Consolidated balance sheet

		31 December	
NOK million	Notes	**2012**	**2011**
Assets			
Property, plant and equipment	6	**18 365**	18 632
Intangible assets	7	**2 432**	2 379
Investments in associates	9	**560**	426
Long-term receivables	12, 19	**712**	462
Non-current assets		**22 069**	**21 899**
Inventories		**82**	61
Trade and other receivables	10, 13	**2 333**	1 708
Derivatives	3, 10	**87**	26
Financial assets	10, 11	**1**	102
Cash and cash equivalents	10, 14	**223**	870
Current assets		**2 725**	**2 767**
Total assets		**24 794**	**24 666**
Equity and liabilities			
Paid-in equity	15	**4 275**	4 275
Retained earnings		**3 280**	3 833
Non-controlling interests		**20**	23
Equity		**7 575**	**8 131**
Borrowings	10, 17	**8 422**	9 047
Deferred income tax liability	18	**3 104**	3 186
Pensions and similar obligations	19	**169**	
Long-term liabilities		**11 695**	**12 233**
Trade and other current payables	10, 16	**1 993**	2 133
Derivatives	3, 10	**74**	86
Income tax payable	25	**338**	280
Borrowings	10, 17	**3 119**	1 802
Current liabilities		**5 524**	**4 302**

Total liabilities	**17 219**	**16 535**
Total liabilities and equity	**24 794**	**24 666**

The Board of Directors of Hafslund ASA

Oslo, 19 March 2013

Birger Magnus
Board Chairman

Maria Moræus Hanssen
Deputy Chairman

Ellen Christine Christiansen

Hans Kristian Rød

Odd Håkon Hoelsæter

Jane Koppang

Per Orfjell

Per Luneborg

Finn Bjørn Ruyter
President and CEO"

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

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Consolidated income statement

		1 January - 31 December	
NOK million	Notes	2012	2011
Sales revenues	5	**11 466**	13 704
Purchases of goods and energy		**(6 830)**	(9 015)
Employee benefit expenses	19, 22, 23	**(908)**	(864)
Result of investment in Renewable Energy Corporation ASA (REC)	11		(1 090)
Other (losses)/gains - net	20	**117**	17
Other operating expenses	21	**(1 752)**	(1 630)
Share of profit/(loss) from associates	9	**20**	23
Operating profit before depreciation, amortisation and impairments		**2 113**	**1 145**
Amortisation	6, 7, 8	**(777)**	(803)
Impairment losses	6, 7, 8	**(482)**	
Operating profit/loss		**854**	**343**
Finance cost	24	**(557)**	(584)
Profit/(loss) before tax		**297**	**(241)**
Income tax expense	25	**(349)**	(456)
Profit/loss for the year		**(52)**	**(698)**
Attributable to:			
Owners of the parent		**(50)**	(695)
Non-controlling interests		**(2)**	(2)
Earnings per share for share of annual result attributable to the company's shareholders (NOK per share)			
Earnings per share (= diluted earnings per share)	15	**(0,3)**	**(3,6)**

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

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Consolidated statement of cash flows

		1 January - 31 December	
NOK million	Notes	2012	2011
Cash flow from operations	26	**1 076**	**4 540**
Interest paid		**(480)**	(540)
Income tax paid		**(359)**	(490)
Net cash generated from operations		**236**	**3 510**
Investments in operations and expansion	6, 7	**(1 084)**	(1 176)
Sales of property, plant and equipment		**8**	329
Purchase of shares			(28)
Capital released on sale of shares, etc.		**28**	2 349
Cash flow from investing activities		**(1 048)**	**1 473**
New long-term borrowings		**3 545**	4 832
Repayments of borrowings		**(2 904)**	(7 731)
Dividends and other equity transactions		**(484)**	(1 445)
Cash flow from financing activities		**156**	**(4 344)**
Change in cash and cash equivalents		**(656)**	**639**
Cash and cash equivalents as of 1 January		**870**	211
Currency gains/(losses) cash and cash equivalents		**9**	19
Cash and cash equivalents as of 31 December	10, 14	**223**	**870**

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

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Consolidated statement of changes in equity

NOK million	Notes	Share capital	Share premium account	Other paid-in equity	Fund	Translation differences	Retained earnings	Equity attributable to owners of the parent	Non-controlling interests	Total earnings
Equity as of 1 January 2011		195	4 080	76	192	15	5 900	10 458	5	10 464
Result 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							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**		**15**	**3 741**	**8 107**	**23**	**8 131**
Result for the year							(50)	(50)	(2)	(52)
Other comprehensive income						(13)	(1)	(14)		(14)
Total comprehensive income for the year						**(13)**	**(51)**	**(64)**	**(2)**	**(66)**
Transactions with owners:										
Change in non-controlling interests									(1)	(1)
Dividend for 2011							(487)	(487)		(487)
Other equity effects							(2)	(2)		(2)
Equity as of 31 December 2012		**195**	**4 080**	**76**		**2**	**3 203**	**7 554**	**20**	**7 575**

The Board has proposed a dividend of NOK 2.50 per share for the 2012 financial year. The corresponding figure for 2011 was NOK 2.50 per share.

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

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Consolidated statement of comprehensive income

		1 January - 31 December	
NOK million	**Notes**	**2012**	**2011**
Loss for the year		**(52)**	**(698)**
Other comprehensive income			
Reclassification of prior upregulation of REC to profit from the sale	11		(194)
Tax on value adjustments on investment in REC			2
Value adjustments on hedging contracts		**(1)**	
Currency translation differences		**(13)**	
Other comprehensive income for the year		**(14)**	**(192)**
Total comprehensive income for the year		**(66)**	**(890)**
Attributable to:			
Owners of the parent		**(64)**	(888)
Non-controlling interests		**(2)**	(2)
Total comprehensive income for the year		**(66)**	**(890)**

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

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Notes Group

Notes Group

Note 1 General information

Hafslund ASA ("the company") and its subsidiaries (together "Hafslund" or the "Group") are one of the largest listed energy 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 and Swedish market. The company is headquartered in Oslo and is listed on the Oslo Stock Exchange. The consolidated financial statements were adopted by the company's board on 19 March 2013.

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Note 2 Summary of significant accounting policies

The principal accounting polices applied in the preparation of the Group's consolidated financial statements are described below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and interpretations issued by the IFRS Interpretation Committee IFRIC, as established by the EU. These financial statements contain no differences between IFRS 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 conformity with IFRS requires the use of estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. Areas which make extensive use of discretionary assessments or involve a high degree of complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are described in Note 4.

The consolidated financial statements have been prepared in accordance with the going concern principle.

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 2012 financial statements that are deemed to have a material impact on the consolidated financial statements.

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

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

- IAS 1 Presentation of Financial Statements has been amended and entails that items in other comprehensive income shall be divided into two groups, those which will later be reclassified through profit and those which will not. This change does not affect which records are included in other comprehensive income.
- 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 (asset). See Note 2.18 for more information about the consequences of the amendments to IAS 19.

- IFRS 9 Financial Instruments regulates the classification, measurement and accounting of financial assets and liabilities. IFRS 9 was published in November 2009 and October 2010, and replaces those sections of IAS 39 dealing with accounting, classification and measurement of financial instruments. Under IFRS 9, financial assets should be 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. Requirements for financial liabilities are mainly similar to 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. Hafslund has not yet considered the full scope of the impact of the standard on its financial statements, but expects to apply IFRS 9 when the standard enters into force and has been approved by the EU. The standard enters into force for accounting periods beginning on or after 1 January 2015. The Group will also examine the consequences of the remaining portions of IFRS 9 once they have been finalised by the IASB.

- IFRS 10 Consolidated Financial Statements is based on current policies regarding the concept of control as the determining factor for whether a company should be included in the consolidated financial statements of the parent company. The standard is not expected to impact the consolidated financial statements. The standard enters into force for accounting periods beginning on or after 1 January 2014.

- IFRS 12 Disclosures of Interest in Other Entities contains information requirements for economic interests in subsidiaries, joint ventures, associates, special purpose entities (SPE) and other off-balance sheet companies. Hafslund has not reviewed the full impact of IFRS 12. The Group is planning to apply the standard to accounting periods beginning 1 January 2014.

- IFRS 13 Fair Value Measurement defines what is meant by the term "fair value" in IFRS, provides a uniform definition of how fair value should be determined in IFRS and defines additional information should be provided when fair value is used. The standard only provides guidance on the application method where the use is already required or permitted in other IFRS standards. Hafslund uses fair value as a measurement criterion for certain assets and liabilities. Hafslund has not reviewed the full impact of IFRS 13, but it is not expected to have a material effect on the financial statements. The Group plans to apply the standard for the financial year 2013.

- 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. Hafslund has not reviewed the full impact of IFRS 11, but is not expected to have a material effect on the financial statements. See Note 9 for more information on proportionate consolidation. The standard enters into force for accounting periods beginning on or after 1 January 2014.· IAS 1 Presentation of Financial Statements has been amended and entails that items in other comprehensive income shall be divided into two groups, those which will later be reclassified through profit and those which will not. This change does not affect which records are included in other comprehensive income.

