Hafslund

Annual Report 2011

Industrial and market-orientated focus

Hafslund's CEO Finn Bjørn Ruyter confirms that Hafslund in the future will stand out as an energy company with a clear industrial and market-orientated profile, in which shareholdings in other companies are phased out.

For Hafslund 2011 was a year of consolidation of the company's main activities of production and delivery of renewable energy, and construction and operation of energy infrastructure.

Organisation at the core

"In autumn 2011 we took a number of measures to organise the Group in accordance with long-term course set for the company by the board in consultation with administration," comments Finn Bjørn Ruyter, who became Hafslund's CEO in March 2012.

Hafslund's organisation has changed at top level, with the result that the main businesses of production, heat, networks and markets now have clearer responsibility for the group's business areas.

"At the same time the managers of the business areas also have responsibility for operational management for their respective businesses. This sharpens group management's focus on operations," explains Ruyter.

Discontinued venture business

For a number of years Hafslund has maintained a significant venture portfolio, including through its role as one of the largest owners of the solar energy company REC and investments in the telecommunications industry. In recent years Venture has also been a separate business area at Hafslund.

"The discontinuation of the venture portfolio was the greatest change we made in 2011, and was a consequence of our shift in focus. This means that the shareholding

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in REC and the mobile network operator Network Norway were discontinued, to mention just the largest investments. The sale of shares released significant capital. These were important decisions in light of our decision to focus on our core areas," comments Ruyter.

Industrial and market-orientated

Ruyter believes it is right for Hafslund to adopt an industrial and market-orientated focus, in line with the company's current course.

"Hafslund's core competences lie within energy production, energy infrastructure and market functions. Hafslund's staff combine long-standing experience with the ability to think outside the box. Both of these attributes are equally important in a traditional industry such as ours. We also do not employ more people than we need to in order to effectively develop and operate the site portfolio and in the market areas in which we already operate. And we are now heading at full steam ahead towards the "AMS age", with all that that entails in terms of heavy investments and consequences for daily processes and routines. At the same time we have an important societal role to play, both as a producer and distributor of renewable energy.

Growth opportunities

"Recent years have seen few structural changes within the grid business. However, we are closely monitoring developments, particularly in the Oslo area with strong growth and the need for further reinforcement of the infrastructure for electricity and heat. Within power production we see opportunities to extract even more power from Glomma. At the same time we shall constantly improve and enhance our services with regard to customer products, operations and HSE," comments Ruyter.

Hafslund's staff combine long-standing experience with the ability to think outside the box. Both of these attributes are equally important in a traditional industry such as ours.

He points out that the energy industry is capital intensive, and that people should adopt a long-term approach to all that they do, whether constructing new power plants or making major grid investments.

"We are a listed company tasked to provide competitive annual returns for our owners over time. At the same time we are an infrastructure company and thus an important driver of all development in our region. These are important tasks that we shall consider in all our actions.

This is Hafslund

Hafslund develops and constructs renewable energy systems, and is a market leader in the construction and operation of electricity supply and district heating infrastructure. Hafslund considers reliability of production and supply within these areas to be an important part of its corporate social responsibility.

Business concept

Delivering energy solutions and infrastructure for the future – simply and efficiently

Core values

Hafslund's core values are integrity, courage and spirit.

Integrity means that we:

- take responsibility and keep our promises
- act with self-confidence and respect for others
- welcome the success of co-workers, and help each other advance

Courage means that we:

- take initiative
- dare to challenge the status quo
- dare to take risks and make allowances for the occurrence of mistakes

Spirit means that we:

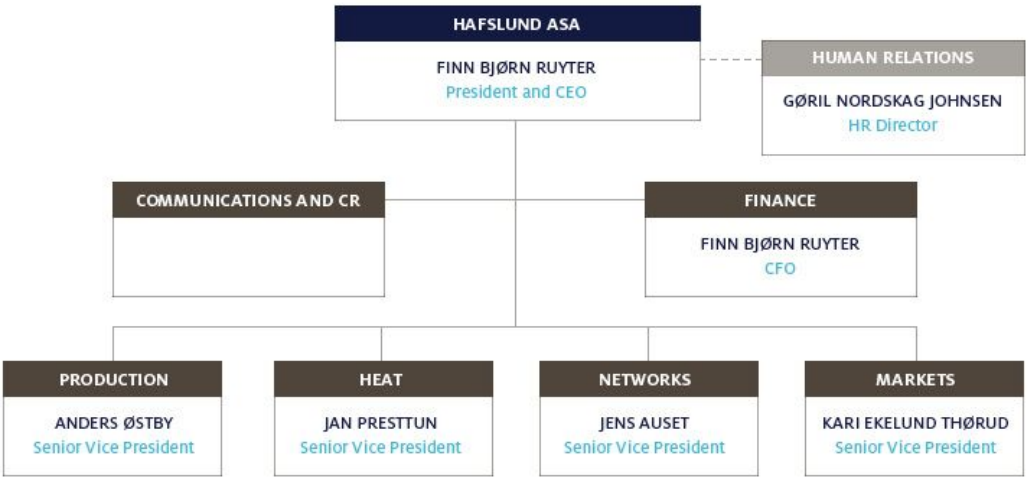
- are engaged in our work
- show both pride and pleasure in our work

- exhibit good spirit and humour

Strategic prioritisations and focus areas

- Hafslund's energy generation shall be boosted through growth within renewable and alternative energy.
- Hafslund shall enhance its role as a key infrastructure company through a continued focus on construction and operation of electricity grids and district heating.
- Hafslund's position as a leading electricity supplier shall be maintained and enhanced through increased efficiency and quality, high service levels and product development.
- Hafslund shall engage in strategic development within power sales by contributing to more efficient markets and customer-orientated solutions.
- Hafslund shall purposely work to boost customer satisfaction.
- The Group shall secure appropriate expertise and improved performance through organisational development and efficient and professional recruitment processes.
- The Group shall further develop its business culture based on Hafslund's core values in order to create an evolving and attractive workplace, and secure a good reputation.

Organisation

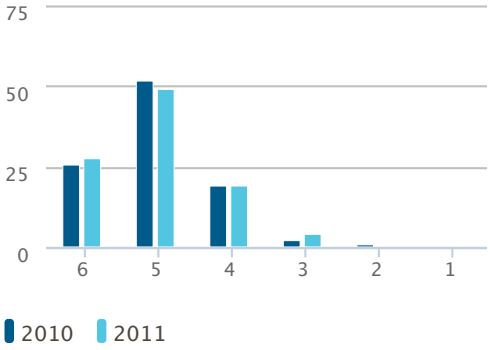


All visual data

On this page you will find all the graphs shown in the articles in the report. It also includes some graphs that describe the industry and Hafslund's business even further.

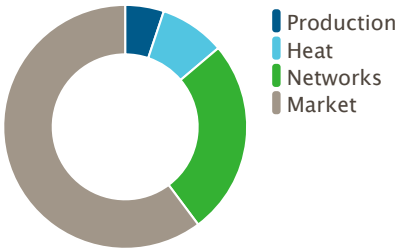
Perception of Enviromental Festival

%. 6 highest score (source: TNS Gallup)



VIS STØRRE GRAF

Employees in core business



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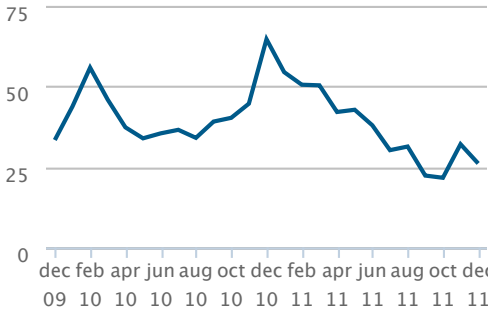
System price

øre/kWh (source: Nord Pool Spot)



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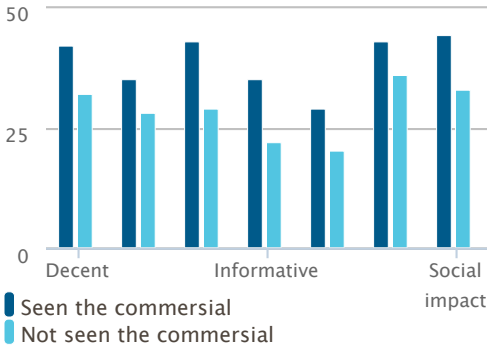
Perception of Hafslund

After seeing the commercial «Spar strøm»

Change in reputation Hafslund

Reputation score 2011



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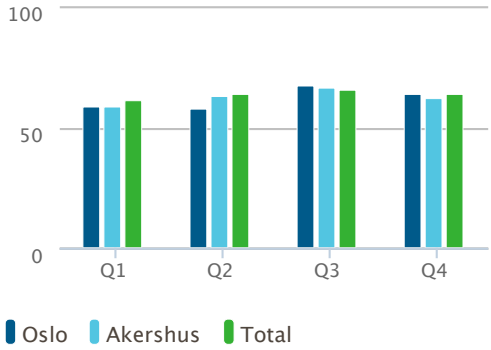

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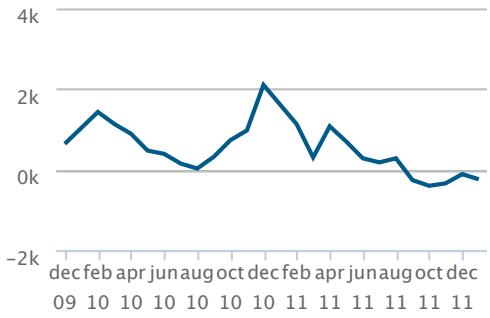
Working capital

MNOK



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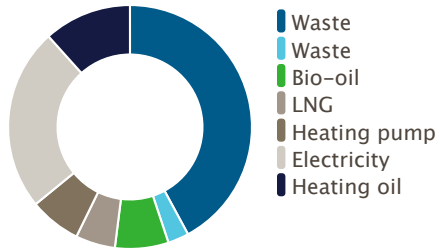
District heating production

Oslo and Gardermoen / GWh



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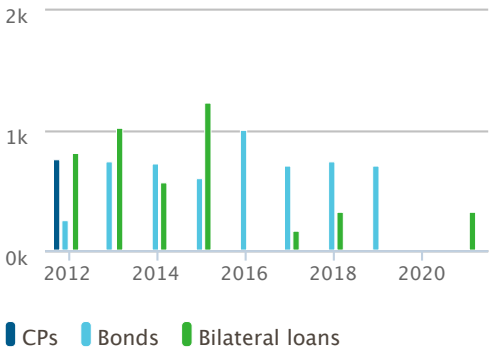
Liabilities falling due next 12 months

MNOK



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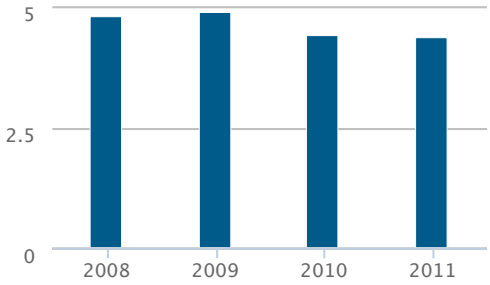
Sickness absence

Per cent



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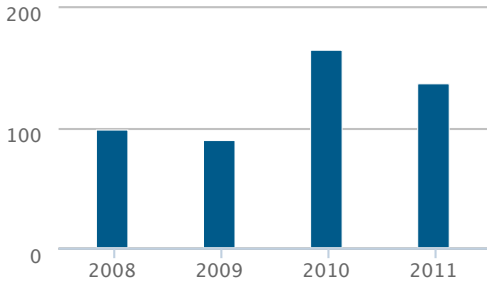
Number of recruitments



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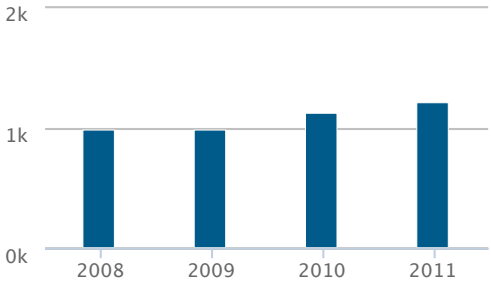
Number of employees



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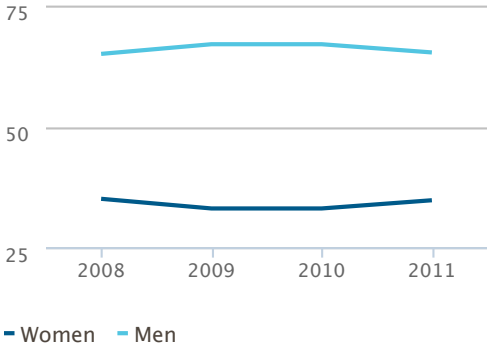
Distribution, women/men

Per cent



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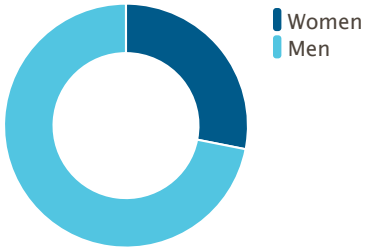
Gender distribution, management

Per cent

Gender distribution employees

Per cent



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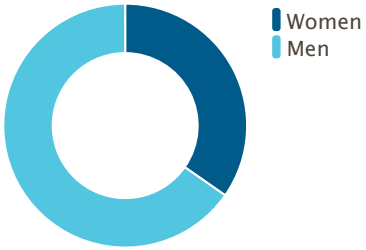

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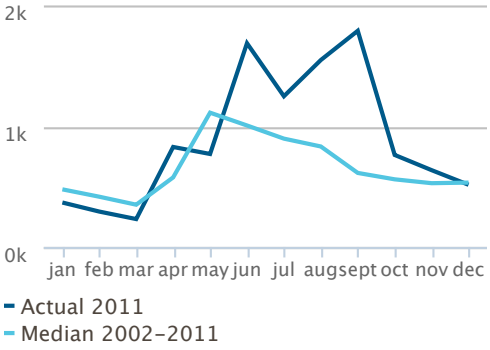
Water flow in Glomma

m3 per second



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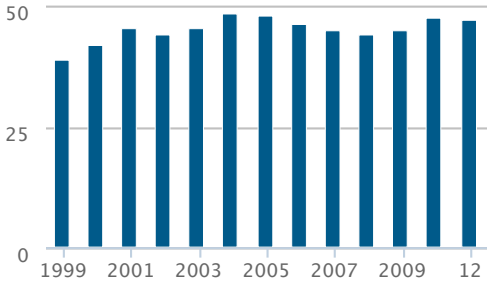
Grid rental incl. fees, Norway

Index regulated / øre/kWh



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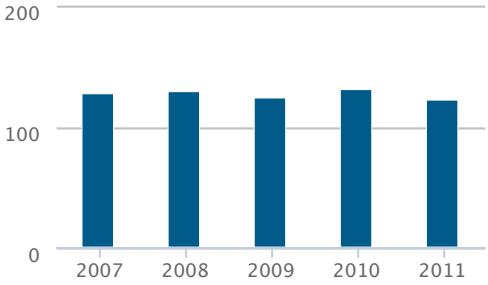
Power consumption

Norway 2007-2011 / TWh



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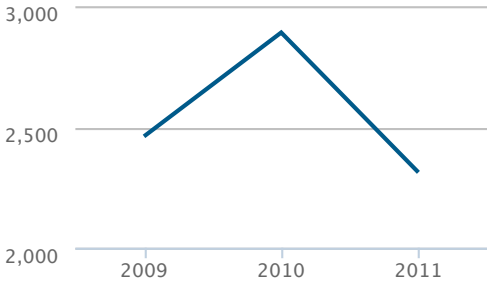
Revenue framework Hafslund Nett

Excl. transfer expenses / MNOK



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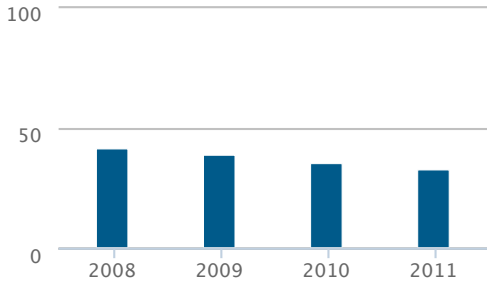
Change in equity ratio
Per cent



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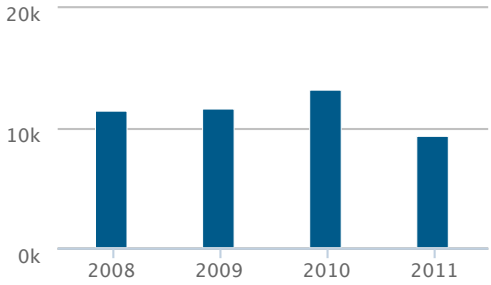
Net interes-bearing liabilities
MNOK



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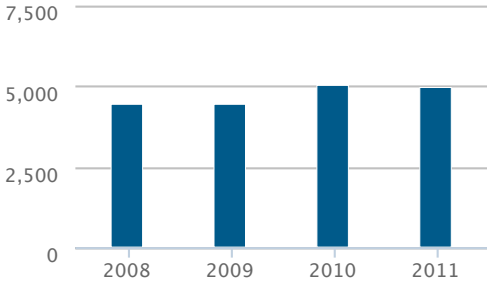
Energy production
GWh



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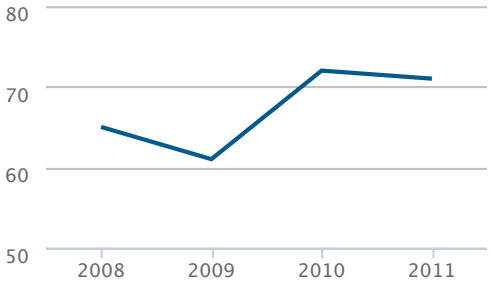
District heating price
øre/kWh

Liabilities/EBITDA



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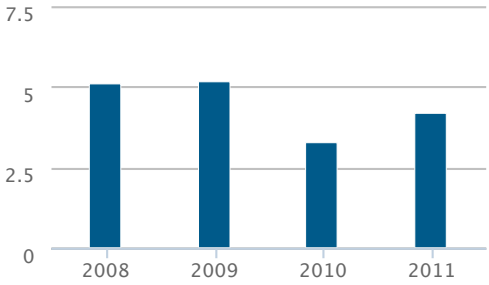

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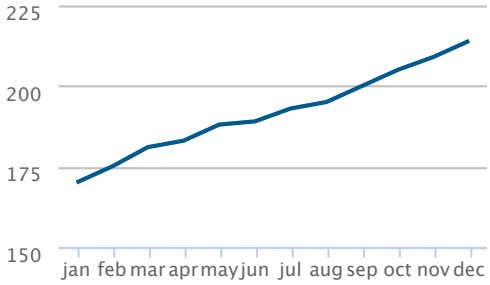
Registered users My page

Thousand



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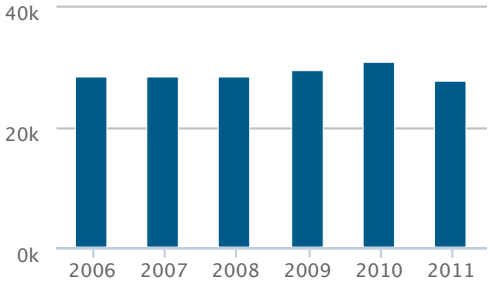
Annual comsumption

kWh



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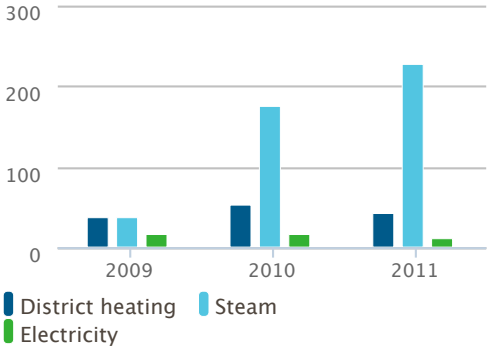
BWtE and Bio El delivery volume

GWh



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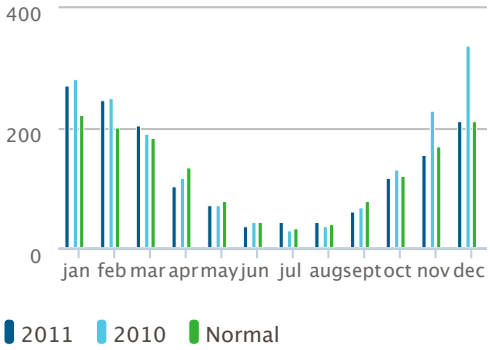
District heating production

Per month 2011 and in normal year / GWh



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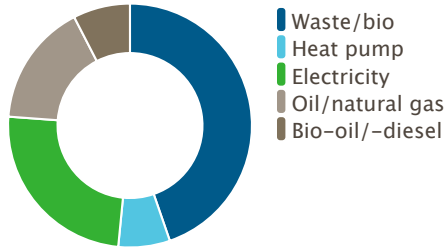
District heating production Hafslund

By primary energy carrier / GWh



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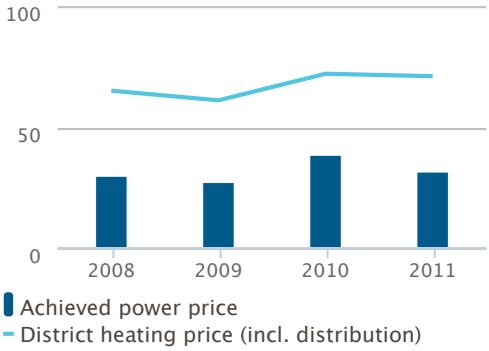
Power and district heating price

øre/kWh



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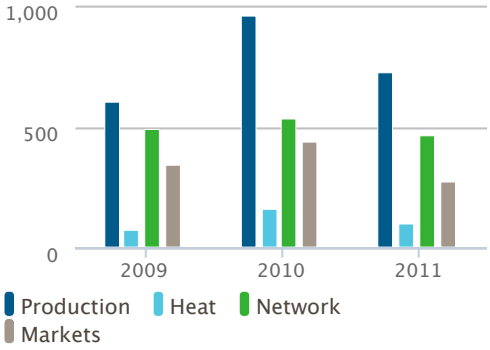
Operating result

MNOK



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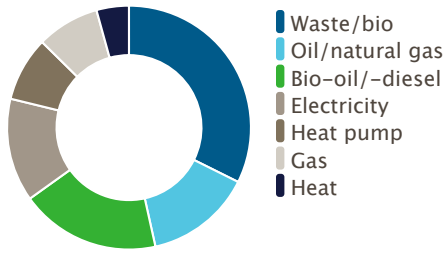
Distrit heating production

By primary energy carrier / GWh

Greenh. gas emissions Heat and Power

Grams CO2 equiv. per delivered kWh



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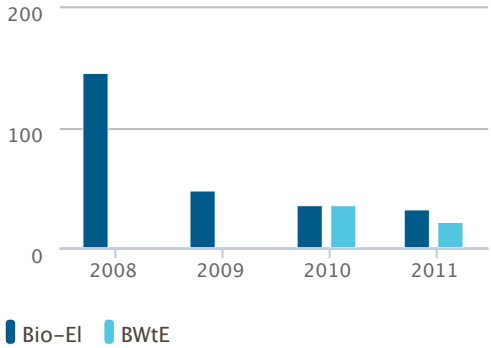

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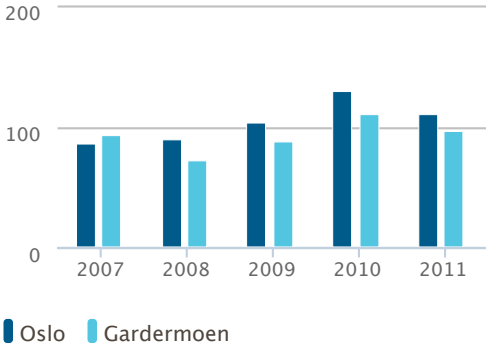
Greenh. gas emissions district heating

Grams CO2 equiv. per delivered kWh



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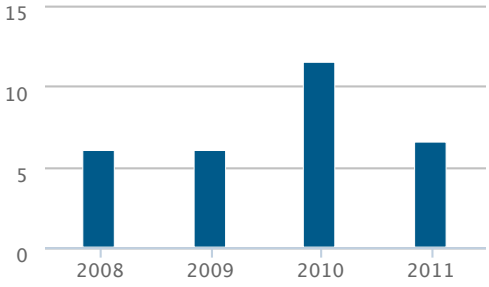
Return on capital employed

Per cent



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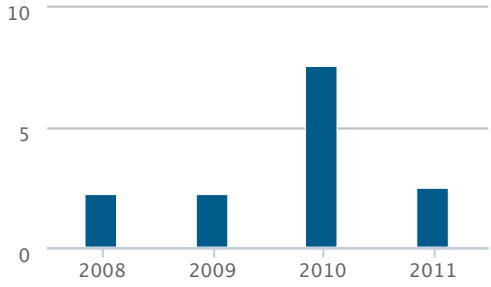
Dividend per share

NOK



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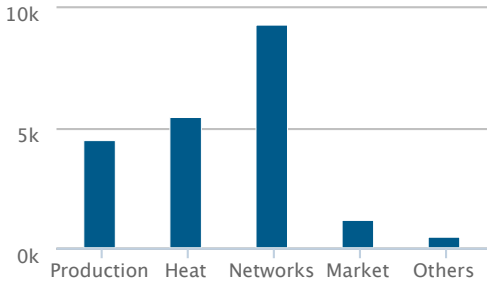
Capital employed per business area

MNOK



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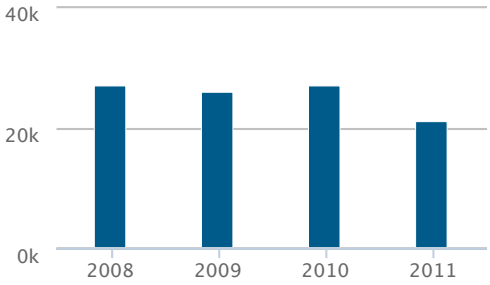
Capital employed Group
MNOK



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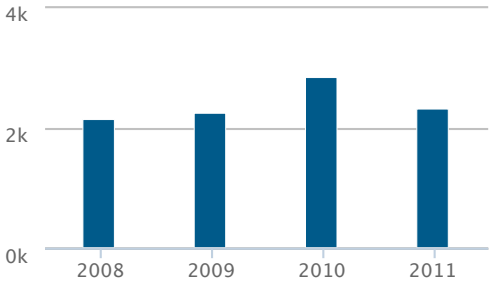
EBITDA core business
MNOK



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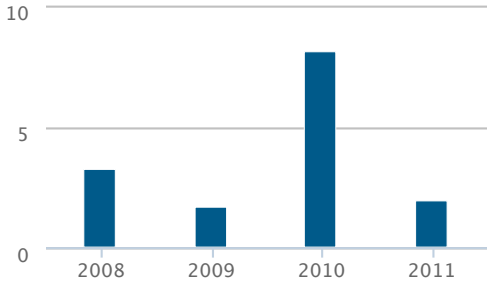
Earnings per share excl. REC (NOK)
NOK



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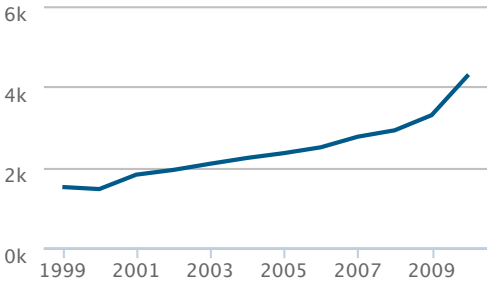
District heating consumers
In Norway /GWh

Reservoir filling in Norway
Per cent



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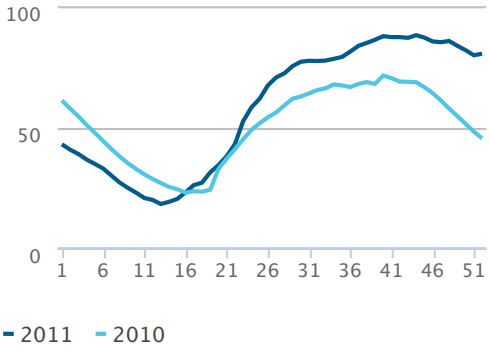

VIS STØRRE GRAF

System price

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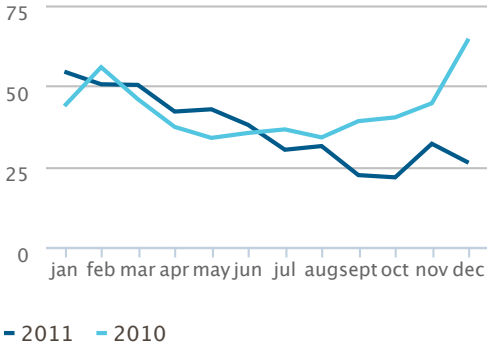

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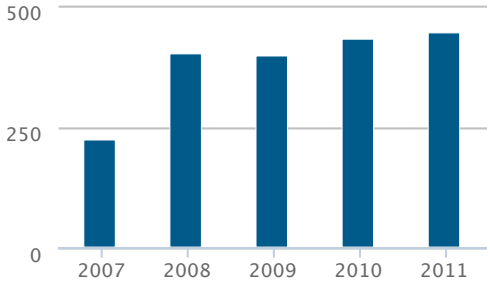
Investments Heat

MNOK



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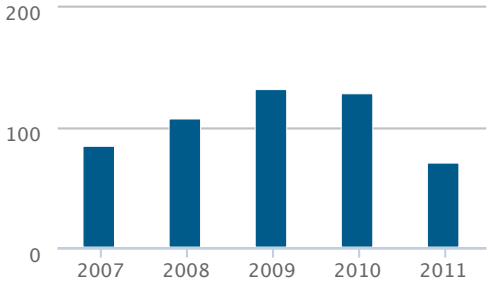
New customer connections Heat

GWh



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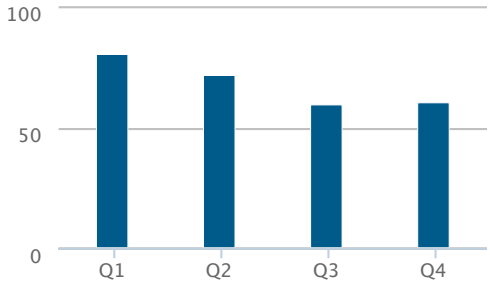
District heating 2011



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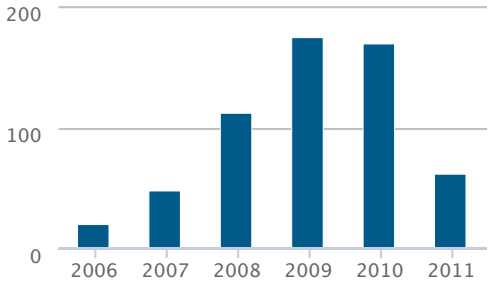
Investments Production
MNOK



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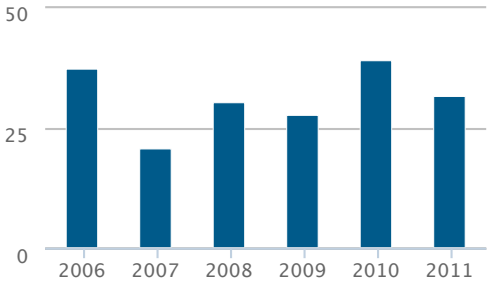
Achieved power price
øre/MWh



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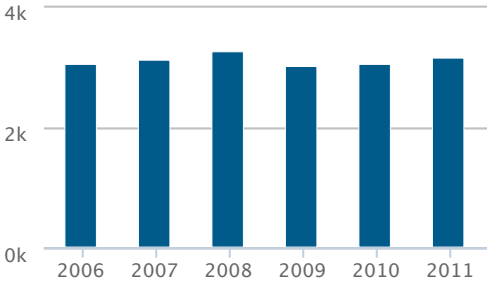
Power production
GWh



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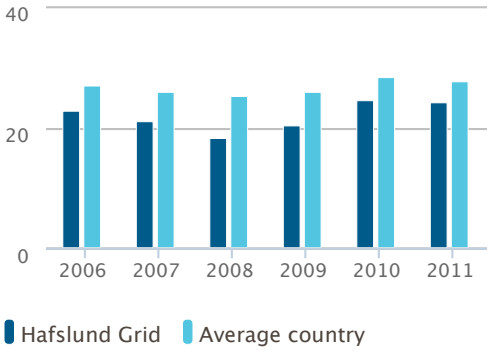
Grid rental excl. fees, indexed
Customers annual consumption 20.000 kWh

Number of grid customers
Thousand



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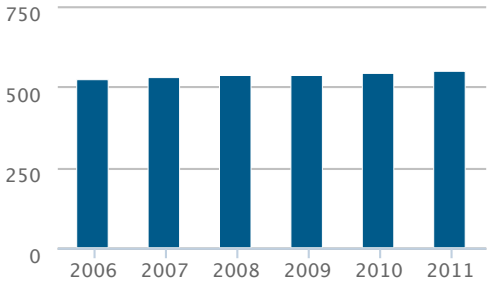

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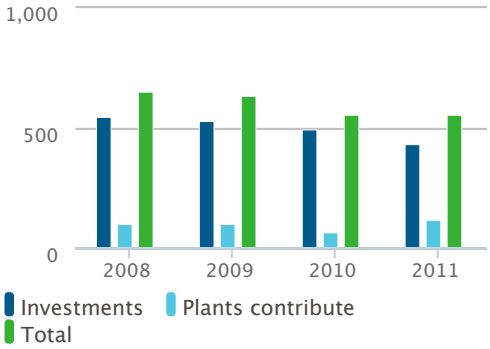
Investments and installation contributions

MNOK



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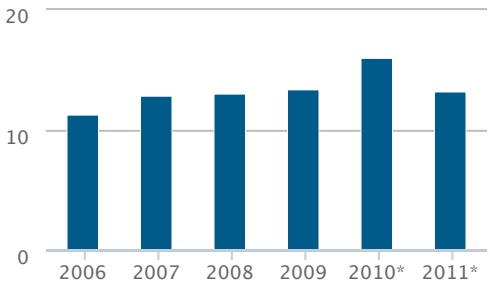
Delivery volume

TWh (*inkc. Göta energi and Energibol.)



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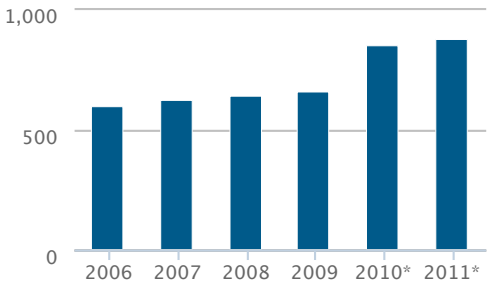
Number of power customers

Thousand (*incl. Göta energi and Energibol.)



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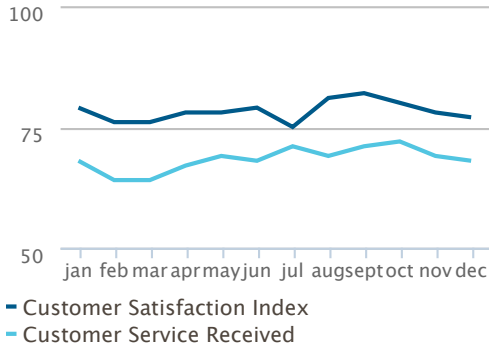
Customer satisfaction index



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Group Management

Finn Bjørn Ruyter (b. 1964)

President and CEO/Senior Vice President Finance (CFO)

Finn Bjørn Ruyter was appointed President and CEO on 21 March 2012. Mr Ruyter has been Senior Vice President Finance (CFO) of Hafslund since 16 August 2010 and Vice President and CEO since 1 July 2011. He was previously Chief Operating Officer (COO) at the Philippine hydropower company SN Aboitiz Power, based in Manila. Ruyter worked for Norsk Hydro from 1991 until 1996 in the areas of oil trading, refining and power trading. He was in charge of power trading at Elkem from 1996 until 1998, and head of Elkem Energi from 1999 until 2009. Ruyter is a chartered engineer from the Norwegian Institute of Technology (NTH) and has an MBA from BI Norwegian School of Management. Ruyter and his related parties own 5,000 Class A and 100 Class B shares in Hafslund.

Anders Østby (b. 1974)

Senior Vice President Production

Anders Østby took up his position as Senior Vice President Production on 9 September 2011. He has been CEO of Hafslund Produksjon since October 2008, where his remit includes the Group's hydropower production and construction of a new power station at Kykkelsrud. Previous posts include Director of the Markets business area in Hafslund Operatør, Director of network expansion, Operations Manager in Hafslund Nett, Head of the Planning Department in Hafslund Nett, and the building owner’s representative in the same company. He serves on the board of Glommens og Laagens Brukseierforening (GLB) and Kinetic Energy. Østby qualified as a chartered engineer at Heriot-Watt University in Edinburgh, and has also studied economics at BI Norwegian School of Management. Østby and his related parties own 437 Class B shares in Hafslund.

Jan Presttun (b. 1950)

Senior Vice President Heat

Jan Presttun took up his position as Senior Vice President Hear on 9 September 2011. Mr Presttun has been Senior Vice President District Heating since January 2009 and Senior Vice President Networks since 2 September 2009. He was CEO of Hafslund Fjernvarme from January 2007 until September 2009. From February 2002 until January 2007 he worked as CEO of Hafslund Nett. From 2000 until 2002 Presttun held several positions in the then Viken Energinett. Mr Presttun joined Hafslund/Viken Energinett in connection with the 1999 acquisition of Energiselskapet Asker og Bærum Nett (EAB Nett), where he was CEO. He serves on the board of EB Nett. Mr Presttun qualified as a chartered engineer at the Norwegian Institute of Technology (NTH) and holds a business degree from BI Norwegian School of Management. Presttun and his related parties own 3,056 Class B shares in Hafslund.

Jens Auset (b. 1959)

Senior Vice President Networks

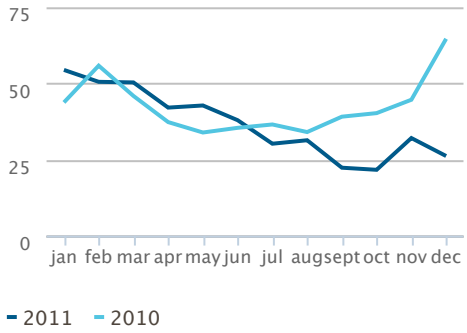
Jens Auset took up his position as Senior Vice President Networks on 9 September 2011. He was previously Managing Director of Hafslund Nett from June 2008, where he was responsible for day-to-day operations and development of Hafslund's network operations. Previous posts include Managing Director of Hafslund Driftssentral, Director of the Networks business area in Hafslund Nett, ICT Manager in Viken Nett, and technical co-ordinator for operational controls in the same company. Prior to this, Auset worked in the power company Siri-Kvina, and El-Tele Øst. He is a board member of Norwegian Smartgrid Center, and is Norway's representative for Norwegian energy supplies in Eurelectric DSO Director's Gathering. He qualified as a chartered engineer at the Norwegian Institute of Technology (NTH). Auset and his related parties own 3,056 B shares in Hafslund.

Kari Ekelund Thørud (b. 1975)

Senior Vice President Markets

Kari Ekelund Thørud has been Senior Vice President Markets since 1 September 2009. She was previously Managing Director of Hafslund Strøm AS, where she was responsible for day-to-day operations and development of Hafslund's electricity operations. Ms Ekelund Thørud had previously been financial director of Hafslund ASA's Heat and Infrastructure business area as well as advisor to the Senior Vice President Markets at Hafslund ASA. She has previously served as Senior Executive Officer at the Norwegian Water Resources and Energy Directorate (NVE). Ms Ekelund Thørud is a board member of Energi Norge AS and Mallin AS. She holds an MBA specialising in International Company Management, and has completed Financial Energy Analysis studies at the Norwegian School of Economics and Business Administration. Ms Ekelund Thørud and her related parties own 427 Class B shares in Hafslund ASA.

System price
øre/kWh (source: Nord Pool Spot)



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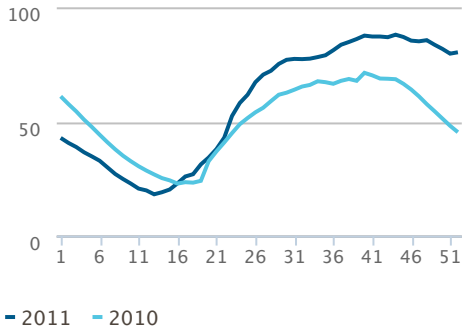
Reservoir filling in Norway
Per cent



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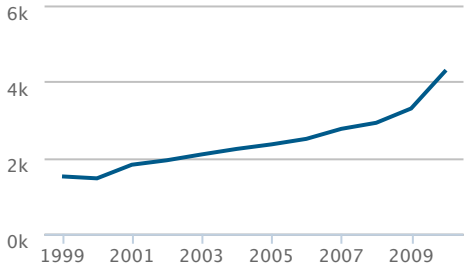
District heating consumers
In Norway /GWh



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Market and business conditions

Hafslund's business is impacted by public regulation in the form of legislation, regulations and licences. This is seen most clearly in grid regulation, which establishes frameworks for the grid companies' revenue levels and financial results. Other parts of the business, including power production and electricity sales, operate in a competitive market without correspondingly stringent regulations. The Heat business, both as a market operator and owner of infrastructure, falls in between the two categories.

The power market

At an overarching level the power market in Norway is split into a wholesale and an end user market. Physical wholesale trading takes place via the Nordic power exchange Nord Pool Spot, where the price for power delivery is established on a daily basis, primarily based on notifications from sellers and buyers. The main players on Nord Pool Spot are power producers and power sale companies. Financial power

contracts (derivatives) are primarily traded via Nasdaq OMX Commodities. Power sales to individual end customers are made in the end user market, which is a competitive market characterised by a large number of players, several different types of agreement, marked price pressure and low margins.

Fundamental issues

The Norwegian power market is dominated by hydropower and is primarily impacted by climatic conditions such as temperatures and precipitation, but also by access to imported power, competition with other energy carriers and power prices on the European market. The Nordic power market is essentially impacted by price developments on Nord Pool Spot, but also by periods of major regional price differences due to bottlenecks and varying resource access in the regions.

