NOK 3.25 (NOK 3.00) per share, a total of NOK 634 million, be paid for the 2016 financial year. The Board proposes the following appropriation of Hafslund ASA's net profit for the year of NOK 284 million:

Transferred from other equity	<b>NOK 350 million</b>
Appropriation of net result for the year	<b>NOK 284 million</b>
Proposed dividend	<b>NOK -634 million</b>

### 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, and is a medium-sized power producer.

The regulated networks business accounts for around half of Hafslund's employed capital and secures 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 smart meters and requirements for greater differentiation between Networks and other business areas. The power

sales business is exposed to very tough competition, and profitability and growth will be conditional 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. Per 1 March 2017 the listed power price for price area NO1 for deliveries of power in 2017 was 24 øre/kWh, the same level as for 2016.

Hafslund will increase its investments to a yearly average around 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 smart meters and the construction of a new aggregate at Vamma with total investment frameworks of respectively NOK 2.4 billion and NOK 920 million.

The improvement in results means Hafslund is well positioned for further development and growth. The Group will continue to pursue existing organic growth opportunities, and seek out new areas for both organic and structural growth. The Group's activities shall deliver renewable energy and contribute environmental solutions. New technology and digitalisation shall be leveraged to create new business opportunities, and to develop processes and the organisation. Ongoing improvement work will continue to give the Group a competitive advantage. The Group's long-term dividend policy is to provide stable distributions which over time equate to at least 50 percent of the net result for the year.

## Report from the Board of Directors 2016

### The Board of Directors of Hafslund ASA

Oslo, 20 March 2017

Birger Magnus  
*Chairman of the Board*

Katrine Mourud  
Klaveness

Per Langer

Odd Håkon  
Hoelsæter

Ellen Christine  
Christiansen

Per Orfjell

Per Luneborg

Jane Koppang

Finn Bjørn Ruyter  
*CEO*



# Financial statements and notes Hafslund Group

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## Income statement, Statement of other comprehensive income

NOK million	Notes	1 January – 31 December	
		2016	2015
Sales revenues	5	13,788	11,905
Purchases of goods and energy		(7,954)	(6,264)
Salaries and other personnel expenses	18, 21, 22	(922)	(992)
Other (losses)/gains – net	19	156	67
Other operating expenses	20	(1,938)	(1,841)
Share of profit of associates	9, 25	13	45
<b>EBITDA</b>		<b>3,143</b>	<b>2,920</b>
Depreciation and amortisation	6, 7, 8	(919)	(920)
Impairments	6, 7, 8	(31)	(27)
<b>Operating profit</b>		<b>2,193</b>	<b>1,973</b>
Financial expenses	23	(217)	(288)
<b>Profit before tax</b>		<b>1,976</b>	<b>1,686</b>
Tax expense	17	(573)	(402)
<b>Profit for the year</b>		<b>1,402</b>	<b>1,284</b>
<b>Attributable to:</b>			
Owners of the parent		1,401	1,282
Non-controlling interests		(1)	(1)
<b>Earnings per share (NOK per share)</b>			
Earnings per share (= diluted earnings per share)	14	7.19	6.58

Notes 1 to 27 are an integral part of the consolidated financial statements.

NOK million	Notes	1 January – 31 December	
		2016	2015
<b>Profit for the year</b>		<b>1,402</b>	<b>1,284</b>
<b>Items that can subsequently be reclassified to the income statement</b>			
Gains (losses) deriving from cash flow hedging	10	(124)	109
Translation differences		(63)	48
Tax	17	31	(27)
<b>Total items that can subsequently be reclassified to the income statement</b>		<b>(156)</b>	<b>130</b>
<b>Items that cannot subsequently be reclassified to the income statement</b>			
Estimate deviations pensions	18	(137)	304
Tax	17	34	(76)
<b>Total items that cannot subsequently be reclassified to the income statement</b>		<b>(103)</b>	<b>228</b>
<b>Other comprehensive income for the year</b>		<b>(259)</b>	<b>358</b>
<b>Total comprehensive income for the year</b>		<b>1,143</b>	<b>1,642</b>
<b>Attributable to:</b>			
Owners of the parent		1,142	1,641
Non-controlling interests		1	1
<b>Total comprehensive income for the year</b>		<b>1,143</b>	<b>1,642</b>

Notes 1 to 27 are an integral part of the consolidated financial statements.

## Balance sheet

NOK million	Notes	31 December	
		2016	2015
<b>Assets</b>			
Property, plant and equipment	<a href="#">6</a>	19,610	19,302
Intangible assets	<a href="#">7</a>	2,880	2,933
Investments in associates	<a href="#">9</a>	335	338
Long-term receivables	<a href="#">10, 11, 18</a>	185	199
<b>Non-current assets</b>		<b>23,011</b>	<b>22,772</b>
Inventories		99	61
Trade and other receivables	<a href="#">10, 12</a>	2,852	2,494
Shares and units	<a href="#">10</a>	20	
Derivatives	<a href="#">3, 10</a>	187	501
Cash and cash equivalents	<a href="#">10, 13</a>	572	724
<b>Current assets</b>		<b>3,729</b>	<b>3,780</b>
<b>Total assets</b>		<b>26,740</b>	<b>26,552</b>
<b>Equity and debt</b>			
Paid-in equity	<a href="#">14</a>	4,275	4,275
Retained earnings		5,292	4,734
Non-controlling interests		4	4
<b>Equity</b>		<b>9,571</b>	<b>9,013</b>
Borrowings	<a href="#">10, 16</a>	8,120	8,547
Deferred tax liability	<a href="#">17</a>	3,323	3,251
Pension debt	<a href="#">18</a>	98	58
<b>Long-term debt</b>		<b>11,542</b>	<b>11,856</b>
Trade and other current payables	<a href="#">10, 15</a>	2,904	2,601
Derivatives	<a href="#">3, 10</a>	148	431
Tax payable	<a href="#">17</a>	356	340
Borrowings	<a href="#">10, 16</a>	2,218	2,311
<b>Current liabilities</b>		<b>5,626</b>	<b>5,683</b>
<b>Total liabilities</b>		<b>17,169</b>	<b>17,539</b>
<b>Total liabilities and equity</b>		<b>26,740</b>	<b>26,552</b>

Notes 1 to 27 are an integral part of the consolidated financial statements.

### The Board of Directors of Hafslund ASA

Oslo, 20 March 2017

Birger Magnus  
*Chairman of the Board*

Katrine Mourud  
Klaveness

Per Langer

Odd Håkon Hoelsæter

Ellen Christine  
Christiansen

Per Orfjell

Per Luneborg

Jane Koppang

Finn Bjørn Ruyter  
*CEO*

## Statement of cash flow

NOK million	Notes	1 January – 31 December	
		2016	2015
<b>EBITDA</b>		<b>3,143</b>	<b>2,920</b>
Adjustments for:			
– gains/losses on disposal of operating assets and activities		(38)	(62)
– gains/losses on financial assets at fair value through profit or loss		(100)	89
– other items with no cash flow effect		(13)	(45)
Changes in working capital:			
– Inventories		(37)	(14)
– Trade and other receivables		(446)	(73)
– Trade and other current payables		261	149
<b>Cash flow from operating activities</b>		<b>2,770</b>	<b>2,963</b>
Interest paid		(350)	(419)
Tax paid		(379)	(343)
<b>Net cash flow from operating activities</b>		<b>2,041</b>	<b>2,201</b>
Investments in operations	6, 7	(1,514)	(1,282)
Sale of property, plant and equipment		299	186
Purchased businesses, shares etc.		(28)	(24)
Disposals of shares etc.		118	200
<b>Cash flow from investing activities</b>		<b>(1,125)</b>	<b>(919)</b>
New long-term borrowings	16	2,121	1,800
Repayments of borrowings	16	(2,569)	(2,674)
Change in interest-bearing receivables	11		30
Dividends and other equity transactions		(586)	(487)
<b>Cash flow from financing activities</b>		<b>(1,034)</b>	<b>(1,331)</b>
<b>Change in cash and cash equivalents</b>		<b>(118)</b>	<b>(49)</b>
Cash and cash equivalents as of 1 January		724	742
Foreign exchange gains/(losses) cash and cash equivalents		(34)	31
<b>Cash and cash equivalents as of 31 December</b>	10, 13	<b>572</b>	<b>724</b>

Notes 1 to 27 are an integral part of the consolidated financial statements.

## Statement of changes in equity

NOK million	Share capital	Share premium	Other paid-in equity	Pension estimate deviations	Translation differences	Retained earnings	Equity attributable to owners of the parent	Non-controlling interests	Total equity
<b>Equity as of 31 December 2014</b>	<b>195</b>	<b>4,080</b>	<b>76</b>	<b>231</b>	<b>23</b>	<b>3,255</b>	<b>7,860</b>	<b>17</b>	<b>7,877</b>
Profit for the year						1,284	1,284		1,284
Other comprehensive income				228	48	82	358		358
<b>Total comprehensive income for the year</b>				<b>228</b>	<b>48</b>	<b>1,366</b>	<b>1,642</b>		<b>1,642</b>
<b>Transactions with owners:</b>									
Change in non-controlling interests								(13)	(13)
Dividend for 2014						(487)	(487)		(487)
Change in treasury shares			(3)			11	8		8
Other changes in equity			(17)			3	(14)		(14)
<b>Equity as of 31 December 2015</b>	<b>195</b>	<b>4,080</b>	<b>56</b>	<b>459</b>	<b>71</b>	<b>4,148</b>	<b>9,009</b>	<b>4</b>	<b>9,013</b>
Profit for the year						1,401	1,401	1	1,402
Other comprehensive income				(103)	(63)	(93)	(259)		(259)
<b>Total comprehensive income for the year</b>				<b>(103)</b>	<b>(63)</b>	<b>1,308</b>	<b>1,142</b>	<b>1</b>	<b>1,143</b>
<b>Transactions with owners:</b>									
Dividend for 2015						(586)	(586)	(1)	(587)
Other changes in equity						2	2		2
<b>Equity as of 31 December 2016</b>	<b>195</b>	<b>4,080</b>	<b>56</b>	<b>356</b>	<b>8</b>	<b>4,872</b>	<b>9,567</b>	<b>4</b>	<b>9,571</b>

The Board has proposed a dividend of NOK 3.25 per share for the 2016 financial year. The corresponding figure for 2015 was NOK 3.00 per share.

Notes 1 to 27 are an integral part of the consolidated financial statements.

## Note 1, 2

### NOTE 1 ► GENERAL INFORMATION

Hafslund ASA (the company) including its subsidiaries (later referred to as Hafslund) is listed on the Oslo Stock Exchange. Hafslund is Norway's largest network, power sales and district heating company, and a medium-sized Norwegian power producer.

While the power sales business essentially operates in Norway, Sweden and Finland, the other business areas are active in Norway. The Hafslund Group performs its activities through subsidiaries and associates. The company is headquartered in Oslo. The consolidated financial statements were adopted by the company's Board on 20 March 2017.

### NOTE 2 ► KEY ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. Unless otherwise stated, these policies are applied in the same way for all accounting periods.

#### 2.1 Framework for presentation of financial statements

Hafslund ASA's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) and interpretations issued by the IFRS Interpretation Committee (IFRIC), as established by the EU. These financial statements contain no differences between IFRSs as established by the EU and the IASB. The consolidated financial statements have been prepared under the historical cost convention. Exceptions to the above primarily relate to financial assets and liabilities (including

derivatives) measured at fair value through profit or loss. The preparation of financial statements in accordance with IFRSs requires the use of estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. Areas involving a high degree of judgement or complexity, or areas where assumptions and estimates are material to the consolidated financial statements are disclosed in [Note 4](#).

The consolidated financial statements have been prepared in accordance with the going concern assumption.

#### a) New and amended standards adopted by the Group

While several accounting standards have entered into force for the Group since 1 January 2016, none of these have materially affected the financial statements for 2016. The most relevant of the new standards that have been adopted by the company since 1 January 2016 are:

- Amendment to IAS 1 Presentation of Financial Statements
- Amendment to IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets

#### b) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early-adopted by the Group.

The Group has elected not to early-adopt any new or amended IFRS standards or IFRIC interpretations, with the exception of IFRS 9. The Group will apply IFRS 9 from 1 January 2017. Several new standards, amendments to the standards and interpretations are mandatory for future annual financial statements. Accounting standards that have been approved by the IASB at year-end 2016 of most importance for the Group include the following standards and amended IFRS standards:

#### IFRS 9 Financial Instruments

*IFRS 9 Financial Instruments*, which replaces IAS 39 and deals with classification, measurement and de-recognition of financial assets and liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets.

Matters of most relevance for Hafslund covered by the accounting standard include:

- In accordance with IFRS 9, financial assets are classified in three categories: Fair value through other comprehensive income, fair value through profit or loss and amortised cost. The measurement category is determined on first-time recognition of the asset. The classification is contingent on the entity's business model for management of its financial instruments and the nature of the cash flows for the individual financial instrument.
- The standard essentially continues the requirements of IAS 39 for financial liabilities. The most significant change is in cases where the fair value option has been applied for a financial liability, where changes in fair value attributable to changes in inherent credit risk are now recognised in other comprehensive income. Including changes in fair value attributable to changes in inherent credit risk, fair-value changes in loans of NOK -87 million were recorded under Financial expenses in 2016 (NOK -137 million in 2015). From 1 January 2017, fair-value changes relating to changes in inherent credit risk are recognised in other comprehensive income.

## Note 2

- On implementation, Hafslund can opt to classify end-user contracts as for own use at fair value through profit or loss. Hafslund will adopt this accounting policy and classify all end-user contracts at fair value from 1 January 2017.
- Impairments attributable to credit risk are now recognised based on expected losses rather than the current model where losses must already have been incurred. The new impairment model is based on expected credit losses that could result in earlier provisions for losses on lending.
- Under the new rules for hedge accounting in IFRS 9, recognition will in practice be more closely aligned with the Group's risk management. In general, it will therefore be easier to apply hedge accounting in future since the standard introduces a more principle-based approach, with expanded disclosure requirements. Hafslund continually hedges some of its hydropower volume, and enters into hedging transactions for the district heating business. See [Note 10](#) for a more detailed discussion.

IFRS 9 applies from 1 January 2018, though early adoption is permitted. The standard was approved by the EU in November 2016. The Group has chosen to use the option of early application with implementation from 1 January 2017. IFRS 9 requires retrospective implementation, but has transitional rules that permit comparative figures not to be restated. Hafslund will utilise these transitional rules. The implementation effect will be recognised in Other equity as of 1 January 2017 and is not expected to have a material impact on the consolidated financial statements.

### IFRS 15 Revenue from Contracts with Customers

IFRS 15 Revenue from Contracts with Customers deals with revenue recognition. The standard replaces IAS 18

Revenue and IAS 11 Construction Contracts and associated interpretations. The new standard is based on the principle that revenue is recognised when control over a product or service has been transferred to the customer. Control thus replaces risk and return as the determining condition.

In accordance with IFRS 15, revenue is recognised in the amount that reflects the consideration that a company expects to receive in exchange for the transfer of products or services to a customer. The new principles in IFRS 15 adopt a more structured approach to measurement and recognition of revenue than previous standards. IFRS 15 was adopted by the IASB in May 2014 and establishes a new five-step model for revenue arising from contracts with customers. The five steps are:

1. Identification of customer contracts,
2. Identification of individual performance obligations,
3. Determination of transaction price,
4. Allocation of price to individual performance obligations, and
5. Recognition of revenue when the performance obligations has been satisfied.

Hafslund is currently implementing IFRS 15 and is performing a separate assessment of the five-step model. All five steps in IFRS 15 could impact how Hafslund recognises revenue from its contracts to some degree. Hafslund has concluded its assessment of some, though not all, revenue flows, and is still reviewing implementation and identification of the final effects. The conclusion from the above reviews was as follows:

- **Sales of power and district heating**  
Sales of power are recognised in income at the time of delivery to the customer. Realised revenues from physical

and financial trading in power contracts are recognised as sales revenues. Sales of district heating are recognised in the income statement in accordance with the customer's estimated consumption of district heating. Hafslund has concluded that IFRS 15 will not impact the timing of recognition of sales of power and district heating to its customers.

- **Network rental revenue**

Actual income for a network company comprises the tariffs, power output and actually transmitted energy volumes at any one time in the network company's supply area. The network operator also receives income from installation contributions to cover costs relating to the connection of new network customers and reinforcement of the network for existing customers. Deliveries of both network rental and installation contributions can be interpreted as a joint performance obligation or separate deliveries. Based on the assessment, the company has provisionally concluded that IFRS 15 will have a limited effect on the timing of recognition of network rental and accounting treatment of installation contributions. Revenue for installation contributions/installation is recognised on delivery. A more detailed, specific assessment of the effects on the financial statements of IFRS 15 in respect of revenue from installation contributions will be prepared in 2017.

- **Sales of benefit products**

Benefit products are financial products and services, none of which involve physical product deliveries to customers. The products can essentially be split into four main categories:

- Various insurance products and agreements that hedge customers against high power prices

## Note 2

- Services and consultancy relating to energy efficiency and power-saving
- Environmental and various other agreements for electricity with guarantees of origin
- Payment solutions/credit accounts for electricity invoices.

Based on analyses of the benefit products performed to date, the company has concluded that IFRS 15 will not materially impact revenue recognition for these products.

The Group will apply IFRS 15 from 1 January 2018 under the modified retrospective approach. The implementation effect will be booked as an adjustment of other equity as of 1 January 2018. The cumulative effect of the implementation of IFRS 15 on total sales, expenses, assets and liabilities relating to customer contracts has not been finally calculated; however, the application of IFRS 15 is not expected to have a material impact.

### IFRS 16 Leases

*IFRS 16 Leases* was adopted by the IASB in January 2016. Under the current rules, lessees recognise leases either as operating leases or finance leases. The new standard abolishes the previous distinction between operating and finance leases, since both types of agreement transfer the right of use to a specific asset from the lessor to lessee for a specific period. The standard has to a large extent retained existing accounting principles from IAS 17 Leases; however with expanded disclosure requirements for the lessor. In brief, IFRS 16 involves the following amendments:

- All leases shall now, with a few practical exceptions, be recognised in the balance sheet and in accordance with a model similar to the prescribed treatment of finance leases under IAS 17.

- For lessees, both the value of the right of use of an asset and the corresponding lease obligation shall be recognised in the balance sheet.
- However, it is not always necessary to recognise the entire lease in the balance sheet. The main rule in IFRS 16 is that agreements that contain multiple elements, for example, a right of use to multiple assets, or a right of use and a service, shall be split into the individual elements and each element shall be assessed independently. Only identified rights of use and associated liabilities are recognised in the balance sheet. The payments under the agreement must be allocated between the lease(s) and other payments under the contract.

Hafslund's leases are operating leases and have varying maturities, price-adjustment clauses and prolongation rights. A total of NOK 190 million was recognised in income in 2016 (NOK 188 million in 2015) for the lease of office buildings and transformer substations. At the reporting date, Hafslund had total future lease obligations for office buildings and transformer substations of a nominal amount of NOK 937 million (NOK 972 million in 2015).

IFRS 16 comes into effect for financial years starting on 1 January 2019 or later. It is possible to early-adopt the standard; however, this would also oblige the company to adopt IFRS 15 Revenue from Contracts with Customers. The standard has not yet been approved by the EU, but is expected to be adopted during 2017. The Group will most probably not utilise the option for early adoption.

The Group has not yet fully qualified the effects of the new rules on the consolidated financial statements and the implementation effect on Other equity as of 1 January 2018. The Group will review the effect in more detail in 2017.

### IAS 7 Statement of Cash Flows

In January 2016 the IASB adopted an amendment to *IAS 7 Statement of Cash Flows* introducing requirements for a new reconciliation that will enable users of financial statements to interpret and assess changes in the liability. The amendment is part of the IASB's Disclosure Initiative, which is examining ways of improving notes disclosures in financial statements. The amendment enters into force from 1 January 2017. The Group shall present a reconciliation to enable readers to understand the changes in the liability as a result of financing activities. The reconciliation will thus show changes resulting from:

- Cash flows, such as new, and repayment of, borrowings, and
- Changes with no cash effect, for example, acquisitions, de-consolidation, leases and unrealised currency changes.

“Liabilities” as such are not defined under current IFRSs. The IASB therefore decided to require a reconciliation of changes in liabilities in which the cash flows when the liability arose, or future cash flows on repayment, are classified as financing activities in the statement of cash flow. Disclosures shall also include changes in financial assets (for example, assets that hedge financing liabilities) in the new reconciliation if such cash flows have been, or will be, included in the cash flow from financing activities.

The Group will apply the new requirements from 1 January 2017, but has not yet qualified the effect of the new disclosure requirements on the consolidated financial statements.

There are no other IFRS standards or interpretations that have not yet entered into force that are expected to have a material impact on the consolidated financial statements.

## Note 2

### 2.2 Basis of consolidation

#### a) Subsidiaries

Subsidiaries are all entities over which the Group exercises control. Control over an entity arises when the Group is exposed to variability in the return from the entity and has the ability to impact this return by virtue of its influence over the entity. Subsidiaries are consolidated from the day control arises and deconsolidated when control ceases.

The purchase method is applied for business acquisitions. The consideration is measured at the fair value of any transferred assets, liabilities or issued equity instruments. Identifiable assets and liabilities and contingent liabilities assumed in a business combination are initially measured at their fair value at the acquisition date. Non-controlling interests in the acquired company are measured on an acquisition-by-acquisition basis, either at fair value, or at their proportionate share of the company's net assets. Acquisition-related costs are expensed as incurred.

When a business is acquired in stages the shareholding from previous purchases is revalued at fair value at the time control is established with changes in value being recognised in the income statement. Contingent consideration is measured at fair value at the time of acquisition. In accordance with IAS 39 subsequent changes in the fair value of contingent consideration are recognised in income or as a change in other comprehensive income depending on whether the contingent consideration is classified as an asset or liability. Contingent consideration classified as equity is not revalued, and subsequent settlement is recognised in equity.

If the consideration transferred (including any non-controlling interests and the fair value of previous assets) exceeds

the fair value of identifiable net assets acquired, this is recognised as goodwill. If the consideration transferred (including any non-controlling interests and the fair value of previous assets) is less than the fair value of net assets in the subsidiary due to the fact that the purchase has been concluded on favourable terms, the difference is recognised as a gain in the income statement.

Intragroup transactions, intragroup balances and unrealised intragroup gains or losses are eliminated. Reported figures from the subsidiaries are restated when this is necessary to achieve consistency with the Group's accounting policies.

#### b) Change in shareholding in subsidiaries without loss of control

Transactions with non-controlling interests in subsidiaries that do not involve loss of control are treated as equity transactions. When shares are purchased from non-controlling owners, the difference between the consideration and the proportionate percentage of net assets recognised in the subsidiary's balance sheet relating to such shares is recognised in the parent company's owners' equity. Gains or losses on disposals of non-controlling interests are similarly recognised in equity.

#### c) Divestment of subsidiaries

When the Group no longer has control, any residual interest is measured at fair value with changes in value being recognised through profit or loss. Thereafter the fair value is deemed to equate to cost, and the interest is valued either as an investment in associates or joint ventures or as a financial asset. Amounts previously recognised in other comprehensive income relating to this company are treated as if the Group had disposed of the underlying assets and liabilities. This could mean that amounts that were previously

recognised in other comprehensive income are reclassified through profit or loss.

#### d) Associates

Associates are all entities over which Hafslund exerts significant influence, but not control. Significant influence will generally exist when the Group has a shareholding of between 20 and 50 percent of the voting rights. Investments in associates are recognised in accordance with the equity method. Investments are recognised at cost at the time of acquisition, and the Group's share of the results in subsequent periods is recognised in income or expenses. Amounts recognised in the balance sheet include any implicit goodwill identified at the time of acquisition. On the reduction of a shareholding in an associate where the Group retains significant influence, only a pro rata share of amounts previously recognised in other comprehensive income is reclassified in the income statement.

The Group's share of its associates' post-acquisition profits or losses is recognised in the income statement and added to the book value of the investment. The Group's share of other comprehensive income of the associate is recognised in consolidated comprehensive income and added to the value of the investments in the balance sheet. The Group does not recognise any share of an associate's losses in income if this results in the book value of the investment falling below zero (including unsecured receivables from the entity), unless the Group has assumed liabilities or made payments on behalf of the associate.