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.

2.2 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 Group also evaluates whether control exists with less than 50% of voting rights, when, in practice, the Group is able to exercise control over financial and operating policies (so-called de facto control). De facto control can arise in situations where other voting rights are distributed among a large number of owners who are not realistically in a position to organise their voting. In the assessment of de facto control, the determining factor is whether the Group can select the board members it wants.

The purchase method is applied for business acquisitions. The consideration is measured at the fair value of any transferred assets, liabilities or issued equity instruments. Identifiable assets and liabilities and contingent liabilities assumed in a business combination are initially measured at their fair value at the acquisition date. Non-controlling interests in the acquired company are measured on an acquisition-by-acquisition basis, either at fair value, or at their proportionate share of the company's net assets. Acquisition-related costs are expensed as incurred.

When a business is acquired in stages the shareholding from previous purchases is revalued at fair value at the time control is established with changes in value being recognised in 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 amount of the consideration, the fair value of non-controlling interests and potentially the fair value on the date of acquisition of previous non-controlling ownership interests exceeds the fair value of the identifiable net assets of the acquired company, the difference is recorded as goodwill, cf. Note 2.6. If the sum is less than the company's net assets, the difference is recognised.

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 shareholders, the difference between the remuneration and the share's proportionate carrying amount of the subsidiary's net assets is recorded in equity for the parent company's shareholders. Gains or losses on disposals to non-controlling shareholders are also recorded in equity.

When the Group no longer has control, any remaining shareholdings are recognised at fair value, with changes in carrying amount recognised in 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 all entities over which Hafslund ASA has significant influence but not control. This will generally be the case when the Group has a shareholding of between 20 and 50 per cent of the voting rights. Investments in associates are recognised in accordance with the equity method. 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. The Group does not recognise any share of an associate's losses in its income statement if this results in the book value of the investment falling below zero (including unsecured receivables from the entity), unless the Group has assumed liabilities or made payments on behalf of the associate.

At the end of each accounting period the Group determines whether there is any need to recognise an impairment of the investment in the associate. In such cases the impairment amount is measured as the difference between the recoverable amount of the investment and its book value, and the difference is recognised in income on a separate line together with the item "Share of profit/(loss) 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 assets in an associate where the Group maintains significant influence, only a proportionate 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 owns a 49 per cent stake in Energibolaget i Sverige Holding AB, and together with other shareholders has a controlling interest in 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. See also Note 9.

2.3 Segment information

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

2.4 Translation of foreign currencies

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 Norwegian kroner (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 at 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 sheet for 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 costs 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 replaced parts is recognised. Other repair and maintenance expenses are recognised in profit and loss 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 useful life and residual value of operating assets are assessed on every balance sheet date and amended as necessary. 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 disposals are recognised in the income statement under "Other (losses)/gains – net", as the difference between the sales price and the carrying amount.

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 is the difference between the initial carrying amount of an acquisition and the fair value of the Group's share of the entity's net identifiable assets at the time 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. In subsequent evaluation of the need to recognise an impairment, goodwill is allocated to those cash-generating units that are expected to benefit from the acquisition. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

c) Customer portfolios

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

d) Acquisition costs (Customer purchase order)

Acquisition costs for access to new customers through defined sales channels are carried at cost less deductions for cumulative amortisation. Customer purchase orders have a limited useful economic life and are recognised based on the estimated lifetime of the customer relationship. Hafslund has chosen to write off such acquisition costs using the straight-line method over five years, based on accumulated experience. Acquisition costs include direct costs to sell only, and each customer portfolio is considered on an individual basis.

2.7 Impairment of non-financial assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and 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. Management determines the classification of its financial assets on initial recognition.

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 balance sheet date. 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 it within 12 months of the end of the reporting period.

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 reclassified in 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 equity instruments recognised in the separate consolidated income statement are not reversed through the separate consolidated 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 initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at fair value on an ongoing basis. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as hedges in the following hedge types:

- Hedges with variable cash flows with a particular risk associated with a recognised asset, liability or a highly probable forecast transaction (cash flow hedge).

At the inception of the hedge relationship, the Group documents the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The Group documents whether the hedging instrument that is used in a hedging relationship is highly effective in offsetting changes in

fair values or cash flows of the hedged item. Such assessments are documented both at hedge inception and on an ongoing basis during the hedge period.

The fair values of derivatives used for hedging purposes are presented in Note 10. Changes in equity as a result of hedging activities, and which are recognised in other comprehensive income are listed in other comprehensive income for the Group. The fair value of a hedging derivative is classified as a fixed asset or long-term liability if the remaining term of the hedging item is more than 12 months and as a current asset or current liability if the remaining term of the hedging item is less than 12 months. Trading derivatives are classified as current assets or current liabilities.

a) Cash flow hedging

The effective portion of changes in the fair value of derivatives that are designated and qualify as hedging instruments in cash flow hedges is recognised directly in other comprehensive income. The gain or loss relating to the ineffective portion is recognised as “Other (losses)/gains – net”.

Amounts previously recognised in other comprehensive income and accumulated in equity are reclassified to profit or loss in the periods when the hedged item is recognised in profit or loss (for example, upon the planned sale of a hedged item). Gains or losses on the ineffective portion are recognised in the income statement as “Other (losses)/gains – net”.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss recognised in other comprehensive income and accumulated in equity are transferred from equity to profit or loss and recognised when the hedge transaction is recognised in the income statement. When a hedged transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the “Other (losses)/gains – net” line item.

Licensed power

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

El-certificate

Hafslund purchases el-certificates both spot and through forward contracts. At the end of 2012, Hafslund’s holding of el-certificates lies with the power trading division. Physical contracts are valued at net realisable value and forward contracts at fair value, see Note 3 and 10.

2.11 Inventories

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

2.12 Trade receivables

Trade receivables are initially recognised at fair value. Trade receivables are 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 account

Ordinary shares are classified as equity. Expenses directly connected to the issue of new shares or options net of tax are recognised as a reduction in consideration received in equity. Where any Group company purchases the company’s equity share capital (attributable to parent company equity holders), the consideration paid, including any directly attributable incremental costs, net of income taxes, is deducted from equity attributable to the company’s equity holders until the shares

are cancelled or reissued. Where such shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to parent company equity holders.

2.15 Trade payables

Trade payables are recognised initially at fair value in the balance sheet. Trade payables are subsequently carried 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 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 for the period comprises current and deferred income 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-dependent 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 1.3 per kWh. Natural resource tax can be offset against general income tax, and natural resource tax not offset can be carried forward including interest.

Resource rent tax comprises 30 per cent 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 per cent of the official property valuation. General income tax and resource rent tax are recognised as ordinary taxes. Property tax is recognised as an operating expense in the income statement.

2.18 Pension liabilities, bonus schemes and other employee remuneration schemes

a) Pension liabilities

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

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 in respect of defined benefit pension schemes is the present value of the defined benefit obligation at the end of the reporting period less the fair value of pension assets, together with adjustments for unrecognised past-service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefits is determined by discounting estimated future payments at the interest rate on a bond issued by a company with a high credit rating (the Norwegian Covered Bonds market interest rate) in the same currency in which the benefits will be paid, and with a term that is approximately the same as the term of the related pension liability. Hafslund has chosen to apply the Norwegian Covered Bonds market interest rate based on systematic tests conducted by the company's actuary, Gabler Wassum AS, as to whether there is a deep and liquid market for corporate bonds with high credit ratings. The results of this review suggest that there is a significant market for corporate bonds with high credit ratings and this is concentrated in the Norwegian Covered Bonds market. Moreover, the Norwegian market has become better developed after the financial crisis and has a high credit rating, which also indicates that the bonds have a high credit worthiness. The average remaining vesting period of the beneficiaries of defined benefit schemes is calculated at around 13 years.

Estimate deviations attributable to new information or changes in actuarial assumptions in excess of the higher of ten per cent of the value of pension assets or ten per cent 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.

From 1 January 2013, the Group will change the accounting policy for pensions. 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 (asset).

According to actuarial calculations as of 31 December 2012, the non-recognised estimate deviation (the corridor) amounted to NOK 397 million, which will entail an equity charge of NOK 286 million upon implementation of the amended standard as of 1 January 2013. See also Note 19. In addition, the amount previously included as a pension cost under "Amortisation of estimated losses/(profits)" is transferred to other comprehensive income, for 2012 this amount is NOK 83 million. Furthermore, the calculated net interest cost is based on the discount rate, which will result in an increased pension cost of NOK 26 million. The net effect on pension cost resulting from the amended pension standard is estimated at NOK 57 million in reduced costs for 2012 revised.

