Report to shareholders

Fourth quarter 2010

Contents

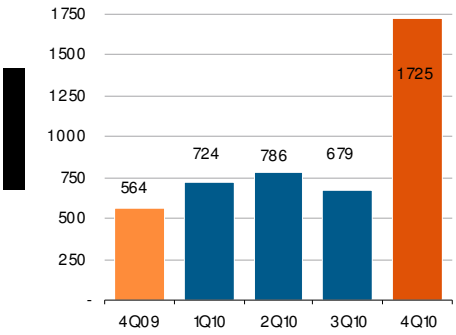
Fourth-quarter 2010 highlights (exclusive of REC profit effect)

- Challenging power market conditions.
- EBITDA: NOK 850 million before gain on the sale of the Group's fiber optic network business, up NOK 286 million from 4Q 2009.
- Hafslund Fibernett sold — sales price: NOK 1 477 million. Gain on sale: NOK 875 million. Settlement received in January 2011.
- Weak European market for wood pellets fuel leads to NOK 300 million facility write-down.
- Working capital: up NOK 1 822 million (4Q 2009: NOK 784 million) due to high power consumption and electric power prices.
- The Board of Directors will propose payment of a per-share dividend of NOK 2.50 for the 2010 accounting year (2009 dividend: NOK 2.25).
- The Board will assess further dividend capacity ahead of Hafslund's 2011 annual shareholders' meeting.

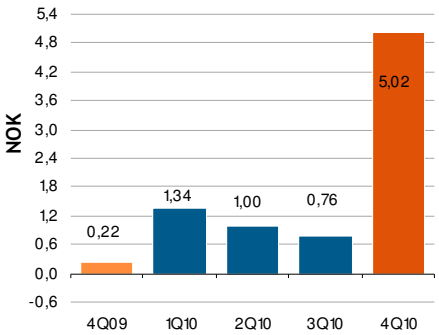
Earnings per share excl. REC

NOK 5.02

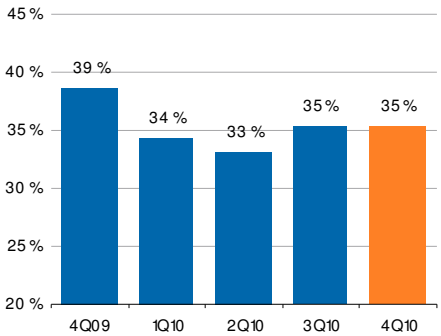
- EBITDA (excl. REC)



- Earnings per share (excl. REC)



- Equity ratio



In the following discussion up to and including the Outlook section, figures are presented exclusive of profit effects due to Renewable Energy Corporation (REC) investment value changes. Figures are in NOK unless otherwise stated. Comparative 2009 figures appear in parentheses.

Key figures (exclusive of REC profit effect)

Fourth quarter			Year	
2009	**2010**	**Profit and loss (NOK million)**	**2010**	**2009**
3 032	**5 189**	Operating revenues	**15 829**	10 670
564	**1 725**	EBITDA	**3 914**	2 213
342	**1 135**	Operating profit	**2 644**	1 331
117	**1 076**	Profit before tax and discontinued operations	**2 173**	670
43	**979**	Profit after tax	**1 584**	335
		Capital matters		
28 918	**29 613**	Total assets	**29 613**	28 918
39 %	**35 %**	Equity ratio	**35 %**	39 %
11 601	**13 067**	Net interest-bearing debt	**13 067**	11 601
		Per-share figures (NOK)		
0,22	**5,02**	Profit (EPS)	**8,12**	1,71
(3,0)	**(8,2)**	Cash flow from operations	**2,9**	9,6
		Key figures		
28,1	**43,6**	Power prices (NOK per kWh)	**39,1**	27,5
1 224	**1 473**	Energyproduction (GWh)	**5 069**	4 493
4 105	**4 744**	Power sales (GWh)	**14 984**	13 238

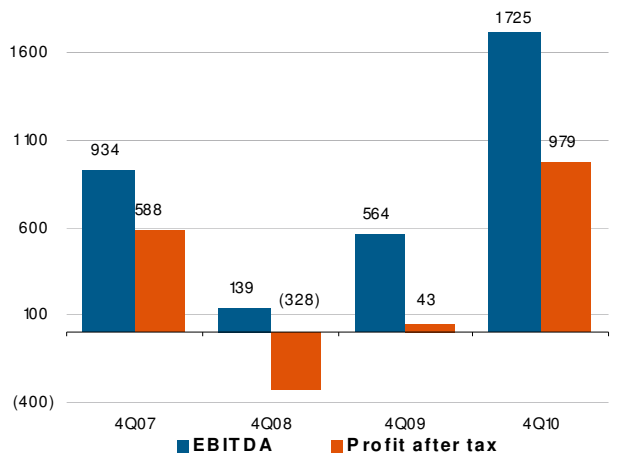
Fourth-quarter 2010 summary

Fourth-quarter 2010 results

Fourth-quarter 2010 Hafslund Group operating revenues amounted to NOK 1 135 million. The revenue figure reflects two non-recurring items: the sale of Hafslund Fibernett for NOK 1 477 million, which resulted in a NOK 875 million gain and a NOK 300 million write-down associated with the Averøya wood pellets plant. The write-down is the result of weak markets for pellet sales to European power producers and heating plants. Operating profit for the fourth quarter excluding the two aforementioned items, was NOK 560 million. Of this amount, the combined profit from Hafslund's Hydropower, District Heating, Network, and Power Sales businesses was NOK 495 million, up NOK 92 million from the fourth quarter of 2009.

Financial expenses in the fourth quarter of 2010 amounted to NOK 59 million (NOK 225 million), and must be viewed in light of a NOK 94 million (NOK -82 million) positive effect due to higher forward interest rates and a resultant change in the market value of the Group's loan portfolio.

Fourth-quarter 2007–2010 (excl. REC)
(NOK million)



Net interest-bearing debt was NOK 13.1 billion as of 31 December 2010, up NOK 2.0 billion in the quarter. The average loan portfolio coupon rate was 4.0 percent as of year-end 2010, a decrease of 0.3 percentage points from the third quarter.Third-quarter 2007–2010 (excl. REC).

The Group's pre-tax profit for the fourth quarter of 2010 was NOK 1 076 million (NOK 117 million). The Group's tax expense in the fourth quarter of 2010 amounted to NOK 97 million, which corresponds to an effective tax rate of nine percent of the pre-tax profit for the period. The low effective tax rate is attributable to the NOK 875 million gain on the sale of Hafslund Fibernett shares, which, pursuant to the exemption model is subject to 0.84 percent taxation. Tax charges include Norway's tax on hydropower facilities, which amounted to NOK 55 million (NOK 19 million) in the quarter.

The Group's after-tax profit for the fourth quarter of 2010 was NOK 979 million (NOK 43 million). The figure corresponds to a per-share profit of NOK 5.02 (NOK 0.22); the figures are identical to the diluted per-share figures.

Cash flow and capital matters - fourth quarter 2010

Cash flow from operations amounted to NOK -1 596 million in the quarter; the figure reflects a NOK 2 054 million increase in working capital. High power prices combined with high power consumption led to a steep increase in capital tied up in customer receivables and accrued revenues. By contrast, power purchases made via Nord Pool Spot are settled daily. Thus, working capital rose by NOK 2.0 billion in the fourth quarter of 2010; for comparison, working capital increased by NOK 890 million in the fourth quarter of 2009.

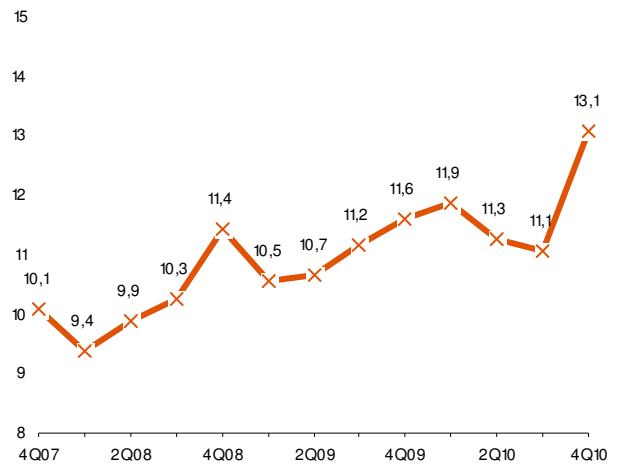
EBITDA amounted to NOK 1 725 million, which is NOK 1 267 million higher than the associated cash flow from operations before change in working capital. The difference is attributable to the NOK 875 million gain on the sale of Hafslund Fibernett with settlement completed in January 2011, NOK 142 million in taxes paid, NOK 125 million in interest payments, and NOK 125 million value growth on the Group's financial assets.

Operational and expansion investments amounted to NOK 468 million (NOK 499 million) in the quarter, primarily for expansions in the Group's District Heating and Hydropower businesses as well as Network reinvestments.

The cumulative effect of cash-flow components resulted in a NOK 2.0 billion negative cash flow in the fourth quarter of 2010 that was financed through an increase in net interest-bearing debt.