At the end of 2011 Norwegian reservoir levels were around 43 percent, approximately 26 percentage points below the median value. Winter 2010/2011 was extremely cold, and electricity consumption reached record high levels. At 18 percent, the lowest reservoir levels were recorded in Week 13. Then followed a period of mild weather and a rapid snowmelt, which helped to return reservoirs to higher levels at an earlier time than normal. The summer and autumn were significantly wetter than normal in most parts of Norway, and reservoir levels peaked in October at 88 percent, which was on a par with the median. At the end of the year reservoir levels were around 80 percent.

Price areas

To boost security of supply, Statnett in January 2011 increased the number of price areas in Norway from three to four, and a month later a fifth price area was introduced. At the time access to resources in parts of Norway varied significantly, while transmission capacity between different parts of the country was limited. The division into five price areas remained in force during the year.

The summer and autumn of 2011 were significantly wetter than normal in most parts of Norway, and reservoir levels peaked in October at 88 percent.

On 1 November Sweden was split into four price areas. The intention was to promote more secure operation of the Swedish power system and power supplies in southern Sweden, and to ensure higher power imports to southern Sweden and southern Norway in times of high consumption. The switch to four price areas instead of one reduced the difficulties involved in exchanging power between Sweden and neighbouring countries due to internal restrictions in the Swedish grid.

Power prices in 2011

Having started the year at NOK/MWh 620.8 in Week 1, the system price in 2011 fell until Week 40, when it reached a low for the year of NOK/MWh 78.3. Subsequently, the system price rallied slightly, before falling again towards the end of the year, when it closed at NOK/MWh 220.6. The average system price in 2011 was NOK/MWh 376.2. The average system price in 2010 was a record high of NOK/MWh 425.2.

The area price for NO1 (Østlandet) in the first quarter of the year was slightly higher than the system price due to weak hydro resources, while for the remainder of the year it was as much as 7 NOK/MWh lower than the system price due to high reservoir levels.

Hafslund's power production

In 2011 Hafslund continued its strategy of selling its own electricity on the spot market without any significant degree of price hedging. The risk to which Hafslund is exposed in the power market is regulated by the Group's risk frameworks. The average achieved power price for the Group's power production in 2011 was NOK/MWh 316.2, 19.0 percent down on 2010. Annual production was 3,135 GWh, 1.1 percent higher than in a normal year.

Hafslund' s power plant rights were acquired before the establishment of the current scheme for reversion to state ownership, meaning that the Group's own power plants may not be returned to state ownership.

End user sales

The market for power sales to end users comprises around 100 suppliers and is characterised by strong price pressure and low margins.

Hafslund is Norway's largest electricity supplier with 878,000 customers at the end of 2011, of which 696,000 were in Norway and 182,000 in Sweden and Finland.

The market for power sales to end users comprises around 100 suppliers and is characterised by strong price pressure and low margins

The power companies offer different power agreements, which primarily mirror price developments on the Nord Pool Spot power exchange. As a result of low wholesale prices from spring through the rest of the year, the average electricity price to end users in 2011 significantly trailed prices in 2010. However, the average electricity price to end users in the first half of 2011 still came in at a record high.

A joint Norwegian-Swedish certificate market for renewable electricity entered into force on 1 January 2012. The scheme will deliver 26 TWh of renewable electricity production under a mandatory certification system that is expected to promote new renewable electricity production. The electricity customers finance the scheme in that the electricity companies add the certification cost to the electricity price.

Networks

Through laws, regulations and licence conditions Hafslund Nett is subject to a series of provisions and requirements that govern the company's business and resource utilisation.

Revenue ceiling system

The grid companies have a monopoly on the transfer of electrical energy, for which they are allocated licences. To prevent the grid companies exploiting their monopolistic position they are regulated by the Norwegian Water Resources and Energy Directorate (NVE) in various areas, including financially through the establishment of annual revenue ceilings. The revenue ceiling sets an upper limit for how much the grid company can receive in payment for the transmission of electrical power.

The NVE establishes the revenue ceiling based on financial and technical reporting that the grid companies are obliged to submit to the authority each year. Over time the revenue ceiling shall cover the costs of operation and depreciation of the grid, and provide a reasonable return on capital invested given efficient grid operation, utilisation and development.

The revenue ceiling sets an upper limit for how much the grid company can receive in payment for the transmission of electrical power.

Revenue ceiling regulation establishes the total revenue ceiling for the industry. In accordance with this the NVE makes comparable efficiency analyses to determine how cost-effective the individual grid company is operating its business. If a grid company performs better than the industry average it can achieve a return higher than the normal return for the industry, and vice versa.

The grid companies' revenue ceiling also depends on the quality of their deliveries. Grid outages have a direct impact on the grid companies' annual results.

The prevailing regulation model started in 2007 and the industry has raised major objections to the current model. The main misgivings relate to inadequate investment incentives and predictability, and general over-complexity. The NVE is working on changes to the applicable model for all grid levels and has indicated that any changes will apply from 2013. The exact implications for the industry are not currently known.

The EU and grid levels

Through the EEA agreement Norway obliged to incorporate EU Electricity Directives into Norwegian legislation. The Third Energy Market Package was adopted in the EU in 2009, but has still not been implemented into Norwegian law, mainly due to issues relating to operational responsibility, ownership and regulation of the regional and central grid.

In Europe the industry operates on two grid levels – “distribution” and “transmission”. In Norway there are three grid levels – the central grid, regional grid and distribution grid. It is unclear what should be characterised as “distribution” and “transmission” in Norway, and thus which requirements should apply. Hafslund Nett is an important regional grid owner, and is waiting to see how the Norwegian authorities will implement the Third Energy Market Package and to what extent this will result in changes in ownership or operation of the transmission grid at central and regional grid level.

Competence regulation

The regulation on requirements for competence for site and area licences (the competence regulation) was established by the Norwegian Ministry of Petroleum and Energy on 10 March 2011. The agreement entered into force on 1 July 2011. The purpose of the regulation is to help ensure that all parties who have site and/or area licences in accordance with the Norwegian Energy Act have suitable competence to, in normal operations, perform the tasks pursuant to the Norwegian Energy Act and its related provisions and licence measures. A transitional regulation applies until 1 July 2013 governing competence in grid companies with revenue ceilings.

In 2011 Hafslund Nett started work to enable the business to satisfy the remaining requirements of the competence regulation.

Automatic metering systems (AMS)

The NVE has established frameworks for the introduction of AMS in Norway, and set deadlines for its mandatory introduction. By the end of 2015, AMS shall be installed for 80 percent of all grid customers and for all customers by the end of 2016. AMS is based on the Regulation adopted on 24 June 2011 on changes in metering, settlement and coordination of electricity trading and invoicing of network services (the Settlement Regulation).

By the end of 2016 advanced metering systems (AMS) shall be installed at all Norwegian customers.

AMS covers the actual meters, associated equipment used for communication and management at customers’ premises, communication solutions between customers and the grid company and equipment and systems required to receive, store and process meter data in the AMS system.

In 2011 Hafslund Nett established a project with the mandate of commencing implementation of AMS in Hafslund Nett’s distribution area. At the end of the pre-qualification stage the tender documentation was sent to ten companies with a tender deadline of 1 March 2012. A contract will be entered into with a prime supplier in the third quarter of 2012.

Heat

Through its espousal of the EU’s Renewables Directive, Norway has undertaken to significantly boost renewable energy production. Hafslund believes that both a heightened focus on research and an appropriate support scheme for renewable energy will be required to make this possible. It will be particularly important to develop appropriate support schemes for renewable heat production similar to the electrical certificates scheme for renewable electricity power production.

The waste situation

High prices, a scarcity of waste and varying fuel quality once again proved to be significant problems for Norwegian waste-to-energy plants in 2011. Differences in prices of fuel and energy, and in charges in Norway and Sweden, make it profitable to transport residual waste over long distances to Swedish incineration plants. The final waste treatment fee was abolished in October 2010 in order not to further exacerbate the market situation. However, in practice this did not result in any immediate improvement in the framework conditions for the Norwegian plants. Swedish companies continue to enjoy better framework conditions as a result of a long-term environmental policy, strong dividends and greater ability to pay for energy.

Healthy industry development and the promotion of opportunities to secure a reasonable return in relation to risk require more equal competitive terms for the private and public sectors and within the EEA/EU system with regard to areas including import/export terms, charges and support schemes.

In 2011 Hafslund continued to actively contribute to work to secure equal framework conditions with respect to export restrictions and prices of waste.

Differences in prices of fuel and energy, and in charges, make it profitable to transport residual Norwegian waste over long distances to Swedish incineration plants.

District heating

Following the revision of the Norwegian Planning and Building Act it is now a legal requirement to connect newbuilds in areas covered by district heating licences. In addition to the main rule on the obligation to connect, there is also an exemption provision which allows local authorities to exempt buildings from this obligation if they can offer a more environmentally friendly heating solution.

The City of Oslo is currently reviewing an exemption application under the Norwegian Planning and Building Act for district heating. Since this is the first exemption application under the new legislation, the City of Oslo is taking steps to establish a technical basis for assessing such applications.

Pellets

Hafslund's pellets factory BioWood Norway, which is located at Averøya in Møre og Romsdal, produces wood pellets for industrial purposes. The raw material is imported woodchips. The main market is power-intensive industry, district heating plants and modern coal-fired power plants located near harbours in northern Europe and the UK.

At the start of the 2010/2011 heating season there was undercapacity in the global pellets market and a limited amount of pellets in stores. The year started with pellet prices at around EUR 120 per tonne. As a result of the cold winter and undercapacity, prices climbed throughout the season to reach around EUR 135 per tonne at the end of the year.

There continues to be a shortage of pellets for major industrial consumers in the European market. As a result, coal is being used to a greater extent than expected and is therefore compensating for the fall in pellets consumption. There is no clear explanation of why pellets production is roughly half of the installed capacity globally, but limited raw material access fuelled by the downturn in the global economy and technical challenges at some of the largest pellets producers go some way to accounting for the situation.

Outstanding performance

Hafslund's HR policy shall afford individual employees the opportunity to take charge of their own performance by assigning them tasks and responsibilities that reflect their individual skill levels. This will enable Hafslund to generate competition-driven growth and achieve its chosen targets, for the benefit of our customers and owners and society as a whole.

Hafslund's values

Hafslund's core values of integrity, courage and spirit, together with the Group's code of conduct, form part of the framework for all activities and shall characterise all Hafslund's employees' conduct, both internally and in dealings with customers, suppliers, partners and others.

The core values provide a basis for outstanding performance.

Motivated colleagues

Hafslund is focusing on concretising its targets and strategy so that all employees shall have clear work-related delivery targets and requirements, and be able to understand the relationship between their own and the Group's performance. This lies at the very heart of work on continuous improvement and manager development at Hafslund.

In 2010 Hafslund introduced a new management and employee survey. The survey is carried out every autumn and centres on performance and related issues. 89 percent of respondents replied to the survey carried out in October 2011. On a scale of 1 to 5, the average score at group level on all points on which employees were questioned was 4.08, which represents a significant improvement from the average score for the

previous year of 3.89.

A key dimension measured is the effectiveness of management, and of employees' own efforts to improve performance and thus achieve higher levels of job satisfaction. The results from 2011 show that employees believe they have clearer goals than the year before. The score in this area rose from 3.70 in 2010 to 4.16 in 2011. The results also bear witness to a highly supportive management culture at Hafslund. Supportive management plays a vital role in enabling employees to experience job autonomy, i.e. feel independent at work and able to make decisions. Experiencing job autonomy is a key motivating factor and driver of performance at work, and comes from feeling that one's job is meaningful and exciting.

A number of targeted measures were taken at individual companies based on the results of the management and employee survey. Hafslund's group-wide HR function assists the companies in employee development using a common standard.

Employee and manager development

Continuous development of all employees and managers is a prerequisite for Hafslund's further development. Having challenging tasks and learning from each other are cornerstones in this process. However, Hafslund also has three internal development programmes for employees and managers: Glow, Growth and Power.

During 2011 Hafslund implemented two of the programmes, Glow and Growth. Various development measures were also implemented under the direction of individual Group companies, in most cases as an integrated part of daily operations.

Glow, which was previously a more pronounced talent programme, recruited 23 participants following an open application process for which more than 100 staff applied. The programme's target group is strong originators and the Group's skilled specialists. The programme started in November 2010 and concluded in March 2012 with a study trip with smartgrid. Key topics in the programme have included innovation, communication and public speaking, and strategy and business. The programme focuses on training, reflection, case work, new insights and coaching.

The management development programme Growth concluded with a final meeting in September 2011, involving 19 participants. The target group for Growth is new managers, and key topics have included understanding the role of manager, management frameworks at Hafslund, communication and self-management. Training, coaching and reflection are important work methods used in Growth.

Introductory courses are also arranged for new employees, along with training in health, safety and the environment and other joint expertise development measures for Group companies.

Hafslund is keen to stimulate expertise development, both in areas that are relevant for current positions, and to ensure that employees can develop new skills sets. In 2006 a personal development fund was set up in collaboration with employee representatives. The Fund gives employees the opportunity to apply for financial support for training in areas not relevant to their current position. The fund distributed almost NOK 1 million in 2011.

Organisational development

Hafslund's systematic organisational work has three focus areas:

• Best Practice through simple and standard processed and methods.
• Coordinated change/improvement processes providing company-wide training.
• Continuous improvement processes in the companies.

The work involves team development and focuses in particular on effective management groups, strategic operationalisation and support for implementation of improvement processes. During 2011 systematic improvement projects were implemented in three of Hafslund's companies, based on LEAN methodology.

Targeted recruitment

Recruiting the right employees is pivotal to Hafslund's further development. The purpose of all recruitment is to select the employees who are best suited to the individual roles/positions to be filled. Recruitment and internal mobility shall be based on competence and suitability regardless of gender, age, ethnic background, religion and sexual orientation.

Hafslund has an internal recruitment team which assists the companies with all recruitment work, and in this way quality-assures all team processes. In 2011 Hafslund employed 137 new staff, of whom 46 percent were women and 54 percent men.

Hafslund recruits employees from a wide range of technical environments, from civil engineers to customer advisors. The Group has succeeded in attracting skilled employees despite tough competition for the best staff, in particular within technical environments.

Partnership on future expertise

In 2011 Hafslund entered in to a collaboration agreement with the Norwegian University of Science and Technology (NTNU) in Trondheim. The Group wishes to use the agreement to help ensure that the NTNU trains candidates who have the expertise required for the energy industry of the future, and at the same allow Hafslund to keep in touch with ongoing work in research and development bodies. A collaboration body has been established with the purpose of defining specific areas in which Hafslund and the NTNU can collaborate.

Hafslund also has partnership agreements with Junior Achievement in Østfold and Oslo and is involved in several activities at schools intended to stimulate creativity and innovation. Hafslund is represented on the boards of Junior Achievement Oslo and Junior Achievement Østfold.

Equality and diversity

34.7 percent of Hafslund's 1,207 employees are women, while 65.3 percent are men. The Group has a more balanced gender distribution than the energy industry as a whole, and the allocation is also somewhat more even than in 2010, when 33.5 percent of employees were women and 66.5 percent men.

Hafslund strives to achieve greater diversity in all parts of the business, both to provide everyone with equal opportunities regardless of gender or background, and to promote competitiveness and future progress. The partnership with Alarga is one of the measures that Hafslund has taken to promote the Group's work on diversity. Alarga is a competence network that aims to boost the competitiveness of Norwegian

commerce by increasing intercultural expertise.

Deeply embedded collaboration culture

Hafslund has a strong working relationship with employee representatives, with whom the Group attaches significant importance to maintaining an ongoing dialogue on the Group's future. A group-wide Works Committee has been established comprising representatives of group management and the employee representatives. The companies have also established a collaboration forum. In 2011 a new collaboration agreement was entered into on Inclusive Working Life (IA) practices, and employee organisations are also now included in the company's agreement with the Norwegian Labour and Welfare Organisation (NAV).

Health, safety and the environment

Systematic work on health, safety and the environment shall form the basis for all activities at Hafslund. As part of status mapping, the Group carries out an annual HSE survey. The 2011 survey revealed a general improvement against the previous year, with 83 percent of respondents stating that they were familiar with HSE routines at their company. The HSE survey also maps monitoring of sickness absence and awareness of notification routines, and identifies any incidences of bullying or harassment. The results of the survey are followed up through action plans in individual companies.

Effective working environment training is an important prerequisite for systematic HSE work. In 2011, 75 employees and managers received basic training on the working environment as part of an internal arrangement, and a further 35 managers underwent management training on HSE.

During 2011 Hafslund focused on internal reporting of and training regarding undesired incidents, and introduced a group-wide reporting system. The system will be rolled out in all companies during 2012 and will eventually also cover suppliers.

As part of the process to ensure that all companies comply with both public and internal requirements the HSE department performs HSE audits in all parts of the business. Seven companies were audited in 2011.

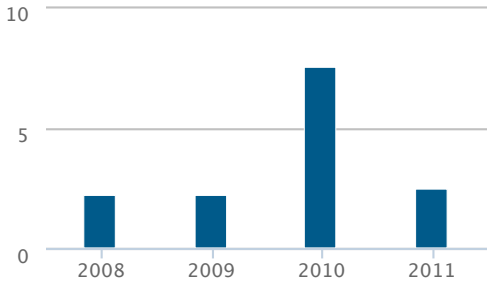
Fewer injuries and low sickness absence

Hafslund's target is for all employees and others who are involved with the business to enjoy safe working conditions. The target is zero injuries in connection with the Group's overall activities, both for own employees and suppliers. In 2011 one incident was recorded involving a personal injury to a company employee, which resulted in ten days' absence. This represents a decrease from 2010, when six incidents involving personal injury were recorded.

Hafslund has a maximum sickness absence target of 4 percent, and the result for 2011 came in at 4.35 percent. This is on a par with the previous year's figure of 4.4 percent. The short-term absence rate (1-16 days) was 2.0 percent, while the long-term absence rate (more than 16 days) was 2.35 percent.

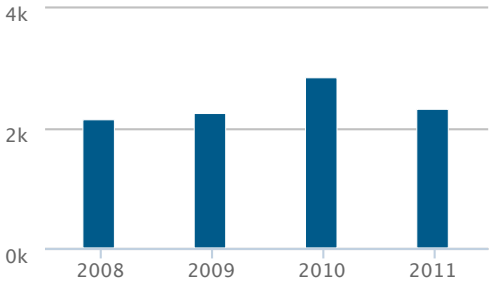
Hafslund has for many years prioritised close monitoring of sickness absentees in accordance with the IA agreement, where the occupational health service (Hjelp 24) and NAV provide valuable support.

Dividend per share
NOK



VIS STØRRE GRAF

EBITDA core business
MNOK



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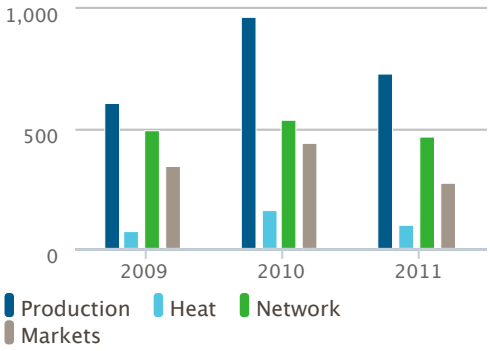
Operating result
MNOK



VIS STØRRE GRAF

Key figures

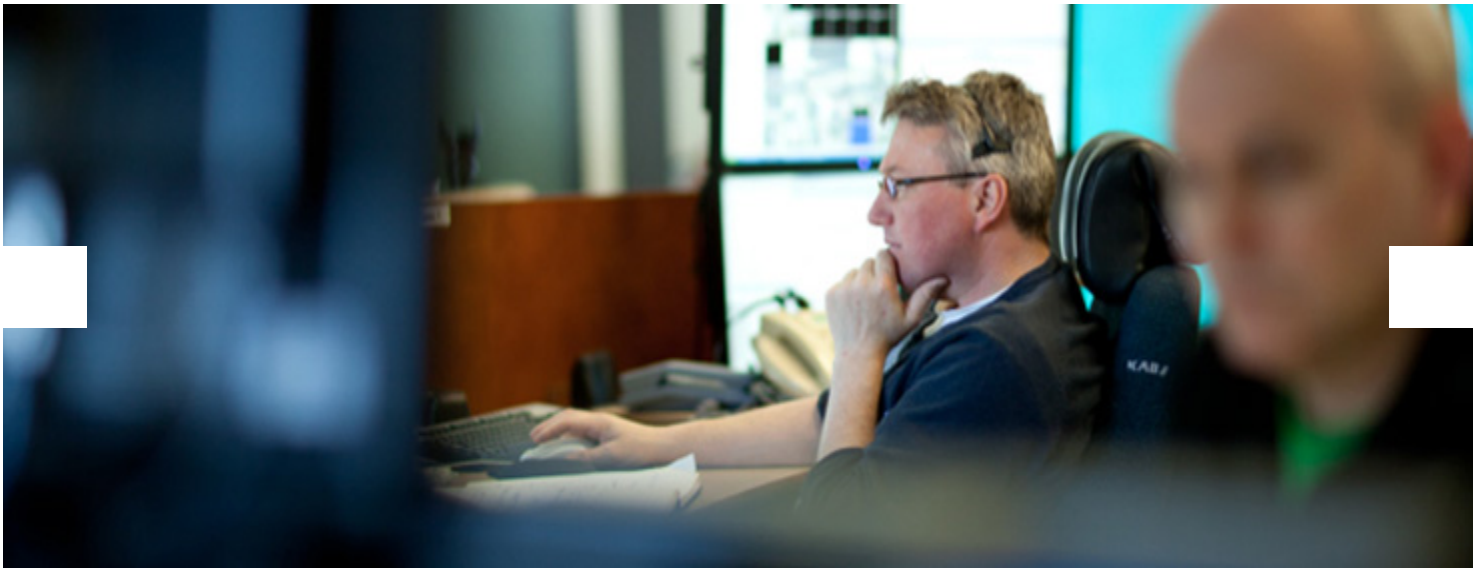
(mill. nok)

Income statement (excludig REC)	2011	2010	2009	2008	2007	2006
Sales revenues	**13 704**	15 829	10 670	11 056	8 625	9 799
EBITDA	**2 235**	3 914	2 213	2 224	2 643	2 717
Operating profit	**1 433**	2 644	1 331	1 374	1 751	2 048
Profit before tax and discounted operations	**849**	2 173	670	689	1 306	1 716
Net profit for the year	**388**	1 583	335	637	1 158	1 024
REC - effect on net profit for the year	**(1 086)**	(1 975)	(137)	(15 912)	12 198	10 626

Equity and cash flow						
Net cash flow from operations	**3 510**	565	1 879	1 085	140	1 467
Investments in operations and expansion	**1 172**	1 702	1 698	1 752	3 166	1 176
Capital employed	**20 919**	27 028	25 870	27 067	40 669	28 849
Equity ratio (%)	**32,9%**	35,3%	38,6%	41,1%	64,6%	53,3%
Net interest-bearing liabilities	**9 321**	13 067	11 601	11 442	10 102	9 379

NOK per share (excluding REC)						
Net profit	**1,99**	8,11	1,71	3,26	5,93	5,25
Dividend *	**2,50**	7,50	2,25	2,25	3,00	17,75
Cash flow from operations	**17,98**	2,89	9,62	5,56	0,72	7,52

** 2010 and 2006 include an additional extraordinary dividend of NOK 5,00 and NOK 15.00.



A pure-play energy group

In 2011, Hafslund started building a 56 MW wood-powder-fired boiler at Haraldrud heating plant as a measure to phase out fossil fuels in district heating production. As part of Hafslund's ongoing initiatives to phase out fossil energy sources, a 20 MW oil boiler at Haraldrud heating centre is being decommissioned and replaced with a 56 MW wood-powder-fired boiler. The annual pellet requirement is around 40,000 tonnes and the boiler will be in full operation in the first quarter of 2013.

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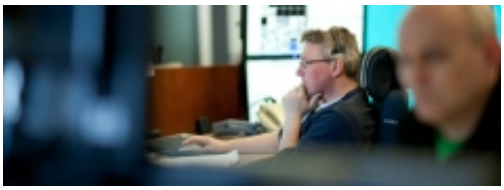

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New grid for heightened electricity requirements

With the population expanding by 20,000 a year and significant ongoing business development, Oslo needs more power. Hafslund Nett is therefore continuing its initiatives to expand and upgrade Oslo's electricity grid.

«Dagmar» steals power

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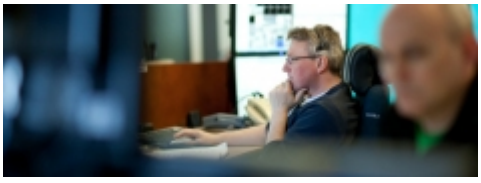
With the population expanding by 20,000 a year and significant ongoing business development, Oslo needs more power. Hafslund Nett is therefore continuing its initiatives to expand and upgrade Oslo's electricity grid. Raising the voltage of Oslo's main grid to 132 kV will boost the grid's capacity and equip it for future population growth and business development. It will also reduce the risk of outages and cut power losses in the grid equal to the annual electricity consumption of 3,500 households. The upgrading of the main grid is planned for completion in 2018.

A pure-play energy group



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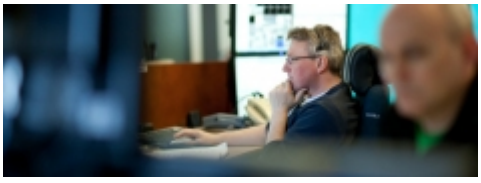
On Boxing Day Storm Dagmar raged over the company's operating area and more than 50,000 of Hafslund Nett's customers were affected by outages. A total of 200 people were despatched to rectify the faults, while 50 staff worked on reconnections, managing the field teams and dealing with customer enquiries at the operating centre. 12,000 customers had their power restored within an hour, while 138 customers were without power for more than 36 hours.

A pure-play energy group



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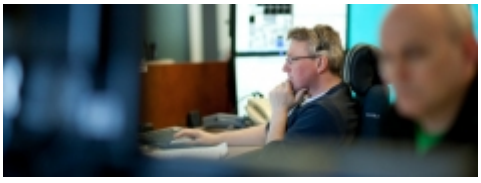
Major grid plans launched in Østfold

In order to secure stable electricity supplies in Østfold, in autumn 2011 Hafslund Nett tabled plans for new, reinforced power lines in the area. Licences have been applied for to lay two 132 kV lines. The power lines are planned to run through the municipalities of Rygge, Råde, Sarpsborg and Fredrikstad. The Norwegian Water Resources and Energy Directorate (NVE) is responsible for deciding on the final route, but any party may make suggestions as to choice of routes and masts. The work is planned for implementation in the period 2013–2017.

A pure-play energy group



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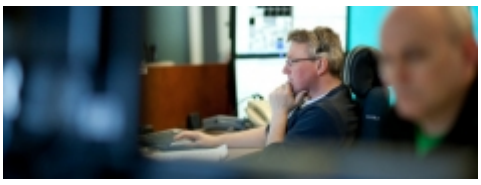
First steps towards AMS

Advanced metering systems (AMS) will play a prominent role in the energy industry for many years to come. In 2011 Hafslund launched its introductory project, which will impact all customers in the grid area. By the end of 2016 all grid customers will have had new meters installed, as the main component in advanced metering systems (AMS). AMS mean that customers no longer need to read their own meters and will always receive an accurate electricity bill. The new meters will also provide significant benefits in terms of both planning and operations for grid companies. In 2011 Hafslund launched its introductory project.

A pure-play energy group



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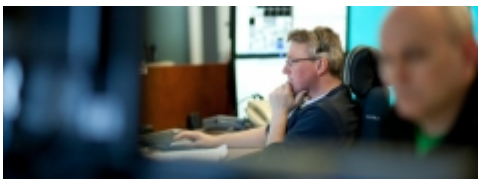
More power from Glomma

Hafslund's long-standing tradition as a producer of environmentally friendly hydropower was continued with the opening of a new run-of-river plant at Kykkelsrud in Askim in August 2011. Hafslund has more than 110 years' experience of environmentally friendly hydropower production, and the latest entry to the fold is the new power plant at Kykkelsrud in Askim. The power plant will boost Haflsund's production capacity by 100 GWh, which corresponds to the electricity requirements of 5,000 homes. The official opening was performed on 3 August 2011 by Norwegian Minister of Petroleum and Energy Ola Borten Moe.

A pure-play energy group



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More environmentally friendly district heating from Haraldrud

Hafslund is continuing its work to phase out fossil energy sources in the production of district heating. In 2011 the company started work on the establishment of a 56 MW wood-powder-fired boiler at Haraldrud heating centre. As part of Hafslund's ongoing initiatives to phase out fossil energy sources, a 20 MW oil boiler at Haraldrud heating centre is being decommissioned and replaced with a 56 MW wood-powder-fired boiler. This work was started in 2011. The annual pellet requirement is around 40,000 tonnes and the boiler will be in full operation in the first quarter of 2013.

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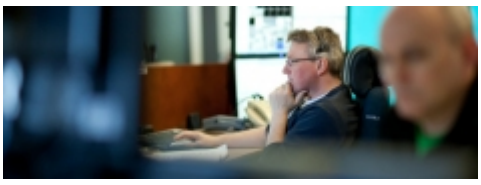

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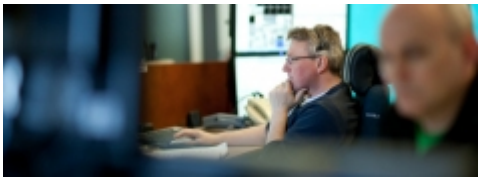
Customer service centre of the year

Hafslund Customer Service Centre came top of the Max Marketing Mix 2011 list, earning the right to call itself «Customer Service Centre of the Year». The customer centre also became Norway's first certified in-house customer centre. At the marketing industry's annual Max Marketing Mix convention in November, Hafslund Customer Service Centre proudly carried off the "Customer Centre of the Year" award. One month earlier the customer centre, as Norway's first in-house customer centre, was certified as an Approved Call Centre in accordance with statutes established by NORDMA, the Norwegian Direct Marketing Association, and NHO, the Confederation of Norwegian Enterprise.

A pure-play energy group



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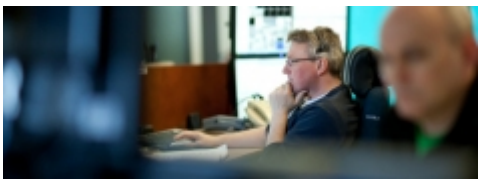
Glowing employees

In 2011 Hafslund implemented the Glow development programme – a continuation of Hafslund's previous talent programme. 23 employees with strong drive and specialist knowledge participated in the programme. In 2011 Hafslund implemented the development programme Glow, targeting the Group's self-starters and skilled specialists. The 23 participants attended several meetings, where key themes included innovation, communication and oratory, and strategy and business understanding. Glow concluded in March 2012 with a study trip.

A pure-play energy group



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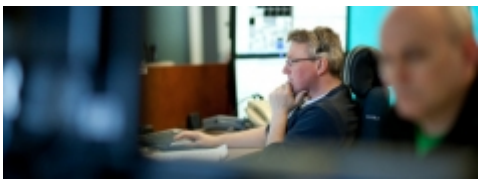
Success in Frogner Park

Sunday 5 June saw Hafslund stage the second Environmental Festival for Children in Oslo's Frogner Park. 60,000 people of all ages participated in a wide range of activities and saw an impressive collection of artists perform on stage. On 5 June Hafslund attracted 60,000 people of all ages to the environmental festival in Frogner Park – one of the world's largest celebrations of World Environmental Day. Perfect festival weather, a wide range of activities and an impressive array of local and international artists contributed to a successful event in the name of the environment.

A pure-play energy group



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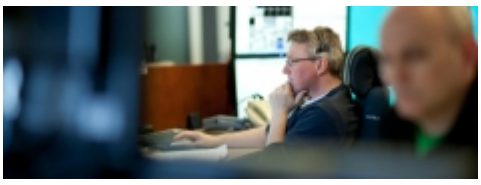
Dream meeting with the future

Hafslund's Dream Meeting is a partnership between Hafslund, Vålerenga Fotball and 29 amateur clubs in greater Oslo conceived to develop children's and youth football. In 2011, 20,000 children and young people benefited from the scheme. In 2011 the Hafslund Dream Meeting collaboration project was continued and reinforced as an important development and inspiration channel for children's and youth football in Oslo and Akershus. Player development, club evenings, youth meetings, pre-match parties and competitions were all on the agenda. The project is a collaboration between almost 20,000 players.

A pure-play energy group



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Business Areas

Hafslund's operations are organised into four business areas: Production, Heat, Networks and Markets. The Group also has two central administrative functions: Finance, and Communications and Corporate Responsibility.

Production

Expansion and upgrading of installations providing society with more renewable energy.

Heat

Investments in district heating contributing to a better climate and environment.

Networks

Efficient operations helping to make company one of Norway's lowest-priced grid owners.

Markets

Good customer service reflected in customer satisfaction surveys.

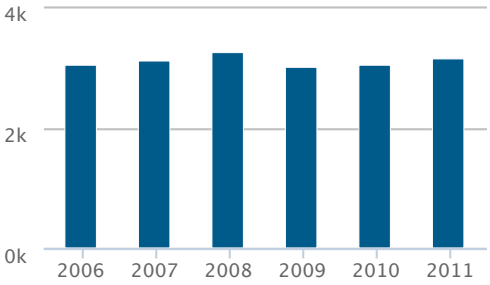
Finance

Prepares financial management information.

Communications and Corporate Responsibility

Highlights Hafslund as contributor to a more energy friendly future.

Power production
GWh



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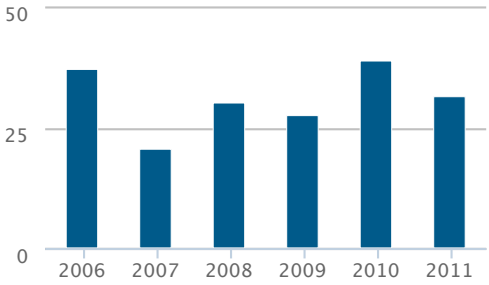
Achieved power price
øre/MWh



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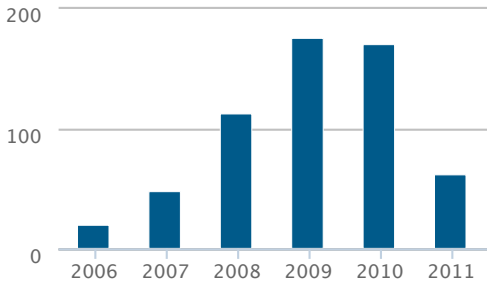
Investments Production
MNOK



VIS STØRRE GRAF

Production

Production is responsible for all assignments connected to the Group's power production and trading activities.

Hafslund's long-standing tradition as a hydropower producer continued in 2011 with the opening of the new FKF4 power plant. The old Kykkelsrud Power Plant, constructed in 1903, was decommissioned in September 2008, and in spring 2011 the new power plant entered operation as part of Kykkelsrud Fossumfoss Power Plant (FKF).

FKF4 is the first new run-of-river hydropower plant opened by Hafslund for 25 years. It will provide extra capacity, which in turn will offer greater flexibility to shut down other generators and make upgrades and adjustments, and thus increase plants' working lives. The expansion will boost production capacity at FKF by an amount corresponding to the annual electricity requirements of 5,000 residential units.

The water situation in 2011

2011 was one of the warmest and wettest years ever recorded in Norway. Despite an extremely dry first quarter, 2011 turned out to be the third-wettest year in 33 years, and with 126 per cent of the average water flow in Glomma, just ten per cent lower than the wettest year ever recorded. The water flow impacted operations and planned maintenance work at Hafslund's power plants, where a number of upgrading projects were postponed in order to be able to exploit the water flow for optimal power production.

Refurbishment of Kaplan generators

In 2011 Hafslund Produksjon continued its refurbishment programme for the company's Kaplan generators in order to improve and safeguard future operations. The Kaplan generators make the greatest contribution to the company's power production in terms of production volume. The Vamma 11 and FKF 3 generators were taken out of operation in winter 2011/2012 for upgrading.

Vamma upgrading programme

The upgrading programme for the oldest Francis generators at Vamma was completed in 2011. Significant time and resources have been invested to boost the generators' performance and working lives. The revamp will contribute a total of 20 GWh of new hydropower production. Hafslund Produksjon is also replacing the control plant at Vamma with the aim of securing optimal management and control of the company's largest power station.

Sarp project

Hafslund Produksjon is looking at opportunities to increase power production in Nedre Glomma. In collaboration with other parties at Sarpsfossen, a feasibility study has been implemented at the Norwegian Hydraulic Laboratory at the Norwegian University of Science and Technology (NTNU). Watercourse conditions are being mapped to assess flood preparedness and opportunities to boost production at Sarpsfossen.

Power trading

Since 1 January 2012 Hafslund's power trading function has been part of the Production business area. The power trading business is a hub for all power trading activities, including risk management and hedging strategy. The business is responsible for physical and financial trading in connection with the sale of the Group's own power production and price-hedging of end customer deliveries, and the purchase of grid losses for the Group's own distribution and regional grids. The business takes up active positions in the Nordic wholesale power market. The majority of trading is cleared via Nasdaq OMX Commodities.

In 2011 the power trading business was split into two companies – Hafslund Hedging AS, which is responsible for price-hedging of future deliveries and spot trading on Nord Pool Spot in the financial market, and Hafslund Energy Trading AS, which is responsible for Hafslund's trading activities.

Ambitions

Hafslund Produksjon is aiming to increase power production in existing plants, and is examining opportunities to increase power production in watercourses and at the companies' existing locations, as well as in new watercourses. Recent years have seen a change in terms of precipitation, snowmelts and water flow, with a trend

towards more precipitation and milder and wetter weather. This is an important factor for expanding capacity. Power prices and the introduction of the electricity certificate scheme are also making it more profitable to construct more capacity.

Hafslund' s power plant rights were acquired before the establishment of the current scheme for reversion to state ownership, meaning that the Group's own power plants may not be returned to state ownership.

Facts

Hafslund Produksjon has four run-of-river hydropower plants in Nedre Glomma between Øyeren and Sarpsborg in Nedre Glomma and four small-scale power plants at Andelva in Eidsvoll. The four small-scale power plants account for less than one per cent of Hafslund's total power production.

Hafslund's total power production in 2011 amounted to 3,135 GWh (million kilowatt hours), compared with 3,041 GWh in 2010.

Fellesanlegget Kykkelsrud Fossumfoss (FKF)

FKF is located in Glomma, 13 km downstream of Øyeren, in the Askim and Spydeberg municipalities. FKF was established in three phases. The initial construction phase was 1960–1963, the second 1982–1985, and the most recent in 2008–2011. The plant has four generators, and the mean annual production is 1,265 GWh.

Vamma power plant

The power plant is located in Glomma, 15 km downstream of Øyeren, in the Askim and Spydeberg municipalities. Constructed 1915–1971. The plant has 11 generators, and the mean annual production is 1,350 GWh.

Sarp power plant

Sarp power plant is partly owned with Borregaard and is located on the east side of Glomma and exploits the fall in Sarpsfossen. Constructed 1978. The plant has one generator, and Hafslund's share of the mean annual production in 317 GWh.

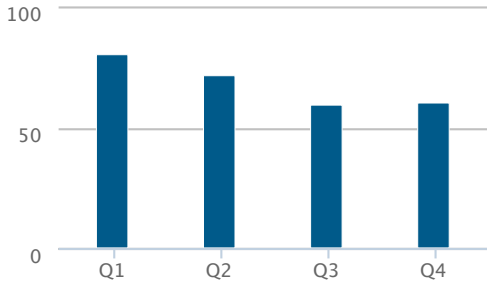
Hafslund power plant

Hafslund power plant is situated at Sarpsfossen on the east side of Glomma in Sarpsborg. It was constructed during 1899–1956. The plant has four generators, and the mean annual production is 145 GWh.

The Eidsvoll plants

In 1993 Hafslund ASA purchased four power plants and associated sites and rights, including regulation of Hurdalsjøen and some smaller higher lakes, from Mathiesen-Eidsvold Værk ANS. They were constructed during 1960-2005, and mean annual production is 23 GWh.

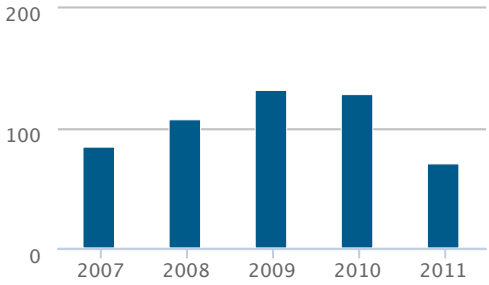
District heating 2011



VIS STØRRE GRAF

New customer connections Heat

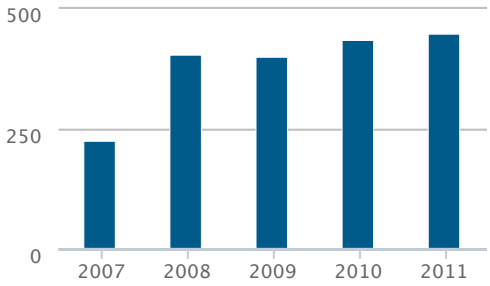
GWh



VIS STØRRE GRAF

Investments Heat

MNOK



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Heat

From 1 January 2012 the Hafslund Group companies Hafslund Miljøenergi and Hafslund Fjernvarme were merged. The newly established company, Hafslund Varme, is responsible for all assignments connected to the Group's district heating initiatives in Oslo and surrounding areas, along with waste-to-energy plants in Østfold.

Hafslund Varme is Norway's largest supplier of district heating and is responsible for around a third of all district heating generated in Norway. The company is also a significant player within production of steam for industry in Sarpsborg and Fredrikstad. The merger between Hafslund Fjernvarme and Hafslund Miljøenergi reinforces the Group's specialist expertise by leveraging synergies and pooling unique expertise.

More types of fuel

The company uses heat purchased from the City of Oslo's waste incineration plants for around a third of its district heating production. It also uses energy from its own bioenergy- and heat-pump-based plants. Peak load requirements are covered using heat generated from electric boilers, LNG and oil-fired boilers. The main production plants are located at Klemetsrud and Haraldrud.

Industrial steam is produced at the company's two plants in Østfold, using waste-based fuel. Bio-El Fredrikstad, which is operated by FREVAR, produces district heating, industrial steam and electricity, while BWtE delivers steam to Borregaard's industrial plants in Sarpsborg.