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 and constructive obligations to pay further contributions if the entity does not have sufficient assets to pay all employees the benefits in line with their entitlements for the current and for previous periods. The contributions are recognised as an employee benefit expense when they are due.

b) Bonus schemes

The Group recognises a liability and an expense for bonuses and profit-sharing, based on a formula that takes into consideration both the profit attributable to the parent company's shareholders and certain adjustments. The Group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

The Group recognises a liability and an expense on allocation of treasury shares to employees. Expenses are recognised on a straight-line basis over the vesting period and presented as employee benefit expenses. 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 scheme 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 balance sheet date are discounted to the 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 by the Norwegian Water Resources and Energy Directorate (NVE). Permitted income comprises the revenue ceiling established by the regulator (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 2012 was impacted by surplus income of NOK 268 million, in 2011, the surplus income was NOK 212 million. Cumulative surplus income of NOK 425 million at the end of 2012 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 charged to 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 aim of Hafslund's risk management is to identify risks and opportunities facing the Group, and manage in the best possible way within the Group's risk appetite with the aim of achieving its subsidiaries and the Group's objectives. This is best achieved through a proactive approach to risk and a comprehensive risk management model. Risk management should be an integral part of all major decision-making processes in the Group.

Risk management frameworks and instructions comply with the Board-approved policies and related risk mandates. Risk management is generally a key responsibility of each subsidiary's operational management. The Group's activities expose it to a variety of risks. Hafslund is exposed to inherent financial risk associated with the power market as well as to foreign exchange risk, interest rate risk, liquidity risk, and credit risk. The Group uses financial derivatives to hedge certain financiamatul risk exposures. Financial risks that share common features across business areas are largely centralised for optimal management of risk.

a) Power price and volume risk

Several of the Group's result units are exposed to risk associated with the power market. The inherent exposure to the market primarily derives from the Group's ownership of power generation facilities, heat production, distribution grid activities and power sales to customers. For the Business area Heat, there is also an element of risk in that prices are based on customers' alternative (electrical) heating costs. The same applies to the waste-to-energy plants in Sarpsborg and Fredrikstad, where price mechanisms contained in sales contracts mean that revenues are to a lesser or greater extent dependent on the power price. Hafslund also actively takes up contract positions in the power market through the activities of the Group's power trading activities. The Group's power trading unit conducts all trading in the market. In the case of power sales activities, risk management is directed at minimising margin fluctuations.

Power price fluctuations, together with factors (primarily weather conditions) that affect production volumes, are thus of significant importance for the profitability of Hafslund's power generation activities. In 2012, Hafslund gradually changed from mainly spot pricing for the sale of power generated to partial hedging. This change came as a result of a desire to better exploit market outlook and to secure earnings and cash flow, especially in low-price periods. Hafslund hedges some of its hydropower production volume, as well as enters into hedging contracts in the business area Heat, for the next 36 months on an ongoing basis to reduce price risk. In line with the Group's hedging policy, the extent of hedging is expected to be significantly higher in the upcoming six months than in the ensuing period. The extent of hedging may vary significantly, based on an overall assessment of market prices and outlook; the purpose is achieving satisfactory prices and reducing fluctuations in Hafslund's earnings. The extent of hedging is regulated by a risk mandate adopted by the Board of Hafslund ASA. Exposure should be kept within the limits set by the Board and monitored by the Group's risk management function and through reporting to management and the Board of Hafslund ASA.

Hafslund uses Value at Risk 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 2012 the DVaR for Hafslund's aggregate power portfolio amounted to NOK 35 million (2011: NOK 49 million). Most of the risk is attributable to the open exposure in the business areas, Production and Heat. Standardised power market derivative products, such as futures, forwards, CFDs and options, are used to achieve the desired risk-reducing effect in respect of power portfolios. Hedging instruments are mainly traded at or cleared with the Nordic Power Exchange, Nasdaq OMX Commodities.

b) Currency 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. The Group's finance department is responsible for managing the Group's overall foreign exchange exposure on behalf of the individual operating units, and performs all transactions with the market. 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 per cent change in the EUR/NOK and SEK/NOK rates would have an effect on post-tax profits of +/- NOK 15 million as a result of changes in the value of Hafslund's portfolio of currency derivatives as of 31 December 2012 (2011: +/- NOK 4 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 per cent during any single year is less than 10 per cent. 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.

c) Interest rate exposure

Hafslund's operating revenues and cash flow from operations are largely independent of interest rate fluctuations. The Group's network activities are an exception, since there is a significant interest-related component to determination of the revenue ceiling. Under the grid regulatory regime for 2012, the requisite return on employed grid capital is linked to the average annual interest rate on five-year Norwegian government bonds. Regulation of the revenue ceiling for network activities will be changing slightly as of 2013. The inclusion of government bond interest lapses and earnings from the network activities will increasingly vary with actual borrowing costs and inflation. 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 variable-interest 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 2012, the change in credit spreads, viewed in isolation, resulted in a NOK 5 million reduction in the fair value of the loan portfolio (2011: NOK 20 million). Credit spreads are affected by terms, liquidity and risk. The major banks publish estimates for Hafslund's credit spreads with differing terms based on observable prices on the bond market. In calculating changes in the fair value of the loan portfolio due to changes in Hafslund's credit spreads, an interpolated average change in credit spreads is applied for a duration corresponding to the duration of Hafslund's borrowings and interest rate derivatives.

Hafslund's loan portfolio comprises a mixture of fixed-interest and variable-interest loans. Interest rate derivatives are used to reduce fluctuations in cash flow associated with finance costs. By applying frameworks adopted to manage interest rate risk, the board has determined that the proportion of fixed-interest rate loans in the loan portfolio should lie between 30 and 60 per cent. As of 31 December 2012 approximately 52 per cent of the Group's borrowings were subject to variable interest rates (2011: 53 per cent). In a simulation test of sensitivity to major interest rate fluctuations, the portfolio of loans and interest rate derivatives as of 31 December 2012 was tested against a change of +/- 1.5 per cent across the total yield curve. Based on historical data, there is approximately 90 per cent certainty 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 (adjusted for tax effect) by NOK 120 million (2011: +/- NOK 170 million). This takes into account changes in interest expenses as a result of fluctuations in the coupon rate, changes in the fair value of fixed-rate loans and changes in the fair value of interest rate derivatives. Because the regulated revenue ceiling for network activities also varies with interest rate fluctuations, the overall effect of interest rate fluctuations on pre-tax profits would in fact be less marked.

d) Liquidity risk

Liquidity risk arises to the extent that cash flows from the business do not correspond with financial obligations. The cash flow from power trading activities will vary according to a number of factors including spot-market price levels. Accordingly the Group has established long-term, committed drawdown facilities in order to secure availability of liquidity, including in periods when it may be difficult to obtain financing in the markets. Unused drawdown facilities as of 31 December 2012 totalled NOK 3.9 billion (2011: NOK 4.4 billion). See also note 17.

Maturity profile for borrowings:

NOK million

2012	0–6 months	6–12 months	1–3 years	3–5 years	>5 years	Total
Borrowings	(1 846)	(1 447)	(4 239)	(2 255)	(3 008)	(12 795)

2011	0–6 months	6–12 months	1–3 years	3–5 years	>5 years	Total
Borrowings	(1 006)	(796)	(3 115)	(2 836)	(3 096)	(10 849)

e) 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 over 7 years was issued on 21 December 2010, in connection with the sale of Hafslund Fibernett to the PE fund EQT. 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 settled via Nasdaq OMX Commodities, as well as entering into bilateral agreements with municipal or state-owned companies.

Interest and foreign currency risk mandates, which are determined by the board, contain guidelines as to the creditworthiness of institutional counterparties.

The majority of overdue trade receivables as of 31 December 2012 relate to the Markets business unit, and primarily to trade receivables with private electricity customers. A provision of NOK 28 million has been recognised to cover potential bad debts on these receivables (2011: NOK 49 million). The decrease is due to the realisation of previous special provisions totalling NOK 18 million. Trade receivables that were unpaid from 30 days past due, amounted to NOK 103 million (2011: NOK 118 million). Those that were unpaid from 0 to 30 days past due, amounted to NOK 171 million (2011: NOK 169 million).

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

NOK million

2012	Not yet due	30–60 days	60–90 days	90–120 days	>120 days	Total
Trade receivables	657	95	25	20	79	876

2011	Not yet due	30–60 days	60–90 days	90–120 days	>120 days	Total
Trade receivables	525	137	35	27	87	811

Maturity profile for financial items:

NOK million

2012	0–6 months	6–12 months	1–3 years	3–5 years	>5 years	Total
Interest rate derivatives		(7)	(17)	(48)	44	(28)
Currency derivatives	(1)	9	(1)	(1)		6
Power derivatives	7	3	15			25
El-certificate	10		1			11
Trade payables	(454)					(454)
Total	**(438)**	**5**	**(2)**	**(49)**	**44**	**(440)**

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)	(2)	11	8		(27)
Trade payables	(481)					(481)
Total	**(531)**	**(1)**	**(11)**	**(11)**	**12**	**(541)**

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 2012 the equity ratio was 31 per cent. 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 2012 the Group had unused drawdown facilities deemed sufficient to cover the Group's refinancing requirements over the next 12 months.

