

Annual report 2014



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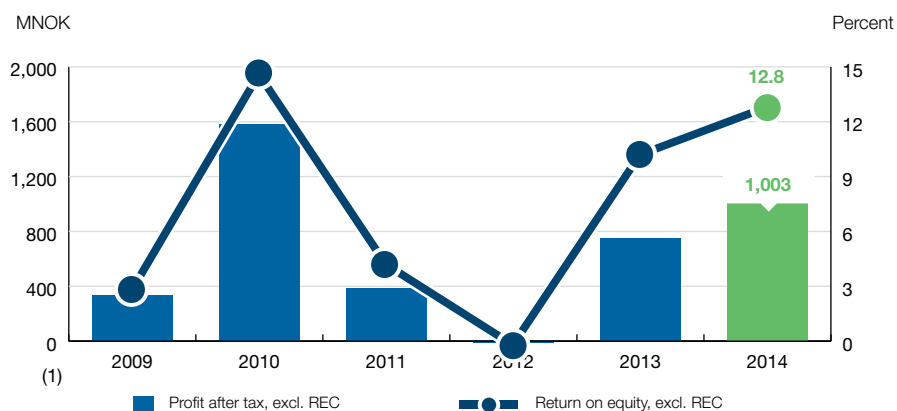
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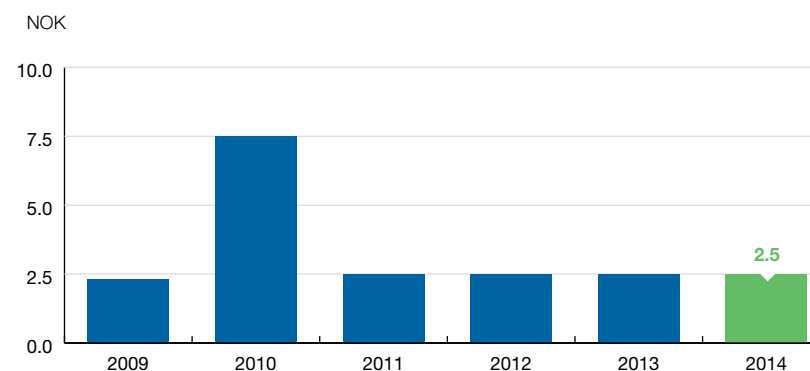
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Key figures for the Hafslund Group

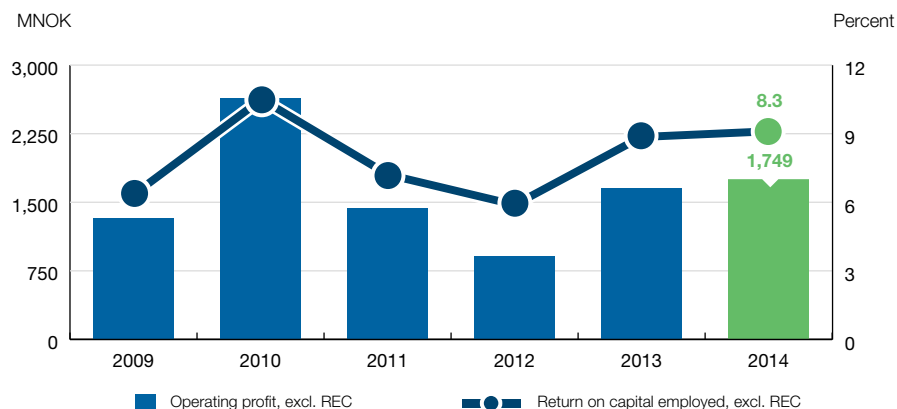
Profit after tax and return on equity, excluding REC*



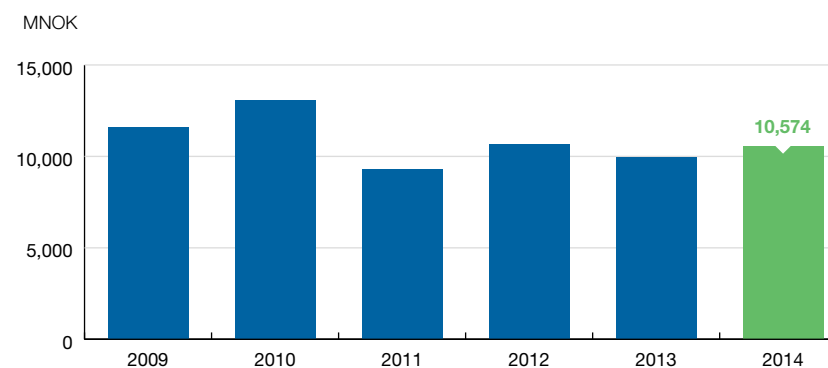
Dividend per share



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 Gota 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 fossil 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

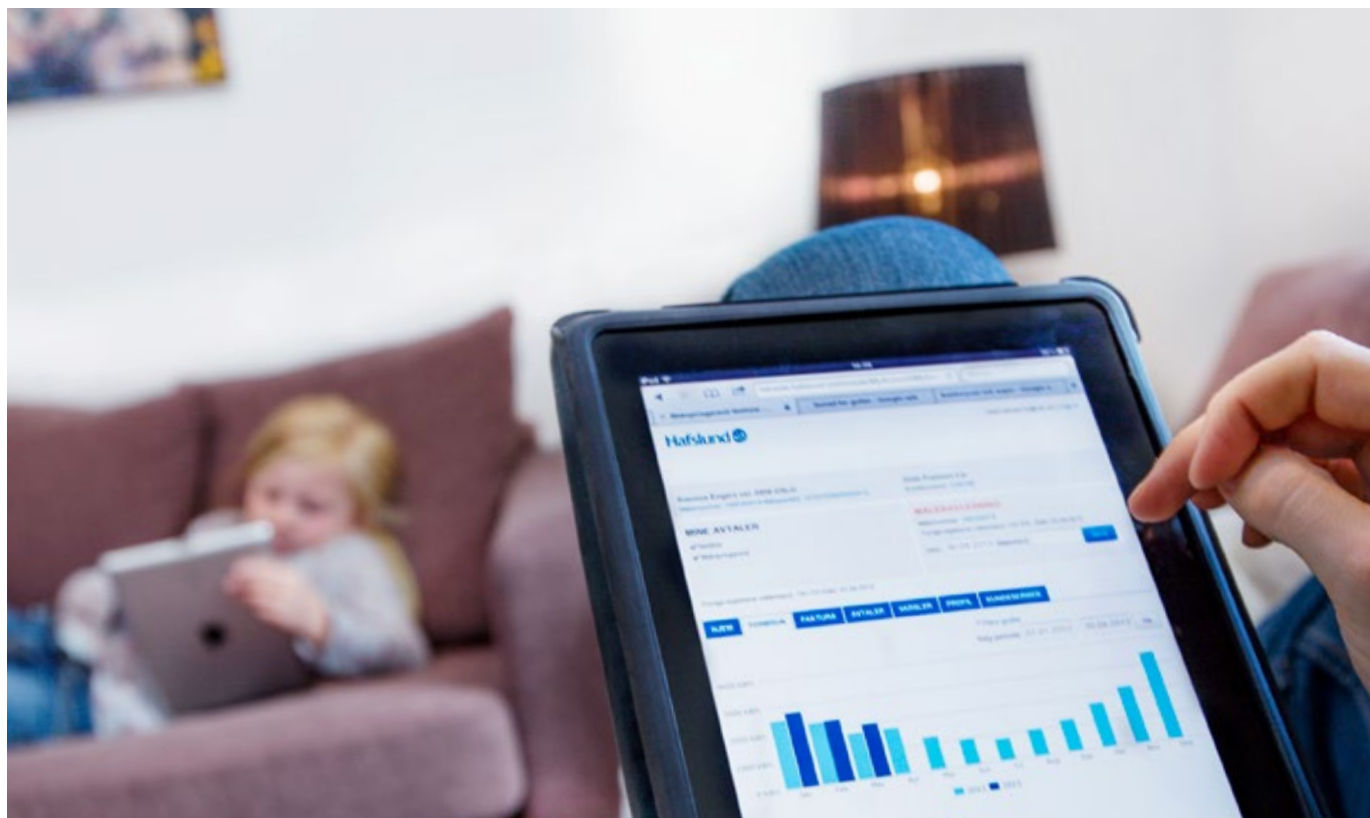
we operate. Efficient, collective solutions such as district heating are difficult to implement if too many customers adopt individual solutions.