At the end of each accounting period the Group determines whether there is any need to recognise an impairment of the investment in the associate. In such cases the impairment amount is measured as the difference between the recoverable amount of the investment and its book value,

## Note 2

and the difference is recognised in income on a separate line together with the item Share of profit of associates.

In the event of any gains or losses on transactions between the Group and its associates, only the proportionate share relating to external shareholders is recognised. Unrealised losses are eliminated unless there is a need to recognise an impairment for the asset that was the subject of the transaction. Where necessary, the financial statements of associates have been restated to ensure consistency with the accounting policies adopted by the Group, with the exception of associates that are investment companies. Dilution gains and losses arising on investments in associates are recognised in the income statement.

### 2.3 Segment information

The operating segments are reported using the same structure used in the Group's internal reporting to the chief operating decision-maker. The Group's chief operating decision-maker, which is responsible for allocation of resources to and assessment of earnings generated by the operating segments, is defined as Group management.

### 2.4 Translation of foreign currency

#### a) Functional currency and presentation currency

The Group's single entity financial statements are recorded in the currency that is used in the area where the entity primarily operates (functional currency). The consolidated financial statements are presented in NOK, which is both the parent company's functional currency and the Group's presentation currency.

#### b) Transactions and balance sheet items

Transactions denominated in foreign currency are translated

to the functional currency using the transaction rate. All monetary items denominated in foreign currency are translated at the rate in force at the balance sheet date. Realised foreign exchange gains or losses on the settlement and translation of monetary items denominated in foreign currency to the rate in force at the balance sheet date are recognised in the income statement.

Foreign exchange gains and losses connected to borrowings and cash and cash equivalents are presented (net) as Financial income or Financial expenses. Other foreign exchange gains and losses are presented under the item Other (losses)/gains – net.

The currency effect of non-monetary items (both assets and liabilities) is included as part of fair value recognition. Foreign exchange differences on non-monetary items, such as shares valued at fair value through profit or loss, are recognised in the income statement as part of total gains and losses. Foreign exchange differences on shares classified as available for sale are included in changes in value that are recognised in other comprehensive income.

#### c) Group companies

The income statements and balance sheets of Group companies whose functional currency differs from the presentation currency are translated in the following manner:

- The balance sheet, including goodwill and excess values on acquisitions, is translated at the rate in force at the balance sheet date.
- Revenues and expenses are translated to NOK using the average exchange rate.
- Translation differences are recognised in other comprehensive income and specified separately in equity.

### 2.5 Property, plant and equipment

Property, plant and equipment is recognised in the balance sheet at cost less accumulated depreciation and impairments. Cost includes expenses directly connected to the acquisition of the operating asset, including directly attributable borrowing costs. Subsequent costs are included in the asset's book value or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The book value of the replaced part is de-recognised. Other repair and maintenance expenses are recognised through profit or loss in the period in which the expenses are incurred. Land is not depreciated. Depreciation of other operating assets is calculated using the straight-line method so that the assets' cost is written down to net realisable value over the assets' expected useful economic life as follows:

Power facilities	20-50 years
Heating facilities	10-50 years
Network facilities	10-50 years
Fibre optic networks, technical equipment and chattels	3-30 years
Other property	20-50 years

## Note 2

The assets' residual values and useful economic lives are reviewed, and adjusted if appropriate, at the end of each reporting period. When an operating asset's carrying amount is greater than its estimated recoverable amount, the value is written down to the recoverable amount ([Note 2.7](#)). Gains and losses on the disposal of operating assets are recognised in the income statement under Other (losses) gains – net, and comprise the difference between the cost to sell and book value.

### 2.6 Intangible assets

#### a) Waterfalls

Waterfall rights are recognised in the balance sheet at historical cost. Waterfall rights are deemed to constitute a perpetual asset where no right to reversion to state ownership exists, and are not amortised.

#### b) Goodwill

Goodwill represents the excess of the cost of acquisition over the fair value of the Group's share of the net identifiable assets of the acquired business at the date of acquisition. Goodwill in connection with the acquisition of subsidiaries is classified as an intangible asset. Goodwill is recognised in the balance sheet at cost less impairments. In subsequent evaluation of the need to recognise an impairment, goodwill is allocated to those cash-generating units that are expected to benefit from the acquisition. Impairment losses on goodwill are not reversed.

#### c) Customer portfolios

Customer portfolios are recognised at fair value in the balance sheet at the time of acquisition. The customer portfolios have a limited useful economic life and are recognised at cost less deductions for accumulated amortisation. Amortisation is calculated on a straight-line

basis over the expected average agreement period.

#### d) Customer purchase orders

Acquisition costs for access to new customers are carried at cost less deductions for amortisation. Customer purchase orders have a limited useful economic life and are recognised based on the estimated lifetime of the customer relationship. Hafslund has opted to amortise customer purchase orders on a straight-line basis over three to five years based on cumulative experience. Acquisition costs only include direct costs to sell, and each customer portfolio is considered on an individual basis.

### 2.7 Impairment of non-financial assets

Goodwill and intangible assets that have an indefinite useful economic life are not subject to amortisation, but are tested annually for impairment. Assets that are subject to depreciation or amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the book value may no longer be recoverable. An impairment loss is recognised for the amount by which the asset's book value exceeds its recoverable amount. The recoverable amount is the higher of an asset's value in use and fair value less costs to sell. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that have suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

### 2.8 Non-current assets (or disposal groups) held for sale

Non-current assets (or disposal groups) are classified as assets held for sale when their book value is to be recovered principally through a sale transaction and a sale is considered highly probable. These are stated at the lower of book value and fair value less costs to sell.

### 2.9 Financial instruments

Financial instruments are recognised when the Group becomes party to contractual conditions relating to the instrument. Financial assets and financial liabilities are classified based on the type and purpose of holding the instruments as a) at fair value through profit or loss and b) loans and receivables. Classification depends on the purpose for which the financial assets were acquired.

#### a) Financial instruments valued at fair value through profit or loss

This category has two sub-categories: i) financial instruments held for trading purposes, and ii) financial instruments that management has initially elected to classify at fair value through profit or loss. Derivatives are classified as held for trading purposes, unless these are part of an accounting hedging relationship. Financial assets and financial liabilities recognised at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the income statement. Gains or losses arising from changes in the fair value of the financial instruments at fair value through profit or loss, including interest and dividends, are recognised in the income statement under Other (losses)/gains – net in the period in which they arise. Assets and liabilities in this category are classified as current assets or current liabilities if they

## Note 2

are held for trading purposes, or if they are expected to be realised within 12 months of the balance sheet date.

### b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are initially measured at fair value plus directly attributable transaction costs. These items are subsequently recognised at amortised cost using the effective interest method, and are included in current assets, unless they mature more than 12 months after the balance sheet date. Loans and receivables are classified as Trade and other receivables and as Cash and cash equivalents in the balance sheet (see Notes [2.12](#) and [2.13](#)).

### c) Impairment of financial assets

The Group assesses whether there is objective evidence that a financial asset or group of financial assets is impaired at the end of each reporting period. Any significant or long-term fall in fair value below the cost of shares classified as available for sale will be deemed to indicate of an impairment in the value of the shares in question. Where such objective indicators exist, and impairments have previously been recognised in other comprehensive income, the accumulated loss that has been included in other comprehensive income is transferred to the consolidated income statement. The amount is measured as the difference between cost and the current fair value, less deductions for any impairment losses previously recognised in income. Impairment losses on shares and similar instruments classified as available for sale recognised in the income statement are not reversed through the income statement. When securities classified as available for sale are sold or impaired, the accumulated fair value adjustments recognised in other comprehensive income are reclassified in the income statement.

### 2.10 Derivatives and hedging

Derivatives are recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at fair value on an ongoing basis. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. Hafslund designates certain derivatives as hedges in the following hedge types:

- Hedging of variable cash flows in connection with a particular risk associated with a recognised asset or liability or a highly probable forecast transaction (cash flow hedge)

At the inception of the hedging arrangement, the Group documents the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. Hafslund documents whether the hedging instrument that is used in a hedging relationship is highly effective in offsetting changes in fair values or cash flows of the hedged items. Such assessments are documented both at hedge inception and on an ongoing basis during the hedge period.

The fair value of derivatives used in hedging relationships is shown in [Note 10](#). Changes in equity as a result of hedging activities, which are recognised in other comprehensive income, are shown in the statement of comprehensive income. The fair value of a hedging derivative is classified as a non-current asset or long-term liability if the remaining term of the hedged item is more than 12 months and as a current asset or current liability if the remaining term of the hedged item is less than 12 months. Derivatives held for trading purposes are classified as current assets or liabilities.

### Cash flow hedging

The effective portion of changes in the fair value of derivatives that are designated and qualify as hedging instruments in cash flow hedges is recognised directly in other comprehensive income. Gains or losses relating to the ineffective portion are recognised as Other (losses)/gains – net. Amounts previously recognised in other comprehensive income and accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects the income statement (for example, upon the planned sale of a hedged item). Gains or losses on the ineffective portion are recognised in the income statement as Other (losses)/gains – net.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any accumulated gain or loss recognised in other comprehensive income and accumulated in equity is transferred from equity to profit or loss and recognised when the hedge transaction is recognised in the income statement. When a hedged transaction is no longer expected to be implemented, the accumulated gain or loss that was reported in equity is immediately transferred to Other (losses)/gains – net.

### Licensed power

Hafslund has agreements to deliver licensed power to local authorities at prices established by the authorities. The purpose of licensed power is essentially to secure the provision of electrical power to local authorities at a reasonable price. Agreements on financial settlement have been entered into for some licensed power agreements and are expensed on an ongoing basis. Delivery of licensed power is deemed to be a statutory obligation, and is recognised in income on an ongoing basis in accordance with the established licensed price.

## Note 2

### El-certificates

El-certificates are recognised as a financial asset in accordance with IAS 32 and measured in accordance with IAS 39 and the rules for foreign currency in IAS 21. This means that the holdings of el-certificates, receivables from el-certificates, forward contracts on el-certificates and the cancellation liability with Statnett are measured at fair value through profit or loss. The effects of changes in fair value are recognised as Other (losses)/gains – net in the income statement. El-certificate holdings are classified as cash and cash equivalents and forward contracts are classified as financial assets or financial liabilities in the balance sheet. The cancellation liability with Statnett is recognised under Other current liabilities.

### 2.11 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first-in, first-out (FIFO) method.

### 2.12 Trade receivables

Trade receivables are initially recognised at fair value. Trade receivables are subsequently recognised at amortised cost using the effective interest method less provision for any bad debts.

### 2.13 Cash and cash equivalents

Cash and cash equivalents include cash in hand, bank deposits, el-certificate holdings, and other short-term, highly liquid investments with original maturities of three months or less.

### 2.14 Share capital and share premium account

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are reported in equity as a deduction from the proceeds. Where any Group company purchases the company's equity share capital (treasury shares), the consideration paid, including any transaction costs, net of taxes, is deducted from equity attributable to the parent company's equity holders until the shares are cancelled or reissued. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable transaction costs and the related tax effects, is included in equity attributable to the parent company's equity holders.

### 2.15 Trade payables

Trade payables are valued at fair value on first-time recognition in the balance sheet. Subsequently trade payables are recognised at amortised cost calculated using the effective interest rate method.

### 2.16 Borrowings

Borrowings are measured, managed and followed up based on their fair value in accordance with internal risk management procedures, and changes in fair value are communicated in internal management reporting. Until 31 December 2009 these borrowings were recognised at fair value through profit or loss in accordance with the Fair Value Option (FVO), and will continue to be recognised in the same way until they are redeemed. These borrowings were recognised at fair value at the time of issue, and the transactions costs were expensed immediately. In the case of borrowings taken out after 1 January 2010, Hafslund has opted not to apply FVO and recognises these borrowings at amortised cost. Borrowings are initially recognised at fair value. Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

## Note 2

### 2.17 Tax

The tax expense comprises taxes payable and changes in deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In such cases the tax is also recognised in other comprehensive income or directly in equity, respectively. The tax expense is calculated on the basis of tax rates, legislation and rules enacted at the balance sheet date. Management evaluates the tax positions on an ongoing basis, taking into account situations where the applicable tax legislation is subject to interpretation. Provisions are recognised for expected tax payments based on management assessments where such is deemed necessary. Deferred tax is calculated on all temporary differences between the tax-written-down and consolidated financial values of assets and liabilities. Deferred tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary tax-reducing differences can be utilised.

Deferred tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax payable.

#### Taxation of power production business

Power production business is subject to special rules governing taxation of power companies. In addition to general income tax and property tax, power production is subject to natural resource tax and resource rent tax.

Natural resource tax is a profit-independent tax that is calculated on the basis of individual power plants' average power production over the last seven years. The tax rate is established as NOK 1.3 øre per KWh. Any amount of natural resource tax can be set off against general income tax, while non-settled natural resource tax is classified as an interest-bearing receivable.

Resource rent tax comprises 33 percent (increasing to 34.3 percent in 2017) of the power station's normalised result in excess of a calculated tax-free allowance. Negative resource rent income can be carried forward against subsequent positive resource rent income including interest. Negative resource rent income is included in the basis used to calculate deferred tax liabilities and assets connected to resource rent taxation together with deferred tax assets/liabilities relating to temporary differences connected to operating assets used in power production.

Power production business is also subject to property tax and comprises up to 0.7 percent of the official property valuation. General income tax and resource rent tax are recognised as ordinary taxes. Property tax is recognised as an operating expense in the income statement.

### 2.18 Pension liabilities, bonus schemes and other employee remuneration schemes

#### a) Pension liabilities

The Group's companies operate various pension plans. Hafslund has both defined benefit and defined contribution plans.

#### Defined benefit plan

A defined benefit plan is a pension plan that defines the pension benefit that an employee will receive on retirement,

and which is financed through payments to insurance companies or pension funds. The pension benefit is usually dependent on one or more factors such as age, years of service and compensation.

The accounting liability for the defined benefit plans is the present value of the liability at the balance sheet date, less the fair value of the pension assets. The gross liability is calculated by an independent actuary applying the unit credit method. The gross liability is discounted to present value applying the interest rate on bonds issued by a company with a high credit rating (covered bonds rate) in the same currency in which the benefits will be paid, and with a term that is approximately the same as the term of the related pension liability.

Hafslund believes that it is appropriate to use the covered bonds rate as the discount rate due to the fact that there is a deep and liquid market for these types of bonds. The Norwegian market has become more advanced following the financial crisis and has a high credit-rating, which also indicates that the bonds have a high credit-worthiness. The alternative to applying the covered bond interest rate would be to apply the government bond rate. See [Note 18](#) for calculations of and sensitivity to changes in the discount rate.

Gains and losses arising on the recalculation of the liability due to pension deviations and changes in actuarial assumptions are recognised in equity via other comprehensive income in the period in which they arise. The effects of changes in benefits under the plan are immediately recognised in income.

#### Defined contribution plan

A defined contribution plan is a pension plan where the Group pays a fixed contribution to a separate legal entity.

## Note 2

The Group has no legal or other obligation to pay further contributions should the entity have insufficient funds to pay all employees their benefits in line with their entitlements for the current and for previous periods. The contributions are recognised as an employee benefit when they are due.

### b) Bonus schemes

The Group recognises a liability and an expense for bonuses and profit-sharing, based on a formula that takes into consideration both the profit attributable to the parent company's shareholders and a number of adjustments. The Group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

The Group recognises a liability and an expense on allocation of treasury shares to employees. Expenses are recognised on a straight-line basis over the vesting period and presented as employee benefits. The value is measured as the shares' market value at the time of allocation. When the expenses are recognised, a corresponding increase is recognised in other paid-in equity.

### c) Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after the end of the reporting period are discounted to their present value.

### 2.19 Provisions

The Group recognises provisions for any obligation as a result of past events, where it is probable that an outflow of resources will be required to settle the obligation and the size of the liability can be reliably estimated. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the net present value of expected payments to satisfy the liability. A pre-tax discount rate that reflects the current market situation and risk specific to the obligation is applied. The increase in the obligation due to passage of time is recognised as a financial expense.

### 2.20 Revenue recognition

#### a) Revenue recognition – general

Revenues from the sale of goods and services are recognised as they accrue. Revenues from the sale of goods primarily accrue once risk and control pertaining to the goods have been transferred to the purchaser. Revenues comprise the fair value of the consideration received or receivable for the sale of goods and services less any deductions for Value Added Tax or discounts. Intragroup sales are eliminated.

#### b) Sales of power and district heating

Sales of power are recognised in the income statement at the time of delivery to the customer. Realised revenues from physical and financial trading in power contracts are recognised as sales revenues. Sales of district heating are recognised in the income statement in accordance with the

customer's estimated consumption of district heating. District heating revenues are calculated by multiplying the energy delivered to the customers by the district heating tariffs.

#### c) Grid rental

##### 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

Actual income for a network company comprises the tariffs, power output and actually transmitted energy volumes at any one time in the network 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/shortfalls

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

## Note 2

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 Hafslund Nett's accumulated income surplus amounted to NOK 187 million (NOK 873 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.

### d) Dividend income

Dividend income is recognised when the right to receive payment is established.

### 2.21 Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are recognised in the income statement on a straight-line basis over the period of the lease.

Leases of property, plant and equipment where the Group bears substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's inception at the lower of the fair value of the

leased property and the present value of the minimum lease payments. Each lease payment is allocated between the liability and financial expenses in order to achieve a constant periodic interest rate on the outstanding balance. The corresponding lease liability (less financial expenses) is included in other long-term liabilities. The interest element in the financing cost is expensed over the lease term so as to achieve a constant periodic interest rate on the outstanding balance each period. Property, plant and equipment recognised as finance leases is amortised over the shorter of the asset's useful economic life and the lease term.

### 2.22 Dividends

Dividend distribution to the parent company's shareholders is recognised as a liability from the time the dividends are approved by the company's shareholders.



## Note 3

### NOTE 3 ► FINANCIAL RISK MANAGEMENT

The aim of Hafslund's risk management is to identify risks and opportunities facing the Group, and manage these in the best possible way within the Group's risk appetite with the aim of achieving its subsidiaries' and the Group's objectives. This is best achieved through a proactive approach to risk and a comprehensive risk management model. Risk management should be an integral part of all major decision-making processes in the Group.

Risk management frameworks and instructions comply with the Board-approved policies and related risk mandates. Risk management is generally a key responsibility of each business unit's operational management. The Group's activities expose it to a variety of risks. Hafslund is exposed to inherent financial risk associated with the power market, as well as to foreign exchange risk, interest rate risk, liquidity risk, and credit risk. The Group uses financial derivatives to hedge certain financial risk exposures. Financial risks that share common features across business areas are largely centralised for optimal management of risk.

#### a) Power price and volume risk

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 generation facilities and power sales to customers. Hafslund also actively takes up contract positions in the power market through the activities of the Group's power trading unit. In the case of power sales activities, risk management is directed at minimising margin fluctuations.

Power price fluctuations, together with other factors (primarily weather conditions) that affect production volumes, are thus of significant importance for the profitability of

Hafslund's Production and Heat businesses. Hafslund hedges some of its hydropower production volume, as well as enters into hedging contracts in the Heat business area on an ongoing basis to reduce power price risk. In line with the Group's hedging policy, the extent of hedging is expected to be higher in the upcoming 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 fluctuations in Hafslund's earnings. Hedging is regulated by a risk mandate adopted by the Board of Hafslund ASA. Exposure should be kept within the limits set by the Board and monitored by the Group's risk management function and through reporting to management and the Board of Hafslund ASA.

Hafslund uses Value at Risk (VaR) as one of its operational risk management targets for power price risk. Value at Risk describes the maximum loss that could be expected for a power portfolio during a given period for a given confidence level. Exposure reports are distributed to Group's management and other recipients each day, and a summary of the reports is included in the Group's monthly management reporting. At the reporting date, the Hafslund Group's aggregate power portfolio had a daily VaR within a 95 percent confidence interval of NOK 230 million before tax (2015: NOK 153 million) based on open exposure over a time horizon of ten years. Standardised power market derivative products, such as futures, forwards, CFDs and options, are used to achieve the desired risk-reducing effect in respect of power portfolios. Hedging instruments are mainly traded at and cleared with the Nordic Power Exchange, Nasdaq OMX Commodities.

#### b) Foreign exchange risk

Subsidiaries abroad make deposits or withdrawals in their country's currencies (SEK or EUR) in the Group's cash pool. The balance denominated in foreign currency is monitored at Group level. The overall exposure to foreign exchange fluctuations in foreign subsidiaries is largely netted off against Norwegian Group companies' withdrawals and deposits denominated in foreign currency in the Group's cash pool.

Hafslund Markets has no liabilities denominated in foreign currency. However, some of the Group's businesses conduct transactions that are exposed to currency fluctuations. Currently this applies in particular to SEK- and EUR-denominated trades in power, power derivatives and el-certificates.

The Group's 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. Forward exchange contracts are primarily used to reduce foreign exchange risk. Some currency derivatives are recognised in accordance with requirements for hedge accounting in IAS 39 and others at fair value through profit or loss on an ongoing basis. EUR- and SEK-denominated derivative contracts are primarily entered into to secure future currency positions associated with power derivatives which the power sales business holds for hedging purposes, as well as to reduce the foreign exchange risk associated with future EUR cash flows from sales of power production and income from heat production.

All other factors remaining constant, in isolation, a 10 percent change in the SEK/NOK and EUR/NOK spot rates would have an effect on post-tax profits of +/- NOK 7 million as a result of changes in the value of Hafslund's portfolio of currency derivatives as of 31 December 2016 (2015: +/- NOK 10 million).

## Note 3

### c) Interest rate risk

Hafslund's operating revenues and cash flow from operations are to some extent sensitive to interest rate fluctuations. The permitted yield in the Networks business is based to a certain degree on a percentage of the annual average five-year swap interest rate plus an average credit mark-up for bonds with a five-year term issued by power companies with good creditworthiness. The network rental is also included in the calculation of Heat's revenues. In addition, resource rent tax for hydropower production is exposed to interest on government bills of exchange through the tax-free allowance. The Group is exposed to interest rate risk through its interest-bearing debt.

The company's cash flow will be affected by interest rate fluctuations on variable-interest loans. The fair value of the company's borrowings taken out before 31 December 2009 will be affected by changes in interest rates, including changes in credit spreads. During 2016, the change in credit spreads, viewed in isolation, resulted in a NOK 18 million increase in the fair value of the loan portfolio (2015: reduction of NOK 47 million). Credit spreads are affected by terms, liquidity and risk. The major banks publish estimates for Hafslund's credit spreads with differing terms based on observable prices on the bond market.

Hafslund's loan portfolio comprises a mixture of fixed-interest and variable-interest loans. The Group endeavours to reduce interest rate risk by correlating the interest rate exposure in connection with Networks, Heat and Production with interest on borrowings.

In a simulation test of sensitivity to major interest rate fluctuations, the portfolio of loans and interest rate derivatives as of 31 December 2016 was tested against a change of +/- 1.5 percent across the entire yield curve. Based on historical data, there is approximately 90 percent certainty that interest rate fluctuations will not exceed this spread during any one year. An increase/decrease in interest rates of 1.5 percent would result in a respective increase/decrease in direct borrowing expenses (adjusted for the tax effect) of NOK 60 million (2015: +/- NOK 43 million). A 1.5 percent decrease/increase in interest rates would respectively increase/decrease the portfolio of loans measured at fair value and interest derivatives, and financial expenses, (adjusted for the tax effect) by around NOK 8 million (2015: +/- NOK 52 million).

### d) Liquidity risk

Liquidity risk arises to the extent that cash flows from the business do not correspond with financial obligations. The cash flow from the business areas will vary according to a number of factors including market price levels. Accordingly the Group has established long-term, committed drawdown facilities in order to secure availability of liquidity, including in periods when it may be difficult to obtain financing in the markets. Unused drawdown facilities as of 31 December 2016 totalled NOK 3.8 billion (2015: NOK 3.8 billion). See also [Note 16](#).

