

# Acquisition of Fortum's power distribution grid operations in Norway

«Hafslund - a stronger *infrastructure company*»

9 April 2014

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# Acquisition of Fortum's power distribution grid operations in Norway

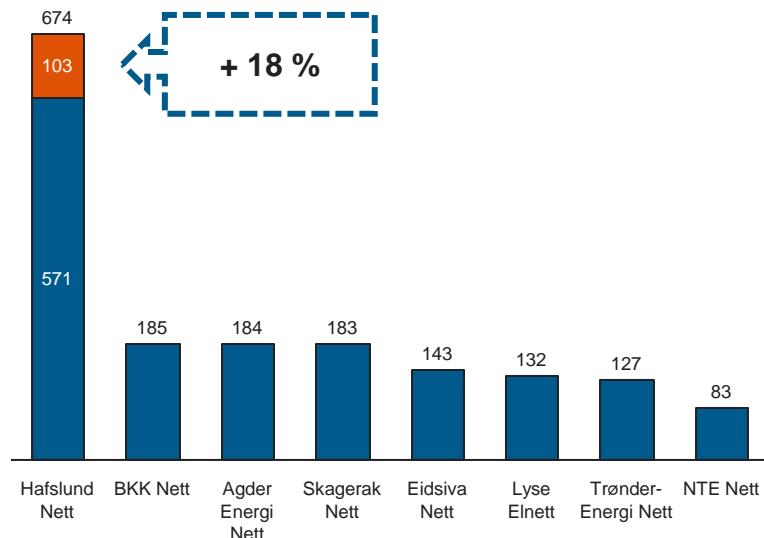
- Hafslund has reached an agreement with the Finnish energy group Fortum to acquire their shares in Fortum Distribution AS and Fortum Power and Heat AS
- The agreement includes:
  - i. 100% of the shares in Fortum Distribution AS, which also owns 49% of the shares in Trøgstad Elverk AS, and
  - ii. 100% of the shares in Fortum Power and Heat AS, which owns 49% of the shares in Fredrikstad Energi AS (FEAS) and 35% of the shares in Fredrikstad EnergiNett AS (FEN)
- Total consideration for the shares (equity value) is NOK 1,365 million, of which NOK 1.0 billion represents the purchase price for Fortum Distribution AS
- The acquisition is financed through operational cash flow and debt
- The acquisition is conditional upon the Norwegian competition authorities' approval
- The transaction is expected to be completed within 2Q 2014

**Hafslund strengthens its position as a leading infrastructure company with a significant growth in the number of grid customers**

# Hafslund Nett including Fortum's power distribution grid operations in Norway

## Number of customers\*

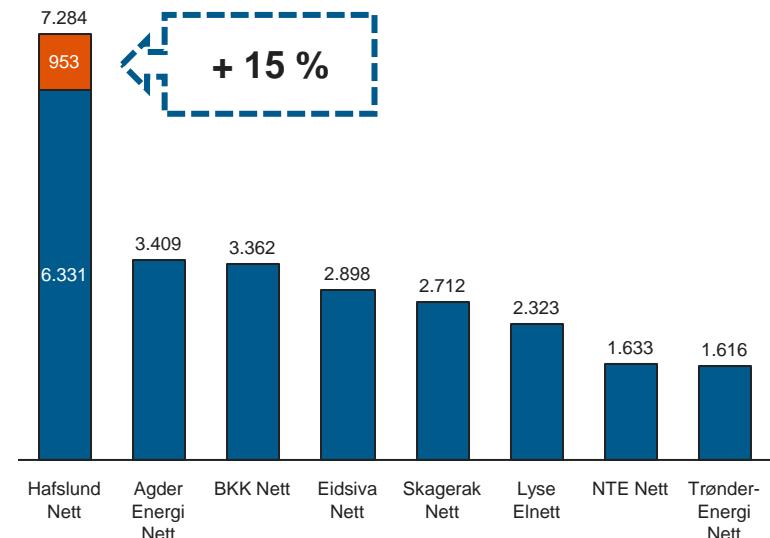
Number of customers (in thousands)