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-

¹ 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 and 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).

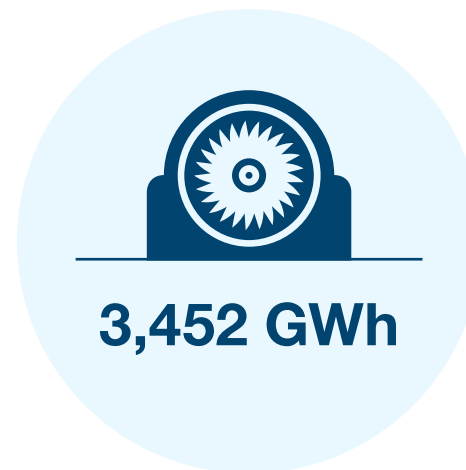
In 2014 the power production business posted record production of 3,452 GWh (2,845 GWh), which was 352 GWh higher than normal annual production of 3,100 GWh. The year was characterised by efficient operations and high uptime, despite record high water flow in Glomma for much of the year. In 2014 the 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 m³/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-El 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 Varmer 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

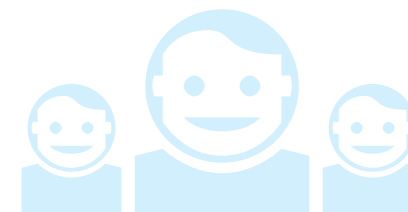
The impact on the external environment of Hafslund's other operations largely derives from its buildings, transport and externally sourced services, including transport and contracting activities. Hafslund collaborates with Norsk Gjenvinning in connection with waste collection and return schemes. Hafslund 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

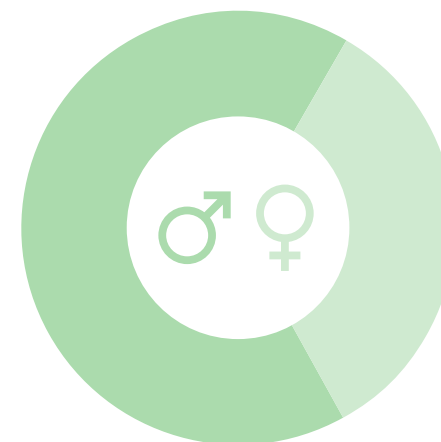
Hafslund is committed to maintaining high ethical standards in all its commercial operations. The Group has been a member of the Initiative for Ethical Trading (IEH) since 2008. Hafslund leverages its membership to continue to place clear demands on its suppliers in order to ensure that these exercise 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 (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



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Income statement, statement of other comprehensive income

NOK million	Notes	1 January–31 December	
		2014	2013
Sales revenues	5	12,396	12,818
Purchases of goods and energy		(6,866)	(7,867)
Salaries and other personnel expenses	18, 21, 22	(879)	(901)
Other losses/(gains) – net	19	67	75
Other operating expenses	20	(1,972)	(1,747)
Share of profit/(loss) of associates	9, 25	49	68
Operating profit before depreciation, amortisation and impairments		2,795	2,446
Depreciation and amortisation	6, 7, 8	(898)	(789)
Impairments	6, 7, 8	(148)	(5)
Operating profit		1,749	1,652
Finance costs	23	(552)	(503)
Profit before tax		1,197	1,149
Income tax expense	17	(194)	(402)
Profit for the year		1,003	747
Attributable to:			
Owners of the parent		1,003	747
Earnings per share (NOK per share)			
Earnings per share (= diluted earnings per share)	14	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
Profit for the year		1,003	747
Items that can subsequently be reclassified to the income statement			
Gains (losses) deriving from cash flow hedging	10	(23)	35
Translation differences		7	14
Income tax	17	6	(10)
Total items that can subsequently be reclassified to the income statement		(10)	40
Items that cannot subsequently be reclassified to the income statement			
Estimate deviations pensions	18	(307)	(19)
Income tax	17	83	5
Total items that cannot subsequently be reclassified to the income statement		(224)	(14)
Other comprehensive income for the year		(234)	26
Total comprehensive income for the year		769	773
Attributable to:			
Owners of the parent		769	774
Non-controlling interests			(1)
Total comprehensive income for the year		769	773

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

Balance sheet

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

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
Earnings before interest, taxes, depreciation and amortisation		2,795	2,446
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
Cash flow from operating activities		2,627	2,436
Interest paid		(452)	(474)
Income tax paid		(48)	(338)
Net cash flow from operating activities		2,127	1,624
Investments in operations and expansion	6, 7	(875)	(772)
Sales of property, plant and equipment		59	65
Purchased businesses, shares, etc.	25	(1,463)	(101)
Disposals of shares, etc.			370
Cash flow from investing activities		(2,279)	(438)
New long-term borrowings	16	2,225	3,635
Repayments of borrowings		(2,347)	(3,420)
Change in interest-bearing receivables	11	368	
Dividends and other equity transactions		(501)	(487)
Cash flow from financing activities		(255)	(272)
Change in cash and cash equivalents		(407)	914
Cash and cash equivalents as of 1 January		1,143	223
Foreign exchange gains/(losses), cash and cash equivalents		6	6
Cash and cash equivalents as of 31 December	10, 13	742	1,143

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
Equity as of 31 December 2012	195	4,080	76	469	2	2,446	7,268	20	7,289
Result for the year						747	747		747
Other comprehensive income				(14)	14	26	26		26
Total comprehensive income for the year				(14)	14	773	773		773
Transactions with owners:									
Change in non-controlling interests								(2)	(2)
Dividend for 2012						(487)	(487)		(487)
Change in treasury shares						10	10		10
Equity as of 31 December 2013	195	4,080	76	455	16	2,742	7,564	18	7,583
Changes in policies and adjustments 1 January 2014						19	19		19
Adjusted equity as of 1 January 2014	195	4,080	76	455	16	2,761	7,583	18	7,601
Profit for the year						1,003	1,003		1,003
Other comprehensive income				(224)	7	(17)	(234)		(234)
Total comprehensive income for the year				(224)	7	986	769		769
Transactions with owners:									
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
Equity as of 31 December 2014	195	4,080	76	231	23	3,255	7,860	17	7,877

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:

- 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 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)	(13,044)
2013	(1,526)	(1,242)	(4,400)	(3,256)	(3,064)	(13,488)

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	856
2013	874	75	23	14	71	1,057

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
EI-certificate derivatives	(8)		1			(7)
Trade payables	(528)					(528)
Net financial items	(531)	(1)	(43)	52	(66)	(587)