Total assets of the Hafslund Group as of 31 December 2010 amounted to NOK 29.6 billion, up NOK 2.3 billion in the quarter. Net interest-bearing debt amounted to NOK 13.1 billion as of 31 December 2010, up NOK 2.0 billion in the quarter. The increase is largely attributable to the quarter's sharply increased working capital, while settlement for the sale of Hafslund Fibernett was completed in January 2011. The Group has a strong balance sheet and a robust financing structure with long-term lines of credit.

Net interest-bearing debt
(in NOK billion)



2010 summary

2010 results

The Hafslund Group's 2010 operating profit was NOK 2 644 million (NOK 1 331 million). Operating profit growth reflects improved underlying operations and higher power prices and energy production, compared with 2009.

The Hydropower business achieved a 2010 volume-weighted sales price of NOK 0.391 per kWh, up NOK 0.116 per kWh from 2009. The Hafslund Group's total energy production in 2010 amounted to 5 069 GWh, up 576 GWh from 2009. The increase in energy output is largely attributable to record-high district heating production due to cold weather in the first and fourth quarters of 2010. Production start-up at the Borregaard energy recovery facility also contributed to total energy output. Furthermore, profit for 2010 must be viewed in light of the NOK 875 million gain on the sale of Hafslund Fibernett and the NOK 300 million write-down associated with the Averøya wood pellets facility. Return on capital employed was 11.5 percent in 2010 (6.1 percent).

Financial expenses in 2010 amounted to NOK 471 million (NOK 661 million). The figure reflects an average net interest-bearing debt of NOK 11.6 billion and average coupon rate of 4.2 percent.

The Group's 2010 tax expense amounted to NOK 589 million, which corresponds to an effective tax rate of 27 percent on the NOK 2 173 million pre-tax profit for the year. Tax expenses include Norway's tax on hydropower generation facilities, which amounted to NOK 257 million in 2010. The year's tax expense should also be viewed in light of major components of the Venture portfolio's operating profit, including the NOK 875 million gain on the sale of Hafslund Fibernett, which has no tax effect under the applicable exemption model.

The Group's 2010 after-tax profit was NOK 1 584 million (NOK 335 million). The 2010 after-tax profit figure corresponds to a per-share profit of NOK 8.12 (NOK 1.71); the figures are identical to the diluted per-share figures.

Further, the Group's 2010 profit was negatively affected by a NOK 1 991 million value decline on its REC investment.

The Board of Directors will recommend to Hafslund's 4 May 2011 general shareholders' meeting that a dividend of NOK 2.50 (NOK 2.25) per-share be paid for the 2010 accounting year. The proposed dividend corresponds to a total dividend disbursement of NOK 439 million.

2010 cash flow

Cash flow from operations amounted to NOK 565 million in 2010; the figure reflects a NOK 1 656 million increase in working capital. EBITDA for the year amounted to NOK 3 914 million, which is NOK 1 693 million greater than the associated cash flow from operations before change in working capital. The difference is attributable to the NOK 875 million gain on the sale of Hafslund Fibernett for which settlement was completed in January 2011, NOK 149 million in taxes paid, NOK 536 million in interest payments, and financial asset value growth of NOK 101 million.

Net cash flow for investment activities amounted to NOK 1 532 million in 2010, primarily for expansion investments in the Group's District Heating, Hydropower, and Heat and Bioenergy business segments, expansion of the Power Sales business in the Swedish market, as well as Network reinvestments.

With the addition of the NOK 439 million dividend to Hafslund shareholders in the second quarter, cash flow for 2010 amounted to a negative NOK 1 405 million, which was financed through an increase in net interest-bearing debt.

Risk

Hafslund's activities are exposed to regulatory, legal, financial, governmental policy, and market-related risk, as well as operational risk. Risk assessment represents an integral part of all business activities, and the Group's collective risk is subject to management evaluation. Hafslund has established guidelines and frameworks governing active risk management in various areas.

Hafslund is a solid industrial participant, well equipped to handle poor loan market liquidity. Several years ago, the Group established a long-term revolving credit facility to ensure adequate funds are available, even in periods in which it is difficult to secure financing.

Power prices constitute one of several key factors determining the Group's profit. Power prices particularly affect the Group's energy production businesses. The Power Sales business uses hedging to minimize uncertainty associated with power prices. Power market counterparty risk is minimized through trade in standardized contracts settled via Nasdaq OMX. Spot-market power contract prices affect the Group's annual operating profit level. A NOK 0.01 per kWh change in power prices leads to an approximately NOK 34 million change in operating profit and a roughly NOK 18 million change in the Group's after-tax profit.

Due to Hafslund's greater targeting of renewable energy, the Group is exposed to risk associated with input factors other than power. This applies especially to district heating, waste incineration, and bioenergy. A designated Group risk-management team assesses and adopts strategies for managing such risk categories, in accordance with the risk profile established by management.

The Group's treasury department continuously manages and hedges foreign currency exposure to reduce currency risk associated with power trading, foreign-denominated loans, and other FOREX exposure. Hafslund is exposed to interest-rate risk as it affects the company's interest-bearing loans and the interest level applied by regulators in determining the income ceiling for the Group's Network business. Balanced management of fixed- and floating-interest debt in the company's interest portfolio is also used to lessen interest-rate risk.

Several of the Group's energy supply activities are subject to licensing and significant public regulation, particularly hydropower generation, district heating, and the Network power distribution businesses. The Network business is a natural monopoly subject to government regulation of its income. The current regulatory regime offers poor predictability as to future income frameworks and returns on grid investments.

Customer-base developments represent a key risk factor for the Power Sales business. Although the business holds significant customer receivables, most of which are smaller-sized amounts owed by households, losses on these receivables are historically negligible.

Business segments

> Hydropower

	Fourth quarter		Year	
NOK million	**2010**	2009	**2010**	2009
Operating revenues	**315**	202	**1 196**	856
EBITDA	**252**	154	**972**	661
Operating profit	**241**	144	**929**	618
Power price (NOK per kWh)	**43,6**	28,1	**39,1**	27,5
Production (GWh)	**702**	683	**3 041**	3 018
Investments	**36**	37	**161**	165

Hafslund's Hydropower business had operating revenues of NOK 315 million in the fourth quarter of 2010. The 55-percent revenue growth compared with the fourth quarter of 2009 is largely attributable to higher Nord Pool Spot wholesale power contract prices.

Hydropower posted a fourth-quarter 2010 operating profit of NOK 241 million, up NOK 97 million compared with the fourth quarter of 2009. Profit growth is mainly attributable to higher power prices, augmented by somewhat greater generation volumes.

The Hafslund Group's strategy is to sell the power it produces in the spot market, without a significant degree of price hedging. The Group uses this strategy in part to provide Hafslund's investors with direct exposure to Nordic-market power prices. Exposure to spot prices causes profits from Hafslund's Hydropower business to be largely driven by power contract price developments on Nord Pool Spot for Norway's price area NO1.

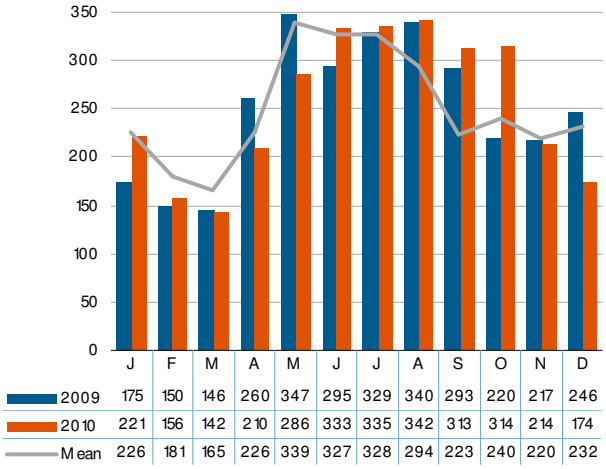
The volume-weighted sales price achieved in the fourth quarter of 2010 was NOK 0.436 per kWh, up NOK 0.155 per kWh compared with the year-earlier figure. Higher power prices resulted in a NOK 108 million increase in profit contribution, compared with the fourth quarter of 2009. For comparison, the NO1 spot price was NOK 0.50 per kWh (NOK 0.296 per kWh) in the fourth quarter of 2010.

Hydropower generation in the fourth quarter of 2010 was 702 GWh, up 19 GWh compared with the fourth quarter of 2009. Higher production resulted in a NOK 5 million positive profit contribution compared with the year-earlier figure. Production in the fourth quarter of 2010 was on a par with normal levels for the reporting period, based on the preceding 10-year average adjusted for efficiency enhancements. As of the close of January 2011, aggregate hydrologic reservoir levels in Hafslund's drainage basin were at 74 percent of normal for the season; total stored energy amounted to 1 098 GWh. Of this figure, snow pack amounted to just over 70 percent of total reservoir energy content. Projections based on production thus far in 2011, scheduled availability of production facilities, current hydropower reservoir levels, and provided normal precipitation, indicate that Hafslund's first-quarter 2011 power generation will be approximately 410 GWh, which is 160 GWh or 28 percent below normal for the period.