#### Maturity profile for borrowings:

NOK million	0–6 months	6–12 months	1–3 years	3–5 years	>5 years	Total
2016	(1,539)	(976)	(4,060)	(2,447)	(2,300)	<b>(11,322)</b>
2015	(1,049)	(1,449)	(3,929)	(2,681)	(2,860)	<b>(11,967)</b>

## Note 3

### e) Credit risk

Most of the Group's debtors are private individuals or businesses who purchase electricity or district heating. Hafslund's greatest credit exposure is to corporate customers relates to physical deliveries and financial settlements with administrative customers. Procedures have been established for the creation, detection, management and monitoring of credit risk exposure to corporate customers. There is thus no material concentration of credit risk. Following the introduction of re-invoicing in 2016, the network operator now invoices the power supplier for network rental, who includes the network rental in its electricity invoice. Changes in the Group's receivables as a result of re-invoicing are managed using guarantees. This guarantee is limited to one month and requires good operational follow-up and control of the guarantee. Follow-up and collection of trade receivables in the Group are centralised in a separate unit in the Group (Hafslund Tellier). Counterparty risk relating to power trading activities is minimised primarily by clearing the contracts via Nasdaq OMX Commodities, as well as entering into bilateral agreements with municipal or state-owned companies.

Interest and foreign currency risk mandates, which are determined by the Board, contain guidelines as to the creditworthiness of financial counterparties. The majority of overdue trade receivables as of 31 December 2016 relate to the Markets business area, and primarily to trade receivables with private electricity customers. A provision of NOK 41 million has been recognised to cover potential losses on these receivables (2015: NOK 40 million).

Trade receivables that were unpaid within 30 days of invoicing amounted to NOK 128 million (2015: NOK 100 million) in Markets.

**The ageing profile (number of days) of trade receivables as of 31 December was as follows:**

NOK million	Not yet due	30–60 days	60–90 days	90–120 days	>120 days	Total
2016	976	46	18	15	58	<b>1,113</b>
2015	680	58	14	10	60	<b>822</b>

### Maturity profile for financial items:

#### 2016

NOK million	0–6 months	6–12 months	1–3 years	3–5 years	>5 years	Total
Foreign exchange derivatives	2	1				3
Power derivatives	87	7	29	2	7	132
Interest rate derivatives			30			30
Hedging derivatives	(4)	3	7	7	9	22
<b>Total financial assets</b>	<b>85</b>	<b>11</b>	<b>66</b>	<b>9</b>	<b>16</b>	<b>187</b>

#### 2015

NOK million	0–6 months	6–12 months	1–3 years	3–5 years	>5 years	Total
El-certificate derivatives	(19)		(13)	(2)		(34)
Power derivatives	(53)	(12)	(19)	(2)		(86)
Foreign exchange derivatives	(4)	(1)				(5)
Hedging derivatives	(23)					(23)
Trade payables	(722)					(722)
<b>Total financial liabilities</b>	<b>(821)</b>	<b>(13)</b>	<b>(32)</b>	<b>(4)</b>		<b>(870)</b>

## Note 3

### Maturity profile for financial items:

#### 2015

NOK million	0–6 months	6–12 months	1–3 years	3–5 years	>5 years	Total
El-certificate derivatives	33		(1)	(1)		31
Foreign exchange derivatives	1					1
Power derivatives	181	73	92			346
Hedging derivatives	90	53	(10)	(1)	(9)	123
<b>Total financial assets</b>	<b>305</b>	<b>126</b>	<b>81</b>	<b>(2)</b>	<b>(9)</b>	<b>501</b>

#### 2015

NOK million	0–6 months	6–12 months	1–3 years	3–5 years	>5 years	Total
El-certificate derivatives	(2)					(2)
Power derivatives	(202)	(88)	(110)	(5)		(405)
Interest rate derivatives			(6)	4	(22)	(24)
Trade payables	(472)					(472)
<b>Total financial liabilities</b>	<b>(676)</b>	<b>(88)</b>	<b>(116)</b>	<b>(1)</b>	<b>(22)</b>	<b>(903)</b>

### Capital management

The Group's capital management shall secure the Group financial room to manoeuvre in the short and long term. The aim is to have a financial structure that ensures good long-term creditworthiness and a good return to the shareholders through equity and cash flow.

The available liquidity shall cover the maturing loans for the coming 12 months and a certain reserve beyond this at all times. In addition to cash and cash equivalents, the Group's liquidity reserve consists of an unused long-term drawdown facility. Hafslund primarily uses banks and the bond market as borrowing sources. Hafslund has long-term financing that ensures financial room to manoeuvre even when it is difficult to gain financing in the markets. At the end of 2016, the Group had unused credit facilities deemed sufficient to cover the Group's refinancing requirements over the next 12 months. External borrowing has been centralised at parent company level, and the capital needs of subsidiaries are normally covered through internal loans, primarily through corporate cash pooling systems, in combination with equity. The capital structure in the subsidiaries is adapted to commercial considerations, as well as legal and tax-related considerations.

Hafslund does not have an official credit rating, but actively monitors the quantitative and qualitative factors that affect the Group's creditworthiness. The Group aims to maintain a credit profile corresponding to a credit rating of BBB+. Hafslund monitors its capital management by following the development of its equity ratio, Net interest-bearing debt and cash flow from operations. The Group's capital consists of Net interest-bearing debt and equity:

NOK million	2016	2015
Total interest-bearing debt	<b>10,063</b>	10,486
Total interest-bearing receivables	<b>583</b>	841
<b>Net interest-bearing debt</b>	<b>9,480</b>	<b>9,645</b>
Equity	<b>9,571</b>	9,013
Equity ratio %	<b>36%</b>	34%
Unused credit lines	<b>3,800</b>	3,800

## Note 3

### Fair value estimates

#### Financial instruments

The table below shows financial instruments at fair value based on the valuation method. The different levels are defined as follows:

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.

The following table presents the Group's assets and liabilities measured at fair value through profit or loss:

2016				
NOK million	Level 1	Level 2	Level 3	Total
Shares and units		20		20
Foreign exchange derivatives		3		3
Power derivatives	114	16	2	132
Interest rate derivatives		30		30
<b>Total financial assets at fair value through profit or loss</b>	<b>114</b>	<b>69</b>	<b>2</b>	<b>185</b>
Borrowings		2,603		2,603
El-certificate derivatives	34			34
Power derivatives		85		85
Foreign exchange derivatives		5		5
<b>Financial liabilities at fair value through profit or loss</b>	<b>34</b>	<b>2,693</b>	<b>0</b>	<b>2,727</b>

#### 2015

NOK million	Level 1	Level 2	Level 3	Total
El-certificate derivatives	31			31
Foreign exchange derivatives		1		1
Power derivatives		339	8	347
<b>Total financial assets at fair value through profit or loss</b>	<b>31</b>	<b>340</b>	<b>8</b>	<b>379</b>
Borrowings		3,114		3,114
El-certificate derivatives	2			2
Power derivatives	377	0.29		406
Interest rate derivatives		23		23
<b>Financial liabilities at fair value through profit or loss</b>	<b>379</b>	<b>3,166</b>		<b>3,545</b>

There were no transfers between the respective levels during the year. The general principles concerning level-allocation primarily depend on whether the asset or liability is listed or not, and whether the listing can be deemed to be in an active market. On any change between the levels the basic rule is that values at the end of the reporting date are used.

## Note 3

### a) Financial instruments at level 1

The fair value of financial instruments that are traded in active markets is the market price at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, broker, industry group, pricing service, or regulatory agency, and these prices represent actual and regularly occurring market transactions on an arm's length basis. The market price used for financial assets is the current bid price. The same applies to power derivatives traded on the Nordic power exchange Nasdaq OMX Commodities that are valued based on the current prices on Nasdaq OMX Commodities at the balance sheet date.

### b) Financial instruments at level 2

The fair value of financial instruments that are not traded in an active market is determined by means of various valuation methods. These valuation methods maximise the use of observable data where available and are based to the least possible extent on the Group's own estimates. If all the significant data inputs that are required to determine the fair value of an instrument are observable data, then the instrument will be included at level 2.

### Borrowings

Borrowings that are valued at fair value are measured by discounting the borrowings' cash flows. The discount rate applied is the yield curve for the Norwegian swap interest rate, adjusted upwards for Hafslund's credit spreads.

### Interest rate, foreign exchange and power derivatives

The fair value of interest rate swap agreements is calculated as the present value of estimated, future cash flows, based on effective swap rates at the balance sheet date. The fair value of foreign exchange contracts is calculated by using effective rates in the forward market at the balance sheet date. The fair value of currency options is calculated by applying option pricing models based on the listed rates in the forward market at the balance sheet date. The value of power derivatives traded outside an exchange is estimated as the present value of future cash flows, based on forward prices from Nasdaq OMX Commodities at the balance sheet date. In the case of material long-term contracts, the cash flows are discounted.

### c) Financial instruments at level 3

Asian options are valued by means of the underlying Nasdaq prices and the expected future volatility, as well as an estimated mark-up. Movement at level 3 relates to unrealised changes in value of Asiatic options.

#### Movement at level 3:

NOK million	2016
Financial assets:	
Opening balance 1 January	8
Unrealised changes in value of Asiatic options	(6)
<b>Closing balance 31 December</b>	<b>2</b>



## Note 3

### Net presentation of financial assets and liabilities

The following financial assets and liabilities are recognised net:

2016

NOK million	Gross financial assets	Financial liabilities recognised on a net basis	Amounts not presented on a net basis in the balance sheet		
			Net financial assets in the balance sheet	Financial instruments	Net
Foreign exchange derivatives	28	(25)	3		3
Power derivatives	157	(25)	132		132
Interest rate derivatives	30		30		30
Hedging derivatives	51	(29)	22		22
<b>Total financial assets</b>	<b>266</b>	<b>(79)</b>	<b>187</b>		<b>187</b>

2016

NOK million	Gross financial liabilities	Financial assets recognised on a net basis	Amounts not presented on a net basis in the balance sheet		
			Net financial liabilities in the balance sheet	Financial instruments	Net
El-certificate derivatives	(80)	54	(26)	(8)	(34)
Power derivatives	(93)	7	(85)		(86)
Foreign exchange derivatives	(7)	2	(5)		(5)
Hedging derivatives	(23)		(23)		(23)
<b>Total financial liabilities</b>	<b>(203)</b>	<b>63</b>	<b>(139)</b>	<b>(8)</b>	<b>(148)</b>

2015

NOK million	Gross financial assets	Financial liabilities recognised on a net basis	Amounts not presented on a net basis in the balance sheet		
			Net financial assets in the balance sheet	Financial instruments	Net
El-certificate derivatives	34	(3)	31		31
Foreign exchange derivatives	59	(58)	1		1
Power derivatives	446	(63)	383	(37)	346
Hedging derivatives	166	(43)	123		123
<b>Total financial assets</b>	<b>704</b>	<b>(166)</b>	<b>538</b>	<b>(37)</b>	<b>501</b>

2015

NOK million	Gross financial liabilities	Financial assets recognised on a net basis	Amounts not presented on a net basis in the balance sheet		
			Net financial liabilities in the balance sheet	Financial instruments	Net
El-certificate derivatives	(2)		(2)		(2)
Power derivatives	(388)	12	(377)	(29)	(405)
Interest rate derivatives	(73)	49	(24)		(24)
<b>Total financial liabilities</b>	<b>(463)</b>	<b>61</b>	<b>(403)</b>	<b>(29)</b>	<b>(431)</b>

## Note 4

### NOTE 4 ► ACCOUNTING ESTIMATES AND JUDGEMENTS

Hafslund prepares estimates and makes assumptions/presumptions with regard to the future. By definition, the accounting estimates that are made as a result of the above processes will rarely fully correspond with the final outcome. Estimates and assumptions are reviewed on an ongoing basis and are based on past experience and a number of other factors, including expectations of future events that are regarded as likely. Any deviations between estimates and fair values are recognised in the period in which these become known where such deviations relate to this period. If the deviations relate to both the current and future periods, the deviation is recognised over the various periods affected.

Estimates and assumptions that may have a material effect on the balance sheet value of assets or liabilities in the coming financial year are discussed below:

#### Sale and distribution of electricity and heat

For a large proportion of the Group's electricity, heat and networks customers, final settlement of sales and distribution of power and heat is made after the Group has finalised its annual financial statements. The above revenues are estimated based on the power volumes that have been physically delivered during the period. The physically delivered volume is apportioned in accordance with consumption forecasts for each customer group and price plan. Some uncertainty attaches to the volume apportioned to the various price segments. Accrued revenues recognised in the balance sheet at the end of 2016 amounted to NOK 1,600 million. Total revenues from the sale and distribution of electricity and heat amounted to NOK 12,118 million in 2016.

#### Estimated impairments of goodwill and property, plant and equipment

The value of assets recognised in the balance sheet will to a large extent be based on judgements and estimates. This applies in particular in the case of assets which are essentially not depreciated or amortised. In the Hafslund Group, such assets will primarily be goodwill and waterfall rights with indefinite useful economic lives. Hafslund performs annual tests to assess impairment of goodwill and property, plant and equipment, see [Note 2.7](#). The recoverable amount from cash-generating units is established using calculations of value in use. These calculations require the use of estimates. See [Note 8](#) for a description of implemented impairment tests.

#### Fair-value borrowings

Borrowings that are valued at fair value are measured by discounting the borrowings' cash flows. The discount rate applied is the Norwegian swap interest rate, adjusted upwards for Hafslund's credit spreads. Viewed in isolation, the change in credit spreads during 2016 increased the loan portfolio's fair value by NOK 18 million. See [Note 16](#) Borrowings.

#### Pensions

The present value of pension liabilities depends on several different factors that are determined by a number of actuarial assumptions. The assumptions employed for the calculation of the net pension expense (income) include a discount rate. Changes in these assumptions will affect the balance sheet value of pension liabilities. Hafslund determines the applicable discount rate at the start of each financial year. This is the rate that must be used to calculate the present value of future estimated outgoing cash flows that will be required to settle pension liabilities. When setting this discount rate, Hafslund takes into account interest

rates on high-quality corporate bonds that will mature at approximately the same time as the relevant pension liability, see also [Note 2.18](#). A number of other pension-related assumptions are partly based on market conditions. Were the discount rate applied to differ by 0.5 percentage points, gross pension liabilities would change by an estimated 7 percent. Additional information is provided in [Note 18](#).



## Note 5

### NOTE 5 ► SEGMENT INFORMATION

Group management is the Group's chief operating decision-maker. Hafslund reports business areas as operating segments.

In recent years Hafslund has adopted a sharper focus on infrastructure for energy, renewable energy from hydro-power and heating, along with Nordic growth in power sales Hafslund's business is organised into the business areas Networks, Heat, Production and Markets.

Group management evaluates the performance and profitability of the operating segments based on operating results and return on capital employed. The operating result in the segment information is the same as that presented in the consolidated income statement. Financial expenses are also allocated to the segments, but not interest income, since this is an activity that is controlled by the central finance department as part of the Group's overall liquidity situation. The share of earnings of associates is presented in the Other Business segment. Intersegment sales are concluded in accordance with the arm's length principle.

NOK million	Networks		Heat		Production		Markets		Other business		Eliminations		Group	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
Gross segment sales	4,757	4 361	1,152	977	672	654	7,303	5,939	363	610	(460)	(634)	13,788	11,905
Intersegmental sales	59	66		7		2	164	233	236	326	(460)	(634)		
<b>Sales revenues</b>	<b>4,698</b>	<b>4,294</b>	<b>1,152</b>	<b>969</b>	<b>672</b>	<b>652</b>	<b>7,139</b>	<b>5,706</b>	<b>127</b>	<b>284</b>			<b>13,788</b>	<b>11,905</b>
Operating profit/loss	1,056	822	291	231	417	347	498	476	(69)	98			2,193	1,973
Financial expenses	(59)	(63)	(22)	(35)	(51)	(49)	27	39	(111)	(181)			(217)	(288)
Tax expense	(206)	(129)	(49)	(18)	(233)	(137)	(136)	(140)	51	22			(573)	(402)
<b>Profit/loss for the year</b>	<b>791</b>	<b>629</b>	<b>220</b>	<b>179</b>	<b>133</b>	<b>161</b>	<b>388</b>	<b>376</b>	<b>(130)</b>	<b>(61)</b>			<b>1,402</b>	<b>1,284</b>
Depreciation of operating assets	(598)	(566)	(145)	(152)	(45)	(45)	(23)	(29)	(45)	(65)			(856)	(857)
Impairment of operating assets			(1)						(30)				(31)	
Amortisation of intangible assets							(63)	(55)		(9)			(63)	(63)
Impairment of intangible assets										(27)				(27)
Losses on receivables	(25)	(23)					(2)	26					(27)	3
<b>Capital employed</b>	<b>11,870</b>	<b>11,116</b>	<b>4,626</b>	<b>4,709</b>	<b>4,622</b>	<b>4,505</b>	<b>1,374</b>	<b>1,418</b>	<b>238</b>	<b>607</b>			<b>22,730</b>	<b>22,355</b>
Investments (excluding acquisitions)	1,009	926	175	112	274	156	65	67	10	37			1,533	1,298

See also [analytical information](#) for other key figures for the segments.

## Note 5

### Reconciliation of capital employed and equity

NOK million	2016-12-31	2015-12-31
Capital employed	22,730	22,355
Tax payable	(356)	(340)
Deferred tax liability	(3,323)	(3,251)
Borrowings	(10,338)	(10,858)
Cash and cash equivalents	572	724
Interest-bearing receivables	12	10
Other	275	373
<b>Equity</b>	<b>9,571</b>	<b>9,013</b>

### Income analysed by category:

NOK million	2016	2015
Power sales	6,568	5,277
Power production	672	645
District heating sales	1,213	1,072
Distribution	4,337	4,066
Other revenues	998	846
<b>Total</b>	<b>13,788</b>	<b>11,905</b>

The majority of revenue derives from energy customers located in and around Oslo, Akershus and Østfold, where a significant number of Hafslund's assets are located. Revenue from the Group's power sales companies in Sweden and Finland amounted to NOK 1,915 million, while capital employed in the non-Norwegian companies totalled NOK 229 million.

## Note 6

### NOTE 6 ► PROPERTY, PLANT AND EQUIPMENT

NOK million	Technical equipment and chattels	Power-generating facilities	Heating facilities	Networks	Facilities under construction	Other property	Total
<b>Book value as of 31 December 2014</b>	<b>506</b>	<b>4,031</b>	<b>4,362</b>	<b>9,257</b>	<b>741</b>	<b>114</b>	<b>19,011</b>
<b>2015 financial year</b>							
Book value as of 1 January 2015	506	4,031	4,362	9,257	741	114	19,011
Investments in operations	29	24	12		1,165		1,230
Company acquisition					2		2
Capitalised borrowing costs					16		16
Transferred from facilities under construction	272	8	67	535	(882)		
Disposals (cost)	(141)		(127)	(48)	(2)	(6)	(324)
Disposals accumulated depreciation	116		48	33			197
Disposals accumulated impairments	21		5	1			27
Depreciation 2015	(131)	(46)	(175)	(502)		(3)	(857)
<b>Book value as of 31 December 2015</b>	<b>672</b>	<b>4,017</b>	<b>4,192</b>	<b>9,276</b>	<b>1,040</b>	<b>105</b>	<b>19,302</b>
<b>Balance as of 31 December 2015</b>							
Cost	2,198	7,360	5,928	16,210	1,058	139	32,893
Accumulated depreciation	(1,526)	(3,343)	(1,369)	(6,934)	(18)	(34)	(13,224)
Accumulated impairments			(367)				(367)
<b>Book value as of 31 December 2015</b>	<b>672</b>	<b>4,017</b>	<b>4,192</b>	<b>9,276</b>	<b>1,040</b>	<b>105</b>	<b>19,302</b>

Table continued



## Note 6

NOK million	Technical equipment and chattels	Power-generating facilities	Heating facilities	Networks	Facilities under construction	Other property	Total
<b>2016 financial year</b>							
Book value as of 1 January 2016	672	4,017	4,192	9,276	1,040	105	19,302
Investments in operations	23		16		1,432		1,471
Capitalised borrowing costs					19		19
Transferred from facilities under construction	172	10	89	546	(819)		(2)
Disposals (cost)	(22)		(429)	(27)	(14)	(2)	(494)
Disposals accumulated depreciation	22		153	26			201
Depreciation 2016	(159)	(46)	(159)	(490)		(2)	(856)
Impairments 2016			(31)				(31)
<b>Book value as of 31 December 2016</b>	<b>708</b>	<b>3,981</b>	<b>3,831</b>	<b>9,331</b>	<b>1,658</b>	<b>101</b>	<b>19,610</b>
<b>As of 31 December 2016</b>							
Cost	2,371	7 370	5,604	16,729	1,676	137	33,887
Accumulated depreciation	(1,663)	(3,389)	(1,375)	(7,398)	(18)	(36)	(13,879)
Accumulated impairments			(398)				(398)
<b>Book value as of 31 December 2016</b>	<b>708</b>	<b>3,981</b>	<b>3,831</b>	<b>9,331</b>	<b>1,658</b>	<b>101</b>	<b>19,610</b>
Capitalisation rate borrowing costs					3.9%		
Amortisation percentage	3–33	2–5	2–10	2–7		0–5	

As of 31 December 2016, Hafslund's total future lease commitments for office premises and transformer substations recognised at nominal value amounted to NOK 937 million:

NOK million	
2017	146
2018	149
2019	97
2020	94
2021	96
2022 and later	355
<b>Total lease commitments</b>	<b>937</b>

The leases are operating leases and have varying maturities, price-regulating clauses and prolongation rights. In 2016 rent amounting to NOK 190 million was recognised in the income statement for leases of office premises and transformer substations.

Hafslund recognised borrowing costs of NOK 19 million for qualifying assets in 2016. The Group's average-weighted interest rate has been applied.

Future investment obligations are estimated at NOK 3,540 million. This primarily relates to delivery of smart meters (AMS) and liabilities relating to expansion of the regional network and the new aggregate at Vamma. Please refer to [Note 8](#) for details of the performed impairment tests.

## Note 7

### NOTE 7 ► INTANGIBLE ASSETS

NOK million	Customer portfolios	Waterfall rights	Acquisition costs	Total	Goodwill	Total intangible assets
<b>Book value as of 31 December 2014</b>	<b>117</b>	<b>253</b>	<b>103</b>	<b>473</b>	<b>2,497</b>	<b>2,970</b>
<b>2015 financial year</b>						
Investments in operations			41	41	10	52
Investments in expansion	11			11	11	22
Disposals (cost)					(129)	(129)
Disposals accumulated depreciation					32	32
Disposals accumulated impairments					53	53
Amortisation	(14)		(40)	(54)	(9)	(63)
Impairments					(27)	(27)
Translation differences	8			8	15	23
<b>Book value as of 31 December 2015</b>	<b>122</b>	<b>253</b>	<b>104</b>	<b>479</b>	<b>2,454</b>	<b>2,933</b>
<b>As of 31 December 2015</b>						
Cost	231	356	201	788	2,944	3,732
Accumulated amortisation	(109)	(103)	(97)	(309)	(490)	(800)
<b>Book value as of 31 December 2015</b>	<b>122</b>	<b>253</b>	<b>104</b>	<b>479</b>	<b>2,454</b>	<b>2,933</b>
<b>2016 financial year</b>						
Investments in operations			36	36	7	43
Disposals (cost)					(11)	(11)
Disposals accumulated depreciation					3	3
Amortisation	(14)		(47)	(61)	(2)	(63)
Translation differences	(8)		(2)	(10)	(15)	(24)
<b>Book value as of 31 December 2016</b>	<b>100</b>	<b>253</b>	<b>91</b>	<b>444</b>	<b>2,436</b>	<b>2,880</b>
<b>As of 31 December 2016</b>						
Cost	221	356	237	814	2,925	3,739
Accumulated amortisation	(121)	(103)	(146)	(370)	(489)	(859)
<b>Book value as of 31 December 2016</b>	<b>100</b>	<b>253</b>	<b>91</b>	<b>444</b>	<b>2,436</b>	<b>2,880</b>
<b>Amortisation period</b>	<b>10 years</b>		<b>3–5 years</b>			

Please refer to [Note 8](#) for details of the performed impairment tests.