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
EI-certificate derivatives	(7)		(6)			(13)
Trade payables	(502)					(502)
Net financial items	(415)	(6)	(56)	(29)	39	(468)

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	11,360	11,483
Total interest-bearing receivables	786	1,551
Net interest-bearing liabilities	10,574	9,932
Equity	7,877	7,583
Equity ratio	30 %	30 %
Unused credit lines	3,800	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
Total investments at fair value through profit or loss		120	8	128
Borrowings		3,959		3,959
El-certificate derivatives	4			4
Power derivatives	126	11		137
Interest rate derivatives		58		58
Financial liabilities at fair value through profit or loss	130	4,028		4,158

2013

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

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
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
Total financial assets	228	(88)	140	140

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
Foreign exchange derivatives	27	(8)	19	19
Power derivatives	148	(9)	139	139
Hedging derivatives	57	(23)	35	35
Asian options	9		9	9
Total financial assets	241	(40)	202	202

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
El-certificate derivatives	4		4	4
Power derivatives	143	(6)	137	(10)
Interest rate derivatives	116	(58)	58	58
Total financial liabilities	263	(64)	199	(10)

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
El-certificate derivatives	34	(21)	13	13
Power derivatives	151	(8)	143	(11)
Interest rate derivatives	54	(42)	12	12
Total financial liabilities	239	(71)	168	(11)

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)		
Sales revenues	856	844	1 077	1 150	4 091	4 050	6 191	6 588	181	186			12 396	12 818
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)
Profit/(loss) for the year	220	208	(29)	71	776	439	305	268	(269)	(238)			1 003	747
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)
Capital employed	4 383	4 270	5 190	5 464	10 537	9 325	1 606	1 987	159	(144)			21 875	20 902
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
Equity	7,877	7,583

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
Total	12,396	12,818

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
Book value as of 31 December 2012	300	4,030	4,356	8,265	1,257	157	18,365
2013 accounting year							
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)
Book value as of 31 December 2013	526	3,987	4,384	8,199	1,031	124	18,251
Balance as of 31 December 2013							
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)
Book value as of 31 December 2013	526	3,987	4,384	8,199	1,031	124	18,251

Tabellen
fortsetter



Note 6

NOK million	Technical equipment and chattels	Power facilities	District heating facilities	Networks	Facilities under construction	Other property	Total
2014 accounting year							
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)
Book value as of 31 December 2014	506	4,031	4,362	9,257	741	114	19,011
Balance as of 31 December 2014							
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)
Book value as of 31 December 2014	506	4,031	4,362	9,257	741	114	19,011
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

Total lease commitments **915**

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
Book value as of 31 December 2012	20	253	45	318	2,114	2,432
2013 accounting year						
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
Book value as of 31 December 2013	19	253	80	352	2,223	2,575
Balance as of 31 December 2013						
Cost	97	356	99	552	2,746	3,298
Cumulative amortisation	(78)	(103)	(19)	(200)	(518)	(718)
Cumulative impairments					(5)	(5)
Book value as of 31 December 2013	19	253	80	352	2,223	2,575
2014 accounting year						
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
Book value as of 31 December 2014	117	253	103	473	2,497	2,970
Balance as of 31 December 2014						
Cost	209	356	160	725	3,036	3,761
Cumulative amortisation	(92)	(103)	(57)	(252)	(513)	(765)
Cumulative impairments					(26)	(26)
Book value as of 31 December 2014	117	253	103	473	2,497	2,970
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 %
Group	19,011	473	2,497	21,981	148	420		

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.

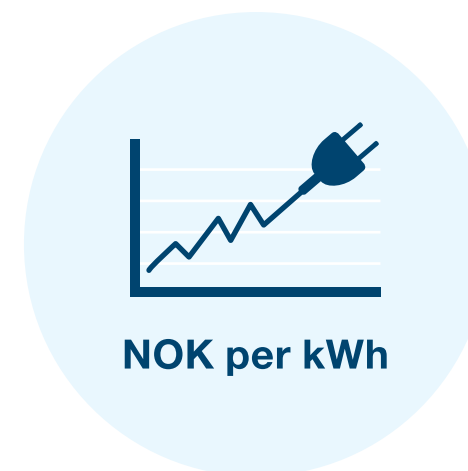
The required return on equity capital is estimated using the capital asset pricing model (CAPM). The required return on loan capital is estimated based on the long-term risk-free interest rate plus a credit margin derived from Hafslund's marginal long-term borrowing rate. The discount rate is adjusted 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
Book value as of 1 January	204	560
Additions/disposals incl. costs	389	(381)
Share of profit/loss	49	68
Dividends	(15)	(43)
Change in accounting policy 1)	19	
Book value as of 31 December	646	204
Amortisation of excess value for the year	1	1
Excess value as of 31 December	10	5
Total result from associates	49	(46)

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
Assets as of 31 December 2014				
Long-term receivables			64	64
Derivatives	12	128		140
Trade and other receivables			2,435	2,435
Cash and cash equivalents			742	742
Total financial assets as of 31 December 2014	12	128	3,241	3,381
Assets as of 31 December 2013				
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
Total financial assets as of 31 December 2013	35	167	3,898	4,100



Note 10

NOK million	Liabilities at fair value through profit or loss	Other financial liabilities	Total
Liabilities as of 31 December 2014			
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
Total financial liabilities as of 31 December 2014	4,158	10,340	14,498
Liabilities as of 31 December 2013			
Borrowings	4,742	7,226	11,968
Derivatives	168		168
Trade and other current payables		1,406	1,406
Total financial liabilities as of 31 December 2013	4,910	8,632	13,542

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
Total long-term receivables	221	491

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)
Net trade receivables	803	1,017
Accrued, non-invoiced income	1,181	1,057
Interest-bearing receivables	7	2
Other receivables	444	353
Total trade and other receivables	2,435	2,428

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
Total cash and cash equivalents	742	1143

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
Balance as of 31 December 2014	115	80	195	4,080	4,275

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 %	
Total > 1% shareholding	110,584	70,876	181,460	92.9 %	95.8 %
Total other	4,844	8,882	13,726	7.1 %	4.2 %
Total number of shares	115,428	79,758	195,186	100 %	100 %

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 %	
Total > 1% shareholding	110,579	69,854	180,433	92.4 %	95.8 %
Total other	4,849	9,904	14,753	7.6 %	4.2 %
Total number of shares	115,428	79,758	195,186	100 %	100 %

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
Total trade and other current payables	2,395	2,002

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
Total long-term borrowings	9,047	9,432
Fixed-interest bonds	302	372
Floating rate notes	380	400
Commercial papers	600	1,000
Accrued interest	190	204
Other borrowings	1,385	560
Total current borrowings	2,857	2,536
Total borrowings	11,904	11,968

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
Total borrowings	11,904	11,968

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
Total borrowings	11,904	11,968

Loan movement:

NOK million	2014-12-31	2013-12-31
Total borrowings as of 1 January	11,968	11,541
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
Total borrowings as of 31 December	11,904	11,968

Note 17

NOTE 17 ► INCOME TAX

Income tax expense:

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

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	
Total tax payable in the balance sheet	340	299

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
Total tax expense	(194)	(402)
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
Total deferred income tax assets as of 31 December	226	298
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
Total deferred income tax liabilities as of 31 December	3,306	3,396
Total deferred income tax – net as of 31 December	3,080	3,098
Change in recognised value deferred tax:		
Book value deferred income tax as of 1 January	3,098	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)
Total book value deferred income tax as of 31 December	3,080	3,098

Change in deferred income tax liabilities:

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

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Note 17, 18

Change in deferred income tax assets:

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

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.