NOK million	**2012**	**2011**
Total borrowings	**11 541**	10 849
Cash and cash equivalents and interest-bearing receivables	**(893)**	(1 528)
Net interest-bearing liabilities	**10 648**	9 321
Operating profit/loss before depreciation, amortisation and impairments	**2 113**	1 145
Equity	**7 575**	8 131
Equity ratio %	**31 %**	33 %
Total assets	**24 794**	**24 666**

Fair value estimates

Financial instruments

The table below shows financial instruments at fair value based on valuation method. The different levels are defined as follows:

1. Listed price in an active market for an identical asset or liability (level 1).

2. Valuation based on observable factors other than listed prices (level 1) either directly (prices) or indirectly (derived from prices) for the asset or liability (level 2).

3. In cases where it is not appropriate to employ the quoted share price or the transaction value, shares are valued on the basis of discounted future cash flows and/or a multiple-based evaluation involving comparison with other similar companies (level 3).

The following table shows the Group's assets and liabilities measured at fair value:

NOK million

2012	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets at fair value through profit or loss:				
Shares and shareholdings		1		1
Derivatives			86	86
Total assets		**1**	**86**	**87**

	Level 1	Level 2	Level 3	Total
Financial liabilities at fair value through profit or loss:				
Borrowings		6 774		6 774
Derivatives			72	72
Total liabilities		**6 774**	**72**	**6 846**

2011	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss:				
Shares and shareholdings		102		102
Derivatives			26	26
Total assets		**102**	**26**	**128**
Financial liabilities at fair value through profit or loss:				
Borrowings		7 843		7 843
Derivatives			86	86
Total liabilities		**7 843**	**86**	**7 929**

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 balance sheet date. The fair value of foreign currency contracts is calculated by using effective rates in the forward market at the balance sheet 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 balance sheet date. The fair value of power derivatives traded on the Nordic power exchange Nasdaq OMX Commodities (formerly Nord Pool) is established by reference to the applicable prices on the latter exchange at the balance sheet 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 balance sheet date. In the case of material long-term contracts, a discounting factor is applied to cash flows.

Borrowings

Borrowings that are valued at fair value are measured by discounting the borrowings' cash flows. The discount rate applied is the yield curve for the Norwegian swap interest rate, adjusted upwards for Hafslund's credit spreads.

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

Hafslund prepares estimates and makes assumptions/presumptions with regard to the future. By definition, the accounting estimates that are made as a result of the above processes will rarely fully correspond with the final outcome. Estimates and assumptions are reviewed on an ongoing basis and are based on past experience and 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 consumption 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 2012 amounted to NOK 1,068 million. Total revenues from the sale and distribution of electricity for the 2012 came in at NOK 10,429 million.

Estimated impairments of goodwill and property, plant and equipment

The value of assets recognised in the balance sheet will to a large extent be based on 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 tests to assess impairment 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, with the exception of BioWood Norway, which will be liquidated. These 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. Seen in isolation, the change in credit spreads during 2012 results in a reduction in the loan portfolio's fair value of NOK 5 million.

Pensions

The present value of pension liabilities depends on several different factors that are determined by a number of actuarial assumptions. The assumptions employed for the calculation of the net pension cost (income) include a discount rate. Changes in these assumptions will affect the balance sheet value of pension liabilities. The Group determines the applicable discount rate at the start of each financial year. This is the rate that must be used to calculate the present value of future estimated out-going cash flows that will be required to settle pension liabilities. When setting this discount rate, the Group takes into account interest rates on high quality corporate bonds that will mature at approximately the same time as the relevant pension liability, see also Note 2.18. A number of other pension-related assumptions are partly based on market conditions. Were the discount rate applied to differ by 0.5 per cent points, the carrying amount of pension obligations would change by an estimated 13 – 17 per cent. Additional information is supplied in Note 19.

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 to impose a financial liability on the Group. Management must also use its best estimates to assess the likely amount of future payments. See Note 27 for a more detailed description of contingencies.

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Note 5 Segment information

Group management is the Groups chief operating decision-maker. Hafslund reports business areas as operating segments. In recent years the company has adopted a sharper focus on renewable energy from hydro-power and heating, together with further development of infrastructure for energy and Nordic growth within power sales. Hafslund´s business is organised in the business areas Production, Heat, Networks and Market.

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 Groups liquidity situation. Intersegment sales are made in accordance with the arms length principle.

NOK million	**Production**		**Heat**		**Networks**		**Markets**	
	2012	**2011**	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**
Gross segment sales	**755**	1 024	**1 107**	1 120	**3 992**	4 202	**5 537**	7 275
Intersegmental sales	**(102)**	15	**3**	5	**3**	34	**267**	241
Sales revenues	**857**	**1 009**	**1 104**	**1 115**	**3 989**	**4 167**	**5 270**	**7 034**
Operating profit/loss	**442**	724	**(83)**	102	**515**	469	**364**	277
Finance cost	**(62)**	(34)	**(58)**	(95)	**(101)**	(84)	**34**	3
Income tax expense	**(221)**	(399)	**36**	(2)	**(298)**	(114)	**(112)**	(95)
Profit/loss for the year	**159**	**289**	**(105)**	**9**	**116**	**275**	**286**	**220**
Depreciation of operating assets	**(45)**	(45)	**(155)**	(157)	**(504)**	(514)	**(12)**	(9)
Impairment of operating assets			**(240)**					
Amortisation of intangible assets							**(8)**	(7)
Losses on receivables			**(1)**	(6)	**(12)**	(37)	**(32)**	(17)
Capital employed	**4 776**	**4 464**	**5 576**	**5 464**	**9 237**	**9 257**	**1 753**	**1 215**
Investments	**24**	62	**326**	463	**497**	444	**180**	107

NOK million	**Other business**		**Eliminations**		**Group**	
	2012	**2011**	**2012**	**2011**	**2012**	**2011**
Gross segment sales	**438**	565	**(362)**	(481)	**11 466**	13 704
Intersegmental sales	**192**	186	**(362)**	(481)		
Sales revenues	**246**	**379**			**11 466**	**13 704**
Operating profit/loss	**(383)**	(1 228)			**854**	343
Finance cost	**(371)**	(373)			**(557)**	(584)
Income tax expense	**246**	153			**(349)**	(456)
Profit/loss for the year	**(508)**	**(1 491)**			**(52)**	**(698)**
Depreciation of operating assets	**(59)**	(67)			**(775)**	(793)

Impairment of operating assets	**(242)**		**(482)**	
Amortisation of intangible assets	**(1)**	(3)	**(2)**	(10)
Losses on receivables	**(1)**	(14)	**(46)**	(74)
Capital employed	**323**	**519**	**21 665**	**20 918**
Investments	**52**	139	**1 079**	1 215

See also analytical information for other key figures for the segments.

Reconciliation of capital employed to equity (NOK million):

	2012	2011
Capital employed	**21 665**	**20 918**
Income tax payable	**(338)**	(280)
Deferred income tax liability	**(3 104)**	(3 186)
Borrowings	**(11 541)**	(10 849)
Cash and cash equivalents	**223**	870
Interest-bearing liabilities	**396**	431
Other	**274**	227
Equity	**7 575**	**8 131**

Revenue analysed by category (NOK million)

	2012	2011
Power sales	**5 124**	7 026
Power production	**708**	1 137
District heating sales	**1 042**	977
Distribution revenue	**3 658**	3 913
Other revenue	**934**	651
Total	**11 466**	**13 704**

The majority of revenue derives from energy customers localised in and around Oslo, Akershus and Østfold, where a significant number of Hafslund´s assets are located. Revenue from the Group´s power sales companies in Sweden amounted to NOK 759 million, while capital employed in the Swedish companies totalled NOK 154 million.