Operating expenses amounted to NOK 63 million (NOK 48 million) in the fourth quarter of 2010. Expenses were above normal due to ongoing upgrade programs and a NOK 10 million charge for a non-recurring item associated with short-term regulating power expenses.

The comprehensive expansion and upgrade project is now in its final phase. Core components of the project are construction of a new generator at Kykkelsrud, the FKF 4, and upgrading the oldest generators at Hafslund's Vamma hydropower plant. The FKF 4 will be a complete 40 MW power plant. The Vamma upgrade program and the new FKF 4 generator are scheduled for completion in the spring of 2011. The upgrade program for Vamma generators 1, 2, 3, 5, and 6 has been completed; generator 4 is scheduled to go online for the 2011 spring flood. These projects will add a significant 100 GWh of annual production capacity while considerably lengthening the lifetime of installed generation capacity. The NOK 500 million investment program includes approximately NOK 250 million for generation capacity expansion.

Hydropower generation vs 10-year average
(GWh)



Note: Mean = 10-year average production, adjusted for capacity improvements

Investments in the fourth quarter of 2010 totaling NOK 36 million (NOK 37 million) must be viewed in light of the aforementioned expansion and upgrade program, now nearing completion. As of 31 December 2010, Hydropower's capital employed was NOK 4.4 billion.

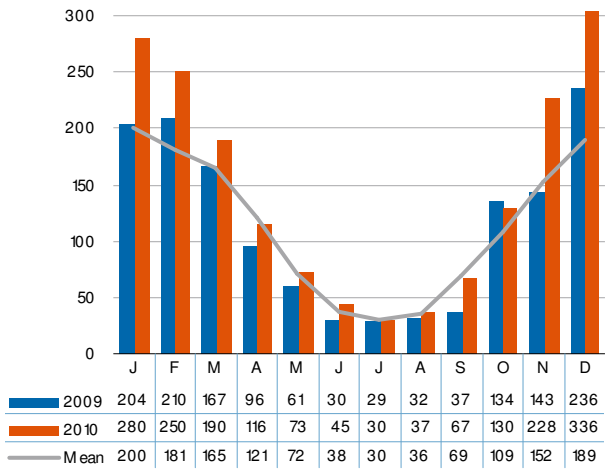
> District Heating

NOK million	Fourth quarter 2010	Fourth quarter 2009	Year 2010	Year 2009
Operating revenues	**462**	245	**1 144**	747
EBITDA	**93**	58	**283**	213
Operating profit	**62**	31	**165**	91
Sales price (NOK per kWh)	**75,1**	58,4	**72,2**	60,8
Production cost (NOK per kWh)	**48,4**	28,2	**38,6**	27,8
Gross margin (NOK per kWh)	**26,7**	30,2	**33,6**	33,0
Production volume (GWh)	**694**	512	**1 782**	1 382
Investments	**210**	91	**432**	397

Hafslund's District Heating business had fourth-quarter 2010 operating revenues of NOK 462 million, up 89 percent from the corresponding 2009 reporting period. Revenue growth is attributable to both higher prices to end-users and greater demand for district heating. Despite a hike in district heating prices, gross contribution margin per kWh fell compared with the fourth quarter of 2009. The decline stems from a greater proportion of peak-load output at higher per-kWh production costs (see table below). Typically, about 35 percent of total annual production is generated and distributed in the fourth quarter of the year, making it a seasonally strong quarter. EBITDA amounted to NOK 93 million in the quarter, up NOK 35 million compared with the fourth quarter of 2009.

The achieved sales price was NOK 0.751 per kWh, NOK 0.167 per kWh more than the year-earlier figure. The increase is largely attributable to higher wholesale prices for power contracts traded via Nord Pool Spot. The Nord Pool Spot spot price for Norway's price area NO1 in the quarter was NOK 0.50 per kWh, up NOK 0.204 per kWh compared with the fourth quarter of 2009.

District Heating's annual production profil
(GWh)

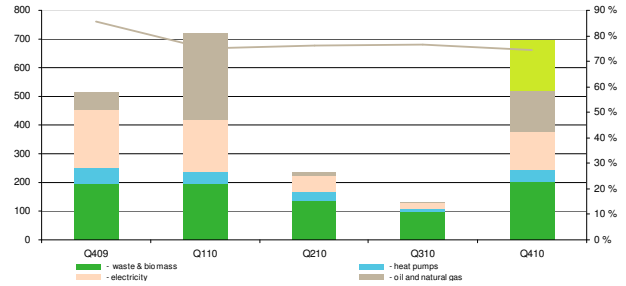


Note: Mean = projected 2010 production provided normal temperatures (average past 10 years) and existing and planned customer tie-ins.

The energy volume produced in the fourth quarter of 2010 was 694 GWh (512 GWh), of which 136 GWh (131 GWh) is attributable to purchases and re-sales associated with the waste incineration plant owned by the City of Oslo (EGE). A high proportion of bio-oil and bio-diesel was used as peak-load energy sources for district heating in the quarter. The 36-percent production volume increase from the fourth quarter of 2009 is primarily attributable to customers' greater energy consumption, with an additional contribution from customer-base growth.

The following table presents District Heating's production volume, production mix of energy sources for the five most recent quarters, and 12-month rolling percentage of electricity and renewable energy inputs. Production based on electricity and renewable sources amounted to 74 percent of total energy consumption over the most recent 12-month period and 79 percent in the fourth quarter of 2010. The decline in the relative proportion of electricity and renewable energy sources compared with 2009 must be viewed in light of a high proportion of peak-load demand met by fossil fuel use (oil and natural gas) during winter months with lengthy periods of extremely cold weather.

Energy sources - District Heating
- in GWh and percent electricity and renewable sources



Fourth-quarter 2010 production costs amounted to NOK 0.484 per kWh, a significant NOK 0.202 per kWh increase from the fourth quarter of 2009. Higher production costs are largely attributable to increased wholesale prices for spot power purchased via Nord Pool Spot and high production costs for bio-oil and bio-diesel. The fourth-quarter 2010 gross contribution margin was NOK 0.267 per kWh, down NOK 0.035 per kWh from the year-earlier figure. The following table shows unit costs in NOK/kWh for each energy source and total production costs for the past five quarters, along with achieved district heating prices and gross contribution margin.

Amounts in NOK per kWh	Q409	Q110	Q210	Q310	Q410
Waste & biomass	17,4	17,1	17,5	18,9	18,2
Heat pumps	13,1	20,7	15,0	11,5	21,5
Bio-oil and bio-diesel	0,0	0,0	0,0	0,0	77,0
Electricity	36,6	52,7	48,4	57,9	60,7
Oil & natural gas	49,0	45,5	43,0	57,5	53,0
Production cost	28,2	38,4	25,5	25,0	48,4
Sales price	58,4	73,0	64,8	65,9	75,1
Gross margin	30,2	34,7	39,3	40,9	26,7

District Heating's total fourth-quarter 2010 contribution margin was NOK 143 million, up NOK 43 million compared with the year-earlier figure. Contribution margin growth is attributable to increased demand for district heating; this factor alone resulted in a NOK 42 million positive profit contribution. Offsetting this amount was a NOK 21 million negative profit contribution due to the NOK 0.035 per kWh decline in gross margin. Further affecting the year-on-year comparison was a NOK 20 million non-recurring charge recorded in the fourth quarter of 2009. Fourth-quarter 2010 operating expenses were NOK 50 million (NOK 42 million), the increase reflects higher maintenance activity levels.

Investments in the quarter totaled NOK 210 million (NOK 91 million), mainly for expansions to network capacity, including additional main boilers. A total of 63 customer tie-ins with an annual outtake of 57 GWh were completed during the fourth quarter. In 2010, contracts were signed for an aggregate projected annual energy outtake of approximately 128 GWh. The Group's District Heating business had NOK 4.56 billion in capital employed as of 31 December 2010.

> Heat and Bioenergy

	Fourth quarter		Year	
NOK million	**2010**	2009	**2010**	2009
Operating revenues	**33**	12	**115**	49
EBITDA	**(7)**	(6)	**(51)**	(11)
Operating profit	**(310)**	(7)	**(386)**	(27)
Operating profit heat	**5**	(3)	**(2)**	(19)
Operating profit bioenergy	**(314)**	(3)	**(384)**	(8)
Energy production (GWh)	**77**	29	**246**	93
Waste (thousand tons)	**32**	12	**114**	57
Investments	**1**	116	**189**	342

The Heat and Bioenergy segment comprises two businesses: energy recovery from household and industrial waste (Heat) and production of wood pellets biofuel (Bioenergy). Prior to the second quarter of 2010, Heat and Bioenergy operations were presented under Other Activities, as they largely comprised facilities under construction.

The Heat business owns and operates two waste incineration plants, at Fredrikstad and Sarpsborg, which have a combined annual production capacity of 410 GWh. The Sarpsborg plant is scheduled to complete its test phase in the first quarter of 2011. The facility has an annual capacity of 230 GWh of industrial steam; Borregaard has entered into a 15-year agreement to purchase the entire output volume. The Sarpsborg unit produced 128 GWh (0 GWh) in 2010, of which 38 GWh was generated in the fourth quarter of the year. At the anticipated 85 percent capacity utilization, energy deliveries will amount to 195 GWh in 2011.

