Annual report 2020

Hafslund Eco

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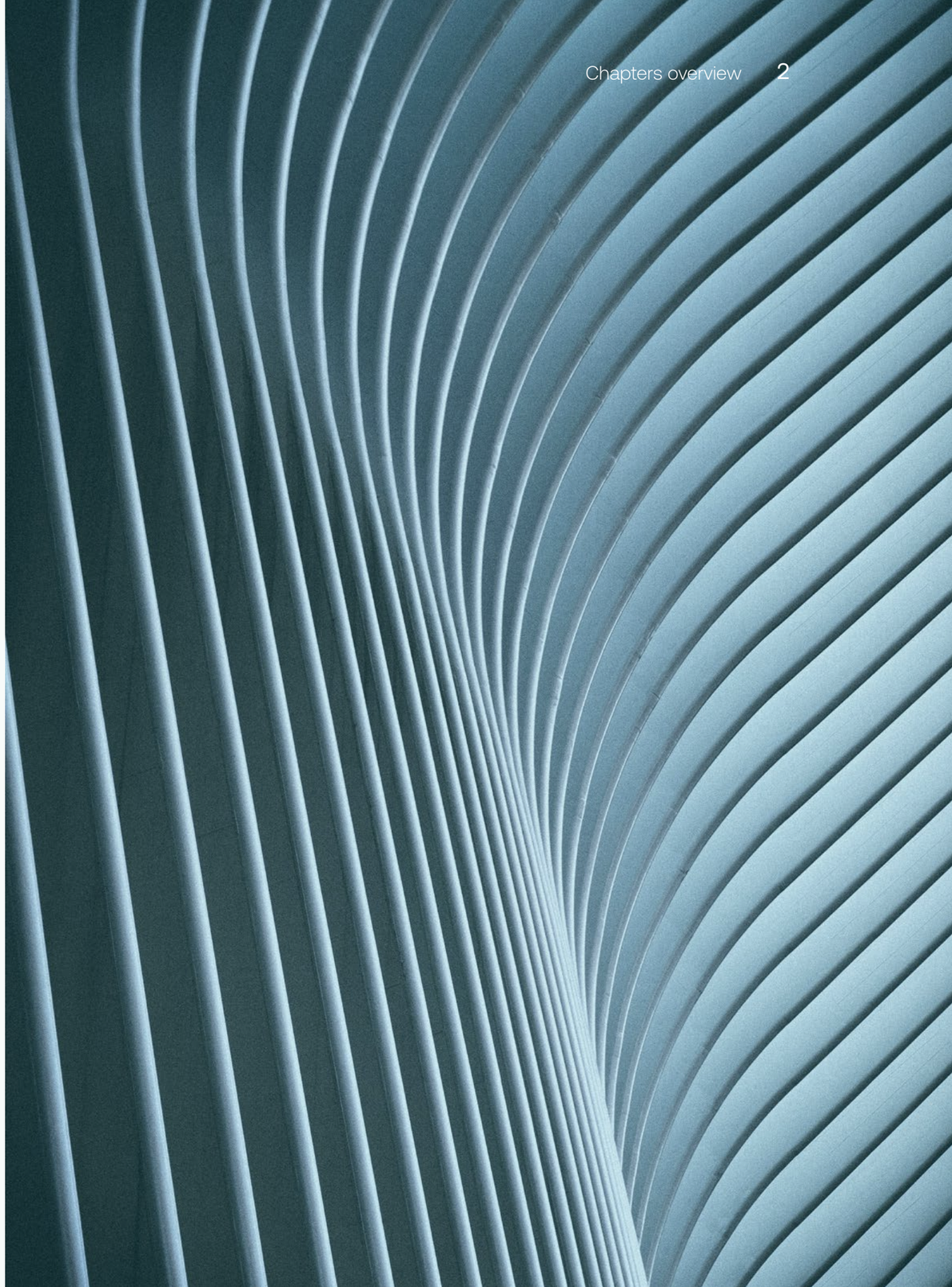


Important events in 2020

Result impacted by historically low power prices

An unpredictable and dramatic change in the weather at the start of the year triggered a record fall in power prices that persisted throughout the year. Mild, wet and windy weather with high volumes of snow and reduced transmission capacity resulted in extremely low power prices. This is reflected in the post-tax profit for the year of NOK 1,040 million, which was significantly lower than the previous year (NOK 2,160[1] million). However, power hedging, increased power production volume and stable earnings from Eidsiva Energi contributed to strengthening the overall result.

Solid contribution from Eidsiva Energi

In autumn 2019, Hafslund Eco went from having a grid operator as an integral part of its core operations to holding a 50 per cent shareholding in Eidsiva Energi. Eidsiva Energi owns Norway's largest grid operator, Elvia, and bioenergy and broadband businesses. The shareholding in Norway's largest grid operator with publicly regulated revenues makes a good and relatively predictable contribution to consolidated results. Good planning and implemented COVID-19 measures have contributed to maintain stable operations. Eidsiva Energi aims to achieve a good, long-term return, be a secure supplier of power and fibre broadband services, develop renewable energy and contribute to growth and development.

COVID-19 and extreme weather conditions

On 12 March, Hafslund Eco established an emergency response organisation to deal with the outbreak of the COVID-19 pandemic. The company has continually adapted its infection prevention measures to meet the authorities' requirements. Mild weather and high volumes of snow and precipitation resulted in lengthy periods of flooding and demanding working conditions. Thanks to a contingency-based and adaptable organisation, the company was able to maintain full and efficient operations throughout the year. Significant efforts have been made by all employees in a demanding year.

Integration and re-branding

Integration of two strong hydropower production resource pools following the completion of the transaction with Eidsiva Energi in autumn 2019 was a key focus area during the year. Establishing a new organisation, work on values and culture, the roll-out of a shared IT platform and management systems, identifying measures to leverage economies of scale and re-branding the Group to create a common identity are some of the activities implemented or are continued to enable Hafslund Eco to exploit new opportunities.

1 TWh new renewable power production from 2021

Hafslund Eco will complete six power construction projects between 2018 and 2021: Rosten power plant, Vamma 12, Nedre Otta, Tolga, Mork and Hinøgla. Nedre Otta entered operation in 2020 and Tolga, Mork and Hinøgla will be commissioned in 2021. Together, these will generate an increase of around 1 TWh of renewable energy production each year. In addition, several upgrading and dam refurbishment projects are completed.

Joint venture within offshore wind power

Towards the end of the year, Hafslund Eco and Fred. Olsen Renewables entered a joint venture to construct offshore wind power in Norway. Initially, the joint venture will apply for licences to develop offshore wind power on the Norwegian shelf, where the government has opened two areas for the construction of offshore wind power, Utsira Nord and Sørlige Nordsjø II. While Hafslund Eco has leading expertise and experience in renewable power production, the power market and infrastructure, Fred. Olsen Renewables is a leader in wind power and offshore installations and activities.

New Energy and 10,000 charging stations

New Energy has continued its focus on Ladeklar (Fully charged – construction and operation of electrical vehicle infrastructure for housing associations and jointly owned buildings), and its consultancy business Hafslund Rådgivning in order to contribute to the electrification of society. At the end of the year, the business area opened its 10,000th charging station and the organisation has been reinforced to manage further growth. New Energy wishes to expand into new customer groups and new geographical markets. Satisfied customers, efficient operations and further growth are all critical success drivers in this context.

[1]The profit after tax for 2019 has been adjusted for a gain on the sale of Hafslund Network of NOK 4,351 million.

Key figures

NOK million	2020	2019
FINANCIAL KEY FIGURES[1]		
Revenues	3,198	10,437
EBITDA	2,297	6,072
Operating profit (EBIT)	1,805	5,060
Underlying operating profit	1,635	4,322
Profit before tax	1,163	8,773
Profit after tax	1,040	6,511
Gain from sale of Hafslund Nett	-	-4,351
Profit after tax adjusted for result from sale of Hafslund Nett	1,040	2,160
Net interest-bearing debt	13,280	10,340
Subordinated debt (not included in net interest-bearing debt)	5,364	5,764
Equity	25,838	25,645
Total assets	57,807	57,812
Capital employed	45,059	43,813
Investments in fixed assets (continuing operations)	622	701
ROE (%)	4.0 %	8.4 %
ROCE (%)	4.1 %	11.5 %
Net interest-bearing debt/EBITDA (x)	5.8	1.7
FFO/Net interest-bearing debt (%)	-1%	34%
Equity share (%)	45%	44%
OTHER KEY FIGURES		
Number of employees	434	411
H2 - Total number of injuries per million hours worked	13.4	8.1
Produced volume (TWh)	17.8	13.4
Achieved price (øre/kWh)	11.9	39.2
Achieved price includes realised derivatives (øre/kWh)	16.4	39.6

[1]Key figures for 2019 include both continued and discontinued operations.

ROCE

4.1%

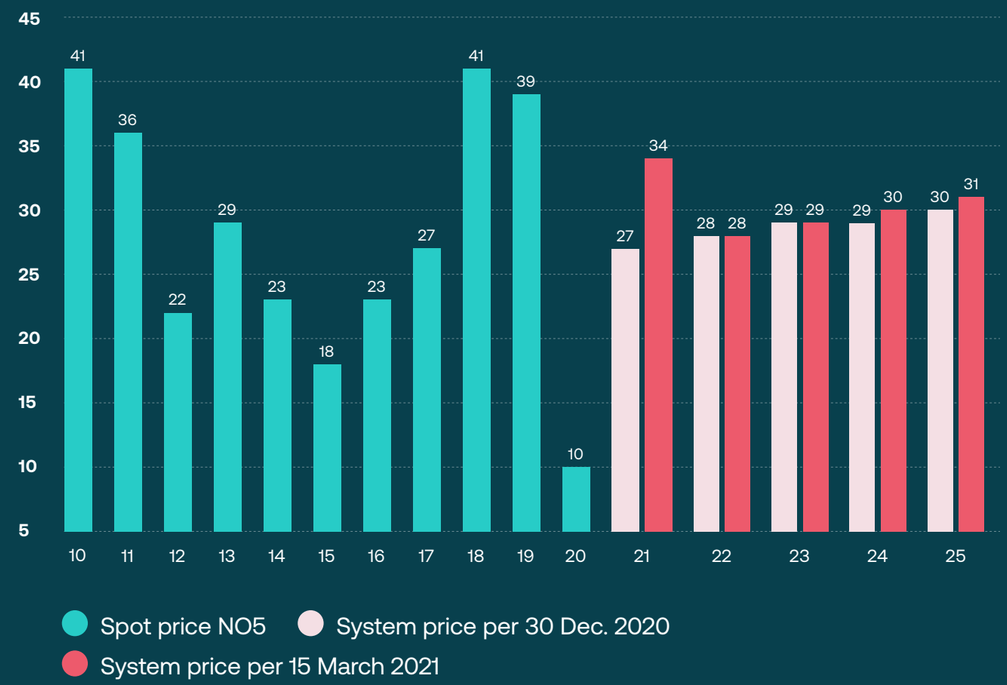
Hydropower produced

17.8TWh

Profit after tax

NOK 1 040million

Power price 2010-2025 øre per kWh



Promising end to a demanding year

2020 was a year of extremes. We entered the year with great optimism and high expectations for further growth, integration and improvement. After two years with strong power prices and major transactions, we were well-positioned for strong profit growth. However, mild, wet and windy weather in January caused the power prices to drop to a record low.

The weather conditions continued to impact the year, ultimately resulting in the lowest power prices since 2000. The average power price in South Norway closed at less than 10 øre per kWh for the year, a level resulting in a post-tax loss for the hydropower business. However, effective price hedging, solid operations and stable earnings from Eidsiva Energi ensured that we finished the year with a profit, admittedly with a low profit.

The COVID-19 pandemic made an impact on our organization but we were able to maintain emergency response cover and a high operational activity level throughout the year. Towards the end of the year, colder and less windy weather caused power prices to rise and this trend has continued into 2021. Thanks to efficient operations and a great effort from all our employees, Hafslund Eco is well-positioned to generate growth and results improvements going forward.

HSE – the goal is zero injuries

At Hafslund Eco, we strive for a workplace free of injuries. The health and satety of our employees is our highest priority. Unfortunately, we did experience some injuries in 2020, including a serious accident at Rendalen power plant at the end of September. Our colleague is on the road to recovery, and I'm grateful for the eofforts from health care and close colleagues. The incident has been investigated and mitigating actions have been implemented to ensure learning and prevent reocurrence. Going forward, we will continue to strenghten and improve our HSE culture.

We are expanding our hydropower portfolio

Hydropower is the cornerstone of our business. We are proud of our solid contribution to the development and construction of Norwegian hydropower, both historically and in recent times. In the last four years, we have put several large hydropower plants into operation. Rosten was operational in 2018, and in 2019 we launched Norway's largest run-of-river hydropower plants, Vamma 12. In 2020, we completed Nedre Otta, Norway's largest hydropower construction project of the year, and in 2021, we will open Tolga. Together with our two small-scale hydropower plants Mork and Hinøgla, these power plant will increase renewable production in Norway by 1 TWh per year, which equates about five percent of total power production in Norway.

We are investing in offshore wind power

We believe that electricity will be the core element of any long-term strategy to achieve global climate goals and that intermittent renewable energy production will increase. In this context, flexible hydropower can play an important role, as it enables the power system to incorporate a growing share of intermittent renewable sources into the energy mix while preserving stability. Hafslund Eco wishes to take an active role in the development of offshore wind power concepts. We believe in profitable offshore wind power solutions. Combined with a North Sea grid, offshore wind will give Norway access to several markets where we can utilize the combination of flexible hydropower and intermittent wind power. This will give Norway a unique position, as one of the world's most competitive and attractive areas for existing and new power-intensive industries, such as hydrogen and battery production.

In November, we entered into an agreement with Fred. Olsen Renewables to establish a joint venture for the development of offshore wind power-concepts. During 2021, we will cooperate on submitting a pre-application for development of offshore wind projects at Utsira Nord and Sørlige Nordsjø II (only two areas opened by the Government).

We are electrifying

With our business area "New Energy" we are continuing to develop new electrification initiatives. In 2020, we passed a big milestone as our "Ladeklar" initiative signed agreements covering more than 10,000 parking lots. The average month-over-month revenue growth was about 40 percent. That's impressive. We have a number of other promising electrification concepts in our pipeline and we look forward to develop and test the concepts further.

Hafslund Eco – one company

After a series of mergers in recent years, 2020 was the year we were meant to build one organization and align the cultures, to drive our new company forward. Restrictions following the pandemic has posed numerous challenges, but our focus on the integration process has remained strong. New relationships have been built in virtual environments, and we have put a lot of work into strengthening cross-functional coorperation

and sense of community. Etablishing common practices and IT solutions enable further synergies, and empower us to make the most of our large pool of expertise and experience, on our way to becoming Norway's most efficient hydropower company. We will continue and intensify these improvement initiatives in 2021.

I am also delighted that we now have a new and unified visual identity. You will soon see our new logo on our facilities, electric vehicles and most importantly our work clothes.

Lastly, I want to thank all employees at Hafslund Eco for their effort, hard work and dedication in 2020. We now have a solid foundation for further growth, as we continue on our journey towards a renewable and fully electric future.

Finn Bjørn Ruyter
CEO

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Vision, values and strategic plan

Hafslund Eco is a solid and important contributor in the work to realise a renewable and fully electric future. Our vision, the Group's core values and the Group's strategic goals, still form the basis for the work that needs to be done to ensure that Hafslund Eco continues to achieve its commercial goals in the future.

The merger with Eidsiva Energi was an important milestone on the road to realising the Group's strategic growth goals. The transaction resulted in significant changes for Hafslund Eco, which went from having a grid operator as an integral part of our core operations to holding a significant shareholding in Norway's largest grid operator, Elvia, through our share-holding in Eidsiva Energi. This made work to integrate the two power production resource pools into "one company" a main focus area in 2020.

Hafslund Eco aims to become Norway's most efficient hydropower producer with a strong ability to innovate. Our electrification initiatives, Ladeklar (Fully charged) and Hafslund Rådgivning, generated good growth throughout 2020, and are the first of several innovation concepts to be developed by the Group. Hafslund Eco has also formed a joint venture

with Fred. Olsen Renewables to apply for licences to develop offshore wind power on the Norwegian shelf. Offshore wind power will play an important role in electrification of the Norwegian shelf, and will have a significant impact on future power market dynamics in the Nordic region and the rest of Europe.

Hafslund Eco's vision

– For a renewable and fully electric future

Our vision, "for a renewable and fully electric future", is ambitious, sets the direction for the Group's strategic work and clarifies that all employees at Hafslund Eco are working towards a shared goal – a goal that is highly relevant for many. In a time of pressing climate challenges, and a transition to electricity, including for machinery and technical facilities, Hafslund Eco is spearheading work to create a better climate. Through our electrification initiatives in our New Energy subsidiary, we are enabling more people to use electrical solutions where they previously used fossil energy sources.

Hafslund Eco's values

– Open, responsible and innovative

Hafslund Eco's core values have remained the same since the Group was formally established following the merger of Hafslund and E-CO Energi in 2018. Our values "open", "responsible" and "innovative" describe who we are and who we want to be. These core values are intended to represent the Group's culture and guide how we act. We must recognise ourselves in these values, which must also be something to strive for.

Hafslund Eco's strategic goals

– Hafslund Eco's strategic goals are intended to support our vision of a renewable and fully electric future:

- Be the most efficient hydro power company.
- Accelerate electrification and facilitate a new green industry.
- Grow organically and through consolidation.
- Innovate and put to use new technology and digitalisation.
- Attract and develop employees and create a leading expertise resource pool.

Hafslund Eco's social mission

– Generating long-term values through renewable energy, the secure supply of energy and development of a smart and fully electrified zero-emission society.

Our social mission says something about our place in society and the role the Hafslund Eco Group wishes to play moving forward. This involves taking a long-term approach to investing and managing the Group's hydropower and power supply assets and unequivocally choosing renewable solutions ahead of fossil fuels.

It also commits us to ensuring high availability and uptime in our power production. Important societal tasks and critical societal functions are dependent on an efficiently functioning power system with a reliable energy supply. The outbreak of the COVID-19 pandemic in March 2020 made extraordinary demands of our emergency response capability, and Hafslund Eco has taken a number of measures to be able to ensure society a safe and predictable power supply, in an otherwise turbulent time.

The Board of Directors of Hafslund Eco AS

The Board comprises eight members, three of whom are elected by the employees. There were no changes in the composition of the Board during the year. The Board has a balanced gender distribution, and has appointed an Audit Committee and Compensation Committee as subcommittees to the Board of Directors.

The composition of the Board gives the Group wide-ranging and in-depth expertise for important decisions, including on the further development of the hydropower business, follow-up of our shareholding in Eidsiva Energi, opportunities offered by electrification solutions, digitalisation, the environment and sustainability, and financial management. The fall in the power price, dealing with the COVID-19 pandemic, capital management and dividends were among the key issues considered by the Board in 2020. In 2020, the Board held eight ordinary Board meetings, three extra-ordinary Board meetings and reviewed one item by e-mail. The Board also focused on further developing the Group's strategy to facilitate growth and ensuring that the Group progresses in the best interests of the owner, employees and other stakeholders. The Board has also been a driver of ongoing integration work and development of competence within innovation, electrification and digitalisation across the Group.

Alexandra Bech Gjørv

Chair of the Board

Alexandra Bech Gjørv is CEO of SINTEF, one of Europe's largest research institutes, which carries out extensive research activities in the energy industry. Gjørv has gained extensive industrial experience from management positions at Equinor and Norsk Hydro, where her responsibilities included developing activities in New Energy.

Gjørv was previously Chair of the Board of Eidsiva Energi and a director of the French company Technip, Schibsted, Norske Skog and NRK. Gjørv has a degree in law. Between 2009 and 2015, she was a partner in Advokatfirmaet Hjort, where she specialised in employment law, energy law and investigations. She also headed the 22 July Commission.

Bente Sollid Storehaug

Director

Bente Sollid Storehaug is the managing director of Digital Hverdag AS. She has been a member of several government-appointed business policy councils. In 1993, Sollid Storehaug established Norway's leading internet consulting company, today Bouvet ASA.

She also sits on the boards of Eika-Gruppen, Polaris Media ASA, Europris ASA, Nortel AS, Motor Gruppen AS. She is chairman of the board of Placewise Group and Vinje Ullvarefabrikk AS (Lanullva). Sollid Storehaug has intermediate subjects in political science, executive studies at INSEAD and MIT within board work, blockchain, digital platforms, disruption and innovation. She is currently lecturing at BI Norwegian Business School on the master's program Innovation, Digitalisation and New Business Models.

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Bjørn Erik Næss

Director

Bjørn Erik Næss is a professional director of Board. Næss stepped down as CFO of DNB ASA on 1 March 2017, a position he had held for nine years. Næss was previously EVP and CFO of Aker Kværner ASA, and held similar positions at Orkla and Carlsberg (Denmark).

Næss has gained extensive experience of management roles both in Norway and internationally over the last 25 years. He has a degree in Civil Engineering from the Norwegian School of Economics (NHH) and has completed a management programme at Darden Business School in the USA.

Bård Vegar Solhjell

Director

Bård Vegar Solhjell is Director General of Norad (the Norwegian Agency for Development Cooperation). He is Deputy Chair of the Fritt Ord (Free Word) Foundation, and a director of the Oslo School of Architecture and Design. He was previously Minister for the Environment, Minister of Education and Research and State Secretary for Norwegian Prime Minister Jens Stoltenberg's "red-green" coalition government. From 2009 to 2017 he was member of Parliament for Akershus, and between 2007 and 2015 Deputy Leader of Norway's Socialist Left Party.

Solhjell is a regular columnist for two Norwegian newspapers where he mainly writes about the climate, energy, development and other social issues. He has published several books on key topical economic and political issues. Solhjell has a degree in Political Science from the University of Oslo.

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Mari Thjømøe

Director

Mari Thjømøe is a professional director of Board, investor and consultant. She has management experience from some of Norway's largest companies, was formerly CFO and acting CEO of Norwegian Property, CFO of the life insurance company KLP and has 17 years' experience at Equinor and Norsk Hydro.

Thjømøe is Chair of Billington Process Technology, Seilsport Maritimt Forlag and ThjømøeKranen, and a director of Norconsult, Ice, the Danish insurance company Tryg, and the Swedish companies TF Bank and FCG Fonder. Thjømøe has a master's degree in Business Administration from the BI Norwegian Business School/American Graduate School of International Business, and is a qualified CFA/Authorised Financial Analyst from the Norwegian School of Economics (NHH) and has completed executive management training at London Business School.

Jan Knudsen

Employee-elected director

Jan Knudsen joined Vinstra Kraftselskap in 1981, in which Hafslund Eco holds a majority shareholding. Knudsen is a qualified machine technician, took a one-year supplementary course on machine engineering and has completed the industry's own training scheme through Labroskolen AS. He currently works as a machine engineer in the Technical department at Lillehammer, specialising in generators.

He has held various offices in the Electrician and IT workers' trade union, where he was also General Secretary. He is Chair of Hafslund Eco's Representative Committee (TU), and a member of the management team of the Innlandet EL and IT department at Hafslund Eco, and head of the EL and IT department Innlandet. Knudsen was an employee-elected director at Eidsiva Vannkraft until the merger with Hafslund Eco.

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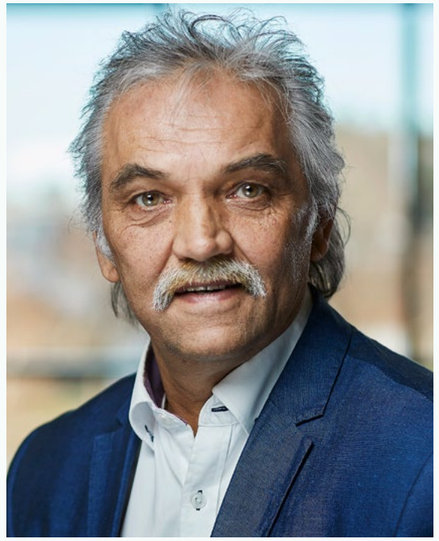
Gunnar Ola Braaten

Employee-elected director

Gunnar Ola Braaten joined E-CO Energi's operations department in 2006. He is a qualified electrical engineer, and works as operations coordinator at Hafslund Eco's operations centre in Gol. He was previously employed by the former Norwegian State Railway's (NSB) maintenance unit and the Norwegian National Rail Administration (Bane Nor). Braaten is an employee representative for NITO, and was an employee-elected director at E-CO Energi Holding from 2018 to 2019.



Arvid Amundsen

Employee-elected director

Arvid Amundsen joined E-CO Energi in 1987, and works in Hafslund Eco's maintenance department in Hol. He was Senior Union Representative in the Hallingdal–Aurland–Solbergfoss (HAS) branch of the Electrical and IT trade union from 2006 to 2008, when he was also an employee-elected director on E-CO Vannkraft's Board of Directors. He has completed several terms as the union's Site Representative, Senior Employee Safety Representative and Employee Safety Representative.

Amundsen is currently Senior Employee Representative in the Hallingdal–Aurland Solbergfoss (HAS) branch of the Electrical and IT trade union, and also served as an employee-elected director of E-CO Energi Holding from 2016 to 2018.

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Organisation and management

The merger of the main businesses of Eidsiva Energi and Hafslund Eco in autumn 2019 confirmed Hafslund Eco's position as Norway's second-largest power producer. Through its 50 per cent shareholding in Eidsiva Energi, Hafslund Eco is partowner of Elvia, Norway's largest grid operator, and Eidsiva Energi's bioenergy and broadband businesses.

Hafslund Eco – an evolving group

The transaction between Hafslund Eco and Eidsiva Energi involves a significant restructuring. Consequently, the merger and integration of the hydropower businesses of Hafslund Eco and Eidsiva Energi were major focus areas in 2020. Similarly, the network operations of Eidsiva Energi and Hafslund Network have since 2020 been merged to form Elvia, and is part of Eidsiva Energi. The mergers are expected to strengthen competitiveness and profitability. Significant work is initiated with the goal for leveraging economies of scale, operational efficiency improvements and increased digitalisation. Increased size will also make it easier to build stronger expertise resource pools. The above measures will make Hafslund Eco a more exciting and attractive workplace and enable the Group to offer more competitive solutions, and provide a basis for higher long-term dividends for the owners. This will also better equip Hafslund Eco to maintain a strong position in an evolving sector, and provide opportunities to identify new growth areas and new opportunities in both hydropower production and other renewable energy.

Hafslund Eco's hydropower business consists of 80 power plants spread over large areas of southern Norway, split into three legal groupings.

1. Hafslund Eco Vannkraft with subsidiaries that own and operate power plants in Aurland, Hallingdal, Valdres and Innlandet – generating a total of around 18 TWh, of which 15 TWh is both owned and operated.
2. Hafslund Produksjon Holding with subsidiaries that own and operate power plants in lower Glomma – with total power generation of around 3 TWh.
3. Oslo Lysverker, which owns and operates Hammern power plant in Oslo.

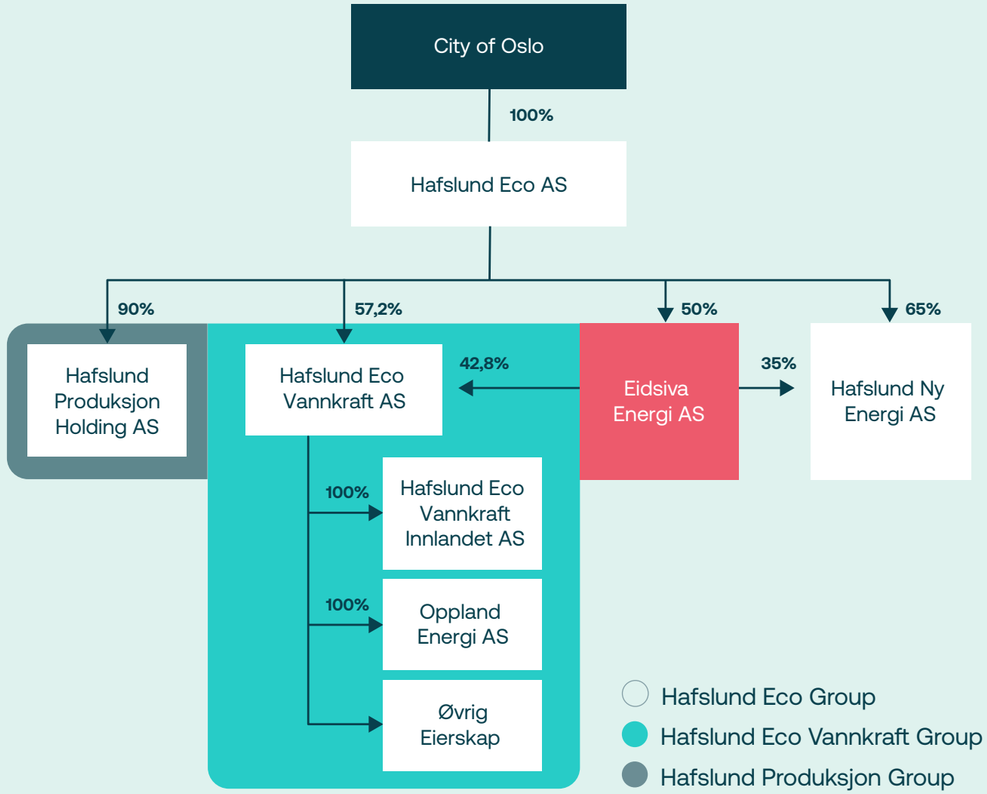
Hafslund Eco's organisation operates power facilities that generate a total of 21 TWh, of which 18 TWh is both owned and operated.

Legal structure

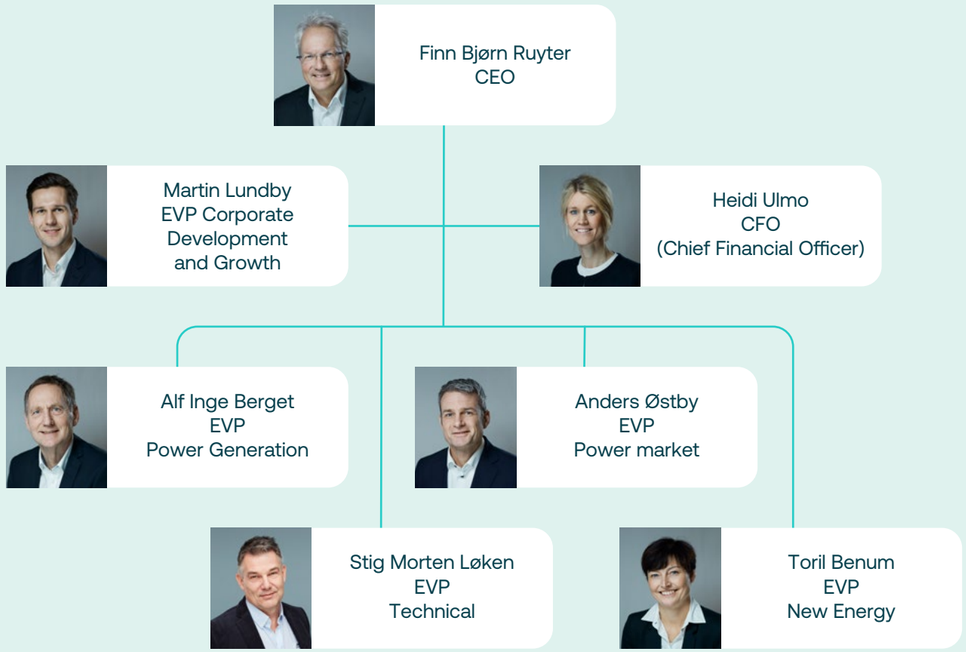
The Hafslund Ny Energi (New Energy) business is developed in part-ownership with Eidsiva Energi, which has a 35 per cent stake in the company. Eidsiva Energi is a part-owner of Hafslund Eco Vannkraft with a share-holding of 42.8 per cent. Hafslund Eco directly and indirectly (through a 50 per cent shareholding in Eidsiva Energi) owns 78.6 per cent of Hafslund Eco Vannkraft. Hafslund Produksjon Holding is owned 90 per cent by Hafslund Eco and 10 per cent by Svartisen. Hafslund Eco has a 49 per cent shareholding in Fredrikstad Energi and is a part-owner of the project company NorthConnect, which is planning a DC power line to the UK.

Through its 50 per cent shareholding in Eidsiva Energi, Hafslund Eco part-owns Elvia, Norway's largest grid operator, and Eidsiva Energi's bio-energy and broadband businesses. Eidsiva Energi sold its power sales business in 2020. Hafslund Eco AS (the Group's parent company) is wholly owned by the City of Oslo.

Simplified legal structure



Organisation and Group management



Management

The Hafslund Eco Group is led by CEO Finn Bjørn Ruyter and is organised in four operative business areas and two business support units. The Group employed 434 employees at the end of 2020. Group management was reorganised during the year, with all the business support units except Accounting and Finance now included in the Corporate Development and Growth business area.

Group management team's consists of seven members, and their mandate is to facilitate and actively participate in work to identify and implement measures that contribute to strategic goal achievement. The Group management team consist of members with in-depth and wide-ranging expertise, which contribute to move the Group closer to a renewable and fully electric future.

COVID-19

In addition to integration and daily operations, the organisation and management have devoted significant time and resources to dealing with the COVID-19 pandemic. Following the outbreak of the pandemic, on 12 March the Group established an emergency response organisation and has continually adapted the organisation to meet the authorities' requirements. The company has been in full operation throughout the period. While the pandemic is considered to have had a limited impact on the company's earnings, individual employees, the organisation as a whole and development work featured extensive use of home offices and limited physical interaction, and multiple operational measures to look after people's health, operations and the authorities' requirements in the wake of COVID-19. The company is continually monitoring the pandemic situation to be able to maintain ongoing operations and meet the needs of employees and the organisation.

Finn Bjørn Ruyter

CEO

Finn Bjørn Ruyter has been CEO of Hafslund Eco AS since July 2018. He was CEO of Hafslund ASA from January 2012, and CFO in 2010 and 2011. From 2009 to 2010, he was COO of the Philippine hydropower company SN Aboitiz Power, based in Manila. Between 1999 and 2009, he headed the energy division of Elkem ASA, having previously led the power trading business since 1996. Between 1991 and 1996, he worked in oil and power trading at Norsk Hydro ASA. Ruyter qualified as a Chartered Engineer at the Norwegian University of Science and Technology (NTNU) and has an MBA from BI Norwegian Business School. He is Chair of Energy Norway and a director of Equinor ASA, Fortum Oslo Varme AS, Sysco AS, Europower AS and Eidsiva Energi AS.