From 571 000 to 674 000 customers

## NVE capital\*

Regulated asset base, MNOK



Regulated asset base from NOK 6.3 to 7.3 billion

**Hafslund – Norway's largest grid company and the fifth largest in the Nordics**

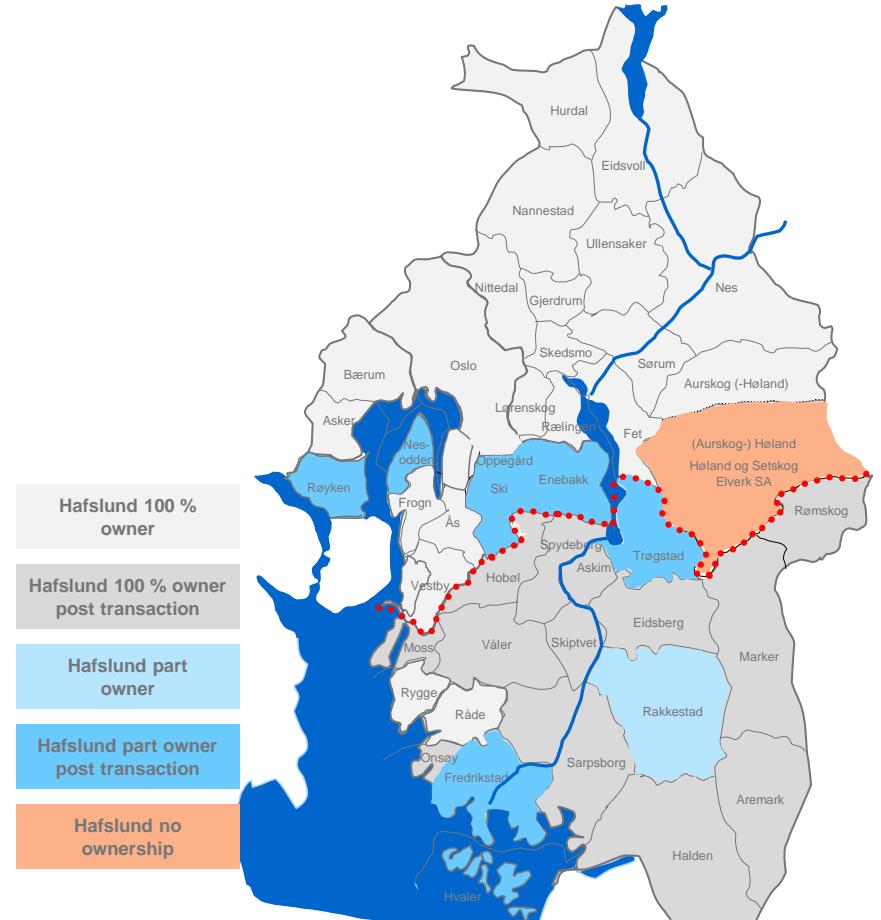
\* The increase includes Fortum Distribution only, and not the indirect ownership in FEAS and FEN; numbers for Hafslund Nett and Fortum Distribution per 31.12.2013

Source: NVE; E-rapp 2012, Inntektsramme 2014

# Clear strategic and operational rationale (I)

## Strategic rationale

- According to Hafslund's strategy; organic and structural growth within the power distribution business area
- Optimal geographic match
- Enable synergy potential and strengthen relative efficiency
- Stable return on capital employed and strengthened dividend yield