The energy recovery plant at Fredrikstad has an annual generation capacity of 180 GWh of steam, district heating, and electricity, at full-scale operation. Steam customers are industrial companies located at the Øra industrial park. The facility also supplies the district heating grid of Fredrikstad Fjernvarme and produces electric power. Expanding the customer base for steam delivery from the current 53 GWh level to about 90 GWh in 2016 is targeted. District heating deliveries are projected to increase from approximately 53 GWh in 2010 to some 65 GWh in 2016. Electric power generation will decrease in step with higher deliveries of steam and district heating.

Full capacity utilization for the two waste incineration facilities will require some 150 000 metric tons of waste-derived fuel annually. Agreements have been concluded for delivery of some 80 percent of the necessary waste material for the years 2011 to 2013. The Heat business' total fourth-quarter 2010 generation was 77 GWh (29 GWh); 32 000 metric tons (12 000 MT) of waste was incinerated. The significant increase in energy production compared with the fourth quarter of 2009 is largely attributable to production start-up of the Borregaard facility.

Operating revenues for the Heat & Bioenergy segment amounted to NOK 33 million (NOK 12 million) in the quarter; some 45 percent of the fourth-quarter 2010 figure is attributable to revenues from the incineration of waste-derived fuel. EBITDA for the fourth quarter of 2010 was NOK 13 million, up NOK 17 million compared with the corresponding 2009 reporting period. Operating profit for the quarter was NOK 5 million (NOK -3 million).

Hafslund's Bioenergy business comprises a wood pellets factory, located at Averøya, Norway. The facility, which has an annual production capacity of 450 000 MT of pellets, has been undergoing tests throughout the last half of 2010. Based on this experience, some additional months of pilot operation and modifications will be required before stable pellets production begins. As previously reported, full production capacity is only expected to be achieved in late 2011.

The price of wood pellets sold to European heat and power producers has declined since the summer of 2008; prices bottomed out in the third quarter of 2010, but have since recovered slightly. The low pellets prices seen in recent years have led to today's very low margins. The most important reason for this situation is that supply outpaced demand in the global market during this period. Over the next few years, however, Hafslund expects a better balance to develop between supply and demand — and improved margins. As a consequence of challenging market conditions, the pellets factory was written down by NOK 300 million in the fourth quarter of 2010. As of 31 December 2010, the book value of the pellets plant was NOK 240 million. The agreements that had been entered into for Averøya start-up-phase pellets deliveries in 2010 and early 2011 have been either postponed or terminated without incurring additional costs.

Heat and Bioenergy had a total capital employed of NOK 1.0 billion as of 31 December 2010.

> Network

	Fourth quarter		Year	
NOK million	**2010**	2009	**2010**	2009
Operating revenues	**1 344**	1 008	**4 804**	3 385
EBITDA	**246**	314	**1 077**	1 035
Operating profit	**109**	179	**532**	493
Investments	**164**	200	**485**	521

Hafslund's Network business had fourth-quarter 2010 operating revenues of NOK 1 344 million (NOK 1 008 million). The main reason for revenue growth compared with the fourth quarter of 2009 is an increase in central transmission grid (Statnett) costs, which are reinvoiced.

Network had a fourth-quarter 2010 operating profit of NOK 109 million (NOK 170 million). Gross contribution margin in the fourth quarter of 2010 was NOK 538 million, down NOK 123 million from the year-earlier figure. The decrease is largely attributable to higher grid losses and so-called under income that resulted in a NOK 132 million negative profit effect compared with the fourth quarter of 2009. (Note 3 to the accounts in this report to shareholders discusses the accounting treatment of excess/under income.)

Operating expenses amounted to NOK 392 million, down NOK 55 million from the fourth quarter of 2009. The decline is attributable to factors that include a positive non-recurring item stemming from a reduction in pension liabilities associated with less costly age-based pension terms. Operating and maintenance activity levels were somewhat higher than in the fourth quarter of 2009.

Investments by the Network business totaled NOK 164 million (NOK 200 million) in the fourth quarter of 2010. The agreement to sell central grid facilities and associated real estate in Oslo to Norway's Transmission System Operator, Statnett SF, is expected to be finalized in the first six months of 2011. The sale will release up to NOK 331 million in capital and will trim Network's 2011 profit by NOK 15 million, compared with 2010. As of 31 December 2010, Network's capital employed amounted to NOK 9.6 billion.

Delivery quality in 2010 improved by 14 percent compared with 2009, in terms of the number and duration of service interruptions. The average number of service interruptions per customer in 2010 was 0.9; the average duration was 40 minutes. This performance marks the best-ever supply reliability Hafslund has recorded. Furthermore, the year began with severe cold and year-end 2010 had historically low temperatures. Hafslund Network experienced record power consumption in its supply area in 2010, delivering 17.8 TWh (16.9 TWh) of electric power to end customers.

Based on the 2011 income framework notification Hafslund has received from the regulatory body NVE, planned maintenance activities, and current interest rates, operating profit for 2011 is expected to be on a par with the level achieved in 2010.

> Power Sales

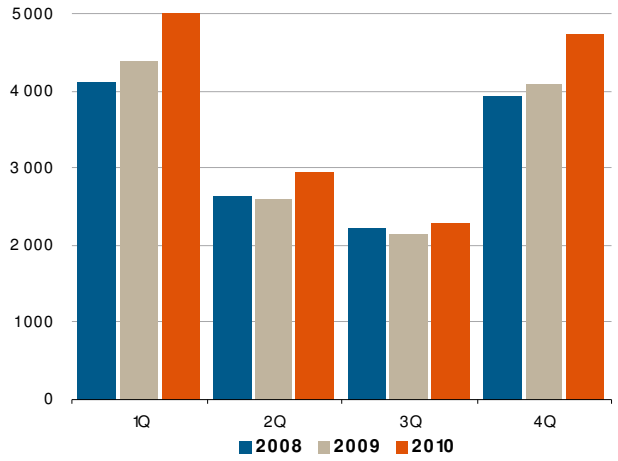
	Fourth quarter		Year	
NOK million	**2010**	2009	**2010**	2009
Operating revenues	**2 888**	1 378	**8 021**	4 787
EBITDA	**86**	51	**360**	248
Operating profit	**83**	49	**348**	240
Power sales (GWh)	**4 744**	4 105	**14 984**	13 238

Hafslund's Power Sales business had operating revenues of NOK 2 888 million in the fourth quarter of 2010, up 110 percent from the fourth quarter of 2009. Revenue growth is largely attributable to higher prices for wholesale power contracts traded via Nord Pool Spot. Increased demand and six percent customer-base expansion also contributed to fourth-quarter 2010 operating revenue growth.

Power Sales' fourth-quarter 2010 operating profit of NOK 83 million (NOK 49 million) is satisfactory in a seasonally strong quarter. The NOK 34 million operating profit growth is largely a consequence of a NOK 11 million positive contribution from investments in Sweden, an unrealized NOK 11 million change in the value of power portfolios, and a NOK 20 million margin increase due to demand and delivery volume growth. Additional comparative factors are minor changes in gross contribution margin and total operating expenses compared with the fourth quarter of 2009. Power Sales executed sound risk management throughout 2010, confronted by sometimes difficult market conditions, particularly in the first and fourth quarters. Risk management along with satisfactory customer-base and volume growth played a significant role in achieving a 2010 operating profit of NOK 348 million. The figure corresponds to an operating profit after tax of NOK 360 per customer.

The volume of power sold to customers in Norway in the fourth quarter of 2010 was 4 744 GWh, up 16 percent compared with the corresponding 2009 figure.

Power Sales – Volume sold
(GWh)



Power sold to residential-market customers totaled 3 384 GWh (2 842 GWh). Corporate customers purchased 1 360 GWh (1 263 GWh) in the quarter. As of 31 December 2010, Hafslund Power Sales had some 951 000 customers, through wholly or partly-owned companies. The customer-base figure includes some 257 000 customers of wholly or partly owned companies in Sweden. In Norway, Hafslund Power Sales added 39 000 customers in 2010.

In 2010, Hafslund Power Sales companies introduced several new types of residential-market power agreements and add-on services. Several of the companies offer their customers agreements that feature price-ceiling alternatives and maximum-price guarantees. Regardless of prevailing spot prices, such customers will never have to pay more than the uppermost agreed price. The companies' obligations are generally hedged via bilateral-market power options and forward and futures contracts.

Pursuant to IFRS, the aforementioned derivatives are valued at market value, with changes recognized in profit and loss. Higher spot prices in late 2010 resulted in an increase in the market value of these power derivative portfolios. Accordingly, NOK 30 million (NOK 19 million) in value growth was recorded to profit in the fourth quarter of 2010. The gain is largely attributable to an accrual effect that will be reversed on an ongoing basis throughout 2011, as the power-contract volumes enter their delivery periods.