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Note 18

NOK million	2014-31-12	2013-13-31
Liability recognised in the balance sheet:		
Present value of accrued pension liabilities for funded defined benefit plans	2,789	2,237
Fair value of pension assets	(2,548)	(2,220)
Actual net pension liabilities for funded defined benefit plans	241	17
Present value of pension liabilities for unfunded plans	134	171
Net pension liabilities in balance sheet (incl. employers' National Insurance contributions)	375	189
Net pension liabilities in balance sheet	(416)	(235)
Net pension assets in balance sheet	41	48
Fluctuations in the defined benefit pension liabilities over the year:		
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)
Pension liabilities as of 31 December	2,923	2,408
Change in fair value of pension assets over the year:		
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)
Fair value of pension assets as of 31 December	2,548	2,220

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.

The following financial assumptions were applied:	2014	2013
Discount rate	2.30 %	4.00 %
Annual salary increase	2.50 %	3.50 %
Expected adjustment of the National Insurance Scheme's Basic Amount (G)	3.50 %	3.50 %
Adjustments to current pensions, public plan	0,0 % / 1,75 %	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	2014	2013
Accrued pension benefits for the year	34	26
Net interest expense	5	9
Planned changes recognised in income statement	(105)	
Employer's National Insurance contributions	5	4
Member contributions	(2)	(1)
Pension costs defined benefit plans	(64)	38
Pension costs defined contribution plans	31	31
Total pension costs	(33)	69

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 %
Fair value pension assets	2,548	100 %	2,220	100 %

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
Total		2,268	280	2,548

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
Deficit	375	188	282	959

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

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
Total other operating expenses	1,972	1,747

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
Total salaries and other personnel expenses	879	901

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	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 ⁽²⁾	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.

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
Total finance costs	552	503

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	
Income statement:	2014	2013
Sale of goods and services	155	202
Purchase of goods and services	178	204
Balance sheet:	2014-12-31	2013-12-31
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)
Net assets acquired	673	659

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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Note 7 Taxes

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Note 16 Risk management and financial derivatives

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Income statement

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

Balance sheet

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

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)
Net cash flow from operating activities		73	109
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)
Net cash flow from investing activities		371	1,447
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)	
Net cash flow from financing activities		(685)	(305)
Net change in cash and cash equivalents		(241)	1,251
Cash and cash equivalents as of 1 January		1,360	109
Cash and cash equivalents as of 31 December		1,119	1,360

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
Total salaries and other personnel expenses	77	114
Number of employees as of 31 December	84	88

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.

Tabell på
neste side



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)	
Pension costs defined benefit schemes	(22)	8
Employer contributions	4	2
Total pension expenses	(18)	10
	2014-12-31	2013-12-31
Liability recognised in balance sheet:		
Present value of accrued pension liabilities for funded defined benefit plans	785	683
Fair value of pension assets	(737)	(682)
Actual net pension liabilities for funded defined benefit plans	48	1
Present value of pension liabilities for unfunded plans	42	67
Net pension liabilities in balance sheet	90	68
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)
Net pension liabilities as of 31 December	90	68

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
Total other operating expenses	127	121

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
Profit/loss on share investments	(35)	295
Interest income 1)	282	282
Interest expenses	(501)	(525)
Group contributions	238	372
Other financial income/(financial costs) 2)	43	(34)
Net financial items	62	95

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
Profit before tax	2	324
Permanent differences	47	(292)
Estimate deviations on pensions recognised in equity	(75)	2
Change in temporary differences	26	(33)
Tax basis, tax payable	0	0
The total tax expense comprises:		
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)
Income tax expense	13	8
Reconciliation of tax rate:		
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)
Income tax expense	13	8
Basis deferred tax liabilities/assets		
Temporary differences	26	36
Operating assets	(29)	(32)
Accrued pension liabilities	(90)	(69)
Basis deferred tax liabilities/assets	(93)	(65)
Deferred tax assets recognised in the balance sheet	(25)	(18)
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
Change in deferred tax		4

Note 8

NOTE 8 ► PROPERTY, PLANT AND EQUIPMENT

NOK million	Machinery, technical equipment, furniture, etc.	Land and other property	Work under construction	Total
Book value as of 31 December 2012	107	67	2	176
2013 accounting year				
Investments	5		26	31
Transferred from facilities under construction	2		(2)	
Disposals	(2)			(2)
Depreciation for the year	(26)	(2)		(28)
Book value as of 31 December 2013	86	65	26	177
Cost	287	96	28	411
Cumulative depreciation and impairments	(201)	(31)	(2)	(234)
Book value as of 31 December 2013	86	65	26	177
2014 accounting year				
Investments	1	7	10	17
Transferred from facilities under construction	26		(26)	
Disposals	(1)	(5)		(6)
Depreciation for the year	(29)	(2)		(31)
Book value as of 31 December 2014	83	65	10	158
Cost	214	93	12	319
Cumulative depreciation and impairments	(131)	(28)	(2)	(161)
Book value as of 31 December 2014	83	65	10	158
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-El 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
Total shares in subsidiaries				11,389	13,965

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-El 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
Total other long-term receivables	2,844	3,101

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
Total trade and other receivables	280	422

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
Total current interest-bearing liabilities			600	1,000

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
Total trade and other current payables	224	230

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
Total long-term interest-bearing liabilities			10,756	10,483

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
EQUITY AS OF 31 DECEMBER 2012	195	4,080	72	2,584	6,931
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)
EQUITY AS OF 31 DECEMBER 2013	195	4,080	59	2,437	6,771
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
EQUITY AS OF 31 DECEMBER 2014	195	4,080	59	1,872	6,206

NOTE 19 ► SHARE CAPITAL AND SHAREHOLDER INFORMATION

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

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.



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

<hr/> Birger Magnus Chairman of the Board	<hr/> Maria Moræus Hanssen Deputy Chairman	<hr/> Per Langer
<hr/> Odd Håkon Hoelsæter	<hr/> Ellen Christine Christiansen	<hr/> Per Orfjell
<hr/> Per Luneborg	<hr/> Jane Koppang	<hr/> 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 as 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 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

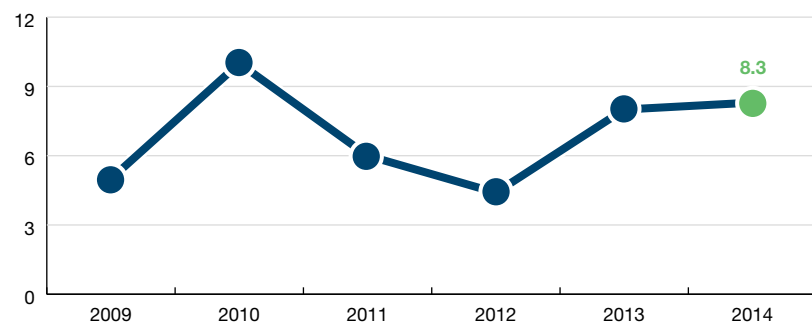
Thomas Fraurud
State Authorised Public Accountant (Norway)