District heating customers in greater Oslo

In 2011 Hafslund Varme distributed around 1.7 TWh of heat for heating and hot water for commercial and public buildings, local housing cooperatives and individual homes in the Oslo region. More than 4,200 customers in blocks of flats, row houses or commercial premises are connected to Hafslund's district heating grid.

Hafslund Fjernvarme produces and delivers district heating to Oslo Gardermoen Airport and the surrounding areas. Heat is also delivered to Kolbotn centre and Mastermyr Business Park. New customers with a total requirement of 71 GWh were connected to the district heating grid in 2011. This corresponds to the heating and hot water requirements of around 5,000 homes.

Cleaner air in Oslo

District heating is the most environmentally friendly way to heat Oslo, as it utilises surplus heat from sewage and the combustion of waste, cardboard, paper and wood. These are resources that would otherwise go to waste. In many cases district heating is replacing heat generated from old oil-fired boilers. Measurements show that some high chimneys with stringent cleaning requirements emit significantly less local pollution than many lower emission points. Increasing the share of district heating reduces dust and CO2 emissions, thereby improving air quality. District heating can play an important role in helping to achieve the City of Oslo's ambitious environmental and air quality targets.

New heating centres

In 2011 extensive work was performed to establish Rodeløkka heating centre, a peak load centre in the district heating grid adapted for bio-oil, but which can also easily be operated using light fuel oil. The heating centre will secure power in the grid and have a maximum power of 100 MW. At the end of the year the plant was almost completed.

Hafslund Varme is establishing a 56 MW bio-based boiler at Haraldrud to replace a 20 MW oil boiler. The new boiler will use pellets that can be ground into powder and used as fuel. This is the first boiler of this type of such a size in Norway. The pellets requirement will be around 40,000 tonnes, which is estimated to equate to more than a third of total current pellets consumption in Norway. The boiler will enter operation in winter 2013.

Focus shift

After several years of major construction activities Hafslund Varme has switched from concentrating on construction of the district heating grid to an increased focus on optimal operations. Particular focus areas include achieving reduced incoming and

return temperatures in the district heating grid in order to ensure lower heat losses in the grid, and an increase in transfer capacity. Work will also be performed on optimal use of fuels in heat production.

Chosen projects

- More renewable energy
- Oil-free at Oppsal

Facts

Product

A district heating plant is like a large central heating system that supplies hot water to buildings to provide heating and hot water. The hot water is distributed to consumers through insulated pipes, and heat is transferred from the district heating grid to the homes' central heating systems via heat exchangers.

Licence area and customers

Hafslund has a licence to construct district heating in Oslo and parts of Oppegård, and at Gardermoen and Jessheim. District heating is supplied to 1,000 commercial buildings, 600 blocks of flats and 2,550 individual homes.

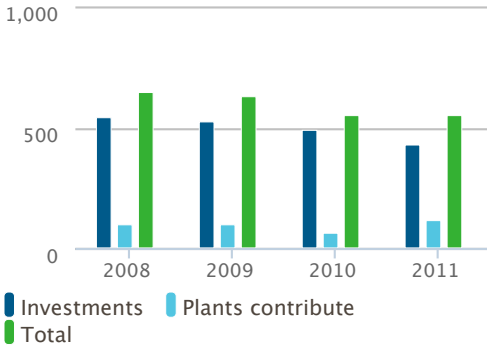
Production and operation

A total of 14 production plants in Oslo and Akershus generate around 1.5 TWh of district heating in a normal year, primarily using renewable energy sources. Fossil-based energy sources are increasingly being replaced by biofuel, waste-generated heat and heat pumps, and by the use of pellets and bio-oil.

Expansion

New customers with a total requirement of 71 GWh were connected to the district heating grid in 2011. This corresponds to the heating and hot water requirements of around 5,000 homes.

Investments and installation contributions
MNOK



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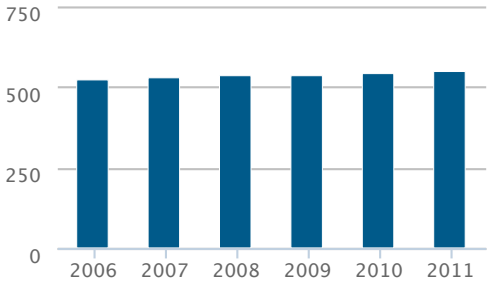
Number of grid customers
Thousand



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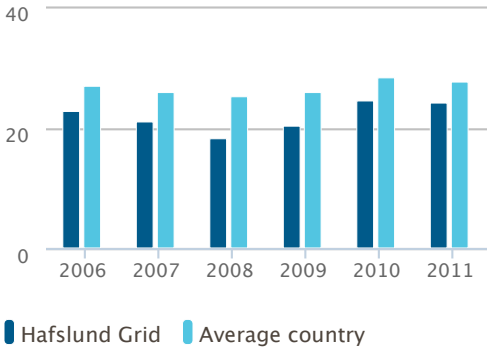
Grid rental excl. fees, indexed
Customers annual consumption 20.000 kWh



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Networks

Hafslund Nett is Norway's largest grid operator with 552,000 customers in Oslo, Akershus and Østfold.

Hafslund Nett owns and operates the regional grid in Oslo, Akershus and Østfold and is the distribution grid owner in Oslo, most of Akershus and parts of Østfold. In 2011 the total electricity consumption in Hafslund Nett's area amounted to 21.3 TWh, a reduction of around 9 percent from 2010. In the reporting period Hafslund's distribution grid distributed 15.2 TWh of electricity, a year-on-year decrease of just over nine percent.

A future-proof grid

With several thousand new electricity customers each year and major ongoing city

centre development, Oslo needs more power. Hafslund Nett is therefore continuing its work to upgrade the electricity grid in Oslo to 132 kV. Increasing the grid to this voltage will reduce grid losses by a volume corresponding to the annual consumption of almost 3,500 households. After upgrading, the grid will be able to cater for future load increases, and the risk of outages will be reduced due to the grid's increased capacity. The upgrading is planned for completion in 2018.

Significant infrastructure already in the ground

One of the largest challenges regarding the upgrade to 132 kV is posed by the presence of much existing infrastructure in the ground. When laying cables certain requirements apply with regard to distances that need to be maintained between water, waste and district heating pipes, existing high voltage and telecommunication cables and tram tracks etc. Electromagnetic fields from the cable installations must also be taken into consideration. Wherever possible Hafslund and Hafslund Fjernvarme are using shared ditches in the upgrade in order to reduce the inconvenience for the public to the greatest extent possible.

Focus on information and dialogue

Many people are being affected by the extensive grid expansion, which unfortunately at times restricts general traffic and limits parking spaces and access to property and stores. Hafslund Nett is attaching great importance to providing accurate information and engaging in a clear dialogue with all concerned parties both prior to and during construction.

Advice and guidelines from the authorities

In connection with the introduction of the 132 kV cables in Oslo Hafslund Nett has registered increasing concern about magnetic fields in the vicinity of homes, schools, nurseries and outdoor areas. The company is very conscious of public concern about potential health effects of magnetic fields from electricity lines and cables. The company is one of 140 grid companies in Norway with high voltage lines, and monitors health-related issues relating to power lines very closely. In doing so Hafslund Nett adheres to established facts, and the advice and guidelines issued by the Norwegian Radiation Protection Authority and other authorities.

Storm Dagmar

In the week between Christmas and New Year Storm Dagmar raged over Hafslund Nett's operating area, cutting power to nearly 50,000 customers. Hafslund Nett reinforced staffing levels at the operating centre, and deployed significant manpower throughout the entire period to reconnect power supplies. On the three busiest days, between about 200 people were all working in the field rectifying faults. 12,000 customers had their power restored within an hour, while after 18 hours just under 2,500 customers were without power. A small number of customers were without power for more than three days.

AMS

In 2011 Hafslund Nett started a project to introduce advanced metering systems (AMS) following changes in the Norwegian regulation governing metering, settlement and invoicing. The project requires AMS to be installed and commissioned with all customers by the end of 2016. In November 2011 pre-qualified suppliers of AMS were invited to tender for an end-to-end solution. The agreement is due to be signed in the third quarter of 2012. The project will implement a pilot installation before AMS is installed on full scale with all grid customers.

Chosen projects

- Hafslund Nett secures the power supply in Østfold
- «Fjordbyen» needs more electricity
- AMS era fast approaching
- Upgrading the power grid gives more electric power in Oslo

Facts

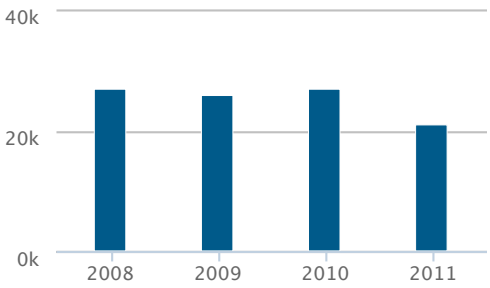
Hafslund Nett

Hafslund Nett is Norway's largest grid operator. The company is regional grid owner in Oslo, Akershus and Østfold, and owns the distribution grid in Oslo and most of Akershus. The number of grid customers is around 552,000 and approximately 1.4 million people live in the company's catchment area. Total electricity consumption in the regional grid is around 21.3 TWh.

Hafslund Driftssentral

Hafslund Driftssentral manages, monitors and optimises the electricity grid for 1.4 million consumers, the district heating plants in the Oslo area and Hafslund's power plants in Glomma. It also manages field teams whose job is to maintain optimal operations and rectify faults.

Capital employed Group
MNOK



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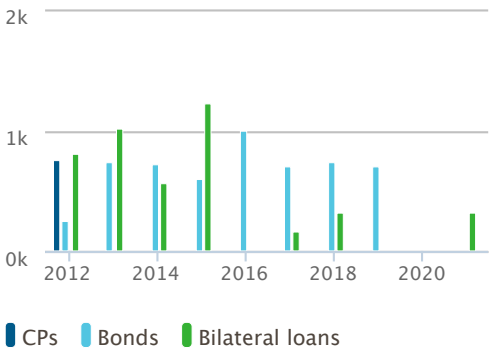
Liabilities falling due next 12 months
MNOK



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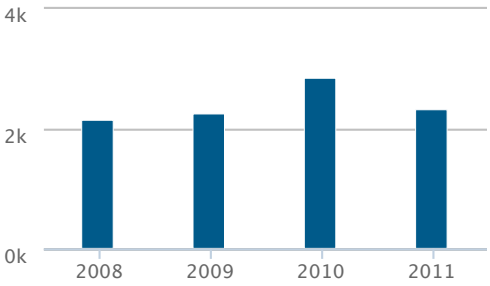
EBITDA core business
MNOK



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Finance

Finance is responsible for financial information, risk management, financing and liquidity management, the pension funds and investor contact. The department is also responsible for the group-wide ICT strategy.

Financial information

The Finance department prepares financial management information for managers, the board and the financial markets. Reporting is performed monthly to management and the board, quarterly to the market, whilst more extensive reporting is provided in the Group's annual report.

Financial statements

The Group has its own in-sourced accounting centre which is responsible for day-to-day accounting for most of the Group's subsidiaries. Pooling accounting expertise centrally quality-assures the development of accounting staff and establishes common guidelines for the Group.

Risk management

The risk management function assumes operational responsibility for following up frameworks and mandates established by the board. The function focuses on all risk to which the Group is exposed, and assists and facilitates the subsidiaries in respect of mapping and managing their own risk profiles.

Borrowing and liquidity

The finance unit is responsible for all the Group's borrowings and managing currency risk and ongoing liquidity management. Finance purposely endeavours to establish an optimal gearing structure in order to minimise the Group's overall finance costs. Hafslund is a major issuer of bonds in the Norwegian market, but also seeks significant volumes of external capital outside Norway.

Pension funds

The funded pension schemes are organised in Hafslund Offentlige Felles Pensjonskasse and Hafslund Private Felles Pensjonskasse. Total assets under management amount to just under NOK 2.3 billion.

ICT

Hafslund is implementing a number of major changes regarding its ICT structures and applications. The introduction of AMS will necessitate the renewal of large areas of the application portfolio. Consequently, in addition to work on stable and efficient operations, the main priority in 2011 was future-proofing the ICT platform. The Group will implement a number of ICT projects in the coming years.

Other business

Facts

Finance
Facilitates financial management work for managers, the board and the markets. Has overarching responsibility for follow-up and monitoring of the Group's financial risk. Assists with investor information through contact with shareholders, investors and analysts.

Treasury
Is responsible for all borrowing and

handles foreign exchange risk and day-to-day liquidity management. Also administers the Group's two pension funds.

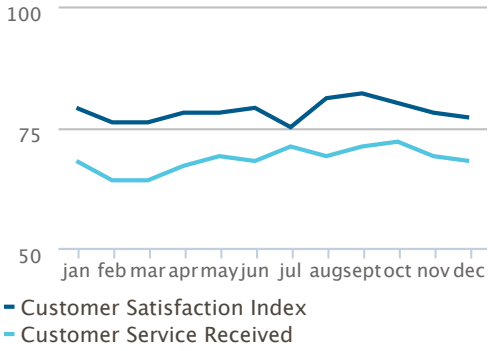
Accounting service

Central accounting department which performs day-to-day accounting tasks for most of the Group's subsidiaries. The unit assists with the preparation of annual financial statements and tax returns for the subsidiaries.

ICT

Responsible for the Group's strategic planning in the ICT area and follow-up of supplies from the Group's ICT operating partners.

Customer satisfaction index



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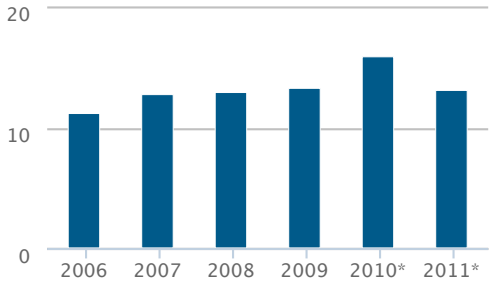
Delivery volume

TWh (*inkc. Göta energi and Energibol.)



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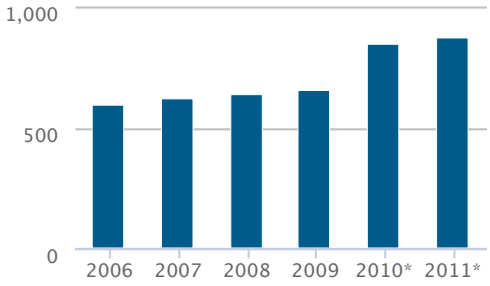
Number of power customers

Thousand (*incl. Göta energi and Energibol.)



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Markets

Markets offers power to the retail and corporate market and is responsible for the majority of all customer relations and invoicing under the Hafslund brand name. The business unit also administers electricity sales through seven wholly and partly owned subsidiaries in Norway and Sweden.

The end user market proved demanding in 2011. Extended periods of high prices, a strained resource situation over the winter, an increase in the number of price areas in southern Norway, variations in area prices and the establishment of new price areas in Sweden presented new market challenges and resulted in increased complexity and uncertainty.

New products and sales channels

Competition for electricity customers is intense, and companies are dependent on establishing effective sales channels to be able to generate profitable customer growth. For example, in autumn 2011 Norgesenergi entered into a collaboration agreement with Elkjøp to sell power agreements in Elkjøp's stores in Norway. The scheme was launched in November and has to date fulfilled the parties' expectations.

Margins on power sales are generally low. Market's companies therefore actively endeavour to offer relevant and appealing products and subscription-based services to customers to complement ongoing power agreements. Examples of such products and services include Hafslund Strøm's "Payment Insurance" and Göta Energi's "Electricity account" schemes.

Energy savings at customers

Hafslund Strøm aims to lead the way in offering customers environmentally friendly energy and energy solutions, and is committed to helping its customers to cut their electricity consumption. In 2011 the company continued measures to help customers save energy at home. This will remain an important focus area in future, including through the energy efficiency tool Hafslund Online for corporate customers.

Demanding time for customer service centre

The market situation in winter 2010/2011, which featured high electricity prices, consumption and bills, saw a sharp rise in the number of referrals to Hafslund Customer Service Centre. The number of referrals in the first quarter of 2011 was 50 percent up on the same quarter the previous year, and up 20 percent on the year as a whole.

At times the influx of enquiries resulted in long waiting periods on the phone, and a delay in responding to written enquiries. Consequently, a number of concrete measures were taken to give customers the opportunity to find answers to enquiries themselves. More long-term plans to reduce incoming enquiries and improve internal processes were also implemented. Despite the high activity levels, current surveys show that customers who contact the customer service centre generally have a positive impression of the centre.

Staff at Haflsund's Customer Service Centre can help customers in 15 different languages.

New invoicing solution

Hafslund Fakturaservice issues invoices to more than a million end customers. A major system and organisation development programme connected to the change in the company's core systems for invoicing and metering was launched in 2010. The first phase of the project will be implemented in 2011, with the main delivery taking place in April 2012.

From October 2011 monthly invoicing was introduced for all retail customers with annual consumption of more than 8,000 kWh. This reduced the capital tied up in the invoicing process, and the scheme has been well received by customers.

At the end of 2011, 230,000 customers paid their invoices by electronic bill payment.

Customer communication

Hafslund wishes to reinforce its electronic customer communications and reach more

customers through media such as the Internet, e-mail and SMS. The number of users of the self-service portal MyPage rose sharply in 2011.

Facts

Electricity

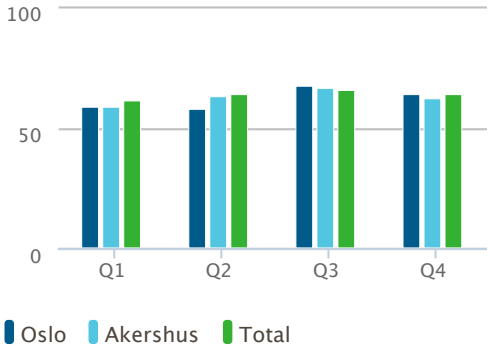
Hafslund is Norway's largest electricity supplier, primarily through Hafslund Strøm and NorgesEnergi. During the year the latter reinforced its position as a national low price electricity supplier, while Fredrikstad EnergiSalg, Hallingkraft, Røyken Kraft and Total Energi in Norway and Göta Energi in Sweden are robust, regional electricity companies. Energibolaget i Sverige AB is a low price supplier with operations in Sweden and Finland, which in 2011 embarked on a pilot project for sales of electricity in Spain.

In 2011 Hafslund sold 10.2 TWh to the retail market and 5.3 TWh to the corporate market. The number of electricity customers in wholly and partly owned companies at the end of 2011 was 878,000, an increase of 28,000 from the end of 2010.

Services

Hafslund Fakturaservice supplies metering, invoicing and collection services to Group companies. Hafslund Kundesenter provides customer services for Hafslund Nett and Hafslund Strøm. Inforum Norge produces files that estate agents pass on to customers in connection with house purchases. The file contains property information and relevant offers for electricity, house alarms, telephone and broadband services etc. The service is also available via the portal mitthjem.no

Change in reputation Hafslund
Reputation score 2011



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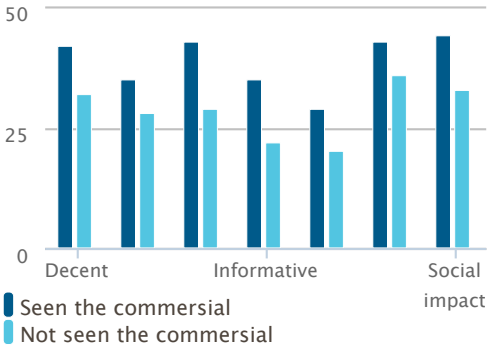
Perception of Hafslund
After seeing the commercial «Spar strøm»



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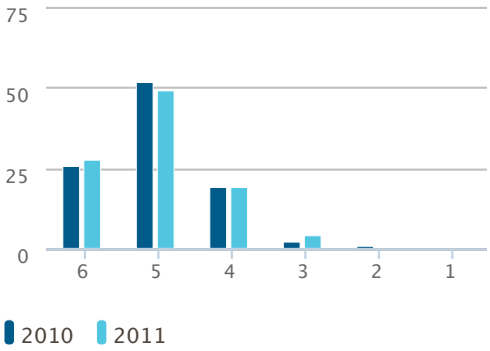
Perception of Enviromental Festival
%. 6 highest score (source: TNS Gallup)



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Communications and Corporate Responsibility

Communications and Corporate Responsibility's remit covers the Group's external and internal information procedures, society contact, business profiling and environmental and social responsibility. The unit assists the Group in achieving its strategic and commercial targets and acts as a sounding board and advisor for the organisation with regard to the environment, ethics and communication challenges.

Communication and reputation work

A key objective of the Group's communication and reputation work is to raise knowledge and awareness of the positive contributions Hafslund makes to society. In

2011 we consolidated the work we performed in 2010 with regard to campaigns and events intended to raise Hafslund's profile within this area and on the Group's focus on environmental solutions. One example was Hafslund's winter commercial, which was shown on TV in March and December. The film communicates that it can be fun to save electricity, and was made on the back of surveys carried out by Hafslund showing that customers wished to have more information about how they can save electricity on a day-to-day basis. The winter campaign was supported by web-, print- and social-media-based communication initiatives.

Hafslund's Children's Environmental Festival

For the second year in a row Hafslund arranged the Children's Environmental Festival in Oslo's Frogner Park, and on World Environment Day Sunday 5 June 2011 a total of 60,000 people gathered in the park. The purpose of the environmental festival was to inform, engage and commit people on the environment and renewable energy. It is also important to focus on the next generation in order to help secure future solutions to environmental challenges. As many as 73 percent of those surveyed at the festival gave the event five or six marks out of six. Nine out of ten people were aware that Hafslund had arranged the festival, and the same percentage took a positive view of Hafslund's commitment to environmental issues. Hafslund's staging of the festival won the company a nomination for the "Event of the Year" award from the Norwegian Sponsoring and Event Association.

Øya Festival

Hafslund became Øya Festival's first main sponsor in 2010. The music festival is held in the Medieval Park in Oslo in August each year, and has earned reputation as an extremely environmentally friendly festival. In addition to providing financial support, Hafslund has helped to reduce Øya's energy consumption by 80 percent by installing a fixed power supply to the Medieval Park, allowing the festival to discard polluting generators. In 2011 Hafslund entered into a partnership with the "white goods" rock band Hurra Torpedo to market the Øya Festival in a way that would appeal in particular to younger target groups. Hafslund's engineers helped the band to develop new instruments to run on electricity. The whole process was covered in a humorous seven-episode web-based TV series which was disseminated through social media and published weekly at seher.no The initiative was followed up with strategically placed adverts aimed at specific target groups, thus allowing information to reach audiences beyond the festival itself. Surveys revealed that nine out of ten festival participants were aware of Hafslund's involvement in the festival, and that 76 percent of the audience took a positive, or very positive view, of Hafslund's partnership with Øya Festival.

Such was the extent of Hafslund's sponsorship work during the year that the company was nominated for "Sponsor of the Year" by the Norwegian Sponsoring and Event Association.

The environment and ethical trading

Hafslund's board has adopted an environmental policy that provides guidance for the entire Group. The environmental policy commits Hafslund to making ongoing and systematic improvements in its environmental initiatives and diminishing the business's environmental impact. Environmental management has been introduced in each company in order to help individual companies to reduce their environmental footprint.

Hafslund purchases goods and services from various external suppliers. Ethical

trading represents an important part of Hafslund's corporate social responsibility work. The Group is a member of the Initiative for Ethical Trading (IEH), which aims to safeguard human and employee rights, development and the environment. Hafslund regards placing clear demands on national and international suppliers along the value chain as an integral part of the Group's corporate social responsibility.

Facts

Corporate Communications
The unit takes care of the Group's internal and external communications activities, in particular through media contact and contributions to the annual report and the intranet. The unit also assists the Group's companies with strategic interaction with politicians and regulatory authorities.

Brand management
In collaboration with the business areas the unit has overarching responsibility for managing and enhancing Hafslund's overall reputation and brand strategy.

Environment and Social Responsibility
The unit is responsible for any social consequences caused by the Group's operations relating to the environment, ethics and other social factors, and works on a group-wide basis to support and advise the various companies on matters concerning the environment and corporate social responsibility.

Sponsorship activities
The unit administers and develops sponsorship activities in collaboration with the companies, and is responsible for events aimed at the general public managed by the Group.

Environment and Social Responsibility

Hafslund is responsible for any social consequences caused by the Group's operations relating to the climate, the environment and other social factors.

Hafslund's corporate social responsibility policy is based on the Group's vision, core values and corporate culture. Hafslund adopts the Norwegian government's definition of corporate social responsibility ("Corporate Social Responsibility in a Global Economy"), which essentially states that corporate social responsibility involves the integration of social and environmental considerations into daily operations and in line with stakeholder interests. It further states that "corporate social responsibility is a question of what businesses do voluntarily in addition to complying with existing legislation and regulations in the country in which they operate".

The goals of Hafslund's corporate social responsibility policy are for the Group to act as a responsible corporate citizen, to create trust and credibility with regard to the Group's activities, and to build and maintain the confidence of our stakeholders.

These goals will be realised by:

- Exercising clear, effective corporate governance to encourage the greatest possible value creation over time
- Helping to promote sustainable development through the generation and distribution of renewable and alternative energy
- Implementing business activities in a way that ensures the least possible adverse impact on the external environment
- Maintaining high ethical standards in carrying out business activities, and taking economic, environmental, and social factors into account when making decisions
- Running the business in accordance with internationally recognised principles and guidelines for the conduct of business, employee and human rights principles, and the precautionary principle
- Supporting socially beneficial goals that adhere to the same values that form the Group's core values, reinforce the Group's image, and help the Group achieve its other goals

We must maintain high ethical standards and assume financial, environmental, and social responsibility in decision-making. Continued value creation will occur through effective business operations and exercising active corporate responsibility. By displaying responsible conduct, we build trust and credibility in the Group's business activities and are viewed as estimable by all Hafslund stakeholders.

Finn Bjørn Ruyter
Acting President and CEO

Corporate social responsibility should be integrated as a natural part of the Group's operational activities, and regarded as part of its long-term value creation. Corporate social responsibility creates trust and confidence – and makes the Group more attractive to stakeholders. It also reduces Hafslund's commercial risk. Corporate social responsibility work is therefore closely linked to the Group's other business strategies and risk policies and shall be managed in a structured way.

"We must maintain high ethical standards and assume financial, environmental, and social responsibility in decision-making. Continued value creation will occur through effective business operations and exercising active corporate responsibility. By displaying responsible conduct, we build trust and credibility in the Group's business activities and are viewed as estimable by all Hafslund stakeholders."

Finn Bjørn Ruyter – Acting President and CEO

External environment

In order to meet future climate challenges, tomorrow's energy systems will increasingly have to be based on renewable energy sources which do not contribute to the build-up of CO2 in the atmosphere. Energy will also have to be much more efficient along the entire supply chain.

While the global community is trying hard to establish the required and, not least binding, emission reduction targets, the EU and Norway, and thus Hafslund, will continue to be subject to specific reduction targets and associated measures. Norway will in particular be impacted by the EU's Renewables Directive and imminent EU quota system for the period 2013–2020. Hafslund has therefore set itself a target of increasing its production of power and heat based on renewable energy sources, and at the same time reducing the use of fossil oil and gases. The company will also continually work to reduce the environmental impact of its own operations.

About the reporting

The data used in this report has been obtained from the organisation through the companies' annual, quarterly and monthly reports, accounting systems and reports to public authorities. The report covers all companies active in Norway in 2011 where Hafslund is the majority owner. The environmental data has not been subject to an independent audit.

Methodology for calculating greenhouse gas emissions

The calculation methodology and CO_2 factors used have a major impact on the presented total greenhouse gas emissions. There is currently no common standard for which factors to use for different sources of energy, for example electricity consumption in Norway. This means that transparency as regards methodology is important to be able to make any comparison and assessment of the environmental performance of different companies.
In 2011 Hafslund instigated a project intended to establish a common set of CO_2

factors for the industry. The project has been implemented, and the annual financial statements for the year and all related graphs are based on this work .The CO_2 factors are based on lifecycle considerations wherever possible. This means that emissions from production, refining and transport of, for example, oil and bio fuel are also included. The factor for electricity is a Nordic five-year average for the period 2004–2008.

The factors used are shown in the table. The values that were used in the 2010 annual financial statements are shown in parenthesis.

Energy source in heat production	CO_2 factor used (grams per kWh)	Comments
Incineration of waste	11,1 (0)	Residual waste also contains some fossil materials, mainly non-recyclable plastics, which release fossil CO_2 when burned. These are emissions that would have occurred in any case, and where disposal in a landfill would have resulted in even higher greenhouse gas emissions over time. Emissions from the actual resources have therefore been zeroised. Other emissions relate to direct incineration emissions and transport etc.
Wood chippings	18 (13)	Includes emissions relating to logging/harvesting, processing and transport of fuel.
Flexible power for boilers and other electricity consumption	110 (116)	Calculated by Hafslund on the basis of an average for the Nordic power mix for the years 2004-2008.
Fuel oil	287 (294)	The emissions include production, refining and transport of fuel.
LNG	251 (221)	Emissions include production, refining and transport of fuel.
LPG	276 (250)	Emissions include production, refining and transport of fuel.
Biofyringsolje	10 (13)	Emissions include production, refining and transport of fuel.

1. http://www.fjernvarme.no/index.php?sideID=2495&ledd1=21&ledd2=1723 (http://www.fjernvarme.no/index.php?sideID=2495&ledd1=21&ledd2=1723)

Environmental management at Hafslund

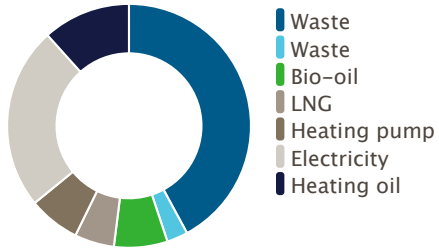
The Group continually strives to improve its environmental performance, both in terms of its core businesses and own activities. Effective environmental management is therefore a natural part of Hafslund's corporate social responsibility initiatives.

The level and scope of the environmental systems are adapted to suit individual companies' requirements; however, common for all companies is compliance with the main principles of the ISO improvement cycle, where continual improvement is an important principle.

The Group company which has the greatest impact on the environment, Hafslund Varme, has been certified in accordance with the ISO 14001 environment standard. The company's head office at Drammensveien 144 has also been certified as an Environmental Beacon (Miljøfyrtårn), while the conference centre at Hafslund Manor is due to be certified under the same scheme in early 2012.

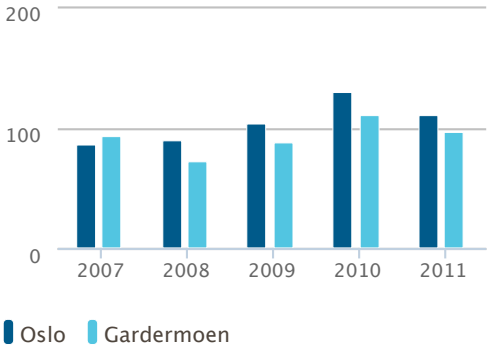
A number of monitoring and reporting systems have been put in place to keep track of the Group's environmental impact. For example, emissions to air from waste-to-energy plants are monitored 24 hours a day. If authority thresholds are exceeded, remedial measures are immediately implemented.

District heating production
Oslo and Gardermoen / GWh



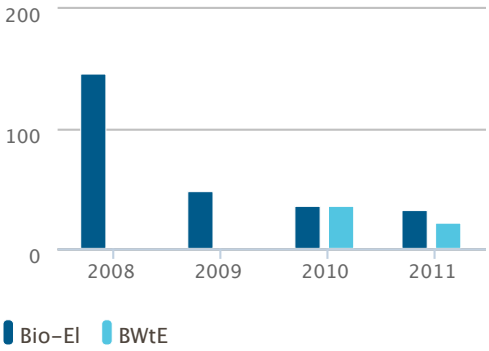
VIS STØRRE GRAF

Greenh. gas emissions district heating
Grams CO2 equiv. per delivered kWh



VIS STØRRE GRAF

Greenh. gas emissions Heat and Power
Grams CO2 equiv. per delivered kWh



VIS STØRRE GRAF

Environmental impact of the Group's core business – focus on sustainable energy production

Hafslund Varme

Hafslund Varme's emissions mainly stem from the generation of district heating in Oslo and Gardermoen. The base load comes from the incineration of residual waste (including pre-treated commercial waste), biomass (wood chippings) and heat pumps, which all produce extremely low levels of greenhouse gas emissions. Incinerating and exploiting residual waste, which consists of whatever is left after recovery and recycling, allows a resource to be exploited that would otherwise be lost. The incineration of waste is also preferable to landfilling as not only are greenhouse gas

emissions significantly lower, but because waste energy replaces fossil energy carriers. Only in larger district heating plants and industry is it possible to exploit residual waste in a cost-effective and environmentally friendly way.

Greenhouse gas emissions derive largely from peak demand during cold weather (electricity, oil and gas). As in 2010 significant parts of the peak load were covered by bio-oil. Some emissions also result from support fuel used in the waste-to-energy plants (oil and propane).

Other emissions of greenhouse gases stem from leakages of refrigerants in heat pumps (R134a [tetrafluorane]). The gas is not poisonous, but has a powerful greenhouse effect if it leaks out. In 2011 there was one accident involving a valve at the plant, where emissions were higher than normal.

In 2011 Hafslund Varme's total emissions of greenhouse gases amounted to around 159,000 tonnes of CO_2. The graphs below show emissions of CO_2 per kWh delivered to customers in Hafslund's two main district heating areas. The figures are not climate-adjusted and show that in cold periods, such as in 2010, emissions increase due to use of fossil peak loads.

In the absence of Hafslund's district heating operations, heating requirements would have to be met by other, generally far less environmentally friendly, solutions. The alternative for many smaller and older plants would be to burn fuel oil, increasing the environmental impact both with respect to greenhouse gas emissions and local pollution (primarily particle emissions and NO_x). On the assumption that 80 percent of current district heating production has replaced heat previously generated from oil boilers, the annual emissions reduction equates to around 270,000 tonnes, and thus significantly more than the total emissions made by Hafslund Varme in 2011. This illustrates the continuing effectiveness of district heating as a climate initiative.

Hafslund has a long-term target of replacing as much as possible of the fossil peak load with renewable energy sources such as pellets and bio-oil. In 2011 consumption of bio-oil amounted to 112 GWh, which is very high compared to Norway as a whole. Hafslund Varme strives to use bio-oil that has already been used or processed. It is also a requirement that the oil is not intended for human consumption. Types of bio-oil used in 2011 were as follows:

- Fish oil, processed residual products, fine and course residue from various suppliers, and from abattoir waste
- Animal oil from abattoir waste and slaughtering
- Return oil from for example fast food outlets
- Bio diesel generated from return oils
- Bio diesel specifically intended for incineration generated from return oils
- Vegetable oils as processed residual products
- Vegetable oils not intended for human consumption

Hafslund Varme's two waste-to-energy plants in Østfold deliver steam for both industrial purposes and district heating, along with a small amount of electricity production. In 2011 both plants produced the lowest emissions of greenhouse gases per sold kWh to date, see graphs. The emissions are primarily attributable to the use of support fuels such as fuel oil and propane.

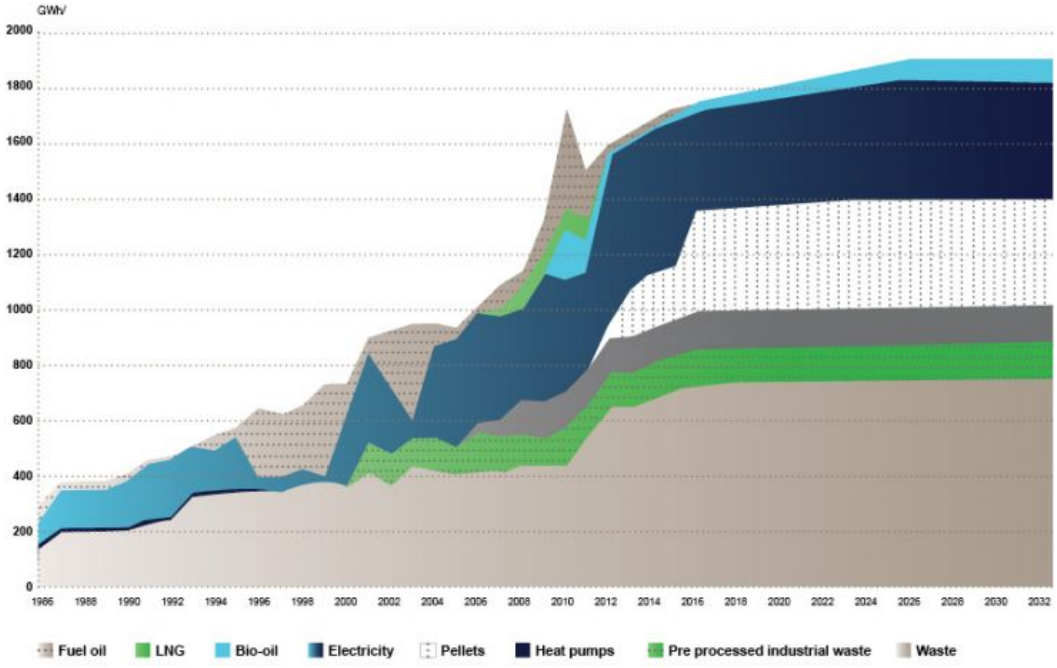
Hafslund's incineration plants are also responsible for emissions of a more local and regional nature, such as particles, NO_x and SO_2. Emissions from the three waste-to-energy plants are treated in state-of-the-art processing plants, which are also subject

to stringent emission requirements, which the company endeavours to comply with at all times. Occasionally emission levels from the Group's incineration plants may briefly exceed maximum permitted levels. These situations are dealt with immediately and the local authorities are informed as a matter of routine. In 2011 no excess emissions occurred that were regarded as having significant environmental consequences.

Most of the waste from Hafslund's core business activities consists of ash from its incineration plants. The disposal and use of this ash is strictly regulated. All ash that cannot be disposed of at regular waste facilities is sent to NOAH's facility for non-organic hazardous waste at Langøya near Holmestrand. The ash is used to neutralise other hazardous waste, such as acids, thus increasing processing efficiency at Langøya and reducing the use of other raw materials and input factors. A total of 29,317 tonnes of bottom ash and 15,763 tonnes of fly ash were removed from the incineration facilities during 2011.

Hafslund Varme 2012 - 2032

Hafslund Varme has set a target of phasing out fossil energy sources used in district heating production in a normal year by the end of 2016. This requires the establishment of a well-functioning market for bio-oils. To this end, the company is currently making significant investments in large plants for the production of renewable heat, including through the establishment of Norway's largest pellets boiler at Haraldrud heating centre. The graph shows historical and estimated energy sources for district heating network in Oslo.



Hafslund Nett

Society rightly expects a high security of supply from the grid. At the same time local opposition will be encountered to both new and existing power lines, and to work required to create sufficient clearance for power lines. Storm "Dagmar" showed how important the latter is in critical situations. As Norway's largest grid company, Hafslund Nett regularly finds itself in situations where various stakeholders have differing opinions. Hafslund endeavours to balance different viewpoints, while always complying with the authorities' regulations.

Loss of energy in the transmission grid represents a cost to society, and thus makes it important to secure efficient power transmission with the lowest possible energy losses. In 2011 the net loss in Hafslund Nett was 1,019 GWh, compared with 1,228 GWh in 2010. Around two-thirds of this occurred in the distribution grid, and the rest in the regional grid. Hafslund Nett is one of the grid companies in Norway with the lowest percentage of grid losses and fewest outages. Nonetheless, the size of the grid loss highlights the importance of keeping this figure as low as possible . The observed reduction since 2010 is attributable to a number of factors including a reduction in the transferred volume.

In order to reduce the losses it is important to establish a maintenance and investment level that guarantees efficient use of public funds. Hafslund continually works to reduce grid losses, and stringent requirements are made of components and equipment with a view to minimising losses. For example, the current upgrading of the grid in central Oslo to 132 kV will on its own reduce such losses by more than 30 GWh per annum.

Direct greenhouse gas emissions from Hafslund Nett's activities primarily relate to non-planned emissions of sulphur hexafluoride (SF_6). Sulphur hexafluoride is used as an insulating and circuit-breaking medium in switchgear installations. The gas, which is regulated by the Kyoto Agreement, is an extremely powerful greenhouse gas, with 23,900 times more impact than carbon dioxide. The gas is used in high voltage facilities because it allows the installations to be far more compact, something that is often essential in view of the space available. This is especially important because Hafslund Nett is currently increasing the voltage in the regional grid in Oslo. Sulphur hexafluoride is not normally consumed in the facilities, but is encapsulated in order to maintain the installations' technical performance. In 2011 Hafslund's installations contained around 20,000 kg of sulphur hexafluoride. Emissions totalled around 41 kg, compared to 49 kg in 2010. This includes emissions from plants that Statnett took over in 2011, but which Hafslund continues to operate.

Hafslund Nett still has some high voltage cables that use oil as an insulating medium. If cables of this type are damaged, oil may leak into the ground. The oil used in the cables is not considered directly toxic. It decomposes chemically in the ground in the course of about 30 days, but may still harm the environment if large concentrations are discharged into vulnerable environments, e.g. sources of drinking water and popular fishing rivers. The total of leaked cable oil in 2011 amounted to 7,120 litres, an increase of three percent against 2010.

Over a period of around ten years oil-filled cables will be replaced by plastic-insulated cables that do not harm the environment if they are damaged.

Hafslund Produksjon

The company's power production (3,140 GWh) is exclusively based on run-of-river hydropower plants that generate no emissions to air and that otherwise have very little impact on the environment. An important factor in this context is exploiting the Glomma watercourse in the best way possible to avoid wasting water that could potentially be used for power generation. This requires well planned maintenance and efficient management of water resources and generating facilities. In 2011 uptime at Hafslund's Glomma generating plants amounted to 99.6 percent.

No discharges of hydraulic fluid into the river system were reported from electricity production in 2011. In addition, some of the oil is now being replaced with a type of oil which decomposes much more quickly.

BioWood Norway

The plant is still in its run-in phase and has only undergone limited trial operation for brief periods. Small amounts of electricity and propane were used during the trial operation.