Power Sales' capital employed was NOK 3.4 billion as of 31 December 2010; the figure includes approximately NOK 2.1 billion in working capital. Working capital increased by NOK 1.6 billion in the quarter; working capital growth must be viewed in light of high power consumption and particularly high wholesale prices for power contracts traded via Nord Pool Spot in the latter part of the fourth quarter of 2010. For comparison, working capital as of 31 December 2009 was NOK 1.4 billion.

> Venture

	Fourth quarter		Year	
NOK million	**2010**	2009	**2010**	2009
Operating revenues	**169**	176	**549**	779
EBITDA (exlc. REC)	**930**	(31)	**1 077**	(61)
Operating profit (excl. REC)	**832**	(54)	**887**	(162)
Profit effect of REC share-value change	**0**	(137)	**(1 991)**	(137)

Hafslund Venture had fourth-quarter 2010 operating revenues of NOK 169 million (NOK 176 million). The operating revenue figure is attributable to companies in which Venture owns more than 50 percent.

EBITDA (exclusive of the Group's REC investment) was NOK 930 million (NOK -31 million) in the fourth quarter of 2010. The figure includes a NOK 875 million gain on the sale of Hafslund Fibernett shares for NOK 1 477 million. The sale took effect for accounting purposes as of 27 December 2010; settlement was made on 20 January 2011. The divested business had 2010 revenues of NOK 181 million; EBITDA amounted to NOK 129 million, operating profit was NOK 94 million, and investments amounted to NOK 117 million. Other Venture investments, mainly valued on an ongoing basis at market value, with changes recorded to profit and loss, suffered a NOK 47 million value decline in the fourth quarter of 2010. Aside from the REC investment, Venture's portfolio comprises shares in non-listed companies. Venture's capital employed, exclusive of the Group's REC investment, amounted to NOK 892 million as of 31 December 2010.

Hafslund owns some 89 million REC shares, which corresponds to an 8.93 percent ownership interest in the solar power manufacturing company. As of 31 December 2010, the market value of the Group's REC investment was NOK 1.6 billion, based on REC's closing price of NOK 17.79 per share. The NOK 189 million value decline since the close of the third quarter is recognized in the comprehensive income statement for the fourth quarter of 2010. See Note 2 to the accounts (below in this report to shareholders), which discusses the accounting treatment of the Group's REC investment.

> Other Activities

	Fourth quarter		Year	
NOK million	**2010**	2009	**2010**	2009
Support	**(40)**	(31)	**(129)**	(152)
Power trading	**23**	14	**29**	(10)
Real estate	**4**	(41)	**24**	(0)
Billing and customer service	**18**	23	**95**	101
Financial income, etc	**64**	39	**102**	191
Other activities	**49**	(4)	**49**	(53)
Total operating profit	**118**	0	**170**	77

The Hafslund Group's Other Activities, which include real estate management, power trading, and staff and support functions, had a fourth-quarter 2010 operating profit of NOK 118 million (NOK 0 million). The above table presents the operating profit of Other Activities' profit centers. Profit from Financial income, etc. and Other activities in the above table is largely attributable to positive non-recurring items.

Other matters

> Government's regulated framework conditions

Network

In a letter dated 24 June 2008, the Norwegian Water Resources and Energy Directorate (NVE) notified Hafslund that it had ruled that Hafslund Nett AS must maintain an in-house grid operations and control function and a minimum staffing level of some 250 man-years. Hafslund has appealed the decision. Norway's Ministry of Petroleum and Energy has not yet ruled on Hafslund's appeal in the matter. However, the Ministry has postponed the deadline by which NVE's ruling must be implemented, pending the Ministry's final determination regarding Hafslund's appeal. The date on which the Ministry will announce its decision remains unknown.

On 13 November 2008, Norway's Ministry of Petroleum and Energy issued a proposal for provisions governing staffing requirements of companies subject to licensing. As proposed, grid owners will have limited access to outsource tasks necessary to monopoly activities to external companies. If the provisions are adopted with the present wording and NVE's decision is upheld by the Ministry, Hafslund Nett will be required to modify its business model and increase staffing by just over 50 man-years. The hearing deadline expired on 1 February 2009. Hafslund, the rest of the industry, and employee representatives are united in their view that the proposed provisions are unnecessary and that there are no professional, factual, or operational reasons to impose them. Hafslund's position is that the proposed legislation will negatively affect grid customers, as grid rental charges will increase with no accompanying improvement in the quality of grid facilities or delivery reliability. The matter remains under consideration by the Ministry; no decision has been announced nor has a deadline for rendering a decision been publicized.

In 2007, Norway's Ministry of Petroleum and Energy gave the go-ahead to NVE to facilitate the implementation of two-way meter-reading communications for all power grid customers. NVE has held two hearings in the matter. Based on the feedback received in these hearings, NVE has recommended delaying the decision regarding implementation. NVE wishes to contribute to reducing grid companies' AMS (Advanced Metering System) investment risk, and thus it is a goal to clarify as many issues as possible that pertain to grid companies' choice of solutions. NVE has proposed that grid companies are granted a lead time of six-and-a-half years from the decision date in the matter (1 January 2018) to replace currently installed meters with AMS units. In January 2011, more compelling signals from policymakers led to a proposal to shorten the deadline by one year, to year-end 2016. Hafslund will postpone initiation of full-scale roll-out until a more comprehensive decision on issues and frameworks governing project implementation is available. A financing model that provides an adequate financial framework, predictability, and incentives for an efficient implementation is of decisive importance. Norwegian policymakers are attentive to the EU Commission's renewable energy directive. Among the directive's express objectives is the installation of so-called smart meters in 80 percent of European residences by 2020 and 100 percent by 2022, as an aspect of the EU's energy efficiency measures.

Legislative proposal for green certificates for electric power

It has now been established that a joint Norwegian-Swedish certificate market for renewable electric power will be operating as of 2012. The two countries will jointly stimulate production of 26 TWh of renewable energy via a certificate system that is also expected to yield approximately NOK 0.20 per kWh in financial support for new renewable energy capacity. Hafslund favors the introduction of such a certificate system and is providing input to hearings through the industry association Energi Norge.

Bulk waste and district heating market conditions

Hafslund requires some 200 000 metric tons of waste-derived fuel annually for its district heating and energy-recovery operations. Today's market continues to suffer from low prices, insufficient access to waste at times, and somewhat poorer quality waste materials than in the past. Hafslund has entered into contracts that secure the bulk of the fuel required in 2011. However, the Norwegian market continues to be characterized by a great deal of export to Sweden due to imbalanced framework conditions between the neighboring countries. Swedish facilities enjoy key advantages: for example, consumers in Sweden pay a SEK 0.28 per kWh electricity tax; the corresponding tax in Norway is considerably lower, approximately NOK 0.11 per kWh. This and other factors enable Swedish facilities to pay more for waste-derived fuel, a competitive advantage in the bulk waste market. In light of these conditions, Hafslund has partnered with the municipal energy recovery department of the city of Oslo to explore opportunities to buy import waste.

> Shares and shareholder matters

As of 31 December 2010

(1000' shares)	A-shares	B-shares	Total	Holding
Oslo Kommune	67 525	37 343	104 868	53.7 %
Fortum Forvaltning AS	37 853	28 706	66 559	34.1 %
Østfold Energi AS	5 201	4	5 205	2.7 %
Odin Norden	-	2 452	2 452	1.3 %
MP Pensjon	-	1 579	1 579	0.8 %
Odin Norge	-	1 219	1 219	0.6 %
Hafslund ASA	-	451	451	0.2 %
Folketrygdfondet	-	419	419	0.2 %
AS Herdebred	107	271	378	0.2 %
Danske Invest norske aksjer	-	333	333	0.2 %
10 largest shareholders	110 686	72 777	183 463	94.0 %
Other shareholders	4 742	6 981	11 723	6.0 %
Total	115 428	79 758	195 186	100 %

Hafslund had 7 221 shareholders as of 31 December 2010. The ten largest shareholders own a total of 94 percent of the company's share capital. Hafslund's two classes of shares are listed on the Oslo Stock Exchange. As of the close of the fourth quarter of 2010, Hafslund's market capitalization was NOK 13.6 billion; the figure is based on a per-share price for Class A shares of NOK 70.00 and for Class B shares of NOK 69.75.

Outlook

Hafslund's overall objective is to consolidate its position as Norway's leading integrated energy company, based on profitable growth. In the Board's opinion, the company and its management have the necessary experience and expertise to continue to develop the company toward this goal.

The policy choices made by officials in Norway and the rest of Europe to combat global warming will affect power prices and the types of renewable energy projects that will prove financially viable. The European Union's 202020 climate package is a good example of policy decisions that are decisive to Hafslund's strategic targets and growth. Hafslund is well positioned to support climate policy goals and participate in business opportunities generated by climate policies.

Power-market price developments exert considerable influence over the Group's profit performance, particularly at its Hydropower and District Heating businesses. Changes in the regulatory regime governing grid companies in Norway can significantly affect the earnings of the Network business.

In the Board's opinion, Hafslund is well prepared to meet the challenges the Group will face. The Group's targeting of renewable energy, distribution grid activities, and a strong market position in retail and corporate power sales, position Hafslund well to continue its role as Norway's leading integrated energy company. In the Board's opinion, Hafslund has built a solid foundation — both commercially and financially — for satisfactory development of the company.

