Hafslund

ANNUAL REPORT 2017

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More information?

Change is the new normal

In our annual report for 2016, my message was headed "Accelerating rate of change". We are proud of our organisation's willingness and capacity for change, and we attach importance to strengthening this trait. We benefited from this in 2017. The company's two largest owners, the City of Oslo and the Finnish company Fortum, jointly decided to de-list Hafslund ASA from the Oslo Stock Exchange, buy out the company's minority shareholders and divide ownership of the various business areas between them. Following this transaction, Hafslund has become primarily a network company.

Finn Bjørn Ruyter
CEO

Three of the four business areas that made up Hafslund at the start of 2017 were acquired by new industrial owners during the year. Power sales now forms part of Fortum's equivalent business, which after the transaction has more than twice as many customers as Hafslund Markets had. District heating in Oslo has merged with the waste incineration facility at Klemetsrud. The company is owned 50/50 by the City of Oslo and Fortum. For operational purposes it has become part of a large international heating business within Fortum. The power plants are now part of the City of Oslo's wholly owned power company E-CO. This move has bolstered E-CO's undisputed position as Norway's second-largest hydropower producer.

Hafslund's employees have demonstrated an impressive willingness and capacity to take these changes in their stride. Many of them have been engaged in the implementation of the transaction, in addition to their day-to-day work. At the same time, operations have remained unaffected, with Hafslund posting a strong result for 2017 as a whole.

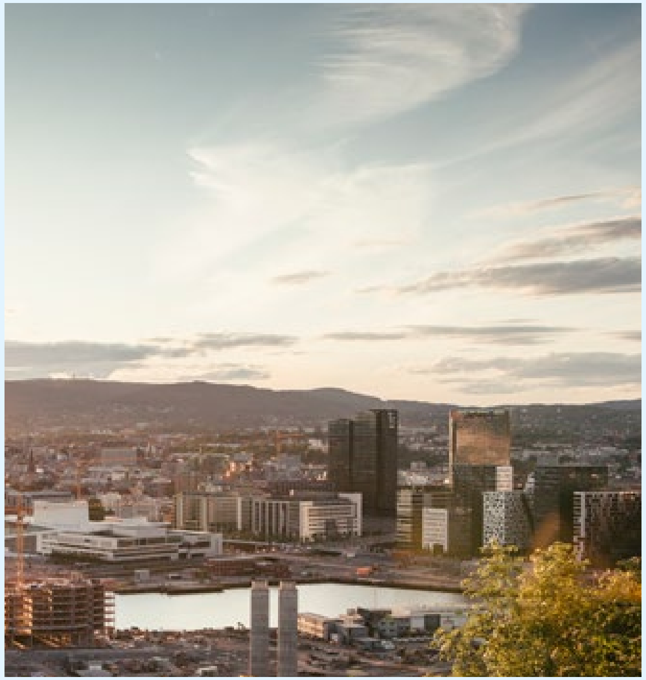
We have grown organically through 2017, increasing the number of network customers from 697,000 to 709,000. At the same time, we have invested heavily in new automatic meters, with associated digital solutions. Hafslund Nett has strengthened its relative efficiency in relation to other network companies, thereby allowing us to keep down our network tariffs to customers and provide our owner, the City of Oslo, with a sound future return on its investment.

The electrification of society is gaining momentum, as part of the effort to reach local environmental targets and global climate goals. Together with widespread digitalisation, this is leading to major changes in the energy system. Renewable energy and electrical infrastructures are solutions for the future. The need for larger and more specialised centres of expertise is intensifying, and insight into developments along the entire value chain will be crucial if we are to make the decisions that will secure long-term value creation.

At the end of March, Oslo's city government submitted a proposal to the city council for the ownership of Hafslund and E-CO to be brought together under one board of directors and one management. If the proposal is approved by the city council, the new company will be of such a size that it will offer further opportunities for growth and competence enhancement within the fields of renewable power production, power trading, power distribution and the use of new technologies throughout the physical value chain for electrical power. The need to replace the use of fossil fuels with renewable electrical solutions will require more competence, capacity to change and drive than ever before. We look forward to it!

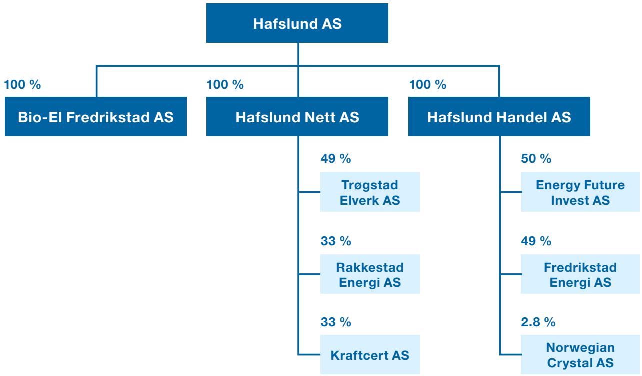
Report from the Board of Directors 2017

Hafslund has been through a significant restructuring in 2017. As a result of an agreement between the company's two largest owners, the City of Oslo and the Finnish company Fortum, on 4 August 2017 Hafslund ASA was de-listed from the Oslo Stock Exchange, and Hafslund Marked (Markets), Hafslund Varme (Heat) and Hafslund Produksjon (Production) business areas were sold to Fortum, the City of Oslo, and E-CO Energi. The newly established company Hafslund AS is wholly owned by the City of Oslo, and the company's main business comprises Hafslund ASA's former Networks business area. Ownership of the regulated networks business provides a solid basis for stable and predictable returns. It also means Hafslund is well equipped to achieve growth in infrastructure solutions for renewable energy. Work on digitalisation, operational efficiency improvements and the customer interface in Networks is producing results. Hafslund Nett has strengthened its position as one of Norway's most efficient network operators. Hafslund is achieving good underlying organic growth, and aim to play a key role in the expected future consolidation of the sector.



Hafslund transaction

On 26 April 2017, the City of Oslo and Fortum announced that they had agreed to de-list Hafslund ASA from the Oslo Stock Exchange, and to restructure and reallocate ownership of the business. Together, the City of Oslo and Fortum owned shares representing 87.8 percent of the share capital and 91.3 percent of the voting rights in Hafslund ASA. Hafslund Marked and 50 percent of Hafslund Varme were sold to Fortum, and Hafslund Produksjon was sold to E-CO, a wholly owned company by the city of Oslo, with 90 percent and to Fortum with 10 percent. Hafslund AS was established as a result of the spin-off of Hafslund ASA on 4 August 2017, and has continued to own Hafslund ASA's Networks business area. Hafslund AS also partly owns Fredrikstad Energi and two smaller networks and energy companies in Østfold, Bio-El Fredrikstad AS' (waste-to-energy facility), and Hafslund ASA's former joint ventures. Final purchase calculations and settlement relating to the transaction were completed in the fourth quarter of 2017. This Report from the Board of Directors primarily covers continuing operations at Hafslund AS and its subsidiaries. In the following, the term Hafslund refers to Hafslund AS and its subsidiaries.



Income statement, cash flow and capital

In 2017, Hafslund posted an operating profit of NOK 962 million, which was on par with 2016. The net profit after tax of NOK 4,315 million (NOK 1,402 million) includes a gain on the sale for the completed transaction of NOK 3,225 million, and a profit after tax on the business disposals in August of NOK 477 million (NOK 741 million). The profit after tax from continuing operations closed on NOK 612 million (NOK 661 million), where the reduction is primarily attributable to higher financial expenses than in 2016.

Hafslund posted sales revenues of NOK 5,169 million (NOK 4,824 million) in the year under review. The increase is attributable to higher network tariffs from 1 January 2017, following an increase in the network tariff payable to Statnett and a higher national tax on electrical power. The operating profit of NOK 962 million generated a return on capital employed of 8 percent based on the year-end balance sheet.

At NOK 206 million, financial expenses in 2017 were NOK 58 million higher than in 2016. The increase is attributable to costs of NOK 25 million relating to two short-term drawdown facilities established in connection with the transaction in Hafslund ASA, compensation for bondholders for the reassignment of bond loans from Hafslund ASA to Hafslund AS, and a foreign exchange loss of NOK 1 million compared with a gain of NOK 35 million in 2016. Financial expenses were further positively impacted by NOK 75 million (NOK 87 million) due to a reduction in the market value of loans recognised at fair value as a result of a higher forward interest curve.

The tax expense of NOK 143 million (NOK 155 million) includes a positive effect of NOK 48 million due to a lower deferred tax liability as of 31 December 2017 following a one percentage point decrease in the Norwegian general tax rate to 23 percent effective 1 January 2018. At NOK 4,315 million, the net profit for the year, adjusted for the profit from discontinued operations of NOK 3,702 million, generated a return on equity of 13 percent in 2017.

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

Cash flow and capital

The cash flow from operations for 2017 closed on NOK 2,435 million (NOK 2,045 million), which was NOK 801 million higher than EBITDA. The increase is attributable to combined tax and interest payments of NOK 396 million, reduced working capital of NOK 593 million, income statement items adjusted for liquidity effects of NOK 49 million, and contributions from discontinued operations of NOK 554 million. The net cash inflow from investing activities and divested businesses amounted to NOK 1,225 million (NOK -1,128 million) due to contributions from discontinued operations of NOK 2,794 million (NOK -173 million). In addition to a dividend payment of NOK 722 million for 2017, the net cash flow was used to repay debt of NOK 2,938 million in 2017 (NOK 343 million).

At the reporting date, net interest-bearing debt amounted to NOK 6,554 million, while the net debt/EBITDA ratio and the equity ratio were 4.0 and 31 percent respectively. Hafslund has a robust financing structure with long-term committed drawdown facilities. At the end of 2017, Hafslund had

Hafslund has good underlying organic growth, and aim to play a key role in the expected future consolidation of the sector.

Hafslund owns and operates regional and distribution network in Oslo, Akershus and Østfold.

unutilised drawdown facilities of NOK 3,002 million. None of Hafslund's loan agreements have financial covenants.

Operations

Hafslund Nett

Hafslund Nett is the largest network company in Norway and owns and operates the bulk of the regional and distribution network in Oslo, Akershus and Østfold. In the reporting period, Hafslund Nett has strengthened its position as one of Norway's most efficient network operators. The high delivery quality (99.99 percent) to network customers in 2016 and 2015 was maintained in 2017. In addition to the roll-out of automatic meters, in 2017 Hafslund Nett intensified its work on digitalisation with a view to achieving cost reductions, more efficient operations and an automated and improved customer interface. This work will be continued over the years to come.

Hafslund Nett gained 12,000 new customers during the year, bringing the total number of customers at the year-end to 709,000. The roll-out of automatic meters is in full swing and progressing well. At the end of the year, 412,400 out of a total of 658,000 automatic meters to private customers had been installed.

Hafslund Nett posted sales revenues of NOK 5,066 million (NOK 4,757 million) and EBITDA of NOK 1,675 million (NOK 1,654 million) in the year under review. The strong result for the year is attributable to solid operations and cost reductions. At 19,576 GWh, the energy delivery for 2017 was on par with the previous year.

"Hafslund Nett continually strives to optimise operations and achieve cost reductions, for the benefit of both network customers and the company.

The network operators are obliged to collect costs of the overhead network on behalf of Statnett. As a result of a number of factors including higher costs payable to Statnett, Hafslund's network tariff increased on both 1 January 2017 and 1 January 2018, on the latter occasion by 2.20 øre/kWh for private customers. Despite this, private and business customers in Hafslund's network area still benefit from one of the lowest network tariffs in Norway.

To ensure that the Norwegian electricity network is run as efficiently as possible, the Norwegian Water Resources and Energy Directorate (NVE) imposes regulations whereby the network operators achieve a return based on the cost-effectiveness of their delivered network services. The more efficiently the network company operates compared with other network operators in Norway, the higher permitted return. Consequently, Hafslund Nett continually strives to optimise operations and achieve cost reductions, for the benefit of both network customers and the company. Hafslund Nett has strengthened its position as one of Norway's most efficient network operators, one of the benefits of which is the good result for the year. At 10.3

percent, Hafslund Nett's return on NVE capital (regulated assets base) for 2017 compares favourably with the return of 6.2 percent for an average efficient network operator, which also equates the NVE interest rate. Hafslund Nett thus achieves a significantly higher operating profit than the average for other network operators in Norway. At the reporting date, Hafslund Nett had NVE capital of NOK 9.8 billion (NOK 8.8 billion), while capital employed amounted to NOK 12.6 billion (NOK 11.9 billion).

Networks had accumulated surplus income of NOK 387 million, compared with NOK 187 million at the end of 2016. The increase in surplus income is partly attributable to Hafslund Nett's desire to maintain the network rental charge as stable as possible, along with lower-than-estimated maintenance costs and costs relating to network faults. Assuming normal energy demand, planned network tariffs and forward power prices, as well as planned maintenance and cost changes, Networks' operating profit for 2018 is expected to come in slightly lower than in 2017.

Hafslund Nett is in the final phase of a period of intensive investments relating to the roll-out of automatic meters and upgrades of the distribution and regional network. In 2017, the company made total investments of NOK 1,602 million (NOK 1,009 million). In the second quarter of 2017, the investment forecast for the automatic meter project was reduced from NOK 2.4 billion to NOK 2.1 billion. Investments are expected to be scaled back to investments in ongoing operations and expansion from 2019 once the automatic meter project has been completed.

Other business

Other business comprises staff functions and other operations. Other operations compromise Bio-El Fredrikstad AS, associated companies (including a 49 percent stake in Fredrikstad Energi AS and a 50 percent shareholding in Energy Future Invest AS) and changes in value of interest rate derivatives. In the year under review, Other business posted an operating loss of NOK 52 million (loss of NOK 92 million). The operating result for staff functions includes NOK 29 million in costs relating to the spin-off of Hafslund ASA. Staff functions have been scaled down in Hafslund AS compared with the former Hafslund ASA. The result in 2016 includes impairments in associates and other business.

Discontinued operations

On the establishment of Hafslund AS following the spin-off of Hafslund ASA on 4 August 2017, all the shares in Hafslund ASA, apart from in Hafslund Production, were spun off to the new company Hafslund AS. Hafslund Heat and Hafslund Markets were subsequently sold to the City of Oslo and Fortum. Hafslund AS is thus deemed to be a continuation of the former Hafslund ASA Group. The values were not re-measured as a result of the transaction. The results of Hafslund Production, Hafslund Heat and Hafslund Markets for the period 1 January 2017 until the spin-off date of 4 August 2017 are recognised under the result from discontinued operations. See **Note 28** to the consolidated financial statements and Hafslund ASA's quarterly reports for the first half of 2017 for further information on the recognised gain on the completed transaction and the results of Hafslund Production, Hafslund Heat and Hafslund Markets. The quarterly reports are available at www.hafslund.no.

Government relations and framework conditions

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

The City of Oslo and national authorities have both set ambitious emission-reduction targets. A reliable and modern power network will play an essential role in phasing out greenhouse gas emissions, in particular through electrification of the transport sector and the city's construction sites. At the same time, Hafslund wishes to help to develop new electrical infrastructure to help Norway achieve its target of becoming a fully electrified and renewable society.

NVE is responsible for implementing and developing the financial regulation of networks operations in Norway. Network operators will have to contend with major investments and probable sector consolidation over the next few years. In its dialogue with NVE, Hafslund emphasises the importance of long-term stability in regulations, in order to secure the realisation of appropriate socio-economical investments.

Corporate social responsibility

Hafslund is responsible for social consequences caused by the Group's operations with regard to the external environment, working conditions, human rights and other social issues. This responsibility is a high strategic priority and permeates the company's entire value chain and business. Hafslund's statement on corporate social responsibility is discussed in more detail at www.hafslund.no.

Materiality analysis, Corporate Social Responsibility

The company has performed a materiality analysis in order to prioritise the most relevant areas within corporate social responsibility. Starting with the areas deemed important for Hafslund's stakeholders, as well as strategically important for the company, four areas stand out as particularly important for Hafslund's target achievement: i) securing a reliable energy supply, ii) ethics and anti-corruption, iii) reducing greenhouse gas emissions and iv) a responsible supply chain.

Securing a reliable energy supply

Hafslund owns and supplies critical infrastructure for the society. Society expects an uninterrupted supply of energy at all times. Hafslund shall guarantee a safe and reliable supply of renewable energy to its customers – every hour, all year round. Including both planned and non-planned incidents, Hafslund Nett achieved an uptime for customers of 99.99 percent during 2017.