The licence terms require that operations do not contribute extra noise exceeding 45 dB(A) and 50dB(A) in the evenings and at the weekends respectively. Noise emitted from the plant during the start-up phase has been within +/- 10 dB(A) of these values. In 2011 the company employed significant resources to restrict noise levels. The plant will start operation in February 2012, after which any noise issues are expected to abate.

BioWood stores wood chippings outdoors. The licence terms stipulate that chippings should be stored on impervious surfaces which collect percolating water. BioWood's facilities do not have impervious surfaces, and percolating water is thus not collected. The licensing authority has issued instructions to comply with the storage conditions. BioWood has submitted an application to amend the emissions permit, in part based on an environmental survey which did not demonstrate any environmental effect on the lake or PH values from organic material in percolating water. The application assumes that the chippings will continue to be stored as they are today with continual monitoring in accordance with the agreed monitoring plan.

In all other respects BioWood complies with all environmental requirements.

Environmental impact of the Group's own activities

Property management

Hafslund owns and leases properties in Oslo, Akershus and Østfold. Some of these are sublet to third parties. During 2011 Hafslund occupied an area of around 31,000 m^2, with energy consumption totalling approximately 7.2 GWh, 0.9 GWh of which came from the Group's own district heating output. Energy consumption decreased in most buildings from 2010 to 2011, due to both milder weather and to an increased focus on energy consumption.

The company is endeavouring to further reduce energy consumption in its buildings. Heightened energy monitoring is an important tool in this context. Hafslund's in-house system, Hafslund Online, is also used for this purpose. Efficient space utilisation in the properties represents a further important measure.

The head office at Drammensveien 144 was certified as an Environmental Beacon in 2010. In 2011 work was performed to prepare the Conference Centre at Hafslund Manor for certification under the same scheme. Certification is due to be completed in 2012.

Transport and communication

The company's head office at Skøyen is extremely close to a major public transport hub for trains, buses and trams. This makes it possible for many employees to take public transport to and from work. The Hafslund Group had a fleet of around 105 motor vehicles at its disposal in 2011, of which around 20 were electric cars. Some of the e-cars are included in a pool, and can be used by staff for travel to and from meetings. This also makes it possible to reduce private car use. The total petrol consumption of Hafslund's car fleet was around 22,000 litres and the diesel consumption around 93,000 litres.

Many employees also use their own vehicles for business travel. Consumption of fuel for this purpose is estimated at 83,000 litres.
The Group's employees undertook around 300 flights during 2011 which were registered through the company's travel agent. This is a lot less than the actual figure, due to the fact that many trips are ordered directly through airlines. At around 160 tonnes, CO_2 emissions are estimated to be on a par with 2010.
The Group's unequivocal goal is to further reduce its transport-related environmental impact. Employees are encouraged to use telephone and video conferences so far as such is practically possible, and for which the company can provide excellent facilities. These are used regularly, in particular for communication between the head office and subsidiaries.

When new vehicles are purchased stringent environmental requirements are set in order to ensure that vehicles are no larger than they need to be. In accordance with these requirements, an environmentally friendly alternative shall be chosen to cater for the transport requirement in question.
Employees with high business-mileage can also receive training on fuel-efficient driving.

ICT

Hafslund continued to focus on "Green IT" in 2011. This essentially involves reducing the number of servers through virtualisation, as, in addition to being economically efficient this reduces the need for both electricity and cooling. The number of virtual servers has increased significantly since 2010.

Purchased services

Hafslund is a major purchaser of various external transport, logistics and construction services. In particular Networks and Heat are important players in this regard, through extensive plant activities in population centres. Such activities can impact the environment in the form of noise and local pollution. Hafslund endeavours to make such activities as little harmful as possible, and also tries to provide accurate and timely information to affected parties. In many cases such measures are required in order to reduce the long-term environmental impact, for example with the burying of district heating pipes or upgrading of the power grid.

More than a power supplier

Hafslund wishes to have satisfied and environmentally-aware energy customers. Regardless of the type of energy being used, the energy you do not use will always be the most environmentally friendly.

Hafslund therefore wishes to help customers use energy in the most efficient way possible, and in 2011 implemented several activities with this aim in mind, including energy saving campaigns in the national media. The Group also displays a lot of helpful information on its website.

The web-based energy monitoring system Hafslund Online has been further enhanced, and the system is actively used by several major business customers as a tool for various measures such as saving energy.

Key figures environment

Key figures environment

Activity	Energy source/input factor	GWh added	Tonnes carbon equiv.
District heating production Oslo and Gardermoen	Residual waste	665	7 377
	Heat pumps including loss of refrigerants	108	24 487
	Wood chips	44	790
	Electricity for boilers	383	42 092
	Bio-oil	112	1 121
	Fuel oil	184	52 837
	LNG	83	20 825
	Electricity processing	22	2 425
	Total	**1 601**	**151 954**
Heat and district heating production Østfold	Residual waste	390	4 328
	Fuel oil	2	689
	Propane	3	911
	Electricity	11	1 221
	Total	**406**	**7 149**
BioWood Norway	Electricity	7	781
	Propane	3	690
Property management	Electricity	6	695
	District heating	1	0 [1)]
Transport and business travel	Petro and diesel	2	607
	Flights	1	160

Power distribution	SF_6		980
	Total group	**2 027**	**163 016**

1) Included in emissions from district heating production

Heat production Oslo

Energy cource	GWh added	Tonnes carbon equivalent	Tonnes NO_X
Residual waste	655	7 377	35 [2)]
Heat pumps including loss of refrigerants	108	24 487	
Electricity for boilers	379	41 744	
Bio-oil	112	1 121	34
Heating oil	170	48 733	51
LNG	83	20 825	14
Electricity processing	22	2 425	
Total	**1 539**	**146 712**	**257**

2) Hafslunds district heating production

CO2 per kWh delivered to customer: 111 grams
NOx per kWh delivered to customer: 0.10 grams

Heat production Gardermoen

Energy source	GWh added	Tonnes carbon equivalent	Tonnes NO_X
Biomass (wood chippings)	44	790	19
Oil	14	4 104	4
Electricity for boilers	3	348	
Total	**61**	**5 242**	**23**

CO2 per kWh delivered to customer: 96 grams
NOx per kWh delivered to customer: 0.4 grams

Other emissions to air from waste incineration

Component		Haraldrud	Bio-el	BWtE
NOX	tonnes	34,0	13,9	22,5
Støv	kg	183	305	65
SO_2	tonnes	4,5	0,4	13,4
HCl	tonnes	1,6	0,6	1,5
Tungmetaller [1)]	kg	1,7	2,5	1,2
Hg	grams	52	197	94

Cd + Tl	grams	17,8	13,1	23,4
Dioxins and furans	**mg**	**7,7**	**1,3**	**1,2**

1) As, Cr, Co, Cu, Mn, Ni, Pb, Sb, V

Power production

Component	**GWh el**
Hafslund Production	3 140
Bio-El	12

Ethics

Hafslund is committed to maintaining the highest ethical standards in its business operations. We communicate this message within the Group by promoting one of our core values: integrity.

Hafslund is responsible for any social consequences caused by the Group's operations regarding environmental impact, working conditions and other social factors. This responsibility is held along the business's entire value chain and also covers our procurements and investments.

Ethical trading

As part of its corporate social responsibility, Hafslund focuses on ethical trading and is a member of the Ethical Trading Initiative Norway (IEH). IEH's object is to collaborate to ensure that trading safeguards human and employee rights, development and the environment. Hafslund recognises that performing business in an ethically responsible manner drives development in other parts of the world. We consider this an integral part of our corporate social responsibility. Ethical trading brings about improvements in working and environmental conditions throughout the supply chain, which is why we set certain standards for our suppliers both in Norway and worldwide.

In association with Ethical Trading Initiative Norway, the company has drawn up a code of conduct for its suppliers and internal procedures governing the companies' work on ethical trading. As part of this work key employees responsible for procurement and other relevant parties receive training on this topic. The Group constantly strives to follow up suppliers including through self-reporting, and where required by entering into dialogue on necessary changes at suppliers. In 2011 the procedure was revised to also include a section on hiring of foreign manpower.

Hafslund's code of conduct for suppliers sets out the objectives of Hafslund's ethical trading programme and is based on ILO and UN conventions, and national requirements:

- Forced labour
- Freedom to unionise
- Child labour
- Discrimination
- Brutal treatment
- Health, safety and the environment
- Salaries
- Working hours
- Proper terms of employment
- Marginalised population groups
- The environment
- Corruption and bribery

Employee code of conduct

Hafslund's employee code of conduct applies to all those directly employed by the Group, as well as union representatives and members of the board. Its purpose is to ensure that all employees act in an honest manner and build trust in the Group and foster a good corporate reputation. The terms of the code of conduct, which are rooted in our corporate values, regulate matters such as personal conduct, conflicts of interest, bribery, corruption and competition, and sanctions in cases where the code has been breached. The code of conduct should be viewed as setting a minimum standard, since all employees are required to adhere to external laws and regulations, sector-specific ethical rules, and internal rules applicable to Hafslund's business operations. The tools used to promote awareness of the code include the Group's intranet and presentations at various levels of management. All new employees sign the code of conduct before they start work.

Detailed guidelines have been drawn up for all employees whose work involves contract negotiations, since this area is particularly vulnerable to influence. The Group runs courses on ethics for employees involved in contractual negotiations. 60 employees attended the course in 2011.

Systems are in place to enable staff to notify management if they discover censurable matters. As far as Hafslund is aware, there have been no incidents of actual or attempted corruption with regard to any of the Group's business activities, nor has any Group company been subject to monetary or non-monetary sanctions for, or convicted of, any violations of laws or regulations.

Society

Hafslund collaborates with a number of environmental, sporting, humanitarian and cultural organisations, as well as bodies involved in education and research. The Group constantly works with various combinations of collaboration partners that reflect Hafslund's values and diversity in society in general.

Sport

Vålerenga Football Club (VIF)

Hafslund is one of Vålerenga Football Club's main sponsors. The club has a long-established reputation as a very society-orientated club, with a focus on amateur football and anti-racism and inclusive measures. In recent years Hafslund has increasingly concentrated on VIF's Amateur Sport Project, which was renamed Hafslund's Dream Meeting in 2011. The intention behind the project is to develop participating local football clubs' technical and administrative expertise. A total of 29 clubs were involved in the scheme in the greater Oslo area in 2011. In total the clubs administrate almost 20,000 players, primarily children and young people. Each year VIF organises the Hafslund Cup, a competition for 2,500 girls and boys in the 6–12 age group.

In 2006 Hafslund and VIF started their joint Job Chance project. The aim of this pioneering project is to give young people from Oslo and Akershus employment experience at the club and at selected VIF collaboration partners. More than 20 young people have been employed at Hafslund since the start of the project.

The Football Association of Norway

The Hafslund Cup for girls, in which U16 teams affiliated with clubs in the Norwegian

Women's Premier League and First Division compete, is an important element of Hafslund's partnership with Norway's Football Association. The aim is to encourage players to continue to focus on football at an age when many girls tend to stop playing football.

The environment

Hafslund's Children's Environmental Festival 2011

On Sunday 5 June 2011 Hafslund staged Norway's largest children's environmental festival in Frogner Park for the second time. Almost 60,000 visitors participated in various activities for children relating to the environment and renewable energy and saw a number of artists perform. The idea behind arranging a free event on World Environment Day was to inspire and engage children and young people on the subjects of environment and renewable energy, and thus stimulate curiosity and further learning.

The Children's Environmental Report was published ahead of the festival. The report relates Norwegian children's thoughts on the future and the environment. It sends out a clear message about the importance of listening to children about environmental issues, and ensuring that as many children as possible feel they are being heard and care about the environment in future.

Bellona Environmental Foundation

In 2011 Hafslund also developed a close collaboration with the environmental foundation Bellona, whom it uses as an advisor and sparring partner with regard to environmental questions. Bellona was chosen because the environmental foundation supports Hafslund's vision. Bellona is also solution-oriented in its approach to construction of renewable energy and energy efficiency.

Sensible energy use

Renewable energy is a scarce resource which it is important to preserve and manage properly. Consequently, Hafslund is keen to communicate the importance of energy efficiency to the Group's stakeholders through various channels. Both Hafslund.no and Hafslundnett.no provide information on optimal ways for consumers to cut electricity consumption in order to both save money and spare the environment. The Group has also communicated energy saving through films, advertising and information sent out with invoices.

Humanitarian initiatives

Collaboration with Médecins sans Frontières

Hafslund is one of the few main sponsors of Médecins sans Frontières in Norway.

Médecins sans Frontières assists people in need, victims of natural and humanitarian disasters and of armed conflict without discriminating on grounds of race, religion, philosophy or political allegiance. This coincides with both Hafslund's vision and its core value of courage. There is a reciprocal element to Hafslund's collaboration with Médecins sans Frontières, with representatives providing company employees with information on its activities in crisis-hit areas.

Culture

Øya Festival

In 2010 Hafslund established a green collaboration with Øya Festival, enabling the festival to run exclusively on renewable energy for the first time. Polluting diesel generators, which tend to be used by the vast majority of festivals, were finally consigned to history, and the festival reduced its energy consumption by 80 percent.

The partnership with Øya Festival was continued in 2011 with an ongoing focus on the festival's energy efficiency and raising festival-goers' awareness of sensible energy consumption.

Hafslund Manor

Hafslund attaches great importance to preserving Hafslund Manor both as a national heritage site and as a meeting place for Hafslund's employees. Throughout its history the manor has been a centre for artistic, cultural and technical achievement. In 2011 the public were once again able to view this diversity through guided tours in the summer months or by attending a variety of cultural events held throughout the year.

Romeriksfondet (the Romerike Fund)

In collaboration with the local newspaper Romerikes Blad, Hafslund distributes funds to support children and young people in Romerike ten times a year.

Research and development

UMB and CenBio

Hafslund contributes to the funding of four Professor II positions at the Norwegian University for Life Sciences (UMB) in order to boost research, education and the development of expertise in the field of bioenergy in Norway.

Hafslund also supports CenBio, one of eight environmentally friendly energy research centres established by the UMB, the Norwegian University of Science and Technology (NTNU) and the Norwegian Foundation for Scientific and Industrial Research (SINTEF). CenBio aims to increase the volume and availability of Norwegian biomass that can be used in energy production, improve the efficiency of biomass-to-bioenergy conversion, and boost the profitability of the bioenergy industry.

The agreements provide Hafslund with access to expertise and establish a platform for further collaboration on research projects relevant to Hafslund's operations.

The Norwegian University of Science and Technology

Through an agreement with the Norwegian University of Science and Technology, Hafslund is financing Norway's first professorship in the electricity grid of tomorrow, Smart Grid. The collaboration provides Hafslund with access to new expertise in this area.

Other

Hafslund supports Junior Achievement Norway in Oslo and Østfold and has contributed to the realisation of the INSPIRIA science centre in Sarpsborg. INSPIRIA was opened in August 2011.

Report of the Board of Directors

2011 was a year of major change for Hafslund in which the company streamlined its various operations. The year under review was strongly impacted by major fluctuations in both the weather and the power market. Underlying operations were buoyant and for the first time in many years Hafslund completed the construction of a brand new power station.

In recent years the company has been adopting a clearer focus on its core operations. Hafslund aims to participate in the value chain for power and heat through the core businesses of power production, networks, heat and power sales. The focus on core businesses in 2011 was highlighted through a number of business disposals. In 2011 Hafslund sold shareholdings in Network Norway, REC and Fesil. These measures will allow Hafslund to concentrate more clearly on the production of renewable energy, further development of infrastructure for energy, and power sales.

Hafslund posted a net loss for the year of NOK 698 million in 2011, compared with a loss of NOK 392 million in 2010. The net profit for the year excluding the investment in Renewable Energy Corporation (REC) came in at NOK 388 million, a reduction of NOK 1,195 million against 2010. The decrease in profit should, in addition to a gain in 2010, also be viewed in the context of lower power prices and changes in the market value of derivatives (interest rate, foreign currency and power derivatives) and the loan portfolio.

The start of 2011 saw extremely cold weather and a weak power balance in the Nordic region. Significant precipitation fell over the spring and summer, contributing to a marked fall in the power market. Late summer and autumn featured mild and wet weather, and power prices remained low compared with previous years. The achieved power price for 2011 for the power production business was 18 percent lower than in

2010, which had a significant impact on Hafslund's performance in 2011.

At the end of 2011 total assets amounted to NOK 24.7 billion, while net interest-bearing liabilities totalled NOK 9.3 billion. The consolidated equity ratio at the end of the year was 33 percent. Hafslund has a robust financing structure with long-term committed drawdown facilities.

The company sold its remaining shares in REC in December 2011. Hafslund has invested a total of NOK 2,050 million and sold shares for total proceeds of NOK 6,170 million in REC. The total profit on this investment thus amounts to NOK 4,120 million.

In 2011 Hafslund reinforced and introduced an updated system for business management with the aim of contributing to long-term value creation and securing the confidence of the owners and other stakeholders in the Board of Directors, management and the company. Sound business management shall ensure a focus on the company's visions, business concept and strategy, and contribute to the achievement of targets and budgets.

In recent years the Group has consciously focused on reinforcing the company's reputation, and surveys show that this work is now paying dividends. The interface with customers is an important factor in these initiatives, and the various companies in the Hafslund Group implemented several measures in 2011 to further boost their performance in this area. An important objective of Hafslund's reputation work has also been to highlight the positive contributions the Group makes to society, and during the year several different campaigns and events were arranged, which were well received by the general public.

In December 2011 Christian Berg announced that he wished to step down from his position as President and CEO. He remained in his post until 6 January 2012. The board thanks Mr Berg for his efforts and contribution to the Group's development and growth. Deputy President and CFO Finn Bjørn Ruyter was appointed Acting President and CEO from 6 January 2012.

Finance

Result for the year

The Hafslund Group posted sales revenues of NOK 13.7 billion (NOK 15.8 billion) and a net loss for the year of NOK 698 million (loss of NOK 392 million) in 2011. Operational performance was sound; however, the result was impacted by a fall in value of the investment in REC and lower power prices than in recent years. The net result for the year was impacted in particular by the following factors:

1. A negative result effect of NOK 1,086 million relating to the investment in REC (NOK -1,978 million).
2. An achieved power price of NOK/MWh 320 in 2011, a reduction of 18 percent against 2010.
3. A negative result effect of NOK 218 million relating to changes in value of the loan portfolio and derivatives (power, interest rate and currency derivatives) recognised at market value.

REC posted an operating profit of NOK 1,433 million (NOK 2,644 million) in the year under review. The decrease compared with the previous year is attributable to a positive result effect of NOK 575 million in 2010 due to a profit of NOK 875 million on the sale of the fibre optics business and a write-down of the pellets plant in the amount of NOK 300 million.

The combined operating profit for power production and heat came in at NOK 826 million, which represents a decrease of NOK 295 million compared with 2010 and is in

part attributable to lower power prices.

At 469 million, Networks' operating profit was down 12 percent on 2010, due to a number of factors including low interest rates on government bonds, and costs of NOK 56 million in the wake of Storm Dagmar at the end of the year.

With customer growth of 28,000 in 2011, Markets continued to expand its customer base and posted an operating profit of NOK 277 million. This represents a decrease of NOK 165 million against 2010, in part due to the fall in value of power derivatives and slightly lower margins, despite volume growth.
At NOK 1,433 million, the consolidated operating profit excluding REC equated to a return on capital employed of 6.6 percent.

Finance costs totalled NOK 584 million, a year-on-year increase of NOK 113 million. The higher finance costs are attributable to a number of factors including a charge of NOK 89 million (income of NOK 27 million) on the back of a rise in the market value of the loan portfolio which is recognised at fair value as a result of lower interest rates. At 4.5 percent, at the end of 2011 the loan portfolio's coupon rate was up 0.5 percentage points on the previous year. Based on a pre-tax profit of NOK 849 million (excluding REC), the tax expense of NOK 456 million equates to an effective tax rate of 54 percent. This item includes basic interest tax of NOK 200 million for the power production business (NOK 257 million).

The consolidated net loss for the year resulted in both undiluted and diluted earnings per share figures of NOK -3.6 (NOK -2.0). The annual financial statements have been prepared on the going concern assumption.

Cash flow and capital

The Group's cash generated from operations before changes in working capital was NOK 1,254 million (NOK 2,219 million). Working capital is significantly lower than at the start of the year, primarily due to significantly lower power prices towards the end of the year compared with the corresponding prior-year period. In addition, lower power consumption caused by the mild weather at the end of 2011 and the transition to monthly invoicing also reduced working capital compared with in 2010. This resulted in working capital of NOK 248 million at the end of 2011, a year-on-year decrease of NOK 2,256 million, which in turn equates to a net cash flow from operations of NOK 3,510 million for the year. The operating profit before depreciation and amortisation of NOK 2,235 million, excluding result effects from REC, was NOK 981 million higher than the related cash flow from operations before changes in working capital. The difference is attributable to payment of interest and tax of NOK 1,030 million, and result effects of non-cash items in the amount of NOK 49 million relating to items including market value changes of shares and derivatives.

Net investments in 2011 totalled NOK 1,176 million (NOK 1,646 million). The reduction in investments compared with 2010 is attributable to the conclusion of several major investment projects in 2010. Future investment levels are expected to be on a par with 2011 and will primarily relate to ongoing reinvestments in the Networks business, the gradual phasing-in of AMS from the end of 2012 and further development of the district heating business in Oslo. Net capital released from the disposal of businesses and shares totalled NOK 2,321 million (NOK 336 million) and relates to the sale of shares in connection with the winding down of the Venture business area, including the sale of the remaining shares in REC and the sale of the central grid plant and associated properties in Oslo to Statnett SF.

In 2011 a dividend of NOK 7.50 (NOK 2.25) per share was paid, corresponding to a total dividend of NOK 1,461 million.

The net total cash outflow relating to the reduction of the Group's interest-bearing liabilities amounted to NOK 3.5 billion in 2011.

At the end of the year interest-bearing liabilities totalled NOK 9.3 billion. With a solid balance sheet, robust financing structure featuring long-term committed drawdown facilities and strong liquidity, the Group is well equipped to deal with uncertainty in the finance markets. None of Hafslund's loan agreements impose any covenants.

The business areas

Hafslund is a leading electricity generator and one of the few electricity generators in the Nordic region to be publicly listed. The company has produced clean hydropower since 1898, and is now also focusing on district heating to meet tomorrow's energy requirements. Hafslund is Norway's largest power grid owner and largest power sales company and a major producer of renewable energy through hydropower and heat production. The Group's core business comprises the business areas Production, Heat, Networks and Markets. Operations mainly take place in Norway and Sweden, and the Group is headquartered in Oslo.

Production

The Production business area comprises hydropower production, which has a normal annual production of 3.1 TWh, and a central power trading unit. The business area posted an operating profit of NOK 724 million in 2011 (NOK 958 million). At the reporting date the Production business area had committed capital of NOK 4.5 billion.

In 2011 the power generation business posted sales revenues of NOK 999 million, down 17 percent on 2010. The fall in sales is partly attributable to an 18 percent drop in achieved power prices. The operating profit of NOK 743 million (NOK 929 million) reflects an achieved power price of NOK/MWh 320 (NOK/MWh 390) and a production volume of 3,135 GWh (3,041 GWh). Due to a spot-based pricing strategy, hydropower production's results will to a large extent be driven by day-to-day fluctuations in the price of electricity. At 3,135 GWh, power production was around one percent higher than normal production.

The extensive expansion and upgrading project for Vamma and Kykkelsrud has now been concluded. The new 40 MW power plant at Kykkelsrud entered trial operation on 28 April and has enjoyed satisfactory operations throughout the year. A refurbishment programme for the five large Kaplan generators will be completed during 2013.

The Group's central power trading unit is responsible for trading on the spot market, financial trading and power trading. The power trading business posted an operating loss of NOK 19 million (profit of NOK 29 million). Of this amount, NOK -8 million relates to power trading and NOK 15 million to a fall in value of a longer-term power contract incurred before the exposure was closed

Heat

The Heat business area is responsible for district heating activities in Oslo and Akershus and the delivery of heat and steam to industry in Østfold. Sales revenues for the district heating business totalled NOK 1,120 million (NOK 1,259 million). An operating profit before depreciation and amortisation of NOK 259 million represents a reduction of 18 percent against 2010. The operating profit after the above items was NOK 102 million (NOK 163 million). The Heat business area had committed capital of

NOK 5.5 billion at the end of 2011.

The operating profit reflects a contribution of NOK/MWh 350, an increase of NOK/MWH 20 against 2010. The increase in the contribution, despite lower power prices, should be viewed in the context of both lower production costs due to a higher share of renewable energy sources, and cheaper peak loads. The total energy delivery of 1,828 GWh equates to a reduction of 200 GWh against 2010 and is attributable to mild weather in the latter part of 2011 compared with particularly cold weather towards the end of 2010. Higher contributions per produced unit were offset by lower energy deliveries, resulting in a total contribution of NOK 522 million (NOK 532 million).

In 2011 the share of electricity and renewable energy sources used in district heating amounted to 84 percent, a rise of 10 percentage points against 2010. The increase is attributable to a higher percentage of waste used as the base load following the implementation of a new incinerator line at EGE at Klemetsrud. This percentage will rise further with the full annual effect of the new incinerator line, the opening of a new peak load centre at Rodeløkka from the second quarter of 2012 and the commissioning of a new wood powder fired plant at Haraldrud due to be completed at the end of 2012. Investments for Heat totalled NOK 441 million (NOK 485 million) in 2011 and primarily related to investments in organic growth in customer connections and in increased renewable production capacity for the district heating business in Oslo. The waste-to-energy plant at Borregaard industrial area in Sarpsborg was in operation throughout the year. This plant and the plant at Fredrikstad both incinerate waste. Both plants' performance was impacted by a challenging waste market.

Networks

The Networks business unit comprises the companies Hafslund Nett AS and Hafslund Driftssentral AS. In the year under review sales revenues for the Networks business totalled NOK 4,202 million (NOK 4,804 million). The operating profit before depreciation and amortisation for the year came in at NOK 983 million (NOK 1,077 million). At NOK 469 million, the operating profit after these items was down 12 percent on 2010, and reflects a regulated contribution of NOK 1,916 million (NOK 2,287 million) and an income surplus of NOK 212 million (income deficit of NOK 203 million). At the end of 2011 Networks had committed capital of NOK 9.3 billion.

The business area has improved its operating performance and experienced fewer grid outages in recent years. The company is one of the grid companies in Norway with the lowest percentage grid losses and fewest outages. While these trends continued in 2011, many long-term outages as a result of Storm Dagmar in the week between Christmas and New Year meant that in 2011 Hafslund's customers experienced an increase in the average length of outages. On average Hafslund's customers were without power for 1.9 hours during 2011, compared with 0.7 hours in 2010. Networks will continue to work systematically to ensure its power transmission grids offer a stable, robust and safe service, with a high security of supply throughout its area of coverage.

In recent years investments in the regional distribution grid, in particular in Oslo's central areas, have been prioritised. Networks plans to spend a total of around NOK 4 billion on maintenance and grid investments in the period 2012–2014. Investments and maintenance are included in the annual revenue ceiling which the NVE sets for the business. Hafslund Nett remains one of Norway's most reasonably priced grid owners. At the end of the year the company had a total of 552,000 grid customers (545,000). In the first half of 2011 Hafslund Nett entered into an agreement to sell

central distribution grid facilities and associated properties in Oslo to Statnett.

Markets

The Markets business area comprises the results units Power Sales, Invoicing Services and the Customer Service Centre. Total sales for the year amounted to NOK 7.3 billion, down 1.0 billion against 2010. The decrease in sales, despite 28,000 more customers, is primarily attributable to lower wholesale prices for power purchases on Nord Pool, as well as lower demand for energy fuelled by mild weather towards the end of 2011 compared with the severe cold weather seen in the latter part of 2010.

A total of 15.5 TWh of electricity was sold to customers, a reduction of 400 GWh from 2010. Markets posted an operating profit of NOK 277 million in 2011 (NOK 442 million). The year-on-year decrease is primarily attributable to a fall in value of NOK 91 million in power derivatives which are recognised in income at fair value on an ongoing basis, while lower volumes are also depressing year-on-year performance. Markets had committed capital of NOK 1.2 billion at the end of 2011.

The authorities are aiming to establish a common Nordic end-user market for electricity by the end of 2016. Against this background in 2010 Hafslund bought a stake in the Swedish power sales companies Göta Energi AB (100 percent) and Energibolaget i Sverige Holding AB (49 percent). Together with the company's strong position in the Norwegian power market, these transactions mean Hafslund is well positioned to participate in a common Nordic end user market for electricity. At the end of 2011 Hafslund had a total of 878,000 electricity customers in wholly owned companies and a number of customers in part-owned companies. This includes the customer portfolios belonging to Hafslund Strøm, NorgesEnergi, Fredrikstad EnergiSalg, Hallingkraft, Total Energi and Røyken Kraft in Norway, and the portfolios of the Swedish companies Göta Energi and EBS.

During the year under review Power Sales posted an operating profit of NOK 201 million, a decrease of 42 percent against 2010. In 2011 the market once again proved challenging for electricity sales companies. Lengthy periods of high prices, variations in area prices and the establishment of new price areas in Sweden have resulted in greater complexity for the businesses. While the underlying results in the power sales business are sound, the result was strongly impacted by a charge of NOK 91 million (income of NOK 24 million) relating to the change in value of power derivatives recognised at fair value in income on an ongoing basis. In accordance with IFRSs corresponding unrealised gains on end user contracts may not be recognised in income, an inconsistency that can have a major impact in periods when wholesale prices fluctuate significantly. A major portion of the unrealised items relate to hedging and end user contracts for the period December 2011 to March 2012, many of which will reverse at the end of the first quarter of 2012.

The extremely challenging market situation with high power prices, extreme cold and significant media attention on power prices in the first quarter of 2011 resulted in a marked increase in enquiries to Hafslund Customer Service Centre. The number of enquiries to the Customer Service Centre rose by more than 50 percent in the first quarter compared with the corresponding prior-year period, and by just under 20 percent over the year as a whole.

A number of measures were taken to give customers the opportunity to find answers to enquiries themselves. More long-term plans to reduce incoming enquiries and improve internal processes were also implemented. Despite the high activity levels and number of enquiries, TNS Gallup's ongoing surveys of a selection of customers

contacting the Customer Service Centre reveal that customers generally have a positive impression of dealing with the centre, and of Hafslund as a supplier.

Hafslund Fakturaservice supplies metering, invoicing and collection services to the Group's companies. This includes ongoing invoicing of more than one million end customers. A major system and organisation development programme project in connection with the change in the company's core systems for invoicing and metering was initiated in 2010. The new systems will gradually be phased in during 2011 and 2012.

Government relations and business policy

The regulatory framework drawn up by the authorities has a significant impact on the Group. In 2011 Hafslund performed further work on government relations and business policy issues, with the aim of improving framework conditions for the business areas.

The Norwegian Water Resources and Energy Directorate (NVE) has indicated that the industry can expect changes to existing regulation model for the Networks business from 2013. The exact nature of the changes is currently unclear, but only minor adjustments are expected based on the current model. The current regulation has not stimulated further structural development of the industry. The industry has been demanding a regulatory regime that would provide the owners with more predictability with regard to the profitability of investing in infrastructure which is critical for society. In the short term it is important that the current regulatory model is changed to cater for a finance market featuring high credit spreads and low interest rates such as that seen in 2011. The current model failed to provide Hafslund with satisfactory returns in 2011.

The Competence Regulation was adopted with effect from 1 July 2011. The regulation gives the grid companies until 1 July 2013 to adjust to the new requirements regarding competence and staffing levels. The new regulation will have a number of consequences for staffing levels in the grid company.

On 24 June 2011 the NVE adopted regulations on AMS (advanced metering systems) through the Regulation on changes in metering, settlement and coordination of electricity trading and invoicing of network services (the Settlement Regulation). The regulation requires 80 percent of grid customers to have AMS installed by the end of 2015, and AMS to be in place for all customers by the end of 2016.
Hafslund engages in positive talks with Enova in order to secure further construction of district heating.

Corporate Social Responsibility

Hafslund is responsible for any social consequences caused by the Group's operations with regard to impact on the external environment, human rights, working conditions and other social issues. This responsibility permeates Hafslund's entire value chain and business, and also covers Hafslund's procurements and investments. Hafslund adopts the Norwegian government's definition of corporate social responsibility ("Corporate Social Responsibility in a Global Economy". During 2011 the Group focused on reinforcing CSR in the Group's companies, primarily targeting environmental management and ethical trading. This work will continue in 2012.

External environment

Effective environmental management is a natural part of Hafslund's corporate social

responsibility which ensures efficient resource utilisation. In 2011 the Group units were actively involved in this area. The company which is responsible for the majority of energy consumption and emissions in the Group, Hafslund Varme, is certified to the stringent environmental standard ISO 14001. The company's head office at Drammensveien 144 has been certified as an Environmental Beacon, while the Conference Centre at Hafslund Manor is due to be certified under the same scheme in 2012.

The bulk of Hafslund's energy consumption and emissions are associated with the production of heat. A high percentage of renewable energy in the input factors means that emissions of greenhouse gases low in relation to the amount of energy generated. Incineration plants also produce emissions of a more local and regional nature, such as particle emissions, NOx and SOx. In 2011 these emission levels were generally much lower than the maximum limits set by the authorities, and any emissions exceeding maximum limits were quickly dealt with. Compared with 2010 the emissions per KWh of heat production decreased, primarily due to the warmer weather during the year and reduced use of fossil peak loads.

Hafslund Varme has specific plans to increase the proportion of renewable energy used as input factors in the production of heat including the use of pellets. Hafslund has set itself the target of phasing out all fossil energy sources used in district heating production. Specific situations and lengthy periods of cold weather can result in some use of fossil energy sources to maintain security of supply.

It is in society's best interests that the water resources of the Glomma river system be exploited in the most efficient way possible. In 2011 production uptime at Hafslund's electricity generating facilities stood at 99.6 percent. It is also important for Hafslund to make sure that the energy produced actually arrives at its business and private customers' locations without significant interruptions or energy losses, and at the lowest possible cost to society. The ongoing conversion of the main distribution grid in Oslo to 132 kV will further reduce grid losses.

The impact on the external environment of Hafslund's own operations derives largely from its buildings, transport and externally sourced services (transport and contracting activities).

Hafslund works together with Veolia Miljø and Miljøtransport in connection with waste collection and return schemes. Hafslund is also a member of Renas, the collection and treatment scheme for industrial electrical waste.

Hafslund is well positioned to support the political targets within the climate policy, both nationally and internationally, including the EU's 20-20-20 climate package. Initiatives to develop more renewable energy, as well as reduce the environmental impact of the company's operations, will continue in 2012.

Ethics and corruption

Hafslund is committed to maintaining high ethical standards in all its commercial operations. The Group has, as the first company in the power industry, been a member of the Initiative for Ethical Trading (IEH) since 2008. Hafslund leverages its membership to continue to place clear ethical demands on its suppliers in order to ensure that these exercise their business operations in line with Norwegian and internationally recognised principles and guidelines on human and employee rights, the environment and corruption.

To prevent the possibility of corruption, bribery or conflicts of interest, Hafslund has also drawn up a code of conduct for its employees, which has been approved by Hafslund's Board of Directors.

Social responsibility

Employees

At the end of the year Hafslund employed 1,207 staff (1,123), of whom 34.7 percent were women and 65.3 percent were men. The gender distribution has improved compared with the previous year, when the respective figures for women and men were 33.5 and 66.5 percent. In 2011 Group management comprised two women and five men. 40 percent of Hafslund ASA's board are women. Out of a total of ten board members, three shareholder-elected representatives and one employee representative are women.

The Group is endeavouring to achieve a better gender balance both in general and among managers in particular. Important measures in this regard include good recruitment processes and development programmes for managers and key employees.

Hafslund's remuneration policy is based on the individual establishment of salaries, and the Group takes steps to ensure that any salary differentials are not based on discriminatory grounds.

Health, safety and the environment

Hafslund adopts a systematic approach to health, safety and the environment in order to ensure that all employees enjoy a good working environment. Several surveys are performed each year on employees' working conditions, and results are followed up through action plans in individual companies. The Group also carries out HSE audits of the companies to check that the companies are performing systematic HSE work and complying with public and internal requirements. In 2011 HSE surveys were carried out at seven companies.

During the year under review Hafslund signed a new Inclusive Workplaces (IA) collaboration agreement. Hafslund has been an IA business since March 2005 and IA considerations are well embedded throughout the Group.

Sickness absence in the Group amounted to 4.35 percent in 2011, which is on a par with the previous year. The short-term sickness absence rate was 2.0 percent, while the long-term absence rate was 2.35 percent.

Sickness absence in the individual companies varied from one percent to eight percent. Hafslund works closely with NAV and the occupational health service (Hjelp 24) in order to prevent and reduce sickness absence.

In 2011 one incident was recorded involving a personal injury to a company employee, which resulted in ten days' absence. In 2011 Hafslund adopted a clear focus on increased reporting of undesired incidents in order to obtain a better basis for injury-prevention measures.

Risk

Hafslund's business operations are exposed to regulatory, legal, financial, political and market risks, in addition to operational risks. Risk assessment is an integral part of all business activities, and the Group's overall risk is assessed by the board itself.

Hafslund has established guidelines and frameworks for active risk management in a number of areas.

At the end of 2011 Hafslund had unused drawdown facilities of NOK 4,400 million intended to secure financing including in periods when it may be difficult to obtain financing in the markets. This is deemed sufficient to cover both working capital requirements and refinancing of liabilities over the next 12 months. Hafslund is active on both Norwegian and foreign loan markets and despite the uncertainty in the finance markets to date encountered good demand for certificate and bond loans.

The market price of electricity is one of several important factors affecting the Group's financial performance. This is in particular true of the power generation business, which primarily pursues a strategy of being openly exposed to prevailing power prices with some degree of future price hedging in the forward market. The power sales business seeks to reduce the uncertainty associated with electricity price fluctuations through hedging. Counterparty risk in the power market is minimised through the use of standardised contracts which are cleared and settled via Nasdaq OMX Commodities. Hafslund is also exposed to raw materials and finished goods relating to district heating, waste incineration and bioenergy. Group management evaluates and adopts strategies with which to manage this kind of risk within the risk profile determined by the board.

The Group's finance department actively manages and hedges foreign currency exposure in order to reduce foreign exchange risk both in relation to power trading and foreign currency borrowing. Hafslund is exposed to interest rate risk through changes in interest rates on its interest-bearing liabilities, and due to the inclusion of five-year government bonds in the income framework established for the distribution grid business. The Group seeks to reduce its interest rate risk through balanced management of fixed and variable interest rates on its interest rate portfolio. The board has approved the guidelines and frameworks which govern the management of financial risk.

Several of the Group's energy supply businesses are subject to public licences and a large degree of public regulation. This applies in particular to production, district heating and networks activities. The networks business is a natural monopoly with publicly-regulated earnings. The networks business' current regulatory regime is somewhat unpredictable with regard to the level of future revenue ceilings and future returns on grid investments and thus represents a risk for the networks business. The introduction of advanced metering systems (AMS) by the end of 2016 represents a project risk for the networks business. Bad weather such as that seen during Storm Berit in December 2011 results in extra costs in the form of compensation and repairs.

The key risk element for the power sales business relates to its customer base. At any given time the business has a substantial volume of accounts receivable due from its customers. However, the bulk of these are relatively small receivables from private customers, and losses have traditionally been marginal.

Ownership structure and shareholders

Hafslund ASA has two classes of shares, with A shares granting voting rights at general meetings of the Group's shareholders. The reason for this is historical and deviates from the Norwegian Code of Practice for Corporate Governance. At the end of 2011 the Group's share capital totalled NOK 195,186,264, divided between 115,427,759 A shares and 79,758,505 B shares. As of 31 December 2011 the price of both A shares and B shares were NOK 58.00. At the end of the year Hafslund's

market capitalisation totalled NOK 11.3 billion. The return (change in value + dividend) in 2011 totalled -5.4 percent. By comparison, the Oslo Stock Exchange's main index OSEBX (OSEBX is adjusted for dividends) fell by 13.1 percent.

At the reporting date the City of Oslo was Hafslund ASA's largest shareholder, with 53.7 percent of share capital, comprising 58.5 percent of A shares and 46.8 percent of B shares. Fortum Forvaltning AS was the second-largest shareholder with 34.1 percent of the share capital, comprising 32.8 percent of A shares and 36.0 percent of B shares. At the close of the year Hafslund held 397,361 treasury B shares.

The work of the Board of Directors

Hafslund's Board of Directors has complied with the previously adopted board mandate and guidelines for the board's activities. New principles for corporate governance were adopted in 2011, and are amended on an ongoing basis in line with the Norwegian Code of Practice for Corporate Governance. A description of principles for corporate governance, and non-compliances with the above Code are discussed in the annual report. The board's work is based on good corporate governance.

Hafslund meets the statutory requirements relating to gender balance on boards of ASA companies. The board carries out an annual appraisal of its working practices, competence and working relationship with Group management. The board's Compensation Committee advises the board on a number of matters including the remuneration paid by the company to its President and CEO. In 2010 the board established an Audit Committee. The Audit Committee's remit is to assist the board in performing its duties regarding preparation of the financial statements and evaluation of the company's internal controls.

At the Annual General Meeting held on 4 May 2011 the following board members were elected with a term of office until the 2013 Annual General Meeting: Odd Håkon Hoelsæter, Ole Ertvaag and Hans Kristian Rød.

There is agreement within Hafslund not to establish a Corporate Assembly. Consequently the board reports directly to the general meeting and the shareholders. Disclosures that Hafslund is obliged to make in accordance with § 3-3b of the Norwegian Accounting Act regarding reporting on business management contained in the 2011 annual report are incorporated in the section on Corporate Governance.

Dividend and appropriation of profit

At the Annual General Meeting to be held on 24 April 2012 the board will propose that a dividend of NOK 2.50 per share, a total of NOK 487 million, be paid for the 2011 financial year. The board proposes the following appropriation of Hafslund ASA's net loss for the year of NOK 403 million:

Transferred from other equity: NOK -890 million
Proposed dividend: NOK 487 million
Total allocated: NOK -403 million

Less these appropriations the company's distributable reserves stood at NOK 3,140 million as of 31 December 2011.