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Note 6 Property, plant and equipment

NOK million	Technical equipment and chattels	Power facilities	District heating facilities	Networks	Facilities under construction	Other property	Total
Book value as of 31 December 2010	**394**	**3 712**	**4 072**	**8 650**	**1 563**	**167**	**18 557**

2011 financial 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)		
Disposals at book value	(19)			(316)	(2)	(4)	(341)
Depreciation 2011	(148)	(45)	(151)	(446)		(3)	(793)
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 amortisation	(1 334)	(3 158)	(754)	(5 095)	(13)	(38)	(10 393)
Cumulative impairments	(143)				(300)		(443)
Book value as of 31 December 2011	**376**	**4 053**	**4 177**	**8 328**	**1 539**	**160**	**18 632**
2012 financial year							
Book value as of 1 January 2012	376	4 053	4 177	8 328	1 539	160	18 632
Operating investments	39	24			956	1	1 020
Capitalised borrowing costs					14		14
Transferred from facilities under construction	55		647	390	(1 163)	71	
Disposals (cost)	(209)						(209)
Disposals cumulative depreciation	31						31
Disposals cumulative impairments	135			(1)			134
Depreciation 2012	(109)	(47)	(158)	(452)	(4)	(5)	(775)
Impairments 2012	(18)		(309)		(85)	(70)	(482)
Book value as of 31 December 2012	**300**	**4 030**	**4 357**	**8 265**	**1 257**	**157**	**18 365**
Balance as of 31 December 2012							
Cost	1 738	7 235	5 577	13 813	1 659	270	30 292
Cumulative amortisation	(1 412)	(3 205)	(912)	(5 548)	(17)	(43)	(11 138)
Cumulative impairments	(26)		(309)	(1)	(385)	(70)	(791)

Book value as of 31 December 2012	**300**	**4 030**		**4 357**	**8 265**	**1 257**	**157**	**18 365**
Capitalisation rate borrowing costs						4,9%		
Depreciation percentage	3-33	2-5		2-10	2-7		0-5	

The Group capitalised borrowing costs of NOK 14 million in 2012 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 2012 the Group´s total future lease commitments associated with office premises and transformer substations recognised at nominal value amounted to NOK 1,118 million:

NOK million	
2013	121
2014	123
2015	126
2016	129
2017	133
2018 and later	486
Total lease obligations	**1 118**

The leases are operating leases and have varying payment dates, price-regulating clauses, and lease prolongation rights. In 2012 rent amounting to NOK 121 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	Customer purchase order (CPO)	Total	Goodwill	Total intangible assets
Book value as of 31 December 2010	**34**	**253**		**287**	**2 102**	**2 389**
2011 financial 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					(98)	(98)
Book value as of 31 December 2011	**24**	**253**		**277**	**2 104**	**2 381**
2012 financial year						
Operating investments			45	45	14	59
Disposals (cost)	(2)			(2)	(99)	(101)
Disposals cumulative impairments					98	98
Amortisation	(2)			(2)		(2)
Currency translation differences					(3)	(3)
Book value as of 31 December 2012	**20**	**253**	**45**	**318**	**2 114**	**2 432**
Balance as of 31 December 2012						
Cost	90	356	45	491	2 632	3 123
Cumulative amortisation	(70)	(103)		(173)	(518)	(691)
Book value as of 31 December 2012	**20**	**253**	**45**	**318**	**2 114**	**2 432**

See Note 8 for information on impairment testing.

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Note 8 Impairment assets

Hafslund 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 line with the implementation of IFRS, property, plant and equipment used in production activities 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 relevant cash-generating units. Intangible assets with indefinite useful lives and goodwill are not amortised, but are tested annually for impairment.

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 2013 and forecasts for the four years before the terminal value is established. For Network and Heat, cash flows are applied for a longer period before the terminal value is established, as these are predictable over a longer term. The applied discount rate reflects the specific risk of the cash-generating unit.

Hafslund 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 result of 2012 impairment tests was that operating assets and intangible assets associated with BioWood Norway AS were written down by NOK 229 million and the bioenergy plant Bio-El Fredrikstad (Heat) was written down by NOK 240 million.

The table below shows the book values allocated to the individual cash-generating units at the end of 2012:

NOK million Results unit	**Operating assets**	**Intangible assets**	**Total**	**Cumulative impairments**	**Discount rate before tax**	**Terminal year**	**Growth terminal value**

Production	4 093	260	4 353		7,7%	2018	1,5%
Networks	8 829	266	9 095		6,7%	2043	1,5%
Heat	4 860	582	5 442	240	7,9% - 8,3%	2028	1,5%
Markets	248	1 276	1 524		8,9%	2018	1,5%
BioWood Norway	63		63	529	N/A	N/A	N/A
Other business	272	48	320	22	10,8 % - 11,9 %	2018	1,5%
Total	**18 365**	**2 432**	**20 797**	**791**			

Future cash flows are based on a number of assumptions. Power prices are based on forward prices on Nasdaq OMX at the time of the impairment tests. Forecasts for 2017 are based on a power price of 31.3 øre/kWh. This assumes normal production for Production and Heat. The assumption of normal production for the Production business area of 3,100 GWh is based on ten years´ hydropower data adjusted for efficiency improvements. The assumption of normal production of 1,688 GWh in 2013 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 2015 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. The current revenue model for network operations is expected to continue until the terminal year, taking into account the new model for determining the NVE-rate from 2013.

Since its start-up in June 2010, BioWood Norway has failed to deliver satisfactory results. There are few signs of near-term improvements in today´s market conditions of overcapacity and low pellets prices. The long-term contract market for wood pellets is also weak. This situation, along with production technology challenges and a failure to reach maximum production capacity, has resulted in write-downs of the production facility and raw materials inventory, and in provisions associated with agreements and disputes totalling NOK 271 million in the third quarter of 2012. On 21 November 2012, the Board of Directors of BioWood Norway AS decided to discontinue the business. The plant and land are recognised in the balance sheet at NOK 63 million at the end of 2012, based on the expected net realisable value.

The profitability of the waste-to-energy plant Bio-El Fredrikstad (part of the Heat business area) is strongly affected by waste prices, which represent a revenue source for the plant. The waste-to-energy plant´s future profitability is dependent on positive performance of the waste market. Waste prices fell further in 2012, and there are few signs of a recovery over the short term. The drop in waste prices is attributable to overcapacity resulting from considerable capacity expansion in Norway and Sweden. The decline in waste prices weakens the facility´s profitability over both the short and longer terms. It is assumed that the price for receiving waste (income) is NOK 330 tonne in 2017, an increase in price from around NOK 200 to 240 tonne in late 2012. Thus, a decision has been made to write down the book value of the Bio-El Fredrikstad facility by NOK 240 million in the third quarter of 2012. The plant has a book value of NOK 101 million at the end of 2012.

Sensitivity in estimation of recoverable amounts

Sensitivity tests reveal robust values in the Group´s capital-intensive units. Estimation of recoverable amounts is based on assumptions regarding future developments in a number of areas. This framework conditions development of framework conditions, power prices, temperature, economic growth and consumption patterns. The Hafslund Group has performed sensitivity analyses on the consequences of various changes in assumptions relating to the recoverable amount, including in respect of decreases in power prices, lower energy production, a 20 per cent reduction in the cash flow in the terminal year or an increase of 20 per cent 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. A permanent reduction in power prices of 20 per cent reduces the recoverable amount to approximately NOK 2.5 billion, and implies no need to recognise an impairment for the Group.

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Note 9 Investments in associates and joint ventures

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%
Energy Future Invest AS	2012	157	Gjøvik	49,5%	49,5%

	2012	2011
Book value as of 1 January 2012	**426**	430
Additions	**157**	
Share of profit/loss	**15**	30
Dividends	**(43)**	(27)
Adjusted prior-year result Infratek ASA	**5**	(7)
Book value as of 31 December 2012	**560**	**426**

Amortisation of goodwill for the year	1	1
Added value as of 31 December 2012	6	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	Result for the year
Rakkestad Energiverk AS	Rakkestad	36	11	24	2
Infratek ASA	Oslo	640	339	663	31
Glommens og Laagens Brukseierforening	Lillehammer	51	6	16	0
Energy Future Invest AS	Gjøvik	159	24	94	(18)
Total		**727**	**355**	**703**	**15**

The Group owns a 49 per cent stake in Energibolaget i Sverige Holding AB (EBS), and together with other shareholders exerts a controlling interest 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. The figures below show the Group´s 49 per cent share of assets, liabilities, sales and earnings from the investment in EBS.

	2012	2011
Assets:		
Non-current assets	**5**	6
Current assets	**226**	**253**
Total assets	**231**	**259**

Liabilities:		
Long-term liabilities		10
Current liabilities	**114**	**154**
Total liabilities	**114**	**164**
Net assets	**117**	**95**
Revenues	**478**	459
Expenses	**(456)**	(431)
Profit/loss for the year	**22**	**28**

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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	Derivatives utilised for hedging purposes	Assets at fair value through profit or loss	Loans and receivables	Total
Assets as of 31 December 2012				
Long-term receivables			712	712
Shares and shareholdings		1		1
Derivatives	1	86		87
Trade and other receivables			2 333	2 333
Cash and cash equivalents			223	223
Total financial assets as of 31. December 2012	**1**	**87**	**3 268**	**3 356**
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**

	Derivatives utilised	Liabilities at fair value	Other financial

Liabilities as of 31 December 2012	for hedging purposes	through profit or loss	liabilities	Total
Borrowings		6 774	4 767	11 541
Derivatives	2	72		74
Trade and other current payables			1 532	1 532
Total financial liabilities as of 31 December 2012	**2**	**6 846**	**6 299**	**13 147**
Liabilities as of 31 December 2011				
Borrowings		7 843	3 006	10 849
Derivatives		86		86
Trade and other current payables			1 514	1 514
Total financial liabilities as of 31 December 2011		**7 929**	**4 520**	**12 449**

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

Derivatives held for trading purposes are classified as current assets or liabilities. The entire fair value of a hedging derivative instrument is classified as a current asset or liability when the remaining maturity of the hedged item is less than 12 months.