Ethics and anti-corruption

The company's policy for the external environment and corporate social responsibility and policies for procurements and compliance, as well as ethical guidelines, are guiding for work on ethics and anti-corruption. At the end of the

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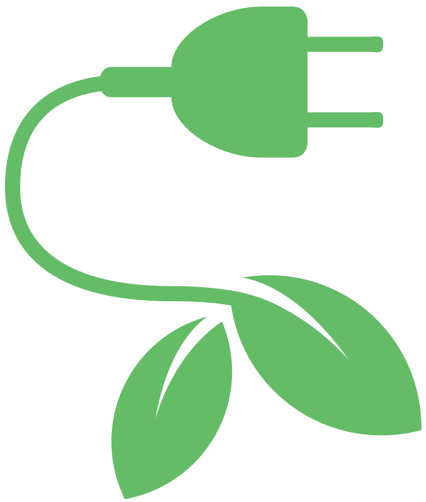


year, Hafslund's ethical guidelines for employees were revised to reflect the business' new structure and changes in external conditions. Hafslund has separate ethical guidelines that applies to all the company's suppliers, which is incorporated into supplier contracts. In 2017, Hafslund introduced credibility regulations intended to help establish proper working conditions in the construction sector. All procurements must be implemented in accordance with good business practice and high ethical standards.

Environment – dedicated initiatives to reduce greenhouse gas emissions
Efficient environmental management is an integral part of Hafslund's corporate social responsibility remit, and an important means of securing efficient resource utilisation and operations. Hafslund implements a systematic form of environmental management. The head office in Oslo is certified as an Environmental Lighthouse.

Electrification of the transport sector and construction sites will play an important role in enabling Oslo to achieve its climate targets, and reduce local emissions injurious to health. By converting the overhead network to a higher voltage (132 kV), rolling out automatic meters, increasing digitalisation and actively facilitating new application areas for electricity, Hafslund will contribute to so that the City of Oslo will achieve its climate targets. At the same time work is made to reduce network power losses and facilitate efficiency-improvements for customers. In 2017, there was no damage to cables resulting in discharges of cable oil to the watercourse.

The impact on the external environment of Hafslund's other operations largely derives from its buildings, transport and externally sourced services, including transport and contracting activities. Hafslund aims to have a high percentage of rechargeable vehicles in its car fleet. All new vehicles must be rechargeable, provided that they satisfy functionality and safety requirements. Hafslund works with Franzefoss on waste and recycling schemes, and is a member of Renas, a collection and management scheme for industrial electrical waste.

Responsible supply chain
Hafslund makes clear requirements to suppliers, many of whom operate in the construction sector, in order to ensure that these perform their business activities in accordance with Norwegian and internationally recognised principles and guidelines on human and employee rights, the environment, anti-corruption and health, safety and the environment (HSE). These requirements are part of all contracts entered into by Hafslund, and also apply to subcontractors. The Sellihca qualification scheme is used to select suppliers who satisfy the above requirements applying guidelines based on International Labour Organization (ILO) and UN conventions. Hafslund audits its own suppliers to verify that its guidelines are being met and that non-conformances are rectified. Sellihca also performs audits on behalf of Hafslund and other energy companies.

Corporate social responsibility

Hafslund aims to be an attractive workplace that promotes innovation and inventiveness in accordance with the company's vision: "Energy solutions of the future – for you and the environment". At the end of 2017, Hafslund and its wholly owned subsidiaries employed 414 staff (410.7 full-time equivalents).

Hafslund aims to have an equal gender balance at all levels of the business, including in its subsidiaries. In 2017, 29.7 percent of the Group's employees were women, and 70.3 percent were men. Eight members serve on the Board of

Hafslund AS, three of whom are women and five of whom are men. At the start of 2018, Group Management comprised three women and three men. Hafslund shall ensure that no discrimination takes place based on gender, ethnicity, national background, origin, skin colour, language, religion or belief.

Hafslund has guidelines for notification, including a dedicated whistle-blowing channel, and ethical guidelines for employees and suppliers. In implementing the spin-off of the former Hafslund ASA, importance was attached to upholding expertise levels and good business performance. Hafslund is continuing management development programmes and have introduced a new competence management system to enhance performance management and strategic competence development, identify future competence requirements and implement measures to develop and attract the right talents moving forward.

Health, safety and the environment (HSE)

Health, safety and the environment is accorded a high priority. Hafslund aims to experience zero injuries among its own employees and suppliers, and systematically works to reduce the number of injuries. Reporting of undesired incidents and close follow-up of serious incidents and near misses are an important part of systematic HSE work.

In total, 13 (10) lost-time injuries and 24 (14) non-lost-time injuries were registered among Hafslund employees and suppliers working at Hafslund's sites during the reporting period. This corresponds to an injury rate for the Group of 8 lost-time injuries per million working hours (H1 indicator) and a total injury frequency (number of lost-time and non-lost-time injuries per million working hours (H2 indicator) of 21. Of the 13 lost-time injuries, one related to one of our employees, 11 to suppliers and one to a member of the general public.

Sickness absence

Hafslund aims to maintain overall sickness absence in the Group below 3.5 percent. In 2017, Hafslund Nett's sickness absence rate closed on 3.2 percent, down from 4.0 percent in 2016.

Risk

Hafslund is exposed to risk in a number of areas. The most important of these are of a regulatory, financial, operational, reputational and political nature. Risk management at Hafslund is an integral part of the company's operations, designed to secure achievement of strategic and operational targets. Hafslund has established guidelines and frameworks for active and coordinated risk management. Risk is assessed by the Audit Committee and the Board of Directors. Since Hafslund no longer owns any energy production or power sales activities, but solely regulated networks business, market risk is deemed to be low. The networks business must continually cover power losses in the network by purchasing power in the physical power market, but is compensated for this cost under the current regulatory regime.

Financial risk

Hafslund is exposed to interest rate risk on its interest-bearing debt. Interest is also included as an element in Networks' regulated revenue. The company endeavours to reduce interest rate risk by leveraging the Group's inherent interest-hedging by striving to correlate the interest rate exposure in connection with the reference rate for Networks' regulated revenue with interest on loans. The Group has several long-term committed drawdown facilities in order to secure financing, even in periods when it may be difficult to obtain financing in the capital markets. Insurance policies are also in place to cover all serious types of injury. Hafslund's revenues and costs are essentially denominated in NOK, however, the company can enter into agreements in foreign currency where expedient. The company's finance division manages and hedges financial risk.

Regulatory and political risk

Network operations is a licensed, natural monopoly subject to direct regulation in the form of specific requirements and obligations, and incentive-based regulation in the form of income regulation. Network operators' annual income ceiling is established each year by the NVE, where there can be fluctuations due to changes in the regulatory model and/or changes in the parameters included in this model. Regulatory changes can potentially have a major impact on Hafslund's future financial results and Hafslund closely monitor these risks through continuous work on framework conditions.

Hafslund is owned by the City of Oslo. The City of Oslo is governed by representatives elected every four years by residents of the City of Oslo.

Operational risk

Hafslund is exposed to operational risk along the entire business chain. The greatest operational risk attaches to ongoing operations and project implementation. Hafslund manages operational risk by means of detailed procedures for activities, controls and contingency plans, where risk relating to security of supply occupies a central position.

Hafslund has established systems for registering and reporting censurable matters, undesired incidents and injuries. Risk analyses are performed annually with a view to evaluating and planning any required measures.

Ownership structure and shareholders

Hafslund AS and its subsidiaries are wholly owned by the City of Oslo. Hafslund has adopted guidelines for corporate governance designed to comply with the Norwegian Code of Practice for Corporate Governance. Deviations from this Code are attributable to the fact that Hafslund only has one shareholder, and are discussed in more detail in Hafslund's guidelines for corporate governance.

The work of the Board of Directors

A new Board of Directors was appointed on the establishment of Hafslund AS at the end of September 2017. The former Hafslund ASA Board acted as an interim Board from the spin-off of Hafslund ASA until the appointment of the new Board. At the Extraordinary General Meeting Hilde Tonne was elected Chairman of the Board of Directors of Hafslund AS, and Odd Håkon Hoelsæter, Bente Sollid Storehaug, Jeanette Iren Moen and Bjørn Erik Næss were elected as Board members. Per Orfjell, Per Luneborg and Tommy Linder were elected as employee Board representatives. Hoelsæter, Orfjell and Luneborg also served on the Board of the former Hafslund ASA.

Hafslund's Board has worked in accordance with the adopted rules of procedure for the Board. Hafslund's principles for and statement on corporate governance are discussed at www.hafslund.no. 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's Compensation Committee prepares matters for review by

Hafslund is 100 percent owned by the City of Oslo.

Since its appointment at the end of September 2017, the Board has focused on developing a corporate strategy that will facilitate growth and development.

the Board, and resolutions on compensation and other associated matters concerning the company's senior executives. The Compensation Committee comprises Hilde Tonne (Chair), Bente Sollid Storehaug, Jeanette Iren Moen and Per Orfjell. See **Note 21** to the consolidated financial statement for remuneration paid to senior exelutives, and the Board's declamtion on determination of salary and other remuneration for senior executives. The Board's Audit Committee assist the Board in the preparation of the financial statements and internal controls. The Audit Committee comprises Bjørn Erik Næss (Chair), Odd Håkon Hoelsæter and Per Luneborg. The entire Board has participated at all board meetings.

Since its appointment at the end of September 2017, the Board has focused on developing a corporate strategy that will facilitate growth and development in the best interests of the owner and the company's employees and stakeholders.

Dividend and appropriation of the annual result

An ordinary dividend of NOK 335 million is proposed for the 2017 accounting year. The Board proposes the following appropriation of Hafslund AS' net profit for the year of NOK 7377 million:

Transferred from other equity:	**454**
Paid out to Oslo Energi Holding AS in connection with the Fortum settlement	**(88)**
Property dividend	**(6 500)**
Allocation of the year's profit/loss	**7 377**
Provision for ordinary dividend for the 2017 financial year	**(335)**

Outlook

In implementing the spin-off of the former Hafslund ASA Group and the transfer of the divested businesses to E-CO and Fortum, importance was attached to maintaining deliveries to customers, securing stable and efficient operations and upholding expertise levels and business performance. Hafslund has delivered Group services to the divested businesses for a transitional period, and Hafslund and these businesses are now well embedded with their new owner.

Hafslund's ownership of the regulated networks business provides a solid basis for stable and predictable returns. Networks' long-term earnings are influenced by the business area's relative cost efficiency compared with the rest of the networks industry, interest rate fluctuations and changes in public regulations. Digitalisation of the value chain and the customer interface are absolutely critical to achieving efficient operations and retaining satisfied customers.

Hafslund is gearing itself for growth in infrastructure solutions for renewable energy, while focusing on digitalisation, automation and customer interfaces in the Networks business.

This work is paying off – Hafslund Nett has strengthened its efficiency and its position as one of Norway's most efficient network operators. Hafslund will continue its growth and improvement initiatives and will facilitate and contribute to further electrification of society.

Hafslund will ramp up its investments to NOK 1.8 billion in 2018, compared with an average of NOK 0.7 billion between 2013 and 2015 and NOK 1.3 billion in 2016 and 2017. In addition to ongoing investments in operations and expansion, the Group's investments will be characterised by investments in automatic meters and associated new ICT systems at an aggregate of NOK 2.1 billion. Investments levels are expected to be scaled back to investments in ongoing operations and expansion from 2019 due to the completed installation of automatic meters.

Hafslund AS aims to maintain a similar credit profile to that of the former Hafslund ASA.

The company is achieving solid underlying organic growth due to population growth and investments in the network. At the same time, Hafslund is seeking new growth opportunities both organically and structurally. Hafslund aims to play a key role in the expected future consolidation of the sector.

The City government in Oslo proposed on 20 March 2018 to combine the ownership of Hafslund and the City of Oslo's wholly-owned energy company E-CO Energi under one board and management. The City of Oslo will appoint a board for the new company. Finn Bjørn Ruyter in Hafslund is intended the role as CEO of the combined business. The Board of Directors of Hafslund has actively participated in developing the City government's decision base, and is positive to a combined ownership. The City council is expected to make a final decisions before the summer.

The Board of Directors of Hafslund AS
Oslo, 21 March 2018

Hilde Tonne
Chairman of the Board

Bente Sollid Storehaug

Odd Håkon Hoelsæter

Jeanette Iren Moen

Bjørn Erik Næss

Per Orfjell

Per Luneborg

Tommy Linder

Finn Bjørn Ruyter
CEO

Financial statements and notes, Hafslund Group

Income statement, Statement of other comprehensive income

		1 January – 31 December	
NOK million	Notes	2017	2016
Sales revenues	5	**5,169**	4,824
Purchases of goods and energy		**(2,047)**	(1,756)
Salaries and other personnel expenses	18, 20, 21	**(346)**	(349)
Other (losses)/gains – net		**5**	(6)
Other operating expenses	19	**(1,158)**	(1,097)
Share of profit of associates	9, 24	**10**	20
EBITDA		**1,634**	**1,636**
Depreciation and amortisation	6, 7, 8	**(672)**	(642)
Impairments	6, 7, 8		(30)
Operating profit		**962**	**964**
Finance costs	22	**(206)**	(148)
Profit before tax		**756**	**816**
Tax expense	17	**(143)**	(155)
Net profit for the year, continuing operations		**612**	**661**
Net profit for the year, discontinued operations	27	3,702	741
Net profit for the year		**4,315**	**1,402**
Attributable to:			
Owners of the parent		**4315**	1,401
Non-controlling interests			1

Notes 1 to 28 are an integral part of the consolidated financial statements.

		1 January – 31 December	
NOK million	Notes	2017	2016
Net profit for the year		**4,315**	**1,402**
Items that can subsequently be reclassified to the income statement			
Cash flow hedging	10	**(4)**	(124)
Translation differences		**(8)**	(63)
Tax	17	**1**	31
Total items that can subsequently be reclassified to the income statement		**(11)**	**(156)**
Items that cannot subsequently be reclassified to the income statement			
Change in pension estimates	18	**66**	(137)
Tax	17	**(16)**	34
Total items that cannot subsequently be reclassified to the income statement		**50**	**(103)**
Other comprehensive income for the year		**39**	**(259)**
Total comprehensive income for the year		**4,354**	**1,143**
Attributable to:			
Owners of the parent		**4,354**	1,142
Non-controlling interests			1
Total comprehensive income for the year		**4,354**	**1,143**

Notes 1 to 28 are an integral part of the consolidated financial statements.

Balance sheet

NOK million	Notes	31 December 2017	2016
Assets			
Property, plant and equipment	6	**11,937**	19,610
Intangible assets	7	**624**	2,880
Investments in associates	9	**285**	335
Long-term receivables	10, 11, 18	**294**	185
Non-current assets		**13,141**	**23,011**
Inventories		**0.73**	99
Trade and other receivables	10, 12	**968**	2,852
Shares and units	10	**19**	20
Derivatives	3, 10	**18**	187
Cash and cash equivalents	10, 13	**1,105**	572
Current assets		**2,182**	**3,729**
Total assets		**15,323**	**26,740**
Equity and liabilities			
Paid-in equity	14	**2,016**	4,275
Retained earnings		**2,745**	5,292
Non-controlling interests			4
Equity		**4,762**	**9,571**
Borrowings	10, 16	**6,599**	8,120
Deferred tax liabilities	17	**1,089**	3,323
Pension liabilities	18	**75**	98
Long-term liabilities		**7,762**	**11,542**
Trade and other current payables	10, 15	**1,564**	2,904
Derivatives	3, 10		148
Tax payable	17		356
Borrowings	10, 16	**1,235**	2,218
Current liabilities		**2,799**	**5,626**
Total liabilities		**10,561**	**17,169**
Total liabilities and equity		**15,323**	**26,740**

Notes 1 to 28 are an integral part of the consolidated financial statements.