The Group's development in recent years has featured a clearer focus on renewable energy and energy infrastructure development, along with greater power sales. Going forward, a closer alignment with this strategy is expected. The Board will assess further dividend capacity ahead of Hafslund's 2011 annual shareholders' meeting.

Oslo, 1 February 2011

Board of Directors

Hafslund ASA.

> Group profit and loss account (including REC)

Fourth quarter			Year	
2009	2010	NOK million	2010	2009
3 032	5 189	Operating revenues	15 829	10 670
(103)	1 013	Gain/loss financial items	(883)	(40)
(1 865)	(3 917)	Purchased materials and energy	(10 871)	(6 364)
(187)	(57)	Salaries and other personnel expenses	(582)	(772)
(450)	(503)	Other operating expenses	(1 571)	(1 418)
427	1 725	**EBITDA**	1 923	2 076
(222)	(590)	Depreciation	(1 270)	(882)
205	1 135	**Operating profit**	653	1 194
(144)	(153)	Financial interest etc	(498)	(526)
(82)	94	Change in market value loan portfolio	27	(135)
(225)	(59)	**Financial expenses**	(471)	(661)
(20)	1 076	**Profit before tax and discontinued operations**	182	533
(74)	(97)	Tax	(573)	(336)
(94)	979	**Profit after tax**	(391)	198
(0,48)	5,02	Earnings per share (in NOK)	(2,00)	1,01

> Comprehensive income (including REC)

Fourth quarter			Year	
2009	2010	NOK million	2010	2009
(94)	979	**Profit after tax**	(391)	198
		Other comprehensive income items:		
(600)	(189)	REC market value changes	138	(965)
5	1	Tax on REC market value changes	(2)	8
0	3	Translation differences	11	(5)
(689)	794	**Comprehensive income for the period:**	(244)	(764)
(691)	793	Profit attributable to shareholders of Hafslund ASA	(245)	(760)
2	1	Profit attributable to minority interests	1	(4)
(689)	794	**Comprehensive income for the period, of which:**	(244)	(764)

> Group balance sheet

NOK million	31.12.2010	30.09.2010	31.12.2009	30.09.2009
Intangible assets	2 389	2 440	2 288	2 295
Fixed assets	18 557	19 168	18 809	18 504
Financial assets	2 831	3 012	4 737	6 109
Accounts receivable and inventory	5 625	2 330	2 773	1 766
Cash and cash equivalents	211	392	311	300
Assets	29 613	27 343	28 918	28 974
Equity, majority	10 459	9 667	11 143	11 827
Equity, minority	5	3	11	15
Allocations for liabilities	2 832	3 502	3 287	3 297
Long-term interest-bearing liabilities	11 321	11 080	9 805	8 949
Short-term interest-bearing liabilities	2 338	815	2 741	2 983
Short term non-interest-bearing liabilities	2 658	2 275	1 931	1 903
Equity and liabilities	29 613	27 343	28 918	28 974

> Group cash flow statement

	Fourth quarter		Year	
NOK million	**2010**	2009	**2010**	2009
EBITDA	**1 725**	427	**1 923**	2 076
Paid interest	**(125)**	(134)	**(536)**	(627)
Paid taxes	**(142)**	(94)	**(148)**	(375)
Market value changes and other items without cash flow effect	**(1 000)**	107	**982**	102
Change in accounts receivable etc	**(1 871)**	(967)	**(1 414)**	433
Change in liabilities etc	**(183)**	78	**(242)**	267
Cash flow from operations	**(1 596)**	(583)	**565**	1 876
Investments (operation and expansion)	**(468)**	(499)	**(1 647)**	(1 653)
Sale of assets including business segments	**0**	6	**5**	43
Venture investments etc	**59**	631	**109**	(21)
Cash flow investments activities	**(408)**	138	**(1 532)**	(1 631)
Change net interest-bearing debt and dicontinued operations	**1 823**	455	**1 306**	(175)
Dividend and other equity changes	**0**	0	**(439)**	(439)
Cash flow financing activities	**1 823**	455	**867**	(614)
Change in cash and cash equivalents in period	**(181)**	11	**(100)**	(370)
Cash and casg equivalents at beginning of period	**392**	300	**311**	681
Cash and cash equivalents at end of period	**211**	311	**211**	311

> Equity reconciliation

	Year	
NOK million	**2010**	2009
Equtiy as of 1 January	**11 154**	12 530
Comprehensive income	**(244)**	(764)
Change, minority interests	**(3)**	(154)
Changes in Class A and B shares held (treasury shares)		3
Dividend	**(439)**	(439)
Other changes affecting equtiy	**(4)**	(22)
Equtiy at end of reporting period	**10 464**	11 154

Notes to the accounts

1) Framework and key accounting principles

The consolidated Group accounts for the fourth quarter of 2010 ending 31 December 2010 have been prepared and presented in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU. The consolidated accounts comprise those of Hafslund ASA and its associated companies and subsidiaries. The accounts for the fourth quarter of 2010 are unaudited. Hafslund prepares and presents its quarterly consolidated accounts according to IAS 34, Interim Financial Reporting. The information provided in interim reports is not as comprehensive as that provided in annual accounts; thus, quarterly reports should be viewed in conjunction with Hafslund's 2009 annual accounts. Accounting principles applied in the quarterly accounts are the same as those described in Note 2 to the 2009 annual accounts of the Hafslund Group with the following exceptions:

> Licensed power obligations

In 2009, Hafslund delivered 62 GWh of licensed power to Norwegian municipalities at an agreed-to volume and at prices determined by Norway's parliament, Stortinget. Some licensed power obligations are covered by agreements featuring financial settlement. The industry has applied varying practices as to the accounting treatment of licensed power agreements with financial settlement. Hafslund has opted to change its principles governing the accounting treatment of licensed power obligations, from recording the associated financial obligation to recognizing it at fair value through profit and loss. The reason for the change is that the delivery of licensed power is regarded as a legally mandated obligation and not a contract, and is handled pursuant to IAS 39. The accounting principle change resulted in a NOK 89 million increase in equity.

The following table presents the restated operating profit and profit for the year, by quarter and for 2009 as a whole, resulting from the aforementioned change in accounting principles.

NOK million	1 Q	2Q	3Q	4Q	Year
Operating profit	(29)	19	(22)	(5)	(37)
Profit for the year	(12)	8	(9)	(2)	(15)

> AFP early retirement plan liabilities

Norwegian rules and regulations governing service pensions have modified the Group's pension liabilities, with effect in 2010. The new rules constitute a pension-plan change, the effects of which must be recognized upon adoption. Thus, the entire savings due to the new rules were recognized in 2010. The change stems from the enactment by the Norwegian parliament, Stortinget, of a pension law amendment that implements less costly age-based pension terms; parliament also adopted the new AFP early retirement program endorsed by the country's foremost labor and employer organizations, LO and NHO, respectively.

The decrease in Group pension liabilities due to the aforementioned legislative changes has been recognized in full in the fourth quarter of 2010. Further, the NOK 151 million positive profit effect in the quarter is distributed across profit centers as shown below.

Hydropower	District Heating	Heat & Bioenergy	Network	Power Sales	Other Activities	Group total
1	4	1	84	2	59	151

Under the newly amended early-retirement AFP plan, the government will cover one-third of employees' pensions, while two-thirds are covered by a premium paid by employers. Individuals born after 31 December 1948 will be covered by the new AFP program. Individuals born between 1944 and 1948 may opt for early retirement under either the old or the new plan. The new AFP is a defined-benefit multiemployer plan. As of the date this report goes to print, there is insufficient information to reliably measure the liabilities incurred under the new program. Consequently, under IAS 19.30, the new AFP program will be treated as a contribution-based program until reliable measurement can be made. Discontinuation of the previous AFP plan resulted in income recognition of NOK 38 million in 2010.

2) Valuation of financial assets available for sale

Hafslund's shareholding in Renewable Energy Corporation (REC) represents a significant investment for the Group. In May 2010, the Group sold 26 million REC shares at a per-share price of NOK 17.75 and recognized a NOK 97 million loss. Hafslund applied the capital freed up via the share sale to subscribe to 38.3 million REC shares at a per-share subscription price of NOK 12.10 in a pre-emptive rights issue. Following these transactions, Hafslund owns 89 million REC shares, which represent an 8.93 percent ownership interest.

The REC investment is classified as available for sale, and is valued at fair value with any value changes recognized in the statement of comprehensive income. Significant value impairment is charged to operating profit. In 2010, NOK 1 991 million was charged to operating profit for value impairment and loss upon share sales. Any future fluctuations in the value of the REC shareholding will be recognized in the comprehensive income statement, whereas any value impairment below the 30 June 2010 closing price of NOK 15.61 per share will be charged to operating profit. The carrying value of the REC shareholding reflects the per-share closing price of NOK 17.79 on the balance sheet date, 31 December 2010. The NOK 194 million value growth in the fourth quarter of 2010 is recorded in the comprehensive income statement.

