

The Hafslund Group

IFRS - new accounting principles

As of 1 January 2005, Hafslund prepares and presents its consolidated accounts according to the International Financial Reporting Standards (IFRS). All 2005 interim reports are prepared and presented according to IAS 34. The appropriate accounting standards and statements are applied in accordance with the interpretations available at the time the accounts are prepared. The effects of changes in accounting standards, along with comparable 2004 figures prepared according to IFRS, were presented in the company's 28 April 2005 notice to the Oslo Stock Exchange. Subsequent to additional quality assurance measures and clarifications of the IFRS framework, some modifications to the restated 2004 figures and the figures for the three first quarters of 2005 have been made.

The presentation of 2005 figures and comparative 2004 figures presented herein shows the accounting items that have been subject to changes, along with comments on why these changes were made and any effects they may have on future accounting periods.

2004 comparative figures:

Comparison of NGAAP and IFRS at date of implementation

Balance Sheet		31 Dec. 2003 / 1 Jan. 2004		
NOK million		NGAAP	Change	IFRS
Intangible assets		3.221	(1.116)	2.105
Tangible fixed assets		11.975	3.360	15.335
Financial fixed assets		1.587	(193)	1.394
Receivables and inventory	2)	3.043	(476)	2.567
Investments		455	0	455
Cash and cash equivalents		328	0	328
Total assets		20.609	1.575	22.184
Equity, majority	1), 2)	5.486	136	5.622
Equity, minority		371	0	371
Allocations for liabilities	1), 2)	462	1.632	2.094
Other long-term liabilities		11.282	(1.691)	9.591
Short-term liabilities		3.009	1.498	4.506
Total equity and liabilities		20.609	1.575	22.184

Equity reconciliation		1 Jan. 2004
NOK million		
Equity according to NGAAP		5.857
- Waterfall rights		(1.116)
- Power generation facilities		3.211
- Network facilities		193
- Acquisition costs, residential alarms (CPO)		(221)
- Excess/under income	2)	(185)
- Pension liabilities	1)	(469)
- Dividend		194
- Total deferred tax due to IFRS effects	1), 2)	(1.471)
Equity according to IFRS		5.993

1) Pensions

During 2005, IFRIC stated that only the interest rate on government bonds may be used as a reference for estimating the discount rate. Accordingly, the discount rate as of 1 January 2004 must be changed from 5% (Norwegian 10-year swap interest rate) to 3.65% (Norwegian 10-year government bond interest). The effects of changing the applicable interest rate are as follows: Pension liabilities at the time of implementation, 1 January 2004, increased by NOK 125 million, whereas deferred tax and other equity decreased by NOK 35 million and NOK 90 million, respectively.

2) Network - excess/under income

Previously - through the third quarter of 2005 - Hafslund recorded excess/under income in the balance sheet; the excess/under income was recorded in such a way that total grid rental revenues for the year were identical to the regulatory allocated income ceiling. IFRS, on the other hand, defines excess/under income as regulatory liabilities/asset that generally do not qualify for balance sheet recording; the excess/under income does not qualify for recording in the balance sheet because no contract has been entered into with any specific customer, and the receivable, in theory, is contingent upon a future delivery. It should be noted that there continues to be disagreement in the world of accounting as to balance sheet disclosure of said excess/under income. That notwithstanding, Hafslund's current practice (non-balance-sheet recordation) is sanctioned by a formal interpretation of applicable rules and regulations. However, there are good reasons to record excess/under income in the balance sheet; for instance, the practice provides users with the best possible information. Further changes in the accounting treatment of this issue may occur.

Excess/under income as of 1 January 2004 has been removed from the balance sheet. The effect of this implementation of IFRS rules is a NOK 255 million reduction in other interest-bearing receivables, while deferred tax and other equity have been reduced by NOK 70 million and NOK 185 million, respectively.

Comparison of NGAAP and IFRS profit and loss accounts and balance sheets as of 31 December 2004

Profit and loss account		2004		
		NGAAP	Change	IFRS
NOK million				
Operating revenues	3), 4)	8.270	260	8.530
Purchased materials and energy		(4.106)	(43)	(4.149)
Salaries and other personnel expenses	2)	(1.043)	(78)	(1.121)
Other operating expenses		(1.067)	(27)	(1.094)
Operating profit before depreciation	1)	2.054	112	2.166
Depreciation	1)	(860)	166	(694)
Operating profit		1.193	279	1.472
Profit from shares and associated companies	4)	105	(105)	0
(Net) Financial items	4)	(603)	(74)	(677)
Pre-tax profit		694	100	795
Tax		(341)	3	(338)
Profit for the year		353	104	457
Majority's share of profit		337	99	436
Per-share profit (in NOK) (= undiluted EPS)		1,73	0,51	2,23

Balance Sheet		31 Dec. 2004		
		NGAAP	Change	IFRS
NOK million				
Intangible assets		3.180	(1.080)	2.100
Tangible fixed assets		11.515	3.395	14.910
Financial fixed assets		1.408	(312)	1.096
Receivables and inventory		2.355	(487)	1.868
Investments		494	0	494
Cash and cash equivalents		108	0	108
Total assets		19.060	1.516	20.576
Equity, majority		5.638	220	5.858
Equity, minority		339	1	340
Allocations for liabilities		335	1.539	1.874
Other long-term liabilities		8.385	(1.858)	6.527
Short-term liabilities		4.361	1.614	5.976
Total equity and liabilities		19.060	1.516	20.576