Heidi Ulmo

Chief Financial Officer | CFO

Heidi Ulmo has been CFO of Hafslund Eco AS since 1 September 2018. She was appointed CFO of Hafslund ASA in August 2012. From 2010 to 2012, Ulmo was Director of Corporate Finance at DNB Markets. Between 2007 and 2010, she was CFO of Infratek ASA, and from 2005 to 2007, she was responsible for Investor Relations and Corporate Strategy at Hafslund ASA. Between 2000 and 2005, she was a project manager in Carnegie Investment Banking's corporate finance department in Oslo. She has also worked at PwC in London and McKinsey in Oslo. Ulmo holds a master's degree in International Accounting and Finance from the London School of Economics and a BA Joint Honours in Finance and Management Science from the University of Strathclyde, Glasgow. She is also a Chartered Financial Analyst (CFA) and Chair of the Board of Hafslund Eco Pensjonskasse and a director of the OBOS Group and Eidsiva Energi AS.

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Martin S. Lundby

EVP
Corporate Development and Growth

Martin S. Lundby was appointed EVP Corporate Development and Growth on 1 June 2020. He has been EVP Projects since September 2019 and prior to that was acting CFO of Hafslund Eco (2018–2019). He was previously Head of Finance and Investor Relations (2016–2018) and Business Developer focusing on M&A and strategy (2013–2015) at Hafslund ASA. He has also worked as a Transaction Adviser at EY (2011–2013). Lundby holds an MSc in Industrial Economics and Technology Management from the Norwegian University of Science and Technology (NTNU).

Alf Inge Berget

EVP
Power Generation

Alf Inge Berget was appointed EVP Power Generation and CEO of Hafslund Eco Vannkraft on 1 September 2018. Berget was previously Production Manager at E-CO Energi, a position he took up in 2008. Before that, Berget was CEO of Eltel Networks in Norway. He was previously employed by the Hafslund Group as CEO of Hafslund Fakturaservice. Berget has a degree in Electrical Engineering from Oslo College of Engineering and an additional qualification in Business Economics. He also holds a master's degree in Management from BI Norwegian Business School. He is a director of HydroCen.

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Stig Morten Løken

EVP
Technical

Anders Østby

EVP
Power Market

Stig Morten Løken was appointed EVP Technical at Hafslund Eco on 30 September 2019. He was previously a director at Eidsiva Vannkraft, where he was Chair from 2016. Løken has over 20 years' experience from various management functions in hydropower generation, including power trading, production management, project management and management of operating and maintenance organisations. From 2012, he managed Eidsiva Vannkraft's operations, where he was responsible for a production portfolio of around 7.5 TWh distributed across 48 power plants, as well as the development of several large hydropower projects. Løken has a master's degree in Mechanical Engineering from the Norwegian University of Science and Technology (NTNU). He is Chair of the Association of Bægnavassdraget's Regulation and a director of Ecohz AS and Glommen and Laagen's Regulation Association.

Anders Østby was appointed EVP Power Market on 1 September 2018. Østby was Senior Vice President Production at Hafslund ASA from 2011, and Managing Director of Hafslund Production from 2008. He has also been responsible for the construction of Hafslund's new power stations at Kykkelsrud and Vamma. He was previously Director of Hafslund Operatør's Markets division, Director of Network Development and Operational Manager and Departmental Manager of Hafslund Nett's Planning Department. Østby has a master's degree in Electrical Engineering from Herriot Watt University in Edinburgh (UK) and has also studied finance and project management at BI Norwegian Business School.

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Toril Benum

EVP
New Energy

Toril Benum took up the position as EVP New Energy on 1 September 2018. She has been Project Director of the AMS project at Hafslund Nett since May 2015 and Director of Projects and Development at Hafslund Nett since March 2017. She was previously CIO of Veidekke ASA (2010–2015), and has also held several management positions at Aker Solutions. Benum has a master's degree in Mechanical Engineering from the Norwegian University of Science and Technology (NTNU) and is a director of Eidsiva Energi AS.

Sustainability at Hafslund Eco

The zero-emission society of the future will be built on two pillars: renewable energy production and zero-emission energy carriers. Hafslund Eco's vision of a renewable and fully electric future is based on precisely these two pillars. The Group's core activity is generating clean, renewable energy and delivering smart electrification solutions. Through its core business, Hafslund Eco therefore plays an important role on the road towards a sustainable society, where fossil energy sources are replaced by zero-emission, renewable energy.

It is vital that Hafslund Eco has a good relationship with its stakeholders, and therefore work closely with the businesses, municipalities and local communities. The Group's activities help to secure jobs, safeguard society's supply of clean energy and increase value creation. In this way, Hafslund Eco creates value locally, regionally and nationally, while helping reduce greenhouse gas emissions, which has a positive effect globally.

Even though the Group makes an important contribution to societal and environmental goal achievement, our operations can still have undesired effects. The Group's activities can cause injuries to own employees or contractors and other affected parties, and watercourse regulation can negatively impact the environment. The Group implements systematic, preventive and targeted measures relating to health, safety and the environment (HSE), and strives to make any interventions in nature as low-impact as possible.

In June, the Board adopted a new sustainability strategy with the following strategic objective: Hafslund Eco will be an industry leader in sustainability in terms of ambitions, measures, achieved results and reporting. In autumn 2020, the Group carried out a project to secure operationalisation of the Group's sustainability strategy.

For detailed information on the Group's sustainability work, please refer to Hafslund Eco's Sustainability Report for 2020, which is available at www.hafslundeco.no.

The UN Sustainable Development Goals

Hafslund Eco supports the UN's sustainable development goals and the Group's activities impact several of these goals. As a hydropower producer, the Group constantly focuses on development goals # 7 Clean energy for all, # 8 Decent work and economic growth, # 11 Sustainable cities and communities, # 13 Climate action and # 15 Life on land.

The Group updated its materiality analysis for sustainability in 2020. The analysis is based on areas considered significant for Hafslund Eco's activities and the Group's stakeholders. The analysis highlights both risks and opportunities and has identified the following six sustainability topics as crucial for attaining our strategic goals:

- Production and availability of renewable energy (# 7 and # 13)
- Impact on nature (# 15)
- Sustainable consumption and production (# 12 and # 13)
- Safety of surrounding environment (# 8)
- Responsible workplaces (# 5 and # 8)
- Financial contributions to society (# 11)

Our prioritised sustainability topics support several of the UN sustainable development goals, where the relevant goals are indicated in parentheses.

The UN Sustainable Development Goals

More than a hundred sustainability indicators have been defined for these topics. Some indicators are used to record long-term development, while other indicators define target figures in areas where the Group wishes to make improvements and have a target to aim for. For details of reporting on individual indicators, please refer to our Sustainability Report for 2020.

Sustainability reporting

Hafslund Eco reports on sustainability in accordance with the principles of the Global Reporting Initiative (GRI). Our Sustainability Report contains a user guide, which makes it easy to find individual GRI scores. Data for sustainability reporting is obtained from all companies where Hafslund Eco is the operator.

In 2020, the Group prepared a framework for green financing in accordance with the ICMA Green Bond Principles and LMA/LSTA/ALPMA Green Loan Principles. Under this framework, Hafslund Eco aims to comply with best market practice by following relevant standards and guidelines for the green finance market.

The EU taxonomy is a classification system for identifying environmentally sustainable financial activities. The legislative acts that will enact the taxonomy have not yet been ratified, but Hafslund Eco is closely monitoring this work, and intend to update the framework for green financing to bring it in line with the EU taxonomy.

Environmental management and sustainability are an integral part of Hafslund Eco's management system in the same way as for finance, quality and the working environment.

Sustainability at Eidsiva Energi is followed up by Eidsiva Energi's Board, on which Hafslund Eco has three representatives, and is reported as part of Eidsiva Energi's internal and external sustainability reporting.

Production and availability of renewable energy

Hafslund Eco aims to be an efficient hydropower producer with strong innovative power. The Group owns, maintains, constructs and operates hydropower facilities, delivers system and balancing services for the power system and sells power in the wholesale market. The Group also engages in innovation and business development to create smart electrification solutions. The Group's business creates significant socio-economic ripple effects, helps protect jobs and safeguards society's supply of clean energy. Society expects an uninterrupted supply of energy at all times. Hafslund Eco's social mission is to generate long-term value through renewable energy, the secure supply of energy and the development of a smart and fully electrified zero-emission society.

The hydropower business, with its reservoir power plants, provides renewable power production, even during periods of low precipitation. This allows the Group to contribute to the efficient utilisation of hydropower resources and to the balance and quality of the power system.

To further contribute to replacing fossil energy sources with emission-free power moving forward, work is continually carried out to increase production by making improvements and implementing new projects. In 2020, one hydropower plant entered operation (Nedre Otta) and three power plants are under construction (Tolga, Mork and Hinøgla). The Group also part-owns and has applied for a licence for an interconnector (NorthConnect). Increased exchange capacity makes it possible to exchange renewable power across national borders, and so reduce the use of fossil energy.

Electrification

The transition from fossil to electric consumption is a prerequisite for the transition to a zero-emission, climate-neutral society. For Hafslund Eco, the electrification of society represents a commercial opportunity. The Group plays an important role in the electrification of the transport sector in particular. The Group maintains a close dialogue with and assists various public transport organisations, as well as private customers, housing

associations and other businesses by facilitating services and providing solutions. For example, our Ladeklar (Fully charged) business concept is investing in charging infrastructure for housing associations and lowering the threshold for electrification solutions for residents. Similarly, our consultancy business Hafslund Rådgivning assists customers with the sustainable roll-out of electrical infrastructure and renewable energy solutions.

Ambition:
Hafslund Eco aims to increase the production of renewable power in order to secure society access to clean, renewable energy.

Nedre Otta power plant completed
The construction of Nedre Otta power plant in Sel and Vågå municipalities started in October 2016 and the power plant entered operation in June 2020. Hafslund Eco co-owns the power plant with AS Eidefoss. The facility will generate 315 GWh of renewable energy, enough power to supply more than 15,000 households. The project has been completed on time, below budget and without any serious injuries. The construction, which is one the largest hydropower projects in Norway in recent years, had a total budget of NOK 1.2 billion.

Impact on nature

In just a few decades, the energy system must be exclusively based on renewable, carbon-neutral energy sources. Hafslund Eco plays an important role as a producer of renewable energy and works continuously to ensure this is done in a way that has as little impact on the environment as possible. The Group shall also keep the environmental impact of internal activities at a low level. The construction, operation and maintenance of hydropower plants affect the natural environment. The effects are mainly local and related to physical interventions in nature and the impact on biodiversity through changes in water flow and water temperature.

When constructing power plants, refurbishing dams and reinvesting in hydropower production, Hafslund Eco is concerned that environmental interventions should be as low-impact as possible, and uses knowledge-based techniques that represent best practice. The facilities must also be operated in such a way that the Group experiences no environmental non-conformances. The Group's licences are subject to minimum and maximum regulated water levels, and minimum absolute quantities of water flow must be met at all times.

A total of four non-conformances with licensing terms were registered at Hafslund Eco in 2020. All non-conformances are reported to the Norwegian Water Resources and Energy Directorate (NVE).

The Group implements environmental and landscape measures where there are defined needs, and aims to use such measures to reduce the impact of the facilities and production on the external environment. In line with public orders, trout is stocked in a number of mountain lakes, a measure that creates good fishing lakes for the benefit of locals and visitors alike. The Group also participates in several research projects to establish whether the measures are working, and we continually investigate whether it is possible to improve the conditions for fish through other measures, such as changing the operating schedules at the facilities.

In rivers where there is no requirement for minimum water flow, but where there is potential for a positive environmental impact, a voluntary minimum water flow has been introduced. While this reduces power production, it is a cost the Group is happy to accept if it has a positive environmental

impact. The loss in value from voluntary water release in Aurland, Hallingdal and Hunderfossen was around NOK 1.8 million in 2020.

Regulating watercourses also has positive environmental effects beyond the production of clean energy. During flood periods, the reservoirs can help reduce the amount of water in rivers and watercourses, and so avoid flooding and damage to property and the environment.

The impact on the external environment of Hafslund Eco's other activities mainly derives from operations of own buildings, own transport and externally sourced services, including transport and contracting activities. Hafslund Eco continually strives to minimise the negative effects of these activities.

For further information, please refer to Hafslund Eco's Sustainability Report for 2020, which is available at www.hafslundeco.no.

Ambition:

Hafslund Eco shall keep the environmental impacts of its own operations at a low level and make interventions in nature as low-impact as possible.

Work on fish passages in Innlandet

In Innlandet power plant area an action plan has been drawn up for fish migrations past the power plants in Glomma, Rena and Trysilelva. A number of measures have been implemented and are being planned. A good knowledge basis is a prerequisite for implementing measures. To this end installed automatic fish counters are installed in most of the fish ladders to learn about the current conditions and to measure the effect of measures.

Responsible consumption and production

The world is currently facing greater environmental challenges than ever before. Average temperatures are rising and the world is experiencing more extreme weather events than ever before. Recent climate changes are largely man-made, partly due to emissions of greenhouse gases from burning fossil fuels. UN Sustainable Development Goal 13 stresses the importance of "taking urgent action to combat climate change and its impacts". One of the proposed measures is to invest far more in renewable energy.

Producing renewable energy is the Group's most important positive contribution to the climate. If the Group's emission-free hydropower production of 17.8 TWh in 2020 were generated by a typical European power plant (based on European energy mix of 315 grams CO2/kWh), this would produce emissions corresponding to around 5.6 million tonnes of CO2 – equivalent to the emissions of around 2.8 million cars each year[1].

Hafslund Eco's CO2 emissions primarily derive from the consumption of fuel, emissions of the insulation gas SF6, air travel, helicopter use and electricity consumption. The emissions vary each year depending on activity levels. In 2020, total emissions of CO2 amounted to 2.6 tonnes.

Hydropower results in extremely low emissions of greenhouse gases once the power plant has been constructed. Life cycle analyses (LCA) show the total emissions in a product's life cycle from the extraction of raw materials to production, distribution, use, reuse, maintenance and recycling – to final decommissioning, including all transportation involved. The Norwegian Institute for Sustainability Research (Norsus) has calculated emissions from a number of Norwegian hydropower plants using life

[1]*Source: https://www.kuntarahoitus.fi/app/uploads/sites/2/2020/02/NPSI_Position_paper_2020_final.pdf*

cycle analyses showing that the emissions from a typical Norwegian hydro-power plant are 3.3 g of CO2-equivalents per kWh. For Hafslund Eco's total production of 17.8 TWh, the institute's analysis indicates emissions for the entire life cycle corresponding to around 58,000 tonnes of CO2 or roughly the same amount that 29,400 cars emit each year. The net environmental gain from electrifying the energy supply is therefore very large.

In addition to minimising emissions from day-to-day operations, Hafslund Eco aims to limit greenhouse gas emissions from administration and transport. The Group has set an ambitious goal of cutting its greenhouse gas emissions, and emissions from projects and business travel, by 95 per cent by 2030 compared with levels in 2019.

The Group therefore actively seeks to use emission-free vehicles in operations where possible. Online meetings are extensively used to limit business travel. Emissions from air travel, helicopter use, electricity consumption and fuel for vehicles and machinery vary from year to year depending on the level of activity. A roadmap containing measures to further reduce greenhouse gas emissions from construction, maintenance and operation of the Group's power facilities is prepared.

Ambition:
The Group shall cut its greenhouse gas emissions, and emissions from projects and business travel, by 95 per cent by 2030 compared with levels in 2019.

Aim to have a fully electric vehicle fleet by 2025

Hafslund Eco's guidelines for procurement and use of vehicles stipulate the purchase of electrical vehicles wherever possible. At the end of 2020, eight per cent of the Group's vehicles were electric, and a plan is developed to make the vehicle fleet fully electric by 2025. Charging stations are installed at all the Group's permanent meeting places and many of the power facilities.

Safety of surrounding environment

Hafslund Eco's operations result in an increased risk of accidents and incidents involving the general public. The watercourses Hafslund Eco manages are used for outdoor, sporting and recreational activities, but are also part of the production facilities and therefore affected by the Group's operations. This means that watercourse facilities can create hazards different to those normally encountered by the public when they are out in nature.

Hafslund Eco therefore prioritises safety measures in and around the watercourse facilities. The most common safety measures are permanent fences, barriers and signs. Temporary fences and warning signs in areas with unsafe ice are erected each year. Information is also displayed online and adverts are placed in local newspapers and in other channels warning people of the dangers of thin ice in regulated watercourses. There were no injuries or accidents involving third parties in 2020.

Risk and vulnerability analyses on the safety of the public are performed regularly. Hafslund Eco is a developer that performs major work on reconstruction of old dams, refurbishment and construction of new power plants and grid facilities. In all projects the safety of the public is prioritised by erecting signs and barriers and establishing procedures to ensure that its work only affects defined facility areas. Also, safe job analyses (SJAs) for all jobs, which include risk assessments for third parties, are carried out. Hafslund owns and operates multiple electrical installations connected to its power plants. Ensuring the safety of the public using signs, fencing and safety measures also play an important role here.

The Group's watercourse facilities also make a contribution to securing the local environment. The reservoirs help to control floods and reduce the risk of and damage from floods in our watercourses. Hafslund Eco uses its reservoirs to limit and equalise floods in periods of high precipitation and inflow. The Group maintains close and regular contact with the Norwegian Water Resources and Energy Directorate (NVE) and other public authorities and communicate directly with affected parties in flood alleviation and flood situations.

Ambition:

Hafslund Eco's operations shall result in as little increased risk of injuries or accidents involving the general public as possible.

Active regulation of the Hallingdal watercourse in summer 2020

Record volumes of snow and a late snow melt resulted in a high inflow and water flow, with a major risk of flood damage. Hafslund Eco secured permits to vary the regulation schedule during this period. Finsevatn reservoir experienced a "once-in-50-years" flood. By utilising the reservoirs' buffer capacity, Hafslund Eco managed to keep the water flow from causing damage further down the Hallingdal watercourse.

Responsible working life

Hafslund Eco shall be a safe workplace, where operations do not cause accidents, injuries or losses. The Group has a zero vision for injuries and a target sickness absence rate of less than 3.5 per cent.

The Group as a whole recorded nine lost-time injuries and five non-lost-time injuries involving our own employees and suppliers working at the Group's facilities in 2020. This corresponds to an injury frequency rate of 8.7 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 13.4. During the year, a new HSE manager was appointed and an internal HSE audit project with external assistance was carried out. Findings from incidents and accidents are recorded, and measures are established to reduce injuries to our own and our suppliers' employees. The sickness absence rate at Hafslund Eco was 2.2 per cent in 2020, compared with 2.3 per cent in 2019. In order to reduce the overall sickness absence rate, a number of measures are implemented, including courses on sickness absence follow-up for managers, as well as targeted measures at individual level.

The Group's code of conduct governs its work on ethics and anti-corruption. All employees shall behave with respect and integrity towards their colleagues, business associates, customers or others with whom they come in contact through their work.

The Group aims to be an attractive workplace and wishes to have a working environment based on loyalty and trust – and a corporate culture that attracts, and further develops competent and motivated employees.

Job satisfaction and a good working environment are crucial if the Group is to retain skilled employees. Hafslund Eco therefore conducts extensive employee satisfaction surveys on a regular basis, normally every other year, to gain insight into how its employees perceive their job and Group culture.

With regard to ethical conduct, the Group's code of conduct requires Hafslund Eco's employees and directors to avoid situations that may give rise to conflicts between personal and/or financial interests and the Group's interests. In order to facilitate reporting of potentially censurable conditions, Hafslund Eco has a dedicated whistleblowing channel.

Responsible supply chain

Responsible working practices do not just apply to the Group's own employees. Hafslund Eco is committed to maintaining the highest ethical standards in all business operations. One of the ways we communicate this message is by promoting one of our core values, responsibility. By showing respect and responsibility, the Group's goal is to build a good reputation, both internally and with society at large. A good reputation is crucial for achieving good teamwork, which in turn will help create increased value in the local communities in which the Group operates.

Hafslund Eco has implemented the Oslo model, which is an umbrella term for a number of credibility provisions that are included in contract terms for the purchase of goods, services and construction. The Group makes clear demands of its suppliers in all product and service areas. All suppliers and their subcontractors must conduct their business in accordance with nationally and internationally recognised principles and guidelines (related to human and labour rights, corruption, health, safety and the environment). The Group's businesses carry out acquisitions in line with good business practice.

Hafslund Eco has established a special code of conduct for its suppliers based on international ILO and UN conventions. Choice of suppliers and

partners makes an important contribution to establishing a sustainable sector, and Hafslund Eco wishes to take greater responsibility for the environment and the social impact of the value chain of which the Group is a part. Consequently, efforts to influence suppliers and partners to reduce emissions, improve environmental management and ensure good social conditions are continued.

Ambition:

By systematically building and developing our HSE culture, Hafslund Eco will be a safe workplace for our own employees, contractors and all other affected parties.

Financial contributions to society

Hafslund Eco's business creates great value for the local communities where the Group operates. Employees receive salaries, municipalities and authorities receive taxes, and local suppliers receive assignments, while our owner receives dividends and interest on a subordinated loan. The Group seeks to use local service providers and partners where this is practicable. A short distance between suppliers and facilities contributes environmental savings, and helps secure local jobs.

In 2020, the Group donated just over NOK 500 million to around 70 host municipalities. This contribution came in the form of natural resource and property taxes, licence fees and concessionary power. In total, the Group contributed NOK 2.4 billion in taxes in 2020, while the dividend paid to the Group's owner, the City of Oslo, was NOK 700 million. In addition, our landowners receive watercourse compensation. In 2020, Hafslund Eco paid a total of around NOK 39 million in compensation to landowners.

In addition to creating jobs, paying taxes, increasing demand for local goods and services and securing the power supply, the Group's activities also contribute to society in other ways. The hydropower business area works to ensure that surplus material can be used locally for road construction, cement production or other purposes that benefit society. The Group also provides sponsorship focusing on children and young people in areas where we operate and organisations that contribute to a more sustainable society.

Ambition:

Hafslund Eco aims to be an important player in the local communities where the Group operates, and endeavours to use local service suppliers and partners in contexts where this is possible.

On the road to a renewable and fully electric future

The environment, sustainability and corporate social responsibility are important focus areas for Hafslund Eco. By continuously working on projects that contribute to sustainable value creation, such as replacing fossil energy sources with clean energy, the Group plays an important role in a sustainable society on the road to a renewable and fully electric future.

Analytical information and key figures

Hafslund Eco wishes to lead by being the most efficient power group in Norway. The goal is to generate long-term value through efficient production and the sale of renewable energy, and contribute to the development of a smart and fully electrified zero-emission society.

Value creation renewable energy

As a commodity, electricity is subject to major price fluctuations linked to supply and demand. Renewable (hydro, wind and solar) energy competes with power generated from thermal power plants (coal, gas and nuclear power) in the European market. Hafslund Eco primarily engages in renewable hydropower production but also participates in wind power production through its 20 per cent shareholding in the wind farms at Raskiftet and Austri Kjølberget (under construction), and has entered a joint venture on offshore wind power with Fred. Olsen Renewables.

Hafslund Eco has set itself a goal of being the most efficient producer of renewable energy, with digital integration from planning through to construction, operation and maintenance. To achieve this goal, the Group is focusing on understanding and optimising factors that drive revenue and cost. To become a leader in renewable hydropower production will require utilization of water to achieve the highest possible price in the market whenever there is a need for power. Hafslund Eco actively works to roll out new technology, including for condition-based maintenance of the power plants, use of machine learning for predictive maintenance and fault detection, automation of processes in production management and power trading to take good commercial market decisions.

Value drivers for hydropower production

The Norwegian hydropower system

The Norwegian hydropower system has a normal annual production of around 136 TWh[1] and an aggregate power capacity of 32,940 MW[2]. Norway currently has more than 800 reservoirs, with a storage capacity equivalent to around 87 TWh. The 30 largest reservoirs, three of which are wholly or partly owned by Hafslund Eco, account for almost half of the total capacity.

Norway has around half of Europe's total reservoir capacity[3]. Large storage capacity and high installed capacity provide the Norwegian hydropower system with significant flexibility. Most of Norway's reservoirs were built before 1990, but upgrades and expansions of power plants have increased reservoir utilisation capacity in recent years. Relatively little growth is expected in hydropower production in Norway in the next few years, as capacity investments in renewable energy are largely being channelled towards solar and wind power. In 2020, power production in Norway was 16 per cent higher than in 2019. 2020 was strongly impacted by a large hydrological surplus as a result of a large snow surplus from winter 2019/2020, combined with high precipitation and inflow during the year. At the end of 2020, Norwegian reservoirs were at their highest-ever level, with 82 per cent of a maximum reservoir capacity of 87 TWh. The corresponding figure at the end of 2019 was 63 per cent, while the median value is 68 per cent.

Revenue drivers

Hydropower production is primarily sold in the Nordic wholesale market. Some production is also sold through long-term industrial contracts, as well as under concessionary power obligations. Power revenues are determined by produced volume and the achieved power price.

Volume

Hafslund Eco is Norway's second-largest hydropower producer, with a mean annual production of almost 18 TWh (around 13 per cent of total Norwegian hydropower production) and an aggregate installed capacity of around 5,200 MW. Hafslund Eco has operational responsibility for power plants with an annual mean production of around 21 TWh. The largest power plant, Aurland 1, is Norway's third-largest with an annual mean production of 2.1 TWh and an aggregate installed capacity of 840 MW. This is sufficient to cover the annual power consumption of around 110,000 households. More information about the power plants' capacity is available at www.hafslundeco.no. In 2020, total production for the Hafslund Eco Group amounted to 17.8 TWh. This represents an increase of 4.4 TWh from 2019. The increase from 2019 has to, in addition to about 2 TWh in full-year effect of the acquisition of Eidsiva Vannkraft (now Hafslund Eco

[1]TWh – One terawatt hour equals one billion kilowatt hours. This roughly equates to the annual power consumption in Drammen.
[2]MW – A measurement of the power, or consumption of energy (one megawatt equals 1,000 kilowatts). The highest-ever energy consumption measured in Norway was 27,513 MW (14 December 2018).
[3]Source: NVE: "The power market and the Norwegian power system"; provides information on normal annual production, power capacity, number of reservoirs and percentage of the European market capacity.

Vannkraft Innlandet) and commissioning of the Nedre Otta power plant, be viewed in connection to the higher production as a result of the large hydropower surplus during 2020.

Flexible power and reservoir utilisation

Hafslund Eco has both flexible (reservoir-based) and intermittent (run-of-river) hydropower production and total reservoir capacity of around 8.0 TWh. This equates to around 45 per cent of the Group's annual mean production.

The benefit of flexible production is that it can be adapted to demand for power and fluctuations in power prices (water is saved in periods of high inflow and low consumption and used in periods of low inflow and high consumption). Inflow for Norwegian hydropower can vary by up to 80 TWh a year, from 100 TWh in dry years to 180 TWh in wet years. The reservoirs make it possible to adopt hydropower production to the various challenges created by the vagaries of the Nordic climate. In run-of-river plants, which do not have significant reservoir capacity, production is determined by the inflow.

Flexible hydropower offers benefits currently unmatched by other renewable production technologies. This is because flexible hydropower can deliver power when it is needed, unlike wind and solar farms that can only deliver power when the weather conditions permit.

Individual power producers can determine the times when they utilise their reservoirs within the licensing requirements for minimum water flow and regulations for maximum and minimum water levels. The basic challenge in utilising hydropower reservoirs is that it is impossible to accurately predict the future inflows to the power plants, or how high demand and prices will be. Consequently, decisions to produce now or save water will always be subject to uncertainty.

Important power price drivers

In addition to the weather, coal, gas and CO2 emission allowance prices, exchange capacity with neighbouring countries, and changes in power consumption are all important drivers of the Nordic power price.

Prices of alternative energy sources, CO2 emission allowances and exchange capacity

Since the Norwegian power system is linked to the Nordic and European power markets, the alternative to using the water for production would be to exchange power with neighbouring countries. This means that power prices in areas Norway can exchange power with will impact the production decisions of Norwegian hydropower producers. The Nordic power system is becoming ever-more closely linked to the continent through increased exchange capacity, where the cost of power production in Europe also affects Nordic pricing. At the same time, the share of intermittent power (solar and wind power) in the Nordic region and the rest of Europe is rising.

The price of European emission allowances fell strongly in March 2020 as a result of measures to combat COVIDd-19, before rallying to close the year at their highest level since the start of 2020. In recent years, the EU has implemented several measures to reduce the significant surplus of emission allowances seen in the market in the past few years. This contributed to a rise in the price of emission allowances from a low of around EUR 5/tonne in 2018 to above EUR 30/tonne at the end of 2020. At the same time, the EU has launched new and more ambitious goals for future emissions cuts.

In recent years, higher CO2 emission prices in Europe, together with falling gas prices, have increased incentives to replace coal production with gas and other energy sources that generate lower emissions. These have resulted in a reduction in coal-fired energy production, a trend that is

expected to continue. Higher emission allowance prices will be a driver of the price of power and will vary in line with the price of individual energy carriers (for example gas).

Increased exchange capacity impacts the power price through higher power flows between the Nordic and European power systems, and is required to ensure satisfactory distribution of the gradually increasing share of intermittent production (solar and wind power), and to reduce the risk of electricity shortages in years of low precipitation. Norway was a net exporter of power in 2020. In isolation, increased exchange capacity is also narrowing price differences between Norway and other countries; however, these differences will also become more variable as the volume of intermittent power and weather fluctuations increase.

The electricity certificate scheme

The launch of the Norwegian-Swedish electricity certification scheme has led to higher investments in intermittent, renewable energy. Power producers who develop new renewable energy production are allocated electricity certificates that can be sold in the market. This means that the sale of certificates generates additional revenue to the income that producers receive from the sale of power. This helps to increase the supply of renewable energy and therefore reduce power prices. There has been a major increase in production related to the electricity certificate scheme in recent years. There will be a surplus of emission allowances moving forward and the certificate prices continued to fall in 2020.

Concessionary power

Hafslund Eco is awarded perpetual licences for developing and operating hydropower plants, in return for which the company is obliged to supply concessionary power to local and county authorities each year. This obligation is covered by both physical deliveries and a financial settlement scheme whereby Hafslund Eco pays the difference between the spot and concessionary power price to the party entitled to receive concessionary power. In 2020, 0.9 TWh of power produced by Hafslund Eco was sold under these conditions at an average price of 12.8 øre per kWh.

Market prices

The system price in the Nordic region is the reference price for the Nordic power market and was 11.5 øre per kWh, against 38.4 øre per kWh for 2019. The achieved price depends on the price area in which production takes place. Norway is divided into five price areas where Hafslund Eco's annual mean production relates 59 per cent to NO1, 36 per cent to NO5 and 5 per cent to NO3. The graphs on page 36 show changes in the system price, as well as differences between the system price and area prices for NO1 and NO5, between 2015 and 2020.

2020 was the warmest year ever recorded in Norway and energy from precipitation was more than 50 per cent higher than normal. Combined with significantly restricted export capacity, this resulted in very low power prices. High inflow, low export capacity and reduced consumption meant that at times there was insufficient demand to use all potential power production and some water bypassed the power plants and could not be utilised. The average power price in NO1 and NO5 was 9.8 øre per kWh. In NO3 the annual price was 9.4 øre per kWh. In the southern Sweden and Denmark price areas, with which Norway normally has good exchange capacity, the annual prices were more than twice as high. The last time power prices were as low was in 2000, when the delivered system price was 10.3 øre per kWh.

Power derivatives and hedging

As a power producer, Hafslund Eco is exposed to fluctuations in market prices and volume uncertainty. Hafslund Eco has an active hedging strategy

intended to achieve a balance between reducing power price risk and maximising value creation. Market risk is managed using financial instruments, wherever possible in the Nordic power market. The power derivatives help reduce volatility in achieved prices. The Group has introduced frameworks for hedging a proportion of hydropower production volumes for up to 15 years into the future to further reduce risk relating to future cash flows. As Norway's second-largest power producer, Hafslund Eco also wishes to facilitate market-relevant power contracts, focusing in particular on long-term power contracts with industry and other market players with a similar long-term perspective.

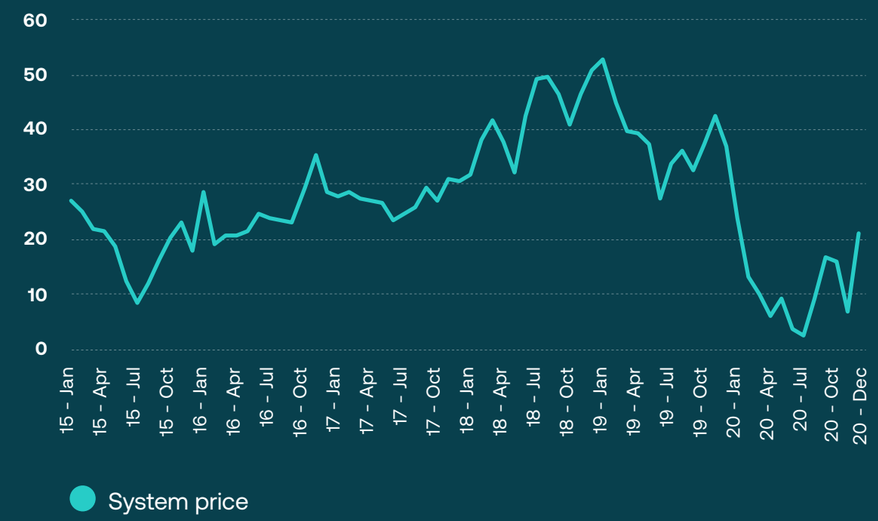
To be able to follow the market closely and dynamically, as well as build up expertise in different instruments, the Group engages in trading activities alongside hedging activities. These activities are intended to generate a positive long-term return and provide analytical input for the Group.

Cost drivers

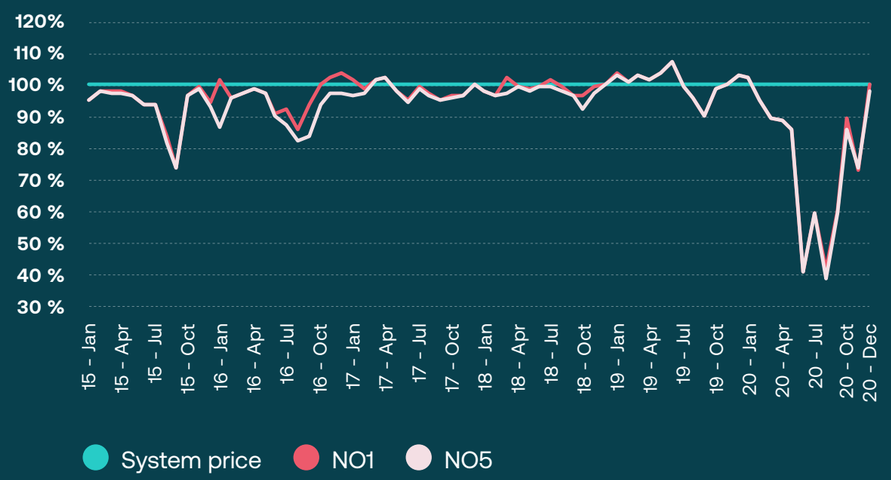
Operating costs for hydropower production are relatively low and vary in line with price and volume. Total operating costs in 2020 related 66 per cent to partially controllable costs and 34 per cent to controllable costs. The partially controllable costs consist of energy purchases and transmission costs (18 per cent), property tax, licence fees and compensation (27 per cent) and depreciation, amortisation and impairments (22 per cent). The controllable costs consist of salaries and other payroll costs (24 per cent), and other operating costs such as maintenance, IT, staff and reinvoiced operational support functions (10 per cent).