The Board of Directors of Hafslund AS
Oslo, 21 March 2018

Hilde Tonne
Chairman of the Board

Bente Sollid Storehaug

Odd Håkon Hoelsæter

Jeanette Iren Moen

Bjørn Erik Næss

Per Orfjell

Per Luneborg

Tommy Linder

Finn Bjørn Ruyter
CEO

Statement of cash flow

NOK million	Notes	1 January – 31 December 2017	2016
EBITDA		**1,634**	**1,636**
Adjustments for:			
– gains/losses on disposal of operating assets and business		**(5)**	(38)
– other items with no cash flow effect		**55**	(409)
Changes in working capital:			
– Inventories		**2**	(51)
– Trade and other receivables	12	**131**	378
– Trade and other current payables	15	**460**	826
Cash flow from operating activities, continuing operations		**2,277**	**2,343**
Interest paid		**(300)**	(350)
Tax paid	17	**(96)**	(55)
Net cash flow from operating activities, continuing operations		**1,881**	**1,938**
Net cash flow from operating activities, discontinued operations		**554**	**105**
Investments in operations	6, 7	**(1,574)**	(1,051)
Change in interest-bearing receivables	11	**(20)**	(12)
Purchased businesses, shares etc.			(7)
Disposals of shares etc.		**25**	115
Cash flow from investing activities, continuing operations		**(1,569)**	**(955)**
Cash flow from investing activities, discontinued operations		**2,794**	**(173)**
New long-term borrowings	16	**279**	2,121
Repayments of borrowings	16	**(2,684)**	(2,569)
Dividends and other equity transactions		**(722)**	(586)
Cash flow from financing activities		**(3,127)**	**(1,033)**
Change in cash and cash equivalents		**533**	**(119)**
Cash and cash equivalents 1 January		**572**	724
Foreign exchange gains/(losses) cash and cash equivalents			(34)
Cash and cash equivalents 31 December	13	**1,105**	**572**

Notes 1 to 28 are an integral part of the consolidated financial statements.

Statement of changes in equity

NOK million	Share capital	Share premium	Other paid-in equity	Pension estimate deviations	Translation differences	Retained earnings	Equity attributable to owners of the parent	Non-controlling interests	Total equity
Equity 31 December 2015	**195**	**4,080**	**56**	**459**	**71**	**4,148**	**9,009**	**4**	**9 013**
Profit/loss						1,401	1,401	1	**1,402**
Other comprehensive income				(103)	(63)	(93)	(259)		**(259)**
Total comprehensive income 2016				**(103)**	**(63)**	**1,308**	**1,142**	**1**	**1,143**
Transactions with owners:									
Dividend for 2015						(586)	(586)	(1)	**(587)**
Change in treasury shares						2	2		**2**
Equity 31 December 2016	**195**	**4,080**	**56**	**356**	**8**	**4,872**	**9,567**	**4**	**9,571**
Profit/loss						4,315	4,315		**4,315**
Other comprehensive income				50	(8)	(3)	39		**39**
Total comprehensive income 2017				**50**	**(8)**	**4,312**	**4,354**		**4,354**
Transactions with owners:									
Dividend for 2016						(634)	(634)		**(634)**
Additional dividend						(7,034)	(7,034)		**(7,034)**
Spin-off	(89)	(2,195)	(56)			830	(1,510)		**(1,510)**
Change in treasury shares	25						25		**25**
Disposal of non-controlling interests								(4)	**(4)**
Other changes in equity						**(6)**	**(6)**		**(6)**
Equity 31 December 2017	**131**	**1,885**		**406**		**2,340**	**4,762**		**4,762**

The Board has proposed a dividend of NOK 335 million for the 2017 financial year.

Notes 1 to 28 are an integral part of the consolidated financial statements.

Note 1 / General information

Hafslund AS was established on 4 August 2017 after Hafslund ASA had been de-listed from the Oslo Stock Exchange, and Hafslund AS had been de-merged from Hafslund ASA. The Hafslund Markets, Hafslund Heat and Hafslund Production business areas were sold to Fortum, E-CO and the City of Oslo effective 4 August 2017. Following the transaction, Hafslund AS's main business comprises Hafslund Networks. Hafslund AS also owns a waste-to-energy plant in Fredrikstad, Bio-El Fredrikstad AS, and part-owns network and energy companies in Østfold and in Hafslund's previous venture activities. The company is headquartered in Oslo. The consolidated financial statements were adopted by the company's Board on 21 March 2018.

Note 2 / Summary of significant accounting policies

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

2.1 Framework for presentation of financial statements

Hafslund AS'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 modified historical cost convention. 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
While several accounting standards have entered into force since 1 January 2017, none of these have materially affected the financial statements for 2017. The most relevant of the new standards applied since 1 January 2017 are as follows:

IFRS 9 Financial Instruments
Hafslund elected to early-adopt the accounting standard IFRS 9 Financial Instruments effective 1 January 2017. IFRS 9 Financial Instruments, which replaces IAS 39 and deals with classification, measurement and de-recognition of financial assets and liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets. Matters covered by the accounting standard include the following:

- 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 determined on first-time recognition of the asset. The classification is contingent on the entity's business model for management of its financial instruments and the nature of the cash flows for the individual financial instrument.
- The standard essentially continues the requirements of IAS 39 for financial liabilities. The most significant change is in cases where the fair value option has been applied for a financial liability, where changes in fair value attributable to changes in inherent credit risk are now recognised in other comprehensive income. Including changes in fair value attributable to changes in inherent credit risk, fair-value changes in loans of NOK -74 million were recorded under finance costs in 2017 (NOK -87 million in 2016). Since 1 January 2017, fair-value changes relating to changes in inherent credit risk have been recognised in other comprehensive income. In 2017, changes in fair value attributable to changes in inherent credit risk totalled NOK -4 million.

- Impairments attributable to credit risk are recognised based on expected losses rather than under previous model (IAS 39), where losses must already have been incurred. The new impairment model (IFRS 9) is based on expected credit losses and could result in earlier provisions for losses on lending. Implementation of the new impairment regulations is not expected to have a material impact on the consolidated financial statements.

Amendments to disclosure requirements – IAS 7 Statement of Cash Flows
IAS 7 has been amended, and now includes note disclosure requirements relating to changes in financial liabilities as a result of financing activities. The amendment has not resulted in any changes in the recognition or measurement of financial liabilities.

Note 2

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

IFRS 15 Revenue from Contracts with Customers
The new standard replaces IAS 18 Revenue and IAS 11 Construction Contracts. In addition, IFRIC 18 Transfer of Assets from Customers has been withdrawn.

The standard is based on the principle that revenue from the sale of goods or services must be recognised when control is transferred to the customer. The transfer of control may take place at a single moment or over time.

Management has assessed the impact of the new standard and concluded that it will not lead to any changes in the company's accounting principles. The recognition of revenues under the new standard involves the use of management's best judgement. The recognition of fixed-asset contributions is the area that involves the greatest use of management's best judgement. Actual expenses incurred in the establishment or reinforcement of power lines to an individual customer must be covered krone for krone with no mark-up by the customer concerned through a fixed-asset contribution. Hafslund considers the deliverable that is covered by the fixed-asset contribution to be a separate performance obligation. This performance obligation is recognised in profit and loss when the network connection has been established. Nor are the expenses included in the fixed-asset contribution recognised in network capital, and are therefore not the source of any return in subsequent periods. The expenses are therefore not deemed to qualify as an asset. If the fixed-asset contribution had not been deemed to constitute a separate performance obligation, but part of a subsequent deliverable for the distribution of power, this could have resulted in a different revenue recognition profile.

IFRS 15 must be applied in financial years staring 1 January 2018 or later. Because the standard does not result in any alteration in accounting principles, there will be no change in equity as at 1 January 2018.

IFRS 16 Leases
IFRS 16 was adopted by the IASB in January 2016. Under the current rules, lessees recognise leases either as operating leases or finance leases. The new standard abolishes the previous distinction between operating and finance leases, since both types of agreement transfer the right of use to a specific asset from the lessor to lessee for a specific period. The standard has to a large extent retained existing accounting principles from IAS 17 Leases; however, with expanded disclosure requirements for the lessor. In brief, IFRS 16 involves the following amendments:

- All leases shall now, with a few practical exceptions, be recognised in the balance sheet and in accordance with a model similar to the prescribed treatment of finance leases under IAS 17.

- For lessees, both the value of the right of use of an asset and the corresponding lease commitment are recognised in the balance sheet.

- However, it is not always necessary to recognise the entire lease in the balance sheet. The main rule in IFRS 16 is that agreements that contain multiple elements, for example, a right of use to multiple assets, or a single right of use and a single service, must be split into the individual elements. Each element shall be assessed independently. Only identified rights of use and associated liabilities are recognised in the balance sheet. The payments under the agreement must be allocated between the lease(s) and other payments under the contract.

Hafslund's leases are operating leases and have varying maturities, price-adjustment clauses and prolongation rights. A total of NOK 145 million was recognised in the income statement in 2017 (NOK 155 million in 2016) for the lease of office buildings and transformer substations. At the reporting date, Hafslund had total future lease commitments for office buildings and transformer substations of a nominal amount of NOK 872 million (NOK 937 million in 2016).

IFRS 16 must be applied for accounting years beginning on or after 1 January 2019. Early-adoption is possible, provided that IFRS 15 Revenue from Contracts with Customers has been implemented. The standard was approved by the EU in 2017. The Group will not utilise the option for early adoption.

The Group has not yet fully quantified the effects of the new rules on the consolidated financial statements or the implementation effect on Other equity as of 1 January 2019. The Group will carry out a more detailed review of the above during 2018.

There are no other standards or interpretations that have not yet entered into force that are expected to have a material impact on the consolidated financial statements.

Note 2

2.2 Basis of consolidation

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

The purchase method is applied for business acquisitions. The consideration is measured at the fair value of any transferred assets, liabilities or issued equity instruments. Identifiable assets and liabilities and contingent liabilities 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 acquired company's net assets. Acquisition-related costs are expensed as incurred.

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

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

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

b) Change in shareholding in subsidiaries without loss of control
Transactions with non-controlling interests in subsidiaries that do not involve loss of control are treated as equity transactions. When shares are purchased from non-controlling owners, the difference between the consideration and the proportionate percentage of net assets recognised in the subsidiary's balance sheet relating to such shares is recognised in the parent company's owners' equity. Gains or losses on disposals of non-controlling interests are similarly recognised in equity.

c) Divestment of subsidiaries
When the Group no longer has control, any residual ownership 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 ownership 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) Associated companies
Associates are entities over which Hafslund exerts significant influence, but not control. Significant influence will generally exist when the Group has a shareholding of between 20 and 50 percent of the voting rights. Investments in associates are recognised in accordance with the equity method. Investments are recognised at cost at the time of acquisition, and the Group's share of the results in subsequent periods is recognised in income or expenses. Amounts recognised in the balance sheet include any implicit goodwill identified at the time of acquisition. On the reduction of a shareholding in an associate where the Group retains significant influence, only a pro rata share of amounts previously recognised in other comprehensive income is reclassified in the income statement.

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

At the end of each accounting period the Group determines whether there is any need to recognise an impairment of the investment in the associate. In such cases the impairment amount is measured as the difference between the recoverable amount of the investment and its book value, and the difference is recognised in income on a separate line together with the item Share of profit/(loss) from associates. In the event of any gains or losses on transactions between the Group and its associates, only the proportionate share relating

Note 2

to external shareholders is recognised. Unrealised losses are eliminated unless there is a need to recognise an impairment for the asset that was the subject of the transaction. Where necessary, the financial statements of associates have been restated to ensure consistency with the accounting policies adopted by the Group, with the exception of associates that are investment companies.

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

2.3 Segment information

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

2.4 Translation of foreign currency

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

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

Foreign exchange gains and losses connected to borrowings and cash and cash equivalents are presented (net) as 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 at fair value through profit or loss, are recognised in the income statement as part of total gains and losses. Foreign exchange differences on shares classified as available for sale are included in changes in value that are recognised in other comprehensive income.

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

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

2.5 Property, plant and equipment

Property, plant and equipment is recognised in the balance sheet at cost less accumulated depreciation and impairments. Cost includes expenses directly connected to the acquisition of the operating asset, including directly attributable borrowing costs. Subsequent costs are included in the asset's book value or recognised as a separate asset 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 replaced parts is recognised in income. Other repairs and maintenance expenses are recognised in the income statement in the period in which the expenses are incurred. Land is not depreciated. Depreciation of other operating assets is calculated using the straight-line method so that the assets' cost is written down to net realisable value over the assets' expected useful economic life as follows:

Power facilities	20–50 years
Heating facilities	10–50 years
Network facilities	10–50 years
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.

Note 2

2.6 Intangible assets

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

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

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

After dirested operations, Hafslund no longer has customer portfolios or acquisition costs that are capitalized (see **Note 24**).

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. Operating and intangible assets that are subject to depreciation or amortisation are reviewed for impairment whenever there are indications that the book value may no longer be recoverable. An impairment 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. These items are subsequently recognised at amortised cost using the effective interest method, and are included in current assets, unless they mature more than 12 months after the balance sheet date. Loans and receivables are classified as Trade and other receivables and as Cash and cash equivalents in the balance sheet (see **Notes 2.12** and **2.13**).

c) Impairment of financial assets
The Group assesses whether there is objective evidence that a financial asset or group of financial assets is impaired

Note 2

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 an impairment in the value of the shares in question. Where such objective indicators exist, and impairments have previously been recognised in other comprehensive income, the accumulated loss that has been included in other comprehensive income is transferred to the consolidated income statement. The amount is measured as the difference between cost and the current fair value, less deductions for any impairments previously recognised in income. Impairments of 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 in the balance sheet at fair value on the date a derivative contract is entered into, with changes in value recognised in income as they arise and then continuously at fair value.

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 measured at initial recognition at nominal values less any expected loss. 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 and other short-term, highly liquid investments with original maturities of three months or less.

2.14 Share capital and share premium

Ordinary shares are classified as equity. Expenses directly connected to the issue of new shares or options net of tax are recognised as a reduction in consideration received in equity. On the purchase of treasury shares, the consideration paid, including any transaction costs less tax, are recognised as a reduction in equity (attributable to owners of the parent) until the shares are cancelled, re-issued or sold. 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 owners of the parent.

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 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 Tax

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

Note 2

financial values of assets and liabilities. Deferred tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary tax-reducing differences can be utilised.

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

2.18 Pension liabilities, bonus schemes and other employee remuneration schemes

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

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

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

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

The period's pension earnings and net interest (income) are recognized in the income statement and are presented under the salary and other employee expenses line.

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

Defined contribution plan
A defined contribution plan is a pension plan where the Group pays a fixed contribution to a separate legal entity. The Group has no legal or other obligation to pay further contributions should the entity have insufficient funds to pay all employees their benefits in line with their entitlements for the current and for previous periods. The pension premium is expensed as salary expense when accrued.

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 owners of the parent and individual adjustments. The Group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

c) Termination benefits
Termination benefits are payable when employment is terminated 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 one or more 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 present legal or constructive 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 amount 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.

Note 2

Provisions are measured at the 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 finance cost.

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) Network rental

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

Actual income for the year
Actual income for a network operator comprises the tariffs, power output and actually transmitted energy volumes at any one time in the network operator's supply area. In accordance with IFRSs, income is recognised in the Networks business based on actual income for the year, and not permitted income as described above. However, the tariffs, or network rental charges, are determined on the premise that, over time, the Networks segment's actual income will correspond to its permitted income.

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

At the reporting date, Hafslund Nett's accumulated surplus income amounted to NOK 387 million (NOK 187 million).

c) 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.

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

Risk management at Hafslund is designed to procure an overall view of the Group's risk profile and to facilitate achievement of strategic and operational targets. Risk management is an integral part of business activities and all major decision-making processes in the Group. The Board assesses overall risk at Group and company level. Hafslund has established guidelines and frameworks for active and coordinated risk management in a number of areas, which are reviewed annually.

The Group is exposed to risk in a number of areas. The most important of these are of a regulatory, financial (interest rate, liquidity and credit risk), operational, reputational and political nature. Since Hafslund operates regulated networks business, and not energy production and power sales business, market risk is deemed to be low. The networks business must continually cover power losses in the network by purchasing power in the physical power market, but is compensated for this cost under the current regulatory regime. Networks is a licensed, natural monopoly subject to direct regulation in the form of specific requirements and obligations, and incentive-based regulation in the form of income regulation. Network operators annual income ceiling is determined each year by the Norwegian Water Resources and Energy Directorate (NVE), where there can be fluctuations due to changes in the regulatory model or in the parameters included in the regulatory model. Regulatory changes can potentially have a major impact on Hafslund's future financial results and we closely monitor these risks through continuous work on framework conditions.

Interest rate exposure

Hafslund's operating revenues and cash flow from operations are to some extent sensitive to interest rate fluctuations. The permitted yield in the Networks business is based on factors including 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. Hafslund is exposed to interest rate risk through its interest-bearing liabilities. The Group endeavours to reduce interest rate risk by correlating the interest rate exposure in connection with Networks with interest on borrowings.