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

Analytic information – Group

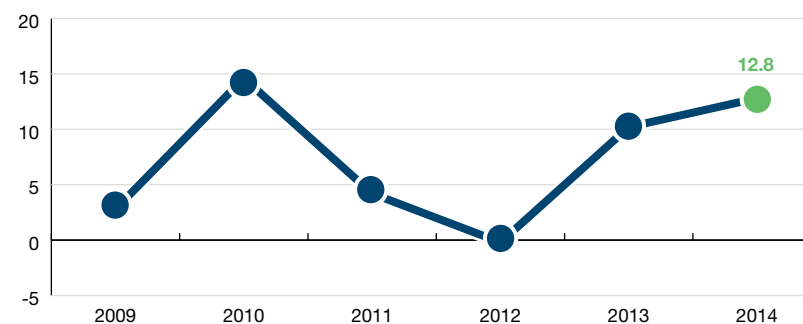
Return on capital employed, excl. REC

Percent



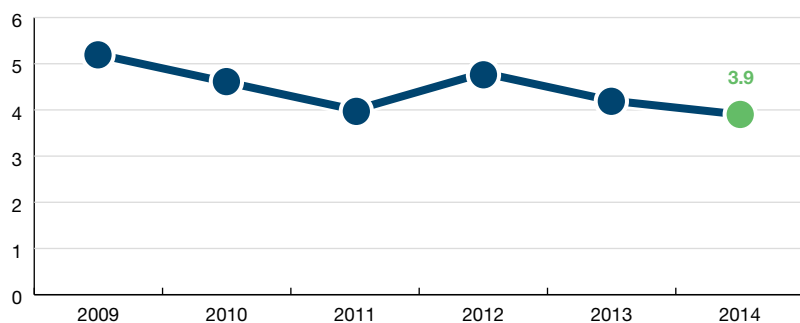
Return on equity, excl. REC

Percent



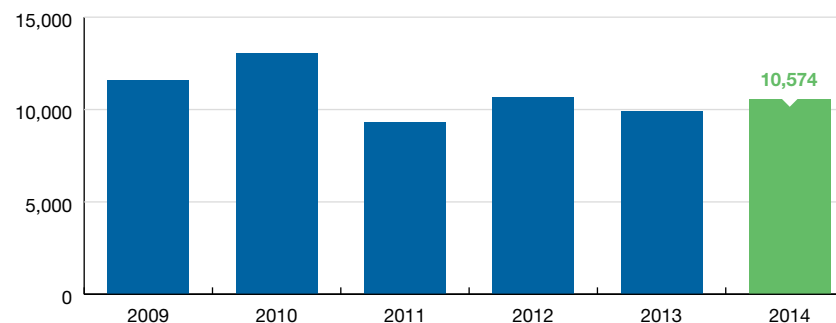
Liabilities/ EBITDA

X



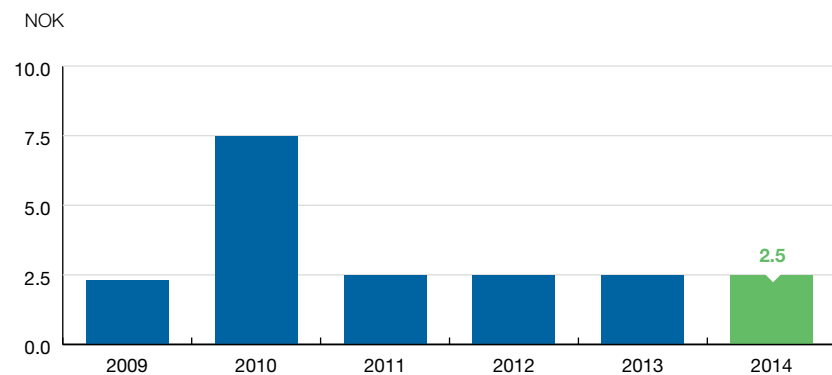
Net interest-bearing liabilities

MNOK

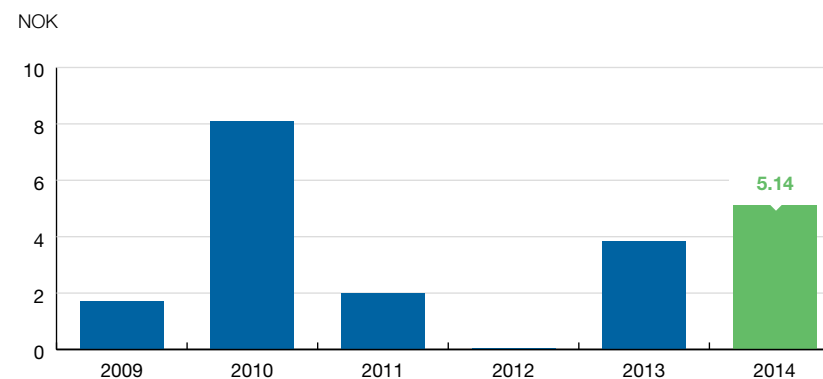


Analytic information – Group

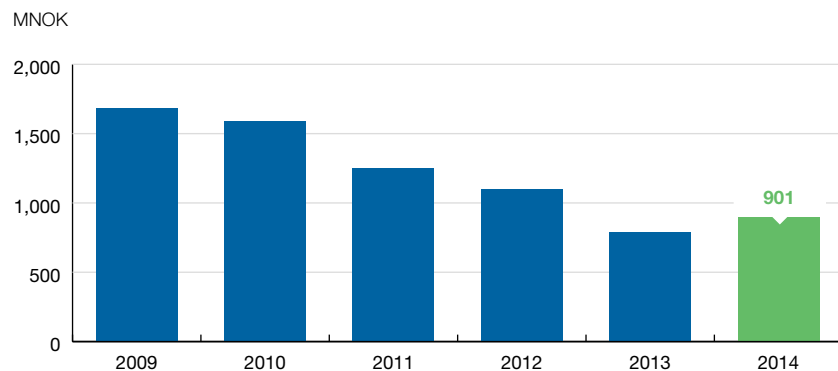
Dividend per share



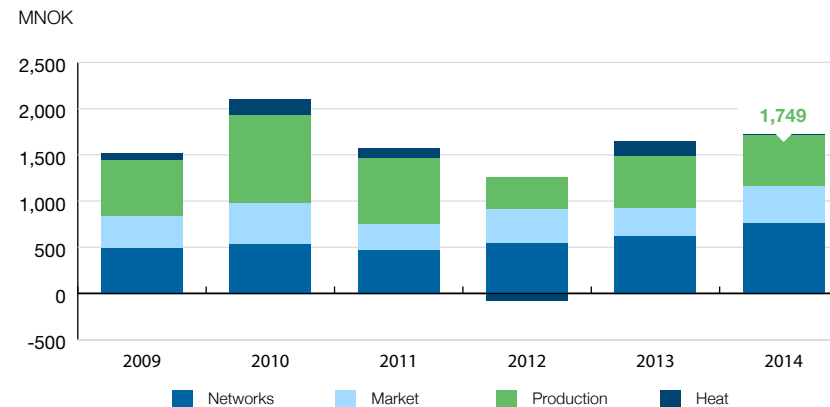
Earnings per share, excl. REC



Investments, excl. acquisitions



Allocation of operating profit, excl. REC



Analytic information – Group

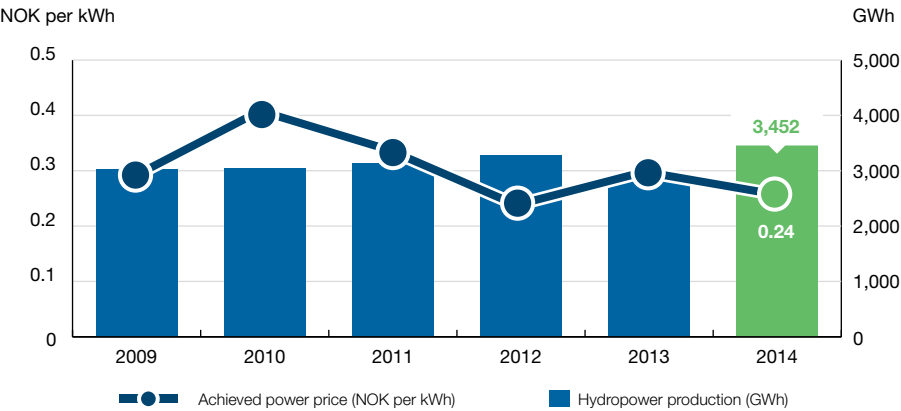
NOK million	Definition	2014	2013	2012	2011	2010	2009
INCOME STATEMENT							
Sales revenues		12,396	12,818	11,466	13,704	15,829	10,670
Other (losses)/gains – net		116	143	137	(1,050)	(883)	(40)
Purchases of goods and energy		(6,866)	(7,867)	(6,830)	(9,015)	(10,871)	(6,364)
Personnel expenses		(879)	(901)	(851)	(864)	(582)	(772)
Other operating expenses		(1,972)	(1,747)	(1,752)	(1,630)	(1,571)	(1,418)
EBITDA		2,795	2,446	2,170	1,145	1,923	2,076
Depreciation, amortisation and impairments		(1,046)	(795)	(1 259)	(803)	(1,270)	(882)