## Note 8

### NOTE 8 ► IMPAIRMENT TESTING

The Hafslund Group holds significant tangible and intangible non-current assets. Changes in these assets are presented in [Notes 6 and 7](#). Estimate uncertainty attaches to property, plant and equipment and intangible assets, as both the valuation and estimated useful economic lives are based on forward-looking information that is subject to a major degree of uncertainty. The greatest uncertainty is deemed to attach to intangible assets. The intangible assets do not have a direct “cost” price and the values are derived essentially from the Group’s own valuations and are generally recognised in the balance sheet in connection with the Group’s acquisition of new business. Residual goodwill is

deemed to exist for such acquisitions. The total of all excess values, including goodwill relating to acquisitions, is deemed to equate to the market value (fair value) of the total assets. Tangible assets (property, plant and equipment) are essentially recognised in the balance sheet at cost, and if they have a limited useful economic life they are systematically depreciated over this period. The disposal value is taken into account. The useful economic life and disposal value are based on estimates of future changes.

The book value of intangible assets with an undefined useful economic life and goodwill is tested annually for impairment. Hafslund constantly monitors for any indications of potential impairment. In case of indications of a possible impairment

in value, impairment tests will be performed immediately, and in any case once a year. If the valuation tests indicate that the book values are no longer recoverable, assets are written down to their recoverable amounts. Impairment tests are carried out by identifying and discounting cash flows relating to the cash-generating units. The recoverable amount of a cash-generating unit is calculated based on the value the asset is expected to generate for the business. Impairment tests carried out in 2016 justified the assets’ carrying values.

The table below shows the book values allocated to the individual cash-generating units as of 31 December 2016:

NOK million					Impairments			
Cash-generating unit	Operating assets	Intangible assets	Goodwill	Total balance sheet value	2016	Accumulated	Terminal year	Growth in terminal year
Networks	10,982	267	357	11,606			Year 2047	0.0%
Heat	4,061		556	4,617	1	62	Year 2032	1.0%
Production	4,377	253		4,630			Year 2022	2.0%
Markets	41	190	1,257	1,488			Year 2022	0.0%
Other business	149			149	30	336	Year 2022	2.0%
<b>Group</b>	<b>19,610</b>	<b>710</b>	<b>2,170</b>	<b>22,490</b>	<b>31</b>	<b>398</b>		

## Note 8

### Budget and forecast assumptions

The impairment tests performed in 2016 were based on the budget for 2017 and forecasts for the four following years before the terminal value is established. For Networks and Heat, cash flows for a longer period are applied before the terminal value is established. This is due to a gradual change in the profile for el-certificates for district heating operations and the long-term changes in efficiency (DEA) and NVE interest rate in the revenue ceiling model for Networks. Future cash flows are based on a number of assumptions. The current revenue framework model for grid activities is expected to continue until the terminal year. The level of, and changes in, power prices are key to the profitability of Production and Heat. The impairment tests applied the forward price for power in the Oslo area listed on Nasdaq OMX on 21 November 2016. The system price for 2021 was 21.3 øre/kWh. Normal production is assumed for the power production business (recognised in Production) and the district heating business (recognised in Heat). The assumption of normal power production of 3,100 GWh is based on ten years' hydropower data adjusted for efficiency improvements. Normal production for the district heating business of 1,766 GWh for 2017 is based on average temperatures for the last ten years, adjusted for existing and planned customer connections. Forecasts for power sales activities (recognised in Markets) assume moderate customer growth in Norway and significant customer growth in Sweden/Finland in the period leading up to 2021, and a gross margin (NOK) per customer on a par with 2016.

### Discount rate

The discount rate that is used is based on the Group's cost of capital and uses a weighted average required rate of return for equity and loan capital (WACC) for the Group. The required return on equity is estimated using the capital asset pricing model (CAPM). The required return on loan capital is estimated based on the long-term risk-free interest rate plus a credit margin derived from Hafslund's marginal long-term borrowing rate. The discount rate is adjusted for the assumed debt ratio in the relevant industry and commercial risk for the individual cash-generating units. A discount rate before tax for the various cash-generating units has been applied in the interval 5.0 percent to 9.9 percent (5.9 percent to 10.6 percent).

### Sensitivity

The performed sensitivity tests revealed robust values for core activities in the Group's four business areas Production, Heat, Networks and Markets. Estimation of recoverable amounts is based on assumptions regarding future developments in a number of areas with regard to changes in, for example, framework conditions, energy prices, temperatures, economic growth and consumption patterns. The Hafslund Group has carried out sensitivity analyses on the effect of various changes in assumptions on the recoverable amount. The scenarios covered included a 20 percent reduction in power prices, lower energy production, lower customer numbers, lower earnings per customer and an increase of 20 percent in the discount rate. The sensitivity tests revealed robust values for all four of the Group's business areas.



## Note 9

### NOTE 9 ▶ INVESTMENTS IN ASSOCIATES

NOK million	Year of acquisition	Registered office	Shareholding	Voting rights
Rakkestad Energiverk AS	2001	Rakkestad	33%	33%
Glommens og Laagens Brukseierforening	1903	Lillehammer	23%	23%
Energy Future Invest AS	2012	Gjøvik	50%	50%
Fredrikstad Energy AS	2014	Fredrikstad	49%	49%
Trøgstad Energiverk AS	2014	Trøgstad	49%	49%

NOK million	2016	2015
<b>Book value as of 1 January</b>	<b>338</b>	<b>646</b>
Additions/disposals companies <sup>1)</sup>	1	(325)
Share of profit	13	45
Dividends	(16)	(63)
Change in accounting policy <sup>2)</sup>		35
<b>Book value as of 31 December</b>	<b>335</b>	<b>338</b>
Amortisation of goodwill for the year	1	1
Excess value as of 31 December	8	9
<b>Total comprehensive income attributable to associates</b>	<b>28</b>	<b>73</b>

1) On 18 December 2015, Hafslund entered into an agreement with Fredrikstad Energi AS (FEAS) to sell Hafslund's 35 percent shareholding in Fredrikstad Energi Nett AS (FEN) to the parent company FEAS. Following this transaction, FEAS owns 100 percent of FEN. Hafslund has retained a 49 percent stake in the parent company FEAS. Hafslund's 35 percent shareholding in FEN was sold at a book value of NOK 315 million. Hafslund will also receive a dividend from FEN for the 2015 financial year. All the above sales have been included in Other business and the gains have been recognised in the income statement under Net financial items.

2) The associates FEAS and FEN have prepared their financial statements in accordance with International Financial Reporting Standards (IFRSs) since 31 December 2014. The effect of the change in accounting policy on the book value of associates was recognised directly in Hafslund's equity in 2015.

## Note 10

### NOTE 10 ► FINANCIAL INSTRUMENTS BY CATEGORY

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

NOK million	Derivatives used for hedging purposes	Assets at fair value through profit or loss	Loans and receivables	Total
<b>Financial assets</b>				
Long-term receivables			185	185
Shares and units		20		20
Derivatives	22	165		187
Trade and other receivables			2,852	2,852
Cash and cash equivalents			572	572
<b>Total financial assets as of 31 December 2016</b>	<b>22</b>	<b>185</b>	<b>3,609</b>	<b>3,816</b>
<b>Financial liabilities</b>				
Current borrowings		896	1,322	2,218
Long-term borrowings		1,707	6,413	8,120
Derivatives	23	125		148
Trade and other current payables			2,904	2,904
<b>Total financial liabilities as of 31 December 2016</b>	<b>23</b>	<b>2,728</b>	<b>10,639</b>	<b>13,390</b>

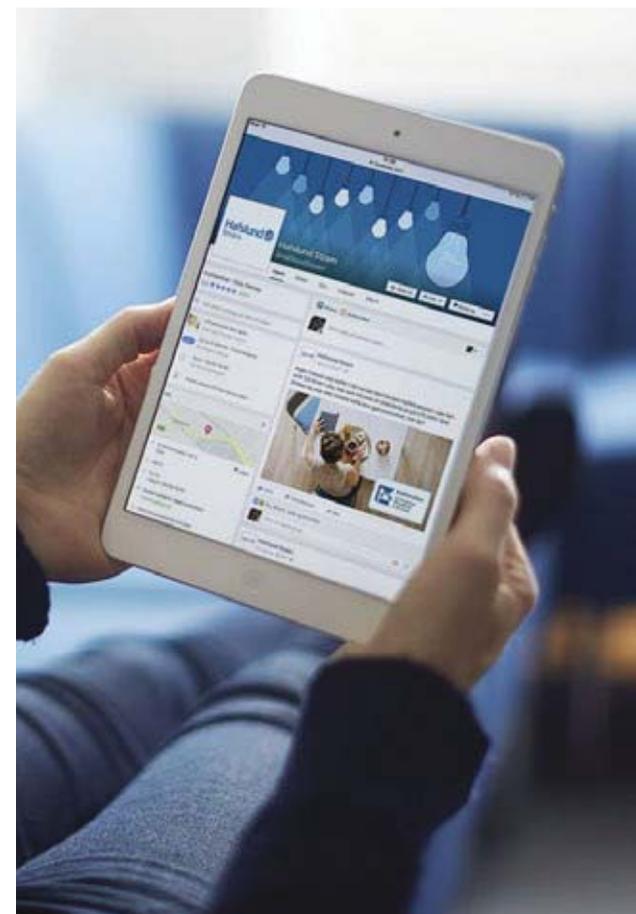


Table continued



## Note 10

NOK million	Derivatives used for hedging purposes	Liabilities at fair value through profit or loss	Other financial liabilities	Total
<b>Financial assets</b>				
Long-term receivables			199	199
Derivatives	122	379		501
Trade and other receivables			2,494	2,494
Cash and cash equivalents			724	724
<b>Total financial assets as of 31 December 2015</b>	<b>122</b>	<b>379</b>	<b>3,417</b>	<b>3,918</b>
<b>Financial liabilities</b>				
Current borrowings		661	1,650	2,311
Long-term borrowings		2,608	5,939	8,547
Derivatives		431		431
Trade and other current payables			2,600	2,600
<b>Total financial liabilities as of 31 December 2015</b>		<b>3,700</b>	<b>10,189</b>	<b>13,889</b>

Changes in financial assets at fair value through profit or loss are recognised in the income statement as Other (losses)/gains, see also [Note 19](#).

Hafslund hedges some of its hydropower production volume on an ongoing basis, and enters into hedging contracts for district heating operations for the next 36 months to reduce the power price risk. 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. 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. Derivatives held for trading purposes are classified as current assets or liabilities. The entire fair value of hedging instruments is classified as a current asset or liability. No amount has been recognised in income for 2016 due to the ineffective portion of the Group's cash flow hedges.

The following derivatives included in the cash flow hedges:

### a) Forward currency contracts

Unrealized value of outstanding forward foreign currency contracts as of 31 December 2016 was NOK -7 million.

The hedged, highly probable transactions denominated in a foreign currency are expected to occur at various dates over the next 24 months. Gains and losses recognised in the hedging reserve in equity on forward foreign exchange contracts as of 31 December 2016 will be recognised in income in the same period or the same periods in which the hedged transaction affects profit or loss.

### b) Power contracts

Unrealized value of outstanding power contracts as of 31 December 2016 was NOK 3 million.

The hedged, highly probable transactions denominated in a foreign currency are expected to occur at various dates over the next 24 months. Gains and losses recognised in the hedging reserve in equity on power contracts as of 31 December 2016 will be recognised in income in the same period or the same periods in which the hedged transaction affects profit or loss.

### c) EI-certificate derivatives

Unrealized of outstanding power contracts as of 31 December 2016 was NOK 3 million.

The hedged, highly probable transactions denominated in a foreign currency are expected to occur at various dates over the next 24 months. Gains and losses recognised in the hedging reserve in equity on ei-certificate derivatives as of 31 December 2016 will be recognised in income in the same period or the same periods in which the hedged transaction affects profit or loss.

## Note 11, 12, 13

### NOTE 11 ▶ LONG-TERM RECEIVABLES ETC.

NOK million	2016-12-31	2015-12-31
Interest-bearing loans and receivables	1	4
Paid-in equity pension fund	116	116
Over-funded pension scheme	46	61
Other	22	19
<b>Total long-term receivables etc.</b>	<b>185</b>	<b>199</b>

All long-term receivables mature more than one year from the reporting date. The fair value of long-term receivables corresponds to the book value.

### NOTE 12 ▶ TRADE AND OTHER RECEIVABLES

NOK million	2016-12-31	2015-12-31
Trade receivables	1,113	822
Bad debt provision	(50)	(53)
<b>Net trade receivables</b>	<b>1,063</b>	<b>769</b>
Accrued, non-invoiced income	1,600	1,380
Interest-bearing receivables	11	6
Other receivables	178	338
<b>Total trade and other receivables</b>	<b>2,852</b>	<b>2,494</b>

The fair value of trade and other receivables corresponds to the book value. See also [Note 3](#) for further details.

### NOTE 13 ▶ CASH AND CASH EQUIVALENTS

NOK million	2016-12-31	2015-12-31
Cash and cash equivalents group account	236	324
Cash and cash equivalents non-group account	181	128
El-certificate holdings	154	272
<b>Total cash and cash equivalents</b>	<b>572</b>	<b>724</b>

Of the Group's non-group-account bank deposits, NOK 129 million is pledged as security for power trading activities. Hafslund has a corporate cash pooling system with Nordea. A corporate cash pooling system entails joint and several liability among the participating companies. Hafslund ASA's accounts constitute single, direct accounts for transactions with the bank, while deposits into and withdrawals from subsidiaries' accounts are treated as intercompany balances with Hafslund ASA. Companies participating in the group account schemes have joint and several unconditional liability for total drawdowns on the group account scheme up to a limit of NOK 200 million, which is the overall limit on the facility overdraft.

## Note 14, 15

### NOTE 14 ► SHARE CAPITAL AND SHARE PREMIUM ACCOUNT

As of 31 December Hafslund ASA's share capital comprised the following categories of shares:

NOK million	A shares	B shares	Total shares	Share premium	Total
Balance as of 31 December 2015	115	80	195	4,080	4,275
<b>As of 31 December 2016</b>	<b>115</b>	<b>80</b>	<b>195</b>	<b>4,080</b>	<b>4,275</b>

The shares have a par value of NOK 1. There are no outstanding share options. The B shares do not confer any voting rights. In all other respects each share grants the same rights in the company. As of 31 December 2016 Hafslund held 263,289 B shares (2015: 263,289 B shares) and 1 A share (2015: 1 A share).

Hafslund ASA's ten largest shareholders as of 31 December 2016 comprised the following:

'000 shares	A shares	B shares	Total	Share-holding	Voting rights
City of Oslo	67,525	37,343	104,868	53.7%	58.5%
Fortum Forvaltning AS	37,853	28,706	66,559	34.1%	32.8%
Kommunal Landspensjonskasse	5,327	4,042	9,369	4.8%	4.6%
MP Pensjon PK	5	1,979	1,984	1.0%	
<b>Total &gt; 1% shareholding</b>	<b>110,710</b>	<b>72,070</b>	<b>182,780</b>	<b>93.6%</b>	<b>95.9%</b>
Total other	4,718	7,688	12,406	6.4%	4.1%
<b>Total number of shares</b>	<b>115,428</b>	<b>79,758</b>	<b>195,186</b>	<b>100%</b>	<b>100%</b>

Hafslund ASA's ten largest shareholders as of 31 December 2015 comprised the following:

'000 shares	A shares	B shares	Total	Share-holding	Voting rights
City of Oslo	67,525	37,343	104,868	53.7%	58.5%
Fortum Forvaltning AS	37,853	28,706	66,559	34.1%	32.8%
Kommunal Landspensjonskasse	5,327	3,953	9,280	4.8%	4.6%
MP Pensjon PK	5	1,929	1,934	1.0%	
<b>Total &gt; 1% shareholding</b>	<b>110,710</b>	<b>71,931</b>	<b>182,641</b>	<b>93.6%</b>	<b>95.9%</b>
Total other	4,718	7,827	12,545	6.4%	4.1%
<b>Total number of shares</b>	<b>115,428</b>	<b>79,758</b>	<b>195,186</b>	<b>100%</b>	<b>100%</b>

### NOTE 15 ► TRADE AND OTHER CURRENT PAYABLES

NOK million	2016-12-31	2015-12-31
Trade payables	722	473
Public taxes due	1,009	928
Accrued costs	519	670
El-certificates liability	332	197
Other liabilities	322	332
<b>Total trade and other current payables</b>	<b>2,904</b>	<b>2,601</b>

## Note 16

### NOTE 16 ► BORROWINGS

NOK million	2016-12-31	2015-12-31
Fixed-interest bond loans	3,141	4,198
Variable-interest bond loans	2,614	1,893
Accrued interest	119	
Other borrowings	2,246	2,456
<b>Total long-term borrowings</b>	<b>8,120</b>	<b>8,547</b>
Fixed-interest bond loans	713	506
Variable-interest bond loans	370	1,350
Commercial papers	300	300
Accrued interest	25	155
Other borrowings	809	
<b>Total current borrowings</b>	<b>2,218</b>	<b>2,311</b>
<b>Total borrowings</b>	<b>10,338</b>	<b>10,858</b>

All borrowings taken out before 1 January 2010 are recognised at fair value, which is calculated by discounting the borrowings' cash flows. The fair value does not include accrued interest. The discount rate applied is the Norwegian swap interest rate, adjusted upwards for Hafslund's credit spreads.

Since 1 January 2010 new borrowings have been measured at amortised cost, and at the reporting date these amounted to NOK 7,656 million. At the reporting date the fair value of the borrowings recognised at amortised cost was estimated at NOK 7,936 million.

The nominal amount as of 31 December 2016 was NOK 10,060 million. The corresponding amount as of 31 December 2015 was NOK 10,483 million.

The following credit spreads have been applied:

Term (years)	Credit spreads (basis points)	
	2016-12-31	2015-12-31
0.25	50	90
0.5	50	90
1	50	105
2	59	115
3	70	127
4	82	132
5	93	137
6	102	144
7	110	150
8	117	154
9	124	158
10	130	163

Viewed in isolation, the change in credit spreads during 2016 increased the loan portfolio's fair value by an estimated NOK 18 million. The corresponding change in 2015 was a reduction of NOK 47 million.

## Note 16

The Group's borrowings are exposed to market interest rate fluctuations based on the following loan interest maturities.

NOK million	2016-12-31	2015-12-31
0–6 months	6,469	5,697
6–12 months	599	805
1–3 years	1,760	1,911
More than 3 years	1,510	2,445
<b>Total borrowings</b>	<b>10,338</b>	<b>10,858</b>

Hafslund has entered into a syndicated NOK 3,600 million revolving credit facility maturing on 17 June 2018. The lender is a banking syndicate comprising six Nordic banks. The facility is used as a back-stop for current commercial papers and as a general liquidity reserve. At the end of the year the entire facility remained unused. The Group also has a NOK 200 million overdraft facility with Nordea that was unused at the end of the reporting period.

Hafslund's loan covenants prohibit the pledging of assets as loan security. Some loan agreements also stipulate that material assets cannot be disposed of without bank approval, while some have an ownership clause requiring more than 50 percent of shares issued by Hafslund ASA to be held by current shareholder, or by shareholders with a credit rating of at least A- from Standard & Poor's or A3 from Moody's, or by shareholders approved by the lending banks.

### Debt maturity profile:

NOK million	2016-12-31	2015-12-31
0–6 months	1,448	950
6–12 months	889	1,365
1–3 years	3,712	3,473
4–5 years	2,215	2,508
More than 5 years	2,073	2,563
<b>Total borrowings</b>	<b>10,338</b>	<b>10,858</b>

### Movement in borrowings:

NOK million	2016-12-31	2015-12-31
<b>Total borrowings 1 January</b>	<b>10,858</b>	<b>11,904</b>
New borrowings	2,121	1,800
Matured loans	(2,142)	(2,666)
Buyback of loans	(400)	(8)
Change in accrued interest	(11)	(35)
Change in fair value	(87)	(137)
<b>Total borrowings as of 31 December</b>	<b>10,338</b>	<b>10,858</b>

## Note 17

### NOTE 17 ► TAX

#### Tax expense:

NOK million	2016	2015
Tax payable	398	373
Deferred tax liability	175	29
<b>Total tax expense</b>	<b>573</b>	<b>402</b>

#### Tax payable in the balance sheet:

NOK million	2016-12-31	2015-12-31
Tax payable	398	373
Repaid tax, change previous year	(3)	(4)
Natural resource tax	(39)	(29)
<b>Tax payable in the balance sheet</b>	<b>356</b>	<b>340</b>

The tax on the profit before tax deviates from the amount that would have resulted had the Group's average tax rate for general income been applied.

The difference is reconciled below:

NOK million	2016	2015
Profit before tax	1,976	1,686
Tax calculated at nominal tax rate (25%/27%)	(494)	(455)
Resource rent tax	(130)	(70)
Changed in deferred tax liability relating to resource rent tax	(2)	10
Reduced deferred tax liability at changed tax rate	53	97
Profit from sale or change in value of shares	3	9
Change in deferred tax assets not recognised in balance sheet	(7)	
Over/underprovision relating to previous years	(6)	
Share of profit of associates	5	10
Permanent differences	1	(3)
Other matters	4	
<b>Total tax expense</b>	<b>(573)</b>	<b>(402)</b>
Effective tax rate	29%	24%

The change in the effective tax rate with regard to general corporation tax is primarily attributable to resource rent tax for power production activities, as well as the lower deferred tax liability as of 31 December 2016, as a result of a change in the tax rate from 25 to 24 percent in 2017.

## Note 17

### Deferred tax liability

Deferred tax is recognised in the balance sheet at the date the Group assumes a legal right to offset deferred tax assets against deferred tax liabilities.

#### Change in recognised deferred tax:

NOK million	2016-12-31	2015-12-31
<b>Book value as of 1 January</b>	<b>3,251</b>	<b>3,080</b>
Recognised in income in the period	175	29
Exits on company disposals	(34)	(17)
Recognised in other comprehensive income in the period	(65)	103
Change in deferred tax liability recognised in equity	(6)	54
Translation differences	2	
Reclassification		2
<b>Book value as of 31 December</b>	<b>3,323</b>	<b>3,251</b>

#### Change in deferred tax:

NOK million	Property, plant and equipment/ intangible assets	Current assets	Profit and loss account	Total
<b>Deferred tax liability as of 31 December 2014</b>	<b>3,296</b>	<b>10</b>		<b>3,306</b>
Recognised in income in the period	7	(50)		(43)
Recognised in other comprehensive income in the period		27		27
Exits on company disposals	(17)			(17)
Change in deferred tax liability recognised in equity		54		54
Reclassification		2		2
<b>Deferred tax liability as of 31 December 2015</b>	<b>3,286</b>	<b>43</b>		<b>3,329</b>
Recognised in income in the period	83	30		113
Recognised in other comprehensive income in the period		(31)		(31)
Exits on company disposals	(34)			(34)
Change in deferred tax liability recognised in equity		(6)		(6)
<b>Deferred tax liability as of 31 December 2016</b>	<b>3,335</b>	<b>36</b>		<b>3,371</b>

Deferred tax continued



## Note 17, 18

### Change in deferred tax assets:

NOK million	Pensions	Loans and liabilities	Tax loss carryforwards	Profit and loss account	Total
<b>Deferred tax assets as of 31 December 2014</b>	<b>(103)</b>	<b>(108)</b>	<b>(1)</b>	<b>(14)</b>	<b>(226)</b>
Recognised in income in the period	26	45	(1)	2	72
Recognised in other comprehensive income in the period	76				76
<b>Deferred tax assets as of 31 December 2015</b>	<b>(1)</b>	<b>(63)</b>	<b>(2)</b>	<b>(12)</b>	<b>(78)</b>
Recognised in income in the period	23	63	(28)	4	62
Recognised in other comprehensive income in the period	(34)				(34)
Translation differences			2		2
<b>Deferred tax assets as of 31 December 2016</b>	<b>(12)</b>		<b>(28)</b>	<b>(8)</b>	<b>(48)</b>

Deferred tax assets are recognised for the tax loss carryforwards to the extent that the realisation of the related tax benefit through future taxable profits is probable. The Group has recognised deferred tax assets relating to tax loss carryforwards in their entirety.