**Ownership of majority of the distribution and regional grid in  
Oslo, Akershus and Østfold**

# Clear strategic and operational rationale (II)

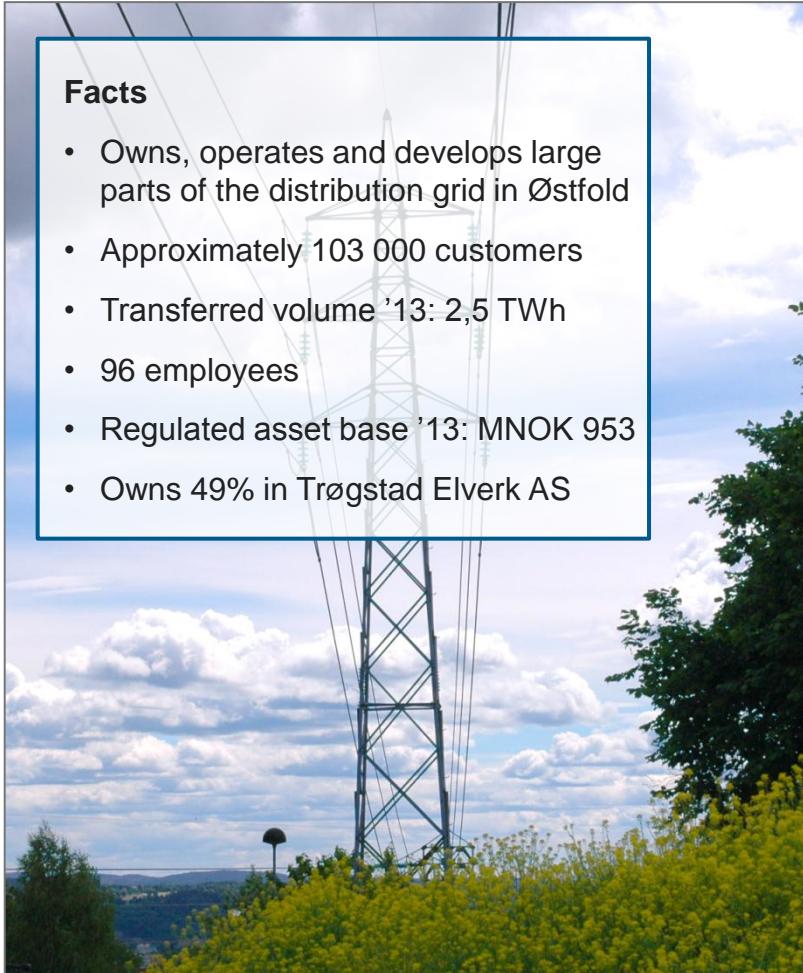
## Operational rationale

- Coordinated operation of distribution and regional grid in a geographic focused area gives operational synergies and more optimal investment decisions
- Economies of scale and synergies mainly within: contingency, invoicing, customer service, AMS roll-out, market and customer communication, procurement, ICT and other support functions
- Increased access to competence
- Regulatory effect by merger: harmony effect
- Increased efficiency and improved rate of return



**Coordinated operation of and investment in the various grid levels will give operational synergies and strengthen Hafslund's efficiency**

# Fortum Distribution - an efficient grid company



## Facts

- Owns, operates and develops large parts of the distribution grid in Østfold
- Approximately 103 000 customers
- Transferred volume '13: 2,5 TWh
- 96 employees
- Regulated asset base '13: MNOK 953
- Owns 49% in Trøgstad Elverk AS

## Merging with Hafslund Nett:

### “Harmony effects”

- The net present value of reduced efficiency score (DEA) as a result of the merger, is compensated by the “harmony effect”\* (i.e. NVE regulation regime); the effect is expected to be received over the first three years

### Synergies

- Economies of scale and more optimal investments decisions
- Increased relative efficiency score

# FEAS and FEN - solid companies with strong presence in the Fredrikstad region

## Fredrikstad Energi AS (FEAS)

- FEAS is owned 51% by the municipality of Fredrikstad and 49% by Fortum Power and Heat
- The company owns the following grid companies:
  - Energi 1 Follo Røyken (100%) ~ 36 000 customers
  - Askøy Energi (100%) ~ 13 000 customers
  - FEN (65%) ~ 39 000 customers
- FEAS also owns fully or partially power sales, contracting operations, service companies, some district heating and real estate in the Fredrikstad region

## Fredrikstad EnergiNett AS (FEN)

- FEN is owned 65% by FEAS and 35% by Fortum Power and Heat
- The company owns the power grid in Fredrikstad (except Onsøy) and Hvaler and has around 39 000 power grid customers
- Regulated assets base '12: MNOK 435



## Opportunities for industrial cooperation

# Key financial figures

NOK million 100% ownership	Fortum Distribution AS			Fredrikstad Energi AS (group)			Fredrikstad EnergiNett AS		
	2011	2012	2013*	2011	2012	2013*	2011	2012	2013
<b>Operating revenues</b>	640	606	621	1 172	978	733	228	207	n.a.
<b>EBITDA</b>	176	216	190	221	200	209	66	64	n.a.
<b>Operating profit (EBIT)</b>	107	141	113	134	108	122	35	31	n.a.
<b>Equity</b>	674	651	629	471	475	546	745	746	n.a.
<b>Net interest-bearing debt**</b>	240	259	213	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
<b>Total assets</b>	1 093	1 141	1 158	1 701	1 753	1 746	885	906	n.a.
<b>Regulated asset base</b>	911	934	953	n.a.	n.a.	n.a.	414	435	n.a.
<b>Number of customers</b>	101 310	101 850	102 668	n.a.	n.a.	n.a.	38 000	39 000	n.a.
<b>Number of employees</b>	99	104	96	383	94***	n.a.	20	23	n.a.



**100% ownership**



**49% ownership**



**35% ownership**

\* Preliminary figures. Fortum Distribution has NOK 177 million in excess income as of 31.12.2013.

\*\*Includes group contribution payable.

\*\*\* The significant reduction in employees is caused by Netpartner AS which per 31.12.2012 is defined as an associated company and is hence not included in the number of employees per 31.12.2012. Per 31.12.2011 there were 302 employees in Netpartner AS

Source: Annual reports

# Hafslund's strategy and priorities

**Further develop Hafslund as a pure play energy company with a strong position both strategic and operationally within; Production, Heat, Network and Market**

- Strengthen the competitive advantages and enable synergy potential through integration and continuous operational improvement
- Organic and structural growth
- Partly price hedging of produced energy
- Prepare operations for regulatory changes in the energy market



**Production**



**Heat**



**Network**



**Markets**



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