Hafslund's loan portfolio comprises a mixture of fixed-interest and variable-interest loans. The company's cash flow will be affected by interest rate fluctuations on variable-interest loans. The fair value of all the borrowings taken out before 31 December 2009 will be affected by changes in interest rates, including changes in credit spreads. During 2017, the change in credit spreads, viewed in isolation, resulted in an estimated NOK 3 million increase in the fair value of the loan portfolio (2016: increase of NOK 18 million). Credit margins are affected by terms, liquidity and risk. The major banks publish estimates for Hafslund's credit margins on borrowings with differing terms based on observable prices on the bond market.

In a simulation test of sensitivity to major interest rate fluctuations, the portfolio of loans and interest rate derivatives as of 31 December 2017 was tested against a change of +/- 1.5 percent across the entire yield curve. Based on historical data, there is approximately 90 percent certainty that interest rate fluctuations will not exceed this spread during any one year. An increase/decrease in interest rates of 1.5 percentage points would result in a respective increase/decrease in direct borrowing expenses (adjusted for the tax effect) of NOK 53 million/50 million (2016: (-/+ NOK 60 million). Since some loans cannot have a negative interest rate, the full effect on a simulated reduction in interest is restricted to 1.5 percentage points. A 1.5 percent decrease/increase in interest rates would respectively increase/decrease the portfolio of loans measured at fair value and interest derivatives, and finance costs, (adjusted for the tax effect) by around NOK 3 million (2016: +/- NOK 8 million).

Liquidity risk

Hafslund is exposed to liquidity risk to the extent that cash flows from the business do not correspond with financial liabilities. Hafslund's cash flows naturally vary in line with factors such as seasonal fluctuations and investment levels. Liquidity risk is minimised through analyses of expected inflows and outflows and assumption of short- and long-term borrowings. To minimise refinancing risk, i.e. the risk of not being able to refinance a loan or cover a short-term liquidity requirement on normal commercial terms, the Group has established long-term, committed drawdown rights 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 2017 totalled NOK 3.0 billion (2016: (NOK 3.8 billion).
See also **Note 16** Borrowings.

Note 3

Maturity profile for borrowings:

NOK million	0–6 months	6–12 months	1–3 years	3–5 years	>5 years	Total
2017	(1,316)	(115)	(3,459)	(1,887)	(1,719)	**(8,496)**
2016	(1,539)	(976)	(4,060)	(2,447)	(2,300)	**(11,322)**

Credit risk

All network rentals from customers are paid to Hafslund Tellier AS (previously owned by Hafslund, now owned by Fortum), which invoices and collects network rental on behalf of Hafslund. This entails a certain concentration risk. Following the introduction of re-invoicing in 2016, invoices for network rental are sent to the power sales company, who includes the network rental in a joint invoice for electricity and network rental. All power sales companies who perform re-invoicing must establish a bank guarantee for timely repayment of network rental. Some power sales companies do not use re-invoicing.

Maturity profile for financial items:

2017

NOK million	0–6 months	6–12 months	1–3 years	3–5 years	>5 years	Total
Interest rate derivatives			18			18
Total financial assets			**18**			**18**

2017

NOK million	0–6 months	6–12 months	1–3 years	3–5 years	>5 years	Total
Trade payables	(320)					(320)
Total financial liabilities	**(320)**					**(320)**

Maturity profile for financial items:

2016

NOK million	0–6 months	6–12 months	1–3 years	3–5 years	>5 years	Total
Interest rate derivatives			30			30
Total financial assets			**30**			**30**

2016

NOK million	0–6 months	6–12 months	1–3 years	3–5 years	>5 years	Total
Trade payables	(722)					(722)
Total financial liabilities	**(722)**					**(722)**

Note 3

Asset management

Hafslund's asset management shall secure 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 sound return for the owner through strong financial solvency and cash flows.

The available liquidity shall at all times as a minimum cover loan maturities for the coming 12 months. In addition to cash and cash equivalents, the Group's liquidity reserve consists of unused long-term drawdown facilities. Hafslund primarily uses banks and the bond market as borrowing sources. Hafslund has long-term financing and liquidity reserves that ensure financial room to manoeuvre even when it is difficult to gain financing in the markets. At the end of 2017, the Group had unused drawdown facilities deemed sufficient to cover refinancing requirements over the next 12 months. External borrowing has been centralised at parent company level, and the capital needs of subsidiaries are normally covered through internal loans, primarily through corporate cash pooling systems, in combination with equity. The capital structure in the subsidiaries is adapted to commercial, legal and tax-related considerations.

Hafslund does not have an official credit rating, but the Group actively monitors quantitative and qualitative factors that affect the Group's creditworthiness. The Group aims to maintain a credit profile corresponding to a credit rating of BBB+. Hafslund monitors its asset management by following ongoing changes in a number of key figures, including the equity ratio, not interest-bearing liabilities and cash flow from operations.

Other key figures:

NOK million	**2017**	**2016**
Total interest-bearing liabilities	**7,659**	10,063
Total interest-bearing receivables	**1,105**	583
Net interest-bearing liabilities	**6,554**	**9,646**
Equity	**4,762**	9,571
Equity ratio %	**31 %**	36 %
Unused credit lines	**3,002**	3,800

Note 4 / Accounting estimates and judgements

Hafslund prepares estimates and makes assumptions 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:

Distribution of electricity

For a large proportion of the Group's network customers, final settlement relating to distribution of electricity takes place 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. Accrued revenues recognised in the balance sheet at the end of 2017 amounted to NOK 637 million.

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 relate to goodwill. Hafslund performs annual tests to assess impairment of goodwill and property, plant and equipment, see **Note 2.7**. The recoverable amount from cash-generating units is established using calculations of value in use. These calculations require the use of estimates. See **Note 8** for a description of implemented impairment tests.

Fair-value borrowings

Borrowings that are valued at fair value are measured by discounting the borrowings' cash flows. The discount rate applied is the Norwegian swap interest rate, adjusted upwards for Hafslund's margin spreads. Viewed in isolation, the change in credit spreads during 2017 increased the loan portfolio's fair value by NOK 3 million.
See **Note 16** Borrowings.

Pensions

The present value of pension liabilities depends on several different factors that are determined by a number of actuarial assumptions. The assumptions employed for the calculation of the net pension expense (income) include a discount rate. Changes in these assumptions will affect the balance sheet value of pension liabilities. Hafslund determines the applicable discount rate at the end of each year. This is the rate that must be used to calculate the present value of future estimated outgoing cash flows that will be required to settle pension liabilities. When setting this discount rate, Hafslund takes into account interest rates on high quality corporate bonds that will mature at approximately the same time as the relevant pension liability, see also **Note 2.18**.
A number of other pension-related assumptions are partly based on market conditions. Were the discount rate applied to differ by 0.5 percentage points, gross pension liabilities would change by 7 percent. Additional information is provided in **Note 18**.

Note 5

Note 5 / Segment information

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

Hafslund's business is organised into the business areas Networks and Other business. The business area Networks consists of Hafslund Nett AS and the associated companies Rakkestad Energi AS and Trøgstad Energiverk AS.

Other business consists of the parent company Hafslund AS, Bio-El Fredrikstad AS, as well as the associated companies Energy Future Invest AS and Fredrikstad Energi AS.

Management (see **Note 21**) 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. Intersegment sales are concluded in accordance with the arm's length principle.

	Networks		**Other business**		**Eliminations**		**Group**	
NOK million	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**
Sales revenues	**5,066**	**4,757**	**104**	**67**			**5,169**	**4,824**
Operating profit/loss	**1,021**	1,064	**3,170**	(96)	**(3,229)**	(4)	**962**	964
Finance costs	**(53)**	(67)	**(153)**	(81)			**(206)**	(148)
Tax expense	**(165)**	(206)	**21**	50	**1**	1	**(143)**	(155)
Net profit/loss for the year, continuing operations	**803**	**791**	**3,037**	**(127)**	**(3,228)**	**(3)**	**612**	**661**
Depreciation of operating assets	**(661)**	(598)	**(7)**	(40)	**(4)**	(4)	**(672)**	(642)
Impairment of operating assets				(30)				(30)
Amortisation of intangible assets								
Impairment of intangible assets								
Losses on receivables	**(19)**	(25)	**(5)**				**(24)**	(25)
Capital employed	**9,214**	**11,870**	**6,724**	**238**	**(3,535)**		**12,404**	**22,730**
Investments (excluding acquisitions)	**1,578**	1,009					**1,578**	1,455

See also **analytical information** for other key figures for Networks.

Note 5

Reconciliation of capital employed and equity

NOK million	2017	2016
Capital employed	**12,404**	22,730
Tax payable		(356)
Deferred tax liabilities	**(1,089)**	(3,323)
Borrowings	**(7,834)**	(10,338)
Cash and cash equivalents	**1,105**	572
Interest-bearing receivables		12
Other	**175**	275
Equity	**4,762**	**9,571**

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 31 December 2015	**506**	**4,031**	**4,362**	**9,257**	**741**	**114**	**19,011**
2016 accounting year							
Book value 1 January 2016	672	4,017	4,192	9,276	1,040	105	19,302
Investments in operations	23		16		1,432		1,471
Company acquisitions							
Capitalised borrowing costs					19		19
Transferred from facilities under construction	172	10	89	546	(819)		(2)
Disposals (cost)	(22)		(429)	(27)	(14)	(2)	(494)
Disposals accumulated depreciation	22		153	26			201
Disposals accumulated impairments							
Depreciation for the year	(159)	(46)	(159)	(490)		(2)	(856)
Impairments for the year			(31)				(31)
Book value 31 December 2016	**708**	**3,981**	**3,831**	**9,331**	**1,658**	**101**	**19,610**
As of 31 December December 2016							
Cost	2,371	7,370	5,604	16,729	1,676	137	33,887
Accumulated depreciation	(1,663)	(3,389)	(1,375)	(7,398)	(18)	(36)	(13,879)
Accumulated impairments			(398)				(398)
Book value 31 December 2016	**708**	**3,981**	**3,831**	**9,331**	**1,658**	**101**	**19,610**

Table continued

Note 6

NOK million	Technical equipment and chattels	Power facilities	Heating facilities	Networks	Facilities under construction	Other property	Total
2017 accounting year							
Book value as of 1 January 2017	708	3,981	3,831	9,331	1,658	101	19,610
Investments in operations					1,578		1,578
Company acquisitions							
Capitalised borrowing costs					24		24
Transferred from facilities under construction	755			791	(1,546)		
Disposals (cost)	(641)	(7,236)	(5,604)	(154)	(611)	(129)	(14,378)
Disposals accumulated depreciation	578	3,289	1,375	175	18	36	5,471
Disposals accumulated impairments	(62)	(34)	398				302
Depreciation for the year	(163)			(509)			(672)
Impairments for the year							
Book value 31 December 2017	**1,175**			**9,634**	**1,121**	**8**	**11,937**
As of 31 December 2017							
Cost	2,485	134		17,366	1,121	5	21,110
Accumulated depreciation	(1,248)	(100)		(7,732)			(9,080)
Accumulated impairments	(62)	(34)					(96)
Book value 31 December 2017	**1,175**			**9,634**	**1,121**	**8**	**11,937**
Capitalisation rate borrowing costs					**3.9 %**		
Amortisation percentage	**3–33**	**2–5**	**2–10**	**2–7**		**0–5**	

Hafslund has capitalized borrowing costs of NOK 24 million on assets which qualify for it at the end of 2017. The Group's average-weighted interest rate has been applied.
Future investment obligations are estimated at NOK 1,281 million. These primarily relate to deliveries of automatic meter systems.
Please refer to **Note 8** for details of the performed impairment tests.

As of 31 December 2017, Hafslund's total future lease commitments associated with office buildings and transformer substations recognised at nominal value amounted to NOK 872 million (NOK 937 million):

NOK million	
2018	124
2019	125
2020	124
2021	126
2022	122
2023 and later	252
Total lease commitments	872

The leases are operating leases and have varying payment dates, price-regulating clauses, and lease prolongation rights. A total of NOK 145 million was recognised in the income statement in 2017 (NOK 155 million) for the lease of office buildings and transformer substations.

Note 7

Note 7 / Intangible assets

NOK million	Customer portfolios	Waterfall rights	Customer purchase orders	Total	Goodwill	Total intangible assets
Book value 31 December 2015	**117**	**253**	**103**	**473**	**2,497**	**2,970**
2016 accounting year						
Investments in operations			36	36	7	43
Investments in expansion						
Disposals (cost)					(11)	(11)
Disposals accumulated amortisation					3	3
Disposals accumulated impairments						
Amortisation	(14)		(47)	(61)	(2)	(63)
Impairments						
Translation differences	(8)		(2)	(10)	(15)	(24)
Book value 31 December 2016	**100**	**253**	**91**	**444**	**2,436**	**2,880**
As of 31 December 2016						
Cost	221	356	237	814	2,925	3,739
Accumulated amortisation	(121)	(103)	(146)	(370)	(489)	(859)
Accumulated impairments						
Book value 31 December 2016	**100**	**253**	**91**	**444**	**2,436**	**2,880**

Table continued

Note 7

NOK million	Customer portfolios	Waterfall rights	Customer purchase orders	Total	Goodwill	Total intangible assets
2017 accounting year						
Investments in operations						
Disposals (cost)	(221)	(356)	(237)	(814)	(2,272)	(3,086)
Disposals accumulated amortisation	121	103	146	370	460	830
Disposals accumulated impairments						
Amortisation						
Book value 31 December 2017					**624**	**624**
As of 31 December 2017						
Cost					653	653
Accumulated amortisation					(29)	(29)
Accumulated impairments						
Book value 31 December 2017					**624**	**624**
Amortisation period	**10 years**		**3–5 years**			

Please refer to **Note 8** for details of the performed impairment tests.

Note 8 / Impairment testing

Hafslund holds significant tangible and intangible non-current assets. Changes in these assets are presented in Notes 6 and 7. Estimate uncertainty attaches to property, plant and equipment and intangible assets, as both the valuation and estimated useful economic lives are based on forward-looking information that is subject to a major degree of uncertainty. The greatest uncertainty is deemed to attach to intangible assets. The intangible assets do not have a direct "cost" price and the values are derived essentially from the Group's own valuations and are generally recognised in the balance sheet in connection with the acquisition of new business. Residual goodwill is deemed to exist for such acquisitions. The total of all excess values, including goodwill relating to acquisitions, is deemed to equate to the market value (fair value) of the total assets. Tangible assets (property, plant and equipment) are essentially recognised in the balance sheet at cost, and if they have a limited useful life they are systematically depreciated over their useful life.

The book value of intangible assets with an undefined useful life and goodwill is tested annually for impairment. Hafslund constantly monitors for any indications of potential impairment. In case of indications of a possible impairment in value, impairment tests will be performed immediately, and in any case once a year. If the impairment 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 2017 justified the assets' carrying amounts.

The table below shows the book values allocated to the individual cash-generating units at the end of 2017:

NOK million					Impairments			
Cash-generating unit	**Operating assets**	**Intangible assets**	**Goodwill**	**Total book value**	**2017**	**Accumulated**	**Terminal year**	**Growth in terminal year**
Networks	11,907	267	357	**12,531**			2048	0.0 %
Other business	30			**30**		336	2023	0.0 %
Group	**11,937**	**267**	**357**	**12,561**		**336**		

Note 8

Budget and forecast assumptions

The impairment tests performed in 2017 were based on the budget for 2018 and forecasts for the four following years for Other business before the terminal value is established. For Networks, cash flows for a longer period are applied before the terminal value is established. This is attributable to long-term changes in regulatory efficiency (DEA) and the NVE interest rate under the income ceiling model, and planned future investment levels. The current income 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 company's cost of capital and uses a weighted average required rate of return for equity and loan capital. 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 unit. A discount rate before tax for the various cash-generating units has been applied in the interval 5.0 percent to 5.8 percent (5.0 percent to 6.4 percent).

Sensitivity

The sensitivity tests revealed robust values for the Networks business area. Hafslund has carried out sensitivity analyses on the effect of various changes in assumptions on the recoverable amount. The scenarios covered included a 20 percent reduction in the NVE interest rate, lower efficiency (DEA) and an increase of 20 percent in the discount rate. The sensitivity tests revealed robust values for the Networks business area. The robustness of Bio-El Fredrikstad (included in other business) is low at the end of 2017, especially dependent on the outcome of some main value drivers.