### NOTE 18 ► PENSION EXPENSES, LIABILITIES AND ASSETS

Group companies operate different pension plans organised through Hafslund's pension fund and insurance companies. The pension plans are generally funded through contributions made by the companies at levels largely determined on the basis of actuarial calculations. The Group operates both defined contribution and defined benefit plans. In accordance with the Norwegian Act on Mandatory Occupational pension plans, effective from 1 July 2006, agreements have been entered into concerning defined contribution plans for all companies that had not previously operated occupational pension plans for their employees. Since 1 January 2010 most of the companies have taken out disability pension insurance for employees with defined contribution pensions. As of 31 December 2016 a total of 344 employees were covered by defined benefit plans through Hafslund's pension fund. The pension fund also paid pensions to 1,113 individuals. In addition to the above, the Group has defined contribution plans with various insurance companies. Hafslund reorganised its pension plans with effect from 1 January 2007. As a consequence, the existing pension fund were closed to new members. At the same time, defined contribution plans were introduced for all new employees.

Pension assets are valued at fair value at the end of the year. Pension liabilities (net present value of pension benefits accrued at the reporting date adjusted for expected future salary increases) are valued in accordance with best estimates based on assumptions at the reporting date. The actuarial calculations of pension liabilities have been prepared by an independent actuary. The assumptions regarding salary growth, increases in pension payments, and adjustments to the National Insurance Scheme's basic amount (G) are tested against historic observations, established collective agreements, and the relationships between individual assumptions.

Employees who terminate their employment before reaching retirement age receive paid-up policies. Hafslund's pension fund manage these paid-up policies, which are associated with vesting rights in municipal defined benefit plans. Hafslund is financially committed to adjusting these paid-up policies in line with increases in the National Insurance Scheme's basic amount. From the time paid-up policies earned in other defined benefit plans are issued, Hafslund is released from further obligations towards the employee to whom the policy pertains. Assets and liabilities are valued at the time of issue of the paid-up policy and are separated from pension liabilities and assets.

## Note 18

NOK million	2016-31-12	2015-31-12
<b>Liability recognised in the balance sheet:</b>		
Present value of accrued pension liabilities for funded defined benefit plans	2,571	2,469
Fair value of pension assets	(2,633)	(2,591)
<b>Actual net pension liabilities for funded defined benefit plans</b>	<b>(62)</b>	<b>(122)</b>
Present value of pension liabilities for unfunded plans	113	119
<b>Net pension liabilities in balance sheet (incl. employers' National Insurance contributions)</b>	<b>52</b>	<b>(3)</b>
Net pension liabilities in balance sheet	(98)	(58)
Net pension assets in balance sheet	46	61
<b>Changes in the defined benefit pension liabilities during the year:</b>		
Pension liabilities as of 1 January	2,587	2,923
Employer's National Insurance contributions	4	5
Present value of accrued pension entitlements for the year	29	38
Interest expenses	68	66
Estimate changes	124	(297)
Benefits paid	(128)	(129)
Liabilities on sale and purchase of businesses		(19)
<b>Pension liabilities as of 31 December</b>	<b>2,684</b>	<b>2,587</b>
<b>Change in fair value of pension assets over the year:</b>		
Fair value of pension assets as of 1 January	2,591	2,548
Interest income	70	58
Estimate changes	(15)	13
Total contributions	92	91
Total payments from fund	(104)	(105)
Pension assets on settlements and acquisitions		(14)
<b>Fair value of pension assets as of 31 December</b>	<b>2,633</b>	<b>2,591</b>

The minimum pension liability, which is the net present value of pension liabilities based on the current income from which pension earnings are derived at the balance sheet date, amounted to NOK 2,541 million as of 31 December 2016 and NOK 2,444 million as of 31 December 2015. Expected contributions in 2017 total NOK 109 million.

## Note 18

### Movement in actuarial gains and losses recognised in other comprehensive income:

NOK million	2016	2015
Accumulated amount recognised in other comprehensive income 1 January adjusted for deferred tax	459	231
Recognised in other comprehensive income in the period in accordance with the actuarial calculation before tax	(138)	310
Additions/disposals of subsidiaries during the period	1	(6)
<b>Accumulated amount recognised in other comprehensive income 31 December</b>	<b>322</b>	<b>535</b>
Deferred tax liability relating to actuarial losses recognised in other comprehensive income during the period.	34	(76)
<b>Accumulated amount after tax recognised in other comprehensive income 31 December</b>	<b>356</b>	<b>459</b>

The following financial assumptions have been applied:	2016	2015
Discount rate	2.60%	2.70%
Fund performance	2.60%	2.70%
Annual salary increase	2.50%	2.50%
Adjustment of National Insurance Scheme's basic amount (G)	2.25%	2.25%
Adjustments to current pensions, public plan	1.50%	1.50%

The discount rate is calculated on the basis of a comprehensive interest rate curve that takes into account that pension payments will mature at different times in the future. The curve is calculated based on prices from the Norwegian Covered Bonds (OMF) market as of 31 December 2016, as calculated by the Norwegian Accounting Standards Board. The annual salary increase is calculated based on a curve by reference to historical data. The salary increase is set to an average of 2.5 percent over the service period for the population.

Demographic assumptions that form the basis of the calculations are based on the IR73 disability rate table (restated using the intensity method) and the K2013FT mortality rate table drawn up by the Financial Supervisory Authority of Norway. Hafslund considers the Financial Supervisory Authority of Norway's K2013FT to be unbiased and take into account changes in the life expectancy of the Group's employees. The assumptions for K2013FT will be followed up each year.

The actual yield on pension assets in 2016 amounted to NOK 58 million (NOK 69 million in 2015).

NOK million	2016	2015
Accrued pension benefits for the year	29	38
Net interest expense	(2)	8
Employer's National Insurance contributions	4	5
<b>Pension expenses defined benefit plans</b>	<b>31</b>	<b>51</b>
<b>Pension expenses defined contribution plans</b>	<b>38</b>	<b>41</b>
<b>Total pension expenses</b>	<b>69</b>	<b>92</b>

## Note 18

### Sensitivity of pension liabilities to changes in the weighted financial assumptions are:

	Change	Impact on pension liabilities:	
		Increase in assumption	Decrease in assumption
Discount rate	0.5%	(7%)	7%
Salary increase	0.5%	1%	(2%)
Adjustment of National Insurance Scheme's basic amount (G)	0.5%	6%	(6%)
Life expectancy	1 year	4%	(3%)

Pension assets are invested in bonds and money-market placements issued by the Norwegian government, Norwegian municipalities, financial institutions and enterprises. Foreign currency bonds are hedged. Investments are made in both Norwegian and foreign shares. Any estimate deviation is distributed pro-rata between the individual asset categories.

### Pension assets comprise:

NOK million	2016-31-12		2015-31-12	
	Value	%	Value	%
Equity instruments	1,117	42 %	1,176	45 %
Interest-bearing instruments	1,516	58 %	1,415	55 %
<b>Fair value pension assets</b>	<b>2,633</b>	<b>100 %</b>	<b>2,591</b>	<b>100 %</b>

### In 2016 the plan's contributions were invested as follows:

NOK million	Level 1 Exchange-listed prices	Level 2 Observable prices	Level 3 Non-observable prices	Total
Equity instruments		821	296	1,117
Interest-bearing instruments		1,516		1,516
<b>Total</b>		<b>2,337</b>	<b>296</b>	<b>2,633</b>

### In 2015 the plan's contributions were invested as follows:

NOK million	Level 1 Exchange-listed prices	Level 2 Observable prices	Level 3 Non-observable prices	Total
Equity instruments		907	285	1,192
Interest-bearing instruments		1,399		1,399
<b>Total</b>		<b>2,306</b>	<b>285</b>	<b>2,591</b>

## Note 18

### Risk

The measurement of pension liabilities is based on IAS 19 and on assumptions for discount rates, real wage developments, inflation, age-based career development, adjustment of retirement benefits, development of the National Insurance Scheme's basic amount (G), expected retirement of employees, retirement age and disability. Estimation of the obligation is performed by an independent actuary.

Pension assets are measured at fair value and are invested in Hafslund og Infratek Pensjonskasse and KLP. The pension funds also cover a business that is not part of the Group (Infratek AS). In addition, the pension fund includes paid-up policies. The Group's pension assets are managed as a "collective portfolio", which entails that the Board of the pension fund determines how the pension assets will be invested.

The Group is exposed to several types of risk through its defined benefit pension plans, the most significant of which are as follows:

### Interest rate risk

Pension assets exposure to interest rate risk is deemed to be moderate due to the fact that the market value weighted term is approximately 1.6 years. The portfolio value of Hafslund's pension fund would fall by around 1.5 percent (around NOK 39 million) in the event of a parallel shift in the interest rate curve (interest rate rise) of + 0.5 percentage points. The value would rise correspondingly in the event of a fall in interest rates.

The pension liabilities are exposed to interest rate risk, due to the fact that the covered bond interest rate is used as the basis for determining the discount rate. Pension liabilities would rise by around 7 percent (NOK 188 million) in the event of a parallel shift in the entire yield curve (fall in interest rates) of -0.5 percentage points. The value would decrease by around 7 percent (NOK 188 million) in the event of a 0.5 percentage point rise in interest rates. See also the sensitivity table on page [60](#).

### Credit risk

Pension assets' exposure to credit risk is deemed to be moderate. Credit risk is managed through limits for the largest exposure and rating for individual investments. The majority of the pension funds' fixed-income investments shall be "investment grade".

The pension liabilities are exposed to credit risk, since the covered bond interest rate is used as the basis for determining the discount rate. An increase in the credit mark-up would reduce the pension liability.

### Share price risk

The pension assets are invested in equity instruments and shares in various Norwegian and foreign equity funds. A total of 35 percent of the cumulative investments in Hafslund og Infratek Pensjonskasse are exposed to the Norwegian equity market and 65 percent to the global equity market. In total, 10 percent are invested in property funds. The overall equity exposure varied from 27–31 percent throughout the year. In total, equity instruments and shares comprised 42 percent of the overall portfolio at the end of 2016. The pension fund's equity investments are widely diversified.

### Foreign exchange risk

All the investments in foreign fixed-income funds are hedged. Investments are made in currency-hedged funds. Some foreign share investments are currency-hedged. At any one time at least 70 percent of the pension assets in Hafslund og Infratek Pensjonskasse shall be invested in NOK. At the reporting date, the pension assets were exposed to foreign exchange risk due to the fact that some funds were invested in foreign equities. The pension obligations are only exposed to NOK.

### Liquidity risk

The liquidity risk of the pension assets is considered low, since the current investments exceed the current liabilities at all times. The investments are considered adequately liquid.

## Note 18, 19

### Overview of pension liabilities and the fair value of pension assets related to funded plans:

NOK million	2016	2015	2014	2013
Present value of defined benefit pension liabilities	<b>2,684</b>	2,587	2,923	2,408
Fair value of pension assets	<b>2,633</b>	2,591	2,548	2,220
<b>Surplus/deficit</b>	<b>52</b>	<b>(3)</b>	<b>375</b>	<b>188</b>

### Expected maturity for the defined benefit plans:

NOK million	< 1 year	1–2 years	2–5 years	> 5 years	Total
2016	115	111	422	2,036	<b>2,684</b>
2015	118	115	425	1,928	<b>2,587</b>

### NOTE 19 ► OTHER (LOSSES)/GAINS – NET

NOK million	Notes	2016	2015
Interest income		37	17
Change in fair value of financial derivatives valued at fair value through profit or loss	<a href="#">10</a>	105	(2)
Gain on the sale of shares	<a href="#">25</a>	14	52
<b>Total other (losses)/gains – net</b>		<b>156</b>	<b>67</b>



## Note 20, 21

### NOTE 20 ► OTHER OPERATING EXPENSES

NOK million	2016	2015
Maintenance	689	671
Purchase of services	168	210
Rent, power, etc.	190	188
Sales and marketing	310	245
Other	581	527
<b>Total other operating expenses</b>	<b>1,938</b>	<b>1,841</b>

In 2016 auditors' fees were recognised in the total amount of NOK 8.4 million (2015: NOK 7.4 million). The fees break down as follows: NOK 6.3 million (NOK 6.0 million) for statutory auditing, NOK 0.3 million (NOK 0.2 million) for other certification services, NOK 0.6 million (NOK 0.7 million) for tax consultancy services and NOK 1.1 million (NOK 0.5 million) for non-auditing services.

### NOTE 21 ► SALARIES AND OTHER PERSONNEL EXPENSES

NOK million	2016	2015
Salaries	684	717
Employer's National Insurance contributions	116	128
Pension expenses – defined benefit plans	31	51
Pension expenses – defined contribution plans	38	41
Other benefits	53	56
<b>Total salaries and other personnel expenses</b>	<b>922</b>	<b>992</b>

At the end of 2016, Hafslund employed a total of 1,136 (1,098) FTEs and 1,155 (1,117) employees.

## Note 22

### NOTE 22 ► OVERVIEW OF REMUNERATION PAID TO SENIOR EXECUTIVES AND BOARD MEMBERS

Name	Position	Salaries, holiday pay and fees	Bonus <sup>(2)</sup>	Benefits in kind	Pension expenses	Loans 31 December 2016	Number of shares 31 December 2016
Finn Bjørn Ruyter <sup>(4)</sup>	CEO	3,665,439	1,713,414	202,030	492,701	230,000	18,107
Kari Ekelund Thørud	Senior Vice President/Deputy CEO	2,862,625	837,061	189,158	356,143	400,000	1,457
Heidi Ulmo	Senior Vice President	2,610,712	757,072	208,375	316,043	340,000	20,030
Eirik Folkvord Tandberg	Senior Vice President (from March 2016)	1,423,740	453,702	130,354	125,025	565,000	1,130
Anders Østby	Senior Vice President	1,775,851	498,392	106,406	214,277	305,000	10,467
Kristin Lian	Senior Vice President	2,114,625	614,141	184,218	254,869	380,000	1,723
Johan Hovland	Senior Vice President	1,986,411	552,820	167,017	208,741	350,000	8,530
Tarjei Lie	Senior Vice President	1,822,741	527,311	164,828	184,330	500,000	10,430
Jan Presttun	Senior Vice President (until February 2016)	2,339,377		220,529			
Birger Magnus <sup>(3)</sup>	Chairman	546,400					7,000
Per Langer <sup>(1, 3)</sup>	Board member	244,400					
Katrine Mourud Klaveness	Board member (from May 2016)	139,500					
Odd Håkon Hoelsæter <sup>(3)</sup>	Board member	279,000					
Ellen Christine Christiansen	Board member	244,400					
Maria Moræus Hanssen <sup>(3)</sup>	Board member (until April 2016)	139,500					
Per Orfjell <sup>(3)</sup>	Board member (employee representative)	1,204,304		36,640	106,056	207,500	1,282
Per Luneborg <sup>(3)</sup>	Board member (employee representative)	793,334		6,520			707
Jane Koppang	Board member (employee representative)	971,710		9,932	94,403		1,292

1) Per Langer and related parties do not own any shares in Hafslund. Fortum, on the other hand, which Langer represents, owns 37,853,110 A shares and 28,706,339 B shares in Hafslund.

2) Applies to bonuses earned in 2016 and paid in 2017, plus increased holiday pay entitlements to be paid in 2018.

3) Includes remuneration for work on the Audit Committee and Compensation Committee.

4) The CEO's fixed salary was increased by 2.85 percent in 2016.

## Note 22

### Terms and conditions of employment and CEO

The CEO has a six-month period of notice. On leaving the company's employment he is entitled, on certain conditions being met, to continue receiving salary payments (severance pay) for 12 months after the notice period has come to an end. Upon receipt of salary from any new employer during the severance period, severance pay is reduced in line with special terms. The retirement age is 67 years and the CEO is a member of the Group's mandatory occupational pension (OTP) with 5 percent of salary between 1 and 6 times the National Insurance Scheme's basic amount (G) and 8 percent of salary between 6 and 12 G. Pension compensation that provides a net additional income after tax of 8 percent will be paid for the basic salary over 12 G. The CEO has the right to terminate his employment with an early retirement plan (AFP), pursuant to regulations in force at any one time. The CEO has a disability pension plan with a compensation of 66 percent of salary between 12 and 30 G. The CEO is entitled to a bonus capped at 50 percent of fixed salary. The bonus is determined annually based on Group targets, company targets/business targets, objective individual targets and a subjective individual evaluation.

### Terms and conditions relating to other members of Group management

Other members of Group management are entitled, under certain circumstances, to 6–12 months' salary on leaving the company (after the end of the notice period). Upon receipt of salary from any new employer during the severance period, severance pay is reduced in line with special terms. Remuneration consists of a fixed salary and a bonus scheme capped at 30 percent of fixed salary. The bonus is determined annually based on Group targets, company targets/business targets, objective individual targets and a subjective individual

evaluation. Four other members of Group management are covered by the defined benefit pension plans, while a further three members are covered by the defined contribution plan. Ulmo, Hovland and Lie were employed after the defined benefit pension plan was closed to new members, and are covered by the same defined contribution plan as the CEO. Group management has a disability pension plan with a compensation of 66 percent of salary between 12 and 30 G.

### The Board's Compensation Committee

The Board of Hafslund ASA has a dedicated Compensation Committee. The Compensation Committee will advise the Board on all matters pertaining to the company's remuneration to the CEO. The Committee will keep up to date on and propose guidelines for determination of remuneration to senior executives in the Group. In addition, the Committee will function as the advisory body for the CEO as regards compensation schemes that essentially cover all employees, including Hafslund's bonus system and pension plan.

### The Board's declaration regarding determination of salaries and other remuneration for senior executives

The Board of Hafslund ASA will present the following guidelines and declaration regarding determination of salary and other remuneration for senior executives for the coming financial year to the Annual General Meeting, in accordance with § 6–16a and §5–6 (3) of the Norwegian Public Limited Liability Companies Act.

### Remuneration paid to the CEO

Remuneration paid to the CEO must be competitive in relation to responsibilities and the industry. The remuneration must furthermore act as an incentive to long-term creation of value

through development of the enterprise, positive profit and share price performance, and reflect the experience and expertise level of the employee. Remuneration will consist of a fixed salary, a bonus of up to 50 percent of the basic salary, pension and interest and instalment-free loans. The CEO will receive benefits in kind on the same level as other senior executives in the Group. The period of notice must equal at least six months.

### Remuneration paid to senior executives and other executives

Remuneration for the Group management is adopted by the CEO, but must be submitted to the Board for approval if the remuneration deviates from these guidelines. Remuneration paid to other executives is adopted by the relevant senior vice presidents. Remuneration paid to senior executives and other executives must be based on the guidelines below.

### Fixed salary

The fixed salary is based on the duties performed and level of responsibility, as well as the incumbent's expertise and length of service in the position. Salaries should be competitive in relation to responsibility and industry levels.

### Loans

Interest-free loans that are written down over 10 years in accordance with adopted guidelines can be given for car purchases. In addition, an annual operating subsidy can be awarded, as determined by the administration. Should the senior executive not have need for a car, the loan can still be taken out on the same terms against satisfactory surety.

### Benefits in kind

Benefits in kind mainly relate to expenses for broadband (home office), mobile phones and newspapers.

## Note 22, 23

### Holidays

Senior executives are entitled to holidays in line with the provisions of the Norwegian Annual Holidays Act and the current internal rules of the Group. Holiday pay is calculated on the basis of basic salary. Additional benefits are not included in the calculation.

### Annual bonus

An annual bonus system has been established to create an incentive for additional effort and value creation. Bonuses will be paid based on the added value which the employee or group of employees has generated. The bonus scheme has a ceiling of 50 percent of fixed salary depending on the level of the position. However, the main rule is a ceiling of 30 percent of the basic salary for other managers. Any exception from the main rule shall be specifically agreed with the CEO or Board. The bonus is established annually and Group targets are determined by the Board. The measurement criteria in addition to the Group targets for the individual employee, as well as weighting of targets are set by the employee's immediate supervisor based on:

- Group targets X percent of the maximum bonus.
- Company targets/business targets X percent of the maximum bonus.
- Individual objective targets X percent of the maximum bonus.
- Subjective individual assessment up to X percent of the maximum bonus.

The targets and the weighting must be adapted to the needs of the individual company/enterprise.

The annual bonus will be disbursed after presentation of the Group's annual financial statements. The disbursed bonus is not included in the calculation of holiday pay and pension

benefits. Should legislation require such benefits to be calculated on the basis of salary including bonus, the bonus will be reduced by as much as necessary to limit the bonus including other benefits to the total value determined by the provisions above.

### Share schemes

The CEO and Group management are covered by the Group's share schemes for employees. To promote employee loyalty to the Group, the company should annually consider giving employees the opportunity to buy shares in Hafslund ASA. The share offer should be viewed in the context of the total salary settlement for the Group. A share offer was made to employees in 2015, though not in 2016.

### Option schemes

The Group does not use option schemes.

### Pension

The CEO and Group management shall have a pension plan in accordance with the current pension plan for the Group, unless otherwise agreed with the Board. Members of Group management who are covered by the Group's mandatory occupational pension (OTP) and have a basic salary over 12 times the National Insurance Scheme's basic amount (G) receive pension compensation that provides a net additional income after tax of 8 percent. The retirement age for these individuals should normally be 67 years. The CEO and Group management are entitled to take early retirement in accordance with the early retirement scheme (AFP) in force at any given time. The CEO and Group management have a disability pension plan with a compensation of 66 percent of salary between 12 and 30 G.

### Period of notice and severance pay

The CEO and Group management should have a six-month period of notice. In specific cases and depending on the position concerned, salary payments may continue to be made for 6 to 12 months after employment has been terminated. If the employee should begin a new job while receiving severance pay, payments will be reduced by 66 percent of the lower of these monthly severance payments and the new monthly salary. Partly for historical reasons, remuneration deviates in some cases from the Group's guidelines for senior executive pay.

## NOTE 23 ► FINANCIAL EXPENSES

NOK million	2016	2015
Interest expense borrowings	344	384
Change in borrowings recognised at fair value	(87)	(137)
Capitalised construction loan interest	(19)	(16)
Disagios	(47)	37
Other financial expenses	25	20
<b>Total financial expenses</b>	<b>217</b>	<b>288</b>

## Note 24, 25

### NOTE 24 ► 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. Purchases include waste heat from the City of Oslo's waste-to-energy plant. In 2015 Fortum delivered temporary invoicing and customer centre services to network customers in the Østfold area, and consultancy services relating to the conversion of customer data. Fortum Forvaltning AS owns 34.1 percent of the shares in Hafslund ASA. All transactions between the parties are conducted on the arm's length principle.

The table below shows transactions with related parties:

NOK million	City of Oslo		Fortum	
	2016	2015	2016	2015
<b>Income statement:</b>				
Sale of goods and services	163	120	1	
Purchase of goods and services	55	117	2	15
<b>Balance sheet:</b>	<b>2016-12-31</b>	<b>2015-12-31</b>	<b>2016-12-31</b>	<b>2015-12-31</b>
Receivables	19	4		
Purchases recognised as investments	3	3		
Trade payables	13	12		

### Borrowings

Hafslund has two bond loans of NOK 500 million and NOK 740 million with Oslo Pensjonsforsikring AS, established in 2007 and 2008, respectively. The loans have ten-year terms. Both loans were taken out on market terms and conditions and are listed on the Oslo Stock Exchange. Nordic Trustee is a counterparty to the agreements. Oslo Pensjonsforsikring AS is a life insurance company that is wholly owned by the City of Oslo. The loans are included in fixed-interest bond loans under long-term borrowings, see [Note 16](#).

### NOTE 25 ► BUSINESS ACQUISITIONS AND DISPOSALS

#### Sale of subsidiaries in 2016

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 sales sum, on a debt-free basis, was around NOK 280 million. After deduction of transaction costs, the transaction generated an accounting profit of around NOK 14 million, which has been recognised under Other (losses)/gains – net in the income statement.

