



## Chief Executive Officer's statement

2012 was a year characterised by efficient underlying operations, but also a year in which results were affected by low power prices and extraordinary write-downs and provisions. Throughout the year we continued our focus on our four core business areas of Production, Heat, Networks and Markets, and stepped up our improvement initiatives.

All the business areas are well positioned. Hafslund Nett is the largest grid operator in Norway, and is being run well both technically and financially. The Oslo and Akershus area is rapidly expanding with a commensurate rise in the number of network customers. Our hydro power plants are concentrated in lower Glomma, an area which offers even greater possibilities for expansion than the work we completed in Kykkelsrud in 2011. Hafslund owns and operates Norway's largest district heating network, where thanks to investments made over the last few years, the company is now closing in on its goal of phasing out the use of fossil fuels under normal conditions. The power sales business has around 900,000 customers, and the company has implemented an important upgrade of central customer management IT systems. We are working to make further improvements in our core areas.

The population in Hafslund's home area, the Oslo region, is enjoying rapid growth, with between eight and ten thousand new households being established each year. Oslo and Akershus are expected to be home to around two million people by 2050. Consequently, the need for extra energy capacity both inside and into the region is also growing. Hafslund is catering for this population growth by significantly modernising and reinforcing the power grid in Oslo by increasing the voltage level from 33 kV and 47 kV to 132 kV in transmissions between the city's network junctions, amongst other actions.

Demands for stable power supplies are growing, while tolerance for power outages is rapidly declining. Without electricity it not only goes dark and cold, it also means no Internet, no television and no electricity for mobile phone chargers and PCs, much to the distress of younger generations. Measured as frequency and duration of outages, Hafslund Nett is proud to have one of Norway's best quality of supply records.

AMS – advanced metering systems – is without doubt the predominant issue facing the energy sector today. Installation of smart meters is initiated by the authorities, and will be Hafslund Nett's largest individual project ever. We will have to visit all of our grid customers (today 562,500) to install new meters, and establish advanced IT and communication systems. AMS represents a major logistics project involving a number of technical and reputational challenges. The project will have to be delivered to a high quality and on time, and at a cost that is financially viable for both Hafslund and society.

The AMS project follows the establishment of a new customer and invoicing system, which has represented a significant undertaking for Hafslund over the last two years. The Group's core systems for invoicing and meter reading have been replaced, and the new system entered operation in October. Efficient system solutions are a must if we are to be able to serve customers effectively, and I have been delighted with the efforts of the many employees at Hafslund who have contributed to this wide-ranging project.

The district heating network and Hafslund's normal and peak load capacity makes it possible to utilize the energy from 410,000 tonnes of waste that the Waste-to-Energy Agency in Oslo processes each year. The district heating network also facilitates the utilization of other renewable energy sources. Hafslund has recently invested in a new 56 MW boiler at the Haraldrud plant, which is mainly fired by wood pellets, and a 100 MW bio-oil peak load boiler at the Rodeløkka plant. These investments are helping the company to achieve its target of phasing out fossil energy sources from district heating production.

The decision to close down BioWood Norway was difficult, but necessary, with the technological challenges associated with the plant proving much greater than anticipated. With the market also fundamentally changing, the company started to run at a loss, unfortunately leaving us with no other choice than to terminate the business.

With the Group now focusing on four core areas, the company is preparing to achieve growth in areas where the company is suitably positioned. Securing profitable growth will require us to utilize all our existing competitive advantages.

Growth within power sales will primarily be achieved organically. NorgesEnergi leads the way in the Norwegian consumer market. We will continue our focus in Sweden through our new company SverigesEnergi and through Göta Energi. SverigesEnergi utilises knowledge gained from NorgesEnergi and Göta Energi. Hafslund Strøm, whose main market is in Østlandet, is currently venturing into the Swedish major customer market in collaboration with Göta Energi.

We will also improve the efficiency and profitability of our new sales channels. The Group possesses benefits of scale which it can pass on to its customers. This on its own creates a platform for growth.

Despite tough market competition, we have ambitious aims for the power market. We believe that innovation and operational improvements are absolutely necessary in order to remain competitive and to be able to deliver customers' preferred products. We have both the people and the size to generate further growth. The company is ready to embrace both the challenges and the opportunities of the future.

The Networks business is regulated and income levels are established by the authorities. Value creation comes from efficient operations and grid development. There is significant growth potential in this area too. Initially, growth will be achieved organically. Population numbers in our network area are growing significantly, as are commercial activities. This means more customers and higher consumption. Network

purchases could also be an option, providing that there is a neighbouring grid to which we can physically connect the existing grid, and where the price naturally also has to be right.

Hafslund Varme is making good progress with a number of improvement activities, all of which are helping to position the company favourably for 2013. The main focus is on expanding the customer base where Hafslund is already present with its district heating network, and on further optimisation of operations.

Hafslund's hydroelectric power production mainly takes place in the three power plant areas of Kykkelsrud, Vamma and Sarpsborg. A number of the generators are now of an advanced age, which means that increased production can be achieved by replacing old generators with new ones. Vamma would appear to be the most promising location for a new generator. Hafslund is also looking at opportunities within other renewable energy sources, including wind power. We can do this thanks to our thorough knowledge of the power market, and because we are an important player in the market for el certificates and can offer efficient solutions for the operation of electrical installations.

In 2012 we continued to concentrate operations on the areas in which we enjoy competitive advantages. We shall improve the efficiency of and strive to achieve improvements in all parts of the business in the future. In this way we will equip Hafslund for profitable growth.