Note 9 / Investments in associates

NOK million	Date of acquisition	Registered office	Shareholding	Voting rights
Rakkestad Energi AS	2001	Rakkestad	33 %	33 %
Trøgstad Elverk AS	2014	Trøgstad	49 %	49 %
Kraftcert AS	2014	Lysaker	33 %	33 %
Fredrikstad Energy AS	2014	Fredrikstad	49 %	49 %
Energy Future Invest AS	2012	Gjøvik	50 %	50 %

All associated companies are recognized in accordance with the equity method.
Based on an overall assessment considered size and complexity, Fredrikstad Energi AS is considered to be a significant associated company.

Millioner kroner	Fredrikstad Energi AS	Other	Total
Book value as of 31 December 2015	176	162	338
Share of profits after tax 2016	40	(29)	11
Depreciation excess values 2016		1	1
Additions/disposals		1	1
Dividends	(18)	2	(16)
Book value as of 31 December 2016	**198**	**137**	**335**
Excess value as of 31 December 2016		**8**	**8**

None of the associated companies are listed or have observable market values.

Description of the business in significant associated companies.

Fredrikstad Energi AS
Fredrikstad Energi AS is a norwegian energy group with activities that mainly comprise the construction, operation and maintenance of networks and the sale of energy, mainly in local markets. Fredrikstad Energi AS has its headquarters in Fredrikstad.

Note 9

NOK million	Fredrikstad Energi AS	Other	Total
Book value as of 31 December 2016	198	137	335
Share of profits after tax 2017		10	10
Depreciation excess values 2017	9	(8)	1
Buyout minority	(8)		(8)
Additions/disposals [1]		(42)	(42)
Dividends	(10)		(10)
Book value as of 31 December 2017	**189**	**97**	**285**
Excess value as of 31 December 2017		**7**	**7**

[1] In 2017 Hafslund sold its shareholding in Glommens og Laagens Brukseierforening.

Note 10 / Financial instruments by category

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

NOK million	Derivatives used for hedging purposes	Assets at fair value through profit or loss	Receivables at amortised cost	Total
Financial assets				
Long-term receivables			294	294
Shares and units		19		19
Derivatives		18		18
Trade and other receivables			968	968
Cash and cash equivalents			1,105	1,105
Total financial assets as of 31 December 2017		**37**	**2,367**	**2,404**

NOK million	Derivatives used for hedging purposes	Liabilities at fair value through profit or loss	Other financial liabilities at amortised cost	Total
Financial liabilities				
Current borrowings		783	452	1,236
Long-term borrowings		868	5,732	6,599
Trade and other current payables			1,564	1,564
Total financial liabilities as of 31 December 2017		**1,651**	**7,748**	**9,399**

Table continued

Note 10

NOK million	Derivatives used for hedging purposes	Assets at fair value through profit or loss	Receivables at amortised cost	Total
Financial assets				
Long-term receivables			185	185
Shares and units		20		20
Derivatives	22	165		187
Trade and other receivables			2,852	2,852
Cash and cash equivalents			572	572
Total financial assets as of 31 December 2016	**22**	**185**	**3,609**	**3,816**

NOK million	Derivatives used for hedging purposes	Liabilities at fair value through profit or loss	Other financial liabilities at amortised cost	Total
Financial liabilities				
Current borrowings		896	1,322	2,218
Long-term borrowings		1,707	6,413	8,120
Derivatives	23	125		148
Trade and other current payables			2,904	2,904
Total financial liabilities as of 31 December 2016	**23**	**2,728**	**10,639**	**13,390**

Derivative financial instruments are valued either at fair value through profit or loss or for hedging purposes. Hafslund's interest rate derivatives are recognised at fair value through profit or loss.

Note 11, 12, 13

Note 11 / Long-term receivables, etc.

NOK million	31 Dec 2017	31 Dec 2016
Interest-bearing loans and receivables		1
Paid-in equity pension fund	**116**	116
Net pension assets	**167**	46
Other	**12**	22
Total long-term receivables	**294**	**185**

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

Note 12 / Trade and other receivables

NOK million	31 Dec 2017	31 Dec 2016
Trade receivables	**257**	1,113
Bad debt provision	**(13)**	(50)
Net trade receivables	**244**	**1,063**
Accrued, non-invoiced income	**637**	1,600
Interest-bearing receivables		11
Other receivables	**86**	178
Total trade and other receivables	**968**	**2,852**

The fair value of trade and other receivables corresponds to the book value. See also **Note 3** for further details.

Note 13 / Cash and cash equivalents

NOK million	31 Dec 2017	31 Dec 2016
Cash and cash equivalents group account	**1,104**	236
Cash and cash equivalents non-group account	**1**	181
El-certificate holdings		154
Total cash and cash equivalents	**1,105**	**572**

Hafslund has a corporate cash pool system with Nordea. A corporate cash pool system entails joint and several liability among the participating companies. Hafslund AS's accounts constitute single, direct accounts for transactions with its banks, while deposits into and withdrawals from subsidiaries' accounts are treated as intercompany balances with Hafslund AS.

Note 14, 15

Note 14 / Share capital and share premium

As of 31 December 2017, Hafslund AS had one share category:

NOK million	A shares	B shares	Total shares	Share premium	Total
As of 31 December 2016	115	80	195	4,080	4,275
As of 31 December 2017			**131**	**1,885**	**2,016**

The shares have a par value of NOK 0.67. As of 31 December 2017, Hafslund AS had one share category and a total of 194,922,974 shares. The company's shares are not registered in a securities register.

Shareholders in Hafslund AS at 31 December 2017 was:

‘000 shares	Shares	Shareholding	Voting rights
Oslo Energi Holding AS	194,923	100 %	100 %
Total number of shares	**194,923**	**100 %**	**100 %**

Oslo Energi Holding AS is wholly owned by the City of Oslo.

Hafslund ASA's largest shareholders as of 31 December 2016 comprised the following:

‘000 shares	A shares	B shares	Total	Share-holding	Voting rights
City of Oslo	67,525	37,343	104,868	53.7 %	58.5 %
Fortum Forvaltning AS	37,853	28,706	66,559	34.1 %	32.8 %
Kommunal Landspensjonskasse (KLP)	5,327	4,042	9,369	4.8 %	4.6 %
MP Pensjon PK	5	1,979	1,984	1.0 %	
Total > 1% shareholding	**110,710**	**72,070**	**182,780**	**93.6 %**	**95.9 %**
Total other	4,718	7,688	12,406	6.4 %	4.1 %
Total number of shares	**115,428**	**79,758**	**195,186**	**100 %**	**100 %**

Note 15 / Trade and other current payables

NOK million	31 Dec 2017	31 Dec 2016
Trade payables	**320**	722
Public taxes and charges payable	**824**	1,009
Accrued costs	**365**	519
El-certificates liability		332
Other liabilities	**56**	322
Total trade and other current payables	**1,564**	**2,904**

Note 16

Note 16 / Borrowings

NOK million	31 Dec 2017	31 Dec 2016
Long-term borrowings		
Fixed-interest bonds	**2,308**	3,141
Floating-interest bond	**2,893**	2,614
Accrued interest	**76**	119
Other borrowings	**1,322**	2,246
Total long-term borrowings	**6,599**	**8,120**
Current borrowings		
Fixed-interest bonds	**777**	713
Floating-interest bond		370
Commercial papers		300
Accrued interest	**37**	25
Other borrowings	**420**	809
Total current borrowings	**1,235**	**2,218**
Total borrowings	**7,833**	**10,338**

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 does not include accrued interest. The discount rate applied is the Norwegian swap interest rate, adjusted upwards for Hafslund's credit spreads.

Since 1 January 2010, new borrowings have been measured at amortised cost, and at the reporting date these amounted to NOK 6,114 million. At the same date, the fair value of the borrowings recognised at amortised cost was estimated at NOK 6,363 million.

The nominal value as of 31 December 2017 was NOK 7,659 million. The corresponding amount as of 31 December 2016 was NOK 10,060 million.

The following credit spreads have been applied:

	Credit spreads (basis points)	
Term (years)	**31 Dec 2017**	**31 Dec 2016**
0.25	**28**	50
0.5	**28**	50
1	**30**	50
2	**40**	59
3	**49**	70
4	**58**	82
5	**66**	93
6	**72**	102
7	**78**	110
8	**82**	117
9	**86**	124
10	**90**	130

Viewed in isolation, the change in credit margins during 2017 increased the loan portfolio's fair value by an estimated NOK 3 million. The corresponding change in 2016 was an increase of NOK 18 million.

Note 16

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

NOK million	31 Dec 2017	31 Dec 2016
0–6 months	**5,140**	6,469
6–12 months	**296**	599
1–3 years	**1,197**	1,760
More than 3 years	**1,199**	1,510
Total borrowings	**7,833**	**10,338**

Hafslund has syndicated credit facilities totalling NOK 2,502 million. Facility A is for NOK 504 million maturing in December 2020 and Facility B is for NOK 1,998 million maturing in December 2022. Both the facilities have an option for a one plus one year prolongation. The lender is a banking syndicate comprising six international banks. The credit facilities are used as a back-stop for loan maturities and as a general liquidity reserve. Hafslund also has a bilateral credit facility of NOK 500 million maturing in October 2018. All the credit facilities were unutilised at the reporting date.

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 approval, and an ownership clause requiring more than 50 per cent of shares issued by Hafslund AS or Hafslund Nett AS to be directly or indirectly owned by the City of Oslo.

Debt maturity profile:

NOK million	31 Dec 2017	31 Dec 2016
0–6 months	**1,254**	1,448
6–12 months	**56**	889
1–3 years	**3,210**	3,712
4–5 years	**1,710**	2,215
More than 5 years	**1,603**	2,073
Total borrowings	**7,833**	**10,338**

Movement in borrowings:

NOK million	31 Dec 2017	31 Dec 2016
Total borrowings 1 January	**10,338**	**10,858**
New long-term borrowings	**279**	2,121
Repayments of borrowings	**(2,684)**	(2,142)
Buyback of loans		(400)
Change in accrued interest	**(31)**	(11)
Change in fair value	**(70)**	(87)
Total borrowings 31 December	**7,833**	**10,338**

Note 17 / Tax

Tax expense:

NOK million	2017	2016
Tax payable	**5**	92
Deferred tax	**139**	63
Total tax expense	**143**	**155**

Tax payable in the balance sheet:

NOK million	2017	2016
Tax payable	**5**	92
Repaid tax, change previous year	**(5)**	(3)
Natural resource tax		(39)
Tax payable in the balance sheet		**50**

The tax on the profit before tax deviates from the amount that would have resulted had the Group's average tax rate for general income been applied.

The difference is reconciled below:

NOK million	2017	2016
Profit before tax	**756**	816
Tax calculated at nominal tax rate (24 %/25 %)	**(181)**	(204)
Reduced deferred tax liability at changed tax rate from 2017	**48**	53
Profit from sale or change in value of shares	**1**	3
Change in deferred tax assets not recognised in balance sheet		(7)
Over/underprovision relating to previous years	**(4)**	(6)
Share of profit of associates	**7**	5
Permanent differences	**(1)**	1
Other matters	**(12)**	
Total tax expense	**(143)**	(155)
Effective tax rate	**19 %**	19 %

The change in the effective general corporate taxation rate is primarily attributable to lower deferred tax liabilities as of 31 December 2017 following a reduction in the tax rate from 24 percent to 23 percent from 2018.

Note 17

Deferred tax

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

Change in recognised deferred tax:

NOK million	2017	2016
Book value 1 January	**3,323**	**3,251**
Recognised in income in the period	**139**	63
Exits on company disposals	**(2,389)**	78
Recognised in other comprehensive income in the period	**16**	(63)
Change in deferred tax liability recognised in equity		(6)
Book value 31 December	**1,089**	**3,323**

Change in deferred tax:

NOK million	Pensions	Property, plant and equipment/intangible assets	Current assets	Gains and losses account	Total
Deferred tax liabilities as of 31 December 2015		**3,286**	**43**		**3,329**
Recognised in income in the period		43	(42)		1
Recognised in other comprehensive income in the period			(31)		(31)
Exits on company disposals		6	72		78
Change in deferred tax liabilities recognised in equity			(6)		(6)
Deferred tax liabilities as of 31 December 2016		**3,335**	**36**		**3,371**
Recognised in income in the period	24	170	(36)		158
Recognised in other comprehensive income in the period					
Exits on company disposals		(2,413)			(2,413)
Deferred tax liabilities as of 31 December 2017	**24**	**1,092**			**1,116**

Deferred tax continued

Note 17, 18

Change in deferred tax assets:

NOK million	Pensions	Loans and liabilities	Tax loss carry-forwards	Profit and loss account	Total
Deferred tax assets as of 31 December 2015	**(1)**	**(63)**	**(2)**	**(12)**	**(78)**
Recognised in income in the period	23	63	(28)	4	62
Recognised in other comprehensive income in the period	(34)				(34)
Exits on company disposals					
Translation differences			2		2
Deferred tax assets as of 31 December 2016	**(12)**		**(28)**	**(8)**	**(48)**
Recognised in income in the period	(14)	1		(5)	(18)
Recognised in other comprehensive income in the period	16	(1)			15
Exits on company disposals	10		14		24
Deferred tax assets as of 31 December 2017			**(14)**	**(13)**	**(27)**

Deferred tax assets are recognised for tax loss carry forwards to the extent that it is probable that the Group will be able to utilise these against future taxable profits. The Group has recognised deferred tax assets related to tax loss carryforwards in their entirety.

Note 18 / Pension expenses, liabilities and assets

Group companies operate different pension plans organised through pension funds and insurance companies. The pension plans are generally funded through contributions made by the companies at levels largely determined on the basis of actuarial calculations. The Group operates both defined contribution and defined benefit plans. In accordance with the Norwegian Act on Mandatory Occupational Pension Plans, effective from 1 July 2006, defined contribution agreements have been established in all companies that do not have occupational pension plans for employees. Since 1 January 2010, most of the companies have taken out disability pension insurance for employees with defined contribution pensions. As of 31 December 2017, a total of 303 employees were covered by defined benefit plans through Hafslund and Infratek pension fund. The pension fund also paid pensions to 852 individuals. In addition to the above, the Group has defined contribution plans with various insurance companies. Hafslund reorganised its pension plans with effect from 1 January 2007. As a consequence, the existing pension fund was 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 and Infratek pension fund manages these paid-up policies, which are associated with vesting rights in municipal defined benefit plans. Hafslund is financially committed to adjusting these paid-up policies in line with increases in the National Insurance Scheme's basic amount. From the time paid-up policies earned in other defined benefit plans are issued, Hafslund is released from further obligations towards the employee to whom the policy pertains. Assets and liabilities are valued at the time of issue of the paid-up policy and are separated from pension liabilities and assets.

Table next page

Note 18

NOK million	31 Dec 2017	31 Dec 2016
Liability recognised in the balance sheet:		
Present value of accrued pension liabilities for funded defined benefit plans	**2,033**	2,571
Fair value of pension assets	**(2,200)**	(2,633)
Actual net pension liabilities for funded defined benefit plans	**(167)**	**(62)**
Present value of pension liabilities for unfunded plans	**75**	113
Net pension liabilities in balance sheet (incl. employers' National Insurance contributions)	**(92)**	**52**
Net pension liabilities in balance sheet	**(75)**	(98)
Net pension assets in balance sheet	**167**	46
Changes in the defined benefit pension liabilities during the year:		
Pension liabilities as of 1 January	**2,684**	2,587
Employer's National Insurance contributions	**2**	4
Present value of accrued pension entitlements for the year	**16**	29
Interest expenses	**44**	68
Estimate changes	**(7)**	124
Benefits paid	**(100)**	(128)
Liabilities on sale and purchase of businesses	**(532)**	
Pension liabilities as of 31 December	**2,108**	**2,684**
Change in fair value of pension assets over the year:		
Fair value of pension assets as of 1 January	**2,633**	2,591
Interest income	**45**	70
Estimate changes	**52**	(15)
Total contributions	**67**	92
Total payments from fund	**(98)**	(104)
Pension assets on settlements and acquisitions	**(498)**	
Fair value of pension assets as of 31 December	**2,200**	**2,633**

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 2,258 million as of 31 December 2017 and NOK 2,541 million as of 31 December 2016. Expected contributions in 2018 total NOK 75 million.