The level of controllable costs for the Hafslund Eco Group in 2019 and 2020 should be viewed in the context of the merger and integration following the completion of the Eidsiva Energi transaction in autumn 2019. Hafslund Eco has set itself a goal of becoming Norway's most efficient

System price 2015–2020 (øre per kWh)



NO1 og NO5 - Deviations from system price 2015–2020



hydropower company, including by focusing on achieving optimal long-term production costs.

Resource rent tax is a special tax on Norwegian hydropower, which pushes the total cost up. The hydropower sector has a marginal tax rate of 59 per cent, made up of general corporation tax at 22 per cent and resource rent tax at 37 per cent. Profits from power derivatives are taxed at the general corporation tax rate.

Key figures power production

NOK million	2020	2019
FINANCIAL KEY FIGURES POWER PRODUCTION		
Revenues	3,124	6,046
Energy purchase and transmission	-337	-265
Property tax and licensing fees	-514	-505
Depreciation and amortisation	-410	-322
Total partially controllable costs	**-1,261**	**-1,092**
Salary and other personnel costs	-450	-201
Other operating costs	-193	-392
Total controllable costs	**-643**	**-592**
Total operating expenses	**-1,905**	**-1,684**
Profit/loss from equity-accounted investees	-8	1
Operating Profit (EBIT)	**1,212**	**4,364**
Profit after tax	**472**	**1,952**
OTHER KEY FIGURES POWER PRODUCTION		
Investments in fixed assets	581	680
Produced volume (TWh)	17.8	13.4
Achieved power price (øre/kWh)	11.9	39.2
Achieved power price included realized hedging (øre/kWh)	16.4	39.6
Nordic system price (øre/kWh)	11.5	38.4
Number of employees	407	391

Geographic location of power stations

Definitions and alternative performance measures

Measure	Definition
EBITDA	EBIT + Depreciation
Net interest-bearing debt	Gross interest-bearing debt excl. subordinated debt – Interest-bearing receivables
Interest-bearing receivables	Cash and cash equivalents + money market funds + long-term interest-bearing receivables
Capital employed	Equity + Net interest-bearing debt + Taxes payable
ROE	Profit for the year adjusted for gain on sales / average equity 1.1 and 31.12
ROCE	EBIT/ average capital employed 1.1 and 31.12
Debt / EBITDA	Ending balance Net interest-bearing debt / EBITDA
FFO / Debt	(EBITDA – interest paid excl. interest paid on subordinated debt – taxes paid) / ending balance Net interest-bearing debt
Power production	Total production in power plants in TWh
Achieved power price	Weighted power price including concession power and realized power price hedging
Underlying profit	Result corrected for non-recurring items and unrealized changes in value

NOK million	31.12.2020	31.12.2019
GROSS AND NET INTEREST-BEARING DEBT		
Long-term interest-bearing debt	18,460	18,199
Value change loan portfolio	-445	-268
Short-term interest-bearing debt	1,790	701
Gross interest-bearing debt incl. subordinated debt	**19,805**	**18,632**
Subordinated debt	-5,364	-5,764
Gross interest-bearing debt excl. subordinated debt	**14,441**	**12,868**
Cash and cash equivalents	-1,008	-2,444
Other long-term interest-bearing receivables	-153	-84
Net interest-bearing debt	**13,280**	**10,340**
CAPITAL EMPLOYED		
Equity	25,838	25,645
Net interest-bearing debt	13,280	10,340
Subordinated debt	5,364	5,764
Taxes payable	577	2,064
Capital employed	**45,059**	**43,813**

Definitions and alternative performance measures
(cont.)

NOK million	2020	2019
UNDERLYING OPERATING PROFIT AND PROFIT AFTER TAX		
Operating profit (EBIT)	1,805	5,060
Value changes in power price and foreign exchange contracts	-62	-625
Value change land compensation rights	30	-113
Profit from sales of business - Eidsiva	-138	-
Underlying operating profit	**1,635**	**4,322**
Profit after tax	1,040	6,511
Value changes and one-offs operating profit	-170	-738
Pro-contra settlement Eidsiva / Gain on sale of the network business	53	-4,351
Tax effects adjustments	-4	204
Underlying profit after tax	**919**	**1,626**
ROCE / RETURN ON CAPITAL EMPLOYED		
Operating profit (EBIT)[1]	1,805	5,060
Divided by:		
Ending balance capital employed[2]	44,436	43,813
ROCE / return on capital employed	**4.1 %**	**11.5 %**
ROE / RETURN ON EQUITY		
Profit for the year[1]	1,040	6,511
Gain/loss on sale of Grid operations	-	-4,351
Profit for the year adjusted for gain/loss on sale of Grid operations	1,040	2,160
Divided by:		
Ending balance equity[2]	25,742	25,645
ROE / return on equity	**4.0 %**	**8.4 %**

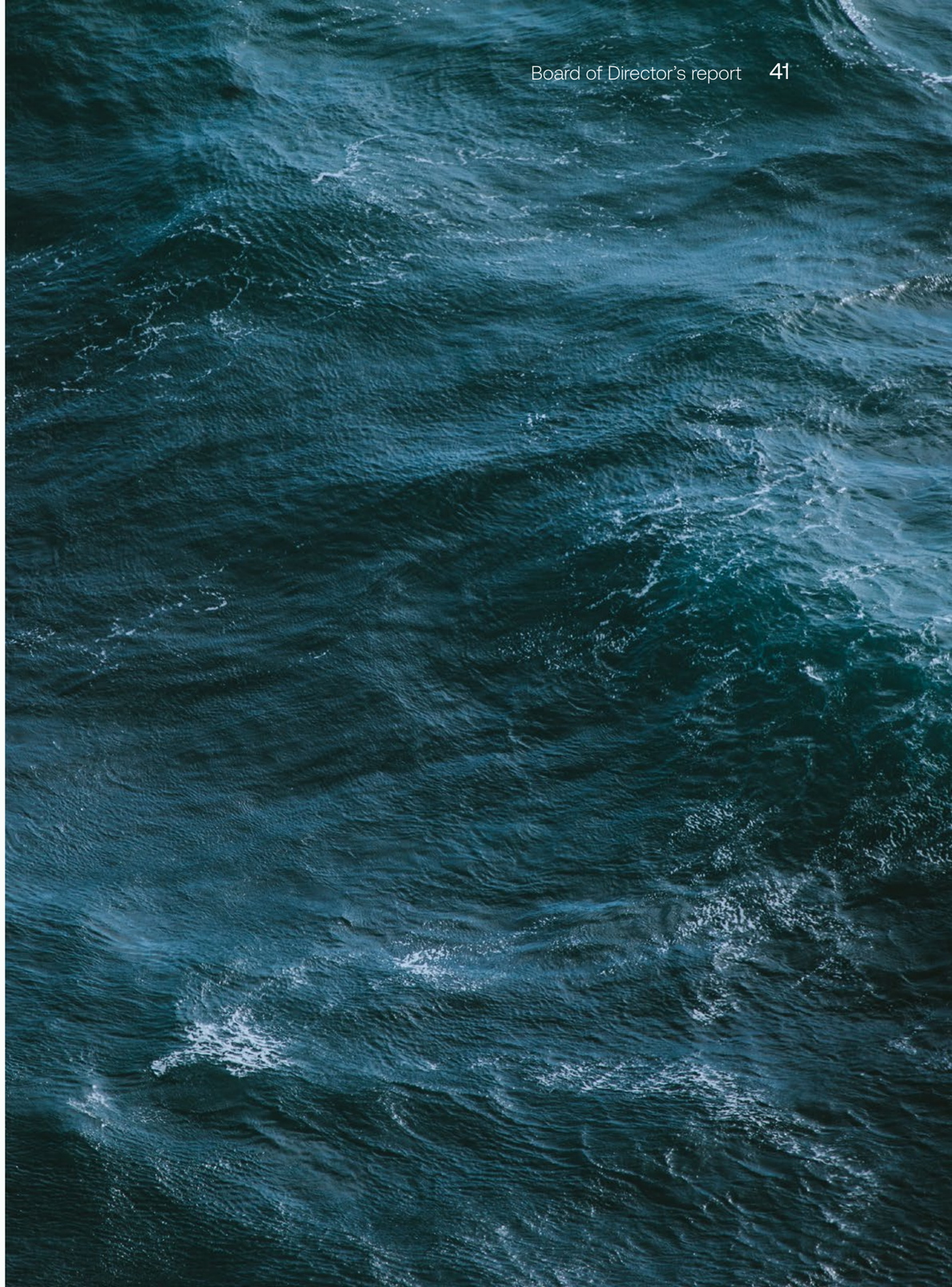
NOK million	2020	2019
DEBT / EBITDA		
Net interest-bearing debt	13,280	10,340
Divided by:		
EBITDA	2,297	6,072
DEBT / EBITDA	**5.8**	**1.7**
FFO / DEBT		
EBITDA	2,297	6,072
Interest paid excl interest paid on subordinated debt	-341	-456
Taxes paid	-2,047	-2,122
Divided by:		
Net interest-bearing debt	13,280	10,340
FFO / debt	**-0.7 %**	**33.8 %**

[1] 2019 includes discontinued operations for all accounting lines in the profit and loss statement.
[2] In calculation of ROE and ROCE for the financial the year 2019 are figures at 31.12.19 used for equity and capital employed due to major capital changes in light of the Eidsiva-transaction i 2019.

Contents

Report from the Board of Directors 2020

2020 was the first full year of operation under the new structure following the transaction with Eidsiva Energi – and a year of major changes, including a dramatic fall in power prices, adaptation of operations to the COVID-19 pandemic and significant integration activities. The net profit for the year was strongly impacted by weather conditions and record-low power prices, including an average spot price of less than 10 øre per kWh, compared with 39 øre per kWh in 2019. However, successful power price hedging, increased production volume, full operations and stable earnings from Eidsiva Energi contributed positively to the overall result. New Energy opened its 10,000th charging station in 2020. An early commitment to offshore wind has been established, and in 2021, 1 TWh of new hydropower production will be completed. By generating clean, renewable energy and delivering smart electrification solutions, Hafslund Eco will contribute to a sustainable society and "a renewable and fully electric future".



Hafslund Eco in 2020

In autumn 2019, Hafslund Eco confirmed its position as Norway's second-largest power producer after Statkraft, following the transaction with

Eidsiva Energi. The Group operates facilities that generate 21 TWh of clean, renewable hydropower, of which 18 TWh is owned and operated. The Group is also contributing to increased electrification of society through the operations within New Energy. Towards the end of the year, Hafslund Eco announced a joint venture in offshore wind power in Norway with Fred. Olsen Renewables.

As part of the transaction with Eidsiva Energi, the hydropower businesses were bundled in Hafslund Eco, while the networks businesses were bundled in Eidsiva Energi. The streamlining of the hydropower and networks businesses is intended to boost competitiveness and profitability by leveraging economies of scale and facilitating operational efficiency improvements and increased digitalisation. This will provide a basis for higher long-term dividends to owners. This work was a key focus area throughout 2020. The implemented structural change will better equip Hafslund Eco to maintain a strong position in an evolving sector, and provide opportunities to identify new growth areas and new opportunities in both power production and New Energy.

The 50/50 joint venture in offshore wind power with Fred. Olsen Renewables shall initially apply for licences for the Norwegian shelf, where the government has opened two areas for the development of offshore wind power, Utsira Nord and Sørlige Nordsjø II. The joint venture combines two highly experienced and complementary resource pools. While Hafslund Eco has leading expertise and experience in renewable power production, the power market and infrastructure, Fred. Olsen Renewables is a leader in wind power and offshore installations and activities.

The Group's activities

Power production

- The Group owns 80 hydropower plants that generate almost 18 TWh, and operates facilities that generate about 21 TWh.
- The power plants are located in Oslo, Aurland, Hallingdal and Valdres, Innlandet and Lower Glomma, and include both reservoir and run-of-river power plants.
- The power is sold in the wholesale market. The largest wholly owned production facilities are located in Aurland, Hallingdal, Innlandet and lower Glomma.
- Around 1 TWh of renewable power production facilities will be developed in the period 2018 to 2021.
  - In 2018, the Rosten power plant in Sel municipality was completed.
  - In 2019, the twelfth turbine at Vamma in Skiptvet municipality was completed.
  - In 2020, Nedre Otta in Vågå/Sel entered operation.
  - In 2021, Tolga in Østerdalen and Mork in Lærdal will enter operation.
- > 400 employees.

New Energy

- New Energy develops innovative solutions in electrification, digitalisation and smart urban solutions to enable more people to use electric solutions.
- The subsidiary's main focus during the year was further development of the Ladeklar (Fully charged) and Hafslund Rådgivning initiatives, which were established in 2019.
- Ladeklar (Fully charged) supplies charging infrastructure for electric vehicles and enables housing associations to invest in and operate charging facilities. The project, which is designed to help accelerate electric vehicle growth, opened its 10,000th charging station at the end of the year.
- New Energy signed an agreement with BKK to merge the companies' respective charging businesses in the first quarter of 2021. The combined new business will become a more powerful player to take a leading position in increasing standard charging in Norway.
- Hafslund Rådgivning provides consultancy services on the sustainable roll-out of electrical infrastructure and new energy solutions to the business market.
- > 20 employees.

Shareholding in Eidsiva Energi

- Through Eidsiva Energi, the Group owns 50 per cent of Norway's largest grid operator, Elvia, which has more than 930,000 customers.
- Elvia constructs, operates, maintains and refurbishes the power grid in Innlandet, Viken and Oslo.
- The networks business is a natural monopoly with publicly regulated revenues that generates stable and relatively predictable earnings.
- Eidsiva Energi also owns district heating and broadband businesses.
- Eidsiva Energi's power sales customers were sold to Fjordkraft in 2020.
- > 1,200 employees.

Vision and strategy

Hafslund Eco wishes to be a driver of better climate through the vision "for a renewable and fully electric future". Long-term value shall be generated through ownership and operation of renewable energy, the secure supply of energy and development of a smart and fully electrified zero-emission society, supported by electrification solutions from New Energy. In 2020, Hafslund Eco sharpened its focus on creating new, green industry in Norway, where offshore wind power, battery and hydrogen production are some of the areas where work is ongoing. To ensure long-term demand for renewable energy, it is important to secure good conditions for existing and new power-intensive industry. To this end, Hafslund Eco is actively engaging with the authorities to secure good framework conditions for new establishments in Norway.

The Group's culture shall be characterised by the values "open", "responsible" and "innovative", and the Group's strategy, together with the vision, can be encapsulated in the following strategic goals:

- Be the most efficient hydro power company.
- Accelerate electrification and facilitate a new green industry.
- Grow organically and through consolidation.
- Innovate and put to use new technology and digitalisation.
- Attract and develop employees and create a leading expertise resource pool.

Operationalisation of a single new organisation, integration following the transaction with Eidsiva Energi and the launch of a new visual profile all featured prominently in 2020. The above measures are being accompanied by the establishment of larger expertise resource pools, coordination and development of IT systems and ongoing reinforcement of our sustainability efforts. Efficient management of energy resources in a market characterised by a hydrological surplus has also been important. Together with significant growth in electrification through Ladeklar (Fully charged) and the facilitation of new green industry, Hafslund Eco is contributing sustainable solutions for society and our customers.

New business development and investment opportunities are during the year continually evaluated in both power generation and New Energy. In the first quarter of 2021, New Energy signed an agreement with BKK to merge the companies' respective charging businesses. The merged company, which will be jointly and equally owned by Hafslund Ny Energi and BKK, has a strong position and is well placed to generate rapid growth. Ladeklar (Fully charged) aims to become Norway's leader in standard charging.

Hafslund Eco is actively seeking out collaboration and strategic alliances, as demonstrated by the joint venture in offshore wind power with Fred. Olsen Renewables. Collaboration and partnerships will be an important factor to succeed in a rapidly evolving sector. In addition to facilitating value creation, offshore wind power is important for Hafslund Eco because it will pave the way for the development of an offshore wind grid in the North Sea. An offshore grid will ensure better utilisation of flexible hydropower in Norway. Hafslund Eco is also actively working to highlight the value of hydropower in the green shift and the Group's role and strong position to establish Hafslund Eco as the most profitable hydropower company in Norway.

The power market in 2020

A significant change in the weather at the start of 2020 triggered a sharp fall in the power price. The hydrological balance was significantly strengthened during 2020 as a result of mild, wet and windy weather,

including snow volumes above normal. This resulted in low demand for energy, a high power surplus and historically low power prices. The fall in the power price was at times exacerbated by restrictions in transmission capacity in both the Nordic and neighbouring power markets due to faults with several interconnectors. To prevent flooding and water losses, power producers were forced to generate power even when prices were low.

The average spot price for both price area NO5 (Western Norway) and NO1 (Eastern Norway) in 2020 was just under 10 øre per kWh. This is down around 29 øre per kWh on 2019. For the sake of comparison, the Nordic system price in 2020 was 11.5 øre per kWh (38.4 øre per kWh). The lowest monthly price was in June and July with a spot price of around 1.5 øre per kWh, on the back of a historically high hydrological surplus, as well as restrictions in transmission capacity on the interconnectors to Sweden, Denmark and the Netherlands.

At the start of 2021 another significant change in the power price came driven by winter weather, significant cold and good transmission capacity. The change in weather together with good transmission capacity resulted in a significant rise in spot power prices from around 5 øre per kWh in November to around 21 øre per kWh in December. The cold winter weather also resulted in higher power prices entering 2021 and a rise in the forward power price.

The COVID-19 pandemic is considered to have had limited impact on Norwegian power prices. While the potential long-term effects are unclear, the power price in the rest of Europe will probably be impacted more by the pandemic than in Norway. However, power prices in the rest of Europe affects power prices in the Nordic region, indicating that the pandemic may yet impact power prices in Norway. The German system price was around 21 øre per kWh higher than the Nordic system price in 2020.

Development of power production and consumption

Total Nordic power production amounted to 134 TWh (135 TWh) in 2020, a slight decrease from 2019. Moving forward, increased electrification is expected to be an important driver of changes in power consumption, including electrification of the Norwegian shelf (increase annual consumption by 10 TWh to 12 TWh), and in particular impact demand for power in price area NO5. Total power production in 2020 closed on 154 TWh, up from 135 TWh in 2019. The increase is mainly attributable to 18 TWh higher hydropower production, and a 4 TWh increase in wind power production. Norway exported a net amount of 20 TWh in 2020.

Price hedging

Hafslund Eco has an active power hedging strategy intended to stabilise revenues and cash flows, and leverage market opportunities. The Group performs ongoing analyses to hedge the price of sales of power in the Nordic power market. To reduce the risk of uncertainty surrounding future power prices and production volumes, the Group uses financial power contracts and direct bilateral agreements with industrial businesses to hedge production revenues for physical deliveries of power. The hedged portion of production varies in line with expected market developments and production volumes. Hafslund Eco has implemented hedge-accounting for financial power contracts in the Nordic market with delivery after 2021 to reduce fair value adjustments in profit or loss.

Income statement, cash flow, balance sheet and equity – Group

Last year's figures are presented in parentheses unless otherwise stated, and include the ownership of Hafslund Nett (Network) until 30 September 2019 (discontinued operations). The ownership in Eidsiva Energi and the acquisition of Eidsiva Vannkraft (Hafslund Eco Vannkraft Innlandet) are included as of the fourth quarter of 2019 (continuing operations).

No pro-forma figures have been prepared for 2019 to take into account the transaction with Eidsiva Energi. The group reports in two segments, power production and other activities, as discussed below.

Results

Hafslund Eco generated EBITDA of NOK 2,297 million (NOK 6,072 million) and an operating profit of NOK 1,805 million (5,060 million) in 2020. The decrease in the operating profit is primarily attributable to a significant fall in power prices. The operating profit includes contributions from realised power hedges of NOK 795 million (NOK 39 million) and changes in value of power and foreign exchange contracts of NOK 62 million (NOK 625 million). The achieved power price of 11.9 øre per kWh in 2020 is down 70 per cent on the previous year, but 22 per cent higher than the spot price for both NO1 and NO5, and 4 per cent higher than the system price for 2020. The achieved power price was further increased through solid contributions from realised power hedges which gives a combined average power price of 16.4 øre per kWh (39.6 øre per kWh). The recognised profit from the shareholding in Eidsiva Energi was NOK 636 million and includes a NOK 138 million gain from the sale of a business.

Finance costs for 2020 totalled NOK 642 million (NOK 637 million), including a charge of NOK 53 million from a pro-contra settlement in connection with the Eidsiva transaction. The result in 2019 also includes a gain from the sale of Hafslund Nett of NOK 4,351 million.

The tax expense of NOK 123 million for the period (NOK 2,262 million) includes resource rent tax for hydropower production of NOK 39 million (NOK 1,185 million). The low tax expense is mainly due to the low power price which affects the calculation of the resource rent tax. Profit from financial power hedges is not subject to resource rent tax, and profit contributions from equity-accounted investees (associates and joint venture) are post tax.

The profit after tax for 2020 of NOK 1,040 million (NOK 2,160 million adjusted for the gain from the sale of Hafslund Nett of NOK 4,351 million) was lower than the previous year due to a significant fall in the power price. The profit after tax corresponds to a return on equity of 4.0 per cent in 2020 (8.4 per cent). The return on capital employed for the year closed on 4.1 per cent (11.5 per cent). Adjusted for non-recurring items and unrealised changes in fair value, the profit after tax generated an underlying profit of NOK 919 million (NOK 1,626 million) in 2020.

Cash flow

In addition to low earnings due to the low power price, the net cash flows from operating activities for the year of NOK -1,427 million is attributable to taxes paid of NOK 2,047 million on the back of high power prices and good results in 2019. EBITDA of NOK 2,297 million for the year was NOK 3.2 billion higher than the associated cash flow from operations before changes in working capital. In addition to taxes paid of NOK 2,047 million, the increase is due to interest paid of NOK 568 million and NOK 611 million relating to the recognised share of profits from equity-accounted investees (primarily Eidsiva Energi).

Net investments totalled NOK 688 million, including the completion of the power plant Nedre Otta, and Tolga and Mork which shall according to plan be completed in 2021. The dividend paid to the City of Oslo and non-controlling interests for the 2019 financial year amounted to NOK 1,068 million, while dividends received from Eidsiva Energi totalled NOK 525 million. The dividend from Eidsiva Energi comprises the dividend for the 2019 financial year and quarterly dividends for the 2020 financial year in accordance with the signed shareholders' agreement. In total, this resulted in a net cash outflow that increased net interest-bearing debt by NOK 2.9 billion during 2020.

Balance sheet, financing and capital

At the end of 2020, Hafslund Eco had total assets of NOK 58 billion, at the level of year-end 2019. Capital employed was NOK 45 billion (NOK 44 billion) at the end of 2020. See note 1.3 regarding changes in the balance sheet at 31 December 2019 as a result of a change in accounting policy for assessing the cost price of ownership in Eidsiva Energi.

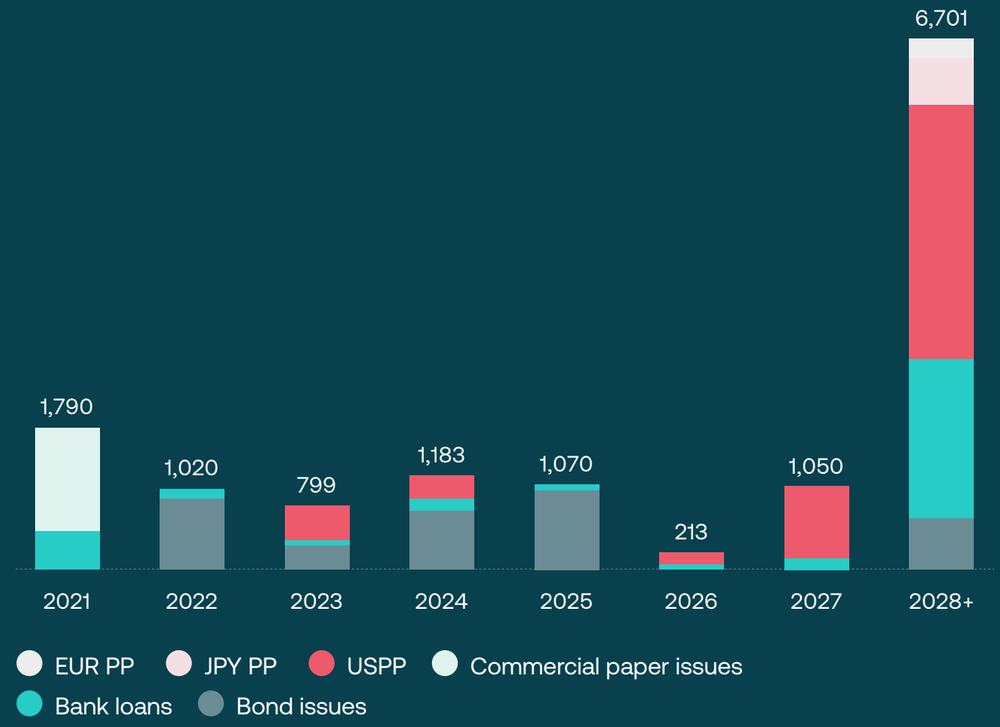
At the reporting date, excluding subordinated loans, Hafslund Eco had net interest-bearing debt of NOK 13.3 billion (NOK 10.3 billion), and an average coupon rate for the loan portfolio of 2.2 per cent. The average term to maturity is 6.3 years.

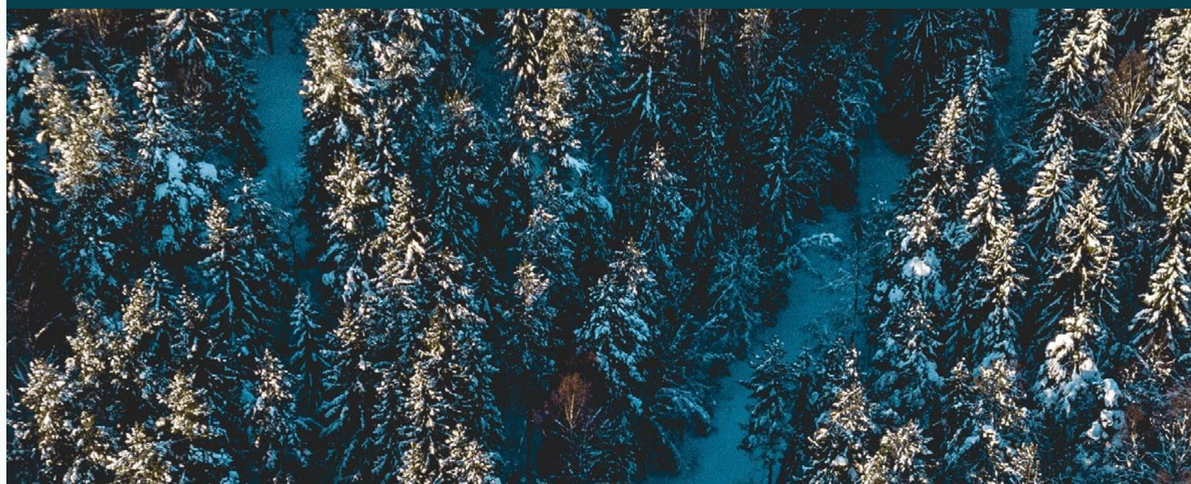
At the end of 2020, the key credit ratios net interest-bearing debt/EBITDA and FFO /net interest-bearing debt were 5.8x and -1 per cent respectively, due to the significant fall in the power price, high tax payments as a result of high power prices in 2019 as well as the resulting negative cash flow, compared with 1.7x and 34 per cent respectively for the 2019 financial year. Resource rent tax reduces the key figure FFO/net interest-bearing debt. At the end of the year, outstanding subordinated loans amounted to NOK 5.4 billion. Subordinated loans are reduced by NOK 400 million during the year.

Hafslund Eco has a robust financing structure with long-term committed drawdown facilities and sufficient liquidity to cover at least the next 12 months' loan maturities. At the end of 2020, the Group had unutilised drawdown facilities of NOK 2.9 billion (including an overdraft facility of NOK 400 million), a EUR 50 million overdraft facility and no covenants on any loan agreements. The establishment of a green framework for financing is completed and a green bond issued in March 2021. The Group's risk profile shall support an "investment grade" credit rating.

[1] In contrast to note 5 Interest-bearing debt, the graph shows maturities including swap effects. There are no swap effects prior to 2023.

Annual maturity profile of loans as of 31 December 2020
(NOK million)[1]





Profit power production

Power production primarily consists of hydropower production. Power production generated operating profit of NOK 1,212 million in 2020. This is a reduction of NOK 3,152 million from 2019 reflecting a significant fall in the power price.

Power production had operating revenues in 2020 of NOK 3,124 million against NOK 6,046 million for last year. Operating revenues are characterised by a significant fall in power prices, a good contribution from hedging activities, higher production volumes, and full-year effect in 2020 of the acquisition of Eidsiva Vannkraft in the fourth quarter of 2019.

The achieved power price of 11.9 øre per kWh in 2020, which was down 27.3 øre per kWh on the previous year, contributed to a NOK 3,652 million decrease in the operating profit compared with 2019. The achieved power price only includes sales of the physical production volume and does not include the result from financial power hedging. For the sake of comparison, the Nordic system price was 11.5 øre per kWh in 2020, down 26.8 øre per kWh from 2019. A weaker NOK/EUR exchange rate during the year slightly offset the power price reduction due to the fact that power is sold in EUR. In addition to sales in the spot market, the production volume used to calculate the achieved power price includes sale of industrial power and concessionary power. The result from financial hedging activities for 2020 came in at NOK 745 million (NOK 540 million), of which NOK 731 million (NOK 21 million) was realized.

Power production in 2020 totalled 17.8 TWh, up 4.4 TWh on the previous year. 2.0 TWh of the increase in production is attributable to the full-year effect of the acquisition of Eidsiva Vannkraft, the new power plant Nedre Otta was put into operation and the strong hydrological balance in 2020. Higher production contributed to a NOK 531 million increase in the operating profit compared with 2019. Solid operation and resource allocation contributed to good accessibility at the power plants. There were no incidents with significant outages, even though the operations of the power plants have been continuously adapted to COVID-19 conditions and government-imposed requirements.

Operating costs include depreciation of NOK 1,905 million in 2020, an increase of NOK 221 million from last year, mainly as a result of the full annual effect from the acquisition of Eidsiva Vannkraft and subsequent integration activity. Of total operating costs, the variable costs amount to NOK 643 million (NOK 592 million). The cost level is characterised by activity shifts due to COVID-19 and low power price levels. As a result of the transaction with Eidsiva Energi in the autumn of 2019 and reinforced by the low power price level through 2020, work is ongoing on cost-reducing measures, operational efficiency and extraction of economies of scale and other synergies, including the establishment of shared digital solutions.

Result from Other business including shareholding in Eidsiva Energi

Other business includes the shareholdings in Eidsiva Energi (50 per cent) and Fredrikstad Energi (49 per cent), the focus on New Energy, the parent company Hafslund Eco, and management of Hafslund Manor. It also includes power-hedging activities relating to power production and amortisation of excess values in Hafslund Produksjon.

Operating profit for Other business totalled NOK 593 million (NOK 696 million) in 2020, of which NOK 619 million (NOK 71 million) relates to the share of profit of equity-accounted investees, including Eidsiva Energi. Eidsiva Energi's result reflects efficient operations and the sale of the Group's share of the end-user company Innlandskraft to Fjordkraft with a gain of NOK 138 million. While COVID-19 has had a limited impact on

Eidsiva Energi's operations and finances, the company is closely monitoring developments. New Energy's Ladeklar (Fully charged) initiative generated strong growth with more than 10,000 charging stations at the end of the year. The growth activity at New Energy generated a negative results contribution. Towards the end of the year, a 50/50 offshore wind power partnership was established with Fred. Olsen Renewables. Power-hedging activities and amortisation of excess values relating to Hafslund Produksjon contributed respectively NOK 111 million (NOK 124 million) and NOK -79 million (NOK -79 million). NOK 64 million (NOK 18 million) of the power hedging result has been realised. Operating profit in 2019 includes NOK 699 million from the grid business that was divested in connection with the Eidsiva transaction and must be seen in connection with the full annual effect in 2020 from the incorporated profit from the ownership interest in Eidsiva Energi.

Sustainability

By producing clean, renewable energy and delivering smart electrification solutions, Hafslund Eco aims to contribute to a sustainable society and "a renewable and fully electric future". Corporate social responsibility and sustainability have a high strategic priority and permeate the Group's entire value chain and operations. The Group has drawn up ethical guidelines that apply to all employees at majority-owned companies and suppliers. Hafslund Eco constantly strives to promote the Group's values to employees, suppliers and partners.

Hafslund Eco contributes to a sustainable society by generating clean, renewable energy and delivering smart electrification solutions, which in turn helps to reduce CO2 emissions. The Group supports the UN's 17 sustainable development goals, and endeavour to ensure that the Group's impact on the environment and society is as positive as possible. In June 2020, the Board adopted a new sustainability strategy designed to make Hafslund Eco a sector leader in sustainability in terms of ambitions, measures, achieved results and reporting. During autumn 2020, the Group has completed a project to secure operationalisation of the Group's sustainability strategy.

The Group has prepared a materiality analysis for corporate social responsibility. The analysis is based on areas considered significant for Hafslund Eco's activities and the Group's stakeholders. The analysis highlights both risks and opportunities and has identified the following six areas as crucial for attaining the Group's strategic goals, and linked these to the UN's sustainable development goals:

- Production and availability of renewable energy (# 7 and 13)
- Impact on nature (# 15)
- Sustainable consumption and production (# 12 and 13)
- Safety of surrounding environment (# 8)
- Responsible workplaces (# 5 and 8)
- Financial contributions to society (# 11)

More information about Hafslund Eco's sustainability efforts is available in the section "Sustainability at Hafslund Eco" and in Hafslund Eco's Sustainability Report for 2020, available at www.hafslundeco.no.