Outlook

Hafslund's overarching objective is to consolidate its position as a leading integrated energy company in Norway on the back of profitable growth. The board believes the

company and its management have the necessary experience and expertise to develop the company accordingly.

Hafslund's financial performance is directly affected by fluctuations in the price of electricity. This applies in particular to power generation and district heating, while revenues from networks operations are largely affected by changes in the regulatory framework. Hafslund is affected by steps taken by governments in Norway and Europe to curb global warming. These will have an impact both on the power market and which renewable energy projects will be economically viable to invest in moving forward.

Hafslund is well positioned to support the political climate targets being set and to participate in the business opportunities the climate policies afford as well as increased integration of the Nordic end user markets for electricity.

The board considers Hafslund to be well equipped to meet the challenges the Group will face in the time ahead. The Group has a robust financing structure with long-term committed drawdown facilities.

The strategic focus on core business will further strengthen and underpin Hafslund's focus on renewable energy, infrastructure for energy and the power market. This will allow Hafslund to continue to develop its role as a leading energy company. The board believes that Hafslund has established a sound commercial and financial platform for satisfactory future performance.

The Board of Directors of Hafslund ASA
Oslo, 20 March 2012

Birger Magnus
Chairman of the Board

Maria Moræus Hanssen

Susanne Jonsson

Kristin Bjella

Ole Ertvaag

Hans Kristian Rød

Odd Håkon Hoelsæter

Tyra Marie Hetland

Per Orfjell

Per Luneborg

Finn Bjørn Ruyter
Acting President and CEO

The board

Birger Magnus (b. 1955)

Chairman

Birger Magnus has been CEO of the media company Schibsted and was previously Chairman of Aftenposten and VG. Between 1985 and 1996 Magnus was a partner in the consultancy firm McKinsey. He is also Chairman of Storebrand ASA, Statoil Fuel & Retail ASA, bMenu A/S and Magnus & Co A/S, and serves on the boards of Aschehoug, Kristian Gerhard Jebsens Skibsrederi and the Kristian Gerhard Jebsen Foundation. He qualified as a civil engineer at the Norwegian Institute of Technology and has an MBA from the French business school INSEAD. Neither Magnus nor his related parties own any shares in Hafslund.

Ole Ertvaag (b. 1963)

Board member

Ertvaag has 20 years' experience from the Norwegian and international oil industry and the finance sector. Since 2000 he has managed HitecVision, one of Norway's largest private equity funds with funds under management of approximately NOK 18 billion. Prior to this he was CFO and COO of the listed oil technology group Hitec ASA. Ertvaag has previously held a number of directorships in listed and unlisted companies. Over the past ten years he has been instrumental in a large number of acquisitions, mergers/demergers, company disposals and stock market flotations. He has a degree in economics from the BI Norwegian School of Management. Mr Ertvaag was first elected to Hafslund's Board of Directors on 3 May 2007. His current term runs until the 2013 Annual General Meeting. Neither Mr Ertvaag nor his related parties own any shares in Hafslund.

Hans Kristian Rød (b. 1953)

Board member

Hans Kristian Rød is an employee of Fortum Nordic AB. His employment at Neste Corporation began in 1991 and at Fortum in 1997, when the latter company was established through a merger between Neste and Ivo. Mr Rød has held executive positions in the oil, gas, and energy sectors. He served as CEO of Fortum Petroleum AS from 1994 and headed Fortum's oil and gas business from 1998. Since 2003 Rød has been in charge of Fortum's energy-related activities in Norway. He is a board member of Infratek ASA, PA Resources AB, North Energy AS, Ishavskraft AS and Fredrikstad Energi AS, in addition to serving on the boards of several Fortum Group companies. Mr Kristian Rød holds a degree in business administration from the Norwegian School of Management (1978) and an MBA from the University of Wisconsin, Madison (1980). Neither Rød nor his related parties own any shares in Hafslund; however, Fortum owns 37,853,110 Class A and 28,706,339 Class B Hafslund shares.

Susanne Jonsson (b. 1957)

Board member

Susanne Jonsson has been employed as Vice President Corporate Controller at Fortum Corporation since 2002. She is responsible for the Fortum Corporation's internal and external financial reporting, legal structure and tax. Jonsson has worked in the energy industry since the mid-1990's, when she was employed as CFO of Stockholm Energi. Stockholm Energi merged with Birka Energi in 1998, where Jonsson was a member of the Group's management team. Jonsson has a further 15 years' experience as an accountant at audit firm PriceWaterhouseCoopers and is a qualified chartered accountant. Neither Jonsson nor her related parties own any shares in Hafslund; however, Fortum owns 37,853,110 Class A and 28,706, 339 Class B Hafslund shares.

Maria Moræus Hanssen (b. 1965)

Board member

Maria Moræus Hanssen has been investment officer at Aker ASA since 2008. She qualified as a reservoir engineer at the Norwegian Institute of Technology (1988) and as a petroleum economist at the French Petroleum Institute, IFP (1991). Moræus Hanssen started at Norsk Hydro in 1992, later Statoil. She worked mainly on the Norwegian Continental Shelf, where her areas of responsibility included exploration, field development and platform chief, and was Senior Vice President for gas supply and infrastructure when she left. She serves on the board of Det norske oljeselskap ASA. Neither Ms Hanssen nor her related parties own any shares in Hafslund.

Kristin Bjella (b. 1958)

Board member

Kristin Bjella is a partner in the legal firm Hjort DA in Oslo, and manager of the firm's energy department. Bjella has many years' experience of legal and strategic consultancy specialising in energy law and real estate, working as a lawyer and partner in the law firm Haavind AS, as well as transactions within these same industries. Bjella has formerly served on Hafslund's corporate board, and on the board of Hafslund's subsidiary Hafslund Fjernvarme. Further commissions include Chairman to the Board of Det Norske Samlaget and Deputy Chairman of Stiftelsen Radiumhospitalet. Bjella and her related parties own 800 Class A and 200 Class B shares in Hafslund.

Odd Håkon Hoelsæter (b. 1945)

Board member

Odd Håkon Hoelsæter was President and Chief Executive Officer of Statnett SF from January 1992 to February 2009. Prior to that Hoelsæter served as an Executive Vice President of The Norwegian Power Pool. He has also served as Chairman of Nord Pool ASA and on the boards of Gassco, Spekter (NAVO) and Hafslund Nett AS. Hoelsæter currently serves on the boards of Agder Energi Nett AS and Eidsiva Nett Holding AS. In addition to his board activities Hoelsæter works as an adviser. Mr Hoelsæter served as the first president of ETSO (Association of European Transmission System Operators) and NORDEL. He qualified as a civil engineer at the Norwegian Institute of Technology. Neither Hoelsæter nor his related parties own any shares in Hafslund.

Tyra Marie Hetland (b. 1948)

Board member

Ms Hetland is an elected employee representative and a senior adviser at Hafslund Fakturaservice AS. She was previously General Manager of Rælingen E-verk and Finance Manager at Romerike Energi AS. She has also worked on energy resource accounts in the research department of Statistics Norway. Hetland has a degree in corporate finance from BI Norwegian School of Management. She was elected as a deputy member of Hafslund's Board of Directors in 2007. She was re-elected by the employees on 9 November 2010 with a term of two years. She has been an area representative at Hafslund Marked for the EL&IT trade union at Hafslund Markets since 2007. Hetland and her related parties own 100 Class B shares in Hafslund.

Per Orfjell (b. 1952)

Board member

Mr Orfjell is an elected employee representative and a special adviser at Hafslund. He has worked as a fitter at Oslo Lysverker, and has served as a head of department at Oslo Energi AS since 1992 and Viken Energinett AS since 1996. He is a qualified energy systems fitter. Mr Orfjell was first elected to Hafslund's Board of Directors on 1 October 1998. He was re-elected by employees on 9 November 2010 for a term of two years. Per Orfjell is the senior representative of the Norwegian Union for Municipal and General Employees at Hafslund. Mr Orfjell and his related parties own 252 shares in Hafslund.

Per Luneborg (b. 1967)

Board member

Mr Luneborg is an elected employee representative and senior adviser at Hafslund Nett AS. He holds a degree in electrotechnical and economy-related studies from Narvik University College. He joined Oslo Energi AS in 1996 and has worked as a senior engineer, group leader and project manager in several companies connected to Hafslund's grid operations. Mr Luneborg was first elected to Hafslund's Board of Directors as a deputy member in 2003. He became a full member in December 2007. He was re-elected by employees on 9 November 2010 for a term of two years. Mr Luneborg has been a representative for the Norwegian Society of Engineers and Technologists (NITO) at Hafslund since. Luneborg and his related parties own 277 B shares in Hafslund.

Consolidated income statement

		1 January-31 December	
NOK million	Notes	2011	2010
Revenues	5	**13 704**	15 829
Cost of sales		**(9 015)**	(10 871)
Salaries	19, 22	**(864)**	(582)
Result of investment in Renewable Energy Corporation ASA	11	**(1 090)**	(1 991)
Other (losses)/gains - net	20, 28	**17**	1 058
Other operating expenses	21	**(1 630)**	(1 564)
Share of profit/(loss) from associates	9	**23**	43
Operating profit before depreciation, amortisation and impairments		**1 145**	**1 922**
Depreciation, amortisation and impairments	6, 7, 8	**(803)**	(1 270)
Operating profit		**343**	**652**
Finance costs	23	**(584)**	(471)
Profit/loss before income tax		**(241)**	**181**
Income tax expense	24	**(456)**	(573)
Profit for the year		**(698)**	**(392)**
Attributable to:			
Owners of the parent		**(695)**	(393)
Non-controlling interests		**(2)**	1
Earnings per share for share of annual result attributable to the company's shareholders (NOK per share)			
Earnings per share, continuing operations (diluted earnings per share)	**15**	**(3,6)**	**(2,0)**

Notes 1 to 29 are an integral part of the consolidated financial statements

Consolidated statement of comprehensive income

		1 January-31 December	
NOK million	**Notes**	**2011**	**2010**
Loss for the year		**(698)**	**(392)**
Other comprehensive income			
Fair value change of investment in Renewable Energy Corporation ASA	11	**(194)**	138
Tax on fair value change of investment in Renewable Energy Corporation ASA		**2**	(2)
Currency translation differences			11
Other comprehensive income for the year		**(192)**	**147**
Total comprehensive income for the year		**(890)**	**(245)**
Attributable to:			
Owners of the parent		**(888)**	(246)
Non-controlling interests		**(2)**	1
Total comprehensive income for the year		**(890)**	**(245)**

Notes 1 to 29 are an integral part of the consolidated financial statements.

Consolidated balance sheet

		31 December	
NOK million	**Notes**	**2011**	**2010**
Assets			
Property, plant and equipment	6	**18 632**	18 557
Intangible assets	7	**2 379**	2 389
Investments in associates	9	**426**	430
Long-term receivables	12, 19, 26	**462**	360
Non-current assets		**21 899**	**21 736**
Inventories		**61**	59
Trade and other receivables	10, 13	**1 708**	5 188
Derivatives	3, 10	**26**	74
Financial assets	10, 11	**102**	2 327
Cash and cash equivalents	10, 14	**870**	211
Current assets		**2 767**	**7 859**
Total assets		**24 666**	**29 595**
Equity and liabilities			
Paid-in equity	15	**4 275**	4 275
Retained earnings		**3 833**	6 184
Non-controlling ownership interests		**23**	5
Equity		**8 131**	**10 464**
Borrowings	10, 17	**9 047**	10 259
Deferred income tax liabilities	18	**3 186**	2 971
Pensions and similar obligations	19, 26		57
Long-term liabilities		**12 233**	**13 287**
Trade and other payables	10, 16	**2 133**	1 917
Derivatives	3, 10	**86**	2

Income tax payable	24	**280**	525
Borrowings	10, 17	**1 802**	3 400
Current liabilities		**4 302**	**5 844**
Total liabilities		**16 535**	**19 131**
Total liabilities and equity		**24 666**	**29 595**

Board of Directors of Hafslund ASA
Oslo, 20 March 2012

Birger Magnus
Chairman of the Board

Maria Moræus Hanssen

Susanne Jonsson

Kristin Bjella

Ole Ertvaag

Hans Kristian Rød

Odd Håkon Hoelsæter

Tyra Marie Hetland

Per Orfjell Per Luneborg

Finn Bjørn Ruyter
President and CEO

Notes 1 to 29 are an integral part of the consolidated financial statements.

Consolidated statement of cash flow

		1 January-31 December	
NOK million	**Notes**	**2011**	**2010**
Cash flow from operating activities	**25**	**4 540**	**1 249**
Interest paid		**(540)**	(536)
Income tax paid		**(490)**	(149)
Net cash flow from operating activities		**3 510**	**565**
Investments in operations and expansion	6, 7	**(1 176)**	(1 646)
Sales of property, plant and equipment		**329**	5
Purchase of shares		**(28)**	(501)
Capital released on sale of shares		**2 349**	837
Cash flow from investing activities		**1 473**	**(1 305)**
New long-term borrowings		**4 832**	7 158
Repayments of borrowings		**(7 731)**	(6 107)
Dividends and other equity transactions		**(1 445)**	(439)
Cash flow from financing activities		**(4 344)**	**612**
Change in cash and cash equivalents		**639**	**(129)**
Cash and cash equivalents as of 1 January		**211**	311
Currency gains/(losses) cash and cash equivalents		**19**	28
Cash and cash equivalents as of 31 December	**10, 14**	**870**	**211**

Notes 1 to 29 are an integral part of the consolidated financial statements.

Consolidated statement of changes in equity

NOK million	Share capital	Share premium	Other paid-in equity	Fund 1)	Translation differences	Retained earnings	Equity attributable to owners of the parent	Non-controlling interests	Total equity
Equity as of 1 January 2010	195	4 080	76	56	4	6 731	11 142	11	11 154
Profit/loss for the year						(393)	(393)	1	(392)
Other comprehensive income				136	11		147		147
Total comprehensive income for the year				**136**	**11**	**(393)**	**(246)**	**1**	**(245)**
Transactions with owners:									
Change in non-controlling interests								(7)	(7)
Dividend for 2009						(439)	(439)		(439)
Other equity effects						1	1		1
Equity as of 31 December 2010	**195**	**4 080**	**76**	**192**	**15**	**5 900**	**10 458**	**5**	**10 464**
Loss for the year						(698)	(698)	(2)	(700)
Other comprehensive income				(192)			(192)		(192)
Total comprehensive income for the year				**(192)**		**(698)**	**(890)**	**(2)**	**(892)**
Transactions with owners:									
Change in non-controlling interests								20	20
Change in treasury shares 2)						3	3		3
Dividend for 2010						(1 461)	(1 461)		(-1 461)
Other equity effects						(3)	(3)		(3)
Equity as of 31 December 2011	**195**	**4 080**	**76**	**0**	**15**	**3 741**	**8 107**	**23**	**8 131**

1) The Fund represents the net increase in fair value of financial instruments classified as available for sale, until such time as the investments are disposed of or it is established that the investments' values do not exceed their book value.
2) Please refer to Note 15 regarding ownership of Hafslund treasury shares.

The Board has proposed a dividend of NOK 2.50 per share for the 2011 financial year. The corresponding figure for 2010 was NOK 7.50 per share, of which NOK 5.00 per share was an extraordinary dividend.

Notes 1 to 29 are an integral part of the consolidated financial statements

Notes Group

Notes Group

SEARCH FOR NOTE

Note 1 General information

Hafslund ASA ("the company") and its subsidiaries (together "the Group") are one of the largest listed power groups in the Nordic region. Hafslund is Norway's largest grid, power sales and district heating company, and a medium-sized Norwegian power producer.

The Hafslund Group operates its business through subsidiaries and associates and is primarily active within the Norwegian market. The company is headquartered in Oslo and listed on the Oslo Stock Exchange. The consolidated financial statements were adopted by the company's board on 20 March 2012.

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Note 2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) and interpretations issued by the IFRS Interpretation Committee, as established by the EU. These financial statements contain no differences between IFRSs as established by the EU and the IASB.

The consolidated financial statements have been prepared under the historical cost convention, as modified by the valuation of available-for-sale financial assets, and financial assets and liabilities (including derivatives) at fair value through profit or loss.

The preparation of financial statements in accordance with IFRSs requires the use of estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a high degree of judgement or complexity, or areas where assumptions and estimates are material to the consolidated financial statements are disclosed in Note 4.

a) New and amended standards adopted by the Group

There are no new or amended IFRS standards or IFRIC interpretations that have entered into force with effect for the 2011 financial statements that are deemed to have a material impact on the consolidated financial statements.

b) Standards, amendments and interpretations issued but not effective and not been early adopted

by the Group

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

• IAS 19 Employee Benefits was amended in June 2011. Following the amendment all estimate deviations are recognised in other comprehensive income as they arise, all costs relating to previous periods' pension entitlements are recognised in income and interest expenses and the expected return on pension assets have been replaced by the net interest amount calculated using the discount rate on the net pension liability. The Group has not yet fully analysed the consequences of the amendments to IAS 19. See Note 19 for information on estimate deviations at the end of 2011. The standard is expected to enter into force for accounting periods beginning on 1 January 2013

• IFRS 9 Financial Instruments was issued in November 2009 and October 2010 and regulates the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 replaces some of the recognition, classification and measurements rules relating to financial instruments contained in IAS 39. In accordance with IFRS 9 financial assets are divided into two categories – those measured at fair value and those measured at amortised cost. On first-time recognition assets are classified in line with the Group's business model for managing its financial instruments and the nature of the contractually agreed cash flows from the instrument. The requirements for financial liabilities are essentially the same under IAS 39. The main change for financial liabilities valued at fair value is that that part of the change in fair value attributable to the company's inherent credit risk is recognised in other comprehensive income instead of in the income statement provided this does not result in matching errors in results measurement. The Group expects to apply IFRS 9 when the standard enters into force and been approved by the EU. The standard enters into force for accounting periods beginning on or after 1 January 2013; however, the IASB is reviewing a proposal to defer the entering into force of the standard until accounting periods beginning on 1 January 2015.

• IFRS 10 Consolidated Financial Statements is based on current principles which involve using the control concept as the decisive criterion in determining whether a company shall be included in the consolidated financial statements of a parent company. The standard is not expected to impact the consolidated financial statements.

• IFRS 11 replaces IAS 31 Interests in Joint Ventures and SIC-13 Jointly-controlled Entities – Non-monetary Contributions by Venturers. IFRS removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method. The Group has not reviewed the full impact of IFRS 11, but is not expected to have a material effect on the financial statements. The standard enters into force for accounting periods beginning on 1 January 2013.

• IFRS 12 Disclosures of Interests in Other Entities contains disclosure requirements for financial interests in subsidiaries, joint ventures, associates, special purpose enterprises (SPEs) and other companies not recognised in the balance sheet. The Group has not reviewed the full impact of IFRS 12. The Group is planning to apply the standard for accounting periods beginning on 1 January 2013.

• IFRS 13 Fair Value Measurement defines what is deemed to be fair value in accordance with IFRSs, provides a uniform description of how fair value shall be determined under IFRSs and defines additional disclosures to be made when fair value is applied. The standard only provides guidance on the application method where the use is already required or permitted in other IFRS standards. The Group applies fair value as a measurement criterion for some assets and liabilities. The Group has not reviewed the full impact of IFRS 13. The Group plans to apply IFRS 13 for accounting periods beginning on 1 January 2012.

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

Consolidation principles

a) Subsidiaries

Subsidiaries are all entities whose financial and operating policies can be determined by the Group. This is generally the case when the Group has a shareholding that confers more than half of the total voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method is applied for business acquisitions. Issued consideration is measured as the fair value of transferred assets, incurred liabilities and issued equity instruments. Identifiable assets, liabilities and contingent liabilities are measured at fair value at the acquisition date. Non-controlling interests in the acquired company are measured from time to time either at fair value, or at the share of the acquired company's net assets. Expenses relating to business mergers are recognised as expenses when they are incurred.

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

If the total remuneration, fair value of previous assets and any fair value of non-controlling interests exceeds the fair value of identifiable net assets in the purchased company, the difference is recognised in the balance sheet as goodwill cf. 2.6. If the total is lower than the company's net assets, the difference is recognised in income.

The consolidated financial statements have been prepared applying uniform policies, where the subsidiaries' accounting policies coincide with the Group's elected policies. Intragroup transactions and intercompany balances, revenue and costs are eliminated. Gains and losses in assets recognised in the balance sheet arising as a result of an intragroup transaction are also eliminated.

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

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

b) Associates

Associates are companies over which Hafslund ASA exercises significant influence but not control (normally defined as holding voting rights of between 20 and 50 percent). Investments in associates are recognised in accordance with the equity method. Companies over which the Group exerts significant influence, but which are included in the venture portfolio, are exceptions to this rule. (See Note 2.9.)

Investments in associates are recognised at cost at the time of acquisition, and the Group's share of the results in

subsequent periods is recognised in income or expensed and the value of the investment in the balance sheet is adjusted accordingly. Amounts recognised in the balance sheet also include any implicit goodwill identified at the time of acquisition, less any subsequent impairments. The Group's share of comprehensive income of the associate is recognised in consolidated comprehensive income and the value of the investment recognised in the balance sheet is adjusted accordingly. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

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

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

On the reduction of a shareholding in an associate where the Group maintains significant influence, only a pro rata share of amounts previously recognised in other comprehensive income is reclassified through profit or loss.

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

c) Joint ventures

Hafslund operates Glommens og Laagen Brugseierforening jointly with other stakeholders. The association is recognised as a joint venture in the consolidated financial statements. The Group's shareholding in the venture is recognised using the equity method. The shareholding in the joint venture was recognised at cost at the time of acquisition, and subsequently adjusted to reflect changes in Hafslund's share of the joint venture's net assets. Hafslund recognises a share of the venture's result corresponding to its shareholding in the venture in the income statement. Hafslund owns a 49 percent stake in Energibolaget i Sverige Holding AB, and together with other shareholders exerts a significant influence on the company. The Group's share in the company is consolidated on a line-by-line basis in the consolidated financial statements in accordance with the gross method from the time control is transferred to the Group.

2.3 Segment information

The operating segments are reported using the same structure used in the Group's internal reporting to the chief operating decision-maker. The chief operating decision-maker, which is responsible for allocation of resources to and assessment of earnings generated by the operating segments, is defined as Group management. The segment structure has been changed in 2011, see note 5.

2.4 Translation of foreign currency

a) Functional currency and presentation currency

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

b) Transactions and balance sheet items

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

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

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

c) Group companies

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

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

2.5 Property, plant and equipment

Property, plant and equipment is recognised in the balance sheet at cost less cumulative depreciation and impairments. Cost includes expenses directly connected to the acquisition of the operating asset, including directly attributable borrowing costs. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is de-recognised. Other repairs and maintenance expenses are recognised in the income statement in the period in which the expenses are incurred.

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method so as to allocate their cost to their residual values over their estimated useful lives, as follows:

Power facilities	20 - 50 years
Other renewable energy facilities	10 - 50 years
Grid facilities	14 - 50 years
Fibre optic networks, technical equipment and chattels	3 - 30 years
Other property	20 - 50 years

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

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

2.6 Intangible assets

a) Waterfalls

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

b) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in "intangible assets". Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

In subsequent evaluation of the need to recognise an impairment, goodwill is allocated to those cash-generating units that are expected to benefit from the acquisition.

c) Customer portfolios

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

2.7 Impairment of non-financial assets

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

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

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

2.9 Financial assets

The Group classifies its financial assets in the following categories: a) at fair value through profit or loss, b) loans and receivables and c) available-for-sale financial assets. The classification depends on the purpose for which the financial assets were acquired.

a) Financial assets at fair value through profit or loss

This category has two sub-categories: i) financial assets held for trading purposes, and ii) financial assets that

management has initially elected to classify at fair value through profit or loss. Derivatives are classified as held for trading purposes, unless these are part of an accounting hedging relationship. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the income statement. Gains or losses arising from changes in the fair value of the "financial assets at fair value through profit or loss" category are presented in the income statement under "other (losses)/gains – net" in the period in which they arise. Assets in this category are classified as current assets if they are held for trading purposes, or if they are expected to be realised within 12 months of the balance sheet date.

b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are initially measured at fair value plus directly attributable transaction costs. Loans and receivables are subsequently carried at amortised cost using the effective interest method and are included in current assets, unless they mature more than 12 months after the end of the reporting period. Loans and receivables are classified as trade and other receivables in the balance sheet, and cash and cash equivalents (see Note 2.12 and 2.13).

c) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. Available-for-sale financial assets are initially recognised in the balance sheet at fair value plus transaction costs. In subsequent periods the assets are measured at fair value. They are included in non-current assets unless the investment matures or management intends to dispose of them within 12 months of the end of the reporting period. In 2011 sales and impairments of the Group's available-for-sale securities resulted in the reclassification of accumulated fair value adjustments recognised in other comprehensive income to the income statement under "Result of investment in Renewable Energy Corporation ASA" in the amount of NOK 192 million.

d) Impairment of financial assets

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

2.10 Derivatives and hedging

Derivatives are recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at fair value. Changes in the fair value of derivatives are recognised as other (losses)/gains – net.

Hafslund will apply hedge accounting from 1 January 2012. The purpose of hedging is to reduce variability in cash flows connected to the sale of physical power in Østfold/Akershus.

Licensed power

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

2.11 Inventories

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

2.12 Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

2.13 Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held on call with banks, other short-term, highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are reported within borrowings in current liabilities on the balance sheet.

2.14 Share capital and share premium

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

2.15 Trade payables

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.16 Borrowings

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

2.17 Income tax

The income tax expense comprises taxes payable and changes in deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In such cases the tax is also recognised in other comprehensive income or directly in equity, respectively. The current income tax charge is calculated on the basis of tax rates, legislation are rules enacted at the balance sheet date. Management evaluates the tax positions on an ongoing basis, taking into account situations where the applicable tax legislation is subject to interpretation. Provisions are recognised for expected tax payments based on management assessments where such is deemed necessary. Deferred tax is calculated on all temporary differences between the tax-written-down and consolidated financial values of assets and liabilities. Deferred income tax is not recognised if it arises from a transaction for the purchase of an asset or liability that is not part of a business combination and at the time of the transaction affects neither the accounting nor taxable profit or loss. Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

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

Taxation of power production business

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

Natural resource tax is a profit-independent tax that is calculated on the basis of individual power plants' average power production over the last seven years. The tax rate is established as NOK 13 per MWh. Natural resource tax can be offset against general income tax, and natural resource tax not offset can be carried forward including interest. Non-settled natural resource tax is classified as an interest-bearing receivable.

Resource rent tax comprises 30 percent of the power stations' normalised result in excess of the tax-free allowance. Negative resource rent income can be carried forward against subsequent positive resource rent income including interest. Negative resource rent income is included in the basis used to calculate deferred income tax liabilities and assets connected to resource rent taxation together with deferred income tax assets/liabilities relating to temporary differences connected to operating assets used in power production.

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

2.18 Pension liabilities, bonus schemes and other employee remuneration schemes

a) Pension liabilities

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

Defined benefit scheme

A defined benefit scheme is a pension scheme that defines the pension benefit that an employee will receive on retirement, and which is financed through payments to insurance companies or pension funds. The pension benefit is usually dependent on one or more factors such as age, years of service and compensation. The liability recognised in the balance sheet connected with the defined benefit schemes is the present value of the defined benefits at the balance sheet date less the fair value of the pension assets, adjusted for non-recognised estimate deviations and non-recognised costs connected with previous periods' accrued pension entitlements. The pension liability is calculated on an annual basis by an independent actuary using a linear earnings method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates on ten-year Norwegian government bonds. The average remaining vesting period of the beneficiaries of defined benefit schemes is calculated at around 16 years.

Estimate deviations attributable to new information or changes in actuarial assumptions in excess of the higher of ten percent of the value of pension assets or ten percent of the value of pension liabilities are recognised in the income statement over a period corresponding to the employees' expected remaining employment period. Past-service costs are recognised immediately in income, unless the changes to the pension scheme are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortised on a straight-line basis over the vesting period.

Defined contribution schemes

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

b) Bonus schemes

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

c) Termination benefits

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

2.19 Provisions

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

2.20 Revenue recognition

a) Revenue recognition – general

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

b) Sales of power

Sales of power are recognised in the income statement at the time of delivery to the customer. Realised revenues from physical and financial trading in power contracts are recognised as sales revenues.

c) Grid rental

The Networks business is subject to a revenue ceiling established the Norwegian Water Resources and Energy Directorate (NVE). Permitted income comprises the revenue ceiling established by the regulator (the Norwegian Water Resources and Energy Directorate – NVE) plus transmission costs, Enova mark-ups and property tax less interruption costs. Income surpluses/shortfalls, which represent the difference between recognised grid rental and permitted income defined as regulatory liabilities/assets that do not qualify for recognition in the balance sheet. The amount recognised in income in individual years corresponds to the volume delivered in the period, settled at the established tariff in force at

any one time. The result for 2011 was impacted by surplus income of NOK 212 million while the result for 2010 was impacted by an income shortfall of NOK 203 million. Cumulative surplus income of NOK 155 million at the end of 2011 does not satisfy the definition of a liability under the conceptual framework and has therefore not been recognised in the balance sheet.

d) Dividend income

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

2.21 Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are recognised in the income statement on a straight-line basis over the period of the lease.
The Group leases certain property, plant and equipment. Leases of property, plant and equipment where the Group bears substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance costs in order to achieve a constant periodic interest rate on the outstanding balance. The corresponding lease liability (less financing costs) is included in other long-term liabilities. The interest element in the financing cost is expensed over the lease term so as to achieve a constant periodic interest rate on the outstanding balance each period. Property, plant and equipment recognised as finance leases is amortised over the shorter of the asset's useful life and the lease term.

2.22 Dividends

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

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Note 3 Financial risk management

The Group's activities expose it to a variety of risks. Hafslund is naturally exposed to financial risk in connection with the power market and is additionally exposed to currency risk, interest rate risk, liquidity risk and credit risk. The Group uses financial derivatives to hedge certain financial risk exposures. The objective of Hafslund's risk management is to support the Group's value creation and to ensure a continued solid financial platform. Risk management frameworks and objectives comply with overall guidelines approved by the Board of Directors as well as associated risk mandates. Risk management is generally a key responsibility of each business unit's operational management. However, management of financial risk factors such as power price risk, interest rate risk, and foreign exchange risk, which share many common features across the various business areas, is subject to a significant degree of centralisation.

a) Power price and volume risk

Several of the Group's results units are exposed to power market risk. The inherent exposure to the market primarily derives from the Group's ownership of power generation facilities, distribution grid activities and power sales to customers. An element of risk also attaches to district heating activities in that prices are based on customers' alternative (electrical) heating costs. The same applies to Hafslund Miljøenergi AS's waste-to-energy plants, where price mechanisms contained in sales contracts mean that revenues are to a lesser or greater extent dependent on the power price. Hafslund also actively takes positions in the power market through the activities of the Group's power trading department. The Group's power trading function performs all transactions on the market.

Risk management of the Group's power trading activities is based on board-approved strategies for the management of risk relating to Hafslund's power trading activities which primarily involves a strategy of spot exposure with a certain degree of hedging in the future market. Power price fluctuations, together with factors (primarily weather conditions) that affect production volumes, are thus of significant importance for the profitability of Hafslund's power generation

activities. In the case of power sales activities, risk management is directed at minimising margin fluctuations.

Hafslund uses Value at Risk as an operational risk management target for power price risk. Daily Value at Risk (DVaR) reports are distributed to Group management each day and a summary of the reports is included in the Group's monthly management reporting. As of 31 December 2011 the DVaR for Hafslund's aggregate power portfolio amounted to NOK 49 million (2010: NOK 105 million). The majority of the risk is attributable to the risk that falling prices would negatively impact the value of the future production portfolio of Hafslund's power generation business. For the purposes of risk management, it has been necessary to establish a limited horizon in respect of this production portfolio. This has been set at the current year plus two years. Standardised power market derivative products, such as futures, forwards, CFDs and options, are used to achieve the desired risk-reducing effect in respect of power portfolios. Hedging instruments are mainly traded at or cleared with the Nordic Power Exchange, Nasdaq OMX Commodities.

b) Pellet and wood chip risk

The Group is, through its ownership in BioWood Norway AS, exposed to the purchase of wood chips and selling the finished product pellet. Including foreign exchange risk through EUR/USD in addition to freight risk. Beyond this there is volume risk associated with uncertainties related to the capacity of the production line.

c) Foreign exchange risk

The Group has liabilities denominated in foreign currency. In addition, Group businesses conduct transactions that are exposed to currency fluctuations. Currently this applies in particular to EUR- and SEK-denominated trades in power and power derivatives in addition to trading with pellets and wood chips in EUR and USD. The Group's treasury department is responsible for managing the Group's overall foreign exchange exposure on behalf of the individual operating units, and performs all transactions with the market. Offsetting positions are to some extent netted off internally between Group companies. Primarily forward exchange contracts, and in some cases foreign exchange options, are used to reduce foreign currency risk. In the case of foreign currency borrowings, principal amounts and basis interest rates are hedged using basis swaps when borrowings are taken out. Foreign exchange derivatives are recognised at fair value.

All other factors remaining constant, a 7.5 percent change in the EUR/NOK and SEK/NOK rates would have an effect on post-tax profits of +/- NOK 4 million as a result of changes in the value of Hafslund's portfolio of currency derivatives as of 31 December 2011 (2010: +/- NOK 10 million). Based on historical data and the assumption of normal distribution, the probability of an adverse exchange rate fluctuation having an impact of more than 7.5 percent during any single year is less than 10 percent. EUR- and SEK-denominated derivative contracts are entered into to secure future currency positions associated with power derivatives which the power sales business holds for hedging purposes, as well as to reduce the foreign exchange risk associated with future EUR cash flows from sales of power production.

d) Interest rate risk

Hafslund's operating revenues and cash generated from operations are largely independent of interest rate fluctuations. The Group's grid distribution activities are an exception, since there is a significant interest-related component to determination of the revenue ceiling. Under the grid regulatory regime currently in force, the requisite return on employed grid capital is linked to the average annual interest rate on five-year Norwegian government bonds. The Group is also exposed to interest rate risk in relation to interest-bearing liabilities. The company's cash flow will be affected by interest rate fluctuations on floating rate loans. The fair value of all the company's borrowings taken out before 31 December 2009 will be affected by changes in interest rates, including changes in credit spreads. In the course of 2011 the change in credit spreads, viewed in isolation, resulted in a NOK 20 million reduction in the fair value of the loan portfolio (2010 NOK 49 million). Credit spreads are impacted by terms, liquidity and risk. The major banks publish estimates for Hafslund's credit spreads on borrowings with different terms, based on observed prices on the bond market. In calculating the change in fair value of the loan portfolio as a result of the change in Hafslund's credit spread an interpolated average change in the credit spread is applied for a term corresponding to the term of Hafslund's borrowings and interest rate derivatives.

Hafslund's loan portfolio comprises a mixture of fixed and floating rate loans. Interest rate derivatives are used to reduce fluctuations in cash flow associated with finance costs. By applying frameworks adopted to manage interest rate risk, the board has determined that the proportion of fixed-interest rate loans in the loan portfolio should lie between 30

and 60 percent. As of 31 December 2011 approximately 53 percent of the Group's borrowings were subject to floating interest rates (2010: 67 percent). In a simulation test of sensitivity to major interest rate fluctuations, the portfolio of loans and interest rate derivatives as of 31 December 2011 was tested against a change of +/- 1.5 percent across the total yield curve. Based on historical data, there is approximately 90 percent probability that interest rate fluctuations will not exceed this spread during any one year. However, such a change in interest rates would increase/decrease the Group's annual finance cost by NOK 170 million (adjusted for tax effect) (2010: +/- 131 NOK 131 million). This takes into account changes in interest expenses as a result of fluctuations in the floating interest rate, changes in the fair value of fixed-rate loans and changes in the fair value of interest rate derivatives. Because grid activities' regulated revenue ceiling also varies with interest rate fluctuations, the overall effect of interest rate fluctuations on pre-tax profits would in fact be less marked.

e) Liquidity risk

Liquidity risk arises to the extent that cash flows from the business do not correspond with financial obligations. The cash flow from power trading activities will vary according to a number of factors including spot-market price levels. Accordingly the Group has established long-term, committed credit facilities in order to secure availability of liquidity, including in periods when it may be difficult to obtain financing in the markets. Unused credit facilities as of 31 December 2011 totalled NOK 4.4 billion (2010: NOK 3.7 billion).

f) Credit risk

Most of the Group's debtors are private individuals who purchase electricity and/or district heating. A vendor loan note with a par value corresponding to NOK 310 million was issued in connection with the sale of Hafslund Fibernett AS to the PE fund EQT with a term of seven years starting on 21 December 2010. This apart, Hafslund has no significant concentration of credit risk. Follow-up and invoicing of trade receivables are centralised in a separate unit, Hafslund Fakturaservice (billing). Counterparty risk relating to power trading activities is minimised through extensive use of standardised contracts that are cleared via Nasdaq OMX Commodities. Interest rate and foreign currency risk mandates, which are determined by the board, contain guidelines as to the creditworthiness of institutional counterparties.

The majority of overdue trade receivables as of 31 December 2011 relate to the Markets business unit, and primarily to trade receivables with private electricity customers. A provision of NOK 49 million has been recognised to cover potential bad debts on receivables (2010: NOK 37 million). The increase is attributable a specific provision of NOK 15 million relating to outstanding claims of NOK 25 million. Trade receivables unpaid 30 days after the due date amounted to NOK 134 million (2010: NOK 109 million). Unpaid trade receivables between 0 and 30 days old totalled NOK 123 million (2010: NOK 61 million).

The maturity profile of trade receivables as of 31 December was as follows:

NOK million

2011	Not yet due	0-60 days	60-90 days	90-120 days	>120 days	Total
Trade receivables	525	137	35	27	87	811
2010						
Trade receivables	749	198	32	21	92	1092

Maturity profile or financial items:

NOK million

2011	0-6 months	6-12 months	1-3 years	3-5 years	>5 years	Total
Interest rate derivatives	(1)	(1)	(26)	(19)	12	(34)
Currency derivatives	(5)	2	4			1
Power derivatives	(44)	(3)	11	8		(27)

Borrowings	(1 006)	(796)	(3 115)	(2 836)	(3 096)	(10 849)
Trade payables	(481)					(481)
Sum	(1 537)'	(797)	(3 126)	(2 847)	(3 084)	(11 390)

2010	0-6 months	6-12 months	1-3 years	3-5 years	>5 years	Total
Interest rate derivatives		(4)	(28)	(5)	2	(35)
Currency derivatives	4	2	3		(3)	6
Power derivatives	58	10	22	13		103
Borrowings	(3 518)	(328)	(2 435)	(3 546)	(3 832)	(13 659)
Trade payables	(464)					(464)
Sum	(3 920)	(320)	(2 438)	(3 538)	(3 833)	(14 049)

Capital risk management

The Group monitors capital risk management based on the development of the equity ratio, net interest-bearing liabilities and the cash generated from operations. At the end of 2011 the equity ratio was 33 percent. Hafslund has long-term financing that ensures financial room to manoeuvre even when it is difficult to gain financing in the markets. At the end of 2011 the Group had unused drawdown facilities sufficient to cover the Group's refinancing requirements over the next 12 months.

NOK million	2011	2010
Total borrowings	10 849	13 659
Cash and cash equivalents and interest-bearing receivables	(1 528)	(592)
Net interest-bearing liabilities	9 321	13 067
Operating profit/loss before depreciation, amortisation and impairments	1 145	1 922
Equity	8 131	10 464
Equity ration %	33 %	35 %
Total assets	24 666	29 595

Fair value estimates

Financial instruments

The portfolio of assets at fair value through profit or loss covers seven investment objects (the venture portfolio) that are not listed on a stock exchange or on the OTC list. The fair value of financial instruments that are not traded in an active market are established using valuation methods. These valuation methods maximise the use of observable data where such is available. If all material data required to determine the fair value of an instrument is observable data, the instrument is included under level 2.
If any or some data is not based on observable market data the instrument is included under level 3. See Note 10.

Trade and other receivables

The nominal value of trade and other receivables is adjusted for provisions to provide a reasonable approximation of fair value.

Interest rate, foreign exchange and power derivatives

The fair value of interest rate swap agreements is calculated as the present value of estimated, future cash flows, based on effective swap rates at the reporting date. The fair value of foreign currency contracts is calculated by using effective rates in the forward market at the reporting date. The fair value of foreign exchange options is calculated by

applying option pricing models based on the effective rates in the forward market at the reporting date. The fair value of power derivatives traded on the Nordic power exchange Nasdaq OMX Commodities is established by reference to the applicable prices on the latter exchange at the reporting date. The value of power derivatives traded elsewhere is estimated as the present value of future cash flows, based on forward prices on Nasdaq OMX Commodities at the reporting date. In the case of material long-term contracts, a discounting factor is applied to cash flows.

Borrowings

Borrowings that are measured at fair value are valued by applying a discount factor to the borrowings' cash flows. The discount rate applied is the Norwegian swap interest rate, adjusted upwards for Hafslund's margin spreads.

Trade and other payables

The values recognised in the balance sheet in respect of trade and other payables are deemed to constitute reasonable approximations of fair value.

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Note 4 Accounting estimates and judgements

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

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

Power sales and network activities

Final settlement of power distribution and sales for the year for a large proportion of the Group's electricity and network customers is made after the Group has finalised its annual financial statements. The above revenues are estimated based on the power volumes that have been physically delivered during the period. The physically delivered volume is apportioned in accordance with consumption forecasts for each customer group and price plan. Some uncertainty attaches to the volume apportioned to the various price segments. Accrued revenues recognised in the balance sheet at the end of 2011 amounted to NOK 504 million. Total revenues from the sale and distribution of electricity for the year came in at NOK 12,694 million. Historically there have been variations of up to +/- NOK 80 million between estimated revenues and final invoicing figures.

Estimated impairments of goodwill and property, plant and equipment

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

Fair value borrowings

Borrowings that are valued at fair value are measured by discounting the borrowings' cash flows. The discount rate

applied is the Norwegian swap interest rate, adjusted upwards for Hafslund's credit spreads. Viewed in isolation, the change in credit spreads during 2011 results in a reduction in the loan portfolio's fair value of NOK 20 million.