Operating profit		1,749	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)
Profit/loss for the year		1,003	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)
RESULT AND RETURN, excl. prior shareholding in REC							
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)	2	12.8 %	10.0 %	(0.1 %)	4.2 %	14.6 %	2.8 %
Return on capital employed (ROCE)	3	8.3 %	8.0 %	4.4 %	6.0 %	10.0 %	5.0 %

Analytic information – Group

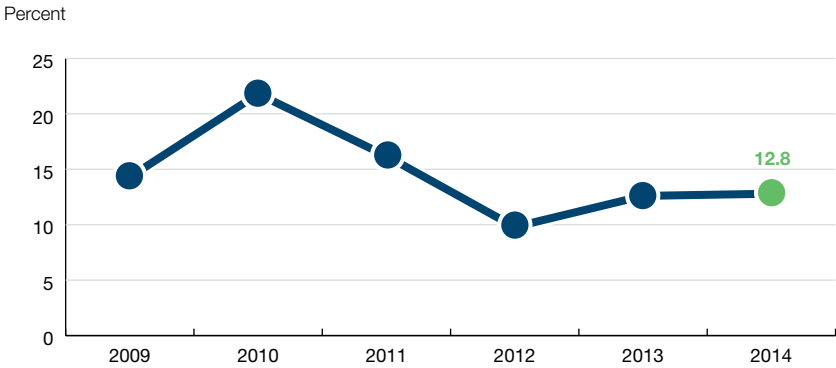
NOK million	Definition	2014	2013	2012	2011	2010	2009
CASH FLOW							
Net cash flow from operating activities	1	2,127	1,624	236	3 513	565	1,879
Investments (excl. acquisitions)		901	786	1,102	1,253	1,588	1,681
CAPITAL AS OF 31 DECEMBER							
Total assets		26,212	25,352	24,549	24,710	29,613	28,918
Capital employed	4	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	5	30 %	30 %	30 %	33 %	35 %	39 %
Market capitalisation		9,897	9,042	8,877	11,321	13,603	13,537
Net interest-bearing liabilities	6	10,574	9,931	10,648	9,321	13,067	11,601
Net interest-bearing liabilities/EBITDA	9	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 %
KEY SHARE FIGURES							
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)	7	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

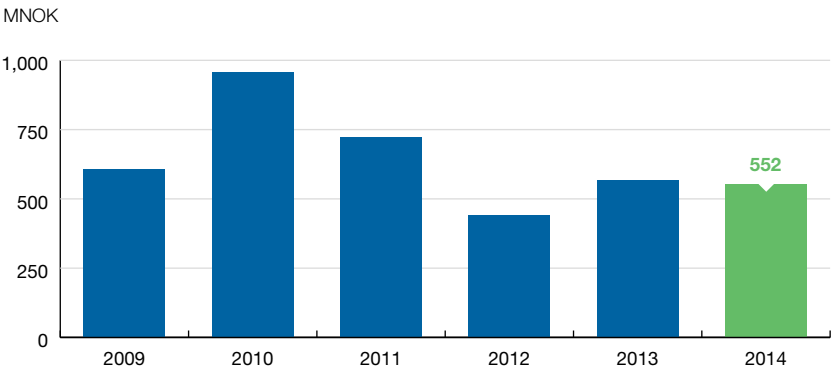
Achieved power price and hydropower production