No amount has been recognised in profit and loss for 2012 due to the ineffective portion of the Group´s cash flow hedges.

a) Forward currency contracts

The nominal total of outstanding forward foreign currency contracts as of 31 December 2012 was NOK 0.2 million.

The hedged, highly probable transactions denominated in a foreign currency are expected to occur at various dates over the next 12 months. Gains and losses recognised in the hedging reserve in equity on forward foreign exchange contracts as of 31 December 2012, will be recognised in the same period or the same periods in which the hedged transaction affects profit or loss. This is normally within 12 months from the balance sheet date.

b) Power contracts

The nominal total of outstanding power contracts as of 31 December 2012 was NOK -2.1 million.

The hedged, highly probable transactions denominated in a foreign currency are expected to occur at various dates over the next 12 months. Gains and losses recognised in the hedging reserve in equity on forward foreign exchange contracts as of 31 December 2012, will be recognised in the same period or the same periods in which the hedged transaction affects profit or loss. This is normally within 12 months from the balance sheet date.

The Group has previously had significant share investments in a venture portfolio. Hafslund and Eidsiva Vekst entered into an agreement on 22 December 2011 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 transaction was completed with effect from 2012, and gave Hafslund a gain of NOK 21 million. Hafslund and Eidsiva own 49.5 per cent of EFI each, see also Note 9.

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Note 11 Available for sale financial assets

Hafslund sold its shareholding in Renewable Energy Corporation ASA (REC) of 89 million shares (8.93 per cent) on 9 December 2011 at a price of NOK 3.40. The investment is classified under "available-for-sale financial assets". As of 31

December 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	2012	2011
Book value as of 1 January		**1 584**
Disposals		(300)
Realised (losses)/gains through profit or loss		(1 090)
Net unrealised (losses)/gains recognised directly in equity		(194)
Book value as of 31 December		**0**

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Note 12 Long-term receivable

NOK million	2012-12-31	2011-12-31
Interest-bearing loans and receivables	**275**	274
Contributions to pension funds	**116**	116
Net pension assets	**284**	30
Other	**37**	42
Total long-term receivables	**712**	**462**

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	2012-12-31	2011-12-31
Trade receivables	**876**	811
Bad debt provision	**(46)**	(25)
Net trade receivables	**830**	**786**
Accrued, non-invoiced income	**1 068**	667
Interest-bearing liabilities	**6**	42
Other receivables	**429**	213
Total trade and other receivables	**2 333**	**1 708**

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	2012-12-31	2011-12-31
Cash and cash equivalents Group account	**67**	454
Cash and cash equivalents non-Group account	**156**	416
Total cash and cash equivalents	**223**	**870**

Of the Group´s total bank deposits of NOK 223 million, NOK 1 million is pledged as security for Group power trading activities. Hafslund has a group account scheme 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 100 million, which is the overall limit on bank drawdown facilities.

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Note 15 Share capital and premium

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

NOK million	A shares	B shares	Total shares	Share premium	Total
Balance as of 31 December 2011	115	80	195	4 080	4 275
Balance as of 31 December 2012	**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 2012 Hafslund held 397,361 treasury B shares (2011: 397,361 B shares).

The largest shareholders in Hafslund ASA as of 31 December 2012 comprised the following:

(in thousands)	A shares	B shares	Total	Shareholding	Voting 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 Norge		3 735	3 735	1,9%	
Total > 1 % ownership interest	**110 579**	**69 788**	**180 367**	**92,4%**	**95,8%**
Total other	4 849	9 970	14 819	7,6%	4,2%
Total number of shares	**115 428**	**79 758**	**195 186**	**100%**	**100%**

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

(in thousands)	A shares	B shares	Total	Shareholding	Voting 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 Norge		3 880	3 880	2%	
Total > 1 % ownership interest	**110 579**	**69 933**	**180 512**	**92,5%**	**95,8%**
Total other	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

Millioner kroner	2012-12-31	2011-12-31
Leverandørgjeld	**454**	482
Skyldige offentlig trekk	**473**	619
Påløpte rentekostnader	**190**	159
Påløpte kostnader	**462**	520
Øvrige forpliktelser	**414**	353
Sum leverandørgjeld og annen kortsiktig gjeld	**1 993**	**2 133**

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Note 17 Borrowings

NOK million	2012-12-31	2011-12-31
Long-term borrowings		
Fixed-interest bonds	**4 274**	4 235
Floating rate notes	**1 577**	1 206
Other loans	**2 571**	3 606
Total long-term borrowings	**8 422**	**9 047**
Current borrowings		
Fixed-interest bonds	**345**	
Floating rate notes	**403**	256

Commercial papers	**950**	750
Other loans	**1 421**	796
Total current borrowings	**3 119**	**1 802**
Total borrowings	**11 541**	**10 849**

All borrowings taken out before 1 January 2010 are recognised at fair value, which is calculated by applying a discount factor to the borrowings´ cash flows. The fair value does not include accrued interest. The discount rate applied is the Norwegian swap interest rate, adjusted upwards with Hafslund´s credit spreads. From 1 January 2010 new borrowings are measured at amortised cost, which amounted to NOK 4,767 million at the year end. The fair value of borrowings measured at amortised cost amounted to NOK 4,772 million as of 31 December 2012.

The nominal amount as of 31 December 2012 was NOK 11,268 million. The nominal amount as of 31 December 2011 was NOK 10,613 million.

The following credit spreads have been applied:

	Credit spread (basis points)	
Term (years)	**2012-12-31**	**2011-12-31**
0,25	50	20
0,5	50	20
1	40	5
2	90	92
3	117	115
4	134	125
5	150	135
6	155	140
7	160	145
8	163	148
9	166	152
10	170	155

Seen in isolation, the change in credit spreads during 2012 results in a reduction in the loan portfolio´s fair value estimated at NOK 5 million. The corresponding change in 2011 was a reduction of NOK 20 million.

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

NOK million	**2012-12-31**	**2011-12-31**
0-6 months	**6 757**	6 603
6-12 months	**593**	
1-3 years	**1 015**	1 109
More than 3 years	**3 176**	3 137
Total borrowings	**11 541**	**10 849**

Hafslund has entered into a syndicated NOK 3,600 million credit facility maturing on 17 June 2017. Hafslund has a contingent option for up to one years´ prolongation. The lender is a banking syndicate comprising six Nordic banks. The year credit facility is used as a back-stop for current certificate loans and as a general liquidity reserve. At the end of the year the entire facility remained unused. The Group also had a bilateral NOK 400 million overdraft facility, where NOK 200 million was unused at the end of the reporting period. This facility has been cancelled as of March 2013. In addition, Hafslund also has a NOK 100 million overdraft facility with Nordea that was also unused at the end of the reporting period.

Hafslund´s loan agreements have a negative pledge clause. Some loan agreements also stipulate that significant assets cannot be disposed of without bank approval, while some have an ownership clause requiring more than 50 per cent 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:

NOK million	**2012-12-31**	**2011-12-31**
0-6 months	**1 545**	1 006
6-12 months	**1 574**	796
1-3 years	**3 019**	3 115
4-5 years	**1 946**	2 836
More than 5 years	**3 457**	3 096
Total borrowings	**11 541**	**10 849**

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Note 18 Deferred income tax

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

The following items have been recognised net:

NOK million	**2012-12-31**	**2011-12-31**
Deferred income tax assets that reverse after more than 12 months	**320**	117
Deferred income tax assets that reverse within 12 months	**(27)**	50
Total deferred income tax assets	**293**	**167**
Deferred income tax liabilities that reverse after more than 12 months	**3 202**	3 213
Deferred income tax liabilities that reverse within 12 months	**195**	140
Total deferred income tax liabilities	**3 397**	**3 353**
Total deferred income tax - net	**3 104**	**3 186**
Change in deferred income tax in balance sheet		
Book value as of 1 January	**3 186**	2 971

Recognised in income in the period	**(81)**	213
Recognised in equity in the period	**(1)**	2
Book value as of 31 December	**3 104**	**3 186**

Change in deferred income tax liabilities and deferred income tax assets:

NOK million

Deferred income tax liability	Operating assets	Temporary differences	Other	Total
Balance as of 31 December 2010	**3 000**	**(21)**	**96**	**3 075**
Recognised in income in the period	203	159	(146)	216
Recognised in equity in the period		2		2
Balance as of 31 December 2011	**3 203**	**140**	**(50)**	**3 293**
Recognised in income in the period	(105)	56	154	105
Recognised in equity in the period		(1)		(1)
Balance as of 31 December 2012	**3 098**	**195**	**104**	**3 397**

NOK million

Deferred income tax benefit	Pensions	Borrowings and liabilities	Tax loss carryforwards	Total
Balance as of 31 December 2010	**(15)**	**(86)**	**(3)**	**(104)**
Recognised in income in the period	25	(31)	3	(3)
Balance as of 31 December 2011	**10**	**(117)**	**0**	**(107)**
Recognised in income in the period	17	(137)	(66)	(186)
Balance as of 31 December 2012	**27**	**(254)**	**(66)**	**(293)**

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 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 schemes organised through pension funds and insurance companies. The pension schemes are generally funded through contributions made by the companies at levels largely determined on the basis of actuarial calculations. Hafslund operates both defined contribution and defined benefit schemes. 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 schemes for all companies that had not previously operated occupational pension schemes 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 2012 a total of 416 employees were covered by defined benefit schemes through Hafslund´s two pension funds. The pension funds also paid pensions to 1,156

individuals. In addition to the above, the Group has defined contribution schemes with various insurance companies. Hafslund reorganised its pension schemes with effect from 1 January 2007. As a consequence, the existing pension funds were closed to new members. At the same time, defined contribution schemes were introduced for all new employees.