3) Network activities — income ceiling and excess/under income

IFRS-imposed accounting treatment of grid rental charges disallows balance sheet recording of certain revenue receivables and liabilities. Grid rental revenues are recognized at the time of invoicing. The amount recognized corresponds to the reporting period's delivered volume settled at the current tariff. A grid company's regulated income ceiling is established by the Norwegian Water Resources and Energy Directorate (NVE). Total allowed revenue comprises the company's income ceiling plus central grid (Statnett) transmission costs, Norway's Enova energy conservation surcharge, and applicable taxes such as Norway's hydropower facility tax and real estate taxes, while penalty charges for service outages are excluded.

Any difference between invoiced amounts and the regulated income ceiling established by NVE is called excess/under income. IFRS defines such excess/under income as a regulatory liability/asset that does not generally qualify for balance sheet recognition. The reasoning behind this is that no contract has been entered into with any specific customer and thus, in theory, the receivable is contingent upon a future delivery. However, revenues in individual years may deviate from the revenue level permitted by NVE. Tariffs are managed based on the premise that annual revenues, over time, will accord with the allowed revenue level. The term "excess income" is used if grid rental income is greater than the income ceiling determined by NVE for the year in question. Similarly, the term "under income" applies if grid rental income is lower than the allowed ceiling.

The 2010 income ceiling recognized in Network's accounts is based on the income framework notification Hafslund has received from NVE, less transmission costs. Accordingly, NOK 2 891 million was recorded in 2010 and NOK 733 million was recorded in the fourth quarter of the year; the figures are NOK 430 million and NOK 96 million, respectively, higher than the corresponding 2009 figures. Network's fourth-quarter 2010 profit includes an "under income" figure of NOK 32 million, compared with a NOK 100 million "excess income" in the fourth quarter of 2009. At year-end 2009, Hafslund Network had an aggregate "excess income" including interest of NOK 143 million. By recording to profit NOK 203 million "under income" in 2010, Hafslund had an aggregate under income of NOK 60 million as of the close of the 2010. In other words, Hafslund had recorded to income NOK 60 million less than the amount the income ceiling allowed as of 31 December 2010.

4) Business segment reporting (inclusive REC)

Fourth quarter			Year	
2009	2010	NOK million	2010	2009
202	315	Hydropower	1 196	856
245	462	District Heating	1 144	747
12	33	Heat and bioenergy	115	49
1 008	1 344	Network	4 804	3 385
1 378	2 888	Power sales	8 021	4 787
176	169	Venture	549	779
11	(23)	Other activities/eliminations	1	67
3 032	5 189	**Total operating revenues**	15 829	10 670
1	0	Hydropower	3	3
1	2	District Heating	3	2
0	2	Heat and bioenergy	6	6
8	16	Network	41	33
0	0	Power sales	0	0
11	21	Venture	35	28
154	160	Other activities	547	464
176	201	**Of which, sales between segments**	633	534
144	241	Hydropower	929	618
31	62	District Heating	165	91
(7)	(310)	Heat and bioenergy	(386)	(27)
179	109	Network	532	493
49	83	Power sales	348	240
(191)	832	Venture	(1 104)	(299)
0	118	Other activities/eliminations	170	77
205	1 135	**Total operating profit**	653	1 194

5) Write-downs

A material asset write-down was recorded by the Heat and Bioenergy business segment in the fourth quarter of 2010. The write-down is a consequence of continued weak market conditions for wood pellets sold to European power and heat producers. In its review, the Group reassessed future cash flows from the pellets business, and found it prudent to make a NOK 300 million write-down of the Averøya facility. Following the write-down, the book value of the wood pellets plant on Norway's west-central coast is NOK 240 million. The pre-tax discount rate used in calculating value in use was 11.3 percent.

6) Interest-bearing loans, interest, and FOREX derivatives

As of 31 December 2010, the accounting value of Hafslund's loan portfolio was NOK 13 595 million, of which NOK 10 259 million is long-term debt and NOK 3 336 million is classified as short-term debt. Changes in the fair value of loans resulted in a NOK 94 million positive profit effect in the fourth quarter of 2010 and a NOK 27 million positive profit effect in 2010. Changes in the fair value of interest and currency derivatives had an aggregate NOK 3 million negative profit effect in the fourth quarter of 2010; the corresponding figure for the year was a positive profit effect of NOK 32 million.

In the fourth quarter of 2010, Hafslund's credit spreads featured a moderate margin of up to 10+ basis points for short terms to maturity; about 15 bsp for terms to maturity of more than five years, and just shy of 10 bsp for terms to maturity between two and five years. Swap interest remained virtually unchanged for terms to maturity of up to three years, but rose between 20 bsp and 45 bsp for terms to maturity between four and ten years. The net effect of these factors was that market interest, including Hafslund's credit spread, increased for all terms to maturity: about 10 basis points for short terms to maturity and up to 60 basis points for loans featuring ten years to maturity.

Changes in the fair value of loans are recorded under Financial expenses, whereas changes in the value of interest and currency derivatives are recorded under Gain/loss financial items. There are no financial covenants associated with the Group's

loan portfolio. Of the total loan and interest derivatives portfolio, fixed-interest loans amounted to 33 percent, and floating-interest-rate loans made up the remaining 67 percent, as of the close of the fourth quarter of 2010.

The Group's foreign currency exposure is largely associated with euro-denominated revenues from power production sold via Nord Pool Spot. Some of this currency risk is hedged on an ongoing basis. Regarding loans in foreign currencies, the Group enters into interest and foreign currency swaps so that payments of interest and principal are in Norwegian kroner. The Group's wood pellets business, which is in a start-up phase, is expected to have a significant proportion of its cash inflows and outflows in foreign currencies. The Group's finance department centrally manages currency risk.

Through 31 December 2009, the Group's loan portfolio was valued at fair value through profit and loss. As of the first quarter of 2010, new loans are valued at their amortized cost; as of 31 December 2010, this figure amounted to NOK 4 380 million.

7) Operating assets

Investments in operating assets amounted to NOK 227 million in the fourth quarter of 2010 and NOK 1 770 million for the year. The figures are distributed as follows: NOK 227 million was invested in ordinary operating and expansion investments in the fourth quarter of 2010; the corresponding figure for the year was NOK 1 537 million. NOK 238 million was invested in operating assets obtained through corporate acquisitions in 2010.

8) Corporate acquisitions

Effective 1 June 2010, Hafslund purchased 49 percent of the shares of Energibolaget i Sverige Holding AB (EBS); Hafslund holds an option to acquire the remaining EBS shares in 2013. EBS is treated as a joint venture for which Hafslund records its proportionate share of EBS' profit and loss and balance sheet figures. The EBS share purchase price was NOK 131 million. The carrying value of the company's net assets is treated as representing fair value, and NOK 86 million in added value has been classified as goodwill.

Hafslund acquired 100 percent ownership of Göta Energi AB effective 30 June 2010. The shares were transferred for a total of NOK 83 million. Transaction fees of NOK 0.1 million have been recognized. Through its investments in Sweden, Hafslund is positioning itself in an emerging, unified Nordic end-user market. The book value of the company's net assets has been treated as representing fair value, and NOK 69 million in added value has been classified as goodwill; of the latter amount, NOK 12 million has been identified as the value of fixed-price contracts and NOK 57 million as goodwill. Goodwill is attributable to cost synergies associated with the merger and with intangible assets that do not qualify for separate balance sheet recording.

Accounting treatment of the aforementioned acquired assets and liabilities:

Financial assets	223
Financial liabilities	(209)
Total identifiable assets	14
Value of fixed price contracts	12
Goodwill	57
Total	83

Pursuant to IFRS, goodwill is not tax deductible.

9) Divested businesses

Effective 27 December 2010, Hafslund sold Hafslund Fibernett AS to the private equity fund EQT V. The sales amount was NOK 1 477 million. As part of the agreement with the buyer, Hafslund is providing a NOK 310 million seller's credit. The NOK 875 million gain on the sale of Hafslund Fibernett AS is presented in the Group profit and loss account under Gain/loss financial items.

10) Transactions with closely related parties

The Group sells goods and services to and purchases them from closely related parties as part of its normal business operations. In 2010, the Group purchased goods and services from and sold goods and services to the closely related parties the City of Oslo and Infratek ASA. As of 31 December 2010, the City of Oslo owned 53.7 percent of Hafslund ASA shares. As of 31 December 2010, Hafslund ASA owned 43.3 percent of Infratek ASA.

Examples of significant sales to the City of Oslo are power, street light operation, and associated maintenance and investments. Hafslund also leases fiber optic network services to the City of Oslo. Significant purchases include payments for energy

recovered from waste incineration purchased from the City's energy recovery department and right-of-way fees associated with fiber optic network development paid to the transportation department. Infratek ASA delivers contracting services such as facility planning, engineering, and management; and construction, maintenance, and contingency services for electric power grids, fiber optic networks, district heating networks, and street lighting systems. All transactions are conducted at market terms.