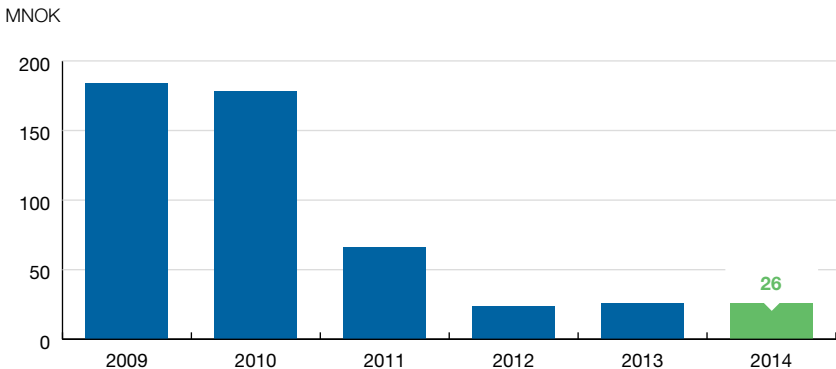
Return on capital employed



Operating result



Investments, excl. acquisitions

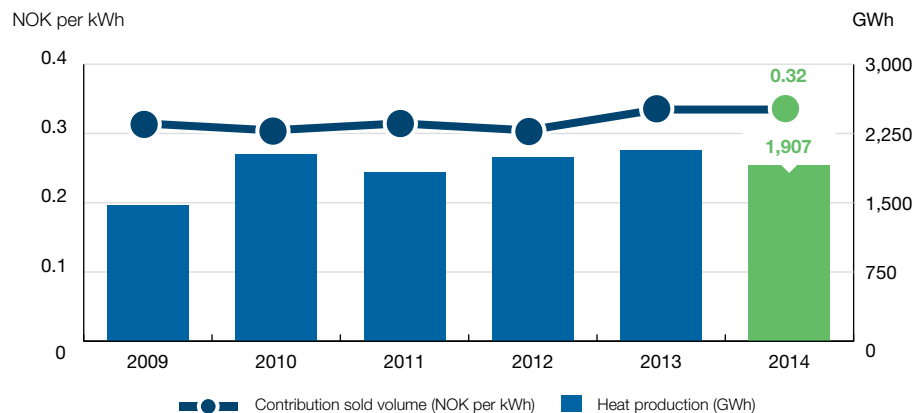


Analytic information – Production

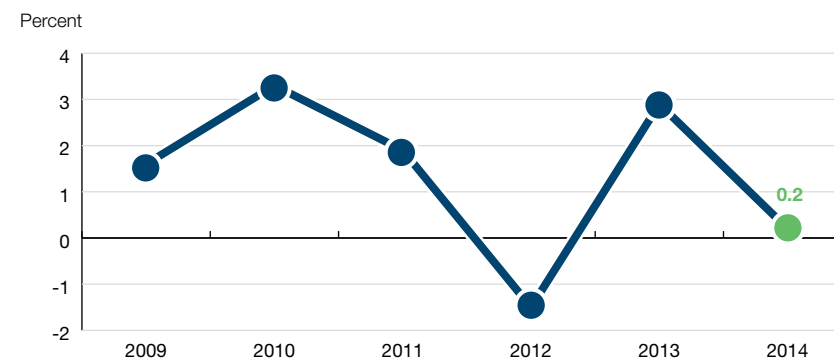
NOK million	Definition	2014	2013	2012	2011	2010	2009
INCOME STATEMENT							
Sales revenues		871	859	755	1,024	1,220	866
Other (losses)/gains – net		11	9	6	(24)	20	(4)
Personnel expenses		(52)	(51)	(48)	(37)	(34)	(35)
Other operating expenses		(231)	(203)	(225)	(194)	(205)	(176)
EBITDA		599	614	488	769	1 001	651
Depreciation, amortisation and impairments		(47)	(46)	(45)	(45)	(43)	(43)
Operating profit		552	568	443	724	958	608
OTHER KEY FIGURES							
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

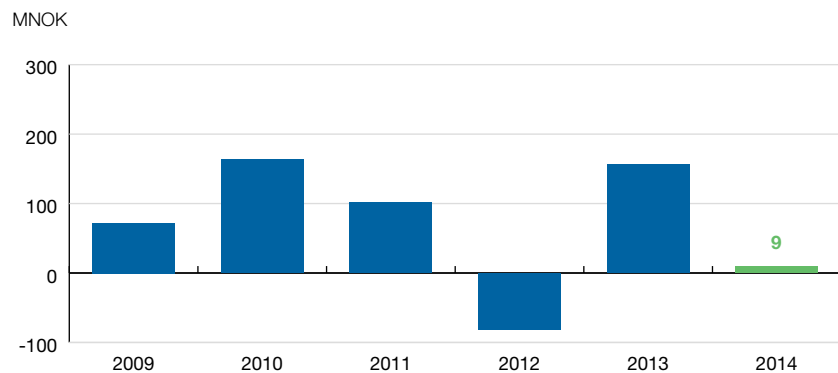
Contribution sold volume and heat production



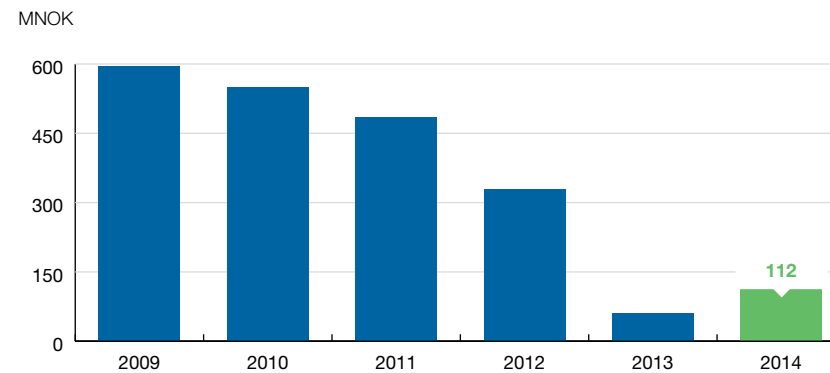
Return on capital employed



Operating result



Investments, excl. acquisitions

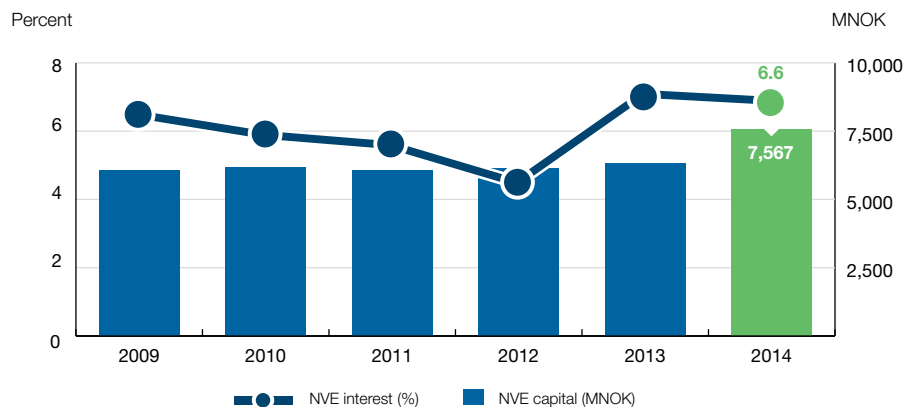


Analytic information – Heat

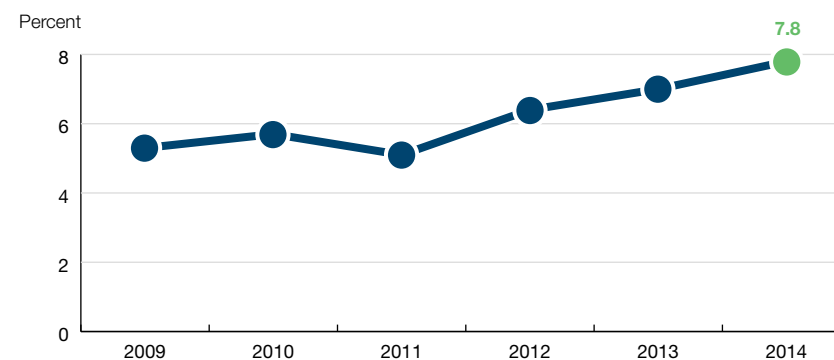
NOK million	Definition	2014	2013	2012	2011	2010	2009
INCOME STATEMENT							
Sales revenues		1,080	1,153	1,107	1,120	1,259	796
Purchases of goods and energy		(457)	(545)	(510)	(598)	(727)	(406)
Personnel expenses		(69)	(66)	(70)	(67)	(47)	(49)
Other operating expenses		(246)	(213)	(214)	(196)	(171)	(133)
EBITDA		308	329	313	259	314	208
Depreciation, amortisation and impairments		(299)	(173)	(395)	(157)	(151)	(136)
Operating profit/loss		9	156	(82)	102	163	72
OTHER KEY FIGURES							
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
District heating business							
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 %
Industrial heating							
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