HSE and employees

HSE is a key element of the planning and execution of all activities, where Hafslund Eco has set a goal of being the leader in HSE in its industry. The Board is not satisfied with the HSE results for 2020, as the number of injuries is well above target. Hafslund Eco aims to experience zero injuries among its own and suppliers' employees, and systematically works on measures to reduce the number of injuries. Reporting of undesired

incidents and close follow-up of serious incidents and near misses are a key part of the systematic HSE work.

In 2020, there were 14 injuries, including those involving suppliers, nine of which involved lost-time. The number of injuries per million working hours (H2) for 2020 was 13.4, compared with 8.1 for 2019, including one particularly serious work accident when an operative suffered a crush injury while manually rotating a turbine. During the year, a new HSE manager was appointed and an internal HSE audit with external assistance was completed. Findings from incidents and accidents are being recorded, and measures are taken to reduce injuries both at own and suppliers' employees. HSE at Eidsiva Energi is followed up by Eidsiva Energi's Board and reported as part of Eidsiva Energi's internal and external reporting. On 12 March, Hafslund Eco established an emergency response organisation to deal with the outbreak of the COVID-19 pandemic and meet the authorities' requirements. Full operations are maintained, and while only a few employees have been infected with COVID-19, a significant number of staff were placed in quarantine at the start of the pandemic, in particular in connection with a local outbreak in Hallingdal and foreign travel. Work is continuously carried out to limit the number of injuries and sickness absence, and adapt the business so that operations can be maintained while meeting the authorities' COVID-19 requirements. Many office employees have worked extensively from home and interacted digitally during the year as a result of the pandemic. Securing a good psychosocial working environment in the wake of a major integration, followed by a lengthy period of home-working for many employees due to COVID-19 was another key HSE focus.

Employees and equality

At the end of 2020, the Group employed 434 (411) staff in majority-owned companies. The increase in the headcount reflects growth in New Energy and the need to reinforce expertise and capacity in selected areas. All work shall be based on the Group's values: open, responsible and innovative. The cooperation between the management and the employee organisations function well and provide valuable input to develop the Group in a constructive way.

At the end of 2020, 22 (19) per cent of the Group's employees and two of the seven Group management members were women. The Group management team was reduced from ten to seven during the year. The number of part-time employees is limited. Hiring of employees is used to assist with increased capacity requirements and to supply expertise on dealing with integration activities. The work to achieve a more equal gender distribution and increased diversity will continue through targeted recruitment, internal development programmes and expertise development. Hafslund Eco shall not discriminate on grounds of gender, ethnicity, national origin, descent, skin colour, language, disability, religion or beliefs in areas such as pay, promotion and recruitment.

Sickness absence

Hafslund Eco has set a goal of maintaining the Group's overall sickness absence rate below 3.5 per cent. In 2020, sickness absence in the Group closed on 2.2 (2.3) per cent. Measures and training is implemented in order to maintain a low sickness absence rate. Joint professional and social activities are arranged to promote a common culture and maintain a good working environment.

Expertise

Leading expertise resource pools are essential to succeed and to develop existing employees and attract required new talents. The Group aims to build one of Norway's strongest expertise resource pools in hydropower production.

Operationalisation of a merged new organisation following the transaction with Eidsiva Energi in autumn 2019 was a key focus area in 2020. A series of integration activities are completed and significant resources are devoted to harmonising processes and establishing shared IT operations systems. The efforts to create an integrated company are continued and some functions are reinforced to provide the organisation with new expertise. Integration work is implemented in collaboration with employee representatives in order to achieve established goals, create a shared identity and leverage long-term economies of scale.

The Group systematically works on developing the expertise of managers and employees. The COVID-19 pandemic limited opportunities for physical meetings during the year, and employees largely interacted through digital meetings. Hafslund Eco has an internal Group development programme, and in 2020, the company had nine participants in GNIST, the Group's talent development programme. The work on strategic expertise development will continue, establishing shared development processes and reinforcing critical expertise in various disciplines and specialist areas.

Work on framework conditions

Norway has a hydropower-based energy system characterised by seasonal reservoirs, turbines that generate surplus energy, low system costs and good access to new renewable resources. This gives Norway a unique opportunity to attract new green industry. The conditions for a transition to a renewable and fully electric society are good, but to succeed, the authorities must create framework conditions that develop existing and new power production, ensure good transmission capacity, accelerate the rate of electrification and contribute to the development of green industry. Therefore, in 2020, Hafslund Eco paid particular attention to the following topics:

Ensuring a balanced assessment of environmental considerations in connection with the revision of the licensing terms for hydropower

Hafslund Eco is concerned with that environmental interventions are as low-impact as possible and uses knowledge-based measures in line with best practice. Hydropower production is subject to licensing terms with requirements for water flow and water levels in reservoirs. The revision of framework conditions is an authority-regulated process intended to evaluate whether the licensing terms should be adjusted. Where adjustments are necessary, Hafslund Eco proposes environmental improvements with the least possible negative impact on power production. The Group's assessment is that lost production and flexibility will probably have to be replaced with other power production with greater, cumulative encroachments on nature. The Ministry of Petroleum and Energy (OED) is expected to establish revised licensing terms in the Hols regulation project in 2021, following NVE's recommendation in spring 2020.

The tax system must stimulate new hydropower investments

Hafslund Eco is focused on ensuring that the structure of the special taxation system for the energy industry contributes to the implementation of socio-economically profitable projects. A change in hydropower taxation adopted in the national budget for 2021 was the first beneficial tax change for hydropower in many years. The investment incentives have been strengthened and investments in new power plants can now be expensed immediately, rather than amortised over several years. The change is revenue-neutral, but improves the developers' liquidity during the construction phase. Hafslund Eco believes that the special taxation should be further improved to ensure development of energy projects with the greatest benefit for society.

Facilitation of profitable offshore wind power and an offshore power grid

Norway has massive unexploited offshore wind power resources. Hafslund Eco wants the authorities to facilitate large-scale, long-term and profitable exploitation of offshore wind power resources and the establishment of an associated power grid for the countries bordering the North Sea, taking account of existing biodiversity and commercial interests.

Increased exchange capacity between countries and regions

Good energy exchange capacity safeguards society against power surpluses and deficits in wet and dry years. Good transmission capacity will also help us to achieve our climate goals by replacing fossil power with renewable energy, and the natural fit between intermittent solar and wind power and flexible hydropower will benefit Norway financially. There is broad political support for energy exchange in the Storting. Statnett commissioned a cable to Germany in 2020 and plans to complete a cable to the UK in 2021. Together with other energy companies, Hafslund Eco has applied for a licence for a further cable to the UK, North Connect. In spring 2020, the Norwegian government decided to postpone the licence review pending developments with the two Statnett cables mentioned above.

Increased electrical certification and re-industrialisation of society

In a normal year, Norway has a significant energy surplus. With new construction of hydropower, onshore and offshore wind power and to a lesser extent solar power, a continuing high energy surplus will pave the way for increased electrification of society. Electrification of transport, oil and gas, building and construction, and existing and new industry will be crucial for the success of the green transition. Hafslund Eco is actively working to persuade the authorities to facilitate value-creating electrification, and participates in a broad collaboration on industrial policy, for example the Confederation of Norwegian Enterprises' Green Electrical Value Chain project.

Risk management

Hafslund Eco is exposed to risk in a number of areas. The most important risks are of a financial, regulatory and political, operational and reputational nature. Risk management is an integral part of the Group's business activities and is designed to secure achievement of strategic, operational and financial goals. Guidelines and frameworks have been established for managing risk. The Group's aggregate risk is continuously followed up and evaluated by the Audit Committee and Board of Directors each year, and in the event of major changes in the Group's risk profile. The Group's risk work is closely linked to the Group's strategy work and financial structure. The purpose of risk management is to take the right risk based on the Group's risk propensity and risk capacity, expertise, financial solvency, development plans and dividend targets. In 2020, risk relating to the COVID-19 pandemic and the fall in the power price were particular focus areas in the Group's risk and emergency response efforts.

Financial risk - market risk

As a power producer, Hafslund Eco is exposed to fluctuations in power market prices and volume uncertainty, and manages this risk through measures such as participation in various markets. All power trading is subject to adopted frameworks and followed up through reporting to Group management and the Board. Within these frameworks, the Group hedges the price of some future hydropower production and takes up active positions in the power market. Power price risk is managed, among others, using Value at Risk (VaR), which describes the maximum loss that could be expected for a power portfolio during a given period at a given confidence level.

The scope of hydropower production hedging may vary under adopted frameworks, based on an assessment of exchange market conditions,

factors that affect the special taxation of power production and cash flow effects.

The Group's costs are mainly incurred in NOK. The Group may enter into loan agreements and other agreements in foreign currency. All loans in foreign currency and some of the power price-hedged volume are currency-hedged. The Group is exposed to interest rate risk on interest-bearing loans, and manages interest rate risk by leveraging the Group's inherent interest-hedging by correlating the interest rate exposure relating to the tax-free allowance with interest on borrowings.

Financial risk - credit and counterparty risk

The Group is exposed to credit and counterparty risk, including through financial and physical power trading and in connection with financing activities. A significant share of hydropower production is sold on the spot market on an ongoing basis. Counterparty risk on entering into longer-term physical and financial contracts is managed using clearing, guarantees and settlement mechanisms. Exposure relating to contract counterparties is continually monitored and assessed. Counterparty risk relating to trading in interest rates and foreign currency is limited by defining lower limits for approved counterparties' credit ratings, and by diversifying exposure over several counterparties. Historically, the Group has experienced low losses on receivables.

Financial risk - liquidity risk

The Group's cash flows vary in line with fluctuations in power prices, capital requirements for power hedging, seasonal fluctuations, investment levels and loan maturities. Liquidity risk is managed by maintaining sufficient liquid funds at all times so that the Group can service all financial liabilities on maturity, including for extraordinary events, without risking unacceptable financial or reputational loss. Analyses of expected inflows and outflows are constantly performed, and liquidity risk is minimised by assuming short- and long-term borrowings. The Group has established long-term, committed drawdown facilities that ensure access to liquidity.

Regulatory and political risk

Hafslund Eco operates licensed activities, subject to regulation by the Norwegian Water Resources and Energy Directorate (NVE) and other authorities. This means that the Group is impacted by changes in framework conditions within a number of areas. Regulatory and statutory changes could potentially have a major impact on future financial results, and risks are closely followed up through continuous work on framework conditions. The competitiveness of flexible hydropower is also dependent on market regulation in the physical and financial power markets. Changes in regulatory conditions can potentially limit power production.

Operational risk

Hafslund Eco is exposed to operational risk along its entire value chain. The operational risk is most exposed in ongoing operating activities and project execution. Line management is responsible for day-to-day risk management. The business areas manage operational risk through measures such as systematic maintenance, detailed operational procedures, controls, contingency plans, etc. The Group aims to leverage artificial intelligence, machine learning and data from sensors to make better operational, maintenance and investment decisions. The Group has entered into insurance agreements, including for damage to the company's production facilities and other property. Liability insurance has also been taken out, including for dam liability, which covers third-party injuries or damage to third-party property. The Group also has insurance policies for lost power production due to stoppages.

Risk relating to security of supply is a key focus area, and the Group closely monitors cybersecurity in line with digital developments in the power system. Hafslund Eco participates in KraftCERT, an expertise resource pool for the energy industry that assists its members with advice and management of safety-critical ICT incidents, and maintains a constant dialogue with the authorities. Cybersecurity threats increased as a result of the COVID-19 pandemic. However, the Group was not exposed to any targeted attacks in 2020.

The Group has established systems for recording and reporting censurable conditions, undesired incidents, injuries and improvement measures and conducts ongoing analyses in order to assess risk and prevent and implement measures where required.

Internal control

Internal control is a key element of risk management at Hafslund Eco. The Group has internal functions for risk monitoring, internal control and compliance with laws and regulations. Where necessary, suitable external expertise is engaged to carry out internal control and internal audit projects. Financial reporting risk has a high priority, and the company is working to adapt and strengthen this area following the transaction with Eidsiva Energi. Procedures have been established for reporting, including controls and documentation. These controls focus on areas deemed to present the highest risk of errors in the financial statements. The Group has the systems and expertise to prepare accurate financial information, and has focus on harmonising and strengthening internal control.

All the Group's companies are subject to legislation, regulations, regulatory requirements and internal guidelines. Management of risk of inadequate compliance with laws and regulations is a continuous focus area. This work is performed by the operational units with support from specialist functions. Internal awareness campaigns are used to reinforce knowledge and secure compliance in focus areas. Hafslund Eco shall be a responsible player within all parts of our business, and shall ensure compliance by identifying risks and implementing risk-reducing measures.

Corporate governance

The City of Oslo owns 100 per cent of the shares in the parent company Hafslund Eco AS. The Board has adopted principles for corporate governance in line with the Norwegian Code of Practice for Corporate Governance of 17 October 2018 (the "NCGB recommendation") and the City of Oslo's principles for sound governance of limited companies. These principles are intended to support the owner's results goals and contribute to long-term value creation, as well as secure the owner and other stakeholders' trust in the Board, management and the company. Hafslund Eco's principles for corporate governance and a declaration on corporate governance in accordance with section 3-3b of the Norwegian Accounting Act and can be viewed at www.hafslundeco.no.

The work of the Board of Directors

The Board comprises eight members, three of whom are elected by the employees. There were no changes in the composition of the Board during the year. As a result of a cross ownership and shareholders' agreement with Eidsiva Energi, the latter company has the right to have an observer on the Board of Hafslund Eco AS for a transitional period. Hafslund Eco AS has a good gender distribution on the Board of Directors.

Hafslund Eco's Board works in accordance with the adopted rules of procedure for the Board. There is agreement within Hafslund Eco not to establish a Corporate Assembly. Consequently, the Board reports directly to the General Meeting. The Board's Compensation Committee prepares matters for review by the Board and resolutions on compensation and

other associated matters concerning the Group's senior executives. The Compensation Committee comprises Alexandra Bech Gjørv (Chair), Bente Sollid Storehaug, Bård Vegar Solhjell and Gunnar Braaten. For further information about remuneration paid to executive management and directors and the Board's declaration on remuneration paid to senior executives, please refer to Note 7.1 Remuneration paid to senior executives and directors. The Board's Audit Committee assists the Board with the preparation of the financial statements and internal control. The Audit Committee comprises Bjørn Erik Næss (Chair) and Mari Thjømøe. The Audit Committee satisfies the requirement that at least one member must be independent of the Group's operations and have an accounting or auditing qualification. Individual directors' experience and expertise are described in the section on the Board of Directors in the annual report.

The Board held eight ordinary meetings in 2020, three extraordinary meetings and reviewed one item by e-mail. The fall in the power price, the consequences of the COVID-19 pandemic, capital management and dividends, further development of the Group's strategy and framework conditions and opportunities for further growth were among the key issues considered by the Board during the year. The Board also reviewed ongoing integration work and the development of group-wide expertise in innovation, electrification and digitalisation, as well as re-branding of the Group. The Board's work is intended to ensure that the Group develops in the best interests of owners, employees and other stakeholders.

The parent company Hafslund Eco AS

The parent company Hafslund Eco AS consisted of a few employees from Group management and business support in 2020. From 2020, shared support functions have been reassigned to the subsidiary Hafslund Eco Vannkraft AS, where the majority of the Group's operations is conducted. The Group's debt is mainly held by the parent company Hafslund Eco AS.

The parent company's income primarily comprises interest income and received dividends. Hafslund Eco generated an operating profit of NOK -76 million (NOK -122 million) in 2020. The net profit for the year after tax for 2020 was NOK 990 million (NOK 11,035 million). The high figure for 2019 is attributable to the gain of NOK 10.4 billion on the disposal of a 42.8 per cent shareholding in Hafslund Eco Vannkraft (formerly E-CO Energi).

The effects of the COVID-19 pandemic and dividends

Following the outbreak of the COVID-19 pandemic, on 12 March 2020 Hafslund Eco established an emergency response organisation and adapted the organisation to comply with the authorities' requirements. Full operations were maintained throughout the year and only a few employees have been infected with COVID-19. While the COVID-19 pandemic is considered to have had a limited impact on the Group's earnings, the global effects of the pandemic remain uncertain. The situation is continually monitored. Employee and supplier safety, and maintaining as normal operations as possible while adhering to the authorities' requirements have been, and remain, the Group's key concerns.

In light of the significant fall in future power prices and major uncertainty surrounding the long-term effects of the COVID-19 pandemic, the Board decided not to propose a dividend for the 2019 financial year to the General Meeting at the time of the adoption of the annual financial statements. The dividend to the City of Oslo for the 2019 financial year of NOK 700 million (NOK 1,284 million) was adopted at an Extraordinary General Meeting on 12 June 2020. The dividend level reflects the lower power price, the weaker market outlook and uncertainty in the wake of the COVID-19 pandemic, despite the solid result and average achieved power price of 39.2 øre per kWh for the 2019 financial year.

Dividend and appropriation of profit for the year

The dividend is determined each year in consultation with the owner so as to maintain the company's capital requirements and credit rating. The Board continued to monitor the Group's market and operating conditions, the equity and liquidity situation, uncertainty surrounding the long-term effects of the COVID-19 situation and the Group's dividend capacity throughout the year. Against this background, the Board has proposed a dividend for the 2020 financial year of NOK 800 million to be reviewed by the Annual General Meeting. The dividend level reflects the Group's equity situation, liquidity and future prospects. The Board proposes that Hafslund Eco's net profit for the year be appropriated as follows:

Net profit for the year in Hafslund Eco AS's financial statements	NOK 990 million
APPROPRIATIONS:	
Proposed dividend from Hafslund Eco AS to the City of Oslo	NOK 800 million
To other equity	NOK 190 million

Going concern assumption

In accordance with the requirements of the Norwegian Accounting Act, the Board confirms that the annual financial statements have been prepared in accordance with the going concern principle and that the operations satisfies these conditions.

Outlook

Renewable power production forms the main part of the Group's operations. Hafslund Eco's earnings are hence strongly impacted by changes in power prices, where sales revenues are a function of the achieved power price and produced volume. The last few years have shown that the power prices can rapidly fluctuate on the back of unexpected changes in the weather/temperatures, which in turn affect the power surplus and consumption. The scope of the transmission capacity between regions has also been an important driver of power prices. At the start of 2021, there was a new marked shift in power prices characterised by winter weather, significant cold and good transmission capacity. Cold winter weather and good transmission capacity into 2021, together with full power reservoirs and high production volumes, provide prospects for a strengthened result for 2021.

On 15 March 2021, the listed forward power price for 2021 was 34 øre per kWh, compared with an average spot price for 2020 of 10 øre per kWh. In comparison, at the same time, the forward price for the years 2022 to 2025 was listed in the range of 28 to 31 øre per kWh. Future power price levels will affect the Group's earnings and thus solvency and dividend capacity. In order to secure cash flows and leverage market prospects, Hafslund Eco hedges the price of some sales of production in the power market.

The transaction with Eidsiva Energi in autumn 2019 provided Hafslund Eco with a shareholding in Eidsiva Energi and in Norway's largest grid company, Elvia. This is contributing stable earnings. The transaction also marked the start of extensive integration work intended to improve operational efficiency and leverage economies of scale and other synergies, including establish shared digital solutions. This work is continuing. Through the business operations New Energy, the Group will develop zero emissions solutions for customers and help accelerate the electrification of Norway.

The effect of the COVID-19 pandemic globally is still uncertain. Hafslund Eco has through the pandemic maintained full operations and is considered to have a solid basis for ongoing operations.

As Norway's second largest hydropower producer Hafslund Eco has set a goal of generating further growth both organically and structurally. Hafslund Eco will contribute to the consolidation of the power industry and aim to play a role in establishing offshore wind power in Norway as a driver of a better climate and creator of long-term values. Ensuring good framework conditions is important for managing the transition to a renewable and fully electric society. The commercial opportunities offered by the transition to a renewable and fully electric society shall be leveraged to generate increased profitability and establish Hafslund Eco as the most efficient hydropower company in Norway.

The Board would like to take this opportunity to thank all employees for their efforts in a challenging year dominated by COVID-19, fall in power price and significant integration activities.

Oslo, 22 March 2021

The Board of Directors of Hafslund Eco AS

Alexandra Bech Gjørv
Board Chair

Bente Sollid Storehaug

Bjørn Erik Næss

Bård Vegar Solhjell

Mari Thjømøe

Arvid Amundsen

Jan Petter Knudsen

Gunnar Ola Braaten

Finn Bjørn Ruyter
CEO

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Consolidated statement of comprehensive income

1 January - 31 December

NOK million	Note	2020 Hafslund Eco Group	2019 Continuing operations	2019 Discontinued operations	2019 Hafslund Eco Group
Sales revenue	2.1	2,271	5,429	4,211	9,640
Other gain/loss	2.1	857	664	-	664
Other operating revenue	2.1	70	40	93	133
Revenues and other income	2.1	**3,198**	**6,133**	**4,304**	**10,437**
Energy purchases and transmission costs	2.2	-305	-234	-2,233	-2,467
Salary and other personnel costs	2.3	-494	-285	-168	-453
Property tax and other imposed costs and compensations	2.4	-515	-505	-12	-517
Other operating costs	2.5	-198	-401	-602	-1,003
Profit/loss from equity-accounted investees	3.5	611	72	2	74
EBITDA		**2,297**	**4,781**	**1,291**	**6,072**
Depreciation and amortisation	3.1	-493	-420	-592	-1,012
Operating profit (EBIT)		**1,805**	**4,361**	**699**	**5,060**
Interest income	5.13	4	19	4	23
Interest expense	5.13	-614	-533	-117	-650
Gain from sale of the grid business[1]	1.5/5.13	-38	3	4,351	4,354
Other finance income/costs	5.13	6	-14	1	-13
Net financial items	5.13	**-642**	**-526**	**4,239**	**3,713**
Profit before tax		**1,163**	**3,834**	**4,939**	**8,773**
Income taxes	6.1	-123	-2,133	-129	-2,262
Profit after tax		**1,040**	**1,702**	**4,809**	**6,511**

[1] NOK 3 million in the column "Continuing operations" in 2019 is gain from sale of other investments

Consolidated statement of comprehensive income

(cont.) 1 January - 31 December

		2020	2019		
NOK million	Note	Hafslund Eco Group	Continuing operations	Discontinued operations	Hafslund Eco Group
PROFIT ATTRIBUTABLE TO					
Owners of the parent company		954	1,437	4,809	6,246
Non-controlling interests	8.2	87	265	-	265
ITEMS THAT MAY BE RECLASSIFIED TO PROFIT OR LOSS IN SUBSEQUENT PERIODS					
Hedging reserve	5.6	114	5	-	5
Income tax effects		-79	5	-	5
Translation reserve equity-accounted investees	3.5	24	1	-	1
Total items that may be reclassified to profit or loss in subsequent periods		**59**	**11**	**-**	**11**
ITEMS THAT MAY NOT TO BE RECLASSIFIED TO PROFIT OR LOSS					
Actuarial gains (losses) on defined benefit plans		6	5	-	5
Income tax effects		1	-14	-	-14
Actuarial gains (losses) equity-accounted investees	3.5	-77	50	-	50
Total items that may not be reclassified to profit or loss		**-70**	**41**	**-**	**41**
Other comprehensive income		**-11**	**52**	**-**	**52**
Total comprehensive income		**1,029**	**1,754**	**4,809**	**6,563**
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO					
Owners of the parent company		928	1,485	4,809	6,295
Non-controlling interests	8.2	101	268	-	268

Consolidated statement of financial position 31 December

NOK million	Note	2020	Restated 2019[1]
ASSETS			
Deferred tax assets	6.1	479	479
Intangible assets and goodwill	3.2	23,514	23,579
Property, plant and equipment	3.1	20,007	19,819
Right-of-use assets	3.4	175	69
Equity-accounted investees	3.5	9,627	9,415
Non-current financial derivatives	5.6	1,061	883
Other non-current receivables	5.9	1,203	721
Non-current assets		**56,065**	**54,965**
Inventory		3	13
Trade receivables	5.10	340	236
Other non-interest-bearing current receivables	5.10	244	108
Current financial derivatives	5.6	147	45
Cash and cash equivalents	5.11	1,008	2,444
Current assets		**1,743**	**2,847**
Assets		**57,807**	**57,812**

NOK million	Note	2020	Restated 2019[1]
EQUITY AND LIABILITIES			
Paid-in capital	5.8	15,395	15,395
Other equity		7,811	7,549
Non-controlling interests	8.2	2,632	2,701
Equity		**25,838**	**25,645**
Non-current interest-bearing debt	5.2	18,460	18,199
Lease liabilities	3.4	151	70
Deferred tax liabilities	6.1	7,788	8,146
Pension liabilities	7.2	156	51
Non-current financial derivatives	5.6	-	5
Oher liabilities and obligations	4.1	1,680	1,704
Non-current liabilities		**28,235**	**28,176**
Trade payables	5.12	396	366
Lease liabilities	3.4	26	-
Other current non-interest-bearing liabilities	5.12	882	831
Taxes payable	6.1	577	2,064
Current financial derivatives	5.6	65	28
Current interest-bearing debt	5.2	1,790	701
Current liabilities		**3,735**	**3,990**
Equity and liabilities		**57,807**	**57,812**

[1] The 2019 balance sheet has been restated to reflect the change in accounting policy for cost price of the investment in Eidsiva Energi, see note 1.3.

Consolidated statement of cash flows 1 January - 31 December

NOK million	Note	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES			
EBITDA		**2,297**	**4,781**
Gain/loss from sale of assets		4	2
Profit/loss from equity-accounted investees	3.5	-611	-74
Unrealised changes in derivatives		-62	-626
Changes in inventories		10	-9
Changes in trade receivables and other non-interest-bearing receivables		-597	479
Changes in trade payables and other non-interest-bearing liabilities		32	62
Other non-cash income and expenses		114	-63
Cash flows from operating activities		**1,188**	**4,551**
Interest paid		-568	-620
Taxes paid		-2,047	-2,122
Net cash flows from operating activities - continuing operations		**-1,427**	**1,809**
Net cash flows from operating activities - discontinued operations		-	1,080

NOK million	Note	2020	2019
CASH FLOWS FROM INVESTING ACTIVITIES			
Investments in property, plant and equipment		-622	-701
Acquisitions of business		-	-167
Cash paid to equity-accounted investees		-55	-45
Cash effect from transaction with Eidsiva Energi		-6	4,277
Other investment activities		-5	-5
Cash flows from investing activities - continuing operations		**-688**	**3,358**
Cash flows from investing activities - discontinued operations		-	-1,069
CASH FLOWS FROM FINANCING ACTIVITIES			
Loan proceeds	5.2	2,800	1,100
Loan repayments	5.2	-1,601	-5,848
Dividends paid and other equity transactions	5.8	-1,068	-1,319
Other financing activities		549	137
Cash flows from financing activities - continuing operations		**679**	**-5,930**
Changes in cash and cash equivalents		**-1,435**	**-750**
Cash and cash equivalents at 1 January		2,444	3,195
Cash and cash equivalents at 31 December	5.11	**1,008**	**2,444**

Consolidated statement of changes in equity

1 January - 31 December

NOK million	Share capital	Share premium	Other equity	Equity attributable to owners of the parent	Non-controlling interests	Total equity
Equity at 31 December 2018	**100**	**15,295**	**-962**	**14,433**	**2,068**	**16,501**
Adjustment in initial application of IFRS 16	-	-	-187	-187	-	-187
Adjusted equity 1 January 2019	**100**	**15,295**	**-1,149**	**14,246**	**2,068**	**16,314**
COMPREHENSIVE INCOME 2019						
Profit for the year	-	-	6,246	6,246	265	6,511
Other comprehensive income	-	-	49	49	3	52
Total comprehensive income for the year	**-**	**-**	**6,295**	**6,295**	**268**	**6,563**
TRANSACTIONS WITH OWNERS						
Ordinary dividends for 2018	-	-	-1,284	-1,284	-35	-1,319
Equity transactions in connection with the transaction with Eidsiva Energi	-	-	11,087	11,087	421	11,508
Total transactions with owners	**-**	**-**	**9,803**	**9,803**	**386**	**10,189**
Other changes in equity	-	-	31	31	-23	8
Other changes in equity, equity-accounted investees	-	-	32	32	-	32
Equity at 31 December 2019	**100**	**15,295**	**15,011**	**30,406**	**2,701**	**33,107**
CHANGE IN ACCOUNTING POLICY						
Change in accounting policy (see note 1.3)	-	-	-7,462	-7,462	-	-7,462
Restated Equity at 31 December 2019	**100**	**15,295**	**7,549**	**22,944**	**2,701**	**25,645**

Consolidated statement of changes in equity *(cont.)*

1 January - 31 December

NOK million	Share capital	Share premium	Other equity	Equity attributable to owners of the parent	Non-controlling interests	Total equity
Restated Equity at 31 December 2019 (see note 1.3)	**100**	**15,295**	**7,549**	**22,944**	**2,701**	**25,645**
COMPREHENSIVE INCOME 2020						
Profit for the year	-	-	954	954	87	1,040
Other comprehensive income	-	-	-26	-26	15	-11
Total comprehensive income for the year	**-**	**-**	**928**	**928**	**101**	**1,029**
TRANSACTIONS WITH OWNERS						
Dividends (see note 5.8)	-	-	-873	-873	-195	-1,068
Capital increase	-	-	-	-	24	24
Effect of dividends from Hafslund Eco Vannkraft to Eidsiva Energi (see note 3.5)	-	-	173	173	-	173
Total transactions with owners	**-**	**-**	**-700**	**-700**	**-171**	**-871**
Other changes in equity	-	-	34	34	-	34
Equity at 31 December 2020	**100**	**15,295**	**7,811**	**23,206**	**2,632**	**25,838**

Oslo, 22 March 2021

The Board of Directors of Hafslund Eco AS

Alexandra Bech Gjørv
Board Chair

Bente Sollid Storehaug

Bjørn Erik Næss

Bård Vegar Solhjell

Mari Thjømøe

Arvid Amundsen

Jan Petter Knudsen

Gunnar Ola Braaten

Finn Bjørn Ruyter
CEO

Note 1.1 General information

Hafslund Eco is an integrated energy and infrastructure group. The parent company Hafslund Eco AS is owned 100 per cent by the City of Oslo.

The Group operates power generation through its subsidiaries Hafslund Eco Vannkraft, Hafslund Eco Vannkraft Innlandet, Oppland Energi and Hafslund Produksjon. In addition to operating an annual production of more than 21 TWh, the new production company owns hydroelectric power plants which together produce more than 18 TWh, enough power to supply more than 2.2 million people. The power plants are located in Oslo, Viken, Innlandet, Vestland and Agder.

Hafslund Eco also has significant ownership in grid operations through its 50 per cent share in Eidsiva Energi. Eidsiva Energi owns 100 per cent of the shares in the grid company Elvia AS (previous Hafslund Nett and Eidsiva Nett) with approximately 900,000 customers. Elvia builds, operates, maintains and renews the grid area in Innlandet, Viken and Oslo.

The Group's subsidiary Hafslund Ny Energi utilises the expertise of the companies to create new growth opportunities, with the main emphasis on electrification.

Hafslund Eco also has a 49 per cent ownership interest in Fredrikstad Energi AS.

The company's head office is in Oslo. The consolidated financial statements were authorised for issue by the Board of Directors on 22 March 2021.

Note 1.2 General accounting policies

Basis for preparation of the annual financial statements

The consolidated financial statements for Hafslund Eco AS for 2020 have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU.

The consolidated financial statements have been prepared on the historical cost basis, with the exception of some assets and liabilities that are measured at fair value. Please see note 5.5 Fair value for a more detailed description. Preparation of financial statements in accordance with IFRSs requires the use of estimates and judgements. Items significantly impacted by judgements or assumptions and significant estimates are described in the relevant notes.

All amounts are stated in NOK million unless otherwise stated. Comparative figures in notes that explain line items in the consolidated statement of comprehensive income applies to continuing operations.

Currency

The consolidated financial statements are presented in Norwegian kroner (NOK), which is the parent company's and the subsidiaries' functional currency.

Note 1.3 Change in accounting policies

Accounting policy for establishing cost price of equity method investment with indirect ownership of subsidiaries

In connection with the transaction with Eidsiva Energi on 30 September 2019, the Group acquired 50 per cent of the shares in Eidsiva Energi, at the same time as Eidsiva Energi acquired 42.8 per cent of the shares in Hafslund Eco Vannkraft. Hafslund Eco Vannkraft, which had previously been 100 per cent owned by Hafslund Eco, became a subsidiary with non-controlling interests through the transaction.

The Group has a 57.2 per cent direct ownership interest in Hafslund Eco Vannkraft and an indirect ownership interest of 21.4 per cent through its 50 per cent ownership interest in Eidsiva Energi.

IFRS does not regulate the accounting treatment of ownership interests in subsidiaries that are owned indirectly through investments that are accounted for using the equity method. Also, there is no established practice in this area.

To avoid double counting of results from Hafslund Eco Vannkraft, an accounting policy was chosen in 2019 where results from Eidsiva Energi's share of Hafslund Eco Vannkraft is eliminated. Correspondingly, non-controlling interests are calculated at 21.4 per cent as the indirect ownership interest is included as the Group's ownership interest, so-called "look-through approach".

The book value at 30 September 2020 of the ownership interest in Eidsiva Energi was established at the amount of the consideration less half of the gain from the sale of the then subsidiary Hafslund Nett.

Part of the cost price consisted of the fair value of the indirect ownership interest in Hafslund Eco Vannkraft. The Group has considered that a more consistent application of the "look-through approach" would have been to reduce the cost price by the fair value of Hafslund Eco Vannkraft. In connection with the year-end 2020, a change in accounting policy has therefore been implemented to harmonise the application of the "look-through approach" and thereby establish a more consistent application of the accounting policy. The consequence of the change is that the Group's cost price for the ownership interest in Eidsiva Energi is reduced by NOK 7,462 million from NOK 16,037 million to NOK 8,575 million. Equity is reduced accordingly.

As the issue did not exist as of 1 January 2019 but arose in connection with the transaction with Eidsiva Energi on 30 September 2019, the change in accounting policy will not appear until the comparative figures as of 31 December 2019.

NOK million	31 December 2019	Change in accounting policy	Restated 31 December 2019
ASSETS			
Equity-accounted investees	16,877	-7,462	9,415
Other non-current assets	45,550	-	45,550
Non-current assets	62,427	-7,462	54,965
Current assets	2,847	-	2,847
Assets	**65,274**	**-7,462**	**57,812**
EQUITY AND LIABILITIES			
Equity	33,107	-7,462	25,645
Non-current liabilities	28,176	-	28,176
Current liabilities	3,990	-	3,990
Equity and liabilities	**65,274**	**-7,462**	**57,812**

The accounting policy change does not affect profit or cash flows.

Note 1.3 Change in accounting policies
(cont.)