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

Employees who terminate their employment before reaching retirement age receive paid-up policies. Hafslund´s pension funds manage these paid-up policies, which are associated with vesting rights in municipal defined benefit schemes. 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 schemes 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	**2012-31-12**	**2011-31-12**
Liability recognised in the balance sheet:		
Present value of accrued pension liabilities for funded defined benefit schemes	**2 063**	2 443
Fair value of pension assets	**(1 950)**	(1 775)
Actual net pension liabilities for funded defined benefit schemes	**113**	**668**
Present value of pension obligations for unfunded schemes	**169**	291
Estimate deviations not recognised in the income statement	**(397)**	(1 108)
Employer´s national insurance contributions		119
Net pension liabilities in balance sheet (incl. employers´ National Insurance contributions)	**(115)**	**(30)**
Net pension liabilities in balance sheet	**(169)**	
Net pension assets in balance sheet	**284**	
Fluctuations in the benefit based pension liability over the year:		
Pension liabilities as of 1 January (excl. employers´ National Insurance contributions)	**2 734**	2 423
Employer´s national insurance contributions	**118**	
Present value of current year´s pension benefits earned	**47**	43
Interest expenses	**66**	89
Estimate changes	**(606)**	286
Benefits paid	**(120)**	(99)
Liabilities from scheme changes and acquisitions	**(7)**	(8)
Pension liabilities as of 31 December (excl. employers´ National Insurance contributions)	**2 232**	**2 734**
Change in the fair value of the scheme assets:		
Fair value of pension assets as of 1 January	**1 775**	1 563
Expected return on scheme assets	**73**	98
Estimate changes	**18**	77

Total contributions	**117**	124
Total payments from fund	**(91)**	(87)
Pension assets on settlement	**58**	
Fair value of pension assets as of 31 December	**1 950**	**1 775**

The minimum pension liability, which is the net present value of pension liabilities based on the current income from which pension earnings are derived at the balance sheet date, amounted to NOK 2,021 million as of 31 December 2012 and NOK 2,276 million as of December 2011. Expected contributions in 2013 comprise NOK 123 million.

Following financial assumptions were made:	**2012**	**2011**
Discount rate	**4,0%**	2,6%
Expected yield on pension assets	**4,0%**	4,1%
Annual salary increase	**3,3%**	3,3%
Adjustment of National Insurance Scheme´s basic amount (G)	**3,3%**	3,3%
Regulation of ongoing pension	**0,5%**	0,1%

The discount rate is calculated on the basis of a comprehensive interest rate curve that takes into account that pension payments will fall due at different times in the future. The curve is calculated based on prices from the Norwegian Covered Bonds market as of 31 December 2012, as calculated by the Norwegian Accounting Standards Board. Annual salary increase is calculated based on a curve based on historical data. Salary increase is set to an average of 3.25% over the period of service for the population in the different pension funds.

Demographic assumptions that form the basis of the calculations are based on the IR73 disability rate table (restated using the intensity method) and the GAP07 dynamic mortality rate table developed by Gabler Wassum 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 amounted to NOK 71 million in 2012, compared with NOK 83 million in 2011.

NOK million	**2012**	**2011**
Current year´s pension benefits earned	**43**	43
Interest expenses	**66**	89
Expected return on scheme assets	**(73)**	(98)
Amortisation of liabilities on scheme changes		(25)
Amortisation of estimated losses/(profits)	**75**	56
Income on net liabilities on settlement	**(26)**	
Employer´s national insurance contributions	**6**	2
Member contributions		(1)
Pension expense defined benefit schemes	**91**	**66**
Pension expenses defined contribution schemes:	**22**	**19**
Total pension expenses	**113**	**85**

Sensitivity of pension liabilities for changes in the weighted financial assumptions

are:

	Impact on pension liabilities		
	Change	**Increase in assumption**	**Reduction in assumption**
Discount rate	0,5%	(13%)	17%
Salary increase	0,5%	4%	(3%)
Adjustment of National Insurance Scheme´s basic amount (G)	0,5%	13%	(10%)
Expected lifetime	1 Year	3%	(3%)

Pension assets are invested in bonds and money-market placements issued by the Norwegian government, Norwegian municipalities, financial institutions and businesses. Foreign currency bonds are hedged. Investments in shares are limited to 37 per cent 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	**2012-31-12**		**2011-31-12**	
Equity instruments	**663**	**34%**	576	33%
Interest-bearing instruments	**1 248**	**64%**	1 142	63%
Other	**39**	**2%**	57	4%
Fair value pension assets	**1 950**	**100%**	**1 775**	**100%**

Overview of pension liabilities and the fair value of pension assets related to funded schemes:

NOK million	**2012**	**2011**	**2010**	**2009**	**2008**
Present value of defined benefit pension obligations	**2 232**	2 734	2 423	2 367	2 397
Fair value of pension assets	**1 950**	1 775	1 563	1 644	1 792
Underabsorption	**282**	**959**	**860**	**723**	**605**

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Note 20 Other (losses)/gains - net

NOK million	**2012**	**2011**
Other financial assets and liabilities at fair value through profit or loss		
Fair value change of shares		(27)
Other financial income	**36**	96
Derivatives		
Interest rate swaps - borrowings	**7**	1
Forward foreign currency contracts	**1**	(18)
Options		6

Forward contracts	**51**	(110)
Sale of financial assets		
Gain on the sale of shares	**21**	68
Total other (losses)/gains - net	**117**	**17**

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Note 21 Other operating expenses

NOK million	2012	2011
Maintenance costs	**617**	682
Purchase of services	**153**	149
Rent, power etc.	**176**	179
Sales and marketing costs	**151**	133
Other	**655**	487
Total other operating expenses	**1 752**	**1 630**

In 2012 the Group recognised auditors´ fees totalling NOK 7.8 million (NOK 9.7 million in 2011). The fees break down as follows: NOK 5.3 million (NOK 6.8 million) for statutory auditing, NOK 0.6 million (NOK 0.7 million) for other certification services, NOK 1.3 million (NOK 1.5 million) for tax consultancy services, and NOK 0.6 million (NOK 0.7 million) for non-auditing services.

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Note 22 Employee benefit expences

NOK million	2012	2011
Salaries	**620**	615
Employer´s national insurance contributions	**111**	100
Pension expenses - defined benefit schemes	**91**	66
Pension expenses - defined contribution schemes	**22**	19
Other benefits	**64**	64
Total employee benefit expenses	**908**	**864**

At the end of 2012, there was a total of 1,174 FTEs (1175) and 1216 employees (1207) in the Hafslund Group.

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Note 23 Overview of remuneration paid to senior executives

Name	Position	Salary, holiday pay & fees	Bonus (2)	Benefits in kind	Pension expenses	Loans 31 December 2012	Number of shares 31 December 2012
Finn Bjørn Ruyter	President and CEO (from January 2012)	3 463 323	480 536	134 470	344 784	470 000	10 000
Kari Ekelund Thørud	Senior Vice President	2 329 531	317 857	156 933	197 377	410 000	427
Heidi Ulmo	Senior Vice President (from August 2012)	795 843	111 607	51 215	82 060	580 000	6 000
Jan Presttun	Senior Vice President	2 118 870	251 233	122 220	115 395	405 000	3 056
Anders Østby	Senior Vice President	1 536 424	193 607	110 493	272 170	545 000	437
Jens Auset	Executive Vice President	1 670 517	144 344	150 204	310 091	535 000	3 056
Johan Hovland	Senior Vice President (from August 2012)	696 451	97 656	43 873	68 696	590 000	4 000
Christian Berg (4)	President and CEO (up to and including January 2012)	1 435 177		44 948	371 150		
Karen Onsager	Senior Vice President (up to and including March 2012)	689 914		53 677	187 919		
Birger Magnus (3)	Chairman of the Board	534 300					
Hans Kristian Rød (1,3)	Director	236 500					
Maria Moræus Hanssen (3)	Director	252 800					
Odd Håkon Hoelsæter (3)	Director	236 500					
Ellen Christine Christiansen	Director (from May)	106 500					
Per Orfjell (3)	Director (employee representative)	1 089 275		79 119	183 725	150 000	252
Per Luneborg (3)	Director (employee representative)	599 492		10 890			277
Jane Koppang	Director (employee representative from December 2012)	821 100		10 812	105 631		262
Tyra Marie Hetland (3)	Director (employee representative up to and including 2012)	833 495		6 928	16 566		100
Susanne Jonsson (3)	Director (up to and including April 2012)	130 500					
Ole Ertvaag	Director (up to and including April 2012)	109 500					
Kristin Bjella (3)	Director (up to and including April 2012)	130 500					

1) Rød and related parties do not own any shares in Hafslund. Fortum, on the other hand, which Rød represents, owns 37,853,110 Class A shares and 28,706,339 Class B shares in Hafslund.