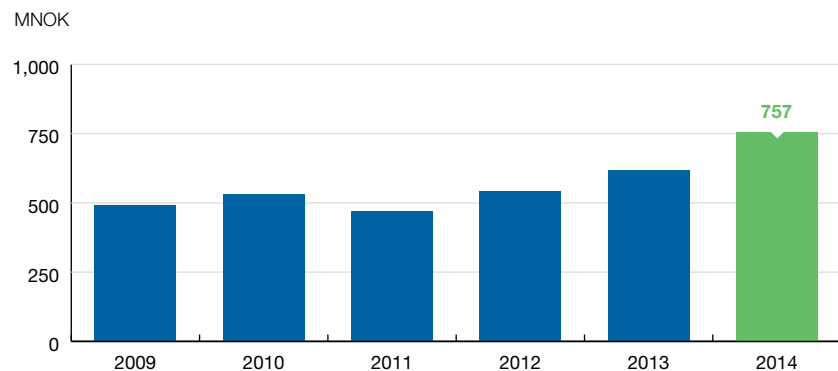
NVE interest and NVE capital



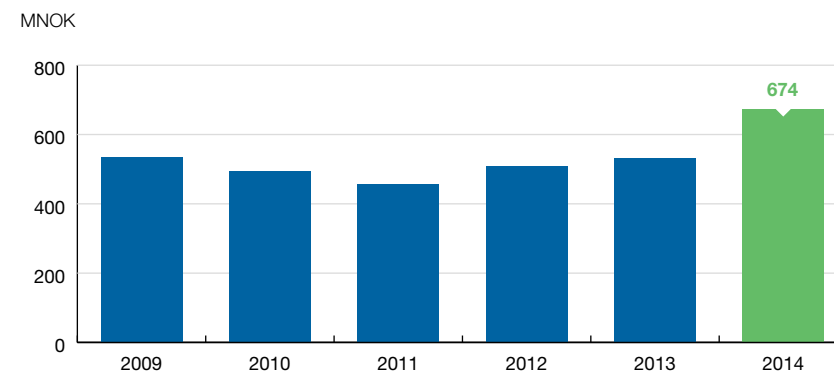
Return on capital employed



Operating result



Investments, excl. acquisitions

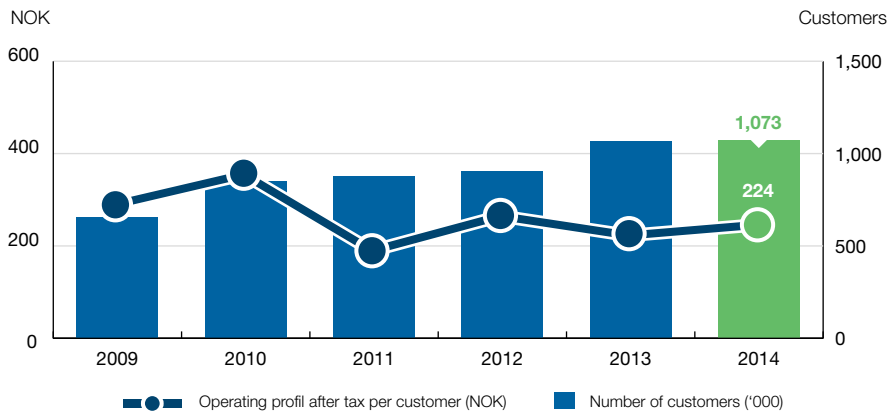


Analytic information – Networks

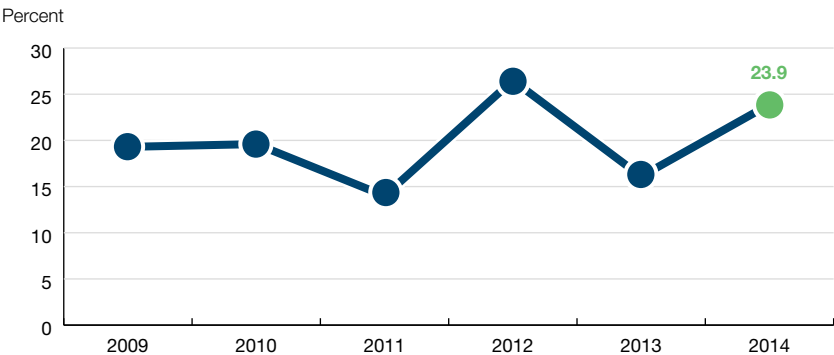
NOK million	Definition	2014	2013	2012	2011	2010	2009
INCOME STATEMENT							
Sales revenues		4,147	4,052	3,992	4,202	4,804	3,385
Purchases of goods and energy		(1,318)	(1,554)	(1,577)	(1,909)	(2,608)	(1,217)
Personnel expenses		(206)	(194)	(174)	(166)	(64)	(177)
Other operating expenses		(1,310)	(1,197)	(1,195)	(1,143)	(1,054)	(956)
EBITDA		1,314	1,107	1,045	983	1,077	1,035
Depreciation, amortisation and impairments		(557)	(488)	(504)	(514)	(546)	(542)
Operating profit		757	619	541	469	532	493
OTHER KEY FIGURES							
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

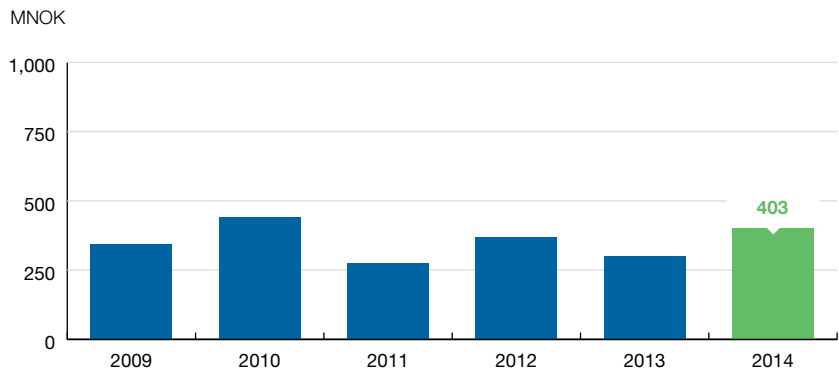
Operating profit after tax per customer and number of customers



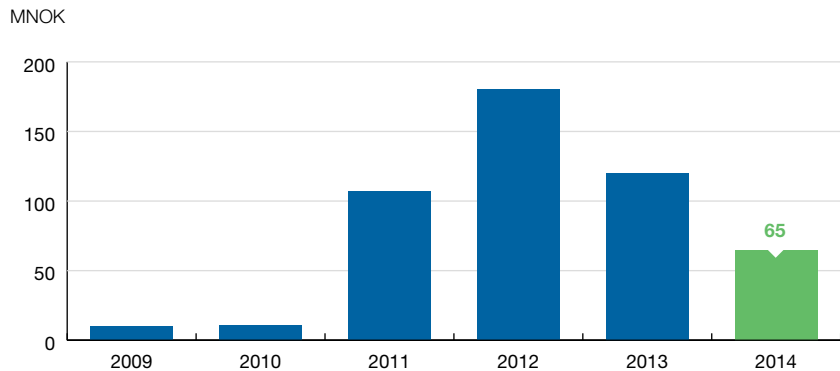
Return on capital employed



Operating result



Investments, excl. acquisitions



Analytic information – Markets

NOK million	Definition	2014	2013	2012	2011	2010	2009
INCOME STATEMENT							
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)
EBITDA		484	342	390	293	460	356
Depreciation, amortisation and impairments		(81)	(41)	(20)	(16)	(17)	(12)
Operating profit		403	301	370	277	442	344
OTHER KEY FIGURES							
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

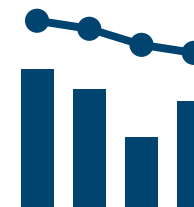
Analytic information – Other business

NOK million	Definition	2014	2013	2012	2011	2010	2009
INCOME STATEMENT							
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
EBITDA		90	54	(65)	(1,159)	(930)	(174)
Depreciation, amortisation and impairments		(62)	(45)	(295)	(70)	(513)	(149)
Operating profit/loss		29	9	(361)	(1,228)	(1,442)	(323)
OTHER KEY FIGURES							
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



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