Hedge accounting of financial power contracts

Implementation of hedge accounting of financial power contracts is discussed in note 5.6 Derivatives and hedging.

Note 1.4 Changes in standards and interpretations with future effect

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2020 reporting periods and have not been early adopted by the Group. The Group does not expect the changes in these standards and interpretations to have a significant impact on the consolidated financial statements but will assess the impact when transactions and events arise that are affected by these changes. The Group's intention is to implement the relevant changes at the effective date provided that the EU adopts the changes prior to the presentation of the consolidated financial statements.

In 2019, the Group early-adopted the amendments to IFRS 9 and IFRS 7 that relate to the reform of IBOR-based interest rates.

Note 1.5 Transactions and events in 2020

Transaction with Eidsiva Energi in 2019 – follow-up

The transaction with Eidsiva Energi that was completed on 30 September 2019 resulted in a cross ownership between the two groups Hafslund Eco and Eidsiva Energi. Hafslund Eco owns 50 per cent of Eidsiva Energi, which in turn directly owns 42.8 per cent of Hafslund Eco Vannkraft (formerly E-CO Energi).

Following the transaction, the parties have agreed to pro-contra settlement that resulted in a NOK 53 million charge to profit or loss.

Parts of the pro-contra settlement should be viewed in connection with the gain from the sale of Hafslund Nett in 2019. This part of the settlement is presented under the accounting line Gain from sale of the grid business and reduces the previously recognised gain by NOK 38 million. The amount recognised in profit or loss is 50 per cent of the total reduced gain from the pro-contra settlement. This follows from the accounting policy established in 2019. The remaining 50 per cent increases the Group's book value of the investment in Eidsiva Energi.

The corona situation

Following the outbreak of the COVID-19 pandemic, on 12 March 2020 Hafslund Eco established an emergency response organisation and adapted the organisation to comply with the authorities' requirements. Full operations were maintained throughout the year and only a few employees have been infected with COVID-19. While the COVID-19 pandemic is considered to have had a limited impact on the company's earnings, the global effects of the pandemic remain uncertain. The company is continually monitoring the situation. Employee and supplier safety and maintaining as normal operations as possible while adhering to the authorities' requirements have been, and remain, the Group's key concerns.

Note 2.1 Revenues and other income

Key accounting policies

The Group's revenue mainly comprise revenue from sales of power in the wholesale market, concessionary power, industrial contracts and results from hedging of financial power contracts. The main principles for accounting for income from Hafslund Eco's revenue streams are described below.

Power revenue

Produced power is mainly sold via the Nord Pool Spot exchange and by bilateral agreement to Fortum Hedging AS.

The performance obligation is mainly power, and the transaction price is the consideration the Group expects to receive, at either spot price, regulated price or contractual price. The performance obligation is fulfilled over time, which means that the revenue is recognised for each unit delivered, at transaction price. Hafslund Eco applies a practical approach where power revenue is accounted for at the amount that the entity is entitled to invoice. The right to invoice arises when the power is produced and delivered, and the right to invoice will normally correspond directly to the value for the customer.

The Group takes the view that the exchange (Nord Pool) should be regarded as a customer since the Group has an enforceable contract with Nord Pool AS. The same applies to Fortum Hedging AS.

As a principal rule, power revenue from own production is generally presented as gross revenue in profit or loss.

Concessionary power

The Group is obliged to deliver concessionary power to municipalities and county authorities at either a regulated OED (Ministry of Petroleum and Energy) price or an estimated full cost. Hafslund Eco does not consider revenue from delivery of concessionary power to derive from a customer contract as defined in IFRS 15 but applies the same principles in IFRS 15 by analogy and therefore also presents revenue from the sale of concessionary power as sales revenue.

Industrial contracts

In addition, Hafslund Eco has entered into bilateral agreements for the sale of power to industrial companies. These contracts are recognised under the same principles as other power sales.

Other gain/loss

Hedging of financial power contracts and foreign currency derivatives

Hafslund Eco uses financial contracts to hedge future revenues from sale of hydropower in euro, and foreign currency derivatives to exchange settlements from hedges in euro to NOK. The Group has, from March 2020, applied hedge accounting for the basis hedging portfolio. Hedging inefficiencies and results from contracts that are not subject to hedge accounting are measured at fair value through profit or loss under Other gain/loss.

Financial power contracts

The Group has a financial power contract to compensate for lost production. Revenue from the contract is presented under Other operating income and value adjustments are presented under Other gain/loss.

Note 2.1 Revenues and other income
(cont.)

NOK million	2020	2019
REVENUES AND OTHER INCOME		
Power revenue	1,924	5,220
Concessionary power	134	94
Grid rental/actual revenue	49	65
Industrial contracts	164	50
Sales revenue	**2,271**	**5,429**
Realised gains/losses power derivatives and foreign currency derivatives	795	39
Value adjustments power derivatives	-25	638
Value adjustments currency derivatives	87	-13
Other gains/ losses	**857**	**664**
Other operating income	70	40
Other operating income	**70**	**40**
Revenues and other income	**3,198**	**6,133**

The nature of the business is essentially sales of contracts at spot prices. The Group therefore does not have contract balances of significance as spot contracts are settled daily.

The Group did not have any significant remaining performance obligations as of 31 December 2020.

Performance obligations and principles for revenue recognition:

Performance obligation	Revenue recognition principle
Power revenue	Based on the right to invoice the customer (at the time of delivery)

The hydropower industry has been characterised by historically low power prices throughout 2020. This affects the Group's operating revenues and leads to significantly lower operating revenues in 2020, compared with 2019.

Note 2.2 Energy purchases and transmission costs

NOK million	2020	2019
ENERGY PURCHASES AND TRANSMISSION COSTS		
Energy purchases	13	12
Transmission costs	292	221
Energy purchases and transmission costs	**305**	**234**

Transmission costs primarily relate to feed-in costs to the transmission grid.

Note 2.3 Salaries and other personnel costs

NOK million	2020	2019
SALARIES AND OTHER PERSONNEL COSTS		
Salaries	401	271
Employers' national insurance contributions	49	41
Pension costs	37	-54
Other personnel costs	7	27
Salaries and other personnel costs	**494**	**285**
Average number of full-time equivalents employed in the group	414	247

Pension costs are discussed in more detail in note 7.2 Pensions.

Note 2.4 Property tax and other imposed costs and compensations

Key accounting policies

Property tax

Property tax is classified and recognised under operating expenses in the income statement in the year it is levied.

Licence fees

License fees are paid annually to the government and local authorities for the right to use waterfalls. Such fees are recognised as costs in the period to which they relate.

Regulation costs and other compensations

See note 4.1 Other liabilities and obligations for a more detailed description of power obligations.

NOK million	2020	2019
PROPERTY TAX AND OTHER IMPOSED COSTS AND COMPENSATIONS		
Property tax	231	188
License fees	111	99
Regulation costs and other compensations	173	218
Property tax and other imposed costs and compensations	**515**	**505**

Property tax is calculated based on valuations determined in accordance with Section 8 of the Norwegian Property Tax Act. The tax rate is a maximum of 0.7 per cent.

Note 2.5 Other operating costs

NOK million	2020	2019
OTHER OPERATING COSTS		
Maintenance	136	114
Purchase of external services	220	149
Office expenses	43	51
Insurance	25	26
Sales and marketing expenses	4	7
Loss on receivables	-3	-4
Reimbursement of operating expenses from part-owners	-254	-72
Self-investment work	-54	-17
Other items	82	147
Other operating costs	**198**	**401**
AUDITOR'S FEES (NOK`000)		
Mandatory audit	3,655	3,062
Other assurance services	540	389
Tax consultancy services	94	239
Other non-audit fees	913	807
Total auditor's fees	**5,202**	**4,497**

Other operating costs are low in 2020 as a result of postponed projects and low activity levels to adapt the business to covid-19 and low power price levels. The Group has also agreed on the same principles for classifying costs after the integration with Hafslund Eco Vannkraft Innlandet's operations in the fourth quarter of 2019. From 2020, all reimbursement of operating expenses from part owners is presented in other operating costs while all imposed costs (including supervision, taxes and fees) are presented under Property Tax and other imposed costs and compensations. Historical figures have not been re-presented.

The breakdown of auditor's fee includes fee for the entire Group. Of the total audit fees for 2020, NOK 510 thousand is related to audit performed by EY and the remaining part from PwC. Value added tax is not included in the fee specification.

Note 3.1 Property, plant and equipment

Key accounting policies

Property, plant and equipment is measured at cost less accumulated depreciation and impairment. Depreciation starts when the asset is completed and available for use. Facilities under construction are reclassified to power stations and dam facilities after successful test operation, which is the time when the asset is considered available for use.

The cost of property, plant and equipment is the purchase price, including levies/taxes and costs directly related to making the asset available for use.

Borrowing costs attributable to procurement, design or production of a qualifying assets are added to the cost. A qualifying asset is an asset that requires a long time to be prepared for its intended use or sale, for example a hydropower plant.

Expenses incurred after an operating asset has been taken into use, such as ongoing maintenance, are recognised in profit or loss, while other expenses (periodic maintenance) that are expected to generate future economic benefits are capitalised. The carrying amount of replaced parts is deducted and recognised in profit or loss.

The depreciation method and period are assessed annually, and any changes are recognised as change in estimate.

For details of impairment policies for property, plant and equipment, please see note 3.3 Impairment testing.

Key estimates and assumptions

Property, plant and equipment is depreciated over the asset's expected useful life. Expected useful lives are estimated based on experience, history and discretionary judgements relating to technical use and profitability and are adjusted to reflect any changes in expectations. Residual value is taken into account in determining depreciation, and assessment of residual value is also subject to estimates.

Provisions are not recognised for asset retirement obligations since there is no right of reversion to state ownership for the Group's hydropower plants.

Note 3.1 Property, plant and equipment
(cont.)

NOK million	Power facilities	Networks	Technical equipment and chattels	Other property	Facilities under construction	Property, plant and equipment
YEAR ENDED 2019						
Balance at 1 January	11,039	9,953	1,827	120	2,430	25,370
Operating investments	1,063	318	147	11	248	1,787
Sale of Hafslund Nett	-	-9,915	-1,757	-7	-1,644	-13,323
Acquisition of Eidsiva Vannkraft	4,716	-	1,724	41	363	6,844
Depreciation for the year	-374	-377	-177	-4	-	-932
Impairment for the year	-	-16	-	-	-	-16
Other items	-32	37	9	121	-45	90
Balance at 31 December	**16,413**	**-**	**1,772**	**282**	**1,352**	**19,819**
AT 31 DECEMBER 2019						
Cost	27,677	36	1,873	337	1,352	31,275
Accumulated depreciation	-11,138	-36	-101	-55	-	-11,330
Accumulated impairment	-126	-	-	-	-	-126
Balance at 31 December	**16,413**	**-**	**1,772**	**282**	**1,352**	**19,819**
Depreciation period (number of years)	40-100	10-50	3-30	100/No depreciation	No depreciation	

Note 3.1 Property, plant and equipment
(cont.)

NOK million	Power facilities	Technical equipment and chattels	Other property	Facilities under construction	Property, plant and equipment
YEAR ENDED 2020					
Balance at 1 January	16,413	1,772	282	1,352	19,819
Operating investments	757	46	-	-144	659
Depreciation for the year	-409	-47	-5	-	-461
Other items	-73	-11	75	-1	-10
Balance at 31 December	**16,687**	**1,760**	**352**	**1,208**	**20,007**
AT 31 DECEMBER 2020					
Cost	28,362	1,894	412	1,208	31,875
Accumulated depreciation	-11,551	-134	-60	-	-11,744
Accumulated impairment	-124	-	-	-	-124
Balance at 31 December	**16,687**	**1,760**	**352**	**1,208**	**20,007**
Depreciation period (number of years)	40-100	3-30	100/No depreciation	No depreciation	

Discussion of key matters

The table above also includes shareholdings in facilities that are owned through joint operations. Details of joint operations are given in note 3.6 Jointly controlled operations and joint operations.

In 2020, Hafslund Eco has capitalised borrowing costs of NOK 25 million for qualifying assets (NOK 35 million). The average interest rate on borrowings has been applied to calculate the capitalised borrowing costs.

Note 3.2 Intangible assets and goodwill

Key accounting policies

Intangible assets, which in Hafslund Eco consist of waterfall rights and goodwill, are recognised at cost. Goodwill and intangible assets with an indefinite useful life are not amortised but tested for impairment each year.

For details of principles relating to impairment of intangible assets and goodwill, please see Note 3.3 Impairment testing.

Key estimates and assumptions

The hydropower business mainly has perpetual licences (no right of reversion to state ownership). Purchased waterfall rights are therefore deemed to be perpetual and are not amortised. The rights are classified as intangible assets since the Group takes the view that acquired waterfalls do not have physical substance but that the Group has paid for the right to utilise future precipitation and snow melt to generate power.

NOK million	Waterfall rights	Goodwill	Intangible assets
2019			
Balance at 1 January	12,914	3,560	16,475
Additions	4,432	3,274	7,706
Transfer from property, plant and equipment	25	-	25
Disposals	-	-623	-623
Amortisation	-3	-	-3
Balance at 31 December	**17,368**	**6,211**	**23,579**
AT 31 DECEMBER			
Cost	17,371	6,211	23,582
Accumulated amortisation	-3	-	-3
Balance at 31 December	**17,368**	**6,211**	**23,579**
2020			
Balance at 1 January	17,368	6,211	23,579
Additions	12	-	12
Disposals	-57	-	-57
Amortisation	-19	-	-19
Balance at 31 December	**17,303**	**6,211**	**23,514**
AT 31 DECEMBER			
Cost	17,325	6,211	23,536
Accumulated amortisation	-22	-	-22
Accumulated impairment	-	-	-
Balance at 31 December	**17,303**	**6,211**	**23,514**

Note 3.3 Impairment testing

Key accounting policies

Property, plant and equipment, intangible assets, goodwill and equity-accounted investees are monitored on an ongoing basis for indications of possible impairment. Cash-generating units (CGUs) with intangible assets with an indefinite useful economic life and goodwill are considered for indications of impairment semi-annually or if there is a significant change in core value drivers. In the case of indications of impairment, impairment tests are carried out immediately. If the impairment tests indicate that the balance sheet values are no longer justifiable, they are written down to the recoverable amounts.

At each reporting date, assessments are made for the potential reversal of earlier impairments on property, plant and equipment. Impairments of goodwill are not reversed.

Equity-accounted investees are tested for impairment when there are indications of impairment.

Key estimates and assumptions

Cash-generating units

Power production: Power plants located in the same watercourse and which are managed collectively to optimise power production are regarded as CGUs. In addition to this, each individual power plant constitutes a CGU.

Equity-accounted investees: Each investment is a CGU, the main investments being Eidsiva Energi AS, Fredrikstad Energi AS, NorthConnect and the wind power companies Austri Raskiftet and Kjølberget.

Uncertainty regarding estimates

The Group has significant property, plant and equipment and intangible assets which consist of power plants, dams, waterfall rights and good-will. There is uncertainty regarding estimates related to property, plant and equipment and intangible assets, since both valuation and estimated useful life of assets are based on future information that is encumbered by a high degree of uncertainty. Intangible assets are considered to represent the greatest uncertainty. The value of the intangible assets is mainly derived from separate valuations and is generally capitalised in connection with business combinations.

Typical indicators of impairment can be negative shifts in future power prices, discount rates, technological or regulatory changes or other events. Whether or not these are indicators that may indicate a need for impairment is a discretionary assessment.

The calculation of value in use is based on several discretionary assessments and assumptions pertaining to future cash flows, where future power prices, production volumes and the discount rate are critical factors.

Budget and forecast assumptions

A price curve for power based on five years of observable market prices (Nasdaq) has been assumed, followed by a price curve based on the Group's long-term price expectations. In the management's view, the long-term price expectations are within a reasonable range compared with power price curves from external players and analysis agencies. Production volume is based on the Group's long-term production plans and the estimated cash flows are calculated after tax.

Note 3.3 Impairment testing
(cont.)

Discount rate

The impairment assessments of hydropower production plant are based on a nominal after tax discount rate of 4.2 per cent.

Results

Based on the assumptions used, the impairment tests show that the book values of property, plant and equipment, waterfall rights and goodwill for all CGUs in hydropower production can be defended and that for almost all CGUs there is significant robustness in book values.

However, the sensitivity analyses show limited robustness for some of the smaller power plants that were taken over as part of the transaction with Eidsiva Energi AS and were recognised at fair value at the acquisition date 30 September 2019. A weakening in future power prices or an increase in the discount rate on these units could lead to impairment, everything else being equal. The book value of these CGUs constitutes a small part of the Group's current assets.

With regard to the larger power plants from the transaction, there is a more significant robustness in book values. This is largely due to the fact that the transaction with Eidsiva Energi included a 25 per cent ownership interest in Opplandskraft DA, which increased the Group's ownership interest from 50 to 75 per cent, of which the 50 per cent ownership interest already owned by the Group has a significantly lower book value per kWh. The same applies to Vinstra Kraftselskap, where the Group previously owned 67 per cent, and in the transaction with Eidsiva Energi, the ownership share increased to 95 per cent.

Equity-accounted investees consists essentially of a 50 per cent ownership interest in Eidsiva Energi. At the end of 2020, no indicators of impairment have been identified for the investment in Eidsiva Energi and the analyses show significant robustness in the values. The same applies to the 49 per cent ownership in Fredrikstad Energi AS. Investments in the associate NorthConnect were written down by NOK 38 million to 0 in 2020. The write-down is included in the accounting line Profit/loss from equity-accounted investees. The write-down was made on the basis of significant political uncertainty related to the project.

Book values for the Group's investments in wind power (Austri Raskiftet and Kjølberget) can be defended. The investments were part of the transaction with Eidsiva Energi and were recognised at fair value at the time of acquisition. Sensitivity analyses indicate limited robustness in the values.

The overview below shows book values at year-end:

NOK million	31.12.2020	31.12.2019
Property, plant and equipment	20,007	19,819
Goodwill	6,211	6,211
Waterfall rights	17,303	17,368
Right-of-use assets	175	69
Equity-accounted investees	9,627	9,415
Sum recognised value of tested assets	**53,322**	**52,882**

Note 3.4 Leases

Hafslund Eco rents office space, a power station and other operating equipment.

NOK million	
RIGHT-OF-USE ASSETS	
Right-of-use assets at 1 January 2020	69
Adjustments	1
Additions	118
Depreciation	-13
Right-of-use assets at 31 December 2020	**175**
LEASE LIABILITIES	
Lease liabilities at 31 December 2020	70
Adjustments	1
Additions	117
Lease payments	-16
Interest	3
Lease liabilities at 31 December 2020	**176**
Hereof current liabilities	26
Hereof non-current liabilities	151

The change in right-of-use assets and lease liabilities mainly applies to new office space leases for the main office in Oslo. Otherwise there have been no significant changes during 2020.

Note 3.5 Equity-accounted investees

Key accounting policies

The Group's equity accounted investees are associates and joint ventures. Associates are entities over which Hafslund Eco has significant influence, but not control. Significant influence will generally exist when the Group has a shareholding of between 20 and 50 per cent of the voting rights. Joint ventures are entities where Hafslund Eco has joint control with one or more other owners. Associates and joint ventures are accounted for using the equity method in the consolidated financial statements.

The Group has 50 per cent ownership in the joint venture Eidsiva Energi and has two subsidiaries where a proportion of the subsidiaries is owned through the joint venture. The Group has chosen to apply the so-called "look-through approach" when calculating non-controlling interests (please see note 8.2 Non-controlling interests) and the recognition of the share of profit from the subsidiaries coming from the joint venture is treated consistently with this approach. This means that the share of profit that applies to these subsidiaries is eliminated before the share of profit from the joint venture is included in the consolidated financial statements. Hafslund Eco believes that the "look-through approach" gives a more accurate picture of the Group's results and financial position, since under this double counting of results of subsidiaries where the joint venture has ownership interests is avoided.

Key estimates and assumptions

In 2020, the Group has adjusted its cost price of the investment in Eidsiva Energi to be consistent with the "look-through approach" accounting policy.

Based on an overall assessment considering size and complexity, Eidsiva Energi AS is considered to be a significant joint venture. None of the Group's associates or the joint venture are listed or have observable market values.

						Included in balance at	
Company name	Acquisition date	Registered office	Share-holding	Voting rights	Type of investment	31.12.2020	31.12.2019
Eidsiva Energi AS	2019	Hamar	50.00%	50.00%	Joint venture	x	x
Fredrikstad Energi AS	2014	Fredrikstad	49.00%	49.00%	Associate	x	x
NGK Utbygging AS	2014	Oslo	25.00%	25.00%	Associate	x	x
NorthConnect AS	2010	Kristiansand	22.25%	22.25%	Associate	x	x
NorthConnect KS	2011	Kristiansand	20.00%	20.00%	Associate	x	x
NorthConnect Ltd	2019	Edinburgh	22.25%	22.25%	Associate	x	x
Raskiftet Vindkraft DA	2019	Trysil/Åmot	20.00%	20.00%	Associate	x	x
Austri Kjølberget DA	2019	Våler	20.00%	20.00%	Associate	x	x

Note 3.5 Equity-accounted investees

(cont.)

2020	Joint venture	Associates	
NOK million	Eidsiva Energi AS	Other	Total
BALANCE AT 1 JANUARY 2020 - RESTATED	**8,714**	**701**	**9,415**
Share of profit after tax	736	13	749
Depreciation excess values	-100	-	-100
Write-down	-	-38	-38
Profit/loss from equity-accounted investees	**637**	**-25**	**611**
Equity accounted investees' share of OCI	**-80**	**27**	**-53**
Additions	38	7	45
Dividends from Eidsiva Energi	-654	-	-654
Dividends from Hafslund Eco Vannkraft to Eidsiva Energi (treated as capital increase)	173	-	173
Other equity changes	52	38	90
Balance at 31 December 2020	**8,879**	**748**	**9,627**

2019	Joint venture	Associates	
NOK million	Eidsiva Energi AS	Other	Total
BALANCE AT 1 JANUARY 2019	**-**	**416**	**416**
Share of profit after tax	95	-15	80
Depreciation excess values	-7	-1	-8
Profit/loss from equity-accounted investees	**88**	**-15**	**72**
Equity accounted investees' share of OCI	**50**	**-**	**50**
Additions/disposals	16,038	311	16,349
Other equity changes	-	-10	-10
Balance at 31 December 2019	**16,176**	**701**	**16,877**
Change in accounting policy 30 September 2019	-7,462	-	-7,462
Balance 31 December 2019 - restated	**8,714**	**701**	**9,415**

Eidsiva Energi is one of Norway's largest energy and broadband groups, with operations in large parts of southern Norway. Following the integration with Hafslund Eco, the company owns 42.8 per cent of Hafslund Eco Vannkraft and is the owner of Norway's largest grid business, Elvia. The head office is in Hamar. The company is owned by Hafslund AS (50 per cent), Innlandet Energi (49.4 per cent) and Åmot municipality (0.6 per cent).

Note 3.5 Equity-accounted investees

(cont.)

The table below summarises the financial information of Eidsiva Energi, included in its own financial statements, adjusted for fair value adjustments at acquisition and differences in accounting policies. Hafslund Eco applies the so-called “look-through approach” when recognising the ownership in Eidsiva Energi under the equity method. This means that the effect of the indirect owership of subsidiaries are eliminated to avoid double counting in Hafslund Eco’s consolidated financial statements. The table also shows a reconciliation to the Group’s carrying amount of its ownership interest in Eidsiva Energi.

NOK million	2020	Restated 2019
Non-current assets	36,284	34,344
Current assets	3,909	3,723
Non-current liabilities	-17,247	-12,088
Current liabilities	-5,186	-8,550
Net assets (100 %)	**17,759**	**17,428**
The Group's share of net assets (50 %)	8,879	8,714
Carrying amount of interest in Eidsiva Energi	**8,879**	**8,714**
Revenues	8,254	
Depreciations and amortisation	-1,503	
Profit - continuing operations	985	
Profit - discontinued operations	289	
Profit after tax	**1,274**	
Other comprehensive income	-160	
Total comprehensive income	**1,113**	
The Group's share of total comprehensive income (50 %)	**556**	

Note 3.6 Joint arrangements and joint operations

Key accounting policies

The Group co-operates with other parties in the development and operation of power plants which are arranged as either a company with divided liability or as a co-ownership. These joint arrangements are split between joint ventures, joint operations and joint operations without joint control. For the two latter arrangements the owner companies are entitled to dispose of their relative share of the power production after the deduction of commitments to deliver concessionary power and the like.

Joint arrangements

A joint arrangement is an arrangement where two or more parties have joint control. Joint control is present when decisions about relevant activities require unanimity between the parties that share control. Investments in joint arrangements are classified as either joint operations or joint ventures.

Joint ventures are arrangements where the joint venturers are entitled to the net assets and dividends of the arrangement instead of rights to dispose of their share of the power production and the obligation to cover a share of the costs. Joint ventures are accounted for using the equity method, please see note 3.5.

Joint operations are arrangements under which the joint operators have rights to the assets and a responsibility for the obligations, and the right to dispose of their share of the power production and the obligation to cover a share of the costs. For joint operations the Group accounts for its interest in the arrangement's assets, liabilities, revenues and costs. The Group's interest coincides normally with the ownership share.

Joint operations without joint control

Some power plants are organised as either a company with divided liability or as a co-ownership without joint control. Ownership in these power plants entails that the Group has the right to dispose its share of the power production and an obligation to cover its share of the costs and owns a share in the assets and a share of the liabilities. Joint operations without joint control are accounted for in the same manner as joint operations.

Key estimates and assumptions

The Group considers the rights and obligations that arise from each arrangement and especially evaluates if there is either a net dividend or an entitlement to a share of the power production and an obligation to cover a share of the costs. The Group also considers joint control and unanimity. The considerations sometimes require judgement and the interpretation of underlying agreements, but the Group also considers how the arrangements are operated in practice.

Note 3.6 Joint arrangements and joint operations
(cont.)

The Group has an interest in the following joint operations and joint operations without joint control:

Company name	Classification	Registered office	Shareholding	Voting rights
Glommens og Laagens Brukseierforening[1]	Joint operations w/o joint control	Lillehammer	-	70.3 %
Foreningen til Hallingdalsvassdragets regulering	Joint operations w/o joint control	Oslo	-	65.0 %
Foreningen til Bægnavassdragets regulering[2]	Joint operations w/o joint control	Hønefoss	-	41.1 %
Vinstra Kraftselskap DA	Joint operations w/o joint control	Lillehammer	95.0 %	-
Aurlandsverkene[3]	Joint operations w/o joint control	Oslo	93.0 %	-
Storbrofoss Kraftanlegg DA[4]	Joint operations	Lillehammer	80.0 %	-
Opplandskraft DA	Joint operations w/o joint control	Lillehammer	75.0 %	-
Rosten Kraftverk	Joint operations w/o joint control	Lillehammer	72.0 %	-
Lya Kraftverk	Joint operations w/o joint control	Oslo	70.0 %	-
Solbergfoss	Joint operations	Oslo	66.7 %	-
Usta Kraftverk	Joint operations w/o joint control	Oslo	57.1 %	-
Nes Kraftverk	Joint operations w/o joint control	Oslo	57.1 %	-
Øvre Otta DA	Joint operations	Lillehammer	55.0 %	-
Sarp Kraftverk	Joint operations	Sarpsborg	50.0 %	-
Nedre Otta DA	Joint operations	Lillehammer	47.0 %	-
Embretsfosskraftverkene DA	Joint operations	Drammen	50.0 %	-
Kraftverkene i Orkla	Joint operations w/o joint control	Rennebu	12.0 %	-
Uvdalsverkene	Joint operations w/o joint control	Porsgrunn	10.0 %	-

[1] The voting right includes the companies Hafslund Eco Vannkraft AS, Hafslund Eco Vannkraft Innlandet AS, Hafslund Produksjon AS, Oppland Energi AS and interests in the jointly owned companies Opplandskraft DA, Vinstra Kraftselskap DA and Øvre Otta DA.
[2] The voting right includes the companies Oppland Energi AS and Storbrofoss Kraftanlegg DA.
[3] The group has an option to redeen Statkraft's 7 % stake at market price in 2029
[4] The Group has an 80 per cent ownership in Storbrofoss Kraftanlegg DA but has rights to 100 per cent by agreement until 2050. Storbrofoss Kraftanlegg has a 20 per cent ownership in Bagn Kraftverk DA

Note 4.1 Other liabilities and obligations

Key accounting policies

Obligations related to power production

Under various agreements, the Group is obliged to pay compensation and supply free power to compensate for the inconvenience from using the waterfall used and providing space for hydropower production. The liabilities for annual compensation and free power are classified as non-current liabilities under the line-item Other liabilities and obligations. The contra entry is waterfall rights, which are classified as intangible assets. The assets are not depreciated if there is no right of reversion and the assets is considered perpetual. The effect from changes in the liability is presented in the profit and loss as “Property tax and other costs and compensations.”

Free power – net financial settlements

Free power contracts which depend on the power price and are settled financially, are recognised at fair value with subsequent measurement at fair value through profit or loss. The liability includes grid rentals for those contracts where the Group also is committed to cover those costs for the recipient, and value added tax where this becomes a cost for the Group.

Free power – settled in kind

The Group considers its contracts related to the physical delivery of free power to fall within the scope of the «own use» exception. The Group recognises a provision equal to the present value of the full cost.

Cash compensations

The Group treats perpetual cash compensations with regular CPI adjusted annual amounts as financial liabilities that are recognised at fair value with subsequent measurement at amortised cost.

Concessionary power

The Group has been awarded perpetual licenses relating to the development and operation of hydropower plants and, as a result of this, the Group has annual obligations to supply concessionary power to municipalities and counties. Parts of the commitment are covered by physical deliveries, while parts have established a practice involving a financial settlement, where the Group pays the difference between the spot price and the concessionary power price to the party entitled to concessionary power. At the end of 2020, concessionary power supplied in return for financial consideration added up to a total volume of 37 GWh (38 GWh). Concessionary power is not recognised as a liability on the balance sheet.

License fees

License fees are not recognised as a liability on the balance sheet. Paid license fees are expensed as they accrue.

Other liabilities

Other liabilities are recognised at fair value with subsequent measurement at amortised cost.

Note 4.1 Other liabilities and obligations
(cont.)

NOK million	2020	2019
FINANCIAL LIABILITIES TO LANDOWNERS		
Free power - settled in cash	447	253
Cash compensation	1,200	1,417
Financial liabilities to landowners	**1,647**	**1,670**
OTHER FINANCIAL LIABILITIES		
Other financial liabilities	-	1
Other financial liabilities	**-**	**1**
PROVISIONS FOR OBLIGATIONS TO LANDOWNERS		
Free power - settled in kind	33	33
Provisions for obligations to landowners	**33**	**33**
Other liabilities and obligations	**1,680**	**1,704**

Note 4.2 Guarantees

Hafslund Eco Vannkraft AS has issued a surety guarantee for Hafslund Eco Vannkraft Innlandet AS's timely fulfillment of all obligations under the agreement on subordinated loan from Eidsiva Energi AS of NOK 1,917 million. If interest rates are reduced (in the event that profit after tax is not sufficient to pay the interest in full) to a greater extent than interest rates are reduced in accordance with the corresponding provision in the subordinated loan agreement between Hafslund Eco AS and Hafslund Eco Vannkraft AS, Hafslund Eco Vannkraft AS shall compensate Eidsiva Energi AS so that interest rates are reduced proportionately in both loan conditions. Similarly, Eidsiva Energi AS undertakes to compensate Hafslund Eco AS in the same way if interest payments in accordance with the loan agreement between Hafslund Eco AS and Hafslund Eco Vannkraft AS are reduced to a greater extent than in the loan agreement between Eidsiva Energi AS and Hafslund Eco Vannkraft Innlandet AS. The purpose is to ensure that the lenders are treated equally under the two subordinated loan agreements.

Hafslund Eco Vannkraft AS has in 2020 terminated the surety guarantee for an amount of EUR 1 million for its share of NorthConnect KS, and after this has no outstanding guarantees related to NorthConnect AS

The Group purchases bank guarantees to secure certain liabilities. As of 31 December 2020, these guarantees amounted to NOK 31 million in employee tax deduction guarantees (NOK 5 million) and NOK 21 million in guarantees for power trading (NOK 20 million).

Note 5.1 Financial instruments

Key accounting policies

Financial instruments are recognised when the Group becomes party to the contractual terms of the instrument.

Classification and measurement

Financial assets and liabilities are classified into three categories: amortised cost, fair value through other comprehensive income and fair value through profit or loss. The classification is dependent on the method of initial recognition and the valuation is based on the Group's business model for management of its financial instruments and the characteristics of the cash flows for the individual financial instrument.

Financial instruments are not reclassified after initial recognition unless the Group changes its model for management of its financial assets.

Amortised cost

Financial assets that the Group holds to collect contractual cash flows are recognised at fair value and subsequently measured at amortised cost. The main instruments in this category are trade receivables, other receivables and bank deposits.

Financial liabilities are recognised at fair value and as a main rule subsequently measured at amortised cost. Financial liabilities such as CPI-adjusted cash compensations to land owners, trade payables, bond loans, commercial papers and other loans are classified as amortised cost.

Fair value through other comprehensive income

The Group has entered into combined interest and currency swaps to convert principal payments on loans in foreign currency to principal payments in NOK. The currency portion of the derivative is designated as a hedging instrument in a cash flow hedge, with changes in fair value through other comprehensive income to the extent that the hedge is effective. In addition, the Group has implemented hedge accounting of financial power contracts in 2020. Hedge accounting is discussed in more detail in Note 5.6 Derivatives and hedging.

For financial liabilities, changes in fair value attributable to changes in inherent credit risk are recognised through other comprehensive income, while the remaining change in value is recognised through profit or loss.

Fair value through profit or loss

Financial assets that are neither measured at amortised cost nor at fair value through other comprehensive income are measured at fair value through profit or loss. This primarily applies to financial power contracts, power derivatives and currency futures.

Financial liabilities that are not classified at amortised cost or that are not designated as hedging instruments are initially recognised at fair value and subsequently at fair value through profit or loss. This mainly applies to land-owner compensation dependent on power price, financial power contracts and currency futures that are liabilities in the balance sheet.

Derecognition of financial instruments

A financial asset is derecognised when the rights to receive cash flows from the asset have expired, or the Group has transferred its rights to collect cash flows from the asset and the Group either has transferred all substantive risks and rewards relating to the instrument, or the Group

Note 5.1 Financial instruments
(cont.)

has not transferred or retained all substantive risks and rewards relating to the instrument but has transferred control of the asset.

A financial liability is derecognised when it has been redeemed, cancelled or matures. When an existing financial liability is replaced by another liability to the same lender on materially different terms, or the provisions for an existing liability have changed significantly, this is treated as a cancellation of the original liability and a new liability is recognised. The difference between the carrying amounts is recognised in profit or loss.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position when there is a legally enforceable right to offset, and there is an intention to settle the asset and liability net.