Note 18

Movement in actuarial gains and losses recognised in other comprehensive income:

NOK million	2017	2016
Accumulated amount recognised in other comprehensive income 1 January adjusted for deferred tax liabilities	**357**	459
Recognised in other comprehensive income in the period in accordance with the actuarial calculation before tax	**66**	(138)
Additions/disposals of subsidiaries during the period	**(7)**	1
Deferred tax liabilities relating to actuarial losses recognised in other comprehensive income during the period.	**(10)**	34
Accumulated amount after tax recognised in other comprehensive income 31 December	**389**	**356**

The following financial assumptions have been applied:

	2017	2016
Discount rate	**2.30 %**	2.60 %
Yield	**2.30 %**	2.60 %
Annual salary increase	**2.50 %**	2.50 %
Adjustment of National Insurance Scheme's basic amount (G)	**2.25 %**	2.25 %
Adjustments to current pensions, public plan	**1.50 %**	1.50 %

The discount rate is calculated on the basis of an 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 2017, as calculated by the Norwegian Accounting Standards Board. The annual salary increase is calculated based on a curve by reference to historical data. The salary increase is set to an average of 2.5 percent over the service period for the population in Hafslund and Infratek pension fund belonging to Hafslund.

Demographic assumptions that form the basis of the calculations are based on the IR73 disability rate table (restated using the intensity method) and the K2013BE mortality rate table.

The actual yield on pension assets in 2017 amounted to NOK 128 million (NOK 58 million in 2016).

NOK million	2017	2016
Accrued pension benefits for the year	**16**	20
Net interest expense	**(1)**	(1)
Employer's National Insurance contributions	**2**	2
Pension expenses defined benefit plans	**18**	**21**
Pension expenses defined contribution plans	**22**	**9**
Total pension expenses	**40**	**30**

Note 18

Sensitivity of pension liabilities for changes in the weighted financial assumptions are:

		Impact on pension liabilities:	
	Change	**Increase in assumption**	**Decrease in assumption**
Discount rate	0.5 %	(7 %)	7 %
Salary increase	0.5 %	1 %	(1 %)
Adjustment of National Insurance Scheme's basic amount (G)	0.5 %	6 %	(7 %)
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 are made in both Norwegian and foreign shares. Any estimate deviation is distributed pro-rata between the individual asset categories.

Pension assets comprise:

NOK million	31 Dec 2017		31 Dec 2016	
Equity instruments	**1,132**	**48 %**	1,117	42 %
Interest-bearing instruments	**1,243**	**52 %**	1,516	58 %
Fair value pension assets	**2,375**	**100 %**	**2,633**	**100 %**

In 2017 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		815	316	1,132
Interest-bearing instruments		1,243		1,243
Total		**2,058**	**316**	**2,375**

In 2016 the plan's contributions were invested as follows:

NOK million	Level 1 Exchange-listed prices	Level 2 Observable prices	Level 3 Non-observable prices	Total
Equity instruments		821	296	1,117
Interest-bearing instruments		1,516		1,516
Total		**2,337**	**296**	**2,633**

Note 18

Risk

Measurement of defined benefit plans 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.

The pension assets are measured at fair value and are invested in Hafslund and Infratek Pension Fund. The pension fund also includes a business that is not included in the group (Infratek AS), as well as businesses sold to E-CO and Fortum in 2017. In addition, the pension fund includes paid-up policies. Group pension funds are managed as "collective portfolio". This implies that the board of the pension fund decides how pension funds are 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 exposure

Pension assets' exposure to interest rate risk is deemed to be moderate due to the fact that the market value weighted duration is approximately two years. The portfolio value of Hafslund's pension fund would fall by around 1 percent (around NOK 24 million) in the event of a parallel shift in the interest rate curve (interest rate rise) of +0.5 percentage points. The value would rise correspondingly in the event of a fall in interest rates.

The pension liabilities are exposed to interest rate risk, due to the fact that the covered bond interest rate is used as the basis for determining the discount rate. Pension liabilities would rise by around 7 percent (NOK 166 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 148 million) in the event of a 0.5 percentage point rise in interest rates. See also the sensitivity table on the previous page.

Credit risk

Pension funds exposure to credit risk is considered as moderate. Credit risk is controlled through frameworks for greatest commitment and rating on single investments. The main weight of the pension fund's interest rate investments shall be within the "investment grade".
Pension liabilities are exposed to credit risk as the OMF rate is used as the basis for the determination of discount rate. An increase in credit rebates will decrease pension liability.

Equity price risk

The pension assets are invested in equity instruments and shares in various Norwegian and foreign equity funds. A total of 11 percent of the cumulative investments in Hafslund and Infratek Pensjonskasse are exposed to the Norwegian equity market and 22 percent to the global market. In total, 12 percent are invested in property funds. The overall equity exposure varied from 30 to 33 percent throughout the year. In total, equity instruments and shares comprised 48 percent of the overall portfolio at the end of 2017. The pension fund's equity investments are broadly diversified.

Foreign exchange risk

All the investments in foreign fixed-income funds are hedged. Investments are made in hedged funds. Some foreign share investments are hedged. At any one time at least 70 percent of the pension assets in Hafslund's pension fund shall be invested in NOK. As of 31 December 2017, the pension assets were exposed to foreign exchange risk due to the fact that some funds were invested in foreign equities. The pension obligations are only exposed to Norwegian kroner.

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	2017	2016	2015	2014
Present value of defined benefit pension liabilities	**2,108**	2,684	2,587	2,923
Fair value of pension assets	**2,200**	2,633	2,591	2,548
Surplus/deficit	**(92)**	**52**	**(3)**	**375**

Expected maturity for the defined benefit plans:

NOK million	< 1 year	1–2 years	2–5 years	> 5 years	Total
2017	110	107	404	1,488	**2,108**
2016	115	111	422	2,036	**2,684**

Note 19 / Other operating expenses

NOK million	2017	2016
Maintenance	**471**	483
Purchase of services	**81**	74
Rent, power, etc.	**145**	155
Sales and marketing	**6**	7
Other	**455**	377
Total other operating expenses	**1,158**	**1,097**

In 2017, auditors' fees were recognised totalling NOK 3.8 million (NOK 2.7 million in 2016). The fees break down as follows: NOK 1.6 million (NOK 1.8 million) for statutory auditing, NOK 1.3 million (NOK 0.4 million) for other certification services, NOK 0.4 million (NOK 0.1 million) for tax consultancy services and NOK 0.5 million (NOK 0.4 million) for non-auditing services.
In 2017 additional costs were incurred to the auditor in connection with the establishment of Hafslund AS and sale of businesses (see **Note 24**).

Note 20 / Salaries and other personnel expenses

NOK million	2017	2016
Salaries	**238**	248
Employer's National Insurance contributions	**46**	44
Pension expenses – defined benefit plans	**29**	21
Pension expenses – defined contribution plans	**11**	9
Other benefits	**22**	27
Total salaries and other personnel expenses	**346**	**349**

At the end of 2017, Hafslund Group employed a total of 411 full-time equivalents (1,136) and 414 staff (1,155). The significant decrease in the number of employees compared with the previous year is attributable to the business disposals during 2017, as discussed in **Note 24**.

Note 21 / Overview of remuneration paid to senior executives and Board members

The overview shows remuneration paid to senior executives since the establishment of Hafslund AS on 4 August 2017 to 31 December 2017.

Name	Position	Salaries, holiday pay and fees [3]	Bonus [2]	Benefits in kind	Pension expenses	Borrowings 31 Dec 2017
Finn Bjørn Ruyter	CEO	1,764,813	846,300	70,894	65,263	545,000
Heidi Ulmo	CFO	1,226,346	352,621	61,977	79,819	280,000
Kristin Lian	President and CEO Hafslund Nett AS	898,094	293,954	44,745	111,697	320,000
Johan Hovland	Senior Vice President Corporate Communications and Public Affairs	911,324	297,945	49,904	77,299	290,000
Tarjei Lie	Senior Vice President Strategy	843,024	241,384	38,890	69,530	440,000
Tore Sande	Head of Legal	941,191	199,564	22,469	30,699	310,000
Gøril Nordskag Johnsen	Senior Vice President HR	682,816	141,744	26,868	70,532	420,000
Victoria Lervik	Head of Business Development	371,965	37,110	2,721	18,364	
Hilde Tonne	Chair	37,500				
Bente Sollid Storehaug	Board member	18,750				
Jeanette Iren Moen	Board member	18,750				
Odd Håkon Hoelsæter [1]	Board member	49,125				
Bjørn Erik Næss [1]	Board member	18,750				
Per Orfjell	Board member (employee representative)	506,983		16,865	60,671	177,500
Per Luneborg [1]	Board member (employee representative)	301,680		2,685		
Tommy Linder	Board member (employee representative)	264,800		2,685	10,540	

1) Includes remuneration for work in the Audit Committee.
2) Applies to bonus achievement August to December 2017, payable in 2018, and increased vacation base payable in 2019.
3) Wage settlement to mangement in 2017 was equivalent to 2,95 percent.

Note 21

Terms and conditions, CEO

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

Terms and conditions relating to other management

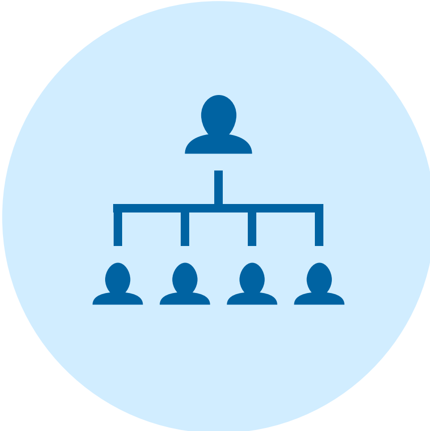
On leaving the company's employment, on certain conditions being met, Ulmo, Lian, Hovland, Lie and Johnsen are entitled to continue receiving salary (severance pay) for 12 months (after their six-month notice period has come to an end), while Sande and Lervik have a three-month notice period. On receipt of salary from any new employer during the severance period, the 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 company targets/business targets, objective individual targets and a subjective individual evaluation. Two other members of Group management are covered by the defined benefit pension plans, while five members are covered by the defined contribution plan. Ulmo, Hovland, Lie, Sande and Lervik 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. Ulmo, Hovland and Lie receive pension compensation for basic salary above 12G. Ulmo, Lian, Hovland and Lie have 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 AS has a dedicated Compensation Committee. The Compensation Committee advises the Board on all matters pertaining to the company's remuneration to the CEO. The Committee keeps up to date on and proposes guidelines for determination of remuneration to senior executives in the business. In addition, the Committee functions as the advisory body for the CEO with regard to compensation schemes that essentially cover all employees, including Hafslund's bonus system and pension plan.

The Board's declaration on determination of salary and other remuneration for senior executives

Remuneration paid to senior executives at Hafslund complies with guidelines and the declaration on determination of salary and other remuneration for senior executives as discussed in Note 22 to Hafslund ASA's annual financial statements for 2016, which are available at www.hafslund.no. Hafslund's guidelines and declaration



Note 22, 23

on determination of salaries and other remuneration for employees complies with guidelines discussed in Note 22 to Hafslund ASA's 2016 annual financial statements. The Board will align the above guidelines and declaration with Hafslund's ownership structure and prepare adjusted guidelines once Hafslund's strategy and further organisation have been finalised.

Note 22 / Finance costs

NOK million	2017	2016
Interest expense borrowings	**252**	263
Change in borrowings recognised at fair value	**(75)**	(87)
Capitalised construction loan interest	**(24)**	(19)
Exchange losses/(gains)	**1**	(35)
Other finance costs	**52**	25
Total finance costs	**206**	**148**

Note 23 / Related party transactions

Hafslund enters into purchase and sales transactions with related parties as part of normal business operations. In 2017 Hafslund bought and sold goods and services from/to the City of Oslo. The City of Oslo owns 100 percent of the shares in Hafslund AS through Oslo Energi Holding AS. Examples of sales to the City of Oslo include network rental. Examples of purchases from the City of Oslo include waste heat from the Norwegian Waste-to-Energy Agency (EGE). Purchases from the City of Oslo relate to discontinued operations. All transactions between the parties are conducted on the arm's length principle.

The table below shows transactions with related parties:

NOK million	City of Oslo	
Income statement:	**2017**	**2016**
Sale of goods and services	**15**	6
Purchase of goods and services	**4**	3
Balance sheet:	**31 Dec 2017**	**31 Dec 2016**
Receivables		19
Purchases recognised as investments		3
Trade payables	**9**	13

Borrowings

Hafslund has a bond loan of NOK 740 million with Oslo Pensjonsforsikring AS, established in 2008. The loan has a ten-year term and was taken out on market terms and conditions and is listed on the Oslo Stock Exchange. Nordic Trustee is counterparty to the agreement. Oslo Pensjonsforsikring AS is a life insurance company that is wholly owned by the City of Oslo. The loan is recognised in Long-term loans, fixed-interest-rate bonds in **Note 16** to the consolidated financial statements.

Note 24 / Business acquisitions and disposals

Disposal of subsidiaries in 2017

On 3 July 2017, the City of Oslo made a voluntary offering for all the shares in Hafslund ASA through its wholly owned subsidiary Oslo Energi Holding AS. After the compulsory acquisition of the shares of minority shareholders, the shares were de-listed from the Oslo Stock Exchange. On 4 August 2017, Hafslund ASA implemented a spin-off pursuant to company law with continuity of shareholders' shares and rights, in which all assets, rights and obligations, apart from those assets, rights and liabilities associated with Hafslund Produksjon, were spun off to the new company Hafslund AS.

From a company-law perspective Hafslund AS is the acquiring company in the spin-off described above. However, for consolidated accounting purposes the financial entity represented by the former Hafslund ASA Group is continued as the reporting entity. Since Hafslund AS acquired three of four business areas in the spin-off, the consolidated financial statements of Hafslund AS are deemed to represent a continuation of the former Hafslund ASA Group. Consequently, the values have not been re-measured in the Hafslund AS Group. The disposal of the power production segment is recognised in the consolidated financial statements as a reduction in equity as a result of the spin-off in the statement of changes in equity. The results of the power production business for the period 1 January 2016 to the spin-off date are recognised under the result from discontinued operations.

Immediately after the spin-off, Hafslund AS sold 100 percent of the shares in the subsidiary Hafslund Marked AS and 50 per cent of the shares in the subsidiary Hafslund Varme AS to Fortum.

The gain on the sale of the shares in Hafslund Market AS is recognised in the consolidated financial statements as the difference between the carrying amount in the Group and the consideration received. The results from the Markets segment for the period 1 January 2016 to the disposal date are recognised in the result from discontinued operations together with the gain.

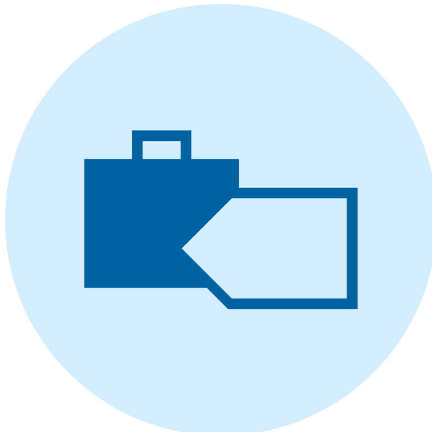
The sale of 50 per cent of the shares in Hafslund Varme AS is recognised in the consolidated financial statements as a sell-off with loss of control. The residual shareholding is measured at fair value, with the resulting upwards revaluation recognised in income. The results from the Heat segment for the period 1 January 2016 to the disposal date are recognised in the result from discontinued operations together with the associated gains.

The residual 50 percent shareholding in Hafslund Varme AS, and receivables due from Fortum following the disposal of the shares in Hafslund Varme AS and Hafslund Marked AS, were distributed as a non-cash asset to Oslo Energi Holding AS as of 30 September 2017. This distribution is recognised at fair value in the consolidated financial statements.

The consideration for all the above transactions was measured at fair value and subject to normal purchase sum calculations. The result from discontinued operations is based on purchase sum calculations available at the balance sheet date. Final purchase calculations and settlement were completed in the fourth quarter of 2017.

Disposal of subsidiaries in 2016

On 25 July 2016, Hafslund completed the sale of Sarpsborg Avfallsenergi AS (SAE) to Sarpsborg Infrastructure AS. SAE is a waste-to-energy plant in Sarpsborg, Østfold county, which delivers energy in the form of industrial steam to the Borregaard industrial area. The agreed purchase sum, on a debt-free basis, was around NOK 280 million. After deduction of transaction costs, the transaction generated an accounting profit of around NOK 14 million, which has been recognised under Other (losses)/gains – net in the income statement for 2016.