2) Applies to bonuses earned in 2012 and paid in 2013.

3) Includes remuneration for work in the audit committee and compensation committee.

4) Christian Berg stepped down as President and CEO on 6 January 2012. Berg received his standard salary until the cessation of his employment on 9 April 2012. The Pension expense in the table above applies to accrued pension rights for the period from 1 January to 9 April 2012. This, along with previous years corresponding reported accrued pension expense was paid in April 2012.

Guidelines and declaration regarding determination of salary and other remuneration for senior executives

The Board of Hafslund ASA will be presenting the following guidelines and declaration regarding determination of salary and other remuneration for senior executives for the coming financial year, in accordance with the Public Limited Companies Act, sections 6-16a and 5-6 (3).

The terms and conditions and remuneration paid in 2012 to the CEO, Group management, the Board and senior executives are also described below.

Terms and conditions, President and CEO

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

Terms and conditions relating to other members of Group management

Other members of Group management are entitled, under certain circumstances, to 6–12 months' salary (beyond the period of notice). Upon receipt of salary from any new employer during the severance period, severance pay is reduced in line with special terms. Remuneration consists of a fixed salary and a bonus scheme capped at 30 per cent of fixed salary. The bonus is determined annually based on Group targets, company targets/business targets, objective individual targets and a subjective individual evaluation. Group management, with some exceptions, are members of the ordinary defined benefit pension schemes. Ulmo and Hovland were employed after the defined benefit pension scheme was closed to new members, and are covered by the same defined contribution scheme as the CEO. Group management has a disability pension plan with a compensation of 66% of salary between 12 and 30 G.

The Board's compensation committee

The Board of Directors 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

The Group's guidelines for determination of salary and other remuneration to senior executives, which were discussed at the Annual General Meeting 24 April 2012, were used to determine executive salaries in 2012. As of 2012, the Group implemented the following policies for Group management: i) pension for basic salary above 12 G for those who are members of the Group's mandatory occupational pension, ii) disability pension for salary between 12 G and 30 G, and iii) a reduction in pay after termination of employment upon receipt of salary from a new employer. These guidelines for the determination of salary and other remuneration for senior executives 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.

Remuneration paid 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. Salary should be competitive in relation to responsibility and industry levels.

Borrowings

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 are mainly in connection with expenses for broadband connection (home office), mobile telephone and newspapers.

Vacation

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 per cent 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 percentage of maximum bonus.
- Company targets/business targets X percentage 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 will 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. There was no share offer for employees in 2012.

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. For those in Group management who are members of the Group's mandatory occupational pension (OTP) and have a basic salary over 12 times the National Insurance Scheme's basic amount (G), a pension compensation that provides a net additional income after tax of 8% will be paid. The retirement age for these individuals should normally be 67. The CEO and Group management are entitled to take early retirement in accordance with the AFP agreement in force at any one time. The CEO and Group management have a disability pension plan with a compensation of 66% of salary between 12 and 30 G.

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 6 to 12 months beyond the period of notice. If the employee should begin a new job while receiving such pay, payments will be reduced by 66% of the lower of these monthly severance payments and the new monthly salary. Partly for historical reasons, this provision deviates in some cases from the Group's guidelines for senior executive pay.

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Note 24 Finance cost

NOK million	2012	2011
Interest expense borrowings	**(503)**	(513)
Change in fair value of borrowings	**(48)**	(89)
Capitalisation of borrowing costs	**14**	38
Foreign exchange gains/(losses)	**2**	14
Other finance costs	**(22)**	(34)
Total finance costs	**(557)**	**(584)**

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Note 25 Income tax expence

NOK million	2012	2011
Income tax payable	**430**	243
Deferred income tax liability	**(81)**	213
Total tax expense	**349**	**456**

Tax payable in the balance sheet

NOK million	2012
Payable tax expense	**430**
Payment of tax related to change motion for Hatros II	**(92)**
Tax payable in the balance sheet	**338**

The tax on the profit before tax deviates from the amount that would have resulted had the Groups average tax rate for general income been applied. The difference is reconciled below:

NOK million	2012	2011

Profit/(loss) before tax	**297**	(241)
Tax calculated at nominal tax rate (28%)	**(83)**	67
Resource rent tax	**(111)**	(200)
Sales and change in value of shares	**6**	(300)
Permanent differences	**(10)**	(7)
Change in value of deferred income tax assets	**10**	(6)
Provision for current tax disputes	**(183)**	
Over/underprovision relating to previous years	**10**	
Share of profit/loss of associates	**6**	6
Other adjustments	**6**	(16)
Total tax expense	**(349)**	**(456)**
Effective tax rate	**118%**	(189%)

The change in the effective tax rate with regard to general company tax is primarily attributable to the provision for current tax disputes, see Note 27, as well as the effect of resource rent tax for hydropower production activities.

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Note 26 Cash flow from operating activities

NOK million	2012	2011
Operating profit before depreciation, amortisation and impairments	**2 113**	1 145
Adjustments for:		
- result on sale of operating assets/and business	**(4)**	(6)
- result associated with the investment in REC		1 090
- result on financial assets at fair value through profit or loss	**(108)**	50
- other items with no cash flow effect	**22**	5
Changes in working capital:		
- Inventories	**(21)**	(3)
- Trade and other receivables	**(934)**	2 055
- Trade and other payables	**7**	204
Cash flow from operations	**1 076**	**4 540**

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Note 27 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 and Hatros II). Hafslund deemed the sale of the shares to be non-taxable in accordance with the exemption method. Nevertheless, the Central Tax Office for Large Enterprises (SfS) has ruled to the contrary, that sale is covered by the principle of assigning appropriate financial responsibility and that the gains are taxable

Hafslund expensed NOK 183 million in tax associated with the tax dispute regarding the sale of Hatros II AS shares in 2007. NOK 92 million was paid in 2012, see Note 25 Tax in the amount of NOK 95 million resulting from the decision has been previously expensed. Hafslund has appealed the court's decision in the matter of Hatros I AS, and filed a lawsuit associated with the tax authorities' decision as to Hatros II AS. As of 31 December 2012, Hafslund has made total accounting allocations of NOK 278 million associated with the two disputes.

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Note 28 Related party transactions

As of 31 December 2012 the City of Oslo owned 53.7 per cent 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 the Infratek Group. 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**	
Profit and loss	**2012**	**2011**	**2012**	**2011**
Sale of goods and services	**158**	254	**6**	29
Acquisition of goods and services	**171**	119	**311**	365
Balance:	**2012-12-31**	**2011-12-31**	**2012-12-31**	**2011-12-31**
Receivables	**26**	41		4
Trade payables	**28**	19	**54**	80

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 are listed on the stock market. 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	**2012**	**2011**
Book value as of 1 January	**3**	123
Loans extended		3
Loans written down		(12)

Loans repaid	**(3)**	(121)
Interest income		16
Interest received		(6)
Book value as of 31 December	**0**	**3**

Hafslund has previously extended loans to companies included in the Group´s previous venture portfolio. As of 31 December 2012, all such loans are paid.

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Note 29 Consolidated companies

Company	Country/registered office	Ownership/Voting share %
Hafslund ASA	Oslo	100
Hafslund Produksjon AS	Sarpsborg	100
Sarp Kraftstasjon AS	Sarpsborg	100
BioWood Norway AS	Averøya	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
Presencia AS	Vestby	100
Gøta Energi AB	Kungälv	100
SverigesEnergi AB	Solna	100
Energibolaget i Sverige AB	Haninge	49
Hafslund Fakturaservice AS	Oslo	100
Hafslund Kundesenter AS	Oslo	100
Hafslund Handel AS	Oslo	100
Embriq AS	Oslo	89
Embriq AB	Gøteborg	100
Policom AB	Karlstad	100
Hafslund Hedging AS	Oslo	100
Hafslund Energy Trading AS	Oslo	100
Balder Energy AS	Oslo	100
RåEl Kraft AS	Oslo	78

Vestfjorden Kraft AS	Oslo	80
Hornnes Kraft AS	Oslo	75
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

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