NOK million	Fair value through profit or loss	Fair value through OCI	Amortised cost	Total
31 DECEMBER 2020				
FINANCIAL ASSETS				
Non-current receivables	462	149	350	961
Non-current derivatives	-	1,061	-	1,061
Current derivatives	147	-	-	147
Trade receivables	-	-	340	340
Other current receivables	-	-	244	244
Cash and cash equivalents	-	-	1,008	1,008
Financial assets	**608**	**1,210**	**1,943**	**3,761**
FINANCIAL LIABILITIES				
Current interest-bearing debt	-	-	1,790	1,790
Non-current interest-bearing debt	-	-	18,460	18,460
Current derivatives	65	-	-	65
Other liabilities	447	-	1,200	1,647
Trade payables	-	-	396	396
Other current non-interest-bearing liabilities	-	-	882	882
Financial liabilities	**512**	**-**	**22,727**	**23,239**

Note 5.1 Financial instruments

(cont.)

NOK million	Fair value through profit or loss	Fair value through OCI	Amortised cost	Total
31 DECEMBER 2019				
FINANCIAL ASSETS				
Non-current receivables	337	3	381	721
Non-current derivatives	-	883	-	883
Current derivatives	45	-	-	45
Trade receivables	-	-	236	236
Other current non-interest-bearing receivables	-	-	108	108
Cash and cash equivalents	-	-	2,444	2,444
Financial assets	**382**	**886**	**3,169**	**4,438**
FINANCIAL LIABILITIES				
Current interest-bearing debt	-	-	701	701
Non-current interest-bearing debt	-	-	18,199	18,199
Current derivatives	28	-	-	28
Non-current derivatives	-	5	-	5
Other liabilities	253	-	1,417	1,670
Trade payables	-	-	366	366
Other current non interest-bearing liabilities	-	-	831	831
Financial liabilities	**281**	**5**	**21,514**	**21,800**

Note 5.2 Interest-bearing debt

NOK million	Loan amount (in currency)	Currency	Due date	31.12.2020	31.12.2019
Commercial paper issue in the Norwegian market	600	NOK	2020	-	600
Commercial paper issue in the Norwegian market	800	NOK	2021	800	-
Commercial paper issue in the Norwegian market	500	NOK	2021	500	-
The Nordic Investment Bank	3,120	NOK	2021-2030	3,120	3,221
Bond issue in the Norwegian market	400	NOK	2022	400	400
Bond issue in the Norwegian market	500	NOK	2022	500	500
Private placement in the American market	75	USD	2023	642	659
Bond issue in the Norwegian market	300	NOK	2023	300	300
Bond issue in the Norwegian market	450	NOK	2024	450	450
Bond issue in the Norwegian market	293	NOK	2024	293	293
Private placement in the American market	290	NOK	2024	290	290
Bond issue in the Norwegian market	1,000	NOK	2025	1,000	-
Private placement in the American market	25	USD	2026	214	220
Private placement in the American market	910	NOK	2027	910	910
Private placement in the Japanese market	5,000	JPY	2028	415	405
Bond issue in the Norwegian market	250	NOK	2029	250	250
Private placement in the Japanese market	5,000	JPY	2029	415	405
Private placement in the American market	723	NOK	2029	723	723
Bond issue in the Norwegian market	200	NOK	2030	200	200
Bond issue in the Norwegian market	200	NOK	2031	200	200
Private placement in the American market	125	USD	2031	1,070	1,099
Private placement in the German market	30	EUR	2031	314	296

Note 5.2 Interest-bearing debt

(cont.)

NOK million	Loan amount (in currency)	Currency	Due date	31.12.2020	31.12.2019
Private placement in the American market	848	NOK	2032	848	848
Private placement in the American market	600	NOK	2033	600	600
Subordinated loan from the City of Oslo	2,347	NOK	2037	2,347	2,347
Subordinated loan from Oslo Energi Holding AS (subsidiary of City of Oslo)	1,100	NOK	2037	1,100	1,500
Subordinated loan from Eidsiva Energi AS	1,917	NOK	2039	1,917	1,917
Interest-bearing debt translated to NOK				**19,817**	**18,632**
Carrying amount of interest- bearing debt related to fair value hedges				445	268
Amortisation of fees				-12	-
Interest-bearing debt, balance at 31 December				**20,250**	**18,900**
Hereof current interest-bearing debt				1,790	701
Hereof non-current interest-bearing debt				18,460	18,199

Note 5.2 Interest-bearing debt

(cont.)

Loans denominated in foreign currency are hedged into NOK by entering into interest and currency swaps which exchange the principal payments in foreign currency to principal payments in NOK. The table above shows the value of the loan translated at the balance sheet rate, before the effect of interest and currency swaps.

As shown in the table above, the Group has subordinated loans from the City of Oslo and Oslo Energi Holding AS (wholly owned by the City of Oslo) respectively. The Group also has a subordinated loan of NOK 1,917 million issued by its subsidiary Hafslund Eco Vannkraft Innlandet AS to Eidsiva Energi AS. As of 31 December 2020 Hafslund Eco had interest-bearing debt of NOK 20,250 million, of which NOK 1,790 million was current. During the reporting period the Group has increased external interest-bearing debt by NOK 2,800 million, and repaid interest-bearing debt by NOK 1,601 million, of which NOK 400 million of the subordinated loan to Oslo Energi Holding AS. These loans are discussed in more detail in Note 5.4 Financial risk management and Note 9.1 Related party transactions.

NOK million	2020	2019
CHANGES IN INTEREST-BEARING DEBT		
Interest-bearing debt at 1 January	**18,900**	**21,584**
Increase in interest-bearing debt	2,800	1,100
Repayment of interest-bearing debt	-1,601	-5,848
Sum of changes cash flow from financing activities	**1,199**	**-4,748**
Increase in interest-bearing debt without cash effect	-	1,917
Effect of currency fluctuations (without cash effect)	-14	51
Effect of fair value hedges (without cash effect)	177	96
Other changes without cash effect	-12	-
Sum changes without cash effect	**151**	**2,064**
Interest-bearing debt at 31 December	**20,250**	**18,900**

Note 5.3 Maturity structure, financial liabilities

The table shows undiscounted cash flows by interval. Combined interest rate and currency agreements that swap repayments of principal amounts in foreign currency with repayments of principal amounts in NOK are included in the table regardless of whether the agreements are classified as a liability or an asset in the balance sheet. Consequently, the table shows the net principal amount paid in NOK.

The structure for liabilities relating to landowner compensation and the free power has not been included in the table blow since these are mainly perpetual contracts.

NOK million	Within 12 months	1 to 3 years	3 to 5 years	More than 5 years	Total as of 31.12.2020
FINANCIAL LIABILITIES RELATED TO DERIVATIVES					
Interest and currency derivatives	-	-213	-	-415	-627
Currency futures	65	-	-	-	65
Derivative financial liabilities	**65**	**-213**	**-**	**-415**	**-563**
OTHER FINANCIAL LIABILITIES					
Non-current interest-bearing debt	-	1,982	2,173	13,872	18,027
Current interest-bearing debt	1,790	-	-	-	1,790
Trade payables and other current liabilities	1,289	-	-	-	1,289
Non-derivative financial liabilities	**3,079**	**1,982**	**2,173**	**13,872**	**21,106**

NOK million	Within 12 months	1 to 3 years	3 to 5 years	More than 5 years	Total as of 31.12.2019
FINANCIAL LIABILITIES RELATED TO DERIVATIVES					
Interest and currency derivatives	-	-	-230	-411	-641
Currency futures	28	-	-	-	28
Derivative financial liabilities	**28**	**-**	**-230**	**-411**	**-613**
OTHER FINANCIAL LIABILITIES					
Non-current interest-bearing debt	-	1,460	2,132	14,338	17,931
Current interest-bearing debt	701	-	-	-	701
Trade payables and other current liabilities	1,197	-	-	-	1,197
Non-derivative financial liabilities	**1,898**	**1,460**	**2,132**	**14,338**	**19,829**

Note 5.4 Financial risk management

Hafslund Eco's business is exposed to risk in several areas. The most important of these are of a market, regulatory, financial, operational, reputational and political nature. Risk management is an integral part of the Group's business activities and is designed to secure achievement of strategic and operational goals. Guidelines and frameworks have been established for the management of risk in the business areas. The Group's overall risk is assessed by the Audit Committee and the Board of Directors. The purpose of risk management is to take the right risk based on the Group's risk capacity and ability, expertise, solidity and development plans.

Market risk

As a power producer, Hafslund Eco is exposed to fluctuations in market prices and volume uncertainty, and the Group manages risk through market participation. Power price fluctuations, together with factors that affect production volumes, will be of significant importance for financial results. The Group's risk management derives from the utilisation of water resources in the reservoirs and from entering into physical and financial contracts. A strategy, systems and reporting routines have been established to manage risks relating to power production. Exposure must always be kept within defined limits and risk management is followed up through reporting to the Management and the Board.

Prices for part of the future hydropower production are hedged within adopted frameworks. The scope of hedging may vary, based on an overall assessment of market prices and future developments that could impact the power production. The Group also takes up active positions in the energy market. The Group's hedging strategy takes account of resource rent taxation, where an increase in the spot price of power is expected to have a neutral or positive effect on expected cash flows after tax. Risk management includes reporting of expected outcome of financial results.

Instruments that can be used to hedge future power production include bilateral price hedging agreements, futures, forward contracts, EPADs (Electricity Price Area Differentials) and options. Hafslund Eco achieves area prices for physical power sales. Use of hedging instruments with other price references could reduce the effectiveness of hedging due to deviations between price reference and the area price where the Group has power production. Where appropriate, the Group uses EPADs to hedge area price variances.

The currency market is used to manage currency risk deriving from hedging where the value of hedged production can be fully or partly hedged from EUR to NOK.

The Group has the following exposure and sensitivity from financial contracts at +/- 30 per cent change in power prices:

Financial power contracts (NOK million)	Fair value at 31.12.2020	+30 %	-30 %
Futures / Forward contracts	41	-285	285
Industrial contracts	149	-289	289
Other financial power contracts	407	150	-150
Total effect on profit after tax		**117**	**-117**
Total effect on equity		**-224**	**224**

Note 5.4 Financial risk management
(cont.)

Interest rate risk

Hafslund Eco is mainly exposed to interest rate risk through its financing activities in NOK and in foreign currency (note 5.2 Interest-bearing debt). The Group's operating revenues and cash flows from operations are also sensitive to interest rate fluctuations to some degree. The Group is exposed to fluctuations in interest rates due to the fact that some of its interest-bearing debt is subject to floating interest rates. This exposure is primarily managed using instruments that balance the weighting of financing at floating and fixed interest rates.

The Group's loan portfolio has the following ratio of floating and fixed interest rates:

Distribution of fixed and floating interest rate on the Group's loan portfolio	Nominal amounts	Nominal amounts
NOK Million	31.12.2020	31.12.2019
FIXED INTEREST RATE		
Debt with fixed interest rate	9,414	8,714
Effect of interest rate swaps	-3,193	-3,193
Loan amount with fixed interest rate after effect of interest rate swaps	**6,221**	**5,521**
FLOATING INTEREST RATE		
Debt with floating interest rate	4,413	3,514
Effect of interest rate swaps	3,193	3,193
Loan amounts with floating interest rate after effect of interest swaps	**7,606**	**6,707**

Based on the Group's interest rate exposure at the reporting date, a change in interest rates of ± 0.5 percentage points over the entire curve would result in a change in the Group's direct borrowing costs (after tax) of approximately -/+ NOK 30 million (NOK 26 million).

At the reporting date, 7,606 NOK million of the Group's debt was quoted with NIBOR as the reference rate including the effect of interest rate swaps. This means that a change from NIBOR to an alternative reference rate would impact the Group's interest rate exposure. A task force initiated by the Central Bank of Norway has suggested that NIBOR should be re-placed by a reformed NOWA-rate («Norwegian Overnight Weighted Average»), but a decision on this matter has not yet been made. A central difference between NIBOR and NOWA is that NIBOR is a forward-looking term rate (for instance for 3 or 6 months), while NOWA is a historical overnight rate determined by actual transactions in the market for over-night loans between selected Norwegian Banks. The Group monitors the ongoing discussion and will consider the consequences more closely if a more detailed suggestion regarding NIBOR emerges.

Hafslund Eco is exposed to a limited scope of indirect interest rate risk in relation to currency and power derivatives. No correlation has been observed between the interest rate level and prices in the power market.

At the reporting date, Hafslund Eco had subordinated loans from Oslo Energi Holding AS (wholly owned by the City of Oslo) of NOK 1,100 million and from the City of Oslo of NOK 2,347 million (NOK 1,500 million and NOK 2,347 million, respectively). The average interest rate for 2020 was 4.34 and 4.90 per cent respectively.

Note 5.4 Financial risk management
(cont.)

The Group also has a subordinated loan to Eidsiva Energi AS of NOK 1,917 million (NOK 1,917 million), where the average interest for 2020 was 4.90 per cent. If the consolidated profit for the year after interest is a loss, the interest charge is reduced by the loss amount or to zero. This reduction is final, and the interest amount is not repaid at a later time. These loans do not have the same interest rate exposure as the Group's other loans.

Currency risk

Loans in foreign currency are hedged into NOK by entering into interest rate and currency swap agreements at the time of initial borrowing. Monetary items and borrowings in foreign currency are measured at the rate at the balance sheet date. Currency losses or gains are recognised in profit or loss as a currency gain or currency loss, unless the item is part of an accounting hedge and the hedge is effective (see note 5.6 Derivatives and hedging). Ineffectiveness is recognised in profit or loss.

The Nordic power markets use EUR as a trading and clearing currency. This means that the Group receives most of its power revenues from physical and financial trading in EUR, while most of the Group's costs are incurred in NOK. The Group uses forward exchange contracts to reduce/hedge the consequences of mismatches in foreign currency revenues and costs in NOK. Future sales of power are hedged using power derivatives and power contracts. Spot sales of power are recognised at the transaction rate. Other transactions denominated in foreign currency are also recognised using the transaction rate. Power production is mainly sold via the Nord Pool Spot exchange or directly to Fortum Hedging AS. Power is sold in EUR, and the resulting revenues are converted to NOK on an ongoing basis. The Group has entered into combined interest rate and currency swaps to reduce currency exposure on borrowings in foreign currency. Fluctuations in foreign currency against NOK will therefore not materially impact the Group's borrowing costs.

Credit risk

The Group is exposed to credit risk mainly through trade and other current receivables within its core activities (note 5.10 Trade and other receivables) as well as counterparty risk on entering into financial derivatives (note 5.6 Derivatives and hedging).

The Group's main counterparties for physical power sales are Nord Pool Spot and Fortum Hedging AS. The Group has also entered long term industrial contracts with physical delivery to Norwegian industrial players. For financial derivatives, agreements have been entered into that allow for offsetting gains against losses (ISDA agreements) with all counterparties. Trading in power derivatives is primarily settled through NASDAQ OMX Commodities and EEX (European Energy Exchange).

Credit risk is limited through diversification and by determining a lower limit for approving the creditworthiness of counterparties. Interest rate and currency derivatives are only entered into with banks with a minimum "investment grade" rating. The Group assesses credit risk for its actual exposures on an ongoing basis. Counterparties in new exposures are subject to counterparty assessments.

Note 5.4 Financial risk management
(cont.)

Liquidity risk

Liquidity risk is the risk that the Group will not be able to service its financial liabilities as they mature. The Group is exposed to liquidity risk to the extent that cash flows from operations do not correspond with financial liabilities. Hafslund Eco's cash flows vary in line with factors such as market prices, seasonal fluctuations and investment levels. Through Eidsiva Energi, Hafslund Eco owns 50 per cent of Norway's largest grid company, Elvia, with 900,000 customers. The grid business is a natural monopoly with publicly regulated revenues that provide stable and relatively predictable earnings. The ownership in Eidsiva Energi has a diversifying effect, and contributes, among other things, to reduced liquidity risk for the Group.

The Group's strategy for managing liquidity risk is always to maintain sufficient liquid funds so that financial liabilities can be redeemed on maturity, including for extraordinary events, without risking unacceptable financial or reputational loss.

The Group's interest-bearing debt and related maturities are presented in note 5.2 Interest-bearing debt. The maturity structure for debt and other financial liabilities, including derivatives and other current liabilities are presented in note 5.3 Maturity structure, financial liabilities. Liquidity risk is minimised by analysing expected inflows and outflows and assumption of current and non-current 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 facilities in order to secure availability of liquidity, including in periods when it may be difficult to obtain financing in the markets. At the reporting date, unused drawdown facilities amounted to NOK 2.5 billion (NOK 1.5 billion).

To reduce liquidity risk, the Group also holds a liquidity reserve in the form of bank deposits. As additional security against turbulence in the finance markets and potential losses of financing sources, the Group has established (unused) bank credit lines of NOK 400 million.

Note 5.5 Fair value

Key accounting policies

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Fair value hierarchy:
Fair value measurements are classified at the following levels:

- Level 1: Valuation is based on listed prices in active markets for identical assets or liabilities.
- Level 2: Valuation is based on inputs other than listed prices covered by Level 1 that are observable for the asset, either directly or indirectly.
- Level 3: Valuation is based on non-observable inputs for the asset or liability.

The Group endeavours to maximise the use of observable data where possible.

Key estimates and assumptions

When there is no listed market price in an active market, fair value is calculated by discounting future cash flows. Future cash flows are discounted based on the market interest curve, which is in turn derived from available swap rates.

For the valuation of financial power contracts and compensation to landowners that depend on power price the Group has applied the forward curve from Nasdaq for five years, and then the Group's long-term price expectation.

The long-term price expectations are, in the management's view, within a reasonable range compared to power price curves from external actors and analysis agencies.

The reasonableness of the estimated present value of forward exchange contracts, interest rate and currency swaps, as well as interest rate swaps, are assessed against valuations from contract counterparties.

Financial instruments measured at fair value:

NOK million	Level 1	Level 2	Level 3	Total fair value at 31.12.2020	Balance at 31.12.2020
FINANCIAL ASSETS MEASURED AT FAIR VALUE					
Other long-term receivables	-	-	611	611	611
Interest and currency derivatives	-	-	1,061	1,061	1,061
Power derivatives and currency futures	-	147	-	147	147
Total financial assets measured at fair value	**-**	**147**	**1,672**	**1,818**	**1,818**
FINANCIAL LIABILITIES MEASURED AT FAIR VALUE					
Power derivatives and currency futures	-	65	-	65	65
Compensation to landowners and free power	-	-	447	447	447
Total financial liabilities measured at fair value	**-**	**65**	**447**	**512**	**512**

Note 5.5 Fair value
(cont.)

NOK million	Level 1	Level 2	Level 3	Total fair value at 31.12.2019	Balance at 31.12.2019
FINANCIAL ASSETS MEASURED AT FAIR VALUE					
Other long-term receivables	-	-	340	340	340
Interest and currency derivatives	-	-	883	883	883
Power derivatives	-	45	-	45	45
Total financial assets measured at fair value	**-**	**45**	**1,223**	**1,268**	**1,268**
FINANCIAL LIABILITIES MEASURED AT FAIR VALUE					
Interest and currency derivatives	-	-	5	5	5
Power derivatives	-	28	-	28	28
Compensation to landowners and free power	-	-	253	253	253
Total financial liabilities measured at fair value	**-**	**28**	**258**	**286**	**286**

Please see note 5.2 Interest-bearing debt for more information about the Group's interest-bearing debt.

For other financial liabilities measured at amortised cost the value is approximately equal to fair value. Financial assets measured at amortised cost primarily consist of accounts receivable and other receivables where amortised cost is approximately equal to fair value.

NOK million	Level 1	Level 2	Level 3	Total fair value at 31.12.2020	Balance at 31.12.2020
FINANCIAL LIABILITIES MEASURED AT AMORTISED COST					
Other current non-interest-bearing liabilities	-	-	882	882	882
Trade payables	-	-	396	396	396
Compensation to landowners and free power	-	-	1,200	1,200	1,200
Interest-bearing debt	-	20,691	-	20,691	20,250
Total	**-**	**20,691**	**2,477**	**23,168**	**22,727**

NOK million	Level 1	Level 2	Level 3	Total fair value at 31.12.2019	Balance at 31.12.2019
FINANCIAL LIABILITIES MEASURED AT AMORTISED COST					
Other current non-interest-bearing liabilities	-	-	831	831	831
Trade payables	-	-	366	366	366
Compensation to landowners and free power	-	-	1,670	1,670	1,670
Interest-bearing debt	-	19,145	-	19,145	18,900
Total	**-**	**19,145**	**2,868**	**22,013**	**21,768**

Discussion of key matters

There were no changes in the measurement of fair values during the reporting period that resulted in transfers between levels 1 and 2 and no transfers in or out of level 3.

Note 5.6 Derivatives and hedging

Key accounting policies

Introduction

The Group has entered physical and financial contracts relating to revenue hedging of future power production, swapping of interest rate terms and hedging of currency exposure in connection with borrowings.

Price hedging of future power production is done both by using derivative contracts (forwards and futures) and by entering bilateral industrial contracts. The Group's industrial contracts nominated in EUR for the physical delivery of power are hedge accounted for as all-in-one hedges together with the exchange of currency settlements from EUR to NOK.

Furthermore, the Group has industrial contracts denominated in EUR. The own use exemption is applicable for the physical delivery of power in NOK, while the exchange of settlements in NOK to EUR is accounted for as embedded currency derivatives. The currency derivatives are measured at fair value through profit and loss.

Derivatives are both initially and subsequently recognised at fair value. The accounting treatment of associated gains and losses depends on whether the derivatives are designated as hedging instruments and whether the hedging relationship is deemed to be a cash flow hedge or a fair value hedge.

The hedging of borrowings from foreign currencies to NOK, the hedging of power price in the basis hedging portfolio and the bilateral industrial contract are cash flow hedges. Changes in fair value that constitute effective hedging are presented through other comprehensive income, and remain in the cash flow hedging reserve until the contracts:

1. are delivered
2. are bought back
3. no longer meet the criteria for hedge accounting

The ineffective portion of the hedge, as well as changes in fair value for other power and currency contracts are presented in profit or loss as Other gain/Loss under Revenues and other income. Hedge accounting for the hedging of financial power contracts in the basis portfolio was implemented on 1 March 2020.

Hedge accounting

General

The criteria for entering a hedging relationship are determined in the Group's risk management strategy and involve a qualitative and prospective approach to assessing hedge effectiveness. Both the hedged item and the hedging instrument are designated and documented when hedging relationships are established and sources of ineffectiveness are identified. The Group only designates contracts with external parties as hedging instruments.

Hedge accounting of financial power contracts

The financial power contracts in the basis hedging portfolio are designated as hedging instruments, with the exceptions for EPADs used for hedging the difference between area price and system price.

Note 5.6 Derivatives and hedging

(cont.)

The hedging instrument per 31 December 2020 can be summarised as follows:

Year	Contract value (MEUR)
2021	-38
2022-2024	-42
Total	**-80**

NOK million			Fair value of hedging instruments	Change in fair value used to measure inefficiency in the period
31 December 2020	**Assets**	**Liabilities**		
Financial hedging portfolio	-	-84		-29
Industrial contracts	149	-		146
Currency futures	-	-45		-18
Total	**149**	**-129**		**99**
31 December 2019	**Assets**	**Liabilities**		
Industrial contracts	3	-		18
Currency futures	-	-27		-6
Total	**3**	**-27**		**12**

The designated hedging item is the highly probable future sales of hydro-power. The available hedging area is defined as the highly probable future production of hydropower less industrial contracts and other physical commitments. To allow for a reliable measurement of the hedging item, the item is defined as an interval in the hedging area starting from the first hour of the month. A volume equivalent to the hedged volume is distributed over the available hedging area per hour starting from the first hour of the month.

When entering a financial power contract an interval in the hedging area is designated and allocated to the hedging instrument. In the subsequent period, the effectiveness of the hedge is measured by comparing changes in value of the hedging instrument with changes in value of expected future sales of the power for the designated interval. Both the hedging instrument and the hedging item are denominated in EUR.

Changes in cash flows from financial power contracts where settlements quote the system price are expected to closely match the changes in cash flows coming from highly probable futures sales of hydropower. This means that there is a strong economic relationship. Credit risk is not considered to be significant.

A quantitative assessment of hedging effectiveness is carried out for each reporting period where changes in value of the hedging item is compared to changes in value of the hedging instrument. The effective part of the hedge is recognised through other comprehensive income whilst the ineffective part of the hedge is presented as Revenues and other income under Other gains/loss.

Note 5.6 Derivatives and hedging

(cont.)

Inefficiency in the hedge mainly has two sources:

1. Differences between the system price attributed to the hedging instrument and the area price attributed to the hedging item. However, there has historically been a strong correlation in prices between the price areas NO1 and NO5 and the Nordic system price.
2. Differences in price profiles as the hedging instrument is delivered evenly for each hour of the month, whilst the hedging item is a per-hour allocation starting from the first hour of the month. Effects attributed to differences in price profiles can be the result of price differences between day and night, weekends and weekdays and between holidays and weekdays.

Over-hedging occurs if the Group has entered financial power contracts for a higher volume than the available hedging area. Over-hedging is presented the same way as inefficiency.

The Group's hedging activities affect other comprehensive income and profit or loss as follows:

NOK million	Change in fair value hedge instrument	Change in fair value hedge item	Efficient hedging through other comprehensive income	Inefficiency through P&L
31 December 2020	-29	44	-24	-5

The hedging item is not recognised in the balance sheet.

Industrial contracts and related currency futures

Industrial contracts denominated in EUR for the physical delivery of power are designated as fair value in the balance sheet. This involves the delivery of power for the period 2021-2030 with a total contract value of EUR 111 million. Of this amount, EUR 55 million has been swapped to NOK 581 million using currency futures. The Group has hedge accounted for both the industrial contracts and the currency futures.

The secure cash flows in EUR from the industrial contracts are designated as the hedging instrument in a cash flow hedge. The hedging item is the future sales of hydropower in EUR arising from the contracts. There is not considered to be significant credit risk related to the contracts. The industrial contracts hedge themselves and are considered perfect hedges.

The currency futures are designated as the hedging instruments in a cash flow hedge, while the EUR exposure arising from the contracts are the designated hedging item. There is not considered to be significant credit risk against the banks which are the counterparties. This is also considered to be a perfect hedge.

NOK million	Change in fair value hedge instrument	Change in fair value hedge item	Efficient hedging through other comprehensive income	Inefficiency through P&L
31 December 2020	128	-128	128	-
31 December 2019	-12	12	-12	-

Note 5.6 Derivatives and hedging
(cont.)

Hedging related to borrowings

The Group has the following hedging relationships: (nominal value: + indicates the principal amounts paid by the Group, and - indicates the principal amounts received by the Group):

NOK million

Reference	Hedged item	Currency	Nominal amount	Due date	Interest rate	Line-item in balance sheet[1]
A	Fixed rate loan	NOK	500	2022	4.35%	Non-current interest-bearing debt
B	Fixed rate loan	USD	75	2023	4.77%	Non-current interest-bearing debt
C	Fixed rate loan	USD	25	2026	4.95%	Non-current interest-bearing debt
D	Fixed rate loan	JPY	5,000	2028	1.51%	Non-current interest-bearing debt
E	Fixed rate loan	JPY	5,000	2029	1.38%	Non-current interest-bearing debt
F	Fixed rate loan	NOK	250	2029	4.40%	Non-current interest-bearing debt
G	Fixed rate loan	USD	125	2031	3.14%	Non-current interest-bearing debt
H	Fixed rate loan	EUR	30	2031	2.29%	Non-current interest-bearing debt

[1]The first year's instalment is classified as current interest-bearing debt.

Note 5.6 Derivatives and hedging
(cont.)

NOK million

Reference	Hedging instrument	Currency	Nominal amount	Due date	Interest rate	Line-item in balance sheet
A	Interest rate swap	NOK	-500	2022	4.35%	Non-current financial derivatives
A	Interest rate swap	NOK	500	2022	3M NIBOR +2,8 %	Non-current financial derivatives
B	Combined interest rate and currency swap	USD	-75	2023	4.77%	Non-current financial derivatives
B	Combined interest rate and currency swap	NOK	429	2023	3M NIBOR +0,86%	Non-current financial derivatives
C	Combined interest rate and currency swap	USD	-25	2026	4.95%	Non-current financial derivatives
C	Combined interest rate and currency swap	NOK	143	2026	3M NIBOR +0,86%	Non-current financial derivatives
D	Combined interest rate and currency swap	JPY	-5,000	2028	1.51%	Non-current financial derivatives
D	Combined interest rate and currency swap	NOK	301	2028	6M NIBOR +0,92%	Non-current financial derivatives
E	Combined interest rate and currency swap	JPY	-5,000	2029	1.38%	Non-current financial derivatives
E	Combined interest rate and currency swap	NOK	296	2029	6M NIBOR +0,87%	Non-current financial derivatives
F	Interest rate swap	NOK	-250	2029	4.40%	Non-current financial derivatives
F	Interest rate swap	NOK	250	2029	3M NIBOR +2,4 %	Non-current financial derivatives
G	Combined interest rate and currency swap	USD	-125	2031	3.14%	Non-current financial derivatives
G	Combined interest rate and currency swap	NOK	1,036	2031	3M NIBOR +1,524	Non-current financial derivatives
H	Combined interest rate and currency swap	EUR	-30	2031	2.29%	Non-current financial derivatives
H	Combined interest rate and currency swap	NOK	237	2031	6M NIBOR +1,1%	Non-current financial derivatives

Note 5.6 Derivatives and hedging

(cont.)

The Group's hedging instruments are presented under Derivatives, and are recognised in the balance sheet at the following amounts:

NOK million	Fair value of hedging instruments		Change in fair value used to measure inefficiency in the period
31 December 2020	**Assets**	**Liabilities**	
Combined interest rate and currency swap	1,030	-	151
Interest rate swap	31	-	32
Total	**1,061**	**-**	**183**
31 December 2019	**Assets**	**Liabilities**	
Combined interest rate and currency swap	879	-	55
Interest rate swap	4	-5	-23
Total	**883**	**-5**	**32**

Currency risk

The Group's policy is to reduce currency risk by swapping the payments of principal amounts and fixed interest in foreign currency to NOK in a 1:1 ratio using combined interest rate and currency swaps. Under the combined swaps, payments of fixed interest are also exchanged to payments of floating interest so that the Group receives fixed interest in foreign currency and pays floating interest in NOK. The exchange from fixed to floating interest in foreign currency is treated as a fair value hedge, while the exchange from floating interest payments and principal in foreign currency to floating interest and principal in NOK is treated as a cash flow hedge.

Cash flows from payments of principal amounts and floating interest rates in foreign currency are designated as hedging items, and cash flows from the combined swaps are accordingly designated as hedging instruments. The basis spread is excluded from the designated hedging instrument.

There is an economic relationship between the hedged item and the hedging instrument as the critical terms for exchanging from foreign currency to NOK matches. Hedge effectiveness is assessed on a qualitative basis.

Changes in the fair value of the effective portion of the hedge are recognised in other comprehensive income until the period when changes in value of the hedged item affects profit or loss. The ineffective portion of the hedge is expensed under "Other finance income/costs."

Ineffectiveness in the hedge could arise from the fair value of credit risk affecting the hedging instrument, but not the hedged item. The ineffective portion of the cash flow hedge recognised through profit or loss was immaterial in 2020 and 2019.

Summary of cash flow hedging related to borrowings

The hedged item and hedged instrument affect the balance sheet and profit or loss as follows:

NOK million	Change in fair value hedge instrument	Change in fair value hedge item	Efficient hedging through other comprehensive income	Inefficiency through P&L
31 December 2020	9	-9	9	
31 December 2019	17	-17	17	

Note 5.6 Derivatives and hedging
(cont.)

Movements in the cash flow hedging reserve:

NOK million	Financial hedging portfolio	Industrial contracts and currency futures	Combined interest rate and currency swap	Total
1 January 2019	**-**	**-**	**-57**	**-57**
Change in fair value through other comprehensive income	-	-12	17	5
Deferred tax	-	9	-4	5
31 December 2019	**-**	**-3**	**-44**	**-47**
Change in fair value through other comprehensive income	-24	128	9	114
Deferred tax	5	-82	-2	-79
31 December 2020	**-19**	**43**	**-37**	**-12**

Fair value hedges

The Group's loan portfolio includes loans with both fixed and floating interest rate terms, and the Group has used derivatives to exchange interest terms for some loans from fixed to floating rates.

Interest rate exposure

Bond loans in NOK for which interest rate swaps from fixed to floating interest rates have been entered are recognised as fair value hedges. Interest rate hedges from fixed to floating interest rates in foreign currency from combined currency and interest rate swaps are designated and valued in the same way. The Group has adopted the changes regarding the interest rate reform which give temporary relief by allowing the assumption that specific considerations for hedge accounting is not affected by uncertainty arising from the interest rate reform.

The hedged risk arises from changes in value of fixed interest payments that mainly derive from changes in swap rates (OIS) and NIBOR interest rates.

There is an economic relationship between the hedged item and hedging instrument because the critical terms for exchanging from fixed to floating interest rates match. Hedge effectiveness is assessed on a qualitative basis.

Ineffectiveness in the hedge could arise from differing settlement times for interest payments/establishment of interest rates between the hedged item and the hedging instrument, as well as the fair value of credit risk affecting the hedging instrument, but not the hedged item.

The ineffective portion of the fair value hedge recognised through profit or loss under "Other finance income/costs" was immaterial in 2020 and 2019.

Note 5.7 Capital management

Hafslund Eco's capital management is intended to ensure that the Group has financial flexibility in the short and long term and maintains a high credit rating. The Group aims to achieve cash flows that ensures competitive returns for the owner through dividends without disadvantaging the Group's creditors.

In addition to cash and cash equivalents, the Group's liquidity reserve consists of unused long-term drawdown facilities. Hafslund Eco has access to diversified loan sources and primarily uses bond loans, banks and international private placement markets.

The Group has long-term financing and unused credit facilities that ensures financial room to maneuver even when it is difficult to gain financing in the markets.

The loan portfolio (excluding subordinated loans) comprises a balanced mix of loans with a maturity structure between 1 and 13 years, with a weighted average term of 6 years. The maturity structure of the Group's interest-bearing debt and other financial liabilities are shown in notes 5.2 Interest-bearing debt and 5.3 Maturity structure, financial liabilities.