Pensions

The present value of pension liabilities depends on several factors which are determined based on a series of actuarial assumptions. The assumptions that are used in the calculation of net pension costs (income) include the discount rate. Changes in these assumptions will impact the value of the pension liabilities recognised in the balance sheet. The Group determines its own discount rate at the end of each year. This is the interest rate used to calculate the present value of future estimated cash outflows required to settle the pension liabilities. In determining the appropriate discount rate, the Group considers the interest rate on Norwegian government bonds that have terms to maturity approximating the terms of the related pension liability. Some other pension assumptions are partly based on market conditions. Were the discount rate applied to differ by 0.2 percentage points, the carrying amount of gross pension obligations would change by an estimated +/– 4 percent. Additional information is stated in Note 19.

Investments in shares

The fair value of the Group's share investments that are not traded on an active market are established using valuation techniques. As far as possible the Group assesses and selects methods and assumptions that are based on market conditions at each reporting date. See Note 10 for a more detailed description of the valuation of investments in shares.

Contingencies

When evaluating contingencies, management must exercise its judgement in order to determine the extent to which, on the balance of probabilities, an event would be likely impose a financial liability on the Group. Management must also use its best estimates to assess the likely amount of future payments. See Note 26 for a more detailed description of contingencies.

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Note 5 Segment information

Group management is the Group's chief operating decision-maker. Hafslund reports business areas as operating segments. In recent years the company has adopted a sharper focus on renewable energy from hydro-power and heating, together with further development of infrastructure for energy and Nordic growth within power sales. The Group has made a number of organisational changes to reflect this. Hafslund's business is organised in to the business areas Production, Heat, Networks and Market. The business areas are described in the section of the same name in the annual report, and also provides a breakdown of organised services to which the revenues relate. The new operating segments have been established to reflect Group management's internal monitoring of profitability and performance.

The Production segment includes the Group's power trading activities, which were previously part of Other business.The Heat business area comprises district heating activities and two waste-to-energy plants in Østfold, which were previously included in the Heat and bioenergy business area. Markets comprises the former Power sales segment and customer and invoicing services, which were previously part of Other business. The pellets business, which was formerly presented in Heat and bioenergy, is included in Other business.

Group management evaluates the performance and profitability of the operating segments based on operating results and return on capital employed. The operating result in the segment information is the same as that presented in the consolidated income statement. Interest income and interest expenses are not allocated to segments since this type of activity is managed by a central finance department that manages the Group's liquidity situation. Intersegment sales are made in accordance with the arm's length principle.

NOK million	Production	Heat	Networks	Markets

	2011	2010	2011	2010	2011	2010	2011	2010
Gross segment sales	1 024	1 220	1 120	1 259	4 202	4 804	7 275	8 289
Intersegmental sales	15	15	5	8	34	41	241	226
Sales revenues	**1 009**	**1 206**	**1 115**	**1 251**	**4 167**	**4 763**	**7 034**	**8 063**
Operating profit	724	958	102	163	469	532	277	442
Finance cost	(34)	(44)	(95)	(84)	(84)	(109)	3	0
Income tax expense	(399)	(513)	(2)	(23)	(114)	(108)	(95)	(132)
Net profit for the year	**289**	**404**	**9**	**59**	**275**	**316**	**220**	**337**
Depreciation of operating assets	(45)	(43)	(157)	(151)	(514)	(546)	(9)	(9)
Impairment of operating assets								
Amortisation of intangible assets							(7)	(9)
Losses on receivables			(6)		(37)	(41)	(17)	(13)
Capital employed	**4 464**	**4 395**	**5 464**	**5 280**	**9 257**	**9 668**	**1 215**	**3 391**
Investments	62	171	463	518	444	485	107	166

NOK million	Other		Eliminations		Group	
	2011	2010	2011	2010	2011	2010
Gross segment sales	565	729	(481)	(472)	13 704	15 829
Intersegmental sales	186	182	(481)	(472)		
Sales revenues	**379**	**547**			**13 704**	**15 829**
Operating profit/loss	(1 228)	(1 443)			343	652
Finance cost	(373)	(234)			(584)	(471)
Income tax expense	153	202			(456)	(573)
Net loss for the year	**(1 491)**	**(1 508)**			**(698)**	**(392)**
Depreciation of operating assets	(67)	(104)			(793)	(853)
Impairment of operating assets		(350)				(350)
Amortisation of intangible assets	(3)	(55)			(10)	(64)
Losses on receivables	(14)	(3)			(74)	(57)
Capital employed	**519**	**4 293**			**20 918**	**27 028**
Investments	139	362			1 215	1 702

Reconciliation of capital employed to equity (NOK million):

	2011	2010
Capital employed	**20 918**	27 028
Income tax payable	**(280)**	(525)
Deferred tax liability	**(3 186)**	(2 971)
Borrowings	**(10 849)**	(13 659)
Cash and cash equivalents	**870**	211
Interest-bearing liabilities	**431**	348
Other	**227**	32
Equity	**8 131**	**10 464**

Revenue analysed by category (NOK million)

	2011	2010
Power sales	**7 026**	8 069
Power production	**1 137**	1 179
District heating sales	**977**	1 138
Distribution revenue	**3 913**	4 496
Other revenue	**651**	947
Total	**13 704**	**15 829**

The majority of revenue derives from energy customers located in and around Oslo, Akershus and Østfold, where the company is also based. Revenue from the Group's power sales companies in Sweden amounted to NOK 823 million, while capital employed in the Swedish companies totalled NOK 97 million.

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Note 6 Property, plant and equipment

NOK million	Fibre networks, technical equipment and chattels	Power facilities	District heating and other renewable energy facilities	Networks	Facilities under construction	Other property	Total
Book value as of 31 December 2009	**820**	**3 840**	**3 314**	**8 682**	**1 992**	**162**	**18 809**
2010 accounting year							
Book value as of 31 December 2010	820	3 840	3 314	8 682	1 992	162	18 809
Operating investments	49	47			1 366	9	1 471
Capitalised borrowing costs					55		55

Transferred from facilities under construction	316	(132)	909	433	(1 526)		0
Discontinued operations	(550)				(24)		(574)
Disposals at book value							
Depreciation 2010	(191)	(43)	(151)	(465)		(4)	(854)
Impairments 2010	(50)				(300)		(350)
Book value as of 31 December 2010	**394**	**3 712**	**4 072**	**8 650**	**1 563**	**167**	**18 557**
Balance as of 31 December 2010							
Cost	1 765	6 825	4 674	13 422	1 876	202	28 764
Cumulative depreciation and impairments	(1 371)	(3 113)	(603)	(4 772)	(313)	(35)	(10 208)
Book value as of 31 December 2010	**394**	**3 712**	**4 072**	**8 650**	**1 563**	**167**	**18 557**
2011 accounting year							
Book value as of 1 January 2011	394	3 712	4 072	8 650	1 563	167	18 557
Operating investments	89				1 080		1 169
Capitalised borrowing costs					38		38
Transferred from facilities under construction	60	386	256	440	(1 142)		
Discontinued operations							
Disposals at book value	(19)			(316)	(2)	(4)	(341)
Depreciation 2011	(148)	(45)	(151)	(446)		(3)	(793)
Impairments 2011							
Book value as of 31 December 2011	**376**	**4 053**	**4 177**	**8 328**	**1 539**	**160**	**18 632**
Balance as of 31 December 2011							
Cost	1 853	7 211	4 930	13 423	1 852	198	29 467
Cumulative depreciation	(1 334)	(3 158)	(754)	(5 095)	(13)	(38)	(10 836)
Cumulative impairments	(143)				(300)		(443)
Book value as of 31 December 2011	**376**	**4 053**	**4 177**	**8 328**	**1 539**	**160**	**18 632**
Capitalisation rate borrowing costs					5%		
Depreciation percentage	3-33	2-5	2-10	2-7		0-5	

The Group capitalised borrowing costs of NOK 38 million in 2011 relating to qualifying assets. The Group's average-weighted interest rate has been applied.

See Note 8 for information on impairment testing.

As of 31 December 2011 the Group's total future lease commitments associated with office premises and transformer substations recognised at nominal value amounted to NOK 1,378 million:.

	NOK million
2012	122
2013	123
2014	125
2015	127
2016	130
2017 and later	**751**
Total lease commitments	**1 378**

The leases are operating leases and have varying payment dates, price-regulating clauses, and lease prolongation rights. In 2011 rent amounting to NOK 120 million was recognised in the income statement for leases of office premises and transformer substations.

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Note 7 Intangible assets

NOK million	Customer portfolios	Waterfall rights	Total	Goodwill	Total intangible assets
Book value as of 31 December 2009	**29**	**253**	**282**	**2 000**	**2 282**
2010 accounting year					
Additions on acquisitions	13		13	148	161
Operating investments	2		2	9	11
Discontinued operations				(5)	(5)
Impairments				(50)	(50)
Amortisation	(10)		(10)		(10)
Book value as of 31 December 2010	**34**	**253**	**287**	**2 102**	**2 389**
Balance as of 31 December 2010					

Cost	92	356	448	2 718	3 166
Cumulative amortisation	(58)	(103)	(161)	(518)	(679)
Cumulative impairments				(98)	(98)
Book value as of 31 December 2010	**34**	**253**	**287**	**2 102**	**2 389**
2011 accounting year					
Operating investments				7	7
Disposals				(5)	(5)
Amortisation	(10)		(10)		(10)
Book value as of 31 December 2011	**24**	**253**	**277**	**2 104**	**2 381**
Balance as of 31 December 2011					
Cost	92	356	448	2 720	3 168
Cumulative amortisation	(68)	(103)	(171)	(518)	(689)
Cumulative impairments				(100)	(100)
Book value as of 31 December 2011	**24**	**253**	**277**	**2 104**	**2 381**

See Note 8 for information on impairment testing.

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Note 8 Impairment assets

The Hafslund Group holds significant assets, both property, plant and equipment and intangible assets, whose book values are based on estimates. Property, plant and equipment is recognised in the balance sheet at cost, and depreciated on a straight-line basis to its residual value over its expected useful life. In accordance with IFRSs, property, plant and equipment used in the Group's power production is valued at fair value. Residual values and useful lives are estimated. There is no directly attributable cost for goodwill; instead goodwill is valued based on the Group's own valuations made at the time of business acquisitions. Goodwill is allocated to the Group's cash-generating units. Intangible assets with indefinite useful lives and goodwill are not amortised, but are tested annually for impairment.

The Group constantly monitors for indications of potential impairment. Where such indications are identified, impairment tests are performed immediately. If the valuation tests indicate that the book values are no longer recoverable, assets are written down to their recoverable amounts. The annual impairment tests performed in the fourth quarter of 2011 confirmed that the book values of the cash-generating units were recoverable. The table below shows the book values allocated to the individual cash-generating units:

NOK million Results unit	Operating assets	Intangible assets	Total	Cumulative impairments	Discount rate before tax	Terminal year	Growth terminal value
Production	4 109	253	4 362		7,4%	2019	1,5%
Networks	8 837	266	9 103		5,7%	2043	1,5%
Heat	4 922	583	5 505		8%	2027	1%
Markets	124	1 230	1 354	93	8,4%	2017	1,5%

Pellets	278		278	300	10,4%	2017	1,5%
Other business	362	49	411	148	9,6%-10,8%	2017	1,5%
Total	**18 632**	**2 381**	**21 013**	**541**			

In 2010 weak market conditions and lower contributions in the European pellets market were deemed to indicate a potential fall in the value of the Group's pellets plant at Averøya. A subsequent impairment test resulted in the recognition of an impairment for the pellets factory in the amount of NOK 300 million. An impairment was also recognised for the cash-generating units Embriq and Nextnet (Other business) in 2010 in the amount of NOK 100 million, where both goodwill and property, plant and equipment were each written down by NOK 50 million.

Cash flows associated with the results units are identified and discounted. The recoverable amount of a cash-generating unit is calculated based on the value the asset is expected to generate for the business. The present value of future cash flows is based on the budget for 2012 and forecasts for the four following years before the terminal value is established. For Production, Networks and Heat cash flows are applied for a longer period before the terminal value is established, as these are predictable over a longer term. Growth assumptions for the terminal value assume a maximum growth rate equal to Norges Bank's inflation target of 2.5 percent. The applied discount rate reflects the specific risk of the results unit.

Future cash flows are based on a number of assumptions. Assumptions concerning power prices, oil prices and exchange rates are based on the prevailing forward prices on Nasdaq OMX, ICE and Norges Bank at the time the impairment tests are carried out. Forecasts for 2014 are based on a power price of 347 NOK/MWh and an oil price of 626 NOK/MWh, together with a NOK/USD exchange rate of 6. This assumes normal production for Production and Heat. The assumption of normal production for Production of 3,100 GWh is based on ten years hydropower data adjusted for efficiency improvements. The assumption of normal production of 1,658 GWh in 2012 for the district heating business (included in Heat) is based on average temperatures over the last ten years, adjusted for existing and planned customer connections. After 2014 customer numbers for power sales are expected to remain flat, and there are not expected to be any changes in consumption patterns, while margins are expected to decrease slightly. In the pellets business an annual production volume of 400,000 tonnes of pellets is expected from 2014. The pellets price is anticipated to be around EUR 135 per tonne in 2014, and thereafter to increase by 1 percent per annum. Impairment tests for the Bio-El plant assume that the spot price for the receipt of waste will increase by 25 percent until 2014 and subsequently by 2.1 percent per annum until the terminal year. The current revenue framework model for grid activities is expected to continue until the terminal year.

Sensitivity in estimation of recoverable amounts

Estimation of recoverable amounts is based on assumptions regarding future developments in a number of areas including in the energy market, temperatures, economic growth and consumption patterns. The Hafslund Group has performed sensitivity analyses on the consequences of various changes in assumptions relating to the recoverable amount, including in respect of decreases in power prices, lower energy production, a 20 percent reduction in the cash flow in the terminal year or an increase of 20 percent in the discount rate. The Group´s recoverable amount is most sensitive to changes in the power price and regulatory changes within the Networks business. Sensitivity analyses show that the recoverable amount would fall by around NOK 2 billion in the event of a 20 percent reduction in power prices. The sensitivity tests reveal robust values in the Group's capital-intensive units.

However, the sensitivity tests for the waste-to-energy plant Bio-El Fredrikstad (included in Heat) and the pellets plant reveal a lack of robustness in the event of adverse developments in assumptions for key value drivers such as prices for the receipt of waste by the waste-to-energy plants, or the pellets price, commodity prices and the EUR/USD exchange rate for the pellets business. The waste-to-energy plant's future profitability is dependent on positive developments in the waste market. The Bio-El Fredrikstad waste-to-energy plant has a book value of NOK 357 million and the pellets plant a book value of NOK 278 million at the end of 2011.

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Note 9 Investments in associates

NOK million	Year of acquisition	Cost	Registered office	Shareholding	Voting share
Rakkestad Energiverk AS	2001	43	Rakkestad	33%	33%
Infratek ASA	2009	380	Oslo	43,3%	43,3%
Glommens og Laagens Brukseierforening	1903		Lillehammer	22,3%	22,3%

NOK million	2011	2010
Book value as of 1 January	**430**	439
Share of profit	**30**	50
Dividends	**(27)**	(55)
Adjusted prior-year result Infratek ASA	**(7)**	(4)
Book value as of 31 December	**426**	**430**
Amortisation of goodwill for the year	1	1
Goodwill as of 31 December	7	7

The Group's share of the results of its associates, of which Infratek ASA is listed, and its aggregated assets and liabilities:

	Registered in	Assets	Liabilities	Sales revenues	Profit/loss for the year
Rakkestad Energiverk AS	Rakkestad	34	9	23	1
Infratek ASA	Oslo	714	504	1 251	31
Glommens og Laagens Brukseierforening	Lillehammer	52	7	18	(1)
Total		**799**	**520**	**1 292**	**30**

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Note 10 Financial instruments by category

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

NOK million	Assets at fair value through profit or loss	Available-for-sale	Loans and receivables	Total
Assets as of 31 December 2011				
Long-term receivables			431	431
Shares and shareholdings	102			102
Derivatives	26			26
Trade and other receivables			1 708	1 708

Cash and cash equivalents			870	870
Total financial assets as of 31 December 2011	**128**		**3 009**	**3 137**

Assets as of 31 December 2010				
Long-term receivables			360	360
Shares and shareholdings	743	1 584		2 327
Derivatives	74			74
Trade and other receivables			5 188	5 188
Cash and cash equivalents			211	211
Total financial assets as of 31 December 2010	**817**	**1 584**	**5 759**	**8 160**

Liabilities as of 31 December 2011	**Liabilities at fair value through profit or loss**	**Other financial liabilities**	**Total**
Borrowings	7 843	3 006	10 849
Derivatives	86		86
Trade and other payables		1 514	1 514
Total financial liabilities as of 31 December 2011	**7 929**	**4 520**	**12 449**

Liabilities as of 31 December 2010			
Borrowings	13 659		13 659
Derivatives	2		2
Trade and other payables		1 646	1 646
Total financial liabilities as of 31 December 2010	**13 661**	**1 646**	**15 307**

Changes in financial assets at fair value through profit or loss are recognised in the income statement as other (losses)/gains - net.

The Group holds significant share investments in a venture portfolio. The Venture portfolio is managed from an overall risk and reporting perspective and valued at fair value. Other investments are valued at fair value through profit or loss. Changes in the fair value of share investments are recognised as other (losses)/gains - net. The shareholding in Renewable Energy Corporation ASA (REC) was sold in 2011 at a price of NOK 3.40 per share. In 2011 sales and impairments of the Group's investment in REC resulted in the reclassification of accumulated fair value adjustments recognised in other comprehensive income to the income statement under "Result of investment in Renewable Energy Corporation ASA" in the amount of NOK 1,090 million.

Investments whose market value exceeds NOK 10 million at the end of 2011:

NOK million	**Number of shares**	**Shareholding**	**Book value 31 Dec 2011**
Glo	266 531	10,89%	42
Nextnet	2 169 642	100,00%	40
Chapdrive AS	2 237 948	12,79%	14

Other	6
Total financial assets at fair value through profit or loss	**102**

Investments at fair value through profit or loss and available-for-sale investments are valued at market value based on the following methods:

1. Shares in listed companies or companies included on the OTC list are valued at the price quoted at the reporting date.
2. Shareholdings that are not actively traded are valued on the basis of the most recent issue price or transaction value.
3. In cases where it is not appropriate to employ the quoted share price or the transaction value, shares are valued on the basis of discounted future cash flows and/or a multiple-based evaluation involving comparison with other similar companies.

The following table shows the Group's assets and liabilities measured at fair value as of 31 December 2011:

	Method 1	Method 2	Method 3	Total
Financial assets at fair value through profit or loss:				
Shares and shareholdings		102		102
Derivatives			26	26
Total assets	**0**	**102**	**26**	**128**
Financial liabilities at fair value through profit or loss:				
Borrowings		7 843		7 843
Derivatives			86	86
Total liabilities	**0**	**7 843**	**86**	**7 929**

The following table presents changes in instruments classified using method 3 as of 31 December 2011:

	Shares and shareholdings	Derivatives	Total
Opening balance	679	74	753
Sales in the period	(595)		(595)
Transfer to method 2	(63)		(63)
Gains or losses recognised in income statement	(21)	(124)	(145)
Closing balance	**0**	**(50)**	**(50)**

All equity investments are based on method 2. Hafslund entered into an agreement with Eidsiva Vekst on 22 December to merge its investment business through the transfer of Hafslund's venture portfolio to a jointly owned company with Eidsiva Vekst; Energy Future Invest AS (EFI). The equity investment is valued at the transaction value on the agreed transfer to EFI. The transaction was implemented with effect from 2012. Hafslund and Eidsiva will each own 49.5 percent of EFI. The new merged portfolio will comprise a total of 12 wholly and partly owned companies and significant cash holdings. No "day one profits" have been identified.

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Note 11 Available for sale financial assets

Hafslund sold its shareholding in Renewable Energy Corporation (REC) ASA of 89 million shares (8.93 percent) on 9 December 2011 at a price of NOK 3.40. The investment is classified under "available-for-sale financial assets". In 2011 sales and impairments of the Group's investment in REC resulted in the reclassification of accumulated fair value adjustments recognised in other comprehensive income to the income statement under "Result of investment in Renewable Energy Corporation ASA" in the amount of NOK 192 million.

NOK million	2011	2010
Book value as of 1 January	**1 584**	**3 432**
Additions		464
Disposals	**(300)**	(459)
Realised (losses)/gains recognised in income	**(1 090)**	(1 991)
Net unrealised (losses)/gains recognised directly in equity	**(194)**	138
Book value as of 31 December	**0**	**1 584**

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Note 12 Long-term receivable

NOK million	2011-12-31	2010-12-31
Interest-bearing loans and receivables	**274**	232
Contributions to pension funds	**116**	116
Net pension assets	**30**	
Other	**42**	12
Total long-term receivables	**462**	**360**

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

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Note 13 Trade and other receivables

NOK million	2011-12-31	2010-12-31
Trade receivables	**811**	1 092
Bad debt provision	**(25)**	(15)
Net trade receivables	**786**	**1 077**
Accrued, non-invoiced income	**667**	2 131
Interest-bearing receivables	**42**	20

Receivable on sale of Fibernett		1 377
Other receivables	**213**	583
Total trade and other receivables	**1 708**	**5 188**

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

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Note 14 Cash and cash equivalents

NOK million	**2011-12-31**	**2010-12-31**
Cash and cash equivalents Group account	**454**	
Cash and cash equivalents non-Group account	**416**	211
Total cash and cash equivalents	**870**	**211**

Of the Group's total cash and cash equivalents of NOK 870 million, NOK 14 million is pledged as security for Group power trading activities. The Group has two group account schemes, one with DNB and one with Nordea. A group account scheme imposes joint and several liability between the participating companies. Hafslund ASA's accounts constitute single, direct accounts for transactions with its banks, while deposits into and withdrawals from subsidiaries' accounts are treated as intercompany balances with Hafslund ASA. Companies participating in the group account schemes have joint and several unconditional liability for total drawdowns on the two group account schemes up to a limit of NOK 400 million, which is the overall limit on bank drawdown facilities.

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Note 15 Share capital and premium

As of 31 December 2011 Hafslund ASA's share capital comprised the following categories of shares:

NOK million	**A shares**	**B shares**	**Total shares**	**Share premium**	**Total**
Balance as of 31 December 2010	115	80	195	4 080	4 275
Balance as of 31 December 2011	**115**	**80**	**195**	**4 080**	**4 275**

The shares have a par value of NOK 1. There are no outstanding share options. The B shares do not confer any voting rights. In all other respects each share grants the same rights in the company. As of 31 December 2011 Hafslund held 397,361 Class B shares (2010: 451,161 B shares).

The largest shareholders in Hafslund ASA as of 31 December 2011 comprised the following:

	Voting

('000)	A shares	B shares	Total	Shareholding	share
City of Oslo	67 525	37 343	104 868	53,7%	58,5%
Fortum Forvaltning AS	37 853	28 706	66 559	34,1%	32,8%
Østfold Energi AS	5 201	4	5 205	2,7%	4,5%
Odin Norden		3 880	3 880	2%	
Total > 1% shareholding	**110 579**	**69 933**	**180 512**	**92,5%**	**95,8%**
Total others	4 849	9 825	14 674	7,5%	4,2%
Total number of shares	**115 428**	**79 758**	**195 186**	**100%**	**100%**

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Note 16 Trade and other payables

NOK million	2011-12-31	2010-12-31
Trade payables	**482**	464
Public taxes due	**619**	271
Accrued interest expenses	**159**	193
Accrued expenses	**520**	636
Other liabilities	**353**	353
Total trade and other payables	**2 133**	**1 917**

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Note 17 Borrowings

NOK million	2011-12-31	2010-12-31
Long-term borrowings		
Fixed-interest bonds	**4 235**	4 138
Floating rate notes	**1 206**	1 013
Other loans	**3 606**	5 108
Total long-term borrowings	**9 047**	**10 259**
Current borrowings		
Floating rate notes	**256**	383
Commercial papers	**750**	1 581
Other loans	**796**	1 436
Total current borrowings	**1 802**	3 400
Total borrowings	**10 849**	**13 659**

All borrowings drawned before 1 January 2010 are recognised at fair value, which is calculated by discounting each loan's cash flow. The fair value does not include accrued interest. The discount rate applied is the Norwegian swap interest rate, adjusted upwards for Hafslund's credit spreads. From 1 January 2010 new borrowings are measured at amortised cost, which amounted to NOK 3,006 million at the year end.

The nominal value as of 31 December 2011 was NOK 10,613 million. The nominal value as of 31 December 2010 was NOK 13,535 million.

The following credit spreads have been applied:

Credit spread (basis points)

Term (years)	2011-12-31	2010-12-31
0,25	20	17
0,5	20	17
1	5	14
2	92	67
3	115	95
4	125	108
5	135	120
6	140	125
7	145	130
8	148	133
9	152	137
10	155	140

Seen in isolation, the change in credit spreads during 2011 results in a reduction in the loan portfolio's fair value of NOK 20 million. The corresponding change in 2010 was a decrease of NOK 49 million.

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

	2011-12-31	2010-12-31
0-6 months	**6 603**	9 533
6-12 months		
1-3 years	**1 109**	351
More than 3 years	**3 137**	3 775
Total borrowings	**10 849**	**13 659**

Hafslund has entered into a syndicated NOK 3,600 million credit facility maturing on 17 June 2016. Hafslund has a contingent option for up to two years' prolongation. The lender is a banking syndicate comprising six Nordic banks. The credit facility is used as a back-stop for commercial papers and as a general liquidity reserve. At the end of the year the entire facility remained unused. The Group has a bilateral NOK 400 million credit facility that was unused at the end of the reporting period. The Group

also has a NOK 400 million credit facility with Nordea that was unused at the end of the reporting period. Hafslund has a negative pledge clause in its loan agreement. Some loan agreements also stipulate that significant assets cannot be disposed of without bank approval and have an ownership clause requiring more than 50 percent of shares issued by Hafslund ASA to be held by current shareholders, or by shareholders with a credit rating of at least A-from Standard & Poor's or A3 from Moody's, or by shareholders approved by the lending banks.

Maturity profile interest-bearing loans:

	2011-12-31	2010-12-31
0-6 months	**1 006**	3 072
6-12 months	**796**	328
1-3 years	**3 115**	2 892
4-5 years	**2 836**	3 546
More than 5 years	**3 096**	3 820
Total borrowings	**10 849**	**13 659**

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Note 18 Deferred income tax

Deferred income tax assets and liabilities are offset when the Group has a legal right to offset deferred income tax assets against deferred income tax liabilities.

The following items have been recognised net:

NOK million	2011-12-31	2010-12-31
Deferred income tax assets that reverse after more than 12 months	**117**	104
Deferred income tax assets that reverse within 12 months	**50**	21
Total deferred income tax assets	**167**	**125**
Deferred income tax liabilities that reverse after more than 12 months	**3 213**	3 096
Deferred income tax liabilities that reverse within 12 months	**140**	
Total deferred income tax liabilities	**3 353**	**3 096**
Total deferred income tax - net	**3 186**	**2 971**

	2011	2010
Change in deferred income tax in balance sheet		
Book value as of 1 January	**2 971**	2 951
Recognised in income in the period	**213**	22
Recognised in equity in the period	**2**	(2)

Book value as of 31 December 2011	**3 186**	**2 971**

Change in deferred income tax liabilities and deferred income tax assets (NOK million):

Deferred income tax liability	**Operating assets**	**Current items**	**Total**
Balance as of 31 December 2009	**2 976**	**0**	**2 976**
Recognised in income in the period	26	(21)	5
Recognised in equity in the period	(2)		(2)
Balance as of 31 December 2010	**3 000**	**(21)**	**2 979**
Recognised in income in the period	203	159	362
Recognised in equity in the period		2	2
Balance as of 31 December 2011	**3 203**	**140**	**3 343**

NOK million	**Pensions**	**Borrowings and liabilities**	**Other**	**Tax loss carryforwards**	**Total**
Balance as of 31 December 2009	**(79)**	**(26)**	**100**	**(20)**	**(25)**
Recognised in income in the period	64	(60)	(4)	17	17
Balance as of 31 December 2010	**(15)**	**(86)**	**96**	**(3)**	**(8)**
Recognised in income in the period	25	(31)	(146)	3	(149)
Balance as of 31 December 2011	**10**	**(117)**	**(50)**	**0**	**(157)**

Deferred income tax assets are recognised for the tax loss carryforwards to the extent that the realisation of the related tax benefit through future taxable profits is probable. The Group has recognised deferred income tax assets connected to tax loss carryforwards in their entirety.

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Note 19 Pension costs, liabilities and assets

Group companies operate different pension plans organised through pension funds and insurance companies. The pension plans are generally funded through contributions made by the companies at levels largely determined on the basis of actuarial calculations. The Group operates both defined contribution and defined benefit plans. In accordance with the Norwegian Act on Mandatory Occupational Pension Schemes, with effect from 1 July 2006, agreements have been entered into concerning defined contribution plans for all companies that had not previously operated occupational pension plans for their employees. From 1 January 2010 most of the companies had taken out disability pension insurance for employees with defined contribution pensions. As of 31 December 2011 a total of 488 employees were covered by defined benefit plans through Hafslund's two pension funds. The pension funds also paid pensions to 1,136 individuals. In addition to the above, the Group has defined contribution plans with various insurance companies. Hafslund reorganised its pension plans with effect from 1 January 2007. As a consequence, the existing pension funds were closed to new members. At the same time, defined contribution plans were introduced for all new employees. Most employees are covered by the AFP early retirement plan, which is a defined benefit pension plan covered by the agreement on voluntary early retirement between the Norwegian Confederation of Trade Unions

(LO) and the Confederation of Norwegian Enterprise (NHO).

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

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

NOK million	2011-12-31	2010-12-31
Net recognised liability:		
Present value of accrued pension liabilities for funded defined-benefit schemes	**2 443**	2 091
Fair value of pension assets	**(1 775)**	(1 563)
Actual net pension liability for funded defined-benefit schemes	**668**	**528**
Present value of liability for non fund-based schemes	**291**	332
Non-recognised estimate deviations	**(1 108)**	(907)
Employer's national insurance contributions	**119**	104
Net pension liabilities in the balance sheet (after employer's national insurance contributions)	**(30)**	**57**

Changes in the defined-benefit pension liability during the year:		
Pension liability as of 1 January (excluding employer's national insurance contributions)	**2 423**	2 367
Discontinued operations		
Present value of accrued pension entitlements for the year	**43**	42
Interest expense	**89**	89
Estimate changes	**286**	201
Benefits paid	**(99)**	(104)
Liabilities re plan changes and acquisitions	**(8)**	(172)
Pension liability as of 31 December (excluding employer's national insurance contributions)	**2 734**	**2 423**

Change in fair value of pension assets:		
Fair value of pension assets as of 1 January	**1 563**	1 644
Discontinued operations		
Expected return on plan assets	**98**	92
Estimate changes	**77**	(188)
Total contribution	**124**	104

Total payments from fund	**(87)**	(89)
Fair value of pension assets as of 31 December	**1 775**	**1 563**

The minimum pension liability, which is the net present value of pension liabilities based on the current income from which pension earnings are derived at the reporting date, amounted to NOK 2,276 million as of 31 December 2011 and NOK 1,987 million as of 31 December 2010. Expected receipts during 2011 amount to NOK 141 million.

The following assumptions were applied in 2011:	**2011**	**2010**
Discount rate	2,6%	4%
Expected yield on pension assets	4,1%	5,4%
Annual salary increase	3,3%	3,8%
Adjustment of National Insurance Scheme's basic amount (G)	3,3%	3,8%
Future pension adjustments	0,1%	3%

Demographic assumptions that form the basis of the calculations are based on the IR73 disability rate table (restated using the intensity method) and the GAP07 dynamic mortality rate table developed by GablerWassum AS.
The projected long-term return on pension assets is based on an estimated government bond interest rate as of 31 December, adjusted for differences in yield for the various investment categories in which pension assets are held.
The expected long-term yield is based on long-term historic yield. The actual yield on pension assets in 2011 amounted to NOK 83 million, compared with NOK 70 million in 2010.

NOK million	**2011**	**2010**
Service cost	43	42
Interest expense	89	89
Expected return on plan assets	(98)	(92)
Amortisation of liability on plan changes	(25)	(172)
Amortisation of estimate losses/(gains)	56	25
Employer's national insurance contributions	2	(18)
Beneficiary contributions	(1)	
Pension expense defined-benefit plans	**66**	**(126)**
Pension expense defined-contribution plans	**19**	**15**
Total pension expense	**85**	**(111)**

Pension assets are invested in bonds and money-market placements issued by the Norwegian government, Norwegian municipalities, financial institutions and businesses. Foreign currency bonds are hedged. Investments in shares are limited to 35 percent of total pension assets. Investments are made in both Norwegian and foreign shares. Any estimate deviation is distributed pro-rata between the individual asset categories.

Pension assets comprise:

NOK million	**2011-12-31**	**2010-12-31**

Equity instruments	576	33%	516	33%
Interest-bearing instruments	1 142	63%	985	63%
Other	57	4%	63	4%
Fair value of pension assets	**1 775**	**100%**	**1 563**	**100%**

Pension liabilities and fair value of pension assets:

NOK million	2011	2010	2009	2008	2007
Present value of defined contribution based pension liability	2 734	2 423	2 367	2 367	2 397
Fair value of pension assets	1 775	1 563	1 644	1 644	1 792
Deficit	**959**	**860**	**723**	**723**	**605**

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Note 20 Other (losses)/gains - net

NOK million	2011	2010
Other financial assets and liabilities at fair value through profit or loss		
Fair value change of shares	**(27)**	(26)
Dividends received		60
Other financial income	**96**	63
Derivatives		
Interest rate swaps - borrowings	**1**	24
Forward currency contracts	**(18)**	13
Options	**6**	(6)
Forward contracts	**(110)**	36
Sale of financial assets		
Gain on the sale of shares	**68**	**893**
Total other (losses)/gains net	**17**	**1 058**

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Note 21 Other operating expenses

NOK million	2011	2010
Maintenance costs	**682**	670
Purchase of services	**149**	132

Rent, power etc.	**179**	168
Sales and marketing costs	**133**	124
Other	**487**	470
Total other operating expenses	**1 630**	**1 564**

In 2011 the Group recognised auditors fees totalling NOK 9.7 million (NOK 7.8 million). The fees break down as follows: NOK 6.8 million for statutory auditing, NOK 0.7 million for other certification services, NOK 1.5 million for tax consultancy services, and NOK 0.7 million for non-auditing services.

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Note 22 Employee benefit expences

NOK million	2011	2010
Salaries	**615**	554
Employer's national insurance contributions	**100**	93
Pension expenses - defined benefit plans	**66**	(126)
Pension expenses - defined contribution plans	**19**	15
Other benefits	**64**	46
Total salaries and other personnel expenses	**864**	**582**

Remuneration paid to executive employees

NOK '000	2011	2010
Salaries and other current remuneration paid to executive employees	**38 802**	22 540
Accrued pension entitlements	**2 854**	2 861
Board fees	**2 650**	2 157
Total remuneration paid to executive employees	**44 306**	**27 558**

NOK '000	2011-31-12	2010-31-12
Loans to executive employees	**4 293**	3 060

The Group employs a total of 1,207 staff.

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Note 23 Finance cost

NOK million	2011	2010

Interest expense borrowings	**(513)**	(528)
Change in fair value of borrowings	**(89)**	27
Capitalisation of borrowing costs	**38**	55
Foreign exchange gains/(losses)	**14**	(1)
Other finance costs	**(34)**	(24)
Total finance costs	**(584)**	**(471)**

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Note 24 Income tax expence

NOK million	**2011**	**2010**
Income tax payable	**243**	525
Deferred income tax liabilities	**213**	48
Total tax expense	**456**	**573**

The tax on the profit/loss before tax deviates from the amount that would have resulted had the Group's average tax rate been applied. The difference is reconciled below:

NOK million	**2011**	**2010**
Profit/loss before tax and discontinued operations	**(241)**	182
Tax calculated at nominal tax rate (28%)	**67**	(51)
Resource rent tax	**(200)**	(257)
Sales and change in value of shares	**(300)**	(280)
Permanent differences	**(7)**	9
Change in value of deferred income tax assets	**(6)**	
Share of profit/loss of associates	**6**	13
Impairment of goodwill		(14)
Other adjustments	**(16)**	7
Total income tax expense	**(456)**	**(573)**

Effective tax rate	**(189%)**	315%

The change in the effective tax rate is primarily attributable to the fact that only three percent of the return on the share investments is taxable, and the of resource rent tax.

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Note 25 Cash flow from operating activities

NOK million	2011	2010
Operating profit/loss before depreciation, amortisation and impairments (EBITDA)	**1 145**	1 922
Adjustments for:		
- losses on sale of operating assets/business	**(6)**	(870)
- change in value REC investment	**1 090**	1 991
- gains/losses on financial assets at fair value through profit or loss	**50**	(145)
- other items with no cash flow effect	**5**	6
Changes in working capital:		
- inventories	**(3)**	(34)
- trade and other receivables	**2 055**	(1 379)
- trade and other payables	**204**	(241)
Cash generated from operations	**4 540**	**1 249**

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Note 26 Contingencies

Tax on profit on sale of shares

As part of the Group's strategy to professionalise property operations, and further streamline the grid owner function, in 2006 and 2007 the Hafslund Group span off a series of properties from Hafslund Nett AS. A total of 58 properties were transferred to 11 different property companies organised as part of the Group's property business. The shares in two of the companies were sold in 2006 and 2007 (Hatros I AS and Hatros II AS). Hafslund deemed the sale of the shares to be non-taxable in accordance with the exemption method. The Central Tax Office for Large Enterprises claims that the sale of the shares in Hatros I AS was covered by the principle of assigning appropriate financial responsibility. Hafslund has appealed the decision to the appeal instance of the Norwegian Tax Administration. In June 2011 Hafslund received a ruling from the appeal instance confirming that the principle of assigning appropriate financial responsibility was in place. A new tax settlement for 2006 for NOK 95 million has been received and paid. The appeal instance's ruling cannot be appealed. Hafslund has initiated legal proceedings in the case. With regard to the sale of Hatros II AS Hafslund has been notified that the Central Tax Office for Large Enterprises claims that the sale of Hatros II is covered by the principle of assigning appropriate financial responsibility, where any tax payable would amount to NOK 172 million. At the reporting date Hafslund had recognised an overall provision of NOK 95 million in connection with these sales.

Potential adjustment liability for pension liabilities for grid activities

The case relates to premium claims from Kommunal Landspensjonskasse (KLP) alleging that Hafslund is responsible for adjustment pension liabilities relating to 593 previous employees/pensioners in various grid companies. Actuarial calculations show that the adjustment claim amounted to a net pension liability of NOK 192 million at the end of 2011. The claims relate to occupational pension insurance plans that were cancelled with KLP in the period 1992–2003. Hafslund has informed KLP that it rejects the claim. This is partly on the grounds that Hafslund is the wrong addressee for the claim, as Hafslund has not taken over its liabilities from the former grid operators. The rejection is further justified on the grounds that KLP has been wound up and that KLP, through established practice and a continuous pattern of conduct, has assumed liability for the adjustment liability.

In 2008 KLP's claim against Hafslund was transferred to the Norwegian pension safeguarding scheme (Sikringsordningen) established under the Norwegian Public Service Pension Fund's transfer agreement

(Overføringsavtalen) for public sector pension schemes to cover pension liabilities where the employer has ceased to trade or is not paying contributions. The Norwegian pension safeguarding scheme initiated proceedings against Hafslund in June 2005 concerning the adjustment premiums for the period 2005–2008. In October 2010 the case was heard in the Oslo District Court, which ruled that there were no grounds for the Norwegian pension safeguarding scheme's claims for recourse and fully acquitted Hafslund in the case. The safeguarding scheme appealed to the Court of Appeal, and the case is expected to be reviewed in October 2012. In February Hafslund and the safeguarding scheme reached a settlement on the case. The settlement involves the reversal of a provision of NOK 27 million, which will have a results effect in the first quarter of 2012.

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Note 27 Related party transactions

As of 31 December 2011 the City of Oslo owned 53.7 percent of the shares in Hafslund ASA. At the same date Hafslund ASA held a 43.3 shareholding in Infratek ASA. Hafslund buys and sells goods and services with its related parties the City of Oslo and Infratek ASA. All transactions between the parties are carried out on market terms. Receivables from related parties primarily arise from the sale of goods and services. Trade payables from related parties mainly arise from the purchase of goods and services.

NOK million	City of Oslo		Infratek ASA	
Profit/loss:	**2011**	**2010**	**2011**	**2010**
Sale of goods and services	**254**	320	**29**	40
Purchase of goods and services	**119**	110	**365**	480

Balance sheet:	**2011-12-31**	**2010-12-31**	**2011-12-31**	**2010-12-31**
Receivables	**41**	87	**4**	3
Trade payables	**19**	17	**80**	64

Borrowings

Hafslund has two bond loans of NOK 500 million and NOK 740 million with Oslo Pensjonsforsikring AS established in 2007 and 2008 respectively. The loans have ten-year terms. Both loans were taken out on market terms and conditions and are publicly listed. Norsk Tillitsmann is a counterparty to the agreement. Oslo Pensjonsforsikring AS is a life insurance company that is wholly owned by the City of Oslo. The loans are included in Non-current loans, fixed-interest-rate bonds, see Note 17.

Loans to related companies	**2011**	**2010**
Book value as of 1 January	123	129
Loans extended	3	9
Loans written down	(12)	
Loans repaid	(121)	(22)
Interest income	16	9
Interest received	(6)	(2)

Book value as of 31 December	**3**	**123**

Hafslund has extended loans to companies included in the Group's Venture portfolio. As of 31 December 2011 outstanding receivables from companies in the portfolio amounted to NOK 3 million.

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Note 28 Business aqusitions and disposals

No businesses were purchased or sold in 2011.