#### Sales of subsidiaries and associates in 2015

On 25 September 2015 Hafslund signed an agreement with Statkraft Varme concerning the transfer of shares in the wholly owned subsidiary Gardermoen Energi AS. On 21 October 2015 Hafslund entered into an agreement with Rejlers AB to transfer Hafslund's 88.5 percent stake in Embriq AS for a sales price of NOK 78 million. In addition, on 18 December 2015 Hafslund entered into an agreement with Fredrikstad Energi AS (FEAS) to sell Hafslund's 35 percent shareholding in Fredrikstad Nett AS (FEN) to the parent company FEAS. Following this transaction, FEAS owns 100 percent of FEN. Hafslund has retained a 49 percent stake in the parent company FEAS. Hafslund's 35 percent shareholding in FEN was sold at a book value of NOK 315 million. Hafslund will also receive a dividend from FEN for the 2015 financial year. The total equity released from the three transactions, which was recognised in Other business, amounted to NOK 498 million. The aggregate gain of NOK 60 million was recognised under Other (losses)/gains – net, and Share of profit/(loss) from associates in the income statement.

## Note 25, 26

### Acquisition of Galant Inkasso in 2015

Effective 1 May 2015, Hafslund acquired all the shares in Galant Inkasso AS. The purchase price for the shares amounted to NOK 22 million, and after the fair value of all the identifiable assets and liabilities had been assessed, the Group was left with a net item that was recognised in the balance sheet as goodwill in the amount of NOK 11 million. The calculated goodwill was recognised in the Group's balance sheet on the expectation that the synergy effects with the existing business will provide the Group with opportunities for increased earnings growth in the future.

### NOTE 26 ► CONTINGENCIES

Hafslund Energy Trading LLC ("HET") conducted power trading in California, USA, in the years 1999 to 2001. It was during this period a force crisis and it has since 2001 existed a disagreement between HET and government agencies in California (the "California Parties") where respondent has argued that HET must repay capital, HET is contesting. The parties have been in settlement discussions, but no solution has taken place. There is no activity in HET and limited capital in the company.



## Note 27

### NOTE 27 ► COMPANIES INCLUDED IN THE SCOPE OF CONSOLIDATION 2016

Company	Registered office	Shareholding/voting rights %
Hafslund ASA	Oslo	100
Hafslund Produksjon AS	Sarpsborg	100
Sarp Kraftstasjon AS	Sarpsborg	100
Hafslund Nett AS	Oslo	100
Hafslund Varme AS	Oslo	100
Bio-Ei Fredrikstad AS	Fredrikstad	100
Hafslund Marked AS	Oslo	100
Hafslund Strøm AS	Oslo	100
NorgesEnergi AS	Kristiansand	100
Hallingkraft AS	Ål	100
Røyken Kraft AS	Røyken	51
Fredrikstad Energisalg AS	Fredrikstad	100
Mitt Hjem Norge AS	Vestby	100
Gøta Energi AB	Gothenburg	100
Hafslund Energi AB	Stockholm	100
SverigesEnergi AB	Stockholm	100

Company	Registered office	Shareholding/voting rights %
Energibolaget i Sverige Holding AB	Stockholm	100
Escandinavia de Electricidad	Barcelona	100
Kotimaan Energia Oy	Helsinki	100
Solvencia AS	Oslo	100
Galant Inkasso AS	Oslo	100
Hafslund Tellier AS	Oslo	100
Tellier Services AB	Stockholm	100
Hafslund Kundesenter AS	Oslo	100
Hafslund Handel AS	Oslo	100
Hafslund Hedging AS	Oslo	100
Oslo Energi AS	Oslo	100
Hafslund Eiendom AS	Oslo	100
Hafslund USA Inc	USA	100
Hafslund Energy LLC	USA	100
Hafslund Energy Trading LLC	USA	100

# Financial statements and notes Hafslund ASA

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## Balance sheet

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## Income statement

NOK million	Notes	1 January–31 December	
		2016	2015
<b>Operating revenues</b>		<b>201</b>	<b>221</b>
Salaries and other personnel expenses	<a href="#">3, 4</a>	98	109
Depreciation, amortisation and impairments	<a href="#">8</a>	25	30
Other operating expenses	<a href="#">5</a>	129	114
<b>Operating loss</b>		<b>(51)</b>	<b>(33)</b>
Result of share investments	<a href="#">6</a>	24	(16)
Net financial items	<a href="#">6</a>	315	44
<b>Total financial items</b>		<b>339</b>	<b>28</b>
<b>Profit/(loss) before tax</b>		<b>288</b>	<b>(5)</b>
Tax expense	<a href="#">7</a>	(4)	(5)
<b>Net profit/(loss) for the year</b>		<b>284</b>	<b>(10)</b>
<b>Appropriations:</b>			
Dividends	<a href="#">18</a>	634	585
Transferred (from)/to equity		(350)	(595)

## Balance sheet

NOK million	Notes	31 December	
		2016	2015
<b>Assets</b>			
<b>Deferred tax assets</b>	<a href="#">7</a>	<b>3</b>	
<b>Total property, plant and equipment</b>	<a href="#">8</a>	<b>117</b>	<b>143</b>
Shares in subsidiaries	<a href="#">9</a>	<b>12,564</b>	13,931
Other long-term receivables	<a href="#">4, 10</a>	<b>2,851</b>	2,858
<b>Total financial assets</b>		<b>15,415</b>	<b>16,789</b>
<b>Total non-current assets</b>		<b>15,535</b>	<b>16,932</b>
Trade and other receivables	<a href="#">11</a>	<b>1,352</b>	390
Cash and cash equivalents	<a href="#">17</a>	<b>13</b>	14
<b>Total current assets</b>		<b>1,365</b>	<b>404</b>
<b>Total assets</b>		<b>16,900</b>	<b>17,336</b>
<b>Equity and liabilities</b>			
Paid-in equity		<b>4,331</b>	4,331
Retained earnings		<b>977</b>	1,350
<b>Total equity</b>	<a href="#">18, 19</a>	<b>5,308</b>	<b>5,681</b>
Provisions	<a href="#">4</a>	<b>33</b>	38
Long-term interest-bearing liabilities	<a href="#">14, 15</a>	<b>9,161</b>	10,183
<b>Total long-term liabilities and provisions</b>		<b>9,194</b>	<b>10,221</b>
Current interest-bearing liabilities	<a href="#">12</a>	<b>1,575</b>	656
Trade and other current payables	<a href="#">13</a>	<b>190</b>	193
Proposed dividend	<a href="#">18</a>	<b>634</b>	585
<b>Total current liabilities</b>		<b>2,399</b>	<b>1,434</b>
<b>Total equity and liabilities</b>		<b>16,900</b>	<b>17,336</b>

### The Board of Directors of Hafslund ASA

Oslo, 20 March 2017

Birger Magnus  
*Chairman of the Board*

Katrine Mourud  
Klaveness

Per Langer

Odd Håkon  
Hoelsæter

Ellen Christine  
Christiansen

Per Orfjell

Per Luneborg

Jane Koppang

Finn Bjørn Ruyter  
*CEO*

## Statement of cash flow

NOK million	Notes	1 January–31 December	
		2016	2015
Profit/(loss) before tax		288	(5)
Depreciation, amortisation and impairments	8	25	30
Income statement items adjusted for liquidity effects	6	(24)	16
Change in working capital etc.		15	(50)
<b>Net cash flow from operating activities</b>		<b>304</b>	<b>(9)</b>
Investments in operating assets	8	(3)	(15)
Accrued Group contributions	6	(570)	(329)
Group contributions received		329	238
Sale of shares or operating assets		650	27
Change in long-term receivables		8	(15)
<b>Net cash flow from investing activities</b>		<b>414</b>	<b>(94)</b>
New long-term loans		2,121	1 800
Repayment of loans		(2,225)	(2,317)
Change in other long-term liabilities		(30)	2
Dividends paid		(585)	(487)
<b>Net cash flow from financing activities</b>		<b>(719)</b>	<b>(1,002)</b>
Net change in cash and cash equivalents		(1)	(1,105)
Cash and cash equivalents as of 1 January		14	1,119
<b>Cash and cash equivalents as of 31 December</b>		<b>13</b>	<b>14</b>

## Note 1

### NOTE 1 ► ACCOUNTING POLICIES

Hafslund ASA's financial statements have been prepared in accordance with the Norwegian Accounting Act and generally accepted accounting practice in Norway (NGAAP).

#### Operating revenues

Revenues from the sale of goods and services are recognised at the fair value of the consideration. Revenues from the sale of goods and services are recognised at the time of delivery to the customer, provided that the customer has assumed the risks and rights pertaining to the property.

#### Classification

Assets intended for permanent ownership or long-term use are classified as non-current assets. Assets relating to goods circulation, receivables due to be repaid within one year, and assets that are not intended for permanent ownership or long-term use in the business are deemed to be current assets. Liabilities falling due more than one year after the end of the accounting year are recognised as long-term liabilities. Other liabilities are classified as current liabilities.

#### Valuation principles

##### Assets and liabilities denominated in foreign currency

Balance sheet items denominated in foreign currency that are not hedged against changes in exchange rates are valued at the rate in force at the balance sheet date. Balance sheet items that are hedged against fluctuations in exchange rates using financial instruments are valued at the hedging rate. Balance sheet items denominated in foreign currency that hedge each other are valued at the rate in force at the balance sheet date. Gains and losses as a result of fluctuations in exchange rates on other balance sheet items are classified as financial items.

##### Trade and other receivables

Trade and other receivables are recognised at nominal value less bad debt provisions. Bad debt provisions are based on an individual assessment of each receivable. A non-specific provision is also recognised to cover expected bad debts on other trade receivables.

##### Treasury shares

Hafslund offers discounted treasury shares to employees in order to encourage employee ownership in the company. Any treasury shares sold to employees below market price are recognised as the difference between market price and sales price in the income statement under salaries and other personnel expenses. Treasury shares are recognised in the balance sheet as a reduction in equity.

##### Investments in subsidiaries, associates and joint ventures

Investments in subsidiaries, associates and joint ventures are valued in accordance with the cost method. Dividends and other distributions received from subsidiaries are recognised as financial income. The Group values single-entity companies in accordance with IAS 36.

##### Investments in long-term shareholdings

Long-term investments in companies in which Hafslund controls more than 20 percent of equity rights, but does not exercise significant influence or long-term ownership, are recognised at cost less any permanent diminutions in value. Individual investments are valued on a case-by-case basis. Dividends and other distributions received from subsidiaries are recognised as financial income. Realised gains and losses and any impairments attributable to permanent diminutions in value are recognised in the income statement under financial items.

##### Property, plant and equipment

Property, plant and equipment is recognised in the balance sheet at cost less cumulative depreciation and impairments. Own investment activities are recognised in the balance sheet at full production cost. Property, plant and equipment is depreciated on a straight-line basis over its expected useful life from the time it enters operation. Profits and losses on the sale of operating assets are recognised as operating revenues and operating expenses respectively.

##### Retirement benefit obligations

See Note [2.18](#) to the consolidated financial statements. Hafslund ASA has opted to switch to NRS 6A which refers to IAS 19, regarding the accounting treatment of pension expenses.

## Note 1, 2, 3

### Tax expense, deferred tax liabilities and deferred tax assets

The tax expense is based on the profit/loss on ordinary activities before tax. The tax expense comprises taxes payable and changes in deferred tax liabilities/deferred tax assets. Tax payable is calculated based on the taxable result for the year. Deferred income tax recognised in the balance sheet is calculated in accordance with the offset method, with full provision for net tax-increasing temporary differences based on tax rates and nominal amounts at the balance sheet date. Deferred tax assets relating to net tax-reducing temporary differences and tax loss carryforwards are recognised based on an assessment of the probability of there being sufficient future earnings or ability to utilise tax positions that can be offset through Group contributions.

### Financial derivatives

The accounting treatment adopted for financial derivatives depends on the purpose of the underlying agreement. Currency derivatives are considered cash items and recognised at fair value. Unrealised gains/losses are recognised in the income statement.

### Loans

Loans are recognised at nominal value. Loan costs on the taking out of loans are recognised directly in the income statement.

### Contingencies

Contingencies are recognised if, on the balance of probabilities, it is more likely that these will be settled than not settled. Best estimates are used to calculate settlement values for the contingencies. Provisions are recognised in the event that decisions are taken to implement measures (such as restructuring measures) that materially change the scope of the business or way in which it is operated, and when such measures result in termination benefits. Provisions are calculated based on best estimates of the expenses that are expected to accrue.

### Basis of preparation of statement of cash flow

The cash flow statement has been prepared in accordance with the indirect method. This means that the starting point of the statement is the entity's result for the year in order to be able to present cash flows from ordinary operating activities, investing activities and financing activities, respectively.

### NOTE 2 ► MAJOR INDIVIDUAL TRANSACTIONS

Hafslund ASA has completed the sale of Sarpsborg Avfallsenergi AS (SAE) to Sarpsborg Infrastructure AS. The company is owned by the Australian pension fund Prime Super Pty Limited, which is responsible for Prime Super, and is managed by Whitehelm Capital Pty Ltd. SAE is a waste-to-energy plant in Sarpsborg municipality, Østfold county, which delivers energy in the form of industrial steam to the Borregaard industrial area. The sale was completed as part of Hafslund's strategy to streamline its core activities.

### NOTE 3 ► SALARIES AND OTHER PERSONNEL EXPENSES

NOK million	2016	2015
Salaries	76	79
Employer's National Insurance contributions	11	11
Pension expenses ( <a href="#">Note 4</a> )	7	10
Other benefits	4	9
<b>Total salaries and other personnel expenses</b>	<b>98</b>	<b>109</b>
<b>Number of employees as of 31 December</b>	<b>65</b>	<b>80</b>

Information on remuneration paid to the Board of Directors and senior executives can be found in [Note 22](#) to the consolidated financial statements.

## Note 4

### NOTE 4 ► PENSION EXPENSES, ASSETS AND LIABILITIES

Hafslund ASA is obliged to operate pension schemes for its employees in accordance with the Norwegian Act on Occupational Pension Schemes. The company operates pension schemes that satisfy the requirements of this Act and the schemes cover both defined benefit and defined contribution schemes. As of 31 December 2016 the company's pension schemes covered a total of 65 employees, of whom 12 were in a public scheme, 16 were in a private scheme and 37 were in a defined contribution scheme. The defined benefit schemes provide the right to defined future benefits. These are mainly dependent on the number of years of service and salary level upon reaching retirement age. The pension schemes are funded either through Hafslund's own pension funds, through insurance companies or directly by the companies.

NOK million	2016	2015
<b>Pension expenses</b>		
Present value of accrued pension entitlements for the year	3	4
Interest expense on pension liabilities	20	19
Yield on pension assets	(20)	(17)
<b>Pension expenses defined benefit plans</b>	<b>3</b>	<b>6</b>
Employer contributions	4	4
<b>Total pension expenses</b>	<b>7</b>	<b>10</b>

	2016-12-31	2015-12-31
<b>Liability recognised in the balance sheet</b>		
Present value of accrued pension liability for funded defined benefit schemes	723	703
Pension fund assets	(758)	(746)
<b>Actual net pension liabilities for funded defined benefit plans</b>	<b>(35)</b>	<b>(43)</b>
Present value of pension liabilities for unfunded plans	33	38
<b>Net pension liabilities in balance sheet</b>	<b>(3)</b>	<b>(4)</b>
Net pension liabilities in balance sheet	(33)	(38)
Net pension assets in balance sheet	35	43
Net pension liabilities as of 1 January	(4)	90
Pension expense for the year	3	6
Pension payments and payment of pension premiums	(34)	(19)
Actuarial losses/(gains) recognised in equity	32	(82)
<b>Net pension liabilities as of 31 December</b>	<b>(3)</b>	<b>(4)</b>
<b>Assumptions</b>	<b>2016</b>	<b>2015</b>
Discount rate	2.60 %	2.70 %
Expected yield on pension assets	2.60 %	2.70 %
Annual salary increase	2.50 %	2.50 %
Adjustment of National Insurance Scheme's basic amount (G)	2.25 %	2.25 %

The discount rate is calculated on the basis of a comprehensive interest rate curve that takes into account that pension payments will mature at different times in the future. The curve is calculated based on prices from the Norwegian Covered Bonds market as of 31 December 2016, as calculated by the Norwegian Accounting Standards Board.

The annual salary increase is calculated based on a curve by reference to historical data. The salary increase is set to an average of 2.5 percent over the service period for the population in Hafslund's pension funds. See also [Note 18](#) to the consolidated financial statements for further details.

## Note 5, 6, 7

### NOTE 5 ▶ OTHER OPERATING EXPENSES

NOK million	2016	2015
Purchase of services	33	13
Rent, power, etc.	9	8
Sales and marketing	4	5
Operating and maintenance expenses	32	23
Operation of ICT services	30	42
Other operating expenses	22	24
<b>Total other operating expenses</b>	<b>129</b>	<b>114</b>

Auditor's fees, excluding VAT, recognised in 2016 comprise NOK 1.3 million (NOK 1.1 million). The fees relate to the following:

- Statutory auditing NOK 1.0 million (NOK 1.0 million)
- Tax consultancy NOK 0.1 million (NOK 0.05 million)
- Other consultancy NOK 0.2 million (NOK 0.05 million)

### NOTE 6 ▶ RESULT OF SHARE INVESTMENTS AND NET FINANCIAL ITEMS

NOK million	2016	2015
Gain/loss on the sale of shares in subsidiary	24	(16)
<b>Earnings from share investments</b>	<b>24</b>	<b>(16)</b>
Interest income <sup>1)</sup>	202	217
Interest expenses	(386)	(433)
Group contributions	570	329
Exchange gains/(losses)	34	(31)
Other finance income/(finance costs)	(105)	(38)
<b>Net financial items</b>	<b>315</b>	<b>44</b>

1) Hafslund ASA's interest income includes intragroup interest for 2016 and 2015 of respectively NOK 202 million and NOK 216 million.

### NOTE 7 ▶ TAX PAYABLE

NOK million	2016	2015
<b>Profit/(loss) before tax</b>	<b>288</b>	<b>(5)</b>
Permanent differences	3	
Non-taxable gain/loss on sale of shares in subsidiary	(24)	16
Estimate deviations on pensions recognised in equity	(32)	82
Change in temporary differences	15	(93)
<b>Tax basis before application of tax loss carryforward and Group contributions</b>	<b>250</b>	
Group contributions, net of tax	(250)	
<b>Tax basis, tax payable</b>	<b>0</b>	<b>0</b>
<b>The total tax expense comprises:</b>		
Change in deferred tax liabilities	(4)	25
Deferred tax on estimate deviations for pensions recognised in equity	8	(20)
<b>Tax expense</b>	<b>4</b>	<b>5</b>
<b>Reconciliation of tax rate:</b>		
Profit/(loss) before tax	288	(5)
Expected tax expense at nominal tax rate	72	(1)
Tax effect of non-taxable income and non-deductible expenses	(68)	6
<b>Tax expense</b>	<b>4</b>	<b>5</b>
<b>Basis deferred tax liabilities/assets</b>		
Temporary differences	8	19
Operating assets	(24)	(24)
Accrued pension liabilities	3	4
<b>Basis deferred tax liabilities/assets</b>	<b>(14)</b>	<b>(1)</b>
<b>Deferred tax assets recognised in the balance sheet</b>	<b>(3)</b>	<b>0</b>

## Note 8

### NOTE 8 ► PROPERTY, PLANT AND EQUIPMENT

NOK million	Machinery, technical equipment, furniture etc.	Land and other property	Work under construction	Total
<b>Book value as of 31 December 2014</b>	<b>83</b>	<b>65</b>	<b>10</b>	<b>158</b>
<b>2015 accounting year</b>				
Investments	12		4	15
Transferred from facilities under construction	10		(10)	
Depreciation for the year	(28)	(2)		(30)
<b>Book value as of 31 December 2015</b>	<b>77</b>	<b>63</b>	<b>3</b>	<b>143</b>
Cost	232	93	5	330
Cumulative depreciation and impairments	(155)	(30)	(2)	(187)
<b>Book value as of 31 December 2015</b>	<b>77</b>	<b>63</b>	<b>3</b>	<b>143</b>
<b>2016 accounting year</b>				
Investments			3	3
Transferred from facilities under construction	5		(5)	
Disposals (cost)	(25)			(25)
Disposals accumulated depreciation	21			21
Depreciation for the year	(23)	(2)		(25)
<b>Book value as of 31 December 2016</b>	<b>55</b>	<b>61</b>	<b>1</b>	<b>117</b>
Cost	212	93	3	308
Cumulative depreciation and impairments	(157)	(32)	(2)	(191)
<b>Book value as of 31 December 2016</b>	<b>55</b>	<b>61</b>	<b>1</b>	<b>117</b>
Depreciation percentage	3–33%	0–5%		

## Note 9

### NOTE 9 ► SHARES IN SUBSIDIARIES

NOK million	Date of acquisition	Registered office	Shareholding/ voting rights %	Share of recognised shareholding in company as of 2016-12-31	Book value 2016-12-31
Hafslund Handel AS <sup>1)</sup>	1986	Oslo	100	1,233	305
Sarp Kraftstasjon AS	1987	Askim	100	150	61
Hafslund Nett AS <sup>2,3)</sup>	2009	Oslo	100	7,044	4,793
Hafslund Eiendom AS <sup>3)</sup>	2009	Oslo	100	83	35
Hafslund Marked AS <sup>4)</sup>	2014	Oslo	100	1,357	1,094
Hafslund Varme AS	2009	Oslo	100	1,899	3,185
Bio-El Fredrikstad AS	2014	Fredrikstad	100	11	15
Hafslund Produksjon AS	2009	Askim	100	1,049	3,076
<b>Total shares in subsidiaries</b>				<b>12,816</b>	<b>12,564</b>

1) Skankraft AS, Hafslund Handel Øst AS, Balder Energy AS, Hornnes Kraft AS, Vestfjorden Kraft AS and RåEl Kraft AS were merged into Hafslund Handel AS.

2) Hafslund Driftssentral AS was merged into Hafslund Nett AS.

3) Hafslund Eiendom AS has spun off their transformer substations to a newly formed company Hafslund Netteiendom AS. In 2016 Hafslund Netteiendom AS was sold to Hafslund Nett AS.

4) Hafslund Marked AS paid a dividend of NOK 750 million to Hafslund ASA, which has reduced the book value of the shares in Hafslund Marked AS.

## Note 10, 11, 12, 13

### NOTE 10 ► OTHER LONG-TERM RECEIVABLES

NOK million	2016-12-31	2015-12-31
Net pension assets in balance sheet ( <a href="#">see Note 4</a> )	35	43
Contributions to pension funds	116	116
Loans to Group companies	2,700	2,700
<b>Total other long-term receivables</b>	<b>2,851</b>	<b>2,858</b>

### NOTE 11 ► TRADE AND OTHER RECEIVABLES

NOK million	2016-12-31	2015-12-31
Trade receivables		38
Receivable due from Group companies	1,333	329
Other receivables	19	23
<b>Total trade and other receivables</b>	<b>1,352</b>	<b>390</b>

### NOTE 12 ► CURRENT INTEREST-BEARING DEBT

NOK million	Interest as of 2016-12-31	Interest as of 2015-12-31	Debt as of 2016-12-31	Debt as of 2015-12-31
Miscellaneous certificates and current loans	1.6–1.8 %	1.3 %	900	300
The Group overdraft facility relates to draw-downs at subsidiaries			675	356
<b>Total current interest-bearing debt</b>			<b>1,575</b>	<b>656</b>

### NOTE 13 ► TRADE AND OTHER CURRENT PAYABLES

NOK million	2016-12-31	2015-12-31
Trade payables	13	15
Accrued interest	144	155
Other non-interest-bearing liabilities	30	23
Liabilities due to other Group companies	4	
<b>Total trade and other current payables</b>	<b>190</b>	<b>193</b>

## Note 14, 15,

### NOTE 14 ► LONG-TERM INTEREST-BEARING DEBT

NOK million	Interest as of 2016-12-31	Interest as of 2015-12-31	Debt as of 2016-12-31	Debt as of 2015-12-31
Fixed-interest bonds	3.7-6.3 %	3.7-6.3 %	3,724	4,488
Variable-interest bond loans	1.6-5.6 %	1.6-5.6 %	2,984	3,243
Other loans	1.7-2.4 %	1.6-2.2 %	2,453	2,452
<b>Total long-term interest-bearing debt</b>			<b>9,161</b>	<b>10,183</b>

NOK million	2017	2018	2019	2020	2021	Later	Total
Maturity profile, long-term interest-bearing debt Hafslund ASA	1,280	1,689	1,906	972	1,241	2,073	9,161

Hafslund has entered into a syndicated NOK 3,600 million revolving credit facility maturing on 17 June 2018. The lender is a banking syndicate comprising six Nordic banks. The facility is used as a back-stop for current commercial papers and as a general liquidity reserve. At the end of the year the entire facility remained unused. The Group also has a NOK 200 million overdraft facility with Nordea that was unused at the end of the reporting period.