At the end of 2020 the Group had unused drawdown facilities considered sufficient to cover the Group's refinancing requirements over the next 12 months. External borrowing has been centralised at parent company level Hafslund Eco, and the capital needs of the respective subsidiaries are normally covered through internal loans, primarily through corporate cash pooling systems, in combination with equity. The capital structure in the subsidiaries is adapted to commercial considerations, as well as legal and tax-related considerations. The Group attaches importance to ensuring a balanced and reasonable capital composition that maintains reasonable equity based on the risk and scope of the business.

The Group's loan covenants prohibit the pledging of assets as collateral 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 per cent of shares issued by Hafslund Eco AS to be directly or indirectly owned by the City of Oslo. The Group's loan agreements do not impose any other covenants.

The Group does not have an official credit rating, but actively monitors quantitative and qualitative factors that affect the Group's creditworthiness. Hafslund Eco aims to maintain a credit profile corresponding to an investment grade-rating and monitors its asset management by following the development of its equity ratio, net interest-bearing debt and cash flows from operations. The Group's capital consists of net interest-bearing debt and equity.

The Group is not subject to any external requirements with regards to the management of its capital structure other than with regards to market expectations and the owner's dividend requirements.

Note 5.7 Capital management
(cont.)

NOK million	2020	2019
NET INTEREST-BEARING DEBT		
Current interest-bearing debt	1,790	701
Non-current interest-bearing debt[1]	13,096	12,435
Fair value adjustment loan portfolio/fair value hedges	-445	-268
Non-current interest-bearing assets	-153	-84
Cash and cash equivalents	-1,008	-2,444
Net interest-bearing debt 31 December	**13,280**	**10,340**
Unused drawing rights 31 December	2,900	1,800
EQUITY SHARE		
Equity	25,838	25,645
Assets	57,807	57,812
Equity share (%) 31 December	**45%**	**44%**

[1]Subordinated debt of NOK 5,364 million (NOK 5,764 million) is not included in the calculation of net interest-bearing debt.

Note 5.8 Share capital and shareholder information

NOK million	Number of shares	Share capital	Premium fund	Paid in capital
PAID IN CAPITAL				
As of 31 December 2020	100,000	100	15,295	15,395

Hafslund Eco AS has no treasury shares. All shares are owned by the City of Oslo.

Dividends paid during the period were NOK 700 million to the City of Oslo, NOK 173 million from Hafslund Eco Vannkraft AS to Eidsiva Energi AS and NOK 195 million to minority shareholders, a total of NOK 1,068 million.

Note 5.9 Non-current receivables

Key accounting policies

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

NOK million	2020	2019
OTHER NON-CURRENT RECEIVABLES		
Other non-current interest-bearing receivables	153	84
Other non-current non-interest-bearing receivables	759	471
Net pension funds	242	120
Non-current equity investments	49	46
Other non-current receivables 31 December	**1,203**	**721**

Note 5.10 Trade receivables and other current receivables

Key accounting policies

Accounts receivables contain both receivables that arise as a result of contracts with customers and other types of receivables. Receivables arising from contracts with customers are recognised at the agreed amount, reduced by expected credit loss. Other receivables and accruals are recognised at fair value and measured in subsequent periods at amortised cost.

Key estimates and assumptions

Inaccurate assessment of the customers' ability to pay could result in losses on receivables that subsequently must be written down through profit or loss. The Group estimates and recognises a provision for expected losses based on historic figures. The Group deems the credit risk to be acceptable.

NOK million	2020	2019
TRADE RECEIVABLES		
Trade receivables	340	236
Trade receivables 31 December	**340**	**236**
OTHER NON- INTEREST- BEARING CURRENT RECEIVABLES		
Other non-interest-bearing current receivables	244	107
Accrued other income/prepaid expenses	-	2
Other non-interest-bearing current receivables 31 December	**244**	**108**

Please see note 2.1 for further discussion of revenues.

Note 5.11 Cash and cash equivalents

Key accounting policies

Cash and cash equivalents include the Group's liquid assets and comprise bank deposits.

NOK million	2020	2019
CASH AND CASH EQUIVALENTS		
Bank deposits	951	2,177
Withholding tax (restricted assets)	-	25
Other restricted assets	57	242
Cash and cash equivalents 31 December	**1,008**	**2,444**

Discussion of key matters

The Group's available cash and cash equivalents mainly consist of bank deposits. The Group also has an overdraft facility of NOK 400 million, which was unused on 31 December 2020. Furthermore, the group has an overdraft facility of EUR 50 million to cover the daily settlements for futures contracts on Nasdaq OMX Clearing AB. EUR 48 million was unused per December 31, 2020.

Hafslund Eco AS has syndicated drawdown facility totalling NOK 1,500 million maturing in July 2022 and a bilateral drawdown facility of NOK 1,000 million maturing in March 2022. The drawdown facilities are used as back-stop for loan maturities and as general liquidity reserve. Both were unused at 31 December 2020.

Note 5.11 Cash and cash equivalents

(cont.)

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

Of the Group's other restricted funds, NOK 57 million (NOK 242 million) is pledged as security for power trading activities and NOK 0 million (NOK 25 million) is pledged as security for tax deductions. The Group also purchases bank guarantees as a security for tax deductions and other liabilities. Please refer to note 4.2 Guarantees, for further information.

Note 5.12 Trade payables and other current non-interest-bearing liabilities

Key accounting policies

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. The main rule is that trade and other current payables are classified as current if they fall due within one year. Trade and other current payables are measured at fair value in the balance sheet on initial recognition and subsequently at amortised cost.

NOK million	2020	2019
TRADE PAYABLES		
Trade payables	396	366
Trade payables 31 December	**396**	**366**
OTHER CURRENT LIABILITIES		
Value added tax	101	206
Charges related to salaries	37	48
Accrued interest	452	404
Other short-term liabilities	291	173
Other current non-interest-bearing liabilities 31 December	**882**	**831**

Note 5.13 Financial items

Key accounting policies

Currency gains and losses that derive from operational hedging of power sales are reported under revenues as other gains/losses. Value adjustments of receivables and liabilities in foreign currency are recognised as currency gains/losses under financial income/ financial expenses, respectively.

Discussion of key matters

Gain from sale of the grid business of NOK -38 million forms part of the pro-contra settlement following the transaction with Eidsiva Energi in 2019. See further discussion in note 1.5 Transactions and events in 2020.

NOK million	2020	2019
INTEREST INCOME		
Interest income	4	18
Other financial income	-	1
Interest income	**4**	**19**
INTEREST EXPENSE		
Interest expense	-636	-568
Capitalised interest expense	25	35
Interest expense IFRS 16	-3	-1
Interest expense	**-614**	**-534**
GAIN FROM SALE OF THE GRID BUSINESS		
Gain from sale of the grid business	-38	3
Gain from sale of the grid business	**-38**	**3**
OTHER FINANCIAL INCOME/COSTS		
Currency gains or losses	24	-17
Change in receivables recognised at fair value	5	13
Profit from sale of shares	-15	-
Other financial income or cost	-10	-11
Other financial income/costs	**6**	**-14**
Net financial items	**-642**	**-526**

Note 6.1 Taxes

General information

Apart from ordinary income tax, Hafslund Eco's power production activities are subject to separate rules for taxation of hydropower production companies. The Group is therefore also charged resource rent tax and natural resource tax.

Ordinary income tax

The tax expense primarily consists of taxes payable and changes in deferred tax. Payable income tax is calculated at 22 per cent (22 per cent). Deferred tax is calculated based on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes, as well as the tax loss carried forward, where a tax rate of 22 per cent (22 per cent) is applied.

Resource rent tax

The resource rent tax depends on the profit and accounts for 37 per cent (37 per cent) of the net resource rent income for each power plant. Resource rent income is calculated based on each power plant's production hour-by-hour, multiplied by the spot price during the corresponding hour. The achieved prices are used for deliveries of concessionary power and industry contracts with more than 7 years duration. The resource rent income is reduced by operating expenses, tax-related depreciation and non-taxable income to arrive at net resource rent income. Non-taxable income is stipulated based on the average tax-related value of production equipment for the year in the power plant, multiplied by a prescribed interest rate. The prescribed interest rate was 0.3 per cent for 2020 (1.2 per cent).

Negative resource rent income that has arisen in a power plant after 2006 can be coordinated with positive resource rent income from other power plants. The negative resource rent income that arose prior to 2007, with interest, can be offset against positive resource rent income from the same power plant only. Negative resource rent income is included in the calculation of deferred tax/deferred tax assets in resource rent taxation along with deferred tax/tax assets related to temporary differences pertaining to production equipment in power production to the extent this can feasibly be offset.

The resource rent tax in profit or loss consists of this year's payable resource rent tax plus the change in deferred resource rent tax. Deferred resource rent tax is calculated the same way as deferred tax on ordinary income tax, using a nominal resource rent rate of 37 per cent (37 per cent).

Natural resource tax

Natural resource tax is calculated based on the individual power plant's average power production over the past seven years without regard to profitability. The maximum tax rate is set at 0.013 NOK (0.013 NOK) per kWh. Natural resource tax can be offset against taxes payable from ordinary income tax.

Natural resource tax carried forward is offset against deferred tax in the balance sheet. If it is likely that the natural resource tax represents a final payment where a set-off is not likely, it is expensed through profit or loss.

Property tax

Power production operations are also subject to property tax, which is up to 0.7 per cent of the taxated value. Property tax is recognised as an operating expense. Please see note 2.4 Property tax and license fees.

Note 6.1 Taxes
(cont.)

Key accounting policies

Deferred tax and deferred tax assets are offset as far as the Group has a legally enforceable right to set off assets and liabilities, and these are levied by the same tax authority. The same applies for deferred tax and deferred tax assets related to resource rent tax. Deferred tax positions related to ordinary income tax cannot be offset against tax positions related to resource rent tax.

Key estimates and assumptions

Management continuously assesses the validity of material assumptions made in the tax assessments where applicable tax laws are the object of interpretation. Provisions are recognised based on the management's assessment of expected tax payments.

Deferred tax assets from negative resource rent income is recognised for the portion that is expected to be offset during a 10-year period. By the end of 2020 negative resource rent income of NOK 340 million (NOK 348 million) was not recognised as a deferred tax asset. With a nominal tax rate of 37 per cent this equals a non-recognised tax asset of NOK 126 million (NOK 129 million).

The timing for when negative resource income can be offset is estimated based on the expectation of production volumes and forward curves.

NOK million	2020	2019
TAX EXPENSE		
Income tax payable	173	733
Changes in deferred tax	-62	199
Resource rent tax payable	76	1,195
Changes in deferred resource rent tax	-37	-13
Natural resource tax	211	185
Natural resource tax offset against income tax	-152	-185
Natural resource tax carried forward	-69	18
Too little/much tax set aside in previous years	-19	2
Other	2	-1
Tax expense for the year	**123**	**2,133**

Note 6.1 Taxes

(cont.)

NOK million	2020	2019
DEFERRED TAX THROUGH OTHER COMPREHENSIVE INCOME		
Hedging reserve 22 %	25	1
Hedging reserve 37 %	54	-6
Actuarial gains and losses 22 %	1	1
Actuarial gains and losses 37 %	-3	13
Deferred tax through other comprehensive income	**78**	**9**
RECONCILIATION OF NOMINAL TAX RATE AGAINST EFFECTIVE TAX RATE		
Profit before tax	**1,163**	**3,835**
Profit/loss from equity-accounted investees	611	74
Profit before tax adjusted - basis for calculation of effective tax rate	**552**	**3,761**
22 % (22 %) of profit before tax adjusted	121	827
22 % (22 %) of permanent differences	11	1
22 % (22 %) of actuarial gains and losses	1	-
Payable resource rent tax	76	1,195
Change in deferred tax negative resource rent tax carried forward (37 %)	-10	-87
Change in deferred tax resource rent tax (37%)	-28	74
Too little/much tax set aside in previous years	-19	2
Other	-29	120
Tax expense for the year	**123**	**2,133**
Effective tax rate	22%	57%

NOK million	31.12.2020	31.12.2019
DEFERRED TAX		
General income tax		
Derivatives	1,145	1,220
Receivables	482	12
Power contracts	191	288
Property, plant and equipment	16,023	16,038
Provisions for liabilities	-2,507	-2,429
Pensions	62	44
Tax losses carried forward	-256	-532
Total	**15,139**	**14,641**
Tax rate	22%	22%
Deferred tax liability/-asset	3,331	3,221
Natural resource rent tax carried forward	-84	-15
Net deferred tax liability/-asset	3,247	3,206
Of which deferred tax asset	-	-
Of which deferred tax liability	3,146	3,206
Of which reclassified to taxes payable, dam rehabilitation	101	-

Note 6.1 Taxes
(cont.)

NOK million	31.12.2020	31.12.2019
DEFERRED TAX		
Resource rent tax		
Property, plant and equipment	14,073	13,327
Receivables	-9	11
Pensions	78	66
Industrial contracts	149	3
Provisions for liabilities	-1,267	-60
Resource rent tax carried forward, including interest	-1,662	-1,645
Unrecognised resource rent tax carried forward	340	348
Total	**11,704**	**12,051**
Tax rate	37%	37%
Deferred resource rent tax	4,330	4,459
Of which deferred tax asset	-479	-479
Of which deferred tax liability	4,641	4,939
Of which reclassified to taxes payable, dam rehabilitation	169	-
Carrying amount of deferred tax liability/-asset		
Deferred tax asset	-479	-479
Deferred tax liability	7,788	8,146
Total	**7,309**	**7,667**

Note 6.2 Tax implications of dam rehabilitation expenditures

The Group has rehabilitated several of its dams in order to comply with a revision of the dam safety regulation from 2010. Hafslund Eco has previously followed the consensus of the hydropower industry which has been to claim tax deductions for expenditures related to dam rehabilitation the same year as they were incurred.

In October 2020, the Supreme Court gave its final verdict on the matter stating that the expenditures are to be recognised in the balance sheet and depreciated over 67 or 40 years, and not deducted the same year as they were incurred. Hafslund Eco has therefore received notice of changes to its tax assessment for the period 2012-2018 and expect further notice for 2019. For accounting purposes, this results in a reclassification from deferred tax to taxes payable in the Group's balance sheet. Current estimates show that this will mean a cash flow effect of around NOK 250 – 300 million payable in 2021.

A provision of NOK 20 million has been made for estimated interest in connection with the change of the Group's previous tax assessment. In addition, NOK 270 million has been reclassified from deferred tax to taxes payable as of 31 December 2020.

Note 7.1 Remuneration to senior executives and Board members

Remuneration to senior executives and Board members of Hafslund Eco in 2020

From date	Up to and including date	Name	Position	Salaries, holiday pay and fees	Bonus[1]	Benefits in kind	Pension costs	Borrowings 31.12.20
01.01.2020	31.12.2020	Finn Bjørn Ruyter	CEO	4,654,145	-	350,416	693,378	-
01.01.2020	31.12.2020	Heidi Ulmo	CFO (Chief Financial Officer)	2,888,529	-	282,697	428,196	-
01.01.2020	31.12.2020	Martin S. Lundby[3]	EVP Corporate Development and Growth	1,996,707	-	160,331	259,760	-
01.01.2020	31.12.2020	Alf Inge Berget	EVP Power Generation	2,837,182	-	300,706	306,943	-
01.01.2020	31.12.2020	Stig Morten Løken	EVP Technical	1,913,553	-	145,512	248,601	-
01.01.2020	31.12.2020	Anders Østby	EVP Power market	1,969,723	-	174,902	256,291	-
01.01.2020	31.12.2020	Toril Benum	EVP New Energy	2,095,451	-	224,146	291,602	-
01.01.2020	31.05.2020	Tore Olaf Rimmereid	Deputy CEO and SVP Corporate Strategy	1,161,384	-	88,674	167,478	-
01.01.2020	31.05.2020	Siw Hellesen	SVP HR and Organisational Development	819,375	-	93,089	99,827	-
01.01.2020	31.05.2020	Per-Arne Torbjørnsdal	SVP Corporate Communications and Legal	873,813	-	79,806	121,970	-
01.01.2020	31.12.2020	Alexandra Bech Gjørv[2]	Chair	481,820	-	-	-	-
01.01.2020	31.12.2020	Bente Sollid Storehaug[2]	Board Member	246,105	-	-	-	-
01.01.2020	31.12.2020	Bjørn Erik Næss[2]	Board Member	277,973	-	-	-	-
01.01.2020	31.12.2020	Bård Vegar Solhjell[2]	Board Member	246,105	-	-	-	-
01.01.2020	31.12.2020	Mari Thjømøe[2]	Board Member	277,973	-	-	-	-
01.01.2020	31.12.2020	Arvid Amundsen	Board Member (employee representative)	885,666	12,600	48,131	75,823	-
01.01.2020	31.12.2020	Jan Petter Knudsen	Board Member (employee representative)	1,002,729	12,600	8,254	-	-
01.01.2020	31.12.2020	Gunnar Ola Braaten[2]	Board Member (employee representative)	1,483,350	12,600	11,638	83,585	-

[1] Applies to bonus achievement for the relevant period. Bonus to senior executives in 2020 was a maximum of 25 per cent of fixed salary. As a result of the uncertainty associated with the covid-19 pandemic and changed market prospects, the Group management chose to refrain from bonus for 2020. The Board has begun work on assessing the bonus structure for the Group in the future.

[2] Includes remuneration for work in the Audit Committee.

[3] From 1 January to 31 May 2020: SVP Projects.

Note 7.1 Remuneration to senior executives and Board members

Remuneration to senior executives and Board members of Hafslund Eco AS in 2019

From date	Up to and including date	Name	Position	Salaries, holiday pay and fees	Bonus[1]	Benefits in kind	Pension costs	Borrowings 31.12.2019
01.01.2019	31.12.2019	Finn Bjørn Ruyter	CEO	4,558,848	708,948	315,330	661,371	425,000
01.01.2019	31.12.2019	Tore Olaf Rimmereid	Deputy CEO and SVP Corporate Strategy	2,987,922	439,034	198,834	406,277	-
01.09.2019	31.12.2019	Heidi Ulmo[3]	CFO (Chief Financial Officer)	972,729	121,540	77,564	155,808	160,000
01.01.2019	31.08.2019	Martin S. Lundby (acting to 31.8.2019)[3]	CFO (Chief Financial Officer - acting)	1,042,901	194,709	55,096	115,716	581,250
01.01.2019	31.12.2019	Alf Inge Berget	SVP Power Generation and Managing Director of Hafslund Eco Vannkraft AS	2,629,377	425,872	227,207	237,653	726,666
01.01.2019	30.09.2019	Kristin Lian	SVP Networks and Managing Director of Hafslund Nett AS	1,912,126	470,602	154,600	187,486	200,000
01.01.2019	31.12.2019	Toril Benum	SVP New Energy	2,039,490	342,585	227,083	271,896	530,000
01.01.2019	31.12.2019	Siw Hellesen	SVP HR and Organisational Development	1,936,801	325,456	190,875	249,473	525,000
01.01.2019	31.12.2019	Per-Arne Torbjørnsdal	SVP Corporate Communications and Legal	2,154,562	319,298	156,027	249,625	550,000
01.01.2019	31.12.2019	Anders Østby	SVO Power Market	1,811,116	300,140	166,833	233,700	535,000
01.10.2019	31.12.2019	Stig Morten Løken	SVP Technical and Managing Director of Eidsiva Vannkraft AS	488,568	80,013	36,109	34,574	-
01.01.2019	31.12.2019	Alexandra Bech Gjørv	Chair	402,175	-	-	-	-
01.01.2019	31.12.2019	Bente Sollid Storehaug	Board Member	244,863	-	-	-	-
01.01.2019	31.12.2019	Bjørn Erik Næss[2]	Board Member	286,063	-	-	-	-
01.01.2019	31.12.2019	Bård Vegar Solhjell	Board Member	244,863	-	-	-	-
01.01.2019	31.12.2019	Mari Thjømøe[2]	Board Member	286,063	-	-	-	-
01.01.2019	31.12.2019	Arvid Amundsen	Board Member (employee representative)	865,962	43,100	46,068	51,232	-
01.01.2019	30.09.2019	Per Luneborg[2]	Board Member (employee representative)	869,349	-	6,661	-	-
01.01.2019	30.09.2019	Johnny Kjønås	Board Member (employee representative)	985,005	-	8,580	85,535	-
02.10.2019	31.12.2019	Jan Petter Knudsen	Board Member (employee representative)	237,577	-	1,869	1,881	-
02.10.2019	31.12.2019	Gunnar Ola Braaten	Board Member (employee representative)	358,737	35,590	2,715	42,020	-

The tables above show the remuneration of senior executives in the Hafslund Eco Group. Remuneration for Board work and for work in the audit and compensation committee apply to Hafslund Eco AS.

[1] Applies to bonus achievement for the relevant period. Bonus to senior executives was a maximum of 25 per cent of fixed salary.

[2] Includes remuneration for work in the Audit Committee.

[3] Salaries in the parental leave period is not included.

Note 7.1 Remuneration to senior executives and Board members

(cont.)

Senior executives in 2020:

Name	Position	Comment
Finn Bjørn Ruyter	CEO	
Heidi Ulmo	CFO (Chief Financial Officer)	
Martin S. Lundby[1]	EVP Corporate Development and Growth	
Alf Inge Berget	EVP Power Generation	
Stig Morten Løken	EVP Technical	
Anders Østby	EVP Power Market	
Toril Benum	EVP New Energy	
Tore Olaf Rimmereid	Deputy CEO and SVP Corporate Strategy	Up to and including 01.05.2020
Siw Hellesen	SVP HR and Organisational Development	Up to and including 01.05.2020
Per-Arne Torbjørnsdal	SVP Corporate Communications and Legal	Up to and including 01.05.2020

[1]From 1 January to 31 May: SVP Projects.

The Board's Compensation Committee

The Board of Hafslund Eco AS has a dedicated Compensation Committee. The Compensation Committee advises the Board on all matters pertaining to the company's remuneration paid to the CEO. The Committee keeps up to date on and proposes guidelines for determination of remuneration paid to senior executives in the business. In addition, the Committee functions as the advisory body for the CEO regarding compensation schemes that essentially cover all employees, including Hafslund Eco's bonus system and pension plan.

Declaration on the determination of salaries and other remuneration

Remuneration paid to senior executives at Hafslund Eco complies with guidelines and the declaration on determination of salaries and other remuneration paid to senior executives. The Board issues a declaration on the determination of salaries and other remuneration paid to the CEO and Group management. This is included below.

Guidelines for remuneration paid to senior and other executives in the Hafslund Eco Group

The guidelines shall form the basis for determining remuneration to the CEO and the Group management in the Hafslund Eco Group. The guidelines must be consistent with the City of Oslo's guidelines for compensation schemes for senior executives in limited companies that are majority owned by the municipality.

The Board of Directors

The Board adopts the CEO's terms and conditions of employment and oversees the general terms and conditions of other senior Group executives. These terms are evaluated and adopted by the Board each year.

If the CEO wishes to offer members of Group management or other senior executives' remuneration not covered by these guidelines, this must be presented to the Board for approval. In such cases, the Board must justify and minute why the guidelines have been deviated from in each case.

The Board also determines the terms for the company's incentive scheme for managers and key individuals based on a recommendation from administration and the Compensation Committee.

Note 7.1 Remuneration to senior executives and Board members

(cont.)

Terms and conditions, CEO

Remuneration paid to the CEO must be competitive in relation to responsibilities and the industry in general and reflect the employee's experience and level of expertise. The remuneration in 2020 comprised a fixed salary, bonus and a pension plan in accordance with the Group's prevailing schemes for Group management, in addition to an operating subsidy for the use of a car. The bonus was capped at 25 per cent of the fixed salary but the CEO, together with the rest of the Group management, chose to refrain from bonus for 2020 due to uncertainties related to the covid-19 pandemic and changed market prospects. The CEO receives benefits in kind on a par with other senior Group executives.

The retirement age is 70, and the CEO is a member of the Group's mandatory occupational pension plan (OTP) which provides 6 per cent of salary between 1 and 7.1 times the National Insurance Scheme's basic amount (G) and 18 per cent of salary between 7.1 and 12 G. Pension compensation providing a gross additional income of 16 per cent will be paid for basic salary over 12 G on the condition that the CEO is a member of the defined contribution scheme. The CEO has the right to terminate his employment with an early retirement plan (AFP), in accordance with the prevailing regulations at any point in time. The CEO has a disability pension plan providing compensation of 66 per cent of salary over 12 G and is also covered by a collective accident insurance plan. The CEO has a six-month notice period. On leaving the company, he is entitled, on certain conditions, to continue receiving salary payments for 12 months (after the end of the notice period). Severance pay is reduced by any salary received from a new employer during the severance pay period. In such cases, severance payments are reduced by 66 per cent of the lower of the monthly severance pay and the new salary.

Terms and conditions, other Group management

Remuneration for other Group management in 2020 comprised a fixed salary, bonus, fixed car allowance and pension under the Group's prevailing schemes for Group management. The bonus scheme was capped at 25 per cent of the fixed salary but the Group management chose to refrain from bonus for 2020 due to uncertainties related to the covid-19 pandemic and changed market prospects. Group management receives benefits in kind on a par with other senior Group executives. Group management covered by the defined contribution plan receive pension compensation providing a gross additional income of 16 per cent for salary over 12 G. The plan is similar to the plan for other employees in the Group with salaries over 12 G and a defined contribution plan. Group management receives a disability pension providing compensation of 66 per cent of salary between 12 and 30 G.

Group management has a six-month notice period. On leaving the company, Group management is entitled, on certain conditions, to continue receiving salary payments for up to 12 months (after the end of the notice period). Severance pay is reduced by any salary received from a new employer during the severance pay period. In such cases, severance payments are reduced by 66 per cent of the lower of the monthly severance pay and the new salary.

Fixed salary

Group management's fixed salary is based on the duties performed and level of responsibility, as well as the employee's expertise and length of service in the position. Salaries should be competitive in relation to responsibilities and industry levels.

Note 7.1 Remuneration to senior executives and Board members

(cont.)

Annual bonus

The Board is considering terminating the individual bonus scheme and will consider it as part of an overall salary assessment in the Group. The individual bonus scheme has been limited to 25 per cent of the fixed salary for the CEO and other Group management. The bonus was set annually and Group goals were decided by the Board.

Pensions

Senior and other executives should have a pension plan in accordance with the prevailing pension plan for the Group. Group employees who are members of the mandatory occupational pension are covered by an additional pension plan for salaries over 12 G. Pension compensation providing a gross additional income of 16 per cent will be paid for salary over 12 G. The retirement age for managers is 70. Managers are entitled to take early retirement in accordance with the prevailing AFP-agreement at any one time. Group management has a disability pension providing compensation of 66 per cent of salary between 12 and 30 G.

Period of notice and severance pay

Senior and other executives have a notice period of six months. In specific cases and depending on the position, salary payments may continue for 6 to 12 months beyond the ordinary notice period. Severance pay is not included in the basis for calculation of holiday pay or pension benefits. If the employee should begin a new job while receiving such pay, severance payments will be reduced by 66 per cent of the lower of the monthly severance payments and the new monthly salary. If a manager takes up a new position before the end of the notice period, the reduction mechanism applies to the entire severance pay period. In accordance with section 15 of the Norwegian Working Environment Act, severance pay entitles the employer to terminate the employment relationship at any time without further justification on full payment of severance pay.

Fixed car allowance

Fixed car allowance can be awarded.

Benefits in kind

Benefits in kind mainly relate to expenses for broadband (home office), mobile phones and newspapers.

Holidays

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

Note 7.2 Pensions

Hafslund Eco is obliged to have pension schemes for its employees according to the Occupational Pensions Act. The Group's pension schemes, which include both defined benefit and defined contribution plans, satisfies the requirements of the law. As of 31 December 2020, 430 employees were covered by the Group's pension schemes, including 85 in public defined benefit plans, 14 in private defined benefit plans and 331 employees in defined contribution plans. The defined benefit plans entitle employees to defined future benefits. These are essentially depending on the number of years of service and the salary level at retirement age. The pension schemes are organised in Hafslund E-CO pension fund and insurance companies. In addition, some pensions are provided directly from the companies.

NOK million	31.12.2020	31.12.2019
CARRYING AMOUNT PENSION LIABILITIES		
Present value of accrued pension liabilities for funded defined benefit plans	1,692	1,540
Fair value of pension assets	-1,832	-1,659
Actual net pension liabilities for funded defined benefit plans	**-140**	**-120**
Present value of pension liabilities for unfunded plans	55	49
Net pension liabilities recognised (incl. Employer's National Insurance contributions	**-86**	**-70**
Carrying amount net pension liabilities	-156	-51
Carrying amount net pension assets	242	121

NOK million	31.12.2020	31.12.2019
CHANGES IN DEFINED PENSION LIABILITIES DURING THE YEAR		
Pension liabilities at 1 January	1,589	3,007
Employer's National Insurance contribution	1	2
Present value of accrued pension entitlements for the year	11	23
Interest cost	36	40
Experience adjustments	-	-74
Changes in estimates	187	54
Benefits paid	-78	-78
Liabilities on disposal and acquisition of business	-	-1,385
Pension liabilities at 31 December	**1,747**	**1,589**

NOK million	31.12.2020	31.12.2019
CHANGE IN FAIR VALUE OF PENSION ASSETS DURING THE YEAR		
Fair value of pension assets at 1 January	1,659	3,436
Interest income	38	40
Changes in estimates	193	59
Total contributions	16	40
Total payments from fund	-74	-78
Pension assets on settlements and acquisitions	-	-1,838
Fair value of pension assets at 31 December	**1,832**	**1,659**

Note 7.2 Pensions
(cont.)

The following financial assumptions have been applied:	2020	2019
Discount rate	1.50%	2.30%
Yield	1.50%	2.30%
Annual salary increase	2.00%	2.25%
Adjustment of National Insurance Scheme's basic amount (G)	1.75%	2.00%
Adjustment of current pensions, public plan	1.00%	1.25%

The discount rate is the same as the discount rate as calculated by the Norwegian Accounting Standards Board as of 31 August 2020, based on prices of the OMF interest rate (covered bonds). Annual salary increase is set according to the guidelines from the Norwegian Accounting Standards Board.

Demographic assumptions used in the calculations are based on the IR73 disability rate converted to intensity method and K2013BE mortality table.

NOK million	2020	2019
Accrued pension liabilities for the year	12	13
Net interest cost	-2	-
Employer's National Insurance contribution	1	-
Experience adjustments through profit or loss	-	-79
Pension costs	**11**	**-65**
Pension costs defined contribution plans	**26**	**11**
Total pension costs	**37**	**-54**

Sensitivities of pension liabilities to changes in the weighted financial assumptions are:

		Impact on pension liabilities	
Financial assumptions	**Change**	**Increase in assumption**	**Decrease in assumption**
Discount rate	0.5 %	-6.9 %	7.7 %
Salary increase	0.5 %	0.4 %	-0.4 %
Adjustment of National Insurance Scheme's basic amount (G)	0.5 %	6.7 %	-6.0 %
Life expectancy	1 year	4.5 %	-4.5 %

Note 7.2 Pensions

(cont.)

Pension funds are invested in bonds, money market placements, shares and real estate. The bonds and money market instruments are issued by Norwegian and foreign states, municipalities, finance institutions and enterprises. Bonds in foreign currency are currency hedged to NOK. Equity investments include both Norwegian and foreign shares.
The real estate investments are in Norwegian commercial property. Any estimate deviation is distributed proportionally between the individual asset classes.

Pension assets comprise:

NOK million	31.12.2020		31.12.2019	
Equity instruments	743	41%	635	38%
Interest-bearing instruments	932	51%	879	53%
Property	157	9%	144	9%
Fair value of pension assets	**1,832**	**100%**	**1,659**	**100%**

In 2020, plan contributions were invested as follows:

NOK million	Level 1 Listed prices	Level 2 Observable prices	Level 3 Non-observable prices	Total
Equity instruments	-	743	-	743
Interest-bearing instruments	-	931	-	931
Property	-	-	157	157
Total	**-**	**1,675**	**157**	**1,832**

In 2019, plan contributions were invested as follows:

NOK million	Level 1 Listed prices	Level 2 Observable prices	Level 3 Non-observable prices	Total
Equity instruments	-	635	-	635
Interest-bearing instruments	-	879	-	879
Property	-	-	144	144
Total	**-**	**1,515**	**144**	**1,659**

From 1 January 2020 public service pensions for employees born after 31 December 1962 changed. As a result, accrued pension rights until 31 December 2019 for employees born after 31 December 1962 are set as entitlement. Earnings for pensions from 1 January 2020 for employees born after 31 December 1962 will be in a public pension in a so-called contribution model (the ”Allowance scheme”). After agreement with union representatives, Hafslund Eco has decided not to switch to a new public service pension (the ”Allowance scheme”). Employees this applies to will instead be transferred to the Group’s defined contribution scheme with associated risk coverage. The Group chose to incorporate into the actuarial calculation as of 31 December 2019 the effect of employees born after 31 December 1962 switching to defined contribution plans and the termination of ”old” public service pension schemes from 31 December 2019. The transition to defined contribution pension resulted in NOK 40.8 million in reduced capitalised pension liabilities as of 31 December 2019 compared to the year before.

Note 8.1 Consolidated companies

Key accounting policies

The consolidated financial statements include Hafslund Eco AS and its subsidiaries. All enterprises over which the Group exercises control are deemed to be subsidiaries.

Hafslund Eco normally deems that it has control when the Group holds at least 50 per cent of the voting rights in an enterprise.

Subsidiaries directly owned by Hafslund Eco AS	Registered office	Ownership interest	Voting rights
Hafslund AS	Oslo	100.0 %	100.0 %
Hafslund Eco Vannkraft AS	Oslo	57.2 %	57.2 %
Hafslund Produksjon Holding AS	Oslo	90.0 %	90.0 %
Oslo Lysverker AS	Oslo	100.0 %	100.0 %
Hafslund Hovedgård AS	Sarpsborg	100.0 %	100.0 %
Hafslund Ny Energi AS	Oslo	65.0 %	65.0 %

Companies controlled by subsidiaries	Registered office	Ownership interest	Voting rights
Hafslund Handel AS	Oslo	100.0 %	100.0 %
Hafslund Eco Vannkraft Innlandet AS	Lillehammer	100.0 %	100.0 %
Hafslund Produksjon AS	Askim	100.0 %	100.0 %
Oppland Energi AS	Lillehammer	100.0 %	100.0 %
Sarp Kraftstasjon AS	Askim	100.0 %	100.0 %
Mork Kraftverk AS	Oslo	67.0 %	67.0 %
Hallingfisk AS	Hol	68.5 %	68.5 %
Mijas IV AS	Oslo	100.0 %	100.0 %

Hafslund Eco AS owns 57.2 per cent of the shares in Hafslund Eco Vannkraft AS. Eidsiva Energi AS owns the remaining 42.8 per cent. Through its 50 per cent ownership in Eidsiva Energi AS, the effective ownership share is 78.6 per cent. See also Note 3.5 Equity-accounted investees for how ownership is reflected in the consolidated financial statements.