In 2010 Hafslund purchased 49 percent of shares in Energibolaget i Sverige Holding AB (EBS) with effect from 1 June 2010, with an option to acquire the remaining shares in 2013. EBS is recognised as a joint venture and Hafslund consolidates its pro rata shares of the company's income statement and balance sheet. Recognised assets and liabilities in the year of acquisition:

NOK million	Time of acquisition	2010-12-31
Intangible assets	2	5
Property, plant and equipment	6	4
Current assets	65	81
Cash	59	101
Long-term liabilities	19	16
Current liabilities	68	114
Goodwill	**86**	**86**
Purchase sum	**131**	

Hafslund purchased 100 percent of the shares in Göta Energi AB with effect from 30 June 2010. Recognised assets and liabilities in the year of acquisition:

NOK million	
Receivables	223
Overdraft facility	(209)
Total identified assets	14
Value fixed price contracts	12
Goodwill	57
Purchase sum	**83**

In 2010 Hafslund purchased 100 percent of the companies Totalenergi AS and Integrate AS for respectively NOK 14 million and NOK 10 million in cash. The excess values of NOK 10 million in Totalenergi AS have been identified as customer portfolios, and excess values of NOK 4 million in Integrate AS have been classified as goodwill.

Business disposal

Hafslund sold Hafslund Fibernett AS to the PE fund EQT V with effect from 27 December 2010. The sale price was NOK 1,477

million.

As part of the agreement Hafslund issued a vendor loan note of NOK 310 million, while the rest of the sales sum was settled in cash in January 2011. The assets sold were primarily property, plant and equipment. The company has a low gearing ratio, where liabilities primarily comprise tax liabilities and trade payables. The profit on the sale was NOK 875 million and has been recognised in the income statement in the line other (losses)/gains - net. Cash and cash equivalents in Hafslund Fibernett AS at the time of the sale amounted to NOK 3 million.

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Note 29 Consolidated companies

Company	Country/registred office	Shareholding/voting rights %
Hafslund ASA	Oslo	100
Hafslund Produksjon AS	Sarpsborg	100
Sarp Kraftstasjon AS	Sarpsborg	100
Hafslund Miljøenergi AS	Sarpsborg	100
Slagen Energigjenvinning AS	Sarpsborg	100
Hafslund Pellets Holding AS	Oslo	100
Bio Wood Norway AS	Oslo	100
Hafslund Nett AS	Oslo	100
Hafslund Driftssenteral AS	Oslo	100
Hafslund Varme AS	Oslo	100
Viken Fjernvarme AS	Oslo	100
Hafslund Strøm AS	Oslo	100
NorgesEnergi AS	Kristiansand	100
Hallingkraft AS	Ål	100
Røyken Kraft AS	Røyken	51
Fredrikstad Energisalg AS	Fredrikstad	100
Total Energi AS	Florø	100
Gøta Energi AB	Kungälv	100
Energibolaget i Sverige AB	Haninge	49
Hafslund Fakturaservice AS	Oslo	100
Hafslund Kundesenter AS	Oslo	100
Hafslund Handel AS	Oslo	100
Hafslund Venture II AS	Oslo	100
Hafslund Gamma AS	Oslo	100
Hafslund Telekom Nettjenester AS	Oslo	100
NextNet AS	Flekkefjord	100
Embriq AS	Oslo	100

Embriq Services AB	Gøteborg	100
Policom AB	Karlstad	100
4-Tech AS	Oslo	100
Hafslund Hedging AS	Oslo	100
Hafslund Energy Trading AS	Oslo	100
Balder Energy AS	Oslo	78
RåEl Kraft AS	Oslo	78
Vestfjorden Kraft AS	Oslo	80
Inforum Norge AS	Fredrikstad	100
Oslo Energi AS	Oslo	100
Hafslund Eiendom AS	Oslo	100
Ulven 1 AS	Oslo	100
Ulven 2 AS	Oslo	100
Slemdalsveien 105 AS	Oslo	100
Sinsenveien 86 AS	Oslo	100
Rosenkrantzgate 14 AS	Oslo	100
Hafslund USA Inc	USA	100
Hafslund Energy LLC	USA	100
Hafslund Energy Trading LLC	USA	100
Fiber Norge AS	Oslo	100

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Balance sheet Hafslund ASA

NOK million	Notes	2011	2010
Assets			
Deferred income tax asset	6	**15**	27
Total intangible assets		**15**	**27**
Total property, plant and equipment	**7**	**178**	**140**
Shares in subsidiaries, associates and joint ventures	8	**15 182**	16 365
Other long-term receivables	3, 9	**3 120**	3 373
Total financial assets		**18 302**	**19 738**
Total non-current assets		**18 495**	**19 905**
Trade and other receivables	10	**1 239**	3 731
Derivatives		**16**	6
Bank	16	**665**	
Total current assets		**1 920**	**3 737**
Total assets		**20 415**	**23 642**
Equity and liabilities			
Paid-in equity		**4 348**	4 350
Retained earnings		**3 082**	3 968
Total equity	**17, 18**	**7 430**	**8 318**
Provisions	3	**67**	55
Long-term interest-bearing liabilities	13, 14	**9 932**	10 836
Total long-term liabilities and provisions		**9 999**	**10 891**
Current interest-bearing liabilities	11	**750**	2 719
Trade payables		**28**	23

Proposed divided	17	**487**	1 461
Income tax payable	6	**26**	
Other current liabilities	12	**1 695**	230
Total current liabilities		**2 986**	**4 433**
Total equity and liabilities		**20 415**	**23 642**

Board of Directors of Hafslund ASA
Oslo, 20 March 2012

Birger Magnus
Chairman of the Board

Maria Moræus Hanssen

Susanne Jonsson

Kristin Bjella

Ole Ertvaag

Hans Kristian Rød

Odd Håkon Hoelsæter

Tyra Marie Hetland

Per Orfjell

Per Luneborg

Finn Bjørn Ruyter
President and CEO

Income statement Hafslund ASA

		1 January-31 December	
NOK million	**Notes**	**2011**	**2010**
Operating revenues		**222**	220
Salaries and other personnel expenses	2, 3	**175**	94
Depreciation, amortisation and impairments	7	**19**	10
Other operating expenses	4	**1 353**	345
Operating expenses		**1 547**	**449**
Operating loss		**(1 325)**	(230)
Result of share investments	5	**28**	57
Net financial items	5	**933**	164
Total financial items		**961**	**221**
Loss on ordinary activities before tax		**(364)**	**(9)**
Tax on loss on ordinary activities	6	**(39)**	(27)
Loss for the year		**(403)**	**(36)**
Allocations			
Dividends	17	**487**	1 461
Transferred (from)/to equity		**(890)**	**(1 497)**

Statement of cash flow ASA

		1 January - 31 December	
NOK million	**Notes**	**2011**	**2010**
Loss before on ordinary activities before tax		**(364)**	(9)
Depreciation, amortisation and impairments	7	**19**	10
Other non-cash items effect		**1 173**	158
Accrued Group contributions		**(1 192)**	(355)
Change in working capital etc.		**(31)**	(79)
Change in receivables due from Group companies		**4 831**	(2 390)
Net cash flow from operating activities		**4 436**	**(2 665)**
Purchases of property, plant and equipment	7	**(62)**	(38)
Acqusition of subsidiaries		**0**	(214)
Sale of operating assets or subsidiaries		**5**	0
Change in long-term receivables		**253**	1 192
Net cash flow from investing activities		**196**	**940**
Change in interest-bearing liabilities		**(2 873)**	1 123
Net Group contributions received		**355**	844
Change in other long-term liabilities		**12**	(73)
Dividends paid		**(1 461)**	(439)
Treasury shares		**0**	0
Net cash flow from financing activities		**(3 967)**	**1 455**
Net change in cash and cash equivalents		**665**	**(270)**
Cash and cash equivalents as of 1 January		**0**	270
Cash and cash equivalents as of 31 December		**665**	**0**

Notes ASA

Notes ASA

SEARCH FOR NOTE

Note 1 Summary of significant accounting policies

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

Operating revenues

Revenue on the sale of goods and services is valued at the fair value of the consideration received. Sales of goods and services are recognised in revenue at the time of delivery to the customer, provided that the customer has assumed the risks and rights pertaining to the property.

Classification

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

Valuation principles

Assets and liabilities denominated in foreign currency

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

Trade and other receivables

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

Treasury shares

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

Investments in subsidiaries, associates and joint ventures

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

Investments in long-term shareholdings

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

Property, plant and equipment

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

Retirement benefit obligations

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

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

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

Financial derivatives

The accounting treatment adopted for financial derivatives depends on the purpose of the underlying agreement. Financial gains and losses on derivatives are recognised on maturity in the income statement if the financial criteria for accounting hedging are not satisfied.

Borrowings

Borrowings are recognised at nominal value. Borrowing costs on the assumption of loans are recognised directly in the income statement.

Contingencies

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

Basis of preparation of statement of cash flow

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

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Note 2 Employee benefit expenses

NOK million	2011	2010
Salaries	**117**	105
Employer's national insurance contributions	**14**	19
Pension expenses	**35**	(37)
Other benefits	**9**	7
Total employee benefit expenses	**175**	**94**
Number of employees as of 31 December 2011.	**125**	140

Information on remuneration paid to the Board of Directors and senior executives can be found in the section on Corporate Governance.

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Note 3 Pension expenses, assets and liabilities

Pension expenses

NOK million	2011	2010
Defined benefit plans:		
Present value of accrued pension entitlements for the year	**9**	10
Interest expense on pension liabilities	**29**	30
Yield on pension assets	**(31)**	(30)
Net amortisation	**22**	(45)
Employer's national insurance contributions	**2**	(5)
Pension expense defined benefit plans	**31**	**(40)**
Defined contribution plans:		
Employer contributions	**4**	3
Total pension expenses	**35**	**(37)**

Pension assets and liabilities

NOK million	2011-31-12	2010-31-12
Gross pension liabilities	**849**	750
Pension assets	**(566)**	(491)
Actual net pension liabilities	**283**	259
Non-amortised deviations from plan/assumption	**(314)**	(264)
Employer's national insurance contributions	**43**	37

Net pension liabilities (pension assets)	12	32
Net pension liabilities in balance sheet	**(67)**	(55)
Net pension assets in balance sheet	**55**	23

	2011-31-12	2010-31-12
Net pension liabilities as of 1 January	**32**	109
Pension expense for the year	**31**	(40)
Pension payments and payment of pension premiums	**(51)**	(37)
Net pension liabilities as of 31 December	**12**	**32**

Assumptions	2011-31-12	2010-31-12
Expected yield	**2,60%**	5,40%
Discount rate	**4,10%**	4,00%
Salary adjustment	**3,25%**	3,75%
Pension adjustment	**3,25%**	3,75%

As of 31 December 2011, the pension plans covered 122 employees.

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Note 4 Other operating expenses

NOK million	2011	2010
Purchase of services	**39**	34
Rent, power etc.	**9**	9
Sales and marketing costs	**27**	36
Impairment of shares in subsidiaries	**1 184**	159
Other operating expenses	**94**	107
Total other operating expenses	**1 353**	**345**

Fees paid to auditors recognised in the income statement in 2011 for Hafslund ASA amounted to NOK 1.6 million. The fees relate to the following:
Statutory auditing NOK 1 million
Tax consultancy NOK 0.3 million
Other consultancy NOK 0.3 million

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Note 5 Result of share investments and net financial items

NOK million	2011	2010
Dividends	**28**	55
Gains on sale of shares	**0**	2
Profit/loss on share investments	**28**	**57**
Interest income 1)	**437**	462
Interest expenses	**(693)**	(652)
Group contributions	**1 192**	355
Other finance income/(finance costs)	**(3)**	(1)
Net financial items	**933**	**164**

1) Hafslund ASA interest income includes intragroup interest of NOK 432 million for 2011 and NOK 457 million for 2010.

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Note 6 Income tax expense

NOK million	2011	2010
Profit/loss before income tax	**(364)**	(9)
Permanent differences	**1 158**	107
Change in temporary differences	**(40)**	(95)
Tax basis before application of tax loss carryforward and Group contribution	**754**	**3**
Utilisation of tax loss carryforward		(3)
Group contributions, net of tax	**(660)**	
Tax basis, tax payable	**94**	
The total tax expense comprises:		
Estimated tax payable	**26**	
Adjusted tax settlement	**1**	
Change in deferred income tax liabiilties	**12**	27
Income tax expense	**39**	**27**
Reconciliation of tax rate		
Profit/loss before income tax	**(364)**	(9)
Expected tax expense at a nominal rate of 28%	**(102)**	(3)
Tax effect of non-taxable income and non-deductible expenses	**140**	30

Tax effect of non-taxable income and non-deductible expenses	**140**	30
Income tax expense	**39**	**27**
Effective tax rate	**(11%)**	(305%)

	Dec-31-2011	Dec-31-2010
Basis deferred income tax liabilities/assets		
Temporary differences	**(12)**	(11)
Operating assets	**(69)**	(97)
Accrued pension liabilties	**28**	13
Basis deferred income tax liabilities/assets	**(53)**	**(95)**
Deferred income tax asset in balance sheet	**(15)**	**(27)**

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Note 7 Property, plant and equipment

NOK million	Machinery, technical equipment, furniture etc.	Land and other property	Work under construction	Total
Book value as of 31 December 2009	**38**	**72**	**1**	**113**
Investments	13	5	20	**38**
Depreciation for the year	(8)	(2)		**(10)**
Book value as of 31 December 2010	**44**	**75**	**21**	**140**
Cost	183	100	21	**304**
Cumulative depreciation and impairments	(139)	(25)		**(164)**
Book value as of 31 December 2010	**44**	**75**	**21**	**140**
Investments	49		13	**62**
Disposals	(1)	(4)		**(5)**
Depreciation for the year	(17)	(2)		**(19)**
Book value as of 31 December 2011	**75**	**69**	**34**	**178**
Cost	231	96	34	**361**
Cumulative depreciation and impairments	(156)	(27)		**(183)**
Book value as of 31 December 2011	**75**	**69**	**34**	**178**

Depreciation percentage	3-33	0-5

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Note 8 Shares in subsidiaries and other companies

NOK million	Year of acquisition	Registered office	Ownership/voting rights %	Recognised shareholding in company as of 31 Dec 2011	Book value as of 31 Dec 2011
Hafslund Handel AS	1986	Oslo	100	856	1 085
Sarp Kraftstasjoner AS	1987	Sarpsborg	100	90	61
Hafslund Nett AS	2009	Oslo	100	5 478	4 422
Hafslund Eiendom AS	2009	Oslo	100	651	662
Hafslund Strøm AS	2009	Oslo	100	1 636	1 348
Hafslund Fakturaservice AS	2009	Oslo	100	143	30
Hafslund Kundesenter AS	2009	Oslo	100	20	15
Hafslund Varme AS	2009	Oslo	100	1 257	3 073
Hafslund Pellets Holding AS	2009	Oslo	100	165	
Hafslund Miljøenergi AS	2009	Sarpsborg	100	530	335
Hafslund Produksjon AS	2009	Askim	100	878	3 076
Hafslund Driftssentral AS	2009	Oslo	100	187	722
Inforum AS	2009	Fredrikstad	100	15	10
Gøta Energi AB	2010	Kungälv	100	37	83
Total shares in subsidiaries				**11 943**	**14 922**
Energibolaget i Sverige AB	2010	Haninge	49	83	131
Infratek ASA	2002	Oslo	43,3	309	129
Total shares in subsidiaries, associates and joint ventures				**12 335**	**15 182**

The shares in Hafslund Handel AS have been written down by NOK 1,184 million as a result of losses of equity.

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Note 9 Other long-term receivables

NOK million	2011-12-31	2010-12-31
Net pension assets in balance sheet (See Note 3)	**55**	23
Interest-bearing loans and receivables	**249**	34
Contributions to pension funds	**116**	116
Loans to Group companies	**2 700**	3 200

Total other long-term receivables	**3 120**	**3 373**

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Note 10 Trade and other receivables

NOK million	2011-12-31	2010-12-31
Trade receivables	**15**	1
Receivable due from Group companies	**1 192**	3 715
Other receivables	**32**	15
Total trade and other receivables	**1 239**	**3 731**

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Note 11 Current interest-bearing liabilities

NOK million	Interest % as of 31 Dec 2011	Interest % as of 31 Dec 2010	Liabilities as of 31 Dec 2011	Liabilities as of 31 Dec 2010
Miscellaneous commercial papers and current loans	**3,9**	2,6-3,9	**750**	2 693
Overdraft facility				26
Current interest-bearing liabilities			**750**	**2 719**

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Note 12 Other current liabilities

NOK million	2011-12-31	2010-12-31
Public taxes due	**3**	5
Accrued interest	**184**	193
Other non-interest-bearing liabilities	**24**	19
Liabilities due to other Group companies	**1 484**	13
Total other current liabilities	**1 695**	**230**

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Note 13 Long-term interest-bearing liabilities

NOK million	Interest % as of 31 Dec 2011	Interest % as of 31 Dec 2010	Liabilities as of 31 Dec 2011	Liabilities as of 31 Dec 2010

Fixed-interest bonds	**5,0-6,3**	5,0-6,3	4 009	4 009
Floating rate notes	**3,2-4,9**	2,7-4,3	1 458	1 390
Other loans	**3,2-5,7**	2,8-5,2	4 465	5 437
Total long-term interest-bearing liabilities			**9 932**	**10 836**

Maturity profile

Year	**2012**	**2013**	**2014**	**2015**	**2016**	**Later**	**Total**
NOK million	1 125	1 767	1 284	1 819	1 000	2 937	**9 932**

Hafslund has entered into a syndicated NOK 3,600 million revolving credit facility maturing on 17 June 2016. Hafslund has a contingent option for up to two years' prolongation. The lender is a banking syndicate comprising six Nordic banks. The drawdown facility is used as a back-stop for commercial papers and as a general liquidity reserve. At the end of the year the entire facility remained unused. Further, the Group has a bilateral NOK 400 million credit facility that was unused at the end of the reporting period. The Group also has a NOK 400 million credit facility with Nordea that was unused at the end of the reporting period.

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

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Note 14 Related parties

Hafslund has two bond loans of NOK 500 million and NOK 740 million with Oslo Pensjonsforsikring AS established in 2007 and 2008 respectively. The loans have ten-year terms. Both loans were taken out on market terms and conditions and are publicly listed. Norsk Tillitsmann is a counterparty to the agreement. Oslo Pensjonsforsikring AS is a life insurance company that is wholly owned by the City of Oslo. The loans are included in Non-current loans, fixed-interest-rate bonds, see Note 17.

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Note 15 Risk management and financial derivatives

The table below shows outstanding interest rate swaps as of 31 December 2011:

NOK million

Currency	**Amount**	**Hafslund pays**		**Hafslund receives**		**Start**	**Maturity**
NOK	200	Fixed/quarterly	4,25%	Floating	3M Nib	22.04.2009	23.04.2012
NOK	200	Fixed/quarterly	4,11%	Floating	3M Nib	11.11.2008	12.11.2012
NOK	200	Fixed/semi-annually	3,19%	Floating	6 M Nib	21.01.2009	21.01.2013

NOK	350	Floating/semi-annually	6 m Nib+185	Fixed/annually	5%	04.02.2009	04.02.2013
NOK	200	Fixed/annually	5,07%	Floating	3M Nib	29.04.2005	11.07.2013
NOK	200	Fixed/semi-annual	5,37%	Floating	6 M Nib	25.02.2009	26.08.2013
NOK	200	Floating	3M Nib+120	Fixed/annually	6,2%	09.01.2004	09.01.2014
NOK	200	Fixed/annually	4,92%	Floating	3M Nib	09.01.2004	09.01.2014
NOK	200	Fixed/quarterly	3,845%	Floating	3M Nib	09.03.2011	10.03.2014
NOK	200	Fixed/quarterly	3,7025%	Floating	3M Nib	29.04.2011	29.04.2014
NOK	200	Fixed/quarterly	4,0375%	Floating	3M Nib	09.03.2011	09.03.2015
NOK	200	Fixed/quarterly	4,02%	Floating	3M Nib	29.04.2011	29.04.2016
NOK	200	Fixed/semi-annually	3,76%	Floating	6M Nib	26.08.2013	25.08.2016
NOK	200	Fixed/quarterly	4,149%	Floating	3M Nib	21.05.2013	21.05.2017
NOK	200	Fixed/quarterly	3,955%	Floating	3M Nib	21.05.2012	22.05.2017
NOK	500	Floating	6M Nib+200	Fixed/annually	6,3%	21.01.2009	21.01.2019

As of 31 December 2011, the fair value of interest rate swaps amounted to NOK -34 million.

Forward exchange contracts

The company has entered into forward exchange contracts. As of 31 December 2011, the fair value of the contracts amounted to NOK 1 million.

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Note 16 Cash and cash equivalents

The Group purchases bank guarantees to secure some liabilities. As of 31 December 2011 these guarantees amounted to NOK 557 million for trading in the power market, NOK 51 million in tax deduction guarantees, NOK 37 million in rental guarantees and NOK 18 million in contract and payment guarantees.

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Note 17 Equity

NOK million	Share capital	Premium	Other paid-in equity	Retained earnings	Total paid-in capital and retained earnings
Equity as of 31 December 2009	**195**	**4 080**	**74**	**5 465**	**9 815**
Loss for the year				(36)	(36)
Proposed dividend (NOK 7.50 per share)				(1 461)	(1 461)
Equity as of 31 December 2010	**195**	**4 080**	**74**	**3 968**	**8 318**
Loss for the year				(403)	(403)

Proposed dividend (NOK 2.50 per share)				(487)	(487)
Change in treasury shares			(2)	4	2
Equity as of 31 December 2011	**195**	**4 080**	**72**	**3 082**	**7 430**

As of 31 December 2011 Hafslund held 397,361 treasury B shares. The average purchase price was NOK 105.27 per share, making the total cost price NOK 41,830,541.

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Note 18 Share capital and shareholder information

We refer to Note 15 to the consolidated financial statements.

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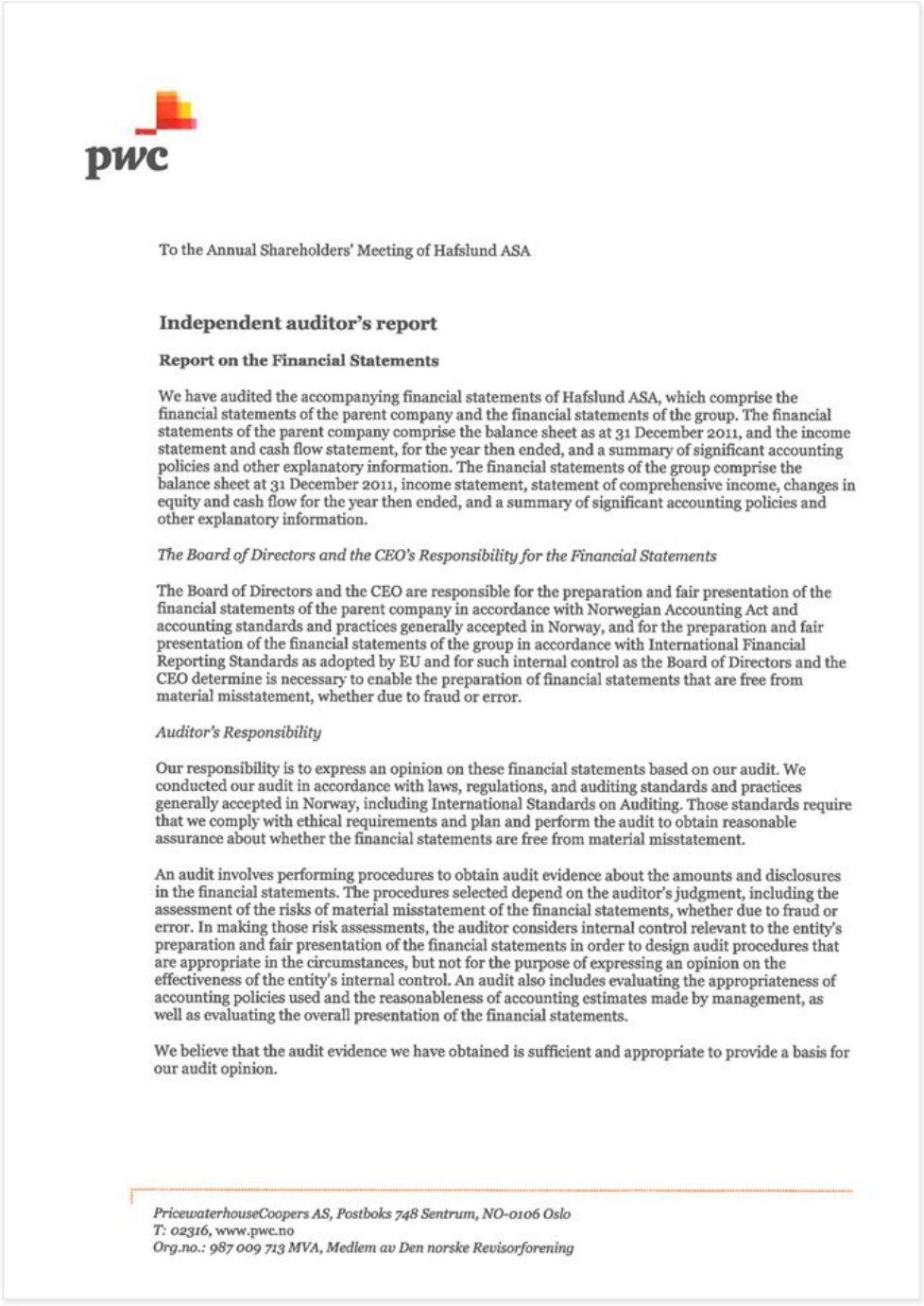
Auditor´s Report



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To the Annual Shareholders' Meeting of Hafslund ASA

Independent auditor's report

Report on the Financial Statements

We have audited the accompanying financial statements of Hafslund ASA, which comprise the financial statements of the parent company and the financial statements of the group. The financial statements of the parent company comprise the balance sheet as at 31 December 2011, and the income statement and cash flow statement, for the year then ended, and a summary of significant accounting policies and other explanatory information. The financial statements of the group comprise the balance sheet at 31 December 2011, income statement, statement of comprehensive income, changes in equity and cash flow for the year then ended, and a summary of significant accounting policies and other explanatory information.

The Board of Directors and the CEO's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

PricewaterhouseCoopers AS, Postboks 748 Sentrum, NO-0106 Oslo
T: 02316, www.pwc.no
Org.no.: 987 009 713 MVA, Medlem av Den norske Revisorforening

pwc

Opinion on the financial statements of the parent company

In our opinion, the financial statements of the parent company are prepared in accordance with the law and regulations and present fairly, in all material respects, the financial position for Hafslund ASA as at 31 December 2011, and its financial performance and its cash flows for the year then ended in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway.

Opinion on the financial statements of the group

In our opinion, the financial statements of the group present fairly, in all material respects, the financial position of the group Hafslund ASA as at 31 December 2011, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by EU.

Report on Other Legal and Regulatory Requirements

Opinion on the Board of Directors' report and statement of corporate governance principles and practices

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 statement of corporate governance principles and practices concerning the financial statements and the going concern assumption, and the proposal for coverage of the loss is consistent with the financial statements and complies with the law and regulations.

Opinion on Registration and Documentation

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

Oslo, 20 March 2012
PricewaterhouseCoopers AS

Thomas Fraurud
State Authorised Public Accountant (Norway)

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

(2)

Management declaration regarding the content of the annual report

We declare to the best of our knowledge that

- the consolidated financial statements for 2011 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 2011 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 of the Board of directors provides a true and fair view of the development, performance and position of the company and the Group, together with a description of the most important risk and uncertainty factors to which the business is exposed.

Styret i Hafslund ASA
Oslo, 20. mars 2012

Birger Magnus

Chairman of the Board

Maria Moræus Hanssen

Susanne Jonsson

Kristin Bjella

Ole Ertvaag

Hans Kristian Rød

Odd Håkon Hoelsæter

Per Orfjell

Per Luneborg

Tyra Marie Hetland

Finn Bjørn Ruyter
President and ceo

Corporate governance

Hafslund's guidelines for corporate governance are intended to secure confidence in the company's Board of Directors and management and lay the foundations for long-term value creation for the benefit of shareholders, employees, other stakeholders and society in general.

The board and management of Hafslund ASA comply with the requirements of the Norwegian Code on Corporate Governance of 21 October 2010, amended in 2011, which can be viewed at www.nues.no Hafslund issues a report on corporate management in accordance with § 3-3b of the Norwegian Accounting Act and the above Code.

Deviations from the Code are commented in brief below, and in more detail in each individual point in the report.

- Hafslund has two classes of shares. Class A shares grant ordinary voting rights of one vote per share. Class B shares do not grant ordinary voting rights. (Deviates from point 4 of the Code.)
- The Norwegian Code of Practice for Corporate Governance concerning general meetings is primarily satisfied through Hafslund ASA's Articles of Association and established company practice; however, the company deviates on one point in that one of the instructions of the Code is that the board shall ensure that "there are routines to ensure independent chairing of the general meeting". Until further notice the board will adhere to Hafslund's Articles of Association, which state that "the general meeting is chaired by the board chair or a party elected by general meeting". (Deviates from point 6 of the Code.)
- Based on an agreement between Hafslund ASA and employee unions the Group does not have a corporate assembly. (Deviates from point 8 of the Code.)

The following is a summary of the company's corporate governance policies. The report follows the same structure as the Code of 21 October 2010. Disclosures that Hafslund is obliged to give in the 2011 annual report in accordance with § 3-3b of the Norwegian Accounting Act regarding reporting on corporate management are incorporated into this report.

1. Report on corporate governance

Hafslund ASA's principles for corporate governance shall contribute to long-term value creation and secure the confidence of the owners and other stakeholders in the Board of Directors and management.

The board of Hafslund ASA monitors the requirements of the Norwegian Code of Practice for Corporate Governance of 21 October 2010. An overall summary of the company's corporate governance policies is contained in the company's annual report, covering each individual point in the Code. Any deviations from the Code are explained.

In accordance with Hafslund's core values employees shall act with integrity, courage and spirit in interacting with employees, customers, suppliers and partners:

- Integrity means striving to maintain high ethical standards, being reliable, acting with self-confidence and respect for others, being inclusive, respecting differences, and welcoming the success of co-workers and helping each other advance.
- Courage means being open and direct, taking initiative, daring to challenge the status quo, delegating, backing one's own opinions and daring to take risks and making allowances for the occurrence of mistakes; however, on the understanding that these should not be repeated.
- Courage means being engaged in and showing pride and pleasure in our work and exhibiting good spirit and humour.

Hafslund is committed to maintaining the highest ethical standards in all its business operations. We communicate this message within the Group by promoting one of our core values: integrity. All employees in the Group have signed Hafslund's code of conduct.

Hafslund's employee code of conduct applies to all those directly employed by the Group, as well as union representatives and members of the board. The terms of the code of conduct, which are rooted in our corporate values, regulate matters such as personal conduct, conflicts of interest, bribery, corruption and competition, and provide for sanctions in cases where the code has been breached. The code of conduct should be viewed as establishing a minimum standard, since all employees are required to comply with external laws and regulations, sector-specific ethical rules and internal rules applicable to Hafslund's business operations. Detailed guidelines have been drawn up for all employees whose work involves contract negotiations, since this area is particularly vulnerable to influence.

The Group has drawn up clear guidelines governing corporate social responsibility, including guiding overarching goal and strategies. This is further concretised through the environmental policy and procedures for environmental management, along with ethical guidelines for suppliers and associated procedures for ethical trading. Ethical guidelines have also been prepared for investments. The companies work in accordance with an established template, and report statuses and challenges at least twice a year. The Group's corporate social responsibility initiatives should be viewed as part of the Group's internal control system.

2. Business

Hafslund's business is profiled in the Articles of Association. In accordance with § 3 of the Articles of Association the company's object involves:

1. *Production, processing, distribution, sale and utilisation of energy*
2. *Industry, trade, consultancy, contracting and finance-related business*
3. *Other activities relating to the above objects, including operation and management of the company's properties and other resources.*

The object may be promoted through participation in or collaboration with other companies in Norway or abroad.

The Group's business concept is: "delivering energy solutions and infrastructure for the future – simply and efficiently".

Hafslund's objectives and strategies shall accord with the company's Articles of Association, and be communicated via the company's shareholder reports, investor presentations and/or stock market notifications.

3. Equity and dividends

The equity ratio shall at all times be adequate in relation to the company's objectives, strategy and risk profile. The equity ratio shall not exceed the value required to safeguard reasonable development of the company's values.

Hafslund aims to provide its shareholders with competitive returns compared with alternative investments of a similar risk profile. The company endeavours to achieve such returns through a combination of growth and dividends. The Group's long-term dividends policy is based on the payment of the equivalent of at least 50 percent of annual profits (after tax) in normal years, adjusted for non-cash generating items. Board mandates to implement capital increases shall be limited to defined objects. If a board mandate relates to several objects, each object should be reviewed as an individual item in the general meeting. In accordance with the Norwegian Public Limited Liability Companies Act, board mandates may be issued for a period of up to two years. Pursuant to the Norwegian Code of Practice on Corporate Governance this permission should not be used and board mandates shall not be issued for a period stretching beyond the date of next Annual General Meeting. Similar rules apply to board mandates concerning the purchase of treasury shares. An overview of any such board mandates is available in the general meeting minutes from the company's most recent general meeting, which can be viewed on the company's website www.hafslund.no

4. Equal treatment of shareholders and related-party transactions

Hafslund strives to treat all the Group's shareholders equally.

Hafslund has two classes of shares. Class A shares grant ordinary voting rights of one vote per share. Class B shares do not grant ordinary voting rights. This deviates from the Norwegian Code of Practice on Corporate Governance, and requirements for completely equal treatment of shareholders. The board continually assesses any basis for merging the two share classes with the company's majority shareholders, and will submit a proposal to the general meeting when there are indications that such a motion would be adopted. A merger of the company's two share classes accords with sound corporate governance and would be deemed to promote the shares'

liquidity.

If in the event of any capital increase in which the existing shareholders' preference rights are deviated from, such shall be justified based on the company's and the shareholders' joint interests in the agenda prepared for the general meeting. If the board adopts a capital increase involving deviation from preference rights based on a mandate, justification for such shall be published in the stock market notification in connection with the capital increase.

The company's transactions in treasury shares should be effected via the stock exchange or in any other way at the listed price.

In the case of non-immaterial transactions between Hafslund ASA and shareholders, board members, executive employees or their related parties, the board should obtain an independent valuation from a third party. This does not apply when the general meeting is due to review the item in question in accordance with the regulations of the Norwegian Public Limited Liability Companies Act. An independent valuation should also be obtained for any transactions between companies in the same group where minority shareholders are involved.

Board members and executive employees, or their related parties, should notify the board if they, directly or indirectly, have a material interest in any agreement entered into by the company.

5. Free tradability

Within the limitations determined by legislation, Hafslund's shares may be freely transferred and acquired.

6. General meetings

The board of Hafslund ASA should enable as many shareholders as possible to exercise their rights by participating in the company's general meeting, and ensure that the general meeting is an effective meeting place for shareholders and the board in accordance with the Norwegian Code of Practice on Corporate Governance.

The requirements of the Norwegian Code of Practice on Corporate Governance regarding this point are primarily satisfied through Hafslund ASA's Articles of Association and established company practice. However, the company deviates in one point in that the Code's instructions are that the board should ensure that: "there are routines to ensure independent chairing of the general meeting". Until further notice the board has chosen to deviate from the recommendation on this point and continue the practice adopted to date in accordance with Hafslund's relevant Article of Association, which states that "the general meeting is chaired by the board chair or a party elected by the general meeting".

At the 2011 Annual General Meeting the board proposed the appointment of an independent board chair. A suitable party was elected by the general meeting to chair the meeting. Accordingly the recommendation of the Code was complied with in practice.

7. Nomination Committee

Hafslund ASA has a Nomination Committee elected by the general meeting. The general meeting shall elect the Committee's chair and members, and establish their remuneration taking into account the nature and time requirements of their relevant

remits.

The Nomination Committee's tasks are discussed in the guidelines for the Nomination Committee. The Nomination Committee's guidelines are adopted by the general meeting. The Committee's remit is to propose candidates for election to the board, and to recommend fees for members of these bodies. The Nomination Committee's view should be justified and contain relevant information on the candidates and their independence.

Requirements relating to the election of the Nomination Committee are laid down in Hafslund ASA's Articles of Association (§ 8). Efforts shall be made to ensure that composition of the Nomination Committee reflects the breadth of shareholder interests and level of expertise required, and that the majority of members are independent of the board and general management. A maximum of one member of the Nomination Committee should be a board member, who should therefore not stand for re-election to the board. Similarly, general management or other executive employees should not be members of the Committee. Hafslund ASA has no corporate assembly or representative body.

A list of members of the Nomination Committee and deadlines for submitting proposals to the Committee, and the Nomination Committee's instructions can be viewed on Hafslund's website www.haflsund.no

8. Corporate assembly and board of directors, composition and independence

Based on an agreement between Hafslund ASA and employee unions, cf. § 6-35, second para, of the Norwegian Public Limited Liability Companies Act, Hafslund ASA does not have a corporate assembly. This deviates from the Norwegian Code of Practice for Corporate Governance.

The board of Hafslund ASA shall comprise between five and twelve members. Between three and eight members are elected by the general meeting. The period of office for members elected by the general meeting is two years. The period of office for as close as possible to half of these members shall expire each year. At least two board members, or at least the number of board members, including any observers and deputy members that the employees may demand in accordance with the Norwegian Public Limited Liability Companies Act and associated regulations, shall be elected from employees when the company does not have a corporate assembly. The period of office is two years.

The board members' CVs can be viewed on Hafslund's website www.hafslund.no and in the company's annual report.

The Nomination Committee instructs the board's shareholder-elected members with regard to the general meeting. The company is keen to ensure that potential board candidates possess the necessary industry understanding, plus adequate commercial, management and financial expertise required to be able to function as a forward-looking, strategic and performance-enhancing sounding board for administration. Until further notice the board shall be composed so as to satisfy the shareholder's interests and function as a collaborative body.

Neither shareholder-elected board members nor their related parties shall perform advisory or consultancy assignments for the company, be employed by Hafslund or have agreements of material economic importance with the Group. The Group shall

as a general rule also not purchase advisory and consultancy services from a company which a board member owns or is employed by. Any exceptions to these principles shall be reviewed on a case-by-case basis by the board. Board members shall also not be related parties of other board members or executive employees.

The instructions for the activities of the board state that board members may not participate in the discussion or clarification of issues of particular relevance to themselves, or involving related parties that the member may deem to have a prominent personal or financial interest in the case. The same applies to the President and CEO.

Board members may also not participate in the review of items where the relevant parties hold a key position in a company with a relevant or close conflict of interest with Hafslund ASA regarding the item.

In addition, at least two of the company's shareholder-elected board members must be independent of the company's main shareholders in order to promote shareholder confidence. The majority of the shareholder-elected board members should be independent of the company's general management and/or key business connections. Representatives of general management may not serve on the board.

In light of the fact that the company does not have a corporate assembly, the board chair should be elected by the board.

Hafslund ASA's board members are encouraged to own shares in the company. The board should provide information on board meeting attendance in the annual report. Disclosure of which board members are to regarded as independent should also be made.

Board member attendance at meetings in 2011:

Name	Number of meetings attended	Number of meetings not attended	Representative of:
Birger Magnus	10		Independent
Maria Moræus Hanssen	9	1	Independent
Susanne Jonsson	9	1	Fortum
Hans Kristian Rød	9	1	Fortum
Ole Ertvaag	6	4	Independent
Kristin Bjella	10		Independent
Odd Håkon Hoelsæter	7		Independent
Hanne Harlem	2	1	Independent
Per Orfjell	9	1	Employees
Per Lundeborg	10		Employees
Tyra Marie Hetland	10		Employees

Board members have had differing periods of office, and have not had cause to attend the same number of meetings.

9. The work of the Board of Directors

The board is responsible for the management of Hafslund and establishing a strategic direction, ensuring proper organisation of the business and supervising general management. § 9 of the Articles of Association regulates the election and service period of board members.

In accordance with the Norwegian Public Limited Liability Companies Act Hafslund is obliged to adopt guidelines regulating the board's activities where one of the objectives is the establishment of guidelines that apply to the board's work and case handling, including the most important rules governing the President and CEO's assignments and obligations to the board, and the board's authority and competence in agreement with applicable legislation.

Pursuant to the Norwegian Public Limited Liability Companies Act, the board has overarching responsibility for management of the company and for supervising general management and the company's activities.

In accordance with the instructions to the board, the President and CEO shall submit a proposed annual plan with a particular focus on targets, strategy and implementation once a year in collaboration with the board chair. A total of eight, and a minimum of four, meetings should normally be held each year. The President and CEO, in consultation with the board chair, is responsible for preparing and documenting items to be considered by the board.

The board shall elect a vice chair to act as the board chair's deputy, and otherwise act as an effective sounding board for the latter. The board chair should endeavour to ensure that the board's negotiations take place and that key decisions are taken by the entire board. In cases where the board chair is or has been actively involved (e.g. negotiations on mergers or acquisitions), another board member should be elected to chair the discussion.

Pursuant to the Norwegian Public Limited Liability Companies Act the company shall have an Audit Committee. The Audit Committee is elected by and from the board's members.

The board has established a Compensation Committee which shall help to ensure a thorough and independent review of cases relating to the remuneration paid to executive employees.

The board discloses use of the Compensation Committee in the annual report.

The board evaluates its own performance once a year. The Nomination Committee is informed of such work, and of the conclusions of the evaluation.

10. Risk management and internal control

The board shall ensure that the company has sound internal controls and appropriate systems for managing risk attaching to the Group's business. Risk management and internal controls shall reflect the scope and nature of the business and values and guidelines for ethics and corporate social responsibility.

The board carries out an annual review of the Group's key risk areas and internal controls. The board shall further describe the main elements of the company's internal control and risk management systems relating to financial reporting in the Group's annual report.

The Group's annual report shall provide a description of the main elements of the company's internal controls and risk management systems connected to its financial reporting and operations.

The board's reporting of the main elements of the Group's systems for internal control and risk management regarding financial reporting

The Hafslund Group reports in accordance with the requirements of international accounting standards (IFRSs). The Group has established guidelines designed to secure reliable, relevant, timely and identical information for shareholders and the finance markets in general. The guidelines also cover internal requirements.