Hafslund's loan covenants prohibit the pledging of assets as loan security. Some loan agreements also stipulate that material assets cannot be disposed of without bank approval, while some have an ownership clause requiring more than 50 percent of shares issued by Hafslund ASA to be held by current shareholders, or by shareholders with a credit rating of at least A- from Standard & Poor's or A3 from Moody's, or by shareholders approved by the lending banks.

### NOTE 15 ► RELATED PARTIES

Hafslund has two bond loans of NOK 500 million and NOK 740 million with Oslo Pensjonsforsikring AS, established in 2007 and 2008, respectively. The loans have ten-year terms. Both loans were taken out on market terms and conditions and are listed on the Oslo Stock Exchange. Nordic Trustee is counterparty to the agreements. Oslo Pensjonsforsikring AS is a life insurance company that is wholly owned by the City of Oslo. The loans are recognised under fixed-interest bond loans in long-term loans in [Note 16](#) to the consolidated financial statements.



## Note 16, 17

### NOTE 16 ► RISK MANAGEMENT AND FINANCIAL DERIVATIVES

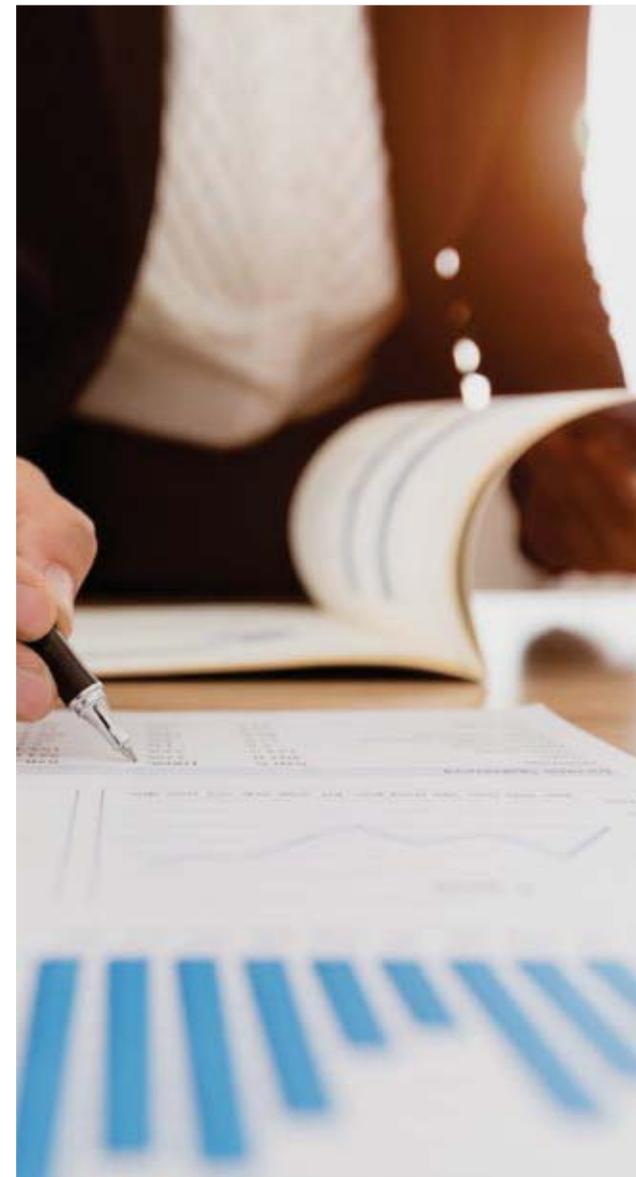
The table below shows outstanding interest rate swap as of 31 December 2016:

NOK million							
CURRENCY	AMOUNT	HAFSLUND PAYS		HAFSLUND RECEIVES		START	MATURITY
NOK	500	Floating	6M Nib+200	Fixed/annual	6.30%	2009-01-21	2019-01-21

As of 31 December 2016 the fair value of the interest rate swap amounted to NOK 30 million. This amount excludes accrued interest.

### NOTE 17 ► GUARANTEES

The Group purchases bank guarantees to secure some liabilities. At the reporting date these guarantees amounted to NOK 234 million for trading in the power market, NOK 55 million in tax deduction guarantees, NOK 45 million in rental guarantees, NOK 25 million in contract and payment guarantees and NOK 183 million for re-invoicing of network rental (of which NOK 131 million relates to intercompany transactions).



## Note 18, 19

### NOTE 18 ► EQUITY

NOK million	Share capital	Share premium account	Other paid-in equity	Retained earnings	Total paid-in equity and retained earnings
<b>Equity as of 31 December 2014</b>	<b>195</b>	<b>4,080</b>	<b>59</b>	<b>1,872</b>	<b>6,206</b>
Net loss for the year				(10)	(10)
Estimate deviations on pensions recognised in equity				61	61
Change in treasury shares			(3)	11	8
Proposed dividend (NOK 3.00 per share)				(585)	(585)
<b>Equity as of 31 December 2015</b>	<b>195</b>	<b>4,080</b>	<b>59</b>	<b>1,350</b>	<b>5,681</b>
Net profit for the year				284	284
Estimate deviations on pensions recognised in equity				(24)	(24)
Proposed dividend (NOK 3.25 per share)				(634)	(634)
<b>Equity as of 31 December 2016</b>	<b>195</b>	<b>4,080</b>	<b>59</b>	<b>977</b>	<b>5,308</b>

### NOTE 19 ► SHARE CAPITAL AND SHAREHOLDER INFORMATION

Please refer to [note 14](#) to the consolidated financial statements.



As of 31 December 2016 Hafslund held 263,289 B shares and 1 A share. The average purchase price was NOK 73.19 per share, making the total cost price MNOK 19.

# Management declaration

## Management declaration regarding the content of the annual report

### We declare to the best of our knowledge that:

- The consolidated financial statements for 2016 have been prepared in accordance with IFRSs as adopted by the EU, including additional disclosures pursuant to the Norwegian Accounting Act.
- The parent company's 2016 annual financial statements have been prepared in accordance with the Norwegian Accounting Act and generally accepted accounting practice in Norway.
- The accounting information provides a true and fair view of the company's and the Group's assets, liabilities and financial position and performance as a whole.
- The Report from the Board of Directors provides a true and fair picture of the development, performance and position of the company and the Group, as well as a description of the most important risk factors and uncertainties facing the business.

### The Board of Directors of Hafslund ASA

Oslo, 20 March 2017

Birger Magnus  
*Chairman of the Board*

Katrine Mourud Klaveness

Per Langer

Odd Håkon Hoelsæter

Ellen Christine Christiansen

Per Orfjell

Per Luneborg

Jane Koppang

Finn Bjørn Ruyter  
*CEO*

# Auditor's report



To the General Meeting of Hafslund ASA

## Independent Auditor's Report

### Report on the Audit of the Financial Statements

#### Opinion

We have audited the financial statements of Hafslund ASA. The financial statements comprise:

- The financial statements of the parent company, which comprise the balance sheet as at 31 December 2016, and the income statement and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and
- The financial statements of the group, which comprise the balance sheet as at 31 December 2016, and income statement, statement of comprehensive income, statement of changes in equity, cash flow 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 accompanying financial statements give a true and fair view of the financial position of the parent company as at 31 December 2016, and 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 accompanying financial statements give a true and fair view of the financial position of the group as at 31 December 2016, and 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, included 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 as required by laws and regulations, and we have fulfilled our other ethical responsibilities 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.

PricewaterhouseCoopers AS, Postboks 748 Sentrum, NO-0106 Oslo  
T: 02316, org.no: 987 009 713 VAT: [www.pwc.no](http://www.pwc.no)  
State authorised public accountants, members of The Norwegian Institute of Public Accountants, and authorised accounting firm



Auditor's Report - 20 March 2017 - Hafslund ASA

#### Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and do not provide a separate opinion on these matters.

Key Audit Matter	How our audit addressed the Key Audit Matter
------------------	--

<i>Completeness and occurrence of revenues (see group financial statements note 4 and 12)</i>	
---	--

We have focused on completeness and occurrence of revenues because a share of the recognised revenues are estimated, with final settlement of sales in networks, heat and markets being made after period end. The estimate for accrued revenue is significant and represents 1 600 MNOK as per 31.12.2016. Total revenues related to sale and distribution of electricity and heat amount to 12 118 MNOK for the fiscal year 2016.

The estimate for accrued revenue is calculated in a self-developed forecasting model. The model is based on the allocation of actual and estimated delivered power volume and price for the period for each customer group.

The allocation is, despite being based on historical data, considered an estimate where the final delivered volume will deviate from the original estimate.

We have focused on internal controls that help to ensure that all the delivered volumes are measured or stipulated and included in the calculation of actual and estimated accrued revenues. Furthermore, we tested the internal controls that ensure that the prices used in the estimate reflects the price for each customer group used in the business. We also tested the internal controls aimed at the allocation of delivered and estimated power volume per customer group and we tested managements' monitoring of the deviations from previous estimates.

Additionally, we have evaluated Hafslund's self-developed forecasting model against an estimate of accrued income calculated by us. In our calculation we used external sources of information for delivered power volumes, measured consumption and average market prices during the period.

We also examined Hafslund's reconciliation of accrued income against the forecast model and the recognised income in the financial statements.

<i>Accurate and complete accounting for financial power contracts (see group financial statements note 3 and 10)</i>	
--	--

We have focused on Hafslund's processes and procedures to ensure a proper basis for accounting for financial power contracts because the number of transactions and the volume of the contracts are considered significant and errors in the basis for accounting can lead to significant errors in the financial statements.

We have assessed Hafslund's guidelines and principles for accounting for financial power contracts and whether these are in accordance with accepted principles and regulations.

We have further evaluated and tested the design and effectiveness of Hafslund's internal controls regarding the recognition of financial power contracts. This includes testing of internal controls that ensure accurate and complete registration of power contracts in the energy trading system, test of internal controls related to the settlement procedures and automatic

(2)

## Auditor's report

 Auditor's Report - 20 March 2017 - Hafslund ASA

reconciliation of transactions in the power contract market and reconciliation procedures associated with realized and unrealized gains/losses. We also tested Hafslund's hedging documentation and related accounting.

At year end we sample tested the recognized financial power contracts against external counterparts and assessed the completeness and accuracy of the elimination of financial power contracts with internal counterparties.

**Other information**

Management is responsible for the other information. The other information comprises the Board of Directors' report, statements on Corporate Governance and Corporate Social Responsibility (in chapter "Report from the Board of Directors 2016") and other information (in chapter "Key Figures", "Message from the CEO" and "Analytical Information") but does not include the financial statements and our auditor's report thereon.

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 the Board of Directors and the Managing Director for the Financial Statements**

The Board of Directors and the Managing Director (management) are responsible for the preparation and fair presentation of the financial statements of the parent company in accordance with Norwegian Accounting Act and accounting standards and practices generally accepted in Norway, and for the preparation and fair presentation of the financial statements of the group in accordance with International Financial Reporting Standards as adopted by the EU, 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 and the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern. The financial statements of the parent company use the going concern basis of accounting insofar as it is not likely that the enterprise will cease operations. The financial statements of the group

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 Auditor's Report - 20 March 2017 - Hafslund ASA

use the going concern basis of accounting unless management either intends to liquidate the Group 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 laws, regulations, and auditing standards and practices generally accepted in Norway, including 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 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 laws, regulations, and auditing standards and practices generally accepted in Norway, included International Standards on Auditing (ISAs), we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error. We 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.

(4)

 Auditor's Report - 20 March 2017 - Hafslund ASA

We communicate with the Board of Directors 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

We also provide the Board of Directors with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

**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 and in the statements on Corporate Governance and Corporate Social Responsibility concerning the financial statements, the going concern assumption, and the proposal for the allocation of the profit 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 produce a proper and clearly set out registration and documentation of the company's accounting information in accordance with the law and bookkeeping standards and practices generally accepted in Norway.

Oslø, 20 March 2017  
**PricewaterhouseCoopers AS**

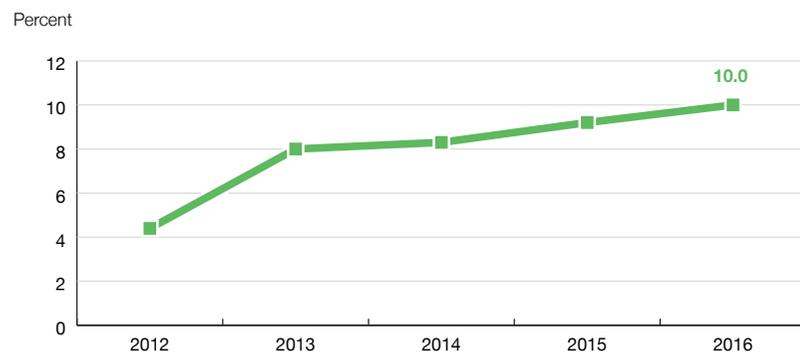
Thomas Fraurud  
 State Authorised Public Accountant

Note: This translation from Norwegian has been prepared for information purposes only.

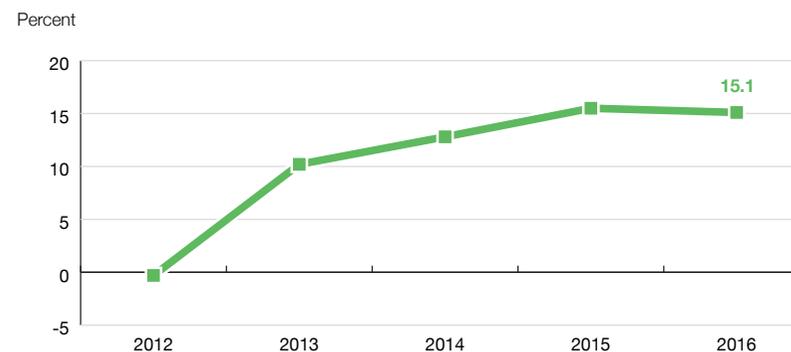
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# Group – analytical information

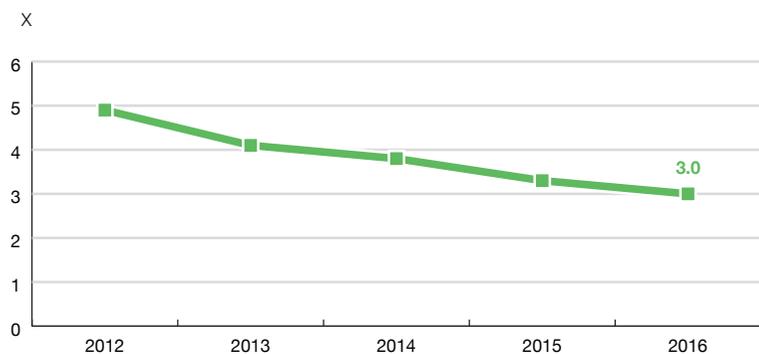
## Return on capital employed



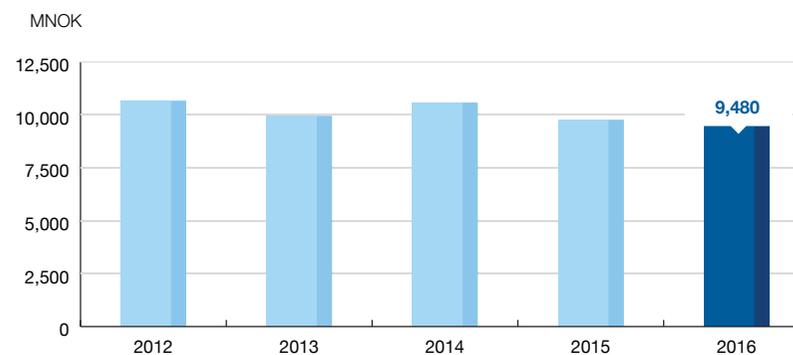
## Return on equity



## Net interest-bearing debt / EBITDA

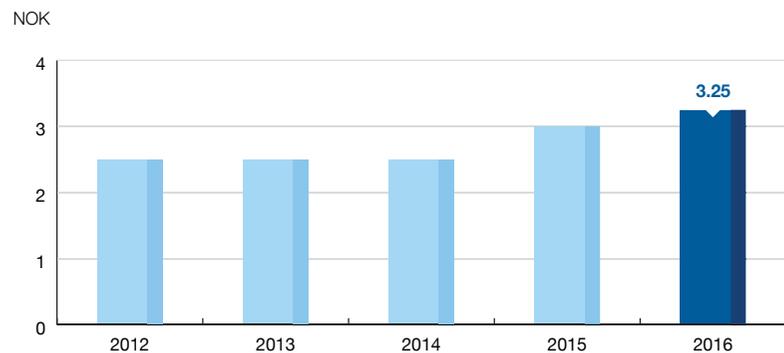


## Net interest-bearing debt

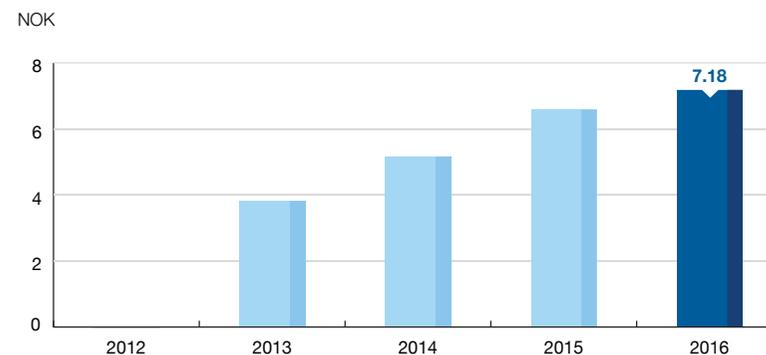


# Group – analytical information

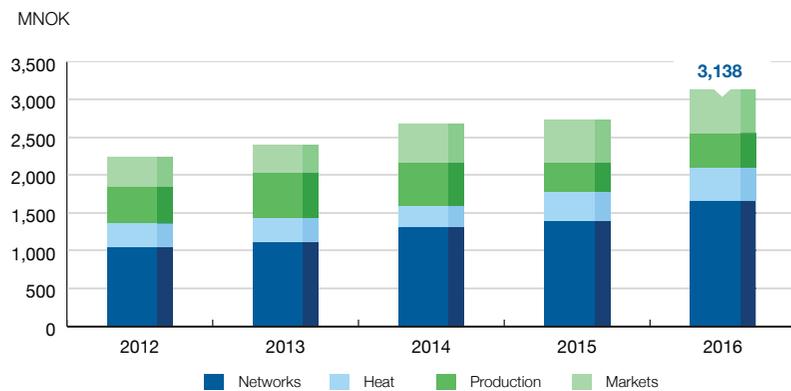
## ▶ Dividend per share



## ▶ Earnings per share



## ▶ EBITDA for the four business areas



## ▶ Investments



## Group – analytical information

NOK million	Definition	2016	2015	2014	2013	2012
<b>INCOME STATEMENT</b>						
Sales revenues		13,788	11,905	12,396	12,818	11,466
Other (losses)/gains – net		169	112	116	143	137
Purchases of goods and energy		(7,954)	(6,264)	(6,866)	(7,867)	(6,830)
Personnel expenses		(922)	(992)	(879)	(901)	(851)
Other operating expenses		(1,938)	(1,841)	(1,972)	(1,747)	(1,752)
<b>EBITDA</b>		<b>3,143</b>	2,920	2,795	2,446	2,170
Depreciation, amortisation and impairments		(949)	(947)	(1,046)	(795)	(1,259)
<b>Operating profit</b>		<b>2,193</b>	1,973	1,749	1,652	911
Financial expenses		(217)	(288)	(552)	(503)	(557)
Profit before tax and discontinued operations		1,976	1,686	1,197	1,149	354
Tax expense		(573)	(402)	(194)	(402)	(366)
<b>Profit/loss for the year</b>		<b>1,402</b>	1,284	1,003	747	(12)
<b>EARNINGS</b>						
Return on equity (ROE)	<a href="#">2</a>	15.1 %	15.5 %	12.8 %	10.2 %	(0.3 %)
Return on capital employed (ROCE)	<a href="#">3</a>	10.0 %	9.2 %	8.3 %	8.0 %	4.4 %

Table continued

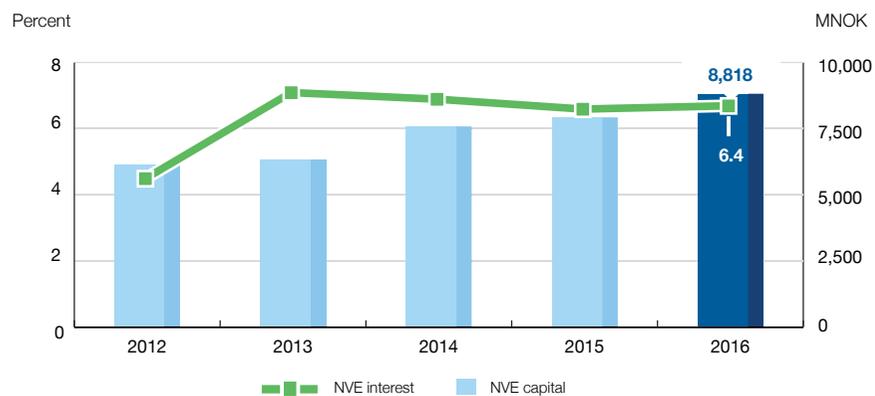


## Group – analytical information

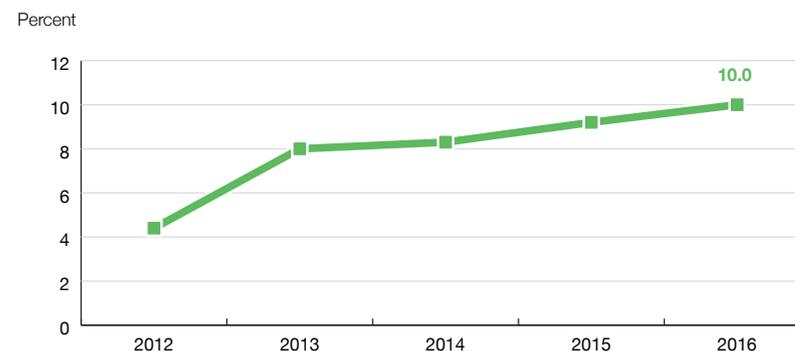
NOK million	Definition	2016	2015	2014	2013	2012
<b>CASH FLOW, EQUITY AND SOLVENCY</b>						
Net cash flow from operating activities	<a href="#">1</a>	2,041	2,201	2,127	1,624	236
Investments		1,533	1,322	2,241	881	1,088
Capital employed	<a href="#">4</a>	22,730	22,355	21,875	20,901	21,269
Equity ratio	<a href="#">5</a>	36 %	34 %	30 %	30 %	30 %
Net interest-bearing debt	<a href="#">6</a>	9,480	9,752	10,574	9,932	10,648
Net interest-bearing debt / EBITDA	<a href="#">9</a>	3.0	3.3	3.8	4.1	4.9
Unused overdraft facilities		3,800	3,800	3,800	3,700	3,900
<b>KEY EQUITY FIGURES</b>						
Earnings per share (NOK)	<a href="#">7</a>	7.18	6.58	5.14	3.83	(0.06)
Dividend per share (NOK)		3.25	3.00	2.50	2.50	2.50
Dividend yield (percentage)	<a href="#">12</a>	45 %	46 %	49 %	65 %	N/A
Number of treasury B shares ('000)		263	263	420	170	397
Share price as of 31 Dec A shares (NOK)		94.25	59.75	50.50	46.20	45.60
Share price as of 31 Dec B shares (NOK)		95.00	58.75	51.00	46.50	45.30
Number of employees as of 31 Dec		1,155	1,117	1,287	1,220	1,216