Note 8.2 Non-controlling interests

Key accounting policies

IFRS does not regulate how to treat cases where a parent company owns a subsidiary where a share of the subsidiary is owned through a company that is recognised using the equity method.

The Group has chosen to use the “look-through approach” – meaning that the share that is owned indirectly is included in the share of the parent company when calculating the non-controlling interests.

As of 30 September 2019 there is a non-controlling interest in Hafslund Eco Vannkraft AS amounting to 21.4 per cent, which is calculated as follows using the “look-through approach”:

Non-controlling interests (NCI) using the "look-through approach"	Shareholding
The Group's direct shareholding	57.2 %
The Group's shareholding through 50 % shareholding in Eidsiva Energi	21.4 %
The Group's shareholding, "look-through approach"	78.6 %
Total shareholdings	100.0 %
Non-controlling interests, "look-through approach"	**21.4 %**

The table above presents an overview of information related to the Groups’ subsidiaries where there are substantial non-controlling interests, before Group eliminations. The subsidiary Hafslund Eco AS was 100 per cent owned until the transaction with Eidsiva Energi.

Hafslund Eco Vannkraft and Hafslund Produksjon are subgroups of Hafslund Eco and the amounts disclosed are for each subgroup.

	2020			
NOK million	Hafslund Eco Vannkraft	Hafslund Produksjon Holding	Other	Group
NCI percentage	**21.4 %**	**10.0 %**		
Non-current assets	34,170	11,281		
Current assets	2,097	75		
Non-current liabilities	-25,768	-3,056		
Current liabilities	-1,696	-92		
Net assets	8,804	8,207		
Net assets attributable to NCI	**1,794**	**821**	**17**	**2,632**
Revenue	1,902	382		
Profit	392	91		
OCI	69	-		
Total comprehensive income	**461**	**91**		
Profit allocated to NCI	**84**	**9**	**-7**	**87**
OCI allocated to NCI	**15**	**-**	**-**	**15**

Note 8.2 Non-controlling interests

(cont.)

	2019		
NOK million	Hafslund Eco Vannkraft	Hafslund Produksjon Holding	Total
NCI percentage	**21.4 %**	**10.0 %**	
Non-current assets	33,358	11,263	
Current assets	4,612	686	
Non-current liabilities	-25,897	-2,982	
Current liabilities	-2,927	-628	
Net assets	9,147	8,338	
Net assets attributable to NCI	**1,860**	**839**	**2,699**
Revenue	4,162	1,224	
Profit	1,475	442	
OCI	12	-	
Total comprehensive income	**1,487**	**442**	
Profit allocated to NCI	**221**	**44**	**265**
OCI allocated to NCI	**3**	**-**	**3**

In addition to the non-controlling interests in the table above there are non-controlling interests of NOK 2 million in other subsidiaries.

Note 9.1 Related party transactions

All subsidiaries, associates and joint arrangements as specified in the notes 8.1 Consolidated companies, 3.5 Equity-accounted investees and 3.6 Joint arrangements are deemed to be related parties of the Group. The Group's management and Board are also defined as related parties, as specified in note 7.1 Remuneration to senior executives and Board members. Transactions with subsidiaries are eliminated in the consolidated financial statements and are not disclosed in this note.

The City of Oslo owns 100 per cent of Hafslund Eco AS.

Subordinated loan from the City of Oslo

The Group has a subordinated loan from the city of Oslo, with an outstanding balance as of 31 December 2020 of NOK 2,347 million (NOK 2,347 million). At the same date, accrued interest on the loan amounted to NOK 115 million (NOK 128 million). The loan had an interest rate of 4.90 per cent, no instalments and matures on 31 December 2037.

Subordinated loan from Oslo Energi Holding AS

The Group has a subordinated loan from Oslo Energi Holding AS, which is 100 per cent owned by the City of Oslo, with an outstanding balance as of 31 December 2020 of NOK 1,100 million (NOK 1,500 million). At the same date, accrued interest on the loan amounted to NOK 61 million (NOK 73 million). The loan was put in place in connection with the establishment of Hafslund Eco in 2018. The loan had an interest rate of 4.34 per cent, no instalments and matures on 31 December 2037.

On 11 February 2019, the District Court of Oslo pronounced a ruling on the determination of the settlement sum for minority shareholders in the former Hafslund ASA. The District Court established a market value for the shares in Hafslund ASA of NOK 147.13 per share, compared with the compulsory purchase price of NOK 96.76 per share as of 3 August 2017. Oslo Energi Holding AS appealed the District Court's ruling, and the case was up for judgement in The Court of Appeal concluded on 26 August 2020 and set the settlement price at NOK 137.50 per share. As part of the settlement to the minority shareholders, NOK 400 million of the subordinated loan was repaid to Oslo Energi Holding AS.

Subordinated loan from Eidsiva Energi AS

Hafslund Eco Vannkraft Innlandet AS has a subordinated loan from the 50 per cent owned joint venture Eidsiva Energi AS, with an outstanding balance as of 31 December 2020 of NOK 1,917 million (NOK 1,917 million). The loan was established in 2019 in connection with the Eidsiva transaction. As of 31 December 2020, accrued interest on the loan amounted to NOK 94 million (NOK 26 million). The loan had an interest rate of 4.90 per cent, no instalments and matures on 31 December 2039.

Receivable on Fredrikstad Energi AS

The Group has a long-term receivable from the associate Fredrikstad Energi AS, with a principal amount of NOK 49 million, in the form of a bond listed on the Nordic ABM. The loan matures on 19 December 2114. Fredrikstad Energi AS can redeem the loan the first time on 29 December 2025 (call date) and then every 5 years until maturity. The interest rate is 7 per cent until the call date in 2025 and thereafter 1-year NOK swap rate plus margin of 3.5 per cent. As of 10 years after the call date in 2025, the margin is increased to 4.5 per cent. The loan has a condition of so-called bypassed coupon payment if the interest coverage ratio falls below 2.5 per cent. For 2020 interest of NOK 3 million was paid in full.

Note 9.2 Contingencies

Hafslund Energy Trading
Hafslund Energy Trading Hafslund Energy Trading LLC ("HET"), which is owned by Hafslund Produksjon Holding, performed power trading activities in California (USA) between 1999 and 2001. During this period, there was a power crisis and since 2001 HET and public authorities in California ("California Parties") have been in dispute, with the latter claiming that HET must repay the capital. The Group believes that the probability of the Norwegian parent company being held liable is low and has consequently not recognised a provision in the financial statements.

Note 9.3 Events after the reporting period

The financial statements are considered authorised for issue once they have been approved by the Board of Directors. After this point, the General Meeting and regulatory authorities may refuse to approve the financial statements but may not change them. Events that take place before the financial statements are authorised for issue and related to matters that were known at the end of the reporting period, will be included in the information basis for determining accounting estimates and therefore be fully reflected in the financial statements. Events relating to matters that were not known at the end of the reporting period are disclosed if they are material.

At the time of the presentation of the financial statements, there were no known material events after the reporting period that were expected to have an impact on the Group's income statement for 2020 or its statement of financial position as of 31 December 2020.

BKK Elektrifisering AS and Hafslund Eco AS's subsidiary Hafslund Ny Energi AS have received approval from the Norwegian Competition Authority to integrate their charging businesses into one joint company. Hafslund Ny Energi AS and BKK Elektrifisering AS will own equal shares in the new company. The goal is for the new company to be operational from the spring of 2021.

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Income statement 1 January - 31 December

NOK million	Note	2020	2019
Other operating revenue		31	100
Revenue		**31**	**100**
Salary and other personnel expenses	10	-25	-79
Other operating expenses	12	-32	-112
Profit/loss from equity-accounted investees	7	-50	-31
Operating profit		**-76**	**-122**
Interest icome	8	763	407
Interest expenses	8	-559	-574
Other financial income/expenses	8	918	11,339
Net financial items		**1,122**	**11,172**
Profit before tax		**1,046**	**11,050**
Income taxes	15	-57	-15
Profit for the year		**990**	**11,035**

Balance sheet 31 December

NOK million	Note	2020	2019
ASSETS			
Property, plant and equipment		-	5
Investments in equity- accounted investees	7	32	75
Other non-current assets	6	22,782	22,677
Shares in subsidiaries	3	20,142	19,806
Non-current assets		**42,957**	**42,564**
Trade receivables	14	4	54
Other non-interest bearing current receivables	14	1,067	1,244
Shares and other financial assets		-	5
Cash and cash equivalents	16	714	4
Current assets		**1,785**	**1,308**
Assets		**44,742**	**43,872**

NOK million	Note	2020	2019
EQUITY AND LIABILITIES			
Paid in capital	9	15,395	15,395
Other equity	9	10,556	11,058
Equity	9	**25,951**	**26,453**
Non-current interest-bearing debt	4	15,471	15,374
Deferred tax liabilities	15	-	25
Pension liabilities	11	13	29
Non-current liabilities		**15,484**	**15,427**
Current interest-bearing debt	4	1,790	1,465
Trade payables		-	12
Other current non interest-bearing debt	5	1,517	484
Current tax liabilities	15	-	32
Current liabilities		**3,307**	**1,992**
Equity and liabilities		**44,742**	**43,872**

Cash flow statement 1 January - 31 December

NOK million	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Operating profit before depreciation (EBITDA)	-76	-122
Profit/loss from equity-accounted investees	50	-
Changes in working capital	38	-63
Taxes paid	-32	-286
Interest paid	-185	-204
Other cash flow effects from operations	201	187
Net cash flows from operating activities	**-3**	**-488**
CASH FLOWS FROM INVESTING ACTIVITIES		
Investments in subsidiaries	-44	-172
Investments in associates and other financial investments	-7	-14
Other investment activities	15	76
Net cash flows from investing activities	**-36**	**-110**
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in interest-bearing debt	423	409
Dividends paid	-700	-1,284
Dividends and group contributions received	1,028	970
Cash balance taken over in merger with E-CO Energi Holding AS	-	502
Other financing activities	-2	-
Net cash flows from financing activities	**749**	**597**
Changes in cash and cash equivalents	**710**	**-1**
Cash and cash equivalents at 1 January	4	5
Cash and cash equivalents at 31 December	**714**	**4**

Oslo, 22 March 2021

The Board of Directors of Hafslund Eco AS

Alexandra Bech Gjørv
Board Chair

Bente Sollid Storehaug

Bjørn Erik Næss

Bård Vegar Solhjell

Mari Thjømøe

Arvid Amundsen

Jan Petter Knudsen

Gunnar Ola Braaten

Finn Bjørn Ruyter
CEO

Note 1 Accounting policies

The financial statements of Hafslund Eco AS have been prepared in accordance with the Norwegian Accounting Act and generally accepted accounting practice in Norway (NGAAP). The company's head office is in Oslo.

Revenue recognition

Hafslund Eco's operating revenues consist mainly of services provided to Group companies and are recognised as revenue when the service is delivered. Interest income consists of interest revenues from group companies and is recognised as income when it is earned. Dividends that are allocated in the subsidiaries are recognised in the same year as the dividend is allocated.

Classification

Assets intended for permanent ownership or use are classified as non-current assets. Receivables that are repaid within one year, as well as assets that are not intended for permanent ownership or use for the business, are classified as current assets. Debt maturing later than one year after the end of the financial year is classified as long-term debt. Other debt is classified as current liabilities.

Measurement principles

Trade and other receivables

Trade and other receivables are measured at nominal value less provisions for expected losses. Provisions for losses are made based on an individual assessment of the individual receivables. The majority of the company's trade receivable are receivables from companies in the same group.

Investments in subsidiaries

Investments in subsidiaries are measured in accordance with the cost method. Investments in subsidiaries are written down to fair value when impairment is due to reasons that cannot be assumed to be temporary and it must be considered necessary in accordance with generally accepted accounting practice. Impairment losses are reversed when the basis for impairment is no longer present. Dividends received and other profit distributions from subsidiaries are recognised as financial income.

Investments in equity-accounted investees

Investments in equity-accounted investees are measured in accordance with the equity method. Dividends received are recognised in the balance sheet against the equity-accounted investees' balance.

Pensions

See consolidated financial statements note 7.2 Pensions. Hafslund Eco AS has applied NRS 6A, which refers to IAS 19, regarding the accounting treatment of pension costs.

Income taxes

The tax expense is based on the profit or loss before tax. The tax expense comprises taxes payable and changes in deferred tax liabilities/ deferred tax assets. Taxes payable is calculated based on the taxable profit 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 losses carried forward 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.

Note 1 Accounting policies
(cont.)

Interest-bearing liabilities

Interest-bearing liabilities are measured at amortised cost using the effective interest method.

For all loans denominated in foreign currency, the principal payments and fixed interest in foreign currency have been swapped in a 1:1 ratio into principal payments in Norwegian kroner (NOK) and floating interest payments in Norwegian kroner by entering into combined interest rate and currency swap agreements. The hedging instruments have the same duration and maturity as the loans and there is an economic relationship between the hedging instruments and the hedged items. The hedges are accounted for as fair value hedges under NRS 18.20 (alternative 2B), and the book value of loans in the balance sheet show the principal in Norwegian kroner. Similarly, both interest costs and accrued interest reflect the floating interest rate the company pays in Norwegian kroner.

Furthermore, terms on bond loans in Norwegian kroner have been swapped from fixed to floating interest rates using interest rate swaps. These hedges are also treated as fair value hedges in accordance with NRS 18.20 (alternative 2B). The hedging instruments have the same duration and maturity as the loans and there is an economic relationship between the hedged items and the hedging instruments. Both interest costs and accrued interest reflect the floating interest rate the company pays in Norwegian kroner.

The derivatives are not recognised in the balance sheet. Unrealised loss/gain on the derivatives offset the gain/loss from the hedged risk.

The consideration of hedge accounting could potentially be affected by the uncertainty of a possible change from NIBOR to a reformed NOWA rate. The company has for the time being continued hedge accounting despite this uncertainty, cf. the statement from the Norwegian Accounting Foundation of 31 January 2020 “Accounting effect of the IBOR reform”.

Impairment testing

Property, plant and equipment, equity-accounted investees and investments in subsidiaries are monitored on an ongoing basis for indications of impairment. The investments in the equity-accounted investee North-Connect were written down by NOK 38 million to 0 in 2020. The effect on profit is presented on the accounting line Profit from equity-accounted investees. The write-down was made on the basis of significant political uncertainty related to the project. Reference is made to note 3.3 Impairment assessments in the consolidated financial statements.

Basis of preparation of statement of cash flows

The cash flow statement has been prepared in accordance with the indirect method. This means that the starting point of the statement is the Company’s operating profit in order to be able to present cash flows from ordinary operating activities, investing activities and financing activities, respectively.

Note 2 Transactions and events in 2020

Reference is made to note 1.5 Transactions and events in 2020 in the consolidated financial statements.

Note 3 Shares in subsidiaries

NOK million	Registered office	Shareholding/ voting rights	Carrying amount
SHARES IN SUBSIDIARIES			
Shares in Hafslund AS	Oslo	100%	6,720
Shares in Hafslund Hovedgård AS	Oslo	100%	167
Shares in Hafslund Eco Vannkraft	Oslo	57%	5,818
Shares in E-CO Energi Kraft AS	Oslo	100%	0.1
Shares in Hafslund Produksjon Holding AS	Oslo	90%	7,148
Shares in Oslo Lysverker AS	Oslo	100%	245
Shares in Hafslund Ny Energi AS	Oslo	65%	44
Shares in subsidiaries at 31 December 2020			**20,142**

NOK million	Registered office	Shareholding/ voting rights	Recognised value
SHARES IN SUBSIDIARIES			
Shares in Hafslund AS	Oslo	100%	6,427
Shares in Hafslund Hovedgård AS	Oslo	100%	167
Shares in E-CO Energi AS	Oslo	57%	5,819
Shares in E-CO Energi Kraft AS	Oslo	100%	0.1
Shares in Hafslund Produksjon Holding AS	Oslo	90%	7,148
Shares in Oslo Lysverker AS	Oslo	100%	245
Shares in Hafslund Ny Energi AS	Oslo	65%	1
Shares in subsidiaries at 31 December 2019			**19,806**

Note 4 Interest-bearing debt

Hafslund Eco AS has subordinated loans from the City of Oslo and Oslo Energi Holding AS respectively. The company's subordinated loans from the City of Oslo had outstanding balance as of 31 December 2020 of NOK 2,347 million (NOK 2,347 million). The loan had an interest rate of 4.90 per cent, no instalments and matures on 31 December 2037.

The subordinated loan from Oslo Energi Holding AS had outstanding balance as of 31 December 2020 of NOK 1,100 million (NOK 1,500 million). The loan had an interest rate of 4.34 per cent, no instalments and matures on 31 December 2037. Oslo Energi Holding AS is 100 per cent owned by the City of Oslo, and is therefore a related party to Hafslund Eco AS. If the Group's profit for the year shows deficit after interest charged on these subordinated loans, the interest rate shall be reduced by either the deficit or to NOK 0. The reduction is final, and the interest amount shall not be paid at a later date.

Hafslund Eco AS has an overdraft facility of NOK 400 million which was unused as of 31 December 2020.

Hafslund Eco AS has a syndicated credit facility of NOK 1,500 million with a term until July 2022 and a bilateral credit facility of NOK 1,000 million with a term until March 2022. Both were unused as of 31 December 2020. Hafslund Eco AS also has a overdraft facility of EUR 50 million to cover daily market settlement for futures contracts on Nasdaq OMX Clearing AB. EUR 48 million was unused as at 31 December 2020.

Note 4 Interest-bearing debt *(cont.)*

NOK million	Loan amount	Currency	Due date	31.12.2020	31.12.2019
Commercial paper issue in the Norwegian market	600	NOK	2020	-	600
Commercial paper issue in the Norwegian market	800	NOK	2021	800	-
Commercial paper issue in the Norwegian market	500	NOK	2021	500	-
The Nordic Investment Bank	3,120	NOK	2021-2030	3,120	3,221
Bond issue in the Norwegian market	400	NOK	2022	400	400
Bond issue in the Norwegian market	500	NOK	2022	500	500
Bond issue in the Norwegian market	300	NOK	2023	300	300
Bond issue in the Norwegian market	450	NOK	2024	450	450
Bond issue in the Norwegian market	293	NOK	2024	293	293
Private placement in the American market	75	USD	2023	429	429
Private placement in the American market	290	NOK	2024	290	290
Bond issue in the Norwegian market	1,000	NOK	2025	1,000	-
Private placement in the American market	25	USD	2026	143	143
Private placement in the American market	910	NOK	2027	910	910
Private placement in the Japanese market	5,000	JPY	2028	301	301
Bond issue in the Norwegian market	250	NOK	2029	250	250
Private placement in the Japanese market	5,000	JPY	2029	296	296
Private placement in the American market	723	NOK	2029	723	723
Bond issue in the Norwegian market	200	NOK	2030	200	200
Bond issue in the Norwegian market	200	NOK	2031	200	200
Private placement in the American market	125	USD	2031	1,036	1,036
Private placement in the German market	30	EUR	2031	237	237
Private placement in the American market	848	NOK	2032	848	848
Private placement in the American market	600	NOK	2033	600	600
Subordinated loan from the City of Oslo	2,347	NOK	2037	2,347	2,347
Subordinated loan from Oslo Energi Holding AS (owned by the City of Oslo)	1,100	NOK	2037	1,100	1,500
Interest-bearing debt				**17,273**	**16,075**
Amortisation of fees				-12	-
Interest-bearing debt				**17,261**	**16,075**
Hereof current interest-bearing debt				1,790	701
Hereof non-current interest- bearing debt				15,471	15,374
Current interest- bearing debt				**1,790**	**1,465**
Hereof drawing on account in the Group account system				-	764
Hereof instalments due within one year				1,790	701

Note 5 Other current liabilities

NOK million	31.12.2020	31.12.2019
OTHER CURRENT LIABILITIES		
Group contributions	375	146
Accrued interest	311	336
Accrued dividend	800	-
Other short-term liabilities	30	1
Other current liabilities	**1,517**	**484**

Note 6 Other non-current receivables

NOK million	31.12.2020	31.12.2019
OTHER NON-CURRENT RECEIVABLES		
Non- current receivables from Group Companies	22,737	22,627
Other non- current non-interest- bearing receivables	45	50
Other non-current receivables	**22,782**	**22,677**

Intra-group non-current receivables consist of loans to Hafslund Eco Vannkraft AS and Hafslund AS. The loan to Hafslund AS is a total of NOK 5,960 million, of which NOK 3,135 million constitutes a subordinated loan. The loans to Hafslund AS mature during 2021. Loans to Hafslund Eco Vannkraft AS are a total of NOK 16,777 million, of which NOK 2,562 million constitutes a subordinated loan which falls due during 2039 and the remaining loans fall due 2029.

Note 7 Equity-accounted investees

Company name	Acquisition date	Registered office	Share-holding	Voting rights	Type of investment	Included in balance at 31.12.2020	Included in balance at 31.12.2019
NGK Utbygging AS	2014	Oslo	25.00%	25.00%	Associate	x	x
NorthConnect AS	2010	Kristiansand	22.25%	22.25%	Associate	x	x
NorthConnect KS	2011	Kristiansand	20.00%	20.00%	Associate	x	x
NorthConnect Ltd	2019	Edinburgh	22.25%	22.25%	Associate	x	x

NOK million	NGK Utbygging AS	NorthConnect KS	NorthConnect AS	Total
2020				
BALANCE AT 1 JANUARY 2020	40	28	7	75
Share of profit after tax	-8	-	-	-8
Write-down	-	-34	-4	-38
Adjusted previous year's profit/loss	-	-	-4	-4
Other equity changes	-	6	1	7
Balance at 31 December 2020	**32**	**-**	**-**	**32**

NOK million	NGK Utbygging AS	NorthConnect KS	NorthConnect AS	Total
2019				
BALANCE AT 1 JANUARY 2019	-	-	-	-
Share of profit after tax	1	-32	-	-31
Additions/disposals	23	60	7	91
Other equity changes	15	-	-	15
Balance at 31 December 2019	**40**	**28**	**7**	**75**

Note 8 Financial items

NOK million	2020	2019
INTEREST INCOME		
Interest income	-	16
Interest income from Group companies	763	392
Interest income	**763**	**407**
INTEREST EXPENSE		
Interest expense	-515	-496
Interest expense to Group Companies	-44	-77
Interest expense	**-559**	**-574**
OTHER FINANCIAL INCOME/EXPENSES		
Dividends from subsidiaries	829	833
Other financial income/cost	83	119
Gain on sale of shares	5	10,387
Other financial income/expenses	**918**	**11,339**
Net financial items	**1,122**	**11,172**

NOK 61 million (NOK 73 million) of the Company's interest expenses is interest on subordinated loan from Oslo Energi Holding AS and NOK 115 million (NOK 128 million) is interest on subordinated loan from the City of Oslo.

Dividends from subsidiaries consist of dividends of NOK 312 million from Hafslund Eco Vannkraft AS, NOK 435 million from Hafslund AS and NOK 82 million from Hafslund Produksjon Holding AS.

Note 9 Equity

NOK million	Share capital	Other paid in capital	Other equity	Total equity
Equity at 31 December 2018	**100**	**15,295**	**36**	**15,430**
Actuarial gains and losses	-	-	-22	-22
Profit for the year	-	-	11,035	11,035
Change in equity, merger of Hafslund E-CO AS og E-CO Energi Holding AS	-	-	10	10
Equity at 31 December 2019	**100**	**15,295**	**11,058**	**26,453**
Actuarial gains and losses	-	-	9	9
Profit for the year	-	-	990	990
Extraordinary dividend	-	-	-700	-700
Dividend for 2020	-	-	-800	-800
Equity at 31 December 2020	**100**	**15,295**	**10,556**	**25,951**

The total number of shares is 100,000 and the nominal value of the shares is NOK 1,000. The City of Oslo owns all the shares.

Note 10 Salaries and other personnel costs

NOK million	2020	2019
SALARIES AND OTHER PERSONNEL COSTS		
Salaries	17	56
Employers' national insurance contributions	3	8
Pension costs	4	7
Other personnel costs	-	8
Salaries and other personnel costs	**25**	**79**
Average number of FTEs (Full-time equivalents)	6	29

For remuneration to senior executives, please see note 7.1 in Hafslund Eco's consolidated financial statements for 2020.

Note 11 Pensions

Hafslund Eco is obliged to have pension schemes for its employees according to the Occupational Pensions Act. The Company's pension schemes, which include both defined benefit and defined contribution plans, satisfies the requirements of the law.

As of 1 January 2020, the company has transferred 22 of its employees to the subsidiary Hafslund Eco Vannkraft AS, and salaries and other personnel costs associated with employees are covered by the subsidiary from the same date. However, the defined benefit pension schemes have not been formally transferred in 2020 but will be transferred in 2021. Hafslund Eco AS has therefore retained the pension liability in its balance sheet as of 31 December 2020.

The Company's net pension liabilities as of 31 December 2020 were NOK 18 million (NOK 29 million).

The Company's pension cost in 2020 was NOK 4 million (NOK 7 million).

The assumptions used are the same as those used when calculating pension liabilities for the Hafslund Eco Group. Reference is made to note 7.2 Pensions in the consolidated financial statements.

Note 12 Other operating costs

NOK million	2020	2019
OTHER OPERATING COSTS		
Maintenance	-	2
Purchase of external services	13	83
Office expenses	-	2
Sales and marketing expenses	1	3
Other items	17	21
Other operating costs	**32**	**112**
AUDITOR'S FEES (NOK' 000)		
Mandatory audit	405	1,003
Other assurance services	75	78
Tax consultancy services	25	182
Other non-audit fees	404	683
Total auditor's fees	**909**	**1,946**

Value-added tax is not included in the specified audit fee.

Note 13 Guarantees

As security for certain obligations, the Company purchases bank guarantees. As of 31 December 2020, these guarantees amounted to NOK 4 million in employee tax deduction guarantees (NOK 5 million) and NOK 0 million in contract and payment guarantees (NOK 0.2 million).

Note 14 Trade receivables and other non-interest-bearing current receivables

NOK million	31.12.2020	31.12.2019
TRADE RECEIVABLES		
Trade receivables	4	54
Trade receivables	**4**	**54**
OTHER NON-INTEREST-BEARING CURRENT RECEIVABLES		
Receivable group contribution	-	188
Other non-interest-bearing current receivables	676	963
Accrued interest income from Group companies	391	93
Accrued other income/pre-paid expenses	-	1
Other non-interest-bearing current receivables	**1,067**	**1,244**

Other current non-interest-bearing receivables consist mainly of current receivables from Group companies and dividends of NOK 435 million from Hafslund AS, NOK 158 million from Hafslund Eco Vannkraft AS and NOK 82 million from Hafslund Produksjon Holding AS.

Note 15 Income taxes

Tax expense	2020	2019
Income tax payable	73	32
Tax on group contribution	-	-41
Deferred tax on actuarial gain/loss against equity	-3	6
Change in deferred tax liability/(asset)	-16	17
Too little (much) tax set aside in previous years	2	2
Tax expense in the income statement	**57**	**15**

Reconciliation of tax rate	2020	2019
Profit before tax	**1,046**	**11,050**
22 % (22 %) of profit before tax	230	2,431
22 % (22 %) of permanent differences, dividends	-171	-2,457
22 % (22 %) actuarial gains and losses	-3	6
22 % (22 %) Effect of non-recognised tax benefit	-	35
Too little (much) tax set aside in previous years	2	2
Effect of non-recognised deferred tax liability/(asset) at 1 January 2019	-	-1
Effect of recognised dividend accrued	-2	-
Total tax expense	**57**	**15**

Deferred tax	31.12.2020	31.12.2019
Current assets	-	1
Property, plant and equipment	12	127
Other	7	15
Pensions	-18	-29
Total	**1**	**114**
Tax rate	22%	22%
Deferred tax liability (asset)	-	25

Note 16 Cash and cash equivalents

The Company is part of a corporate cash pooling system with Nordea and DNB, respectively. A corporate cash pooling system entails joint and several liability among the participating companies. Hafslund Eco AS's accounts constitute single, direct accounts for transactions with its banks, while deposits into and withdrawals from the respective subsidiaries' accounts are treated as intercompany balances with Hafslund Eco AS. Reference is made to note 5.11 Cash and cash equivalents in the consolidated financial statements.

Note 17 Related party transactions

Management fee

Please see note 6 Other non-current receivables. Hafslund Eco has in 2020 invoiced management fee of NOK 31 million to its subsidiaries. Correspondingly, the subsidiary Hafslund Eco Vannkraft AS has invoiced an amount of NOK 16 million to the parent company for the service provided.

Subordinated loan from the City of Oslo

Hafslund Eco AS has a subordinated loan from the City of Oslo with a balance of NOK 2,347 million (NOK 2,347 million) as of 31 December 2020. The loan has no instalments and matures on 31 December 2037.

Subordinated loan from Oslo Energi Holding AS

Hafslund Eco AS has a subordinated loan from Oslo Energi Holding AS, which is 100 per cent owned by the City of Oslo, with a balance of NOK 1,100 million (NOK 1,500 million) at 31 December 2020. The loan was put in place in connection with the establishment of Hafslund Eco, has no instalments and matures on 31 December 2037. The loan has been partially repaid with NOK 400 million.

For more information about the loans and terms, see 5.2 Interest-bearing debt in the consolidated financial statements and 9.1 Related party transactions.

Business transfer of employees from Hafslund Eco AS to Hafslund Eco Vannkraft AS

From 1 January 2020, 22 of the employees in Hafslund Eco AS have been transferred to Hafslund Eco Vannkraft AS. Salaries and other personnel costs associated with employees are from the same time covered in the subsidiary.

As of 31 December 2020, pension obligations have not been formally transferred, but will be transferred in 2021.

Transactions with Hafslund Ny Energi AS

In 2020, Hafslund Eco AS has invested new capital in the subsidiary Hafslund Ny Energi AS with NOK 44 million, corresponding to a capital increase for its 65 per cent ownership interest. Eidsiva Energi AS has invested capital corresponding to its ownership interest of 35 per cent.

In 2020, Hafslund Eco AS sold its 8.7 per cent ownership interest in Heimdall Power AS as well as options to purchase shares in the same company to the subsidiary Hafslund Ny Energi AS. The sale was made at fair value and resulted in an accounting gain for Hafslund Eco AS of NOK 1.5 million.

Note 18 Events after the reporting period

Reference is made to note 9.3 to the consolidated financial statements.

Statement pursuant to §5-5 of Norway's Securities Trading Act

We declare to the best of our knowledge that:

- The consolidated financial statements for 2020 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 2020 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.

Oslo, 22 March 2021

The Board of Directors of Hafslund Eco AS

Alexandra Bech Gjørv
Board Chair

Bente Sollid Storehaug

Bjørn Erik Næss

Bård Vegar Solhjell

Mari Thjømøe

Arvid Amundsen

Jan Petter Knudsen

Gunnar Ola Braaten

Finn Bjørn Ruyter
CEO

Auditor's report

To the General Meeting of Hafslund Eco AS

Independent Auditor's Report

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Hafslund Eco AS, which comprise:

- The financial statements of the parent company Hafslund Eco AS (the Company), which comprise the balance sheet as at 31 December 2020, 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 consolidated financial statements of Hafslund Eco AS and its subsidiaries (the Group), which comprise the statement of financial position as at 31 December 2020, statement of comprehensive income, statement of changes in equity and statement of cash flows 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 Company as at 31 December 2020, 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 consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2020, 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

PricewaterhouseCoopers AS, Dronning Eufemias gate 71, Postboks 748 Sentrum, NO-0106 Oslo
T: 02316, org. no.: 987 009 713 VAT, www.pwc.no
State authorised public accountants, members of The Norwegian Institute of Public Accountants, and authorised accounting firm

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.

The business is largely unchanged after the restructuring and reorganisation that took place in the previous financial year and which was a focus area for us. Because of low power prices in 2020, it has been natural to focus on the valuation of power plants in this year's audit.

Key Audit Matter	How our audit addressed the Key Audit Matter
Valuation of power plants The group has power plants with associated intangible assets which comprise of waterfall rights and goodwill to a total value of 53.3 billion, which constitutes approximately 92% of the group's total assets. Management has carried out assessments of the power plants' fair value. The assessments include estimated future net cash flows, including assessment of cash-generating units, calculation of discount rate and development in power prices. The most critical assumption in the assessment is considered to be the development in future power prices. We have focused on the valuation of power plants due to the significant judgement applied by management when doing the valuation, and small changes in key assumptions could have a major impact on the book value. We refer to note 3.3 in the consolidated financial statements, where management give further detail on the valuation process, the	We have obtained management's valuation model and have assessed whether the model contains the elements we expect. We have evaluated and assessed management's process for carrying out the impairment test, including also challenging the estimates and assumptions management has used as a basis for calculating future discounted cash flows. We have also assessed management's application of relevant accounting standards, and how the specific requirements in the standards were met. As a basis for preparing future discounted cash flows and the associated impairment test, management has grouped the power plants into cash-generating units based on whether the power plants are optimised and managed together. We have challenged management's assumptions against our knowledge of how the power plants are managed and the relevant framework in IFRS and found the grouping reasonable. We have conducted interviews with management to challenge their applied estimates for future cash flows. Where possible, we have checked the estimates against external sources such as recognised public marketplaces for the sale of power, and external reports on expectations of future power prices. We found that management's assumptions were reasonable. We also assessed management's assumptions about costs of operation and maintenance of the power plants against internal sources and their own experience-based data. For the key assumptions used in the discount rate, we have reconciled management's assessments against external

valuation model and the key assumptions.	market data. We have also recalculated the discount rate used, as well as checked the technical calculation of future discounted cash flows. We have also read the disclosures related to valuation of power plants in note 3.3 and found that this sufficiently expresses the valuation process, the valuation model and the key assumptions.

Other information

Management is responsible for the other information. The other information comprises information in the annual report, except 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 a true and fair view of the financial statements of the Company in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway, and for the preparation and true and fair view of the consolidated 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 Company use the going concern basis of accounting insofar as it is not likely that the enterprise will cease operations. The consolidated 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's or 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 and 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 and 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 a true and fair view.

- 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 proposed allocation of the result is consistent with the financial statements and complies with the law and regulations.

Opinion on Registration and Documentation

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

Oslo, 22 March 2021
PricewaterhouseCoopers AS

Thomas Fraurud
State Authorised Public Accountant

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

Hafslund Eco

Contact details

Information is displayed on Hafslund Eco's website:
www.hafslundeco.no

Chief Financial Officer | CFO, Heidi Ulmo
Heidi.Ulmo@hafslundeco.no
Phone: +47 909 19 325

Head of finance and investor relations, Andreas Wik
Andreas.Wik@hafslundeco.no
Phone: +47 924 97 255