Note 25, 26, 27, 28

Note 25 / Contingencies

The Central Tax Office for Large Enterprises has, in a letter of 25 September 2017 to Hafslund Nett AS, notified that they do not agree with the company's tax treatment of expenses related to the installation of new automatic meters (AMS). The company has in a response to the Central Tax Office maintained its position that the company is entitled to direct tax deduction for the expenses in accordance with the submitted tax return for 2016. If the Central Tax Office wins with its arguments, this will entail a change of tax activation of the corresponding balance and deductions in the form of tax depreciation in the future. Expenses of AMS is accounted for as an investment in the balance sheet with related depreciation profile.

Note 26 / Companies included in the scope of consolidation in 2017

Company	Country/registered office	Shareholding/voting rights %
Hafslund Nett AS	Oslo	100
Hafslund Handel AS	Oslo	100
Bio-El Fredrikstad AS	Fredrikstad	100

Note 27 / Events after the reporting period

At the time of the preparation of the financial statements there were no known significant events after the reporting period that are expected to have an impact on the Group's income statement for 2017 or its financial position as of 31 December 17. The City government in Oslo however proposed on 20 March 2018 to combine the ownership of Hafslund and the City of Oslo's wholly-owned energy company E-CO Energi under one board and management. The City council is expected to make a final decisions before the summer 2018.

Note 28 / Business disposals

Please refer to **Note 24** for details of sales of businesses in 2017 and related accounting consequences.

	2017	2016
Operating revenues	**5,428**	8,964
Operating expenses	**4,702**	(7,735)
Operating profit	**727**	**1,229**
Financial expenses	**(5)**	(69)
Profit before tax	**721**	**1,160**
Tax expense	**(244)**	(418)
Profit after tax before sales gain and loss	**477**	**741**
Gain and loss disposed businesses – exempt from taxation	**3,225**	
Result from discontinued operations, after tax	**3,702**	**741**

Financial statements and notes Hafslund AS

Income statement

		4 August – 31 December
NOK million	Notes	**2017**
Operating revenues		**3**
Salaries and other personnel expenses	3, 4	**12**
Depreciation, amortisation and impairments	8	
Other operating expenses	5	**10**
Operating loss		**(19)**
Result of share investments	6	**4,853**
Net financial items	6	**2,535**
Total financial items		**7,387**
Profit before tax		**7,368**
Tax expense	7	**(9)**
Net profit for the year		**7,377**
Appropriations		
Dividends	18	**335**
Transferred (from)/to equity		**7,042**

Hafslund AS was established 4 August 2017 after Hafslund ASA was de-listed from the Oslo stock exchange, and Hafslund AS de-merged from Hafslund ASA.

Balance sheet

		31 December
NOK million	Notes	2017
Assets		
Deferred tax assets	7	**7**
Property, plant and equipment	8	**3**
Shares in subsidiaries	9	**5,148**
Other long-term receivables	4, 10	**2,835**
Total financial assets		**7,984**
Total non-current assets		**7,994**
Trade and other receivables	11	**2,600**
Cash and cash equivalents	17	**334**
Total current assets		**2,934**
Total assets		**10,928**
Equity and liabilities		
Paid-in equity		**2,058**
Retained earnings		**296**
Total equity	18, 19	**2,354**
Deferred tax liability	7	
Provisions		
Long-term interest-bearing liabilities	14, 15	**7,659**
Total long-term liabilities and provisions		**7,659**
Current interest-bearing liabilities	12	**423**
Trade and other current payables	13	**157**
Proposed dividend	18	**335**
Total current liabilities		**915**
Total equity and liabilities		**10,928**

The Board of Directors of Hafslund AS
Oslo, 21 March 2018

Hilde Tonne
Chairman of the Board

Bente Sollid Storehaug

Odd Håkon Hoelsæter

Jeanette Iren Moen

Bjørn Erik Næss

Per Orfjell

Per Luneborg

Tommy Linder

Finn Bjørn Ruyter
CEO

Statement of cash flow

		4 August – 31 December
NOK million	Notes	**2017**
Profit before tax		**7,368**
Depreciation, amortisation and impairments	8	
Tax paid	7	
Income statement items adjusted for liquidity effects	6	**(6,353)**
Change in working capital etc.		**(718)**
Net cash flow from operating activities		**297**
Investments in operating assets	8	
Purchase of shares	6	
Proceeds from disposal of shares		**3,073**
Change in long-term receivables		
Net cash flow from investing activities		**3,073**
New long-term borrowings		
Repayment of borrowings	14	**(2,948)**
Change in other long-term liabilities		
Dividends paid	18	**(88)**
Net cash flow from financing activities		**(3,036)**
Net change in cash and cash equivalents		**334**
Cash and cash equivalents as of 4 August		
Cash and cash equivalents as of 31 December		**334**

Note 1 / Accounting policies

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

Operating revenues

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

Classification

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

Investments in subsidiaries, associates and joint ventures
Investments in subsidiaries, associates and joint ventures are valued in accordance with the cost method. Assets are written down to fair value when impairments are attributable to causes not deemed to be temporary in nature and such is necessary in accordance with generally accepted accounting practice. Impairments are reversed when the basis for the impairment no longer exists. Dividends and other distributions received from subsidiaries are recognised as financial income.

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 accumulated 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 consolidated financial statements Note 2.18. Hafslund AS has opted to switch to NRS 6A, which refers to IAS 19, regarding the accounting treatment of pension expenses.

Note 1, 2, 3

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

Financial derivatives
The accounting treatment adopted for financial derivatives depends on the purpose of the underlying agreement. Currency derivatives are considered cash items and recognised at fair value. Unrealised gains/losses are recognised in the income statement.

Liabilities
Liabilities 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 starting point of the statement is the entity's result for the year in order to be able to present cash flows from ordinary operating activities, investing activities and financing activities, respectively.

Note 2 / Material individual transactions

Hafslund AS was established 4 August 2017 after Hafslund ASA was de-listed from the Oslo stock exchange, and Hafslund AS de-merged from Hafslund ASA. Hafslund Markets, Hafslund Heat and Hafslund Production business areas were sold to Fortum, E-CO and the City of Oslo effective 4 August. Following the transaction, Hafslund AS main business comprises Hafslund Networks. Hafslund AS also owns a waste-to-energy plant in Fredrikstad; Bio-El Fredrikstad AS, and part-owns network and energy companies in Østfold and in Hafslund's previous venture activities. The company is headquartered in Oslo.

Note 3 / Salaries and other personnel expenses

	4 August – 31 December
NOK million	**2017**
Salaries	**9**
Employer's National Insurance contributions	**1**
Pension expenses (**Note 4**)	**1**
Other benefits	**1**
Total salaries and other personnel expenses	**12**
Number of employees as of 31	**10**

Information on remuneration paid to the Board of Directors and senior executives can be found in **Note 21** to the consolidated financial statements.

Note 4 / Pension expenses, assets and liabilities

Hafslund AS is obliged to operate pension plans for its employees in accordance with the Norwegian Act on Occupational Pension Plans. The company operates pension plans that satisfy the requirements of this Act and the plans cover both defined benefit and defined contribution plans. As of 31 December 2017, the company's pension plans covered a total of ten employees, three of whom were in a public plan, one was in a private plan and six were in a defined contribution plan. The defined benefit plans 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 plans are funded either through Hafslund's and Intratek pension fund, through insurance companies or directly by the companies.

NOK million	2017
Pension expenses	
Present value of accrued pension entitlements for the year	1
Interest expense on pension liabilities	
Yield on pension assets	
Plan changes recognised in income statement	
Pension expenses defined benefit plans	**1**
Employer contributions	
Total pension expenses	**1**

	31 Dec 2017
Liability recognised in the balance sheet	
Present value of accrued pension liability for funded defined benefit plans	41
Pension fund assets	(48)
Actual net pension liability/asset for funded defined benefit plans	**(7)**
Present value of pension liabilities for unfunded plans	3
Net pension liability (asset) in the balance sheet	**(4)**
Gross pension liability recognised in the balance sheet	3
Gross pension assets in balance sheet	(7)
Net pension liability 1 January	
Pension expense for the year	
Pension payments and payment of pension premiums	1
Actuarial losses/(gains) recognised in equity	(6)
Net pension liability (asset) 31 December	**(4)**
Assumptions	**2017**
Discount rate	2.30 %
Expected yield on pension assets	2.30 %
Annual salary increase	2.50 %
Adjustment of National Insurance Scheme's basic amount (G)	2.25 %

The discount rate is calculated on the basis of an 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 2017, as calculated by the Norwegian Accounting Standards Board.

The annual salary increase is calculated based on a curve by reference to historical data. The salary increase is set to an average of 2.5 percent over the service period for the population in Hafslund's pension fund. See also **Note 18** to the consolidated financial statements for further details.

Note 5, 6

Note 5 / Other operating expenses

NOK million	2017
Purchase of services	6
Rent, power, etc.	
Sales and marketing	
Operating and maintenance	
Operation of ICT services	
Other operating expenses	3
Total other operating expenses	**10**

Fees paid to auditors recognised in the income statement in 2017 (excluding VAT) amounted to NOK 1.0 million. The fees relate to the following:

- Statutory auditing NOK 0.15 million.
- Tax consultancy NOK 0.03 million.
- Other certification services NOK 0.63 million.
- Other consultancy services NOK 0.15 million.

Note 6 / Result of share investments and net financial items

NOK million	2017
Gain/(loss) on the sale of shares in subsidiaries	4,853
Profit/loss on share investments	**4,853**
Interest income	38
Interest expenses	88
Group contributions	37
Exchange gains/(losses)	
Other finance income/(costs)	(9)
Dividend from subsidiary	2,557
Net financial items	**2,535**

Note 7

Note 7 / Tax expense

NOK million	2017
Profit before tax	**7,368**
Permanent differences	**4**
Non-taxable gain/(loss) on sale of shares in subsidiary	**(7,409)**
Estimate deviations on pensions recognised in equity	**6**
Change in temporary differences	**(4)**
Tax basis before application of tax loss carryforward and Group contributions	**(36)**
Group contributions, net of tax	
Tax basis, tax payable	
The total tax expense comprises:	
Tax payable	
Change in deferred tax liabilities	**(7)**
Deferred tax on estimate deviations for pensions recognised in equity	**(1)**
Tax expense	**(9)**

Reconciliation of tax rate:	
Profit before tax	**7,368**
Expected tax expense at nominal tax rate	**1,768**
Tax effect of non-taxable income and non-deductible expenses	**(1,777)**
Effect of change in tax rate	
Tax expense	**(9)**
Basis deferred tax liabilities/assets	
Temporary differences	**(1)**
Operating assets	**2**
Accrued pension liabilities	**7**
Gains and losses account	**(4)**
Change in temporary differences	**4**
Tax loss carryforwards	**36**
Basis deferred tax liabilities/assets	**40**
Deferred tax assets recognised in the balance sheet	**9**

Note 8, 9

Note 8 / Property, plant and equipment

NOK million	Buildings
Book value as of 4 August 2007	**3**
Investments	
Transferred from facilities under construction	
Disposals (cost)	
Disposals accumulated depreciation	
Depreciation for the year	
Book value as of 31 December 2017	**3**
Cost	8
Accumulated depreciation and impairments	(5)
Book value as of 31 December 2017	**3**
Depreciation percentage	0-5 %

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 2017	Book value 31 Dec 2017
Hafslund Nett AS	2009	Oslo	100	6,259	4,829
Hafslund Handel AS	1986	Oslo	100	1,250	304
Bio-El Fredrikstad AS	2014	Fredrikstad	100	18	15
Total shares in subsidiaries				**7,527**	**5,148**

Note 10, 11, 12, 13

Note 10 / Other long-term receivables

NOK million	31 Dec 2017
Net pension assets in balance sheet (see Note 4)	4
Contributions to pension funds	116
Loans to Group companies	2,715
Total other long-term receivables	**2,835**

Note 12 / Current interest-bearing liabilities

NOK million	Liabilities as of 31 Dec 2017
The Group overdraft facility relates to drawdowns at subsidiaries	423
Total current interest-bearing liabilities	**423**

Note 11 / Trade and other receivables

NOK million	31 Dec 2017
Trade receivables	3
Receivable due from Group companies	2,594
Other receivables	3
Total trade and other receivables	**2,600**

Note 13 / Trade and other payables

NOK million	31 Dec 2017
Trade payables	2
Accrued interest	114
Other non-interest-bearing liabilities	13
Liabilities due to other Group companies	28
Total trade and other current payables	**157**

Note 14 / Long-term interest-bearing liabilities

NOK million	Interest % as of 31 Dec 2017	Liabilities as of 31 Dec 2017
Fixed-interest bonds	3.7–6.3	3,024
Variable-interest bond loans	1.3–5.6	2,893
Other borrowings	1.4–2.0	1,742
Total long-term interest-bearing liabilities		**7,659**

NOK million	2018	2019	2020	2021	2022	Later	Total
Maturity profile, long-term interest-bearing liabilities Hafslund AS	1,189	2,006	1,151	1,240	470	1,603	**7,659**

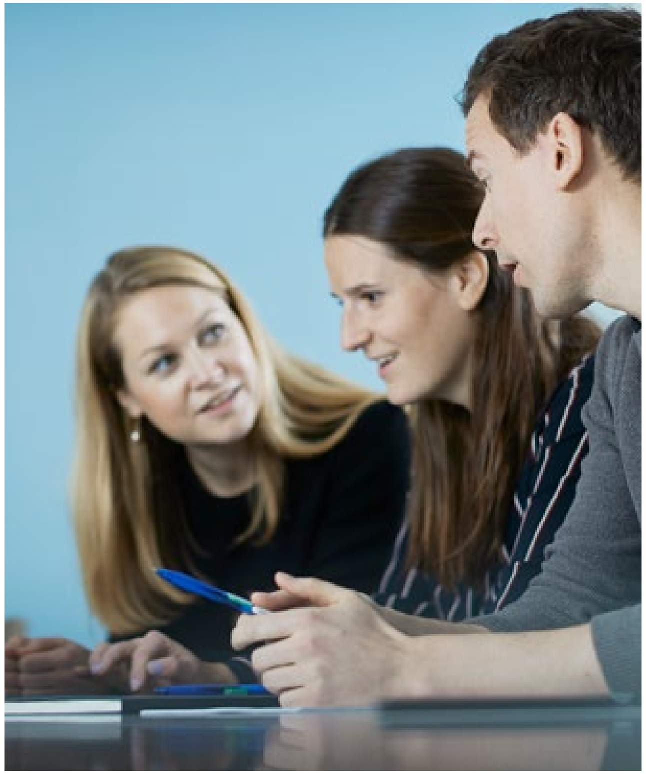
Hafslund has syndicated drawdown facilities totalling NOK 2,502 million. Facility A is for NOK 504 million maturing in December 2020 and Facility B is for NOK 1,998 million maturing in December 2022. Both the facilities have an option for a one plus one-year prolongation. The lender is a banking syndicate comprising six international banks. The drawdown facilities are used as a back-stop for loan maturities and as a general liquidity reserve.

Hafslund also has a bilateral drawdown facility of NOK 500 million maturing in October 2018. All the drawdown facilities were unutilised at the reporting date.

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 approval, while some have an ownership clause requiring more than 50 percent of shares issued by Hafslund AS or Hafslund Nett AS to be directly or indirectly owned by the City of Oslo.

Note 15 / Related parties

Hafslund has a bond loan of NOK 740 million with Oslo Pensjonsforsikring AS, established in 2008. The loan has a ten-year term and was taken out on market terms and conditions and is listed on the Oslo Stock Exchange. Nordic Trustee is counterparty to the agreement. Oslo Pensjonsforsikring AS is a life insurance company that is wholly owned by the City of Oslo. The loan is recognised under fixed-interest bond loans in Long-term borrowings in Note 16 to the consolidated financial statements.