The Group uses the accounting system IFS and the consolidation tool Cognos Controller. The latter includes an overarching account plan and contains controls to check the consistency of information. The reporting units are responsible for implementing adequate control checks to prevent errors in financial reporting. Group finance prepares financial reports for the Hafslund Group and ensures that reporting takes place in agreement with applicable legislation, accounting standards, established accounting policies and the board's guidelines. The Head of Accounting prepares guidelines that clarify the requirements to be complied with by the reporting units. Processes and control measures have been established to quality-assure financial reporting.

In 2011 Hafslund decided to increase the level of company management in the Group, including the adoption of a common framework and methodology to support all operational units and auxiliary functions. The Group has prepared an intranet-based template to collate and communicate guiding documents, including instructions and guidelines on day-to-day accounting, interim and annual financial reporting. The managers of the Group's accounting units are responsible for implementing appropriate and effective internal controls in agreement with established instructions and guidelines.

The board reviews the annual risk profile for each business area and on a group-wide basis, including by identifying and assessing annual risks of material errors in the Group's financial reporting. Company management in the subsidiaries is responsible for implementing necessary controls to mitigate identified risks. Group management evaluates the implementation of suitable reporting tools for monitoring the subsidiaries' mitigation of identified risks.

Group management assesses the business areas' performance and profitability on an ongoing basis, together with issues and events that impact future performance and optimal resource utilisation. Financial performance is regularly reviewed with the individual business areas and in Group manager meetings.
The Audit Committee reviews financial reporting for the Hafslund Group quarterly. The Committee carries out a thorough review of material subjective items and individual transactions along with any changes in accounting practice. The Committee holds talks with management and the external auditors as part of its quarterly review. The board of Hafslund ASA reviews consolidated interim and annual financial statements after they have been appraised by administration and the Audit Committee. The annual financial statements are adopted by the Annual General Meeting.

11. Board members' fees

The board's remuneration must be reasonable in relation to the tasks and responsibilities incumbent on the board members. The 2003 Annual General Meeting

resolved that remuneration of the board's members would be established by the general meeting for the preceding year. The board's fees are not performance-related. The board is not allocated options.

The main rule is that board members, or companies to which they are related, shall not take on particular tasks for the company in addition to board-related activities. If they nonetheless do so, the board shall be informed of such, and fees for such tasks should be approved by the board.

All remuneration paid to individual members of the board, including any fees for specific assignments, and the number of shares owned by the various board members, are disclosed in Hafslund's annual report.

12. Remuneration paid to executive employees

Guidelines for establishing remuneration paid to the CEO and executive employees are adopted by the board and presented to the general meeting in accordance with prevailing legislation.

The guidelines for determining the remuneration payable to executive employees should state the main principles of the company's executive pay policy and seek to achieve identical interests between shareholders and executive management.

Performance-related remuneration for executives in the form of option and bonus programmes or similar should be linked to value creation for the shareholders or profit development for the company over time, and be based on measurable conditions which the employee can influence. A ceiling should be set for profit-related remuneration.

13. Information and communication

The overall goals of Hafslund ASA's guidelines on information and communication are transparency and equal treatment of all shareholders.

A financial calendar is published each year in accordance with the rules for listing on Oslo Stock Exchange.

Information for the company's shareholders is published on the company's website at the same time it is sent to the shareholders. Hafslund ASA is subject to the stock market's rules regarding publication of information.

The board encourages the company to maintain contact with shareholders outside the general meeting, provided such does not involve a breach of the principle of equal treatment of shareholders. Referrals of material importance shall be dealt with by the board chair.

14. Company takeovers

The main principle regarding takeover offers is that Hafslund shall act honestly and ethically. In potential takeover situations the board shall pay particular attention to its duty of care to ensure that all the shareholders' values and interests are upheld. Accordingly the business's operations shall not be unnecessarily impaired, and shareholders shall have enough time and information to make an informed judgment on any offer.

Except on particular grounds, the board will not seek to prevent or place obstacles in

the way of any party who wishes to make an offer for the company's business or shares.

If an offer is made for the company's shares the company's board will not exercise any authorisation they may have to issue new shares or implement any other measures for the purpose of preventing the offer being completed, unless such action has been approved by a general meeting of shareholders.

If an offer is made for the company's shares, the board should issue a declaration with a recommendation as to whether the shareholders should accept the offer or not. The board's declaration on the offer should state whether the board is unanimous in its recommendation. If such is not the case, the grounds on which individual board members have reservations should be stated in board's declaration, and the board should obtain a valuation from an independent expert. The valuation should be justified and published no later than the time of the board's declaration.

Transactions which in reality involve a disposal of the company's business should be presented to the general meeting for resolution.

15. Auditors

The auditor has presented a broad outline of a plan for implementation of audit work to the Audit Committee.

The auditor should participate in board meetings to review the annual financial statements. In the meetings the auditor should review any material changes in the company's accounting policies, evaluation of material accounting estimates and all material matters where there has been disagreement between the auditor and administration.

The auditor has participated in a meeting with the Audit Committee on the company's internal controls, including identified weaknesses and proposed improvements.

The board and auditor had one meeting without the Managing Director or other members of general management being present.

The board has established guidelines governing general management's employment of the auditor for services other than auditing.

At the Annual General Meeting the board will disclose the auditor's remuneration split between auditing and other services.

Development of Hafslund´s share price

Development of share price for Hafslund's Class A and Class B shares indexed with reference to 2 january 2004, ajusted for dividends, compared with the development of the main index (OSEBX) on the Oslo Stock Exchange.

Shareholder information

Hafslund aims to give its shareholders competitive returns benchmarked against alternative investments of a similar risk profile. The company endeavours to achieve such returns through a combination of share price development and dividends.

Shareholder policy and dividend

Hafslund is keen to secure effective and transparent corporate governance in order to promote the greatest possible growth over time and to ensure confidence in the company's board and management. Timely, relevant and sufficient information on the company's activities should create the basis for a balanced and correct valuation of the company's shares. Equal treatment and openness are key features in Hafslund's communications with shareholders.

The Group's long-term dividend policy is based on the payment of the equivalent of at least 50 percent of annual profits (after tax) in normal years, adjusted for non-cash generating items. The ordinary dividend paid out in 2011 was NOK 7.50 per share. This amount includes an extraordinary dividend of NOK 5.00. The board's proposed dividend for the 2011 financial year is NOK 2.50 per share. The dividend will be approved by the Annual General Meeting on 24 April 2012.

Share prices and turnover

Hafslund has two classes of shares (HNA and HNB). Both share classes are listed on the Oslo Stock Exchange. At the end of 2011 Hafslund's market value was NOK 11.3 billion. In 2011 Hafslund's shares generated a total return, including dividends paid, of minus 6 percent. By comparison, the OSEBX index, also adjusted for dividends paid, fell by 13.1 percent. At the end of 2011 the market price of Hafslund's A shares and B shares was NOK 58.0.

Hafslund's Class A and Class B shares peaked at NOK 78 and NOK 77.25 respectively on 4 May 2011. The lowest price paid for Class A and Class B shares was NOK 55 on 4 and 5 October and NOK 53.50 on 2 November 2011 respectively. A total of 2.9 million Hafslund shares were traded in 2011, compared with 5.02 million in 2010. 73 percent of share turnover in 2011 was in Hafslund's Class B shares, compared with around 77 percent in 2010. Based on trading in the share categories, both Hafslund's Class A and Class B shares are classified as OB Match on the Oslo Stock Exchange.

Share capital and shareholder structure

On 31 December 2011 Hafslund ASA's share capital comprised 195,186,264 shares, consisting of 115,427,759 Class A shares and 79,758,505 Class B shares. The par value of both share classes is NOK 1.00 per share. The City of Oslo is the largest shareholder with a total holding of 53.73 percent and Fortum Forvaltning AS, which is owned by the Helsinki-listed energy company Fortum, is the second-largest with 34.10 percent. There were no changes in the holdings of the City of Oslo or Fortum during the year. The number of shareholders at the end of 2011 was 7,082.

Voting rights and ownership

Class A shares grant ordinary voting rights of one vote per share. Class B shares do not grant ordinary voting rights. The Group has no restrictions on ownership other than pursuant to Norwegian Industrial Licencing Act. Both share classes have equal dividend rights. The difference in voting rights has historically been reflected in a price difference between share classes and involves differential treatment of shareholders. However, the price difference has been considerably reduced in recent years. The board has previously assessed the possibility of amalgamating the two share classes. However, Hafslund's largest shareholder has signalled that it would not support this.

As of 31 December 2011 the company's holding of own Class B shares was 397,361. The company did not own any Class A shares. This equates to 0.2 percent of the total number of outstanding shares. As of 31 December 2011 the board of Hafslund ASA had a power of attorney to purchase class B shares corresponding to 2 per cent of the company's share capital. The authorisation is valid until the 2012 Annual General Meeting. At the reporting date the board of Hafslund ASA had no authority to issue shares in Hafslund ASA.

Investor relations

Hafslund keeps shareholders, banks and the financial market in general informed of important trends by means of annual and quarterly reporting, as well as releases to stock markets and the media. Hafslund also holds regular meetings with investors and analysts and has its own investor pages on hafslund.com

RISK – Hafslund shares (only applies to Norwegian shareholders)

RISK adjustment of shares ceased from the 2006 financial year and was replaced by the shareholder model. The shareholder model is based on the premise that

dividends and earnings which exceed a certain return (protection rate) established by the Ministry of Finance should be liable to 28 percent tax on the part of the shareholder. The taxable value is the cost price of the share (or upwardly adjusted entry value for shares acquired before 1 January 1989) plus accumulated RISK for the ownership period, adjusted if necessary for returns in the year of purchase and sale. Shareholders who can use upwardly adjusted entry value as of 1 January 1992 should use NOK 27.50 for Class A shares and NOK 30.04 for Class B shares. 20 percent of the cost price of shares in the former Hafslund Nycomed ASA relate to Hafslund ASA.

Hafslunds ten largest shareholders as of 31 December 2011

	Name	Class A shares	Class B shares	Total shareholdning	% of total	Voting rights
1	Oslo kommune	67 524 647	37 342 907	104 867 554	53,7 %	58,5 %
2	Fortum Forvaltning AS	37 853 110	28 706 339	66 559 449	34,1 %	32,8 %
3	Østfold Energi	5 201 416	3 938	5 205 354	2,7 %	4,5 %
4	Odin Norge		3 879 549	3 879 549	2,0 %	0,0 %
5	MP Pensjon PK	4 500	1 579 000	1 583 500	0,8 %	0,0 %
6	Folketrygdfondet	85 000	885 214	970 214	0,5 %	0,1 %
7	Hafslund ASA		397 361	397 361	0,2 %	0,0 %
8	A/S Herdbred	107 000	275 917	382 917	0,2 %	0,1 %
9	New Alternatives Fund, Inc	328 074		328 074	0,2 %	0,3 %
10	Handelsbanken Helsinki	141 337	172 810	314 147	0,2 %	0,1 %
	Total	111 245 084	73 243 035	184 488 119	94,5 %	96,4 %
	Total other shareholders	4 182 675	6 515 470	10 698 145	5,5 %	3,6 %
	Total number of shares	115 427 759	79 758 505	195 186 264	100,0 %	100,0 %

Contact information/Financial calendar

Analysts who monitor the company:

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Updated contact information and e-mail addresses can be found on Hafslund's website hafslund.no

Investor Relations:

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Financial calendar 2012:

Annual General Meeting 2012: 24 April 2012
2012 Q1 Report 4 May 2012
2012 Q2 Report 11 July 2012
2012 Q3 Report 25 October 2012

Risk management

To succeed as a supplier of energy solutions and infrastructure of the future, it is important that Hafslund spearheads developments and adopts a proactive relationship to the risk patterns to which the Group and the various business units are exposed at any one time.

A combination of goal-oriented risk management, effective crisis contingency planning and efficient internal controls is essential if Hafslund is to achieve its overall goals. The aim of risk management at Hafslund is to identify risks and opportunities in order to manage these within the Group's risk appetite and in line with adopted strategies. The company has continued to pursue its policy of allowing investors to participate in risk exposure in the market. Hafslund primarily pursues a strategy of being openly exposed to prevailing power prices in relation to cash flows from production activities with some degree of future price hedging in the forward market. Hafslund only engages in active positioning in the financial markets in connection with power price risks.

The Group contributes positively to the environment i.a. by generating electricity and heat from clean and renewable energy sources. Hafslund manages risk with the aim of minimising negative consequences, first and foremost for people and the environment, as well as for the Group's reputation and finance. The risk of environmental accidents should be mapped at all facilities, and risk-reducing measures are implemented where necessary. Hafslund's crisis management planning should be well dimensioned and our employees are trained to manage any environmental accidents. All activities at Hafslund should at all times be conducted within the bounds of prevailing legislation, and all employees should act in line with the Group's core values and ethical guidelines. Hafslund has also established ethical guidelines concerning relationships with the Group's suppliers. Should, however, any breaches of legislation or guidelines occur, Hafslund has established routines for notification, including an independent notification channel.

Responsibility, organisation and framework

The Board of Directors of Hafslund ASA establishes the basic rules for risk management within the Group by adopting guidelines and frameworks each year. The overarching guidelines cover prioritisations, strategies and basic principles relating to risk management as well as tolerance thresholds for important risk categories. For key financial risk factors such as power price, interest rate and currency risk, risk tolerance is established in the form of frameworks for maximum permitted exposure. The utilisation of risk frameworks is reported to management along with the development of the Group's risk profile as part of the Group's ongoing management reporting. At Hafslund the main principle is that risk responsibility should be placed as close as possible to the place where the risk occurs. Operational line management therefore assumes primary responsibility for identifying and following up risk as well as keeping within the appropriate limits for its activities. By involving the individual business units in risk management, Hafslund wishes to increase knowledge and awareness of risk and any need for improvement in the Group. To help with work

identifying, measuring and compiling risk, Hafslund has developed and implemented a simple reporting model for operational risk. All units beyond a certain size report an updated risk picture each year. The Group's crisis contingency planning frameworks are also revised, and are thus based on a live risk profile.

Financial risk factors such as power price risk, interest rate risk and currency exchange risk have great similarities throughout the various business areas. Consequently, management and exercising of risk mandates in connection with this type of risk is allocated to Hafslund's key treasury and finance functions. The bundling of expertise concerning financial instruments and markets thereby secures efficient risk management.

Hafslund's risk managers are responsible for establishing and developing a common framework and concept for risk management within the Group. The risk management function is also responsible for the overarching follow-up of financial risk, and for compiling and reporting an overall risk picture to Group management, the Audit Committee and the board. In addition scenario-based stress testing of the value chain is regularly carried out to highlight the degree of the Group's robustness.

Risk factors

Financial market risk

Hafslund's market risk is to a large extent connected to the development of power prices, interest rates and individual currency rates. With the exception of limited position-taking in the power markets, Hafslund does not engage in pure trading on the financial markets.

Many of the Group's business units are exposed to electricity prices. Operating results for Production, Heat and Markets are affected by power prices. Price development is in particular important for power generation activities, as Hafslund has chosen to leave a large degree of the production volume openly exposed to power price developments. The Group is to a lesser extent exposed to risk in connection with other commodities such as oil and gas, and emission rates.

A significant share of Hafslund's currency exposure relates to the Production business unit. The power generation business sells its production in EUR on Nord Pool Spot. Some of this currency exposure is covered through hedging. BioWood Norway is exposed to both cash inflows and outflows in various foreign currencies. Some other Group companies also make purchases in foreign currency.

The Group is exposed to interest rate risk as a result of changes in interest rates on its borrowings, and through the revenue frameworks governing network operations, which contain a significant interest rate element. Interest rate risk for the interest portfolio is managed from an overall perspective, where the aim is to keep the combination of floating and fixed rates within the limits approved by the Board of Directors. For a more detailed description and quantification of market risk and other financial risk factors, please refer to Note 3 to the annual financial statements.

Other input factors

Due to its focus on renewable energy, the Group is increasingly exposed to risk in connection with input factors of a similar financial nature. This applies in particular to Heat and the company BioWood Norway. Heat is exposed to the market for waste and waste-based fuel in various ways. There is no functioning marketplace (exchange) for managing this type of risk. For the foreseeable future this type of risk can therefore only be covered by entering into bilateral agreements, or collaboration

agreements with suppliers.

The price of wood chippings and pellets will also become increasingly important for Hafslund in the future. Hafslund has established a cross-disciplinary discussion forum, where market developments and strategies for these types of factors in particular are subject to evaluation.

Liquidity and credit risk

At any one time Hafslund has considerable outstanding accounts receivable. The customer base mainly comprises small private customers, and historically bad debts have been very low. Hafslund has established guidelines for financial counterparties, which indicate lowest acceptable credit ratings, and as a supplementary measure assesses counterparties' financial status on an ongoing basis. The Group also endeavours to spread transactions over several counterparties.

Liquidity risk arises to the extent that cash flows from activities do not correspond to financial obligations. Hafslund's cash flows naturally vary in line with a number of factors including production volume and power prices. Consequently, a long-term committed drawdown facility has been established in order to secure adequate funding, including in periods where obtaining financing on the standard loan markets is difficult.

Regulatory risk

Hafslund's business, in particular its power production, district heating and network operations, is to a large extent subject to public regulation. Changes in such regulations represent a risk for the Group. In the case of production activities, this applies in particular to specific taxation, fees and regulation of watercourses and other licence conditions. In the district heating business a certain risk is attached to the price picture in that prices are set based on the customer's alternative cost for obtaining electrical heating. A particular feature of grid operations is that company revenues are largely determined by an officially established revenue framework.

The financial regulation imposed by the Norwegian Water Resources and Energy Directorate (NVE) makes it difficult to predict future revenue frameworks and thus future returns on network investments. Hafslund consequently regards the current regime as unsatisfactory. This a view shared throughout the industry. The authorities' response to the industry's objections has been to make adjustments to the current model. The NVE has indicated that relevant changes will be implemented from 2013. It is currently not known what form the specific changes will take or what these will mean for individual grid companies.

On March 2011 the Norwegian Water Resources and Energy Directorate (NVE) adopted the "Competence Regulation" relating to site and area licences. The regulation entered into force on 1 July 2011, and all companies must comply with the regulation by 1 July 2013. As Hafslund Nett already fulfils many of the requirements of the new regulation, its introduction will not impose any dramatic changes on the company: however, some changes will be required in the areas of contingency and operational control. Work will now be initiated to investigate the consequences of the new regulation on the Group's business in more detail.

In the new regulation the NVE stipulates that all grid customers in Norway must have advanced metering systems (AMS), and has established deadlines for the obligatory introduction. By the end of 2015, AMS shall be installed for 80 percent of all grid customers, and by the end of 2016 AMS shall be in place at all customers. AMS

covers the actual meters, associated equipment used for communication and management at customers' premises, communication solutions between customers and the grid company and equipment and systems required to receive, store and process meter data in the AMS system. In 2011 Hafslund Nett established a project with the mandate of commencing implementation of AMS in Hafslund Nett's distribution area.

Operating risk

Hafslund maps annual risk within all the Group's key business and staff units. Risk is calculated as a combination of probability and consequence and is classified using a traditional risk matrix. A full risk mapping was last performed in spring/summer 2011, when 188 risk scenarios were reported. The status of measures and effects of risk are followed up every six months, and a number of effective risk-reducing measures have already been initiated or implemented.

Reported risk scenarios cover a range of ongoing issues of various sizes relating to business operation in the companies. Several key risk factors of an operational nature, including the following, are of significance for the Group's businesses: Operational downtime will result in a significant financial risk for several of the Group's companies. One example is damage to turbines in the company's hydropower production plants, which could result in production activities being unable to fully utilise water resources. Operating downtime also involves costs for the company's distribution activities within Heat and Networks. Operational downtime, faults or security breaches at key staff functions, for example ICT, could be critical for the Group's operational activities. Hafslund therefore attaches importance to clarifying responsibility allocation and preventing downtime. As part of this process the Group implements a number of measures including a separate ICT security policy.

Operational risk may to a greater or lesser extent be covered by insurance. Hafslund's insurances include cover for unforeseen events and the destruction of the company's own production and network facilities caused by natural hazards or fire, liability insurance for damage caused to third parties and insurance that covers loss as a result of criminal acts.

Remuneration

Remuneration paid to the Board of Directors and Group management in 2011

The stated holding of shares in Hafslund relates to Hafslund Class B shares with the exception of the following individuals and related parties who also own Class A shares: Christian Berg (3,000), Tore Schiøtz (6,200), Finn Bjørn Ruyter (5,000) and Kristin Bjella (800). The loans which have been extended to senior executives are interest-free and are written down by a tenth of the original amount per year. The benefit is included under “Fixed salary etc.”, and the interest benefit is reported. Including fees for participation in the Audit Committee and Compensation Committee, the total amount payable in fees to Hafslund ASA’s Board of Directors in 2011 amounted to NOK 2.5 million,

Other terms and conditions, CEO

The President and CEO has a six-month period of notice. On leaving the company he is entitled, upon certain conditions being met, to continue receiving salary payments for 18 months after the notice period has come to an end. On voluntary retirement the CEO receives, upon certain conditions being met, an amount equal to the present value of a paid-up pension policy on salary exceeding 12 times the National Insurance Scheme’s basic amount (G) for the time he has held the position. The retirement age is 67 with a mutual right to terminate employment with early retirement pension at 60, provided 10 years have been served in the position. The early retirement pension is set at 67 percent of basic salary from the age of 60 until reaching the normal retirement age. The CEO is entitled to a bonus capped at 50 percent of fixed salary. The bonus is determined annually based on Group, company, business and objective individual targets plus a subjective individual evaluation.

Terms and conditions relating to other members of Group management

Other members of Group management are entitled, under certain circumstances, to

12–18 months' salary on leaving the company. Remuneration consists of a fixed salary and a bonus scheme capped at 30, 50 or 75 percent of the fixed salary. The bonus is determined annually based on Group targets, company targets/business targets, objective individual targets and a subjective individual evaluation. Partly for historical reasons, remuneration deviates in some cases from the Group's guidelines for senior executive pay. Group management, with the exception of Finn Bjørn Ruyter, are members of the ordinary defined-benefit pension schemes. Ruyter was employed after the defined-benefit pension scheme was closed to new members, and is covered by the same defined contribution scheme as other new employees.

Further information

For supplementary information on corporate governance please refer to:

- Hafslund's guidelines on corporate governance, which are available at hafslund.com
- Hafslund's guidelines on corporate social responsibility, which can be viewed at hafslund.com
- The Group's Articles of Association, which are displayed at hafslund.com

Remuneration paid to the Board of Directors and Group management in 2011

Name	Position	Salary and board fees	Bonus (2)	Pay at termination of employment (3)	Benefits in kind	Pension scheme contributions	Loan 31.12.11	Number of shares 31.12.11
Christian Berg (4)	President and CEO (until January 6th 2012)	3 211 290	365 395		145 655	1 107 004	582 905	18 656
Finn Bjørn Ruyter (8)	Senior Vice President	2 478 565	316 045		146 116	50 208	530 000	5 000
Per Kristian Olsen (5)	Senior Vice President	2 296 207		4 467 167	90 186	1 017 002	562 905	10 856
Jan Presttun	Senior Vice President	1 983 567	203 406		121 760	134 339	462 905	3 056
Kari Ekelund Thørud	Senior Vice President	2 040 126	308 720		149 382	225 270	472 905	427
Tore Schiøtz (6)	Senior Vice President	2 237 479	1 461 300	4 640 004	440 670	1 048 449	452 905	9 429
Tove Pettersen	Senior Vice President	1 445 592		2 623 904	116 917	202 220	52 905	4 256
Karen Onsager	Senior Vice President	1 726 077	123 070		135 473	214 212	344 571	427
Anders Østby	Senior Vice President	1 182 229	203 571		80 619	249 286	233 333	437
Jens Auset	Senior Vice President	1 248 478	199 288		70 768	295 842	597 905	3 056
Birger Magnus (7)	Chairman of the Board	446 000						
Ole Ertvaag	Board member	210 500						
Hanne Harlem	Board member (until April)	107 000						
Hans Kristian Rød (1)	Board member	210 500						
Kristin Bjella (7)	Board member	257 166						1 000
Maria Moræus Hanssen (7)	Board member	224 000						
Susanne	Board member	257 166						

Jonsson (1) og (7)						
Odd Håkon Hoelsæter	Board member (from May)	113 500				
Per Orfjell (7)	Employee representative	1 029 300	79 156	176 788	182 905	252
Per Luneborg	Employee representative	564 101	8 760	-		277
Tyra Marie Hetland (7)	Employee representative	814 181	6 760	15 850		100

1) Jonsson and Rød and their related parties do not own any shares in Hafslund. Fortum, on the other hand, which Jonsson og Rød represent, owns 37,853,110 Class A shares and 28,706,339 Class B shares in Hafslund.
2) Applies to bonuses earned in 2011 and paid in 2012
3) The amounts were paid in 2012 in connection with the cessation of employment relationships
4) Christian Berg stepped down as President and CEO on 6 January 2012 and ceased employment on 9 April 2012. Berg has received his standard salary until the cessation of his employment on 9 April. In connection with the cessation of the employment relationship the accrued occupational pension which is reported as accrued pension costs annually in the table above was paid.
5) In addition to his final pay, Per Kristian Olsen will also receive a lump sum of NOK 990,385 for pension earnings up to 67 years of age. This amount is included in the pension cost column.
6) In connection with the decision for a controlled downscaling of the Venture business area at the end of 2010, a special agreement was entered into with Tore Schitz. The purpose of the agreement was to ensure optimum release of capital of the values that were engaged through a “performance-based stay on bonus”, in a period where it was decided to downscale the business area. This agreement replaced the ordinary termination payment agreement. In addition to his final pay (6 months’ notice + 18 months’ termination pay), Tore Schitz has also received compensation of NOK 293,780 and NOK 698,966 for the discontinuance of pension earnings and payments in kind respectively, covering 24 months. The amounts are included in the columns “payments in kind” and “pension costs” above.
7) Includes remuneration for work in the audit committee and compensation committee.
8) Senior Vice President Finn Bjørn Ruyter became acting President and CEO from 6 January 2012.

Declaration regarding determination of salary and other remuneration for senior executives

The Board of Directors of Hafslund ASA will at the Annual General Meeting 2011 present the following declaration regarding determination of salary and other remuneration for senior executives pursuant to Section 6-16a of the Public Limited Companies Act, based on the Group’s previously adopted guidelines for determination of compensation for senior executives in Hafslund.

The board’s Compensation Committee

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

Guidelines regarding determination of salary and other remuneration for senior executives at Hafslund

Remuneration to the CEO

Remuneration to the CEO must be competitive in relation to responsibilities and the industry. The remuneration must furthermore act as an incentive to long-term creation of value through development of the enterprise, positive profit and share price performance, and reflect the experience and expertise level of the employee. Remuneration will consist of fixed salary, performance-based salary of up to 50 per cent of the basic salary, pension and interest and instalment-free loans. The CEO will receive benefits in kind on the same level as other senior executives in the Group. The period of notice must equal at least six months.

Remuneration for senior executives and other executives

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

Fixed salary

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

Loans

Interest-free loans that are written down over 10 years in accordance with adopted guidelines can be given for purchase of a car. In addition, an annual operating subsidy can be awarded, as determined by the administration. Should the senior executive not have need for a car, the loan can still be taken out on the same terms against other satisfactory collateral.

Benefits in kind

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

Vacations

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

Annual bonus

A bonus system has been established to create an incentive for additional effort and value creation. The bonus will be disbursed on the basis of the added value created by the employee or group of employees.
The bonus scheme is limited upwards to 50 per cent of fixed salary depending on the level of the position. The main rule is a ceiling of 30 per cent of basic salary for the Group management (level 1) and a ceiling of 20 percent of basic salary for level 2. Any exceptions from the main rule must be specifically agreed with the CEO or the board. The bonus is set annually and the Group targets are set by the board. The measured criteria in addition to the Group targets for the individual employee, as well as weighting of targets are set by the employee's immediate supervisor based on:

- Group targets x per cent of maximum bonus
- Company targets/enterprise targets x per cent of maximum bonus.
- Individual objective targets x per cent of maximum bonus.

- Subjective individual assessment up to x per cent of maximum bonus.

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

The annual bonus will be disbursed after presentation of the Group's annual financial statements. Disbursed bonus is not included in the calculation of vacation pay and pension benefits. Should legislation require such benefits to be calculated on the basis of salary including bonus, the bonus will be reduced by as much as necessary to limit bonus including other benefits to the total value determined by the provisions above.

Share schemes

The CEO and Group management are covered by the Group's share schemes for all employees. To strengthen the bonds between the employees and the Group, the company should annually consider giving all employees the opportunity to buy shares in Hafslund. The share offer should be viewed in the context of the total salary settlement for the Group. In 2011 all employees were offered the chance to purchase 100 B shares at a 20 percent discount, financed by an interest-free loan. 538 employees made use of the offer and the shares were issued at a rate of NOK 62.50 per share.

Option schemes

The Group does not use option schemes.

Pension

The CEO and Group management shall have a pension scheme in accordance with the current pension scheme for the Group, unless otherwise agreed with the board. The retirement age for these individuals should normally be 67. The CEO and Group management are entitled to take early retirement in accordance with the current AFP agreement.

Period of notice and pay after termination of employment

The CEO and Group management should have a six-month period of notice. In specific cases and depending on the position concerned, salary payments may continue to be made for 12–18 months after employment has been terminated. As regards the implementation of the Group's executive salary policy for 2010, the Group's guidelines were adopted most recently on 20 March 2007. The guidelines were first adopted on 27 October 2006. Following the adoption of the guidelines, the Group has started the work of implementing them, but will continue to respect agreements made previously. Salary, bonus and other benefits to senior executives for 2011 have been presented in the 2011 annual report.

Hafslund's governing bodies

Nomination Committee
The Nomination Committee is chosen by the General Meeting and is charged with proposing candidates to the board and with recommending the board's and board committees' remuneration. The Committee consists of three members, elected for two years at a time.

Compensation Committee
The Compensation Committee has been established by the board to handle cases which concern remuneration paid to the President and CEO. The Committee should keep itself informed of all remuneration schemes for executive Group employees. The Committee consists of three representatives of the board, one of whom is an employee representative.

Audit Committee
The Audit Committee is elected by and from members of the board. The Audit Committee prepares matters for consideration by the board, which shall support the board in exercising its responsibility for financial reporting, auditing, internal control and risk management.

Auditors
The company's auditor is elected by the General Meeting and is charged with investigating the board and management's administration of the company. The auditor should be independent. The auditor reports to the General Meeting, participates in board meetings when the annual financial statements are discussed and submits his or her views on the Group's accounting policies and internal control procedures to the board.

Annual General Meeting

The shareholders primarily exercise their rights by participating and voting at the General Meeting, which is Hafslund's highest governing body. The General Meeting discusses cases in accordance with Norwegian legislation, including approving the annual financial statements and report of the Board of Directors, distribution of dividends, election of sub-committees and the auditor, as well as changes in the Articles of Association.

Equal treatment of shareholders is a basic principle. Notification of the General Meeting and associated documentation, including the recommendation of the Nomination Committee, should as far as possible be made available on the company website no later than 21 days before the date of the General Meeting. Hafslund ASA should send out the notification, including any associated documentation and the recommendation of the Nomination Committee, to all registered shareholders no later than 14 days before the date of the General Meeting.

The board

According to Norwegian law, the board is responsible for the management of Hafslund. It should seek to secure the responsible organisation of the business, monitor management and approve plans, budgets and necessary guidelines for the Group and its subsidiaries.

Members of the Board of Directors are elected for two-year periods and must satisfy impartiality requirements. None of the board members elected by the shareholders are Hafslund employees. The board comprises eight representatives, three of whom are elected by the employees. Two board members represent the second-largest owner, Fortum. The board evaluates its own performance once a year.

President and CEO

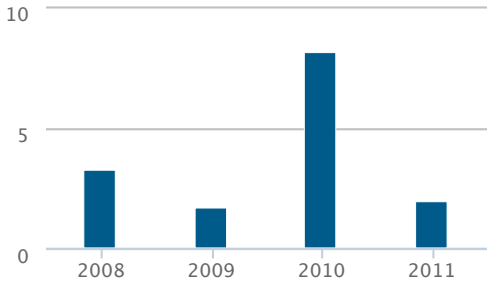
Hafslund's President and CEO is responsible for the day-to-day management of the company's activities. The division of responsibilities between the board and the President and CEO is defined in instructions for Hafslund's Board of Directors.

Group management

Group management consists of the President and CEO and the Group Senior Vice Presidents heading Hafslund's business units and central administrative functions. The Group Senior Vice Presidents assist the President and CEO in managing and monitoring business unit activities and on reporting to the company's Board of Directors.

Earnings per share excl. REC (NOK)

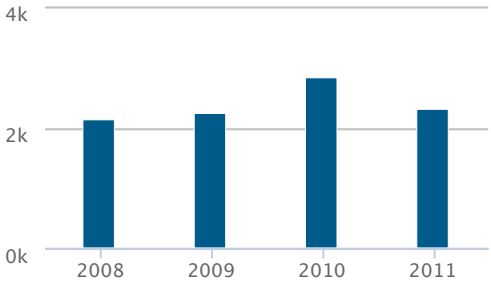
NOK



VIS STØRRE GRAF

EBITDA core business

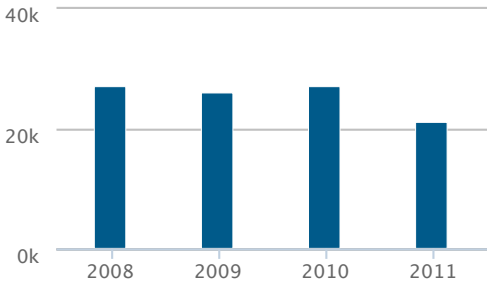
MNOK



VIS STØRRE GRAF

Capital employed Group

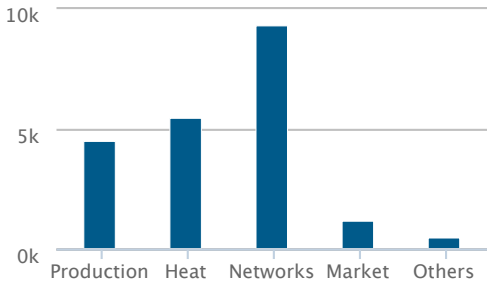
MNOK



VIS STØRRE GRAF

Capital employed per business area

MNOK



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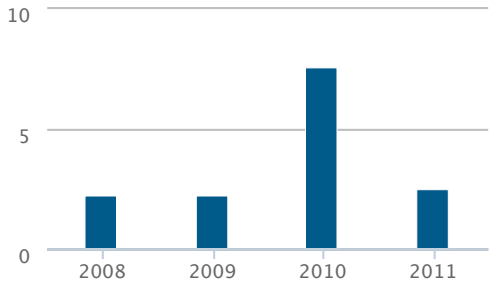
Dividend per share

NOK



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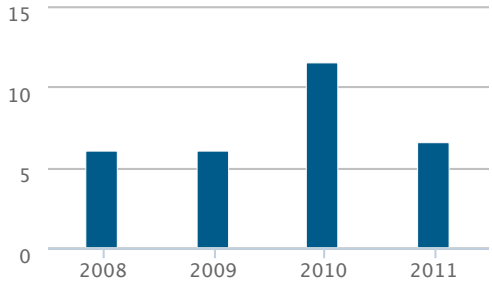
Return on capital employed

Per cent



VIS STØRRE GRAF

Analytic information

Business segments - key figures

	Power production			Heat			Networks		
NOK million	**2011**	**2010**	**2009**	**2011**	**2010**	**2009**	**2011**	**2010**	**2009**
INCOME STATEMENT									
Sales revenues	**1 024**	1 220	866	**1 120**	1 259	796	**4 202**	4 804	3 385
Other (losses)/gains - net	**(24)**	20	(4)						
Cost of sales				**(598)**	(727)	(406)	**(1 909)**	(2 608)	(1 217)
Personalkostnader	**(37)**	(34)	(35)	**(67)**	(47)	(49)	**(166)**	(64)	(177)
Other operating expences	**(194)**	(205)	(176)	**(196)**	(171)	(133)	**(1 143)**	(1 054)	(956)
EBITDA	**769**	1 001	651	**259**	314	208	**983**	1 077	1 035
Depreciation, amortisation and impairments		(43)	(43)	**(157)**	(151)	(136)	**(514)**	(546)	(542)
Operating profit	**724**	**958**	**608**	**102**	**163**	**72**	**469**	**532**	**493**
OTHER KEY FIGURES									
Investments in operations	**62**	170	174	**463**	518	572	**444**	489	528
Capital employed	**4 464**	4 395	4 314	**5 464**	5 280	4 756	**9 257**	9 668	9 396
Number of employees	**42**	40	37	**71**	72	67	**212**	203	198

	Market			Other businesses and elminiations			Group		
NOK million	**2011**	**2010**	**2009**	**2011**	**2010**	**2009**	**2011**	**2010**	**2009**
INCOME STATEMENT									

Sales revenue	**7 275**	8 289	5 062	**84**	257	562	**13 704**	15 829	10 670
Other (losses)/gains - net	**(85)**	16	19	**(940)**	(971)	(72)	**(1 050)**	(934)	(57)
Cost of sales	**(6 297)**	(7 323)	(4 292)	**(211)**	(213)	(449)	**(9 015)**	(10 871)	(6 364)
Personalkostnader	**(233)**	(173)	(154)	**(360)**	(264)	(357)	**(864)**	(582)	(772)
Other operating expences	**(366)**	(350)	(278)	**269**	261	143	**(1 630)**	(1 520)	(1 401)
EBITDA	**293**	460	356	**(1 159)**	(930)	(174)	**1 145**	1 923	2 076
Depreciation, amortisation and impairments	**(16)**	(17)	(12)	**(70)**	(513)	(149)	**(803)**	(1 270)	(882)
Operating profit	**277**	**442**	**344**	**(1 228)**	**(1 442)**	**(323)**	**343**	**653**	**1 194**

OTHER KEY FIGURES									
Investments in operations	**107**	11	10	**139**	345	375	**1 215**	1 533	1 663
Capital employed	**1 215**	3 391	2 080	**519**	4 294	5 324	**20 919**	27 028	25 870
Number of employees	**492**	447	293	**390**	361	384	**1 207**	1 123	979

Group - key figures

	Definition	Unit	2011	2010	2009
RESULTAT EKSKLUSIVE REC					
Sales revenue		NOK million	**13 704**	15 829	10 670
EBITDA		NOK million	**2 235**	3 914	2 213
Operating profit		NOK million	**1 433**	2 644	1 331
Profit before tax and discontinued operations		NOK million	**849**	2 173	670
Net profit of the year		NOK million	**388**	1 583	335
REC effect on operating profit		NOK million	**(1 090)**	(1 991)	(137)
REC effect on net profit for the year		NOK million	**(1 086)**	(1 975)	(137)
CASH FLOW					
Net cash flow from operations	1	NOK million	**3 510**	565	1 879
Investments in operations and expansion		NOK million	**1 215**	1 702	1 698
RETURN EXCLUDING REC					
Return in equity (ROE)	2	%	**4,2**	16,4	2,9
Return on capital employed (ROCE)	3	%	**6,6**	11,5	6,0
CAPITAL STRUCTURE AS OF 31 DEC					
Total assets		NOK million	**24 710**	29 613	28 918
Capital employed	4	NOK million	**20 919**	27 028	25 870

Equity		NOK million	**8 131**	10 464	11 154
Equity ratio	5	%	**33**	35	39
Net interest-bearing liabilities	6	NOK million	**9 321**	13 067	11 601
Net interest-bearing liabilities/EBITDA			**4,2**	3,3	5,2
Unused drawdown facilities		NOK million	**4 400**	3 692	4 558
Percentage of variable borrowings		%	**53**	67	58
SHARE-RELATED KEY FIGURES					
Number of A shares		'000	**115 428**	115 428	115 465
Number of B shares		'000	**79 759**	79 759	79 759
Number of treasury B shares		'000	**397**	451	451
Share price as of 31 Dec A shares		NOK	**58,00**	70,00	69,75
Share price as of 31 Dec B shares		NOK	**58,00**	69,25	68,75
Listed price	7	NOK	**1,99**	8,11	1,71
Earnings per share excluding REC	8	NOK	**17,98**	2,89	9,62
Cash flow per share from operations		NOK	**2,50**	7,50	2,25
Dividend per share	9	%	**126**	92	131
Payout ratio excluding REC					
Power production					
Sales price		NOK/MWh		39	27
Production volume		GWh	**3 135**	3 041	3 018
Production as % of normal production	10	%	**101**	101	97
Heating					
District heating (including distribution)		'000	**71**	72	61
District heating production cost		'000	**36**	39	28
District heating contribution		'000	**35**	33	33
District heating production		GWh	**1 548**	1 782	1 382
Energy production Østfold		GWh	**280**	246	93
Energy price Østfold		'000	**26**	25	
Waste Østfold		tonnes	**129**	114	57
Networks					
NVE capital 31 Dec		NOK million	**6 063**	6 160	6 045
NVE interest		%	**5,3**	5,6	6,2
Revenue ceiling excl. transmission costs		NOK million	**2 312**	2 891	2 461
Adjusted contribution		NOK million	**1 916**	2 287	2 106
Effect on profit income surplus/(deficit)		NOK million	**212**	(203)	(16)

Cumulative income surplus/ (deficit) as of 31 Dec	NOK million	**155**	(57)	143
Number of customers 31 Dec	'000	**552**	545	541
Market				
Sales volume power sales	GWh	**15 474**	15 867	13 238
Number of wholly or partly owned customers power sales	000	**878**	850	656
Gross margin power sales	øre/kWh	**4,2**	4,2	3,7
Other business - operating profit/loss				
Staff and support functions		**(133)**	(104)	(151)
BioWood		**(80)**	(384)	(8)
Embriq		**(1)**	(49)	(52)
Financial income etc. (incl. REC)		**(1 014)**	(954)	(59)
Other		**-??**	**49**	**(53)**
Total operating profit/loss	NOK million	**(1 228)**	(1 442)	(323)

DEFINITIONS
1. Net cash generated from operations = as defined in the consolidated statement of cash flows
2. Return on equity = Result for the year/Average equity including non-controlling interests
3. Return on capital employed = Operating result/Average capital employed
4. Capital employed = equity + net interest-bearing liabilities + net tax positions
5. Equity ratio = Equity/Total assets
6. Net interest-bearing liabilities = Interest-bearing liabilities