Business segments NOK million	2004		
	NGAAP	Change	IFRS
Network	893	63	956
Power Generation	482	(6)	476
Power Sales	66	70	136
Security	(98)	(44)	(142)
Contracting	46	3	49
Share investments and other financial income	0	178	178
Other Activities	(197)	15	(182)
Total operating profit	1.193	279	1.472

Equity reconciliation	
NOK million	2004
Equity according to IFRS as of 1 January	5.993
- Profit for the year 2004	457
- IFRS effect of acquisitions - 2004	(69)
- Dividend payment - 2003	(194)
- Translation adjustments	(9)
- Change in own (treasury) shares	13
- Other adjustments	8
Equity according to IFRS as of 31 December	6.199

1) Security – customer acquisition costs (CPO)

To maintain comparability between 2004 and 2005 profit figures, 2004 customer acquisition costs (CPO — Security) amounting to NOK 136 million (under NGAAP) were recorded in the balance sheet and depreciated over a period of five years, as presented in the 28 April 2005 Oslo Stock Exchange notice concerning the company's transition to IFRS. Subsequent to a more detailed interpretation of IFRS, such treatment for 2004 is not allowed; rather, direct entry in the profit and loss account is required. As of 1 January 2005, appropriate IFRS-compliant valuation of individual customer contracts and installed equipment has been implemented, and the corresponding acquisition costs have been recorded in the balance sheet and depreciated over a period of five years.

Accordingly, the after-tax profit of Sikkerhet Privat (Hafslund Security's residential alarm business) in the comparative figures for 2004 has been restated as follows: 1Q: NOK -19 million; 2Q: NOK -40 million, 3Q: NOK -55 million, and 4Q: NOK -81 million. Notice of this change in comparative 2004 figures was made in Hafslund's second-quarter 2005 report to shareholders.

2) Pensions

The change in pension liabilities resulting from changes in discount rates resulted in only minor changes in the comparative 2004 profit figures.

3) Network - excess/under income

The effect of disallowing the recording of excess/under income in the balance sheet is that Network's allocated income ceiling is no longer equivalent to annual grid rental revenues. Thus, 2004 operating revenues increase by NOK 59 million, while after-tax profit increases by NOK 42 million. These changes for 2004 have been divided equally among quarters, so that operating revenues have been increased by NOK 15 million each quarter, and after-tax profit by NOK 11 million each quarter.

4) Reclassification

Profits from share investments, associated companies, and financial items have been reclassified as operating revenues. Remaining net financial expenses are thus only associated with long-term liabilities.

Balance sheet as of 1 January 2005 — implementation of IAS 32 and IAS 39

Equity reconciliation

NOK million

Equity according to IFRS as of 31 December 2004	6.199
- Shares	38
- Power derivatives	48
- Interest derivatives	(163)
- Fair value of loans	1) (473)
- Power generation licenses	2) (46)
- Total deferred tax due to IFRS effects	153
Equity according to IFRS as of 1 January 2005	5.756

2005 accounts

1) Implementation of fair value option (FVO)

As a consequence of IASB and EU decisions to allow use of the fair value option (FVO) in the valuation of certain financial instruments, as of 1 January 2005, Hafslund has restated all managed and reported fixed-interest loans according to fair value. The implementation of the decisions, effective as of the third quarter of 2005, led to a NOK 369 million after-tax implementation effect, which was charged to other equity as of 1 January 2005. That amount has subsequently been reduced by NOK 28 million as a result of adjustments in the applicable interest rate used for fair value estimates. A consequence of electing FVO as an accounting principle is that the Group's recorded interest expenses must reflect prevailing market interest rates — and rate fluctuations. In other words, the Group's interest expenses presented in the profit and loss account will now follow changes in market interest. Interest expenses in 2005 were reduced by NOK 169 million, and after-tax profit rose by NOK 121 million due to FVO.

2) Production - balance sheet recognition of power licensing

The purpose of power licensing is to secure electric power at reasonable prices for Norwegian municipalities. Power licenses require Hafslund to supply an agreed-to volume of power. To the extent that these power deliveries are settled financially, they do not meet the exception provided in IAS 39.5 governing self-consumption. Instead, the aforesaid obligation is covered by IAS 39: Financial Instruments: Recognition and Measurement. Consequently, the obligation to make power licensing deliveries in future periods is recorded at fair value in the profit and loss account, in contrast to the use of current accrual, as applied previously.

The effect of implementation, as of 1 January 2005, is a NOK 102 million increase in financial liabilities classified as derivatives, whereas deferred tax and other equity are reduced by NOK 56 million and NOK 46 million, respectively.

The profit effect of recording power licensing in the balance sheet in 2005 is immaterial.

3) Production - balance sheet recognition of license fees

License fees represent a liability for future payments in return for the waterfall rights Hafslund acquires. Compensation for a specific right/license received is in the form of the liability assumed. The asset value at the time of investment should correspond to the value of the allocated license fee liability as of the same date.

The effect of implementation as of 1 January 2005 is a NOK 100 million increase in both operating assets and other liabilities.

The effect on profits of recording the license fee in the balance sheet is immaterial in 2005.

4) Network - excess/under income

The effect of the disallowance of recording excess/under income in the balance sheet in 2005 was a NOK 120 million increase in operating revenues and a NOK 86 million increase in after-tax profit. That change in operating revenues has been distributed quarterly, in equal amounts. Pursuant to current interpretations of applicable rules and regulations, the grid rental invoicing date will determine the timing of profit and loss account recognition.