Note 16, 17

Note 16 / Risk management and financial derivatives

The table below shows outstanding interest rate swaps as of 31 December 2017 (NOK million):

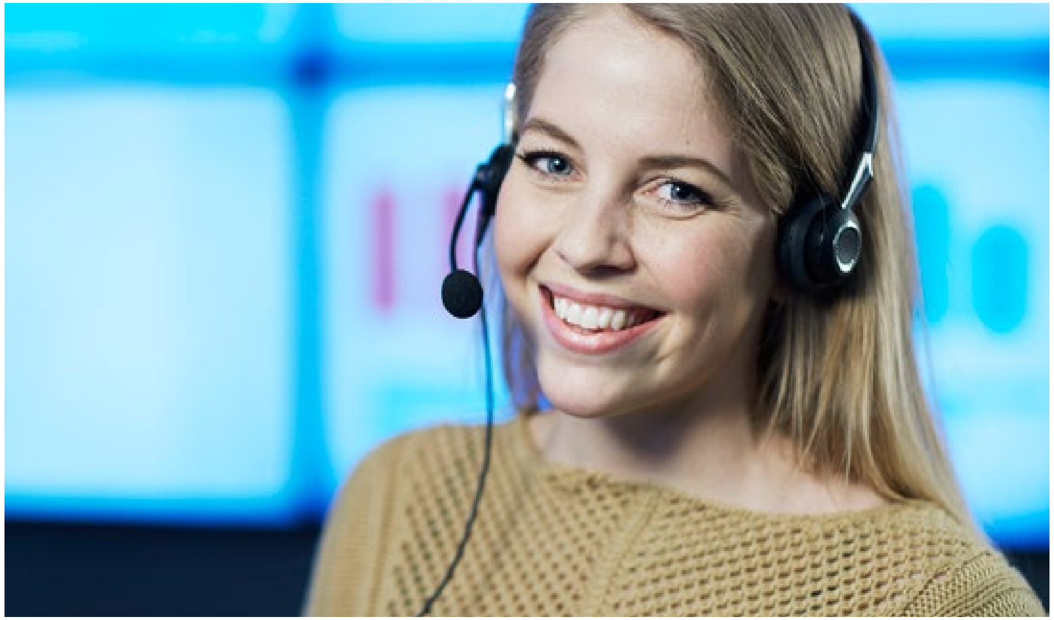
NOK million

Currency	Amount	Hafslund pays		Hafslund receives		Start	Maturity
NOK	500	Floating	6M Nib+200	Fixed/annual	6.30 %	21 Jan 2009	21 Jan 2019

At the reporting date, the fair value of interest rate swaps amounted to NOK 18 million. This amount excludes accrued interest.

Note 17 / Guarantees

The Group purchases bank guarantees to secure some liabilities. As of 31 December 2017, these guarantees amounted to NOK 21 million for tax deduction guarantees, NOK 51 million for premises rental guarantees and NOK 0.5 million for contract performance and payment guarantees.



Note 18, 19

Note 18 / Equity

NOK million	Share capital	Share premium	Other paid-in equity	Other equity	Total paid-in equity and retained earnings
Equity 4 August 2007	**131**	**1,885**	**42**	**(162)**	**1,896**
Dividend payable to Oslo Energi Holding AS				(88)	(88)
Property dividend				(6,500)	(6,500)
Provision for ordinary dividend for the 2017 financial year				(335)	(335)
Estimate deviations on pensions recognised in equity				4	4
Profit for the year				7,377	7,377
Equity 31 December 2017	**131**	**1,885**	**42**	**296**	**2,354**

Note 19 / Share capital and shareholder information

Please refer to **Note 14** to the consolidated financial statements.

Note 20 / Events after the end of the reporting period

Please refer to **Note 27** to the consolidated financial statements for information on events after the end of the reporting period.

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 2017 have been prepared in accordance with IFRSs as adopted by the EU, including additional disclosures pursuant to the Norwegian Accounting Act.
- The parent company's 2017 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 AS
Oslo, 21 March 2018

Hilde Tonne
Chairman of the Board

Bente Sollid Storehaug

Bjørn Erik Næss

Jeanette Iren Moen

Odd Håkon Hoelsæter

Per Luneborg

Per Orfjell

Tommy Linder

Finn Bjørn Ruyter
CEO

Auditor's report

To the General Meeting of Hafslund AS

Independent Auditor's Report

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Hafslund AS. The financial statements comprise:

- The financial statements of the parent company, which comprise the balance sheet as at 31 December 2017, and the income statement and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and
- The financial statements of the group, which comprise the balance sheet as at 31 December 2017, and income statement, statement of comprehensive income, statement of changes in equity, cash flow for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion:

- The financial statements are prepared in accordance with the law and regulations.
- The accompanying financial statements give a true and fair view of the financial position of the parent company as at 31 December 2017, and its financial performance and its cash flows for the year then ended in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway.
- The accompanying financial statements present fairly, in all material respects, the financial position of the group as at 31 December 2017, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Basis for Opinion

We conducted our audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company and the Group as required by laws and regulations, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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Statsautoriserte revisorer, medlemmer av Den norske Revisorforening og autorisert regnskapsførerselskap

Key Audit Matter	How our audit addressed the Key Audit Matter
Accrued revenues (see group financial statements note 4 and 12)	
We have focused on accrued revenues because a share of the recognised revenues are estimated. The estimate reflects the fact that a measurement of actual distributed power volume does not exist for all customers at period end. The estimate for accrued revenue represent 637 MNOK as per 31.12.2017, which is about 15 % of total revenue related to distribution of power for the year 2017. The estimate for accrued revenue is calculated in a forecasting model which is based on distributed power volume to the power grid. The model also contains estimates on grid loss and estimated allocation of delivered power volume and price for the period for each customer group. The allocation of delivered power volume and price for each customer group is based on historical data on actual delivered volume. The allocation is, despite being based on historical data, considered an estimate where the final delivered volume will deviate from the original estimate.	We assessed and tested internal controls directed at ensuring that all the delivered volumes are measured or stipulated and included in the calculation of actual and estimated accrued revenues. Our tests did not reveal any significant deviations. We reviewed and assessed the company's calculation of accrued revenue. We tested that the input for distributed power volume to the power grid is consistent with the basis and that grid loss seems reasonable compared to historical data. Furthermore, we reviewed the statement showing accrued revenues for each customer group compared to previous years to assess whether the change appears reasonable, and we tested managements monitoring of the deviations from previous estimates. We also tested the price for the period for each customer group and compared this to previous years , as well as to expected changes due to price changes. In addition we compared the company's estimate of accrued revenue for 2017 against what was billed in 2018 for 2017. The difference between the estimate and that billed was within a reasonable range. We also examined Hafslund's reconciliation of accrued revenue against the forecast model and the recognised income in the financial statements.
Transactions and restructuring (see group financial statements note 24 and 28)	
Oslo Municipality and Fortum entered into an agreement on 26 April 2017 which included management of ownership and cooperation of Hafslund ASA. The agreement included a delisting of Hafslund ASA from the Oslo Stock Exchange with a subsequent restructuring of ownership. To be able to delist Hafslund ASA from the Oslo Stock Exchange, Oslo Municipality made a voluntary offer for all the shares in Hafslund ASA through its wholly-owned company Oslo Energi Holding AS. After Oslo Energi Holding AS gained control of all the shares in Hafslund ASA, the company was restructured by a demerger where all	We obtained and reviewed relevant corporate law documents that form the basis of the transactions, and also held meetings and discussions with management and their advisors. We focused our intention on whether the accounting principles chosen by the management were in accordance with the underlying facts and circumstances of the transactions, the requirements of IFRS and that the tax consequences were assessed. We challenged management's assessment through discussions and meetings throughout the process. The most important accounting principle being addressed was whether the establishment of the Hafslund AS group should be regarded as a transaction

Auditor’s report

assets, rights and obligations, apart from the assets, right and obligations of Hafslund Produksjon AS, were demerged into the new company Hafslund AS.

Following the completion of the voluntary offer and the demerger of Hafslund ASA, Oslo Municipality and Fortum completed a number of transactions in the new Hafslund AS, including the sale of shares in Hafslund Marked to Fortum and the sale of shares in Hafslund Varme to Fortum and Oslo Municipality.

Because of the size of the transactions and the inherent accounting and corporate complexity, we have focused on this matter in the audit of the Hafslund AS Group.

with the related measurement at fair value or a continuation of the former Hafslund ASA group. Management has assessed and concluded that the establishment of the group is to be regarded as a continuation of the former Hafslund ASA Group, with the corresponding use of comparative numbers. We agreed with management’s assessment, and the chosen accounting principle meets the criteria of IFRS.

We also conducted tests to assess whether all transactions resulting from the restructuring of the ownership of the former Hafslund ASA Group had been accurately and completely registered and presented in the financial statements of Hafslund AS Group. This also included an assessment of whether the presentation in the financial statements meets the requirements of IFRS and reflects the underlying facts and circumstances of the transactions.

Other information

Management is responsible for the other information. The other information comprises the Board of Directors’ report, statements on Corporate Governance and Corporate Social Responsibility (in chapter “Report from the Board of Directors 2017”) and other information (in chapter “Message from the CEO” and “Analytical information Hafslund Nett”) but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors and the Managing Director for the Financial Statements

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

In preparing the financial statements, management is responsible for assessing the Company’s and the Group’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern. The financial statements of the parent company use the going concern basis of accounting insofar as it is not likely that the enterprise will cease operations. The financial statements of the group

use the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor’s Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error. We design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company and the Group's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- conclude on the appropriateness of management’s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company or the Group’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor’s report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the Company or the Group to cease to continue as a going concern.
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Board of Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor’s report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

Opinion on the Board of Directors’ report

Based on our audit of the financial statements as described above, it is our opinion that the information presented in the Board of Directors’ report and in the statements on Corporate Governance and Corporate Social Responsibility concerning the financial statements, the going concern assumption, and the proposal for the allocation of the profit is consistent with the financial statements and complies with the law and regulations.

Opinion on Registration and Documentation

Based on our audit of the financial statements as described above, and control procedures we have considered necessary in accordance with the International Standard on Assurance Engagements *(ISAE) 3000, Assurance Engagements Other than Audits or Reviews of Historical Financial Information*, it is our opinion that management has fulfilled its duty to produce a proper and clearly set out registration and documentation of the Company and the Group’s accounting information in accordance with the law and bookkeeping standards and practices generally accepted in Norway.

Oslo, 21 March 2018

PricewaterhouseCoopers AS

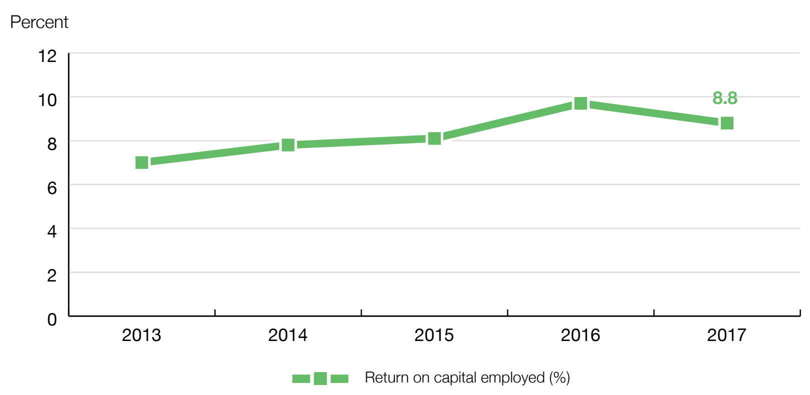
Thomas Fraurud

State Authorised Public Accountant

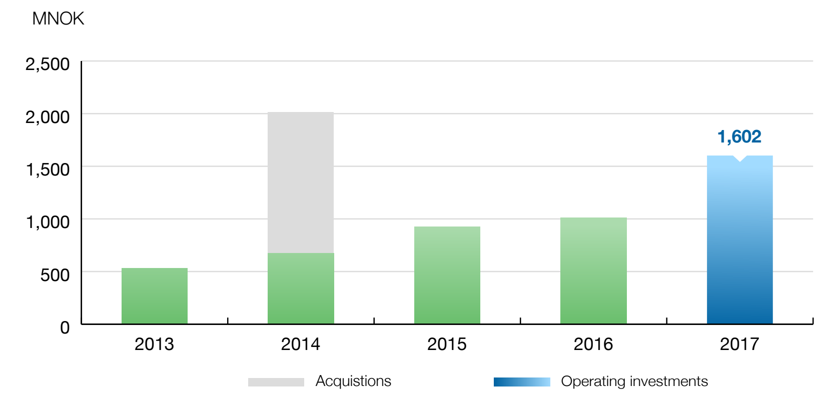
Note: This translation from Norwegian has been prepared for information purposes only.

Analytical information Hafslund Nett (Networks)

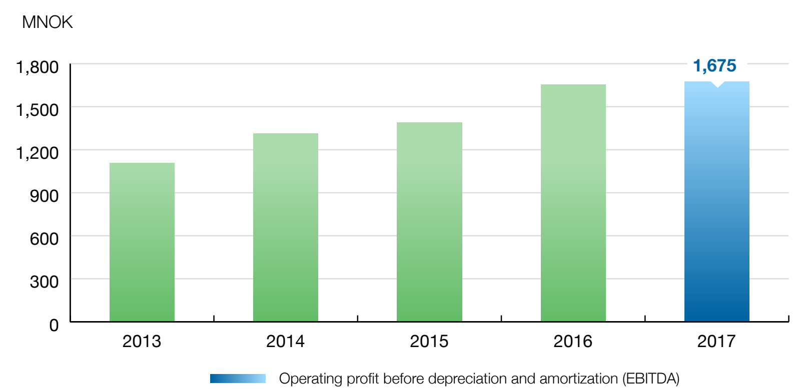
Return on capital employed (%) Nett



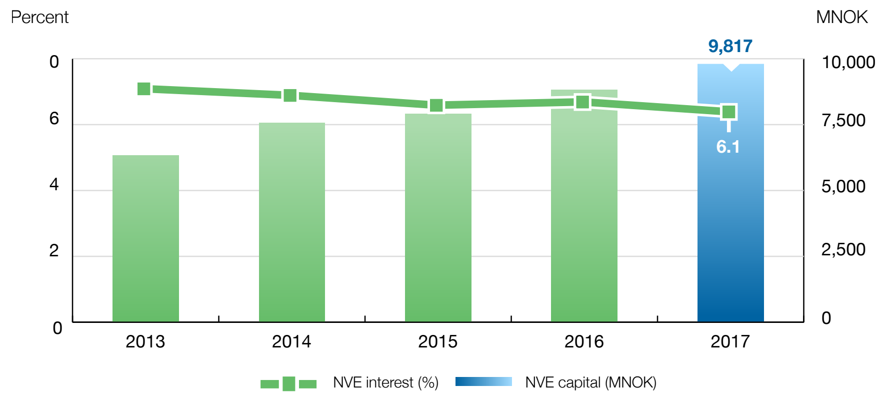
Investments Nett



EBITDA Nett



NVE interest (%) and NVE capital (MNOK)



Note: Figures for 2013-2016 represent the former Networks business segment of the Hafslund ASA Group.

Analytical information Hafslund Nett (Networks)

NOK million	Definition	2017	2016	2015	2014	2013
INCOME STATEMENT						
Sales revenues		5,066	4,757	4,361	4,147	4,052
Purchases of goods and energy		(2,031)	(1,729)	(1,418)	(1,318)	(1,554)
Personnel expenses		(266)	(228)	(261)	(206)	(194)
Other operating expenses		(1,095)	(1,145)	(1,294)	(1,310)	(1,197)
EBITDA		1,675	1,654	1,388	1,314	1,107
Depreciation, amortisation and impairments		(661)	(598)	(566)	(557)	(488)
Operating profit		1,014	1,056	822	757	619
OTHER KEY FIGURES						
Investments		1,602	1,009	926	674	532
Capital employed	1	12,608	11,870	11,116	10,537	9,325
Return on capital employed (ROCE)	2	8.8 %	9.7 %	8.1 %	7.8 %	7.0 %
Energy deliveries to end customers (TWh)		19.6	19.5	19.0	17.5	17.1
Average tariff distribution network, excl. charges (NOK/kWh)		0.24	0.22	0.20	0.20	0.20
Volume of network losses (GWh)		1,212	1,295	986	961	1,128
Costs not covered by income ceiling	5	1,610	1,315	1,166	1,021	1,101
Number of customers ('000)		709	697	689	683	571
Number of employees as of 31 Dec		402	360	319	347	248
REGULATORY MATTERS						
NVE capital		9,817	8,818	7,907	7,567	6,324
NVE interest		6.1 %	6.4 %	6.3 %	6.6 %	6.8 %
Permitted income	3	4,457	5,094	3,995	3,668	3,824
CNES cost	4	87	77	72	87	68
Accumulated income surpluses/(shortfalls) as of 31 Dec	3	387	187	873	701	312

Definitions

1. Capital employed = Equity + Net interest-bearing debt + Net tax positions.
2. Return on capital employed = Operating profit / Average 12-month capital employed.
3. See comment in Note 2.20 b to the annual financial statements.
4. CNES cost = Quality adjustment of revenue ceiling for energy not supplied.
5. Costs not covered by income ceiling = costs to Statnett, other networks, ENOVA, etc.

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