# Networks – analytical information

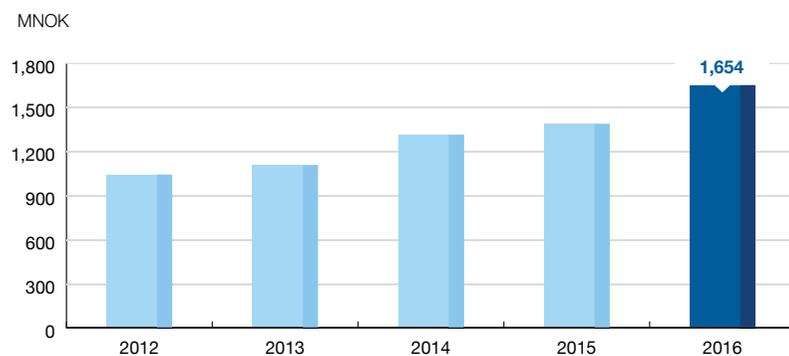
## ► NVE interest and NVE capital



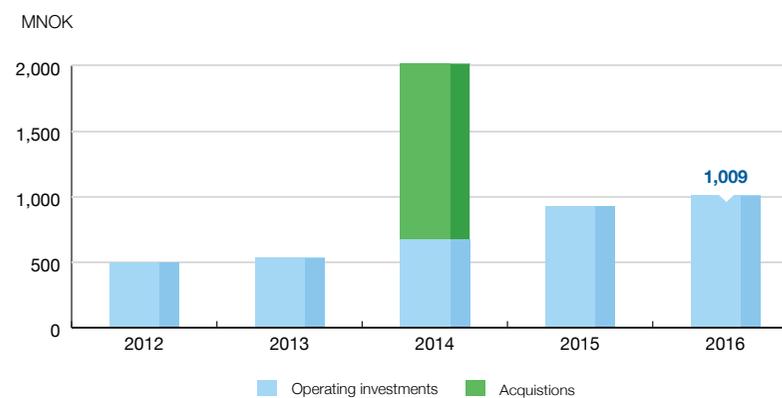
## ► Return on capital employed



## ► EBITDA



## ► Investments

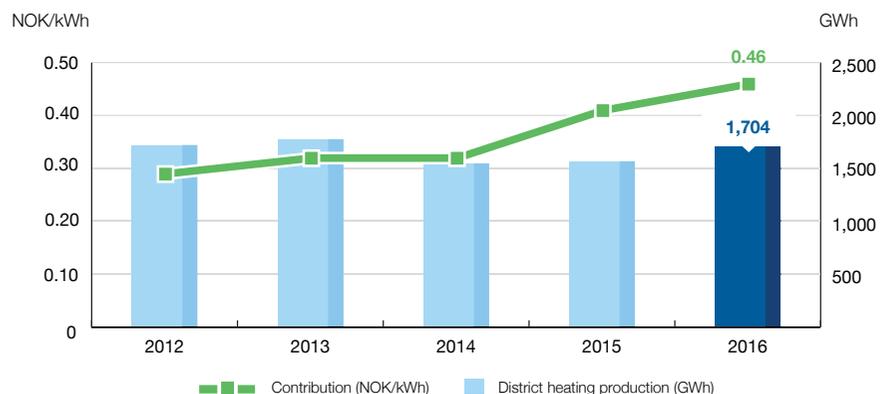


## Networks – analytical information

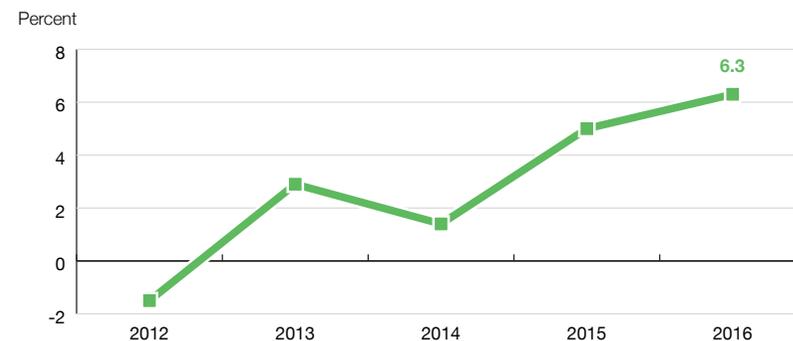
NOK million	Definition	2016	2015	2014	2013	2012
<b>INCOME STATEMENT</b>						
Sales revenues		4,757	4 361	4,147	4,052	3,992
Purchases of goods and energy		(1,729)	(1,418)	(1,318)	(1,554)	(1,577)
Personnel expenses		(228)	(261)	(206)	(194)	(174)
Other operating expenses		(1,145)	(1,294)	(1,310)	(1,197)	(1,195)
<b>EBITDA</b>		<b>1,654</b>	<b>1,388</b>	<b>1,314</b>	<b>1,107</b>	<b>1,045</b>
Depreciation, amortisation and impairments		(598)	(566)	(557)	(488)	(504)
<b>Operating profit</b>		<b>1,056</b>	<b>822</b>	<b>757</b>	<b>619</b>	<b>541</b>
<b>OTHER KEY FIGURES</b>						
Investments		1,009	926	674	532	497
Capital employed	<a href="#">4</a>	11,870	11,116	10,537	9,325	8,949
Return on capital employed (ROCE)	<a href="#">3</a>	9.7 %	8.1 %	7.8 %	7.0 %	6.5 %
Energy deliveries to end customers (TWh)		19.5	19.0	17.5	17.1	17.1
Average tariff distribution network, excl. charges (NOK/kWh)		0.22	0.20	0.20	0.20	0.20
Volume of network losses (GWh)		1,295	986	961	1,128	990
Costs for overhead network		1,315	1,166	1,021	1,101	1,238
Number of customers ('000)		697	689	683	571	563
Number of employees as of 31 Dec		360	319	347	248	223
<b>REGULATORY MATTERS</b>						
NVE capital		8,818	7,907	7,567	6,324	6,149
NVE interest		6.4 %	6.3 %	6.6 %	6.8 %	4.2 %
Permitted income	<a href="#">11</a>	5,094	3,995	3,668	3,824	3,405
CNES cost	<a href="#">10</a>	77	72	87	68	61
Result effect income surpluses/(shortfalls)	<a href="#">11</a>	(707)	153	206	(120)	268
Accumulated income surpluses/(shortfalls) as of 31 Dec	<a href="#">11</a>	187	873	701	312	425

# Heat – analytical information

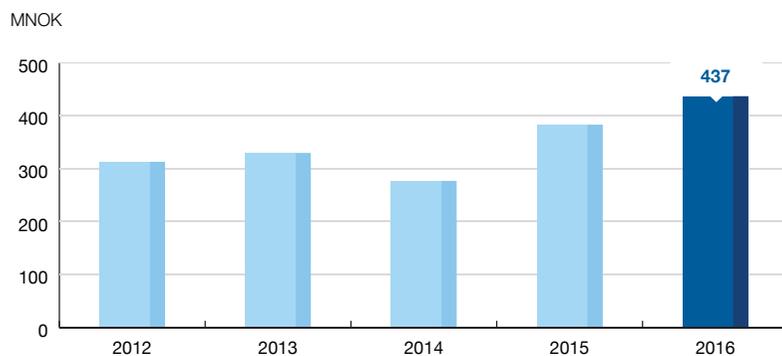
## ► Contribution (NOK/kWh) and district heating production (GWh)



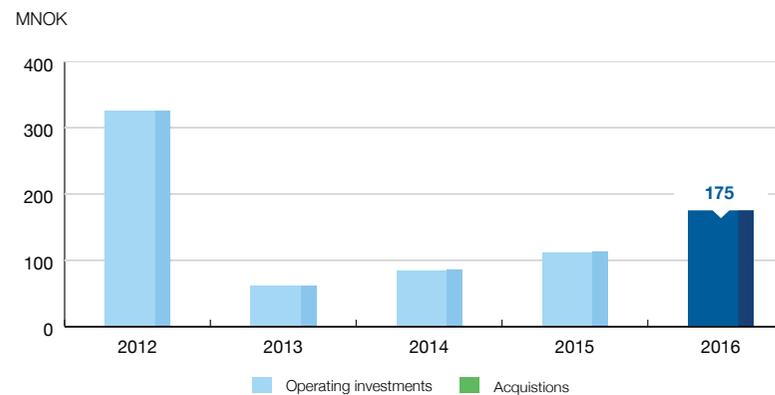
## ► Return on capital employed



## ► EBITDA



## ► Investments



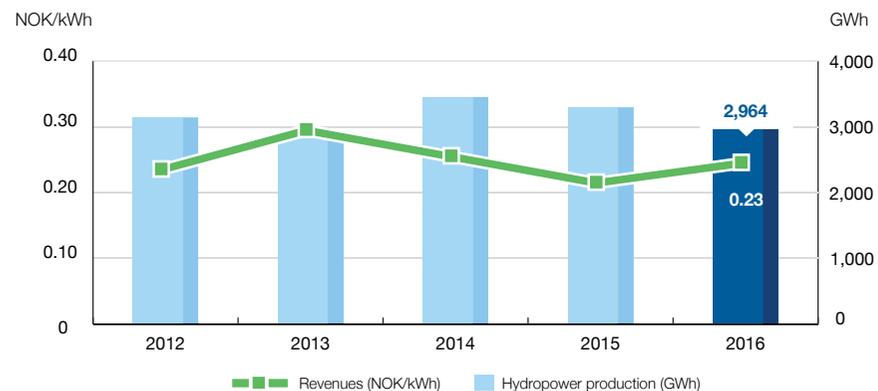
## Heat – analytical information

NOK million	Definition	2016	2015	2014	2013*	2012*
<b>INCOME STATEMENT</b>						
Sales revenues		1,152	977	952	1,153	1,107
Purchases of goods and energy		(453)	(358)	(423)	(545)	(510)
Personnel expenses		(93)	(68)	(60)	(66)	(70)
Other operating expenses		(169)	(168)	(192)	(213)	(214)
<b>EBITDA</b>		<b>437</b>	<b>383</b>	<b>277</b>	<b>329</b>	<b>313</b>
Depreciation, amortisation and impairments		(146)	(152)	(207)	(173)	(395)
<b>Operating profit/loss</b>		<b>291</b>	<b>231</b>	<b>70</b>	<b>156</b>	<b>(82)</b>
<b>OTHER KEY FIGURES</b>						
Investments		175	112	85	61	326
Capital employed	4	4,626	4,709	4,835	5,464	5,562
Return on capital employed (ROCE)	3	6.3 %	5.0 %	1.4 %	2.9 %	(1.5 %)
Average district heating price (NOK/kWh)		0.73	0.63	0.61	0.63	0.59
District heating production (GWh)		1,704	1,567	1,547	1,775	1,720
Fuel cost (NOK/kWh)		0.27	0.23	0.26	0.29	0.27
Gross contribution (NOK/kWh)		0.46	0.41	0.32	0.32	0.29
Result of hedging transactions		(12)	43	37	4	
Number of employees as of 31 Dec		92	67	71	80	77

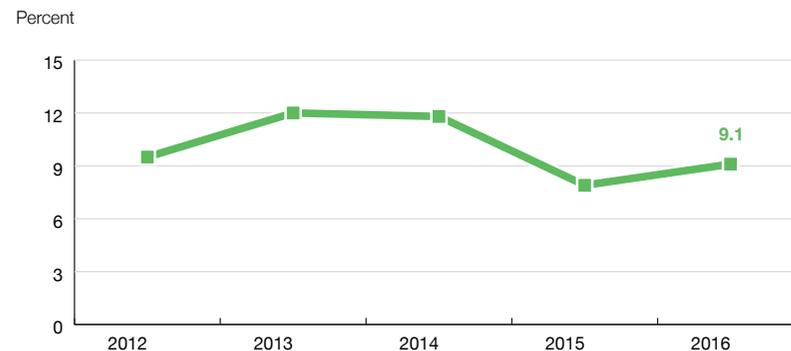
\* Includes profit/loss, investments and equity relating to the incineration plants in Østfold, which have been recognised in Other business since 2014.

# Production – analytical information

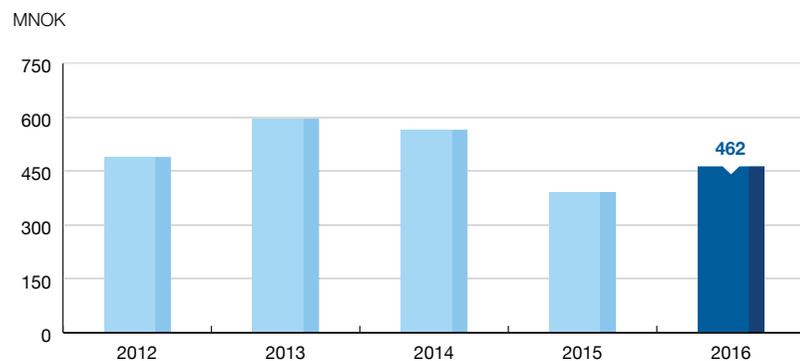
## ► Revenues (NOK/kWh) and hydropower production (GWh)



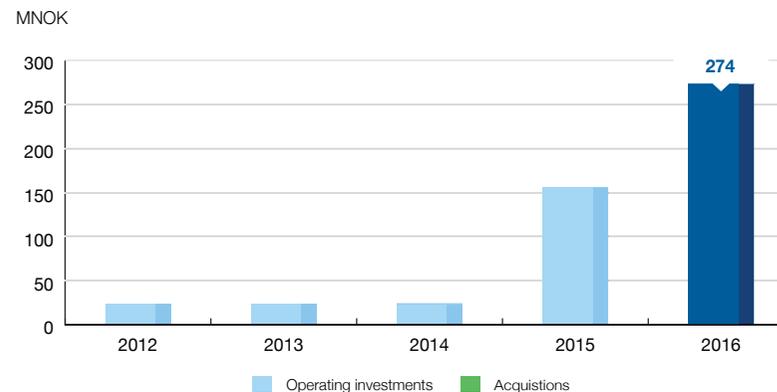
## ► Return on capital employed



## ► EBITDA



## ► Investments

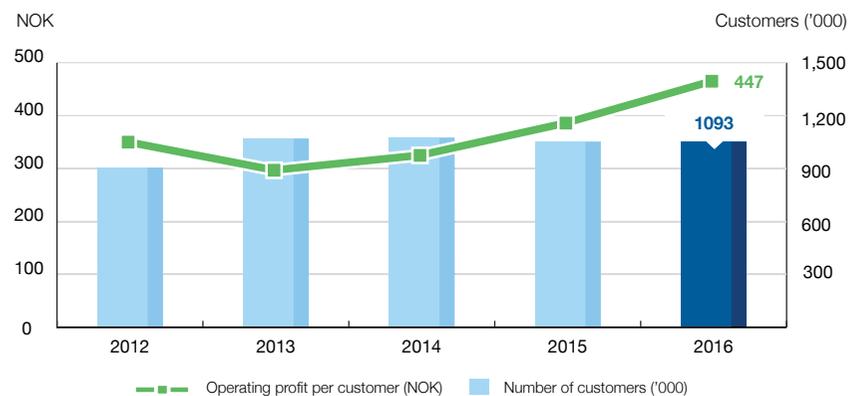


## Production – analytical information

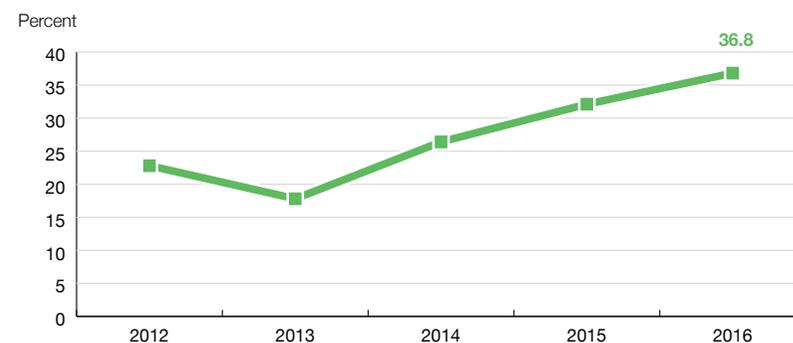
NOK million	Definition	2016	2015	2014	2013	2012
<b>INCOME STATEMENT</b>						
Sales revenues		672	654	822	823	755
Other (losses)/gains – net		15				6
Personnel expenses		(37)	(42)	(36)	(35)	(48)
Other operating expenses		(188)	(220)	(222)	(193)	(225)
<b>EBITDA</b>		<b>462</b>	391	564	595	488
Depreciation, amortisation and impairments		(45)	(45)	(45)	(45)	(45)
<b>Operating profit</b>		<b>417</b>	346	519	550	443
<b>OTHER KEY FIGURES</b>						
Investments		274	156	24	24	24
Capital employed	<a href="#">4</a>	4,622	4,505	4,359	4,427	4,782
Return on capital employed (ROCE)	<a href="#">3</a>	9.1 %	7.9 %	11.8 %	12.0 %	9.5 %
Income (NOK/kWh)		0.23	0.20	0.24	0.28	0.22
Result of hedging transactions		(4)	121	59	15	38
Production volume (GWh)		2,964	3,290	3,452	2,845	3,273
Production as a percentage of normal production	<a href="#">8</a>	96 %	106 %	11 %	92 %	106 %
Distribution of operating profit for:						
- Hydropower		417	355	521	549	435
- Power trading			(9)	(1)	1	8
Number of employees as of 31 Dec		35	37	38	35	35

# Markets – analytical information

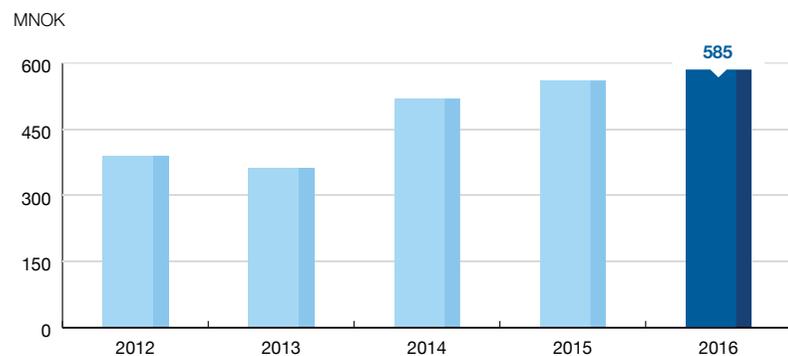
## ▶ Operating profit per customer (NOK) and number of customers



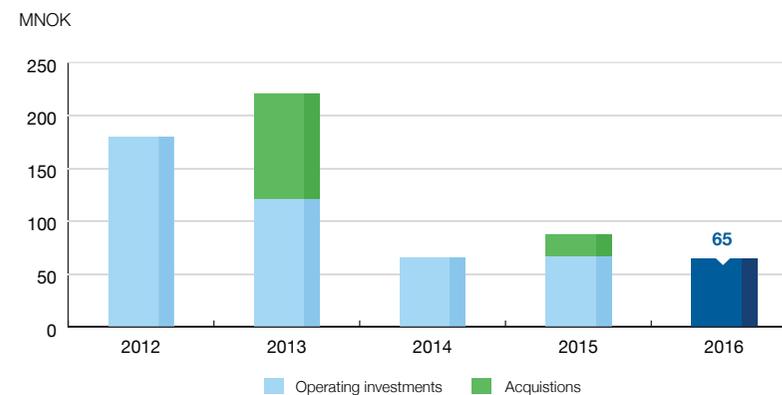
## ▶ Return on capital employed



## ▶ EBITDA



## ▶ Investments



## Markets – analytical information

NOK million	Definition	2016	2015	2014	2013	2012
<b>INCOME STATEMENT</b>						
Sales revenues		7,303	5,939	6,453	6,876	5,537
Other (losses)/gains – net		117	(36)	14	23	44
Purchases of goods and energy		(5,745)	(4,379)	(5,032)	(5,693)	(4,489)
Personnel expenses		(443)	(396)	(341)	(327)	(273)
Other operating expenses		(647)	(569)	(574)	(517)	(429)
<b>EBITDA</b>		<b>585</b>	<b>560</b>	<b>519</b>	<b>361</b>	<b>390</b>
Depreciation, amortisation and impairments		(86)	(84)	(84)	(42)	(20)
<b>Operating profit</b>		<b>498</b>	<b>476</b>	<b>435</b>	<b>319</b>	<b>370</b>
<b>OTHER KEY FIGURES</b>						
Investments		65	87	66	215	180
Capital employed	<a href="#">4</a>	1,374	1,419	1,630	1,829	1,730
Return on capital employed (ROCE)	<a href="#">3</a>	36.8 %	32.1 %	26.4 %	17.8 %	22.8 %
Sales volume power sales (GWh)		19,565	17,872	17,764	17,388	16,374
Number of wholly and partially owned customers ('000)		1093	1050	1073	1069	905
Distribution of operating profit:						
Power sales		479	390	329	275	301
Support functions etc.		19	86	106	44	70
Operating profit per customer Power sales (NOK)		447	368	307	279	332
Number of employees as of 31 Dec		602	582	543	591	571

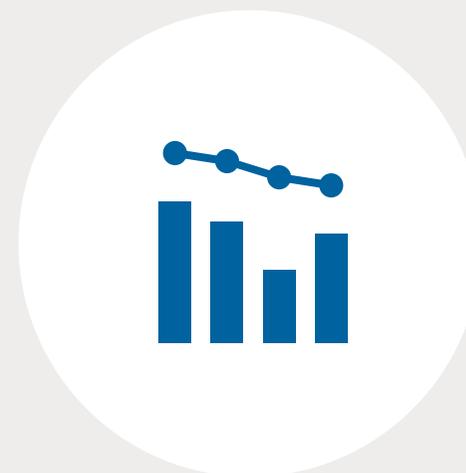
## Other business – analytical information

NOK million	Definition	2016	2015	2014	2013	2012
<b>INCOME STATEMENT</b>						
Sales revenues		(95)	(25)	21	(86)	76
Other (losses)/gains – net		37	147	103	120	87
Purchases of goods and energy		(27)	(110)	(93)	(75)	(254)
Personnel expenses		(121)	(225)	(235)	(278)	(285)
Other operating expenses		211	410	325	373	312
<b>EBITDA</b>		<b>5</b>	<b>197</b>	<b>121</b>	<b>54</b>	<b>(65)</b>
Depreciation, amortisation and impairments		(74)	(100)	(153)	(46)	(295)
<b>Operating profit/loss</b>		<b>(69)</b>	<b>98</b>	<b>(32)</b>	<b>8</b>	<b>(361)</b>
<b>OTHER KEY FIGURES</b>						
Investments		10	37	52	47	59
Capital employed	4	239	607	513	(144)	246
Distribution of operating profit/loss for:						
- Staff and support services		(68)	(26)	(4)	(55)	(45)
- Embriq			56	(21)	(18)	(33)
- Incineration plants Østfold *		(29)	7	(61)		
- REC, prior shareholding						
- Other		29	60	54	80	(282)
Number of employees as of 31 Dec		66	112	238	266	310

\* Results up to and including 2013 are recognised in the Heat business area

# Definitions

1. Net cash flow from operating activities = as defined in the consolidated statement of cash flow
2. Return on equity = Profit for the year / Average 12-month earnings incl. non-controlling interests
3. Return on capital employed = Operating profit / Average 12-month capital employed
4. Capital employed = Equity + Net interest-bearing debt + Net tax positions
5. Equity ratio = Equity / Total assets
6. Net interest-bearing debt = interest-bearing debt – interest-bearing receivables and cash equivalents
7. Earnings per share = Profit after tax / Average number of shares outstanding
8. Production compared to average production volume over the last ten years, adjusted for efficiency improvements
9. Net interest-bearing debt / EBITDA = Net interest-bearing debt / EBITDA last 12 months
10. CNES cost = Quality adjustment of revenue ceiling for energy not supplied
11. See comment in [Note 2.20 c](#) to the annual financial statements
12. Dividend yield = Dividend as a percentage of profit for the year



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