The following table presents transactions with closely related parties in the fourth quarter of 2010 and the year:

NOK million	Sales of goods and services	Purchases of goods and services	Accounts receivable	Accounts payable
Fourth quarter:				
City of Oslo	111	43		
Infratek ASA	9	142		
In 2010:				
City of Oslo	320	110	87	17
Infratek ASA	40	480	3	64

The Group has extended loans to Hafslund Venture portfolio companies that totaled NOK 121 million as of 31 December 2010.

11) Contingent liabilities

Please see the discussion on disputes in Note 25 to Hafslund's 2009 consolidated accounts. Only subsequent developments in ongoing cases are presented below.

Pension liabilities for former Network employees and retirees

The Norwegian pension-recipients' safeguarding scheme (Sikringsordningen) and the municipal pension fund Kommunal Landspensjonskasse (KLP) are claiming that Hafslund is responsible for pension liabilities associated with 510 individuals who are former employees or current retirees of certain grid companies that have or have had a relation with Hafslund. An actuarial determination indicates that the claim amounts to a net pension liability of NOK 181 million as of year-end 2010. The case came before Oslo District Court (Oslo Tingrett) on 3 December 2010. The court ruled in favor of Hafslund and found there was no legal basis for the claim filed by Sikringsordningen. Sikringsordningen has appealed the decision to Oslo District Court. Due to uncertainty as to litigation regarding whether Hafslund acquired pension responsibilities in the matter, an allocation was recorded under Pension and similar liabilities at year-end 2010 based on individual assessments and relevant assumptions.

Group key figures - quarterly reporting

> Group profit and loss account (inclusive REC)

NOK million	4Q10	3Q10	2Q10	1Q10	4Q09	3Q09	2Q09	1Q09	4Q08
Operating revenues	5 189	2 720	3 026	4 895	3 032	1 834	2 305	3 498	3 814
Gain/loss financial items	1 013	45	(723)	(1 219)	(103)	(42)	42	64	(4 313)
Purchased materials and energy	(3 917)	(1 561)	(1 716)	(3 677)	(1 865)	(874)	(1 255)	(2 370)	(2 524)
Salaries and other personnel expenses	(57)	(174)	(190)	(160)	(187)	(179)	(194)	(212)	(273)
Other operating expenses	(503)	(351)	(357)	(359)	(450)	(304)	(345)	(319)	(472)
EBITDA	1 725	679	39	(520)	427	435	553	660	(3 768)
Depreciation	(590)	(222)	(245)	(213)	(222)	(235)	(219)	(206)	(230)
Operating profit	1 135	457	(206)	(733)	205	200	334	455	(3 998)
Financial interest etc	(153)	(117)	(124)	(104)	(144)	(118)	(133)	(131)	(186)
Change in market value loan portfolio	94	(29)	(37)	(1)	(82)	(151)	119	(21)	(112)
Financial expenses	(59)	(145)	(161)	(105)	(225)	(269)	(14)	(153)	(297)
Profit before tax and discontinued operations	1 076	312	(367)	(839)	(20)	(69)	320	302	(4 295)
Tax	(97)	(164)	(179)	(133)	(74)	(5)	(152)	(104)	(582)
Profit discontinued operations	0	0	0	0	0	0	0	0	17
Profit after tax	979	148	(546)	(972)	(94)	(73)	167	198	(4 860)
Majority's share of profit	978	146	(544)	(971)	(91)	(72)	168	197	(4 881)
Minority's share of profit	1	2	(2)	(0)	(3)	(1)	(0)	0	20
Earnings per share (in NOK)	5,02	0,76	(2,80)	(4,98)	(0,48)	(0,38)	0,86	1,01	(24,90)

> Group balance sheet

NOK million	31.12.10	30.09.10	30.06.10	31.03.10	31.12.09	30.09.09	30.06.09	31.03.09	31.12.08
Intangible assets	2 389	2 440	2 400	2 299	2 288	2 295	2 318	2 330	2 308
Fixed assets	18 557	19 168	18 969	18 880	18 809	18 504	18 332	18 148	18 002
Financial assets	2 831	3 012	2 637	3 481	4 737	6 109	5 446	5 514	6 452
Accounts receivable and inventory	5 625	2 330	2 407	3 996	2 773	1 766	1 944	3 082	3 077
Cash and cash equivalents	211	392	1 241	828	311	300	942	989	681
Assets	29 613	27 343	27 653	29 484	28 918	28 974	28 983	30 063	30 520
Equity, majority	10 459	9 667	9 131	10 116	11 143	11 827	11 791	12 110	12 360
Equtiy, minority	5	3	8	10	11	15	23	24	170
Allocations for liabilities	2 832	3 502	3 448	3 362	3 287	3 297	3 259	3 157	3 104
Long-term interest-bearing liabilities	11 321	11 080	11 249	10 908	9 805	8 949	8 807	8 562	7 653
Short-term interest-bearing liabilitis	2 338	815	1 682	2 413	2 741	2 983	3 119	3 384	4 871
Short term non-interest-bearing liabilities	2 658	2 275	2 135	2 675	1 931	1 903	1 984	2 827	2 362
Equity and liabilities	29 613	27 343	27 653	29 484	28 918	28 974	28 983	30 063	30 520

> Group cash flow statement

NOK million	4Q10	3Q10	2Q10	1Q10	4Q09	3Q09	2Q09	1Q09	4Q08
EBITDA	1 725	679	39	(520)	427	435	553	660	(3 768)
Interest paid	(125)	(92)	(130)	(189)	(134)	(127)	(135)	(231)	(163)
Taxes paid	(142)	-	(20)	14	(94)	-	(211)	(70)	124
Value change and other non cashflow effect	(1 000)	(33)	787	1 228	107	37	8	(50)	4 284
Change in receivables	(1 871)	111	1 609	(1 263)	(967)	222	1 199	(21)	(1 190)
Change in trade credit etc	(183)	11	(800)	730	78	(87)	(683)	959	302
Cash flow from operations	(1 596)	676	1 485	(0)	(583)	480	731	1 247	(411)
Investments (operation and expansion)	(468)	(498)	(423)	(258)	(499)	(385)	(404)	(365)	(516)
Sale of assets including business segments	-	-	5	-	6	37		-	25
Venture investments etc	59	23	49	(22)	631	(636)	(2)	(14)	135
Cash flow to investments activities	(408)	(475)	(369)	(280)	138	(984)	(406)	(379)	(356)
Change net interest-bearing debt and dicontinued operations	1 823	(1 050)	(264)	797	455	(138)	67	(560)	1 088
Dividend and other equity changes	-	-	(439)	-	-	-	(439)	-	1
Cash flow financing activities	1 823	(1 050)	(703)	797	455	(138)	(372)	(560)	1 089
Change in cash and cash equivalents in period	(181)	(849)	413	517	11	(642)	(46)	308	322
Cash and casg equivalents at beginning of period	392	1 241	828	311	300	943	989	681	359
Cash and cash equivalents at end of period	211	392	1 241	828	311	300	943	989	681

> Business segment reporting (inclusive REC)

NOK million	4Q10	3Q10	2Q10	1Q10	4Q09	3Q09	2Q09	1Q09	4Q08
Hydropower	315	354	289	238	202	236	265	153	310
District heating	462	79	136	467	245	48	106	349	279
Heat and bioenergy	33	26	26	29	12	13	11	13	11
Network	1 344	1 013	1 050	1 396	1 008	698	772	906	999
Power sales	2 888	1 120	1 391	2 621	1 378	662	938	1 809	1 967
Venture	169	122	128	130	176	152	196	255	258
Other activities/eliminations	(23)	5	6	12	11	26	17	13	(10)
Total sales income	5 189	2 720	3 026	4 895	3 032	1 834	2 305	3 498	3 814
Hydropower	252	303	240	178	154	186	219	102	231
District heating	93	6	32	152	58	(11)	25	140	92
Heat and bioenergy	(7)	(42)	(7)	5	(6)	(2)	(3)	0	(5)
Network	246	282	275	274	314	243	247	231	231
Power sales	86	34	187	52	51	22	45	130	109
Venture	930	60	(704)	(1 199)	(168)	(63)	16	17	(4 102)
Other activities/eliminations	126	35	16	18	24	60	3	40	(324)
Total EBITDA	1 725	679	39	(520)	427	435	553	660	(3 768)
Hydropower	241	292	229	167	144	175	207	92	214
District heating	62	(22)	2	123	31	(43)	(8)	111	61
Heat and bioenergy	(310)	(58)	(15)	(3)	(7)	(9)	(7)	(4)	(12)
Network	109	148	138	137	179	108	112	95	95
Power sales	83	30	185	49	49	20	43	128	108
Venture	832	39	(755)	(1 219)	(191)	(108)	(2)	1	(4 132)
Other activities/eliminations	118	28	11	12	0	56	(12)	32	(332)
Total operating profit	1 135	457	(206)	(733)	205	200	334	455	(3 998)

Financial calendar 2011

1. Fourth-quarter 2010 report – 2. February 2011
2. Annual general meeting - 4 May 2011
3. First-quarter 2011 report – 5. May 2011
3. Second-quarter 2011 report - 8 July 2011
4. Third-quarter 2011 report - 28 October 2011

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1. Additional information is available from Hafslund's website::
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