Message from the CEO

Six questions for the President and CEO

President and CEO Christian Berg has no doubt that Hafslund can help Norway fulfil its climate obligations. However, he is unimpressed that it is so difficult for Hafslund to acquire the waste it needs.

– What was the most important single event at Hafslund in 2010?
2010 will go down as a particularly eventful year in Hafslund's history. It started and ended with a severe winter and was characterised by high power consumption and some of the highest power prices ever witnessed. It was challenging for our customers and also tested the mettle of many parts of the organisation. I am delighted with how we managed to handle operations in a year of major market challenges.

– What were the biggest challenges you faced in 2010?
We encountered various different types of challenges. I have mentioned the market situation, however conditions in the waste market and the start-up of the pellets factory at Averøya also proved demanding. Hafslund has invested heavily in waste-to-energy conversion in recent years, but we cannot operate profitably without sufficient waste – at the right price. The poor availability of waste is particularly galling considering that lorry after lorry of Norwegian waste shuttles to Swedish incineration plants, which enjoy more favourable framework conditions than us here in Norway. With regard to the pellets factory, the market has significantly weakened since we started construction. We have also experienced some technical challenges, which we are well on the way to solving.

– What is your opinion on global warming and general climate issues?
I have noticed that some people are beginning to question whether current climate changes are in fact caused by humans. However, I do not see any reason for Hafslund to change focus. For the planet as a whole, 2010 was the hottest year on record. Every single day we seem to hear or read something about hurricanes or floods causing fatalities and catastrophic damage. The EU's 20-20-20 climate goals are on now the statute books, and Hafslund aims to help Norway fulfil its obligations in this regard.

– Hafslund has sold some businesses recently. Has the Group altered focus?
We will continue to further develop Hafslund as Norway's leading integrated energy company focusing on renewable energy and the entire value chain from production to consumption. In recent years we have invested significant sums in new electricity and heat production plants and have implemented significant upgrades and expansions of the electricity and district heating grids. In 2010 expenditure on investments outstripped income from disposals. The companies we sold were part of our Venture portfolio, where the main focus is on areas other than grid operations. In 2010 we sold our shareholding in the software company Elis and our wholly owned subsidiary Hafslund Fibernett, while in January 2011 we entered into an agreement to sell our shareholding in the ferrosilicon business Fesil. These are companies active in areas other than our main focus area of renewable energy.

– Can you say a little about how Hafslund will generate further growth?
We will grow both organically and through the construction of new plants and

acquisitions. One example of the latter is the acquisition of two Swedish power sales companies, which also illustrates our international outlook. For different reasons acquisitions are harder to make within both production and networks. The wave of acquisitions seen at the start of the new millennium has not been repeated, and there are few companies currently for sale of interest to us. However, we have identified a number of further opportunities within power sales both in Norway and the rest of the Nordic region. In this respect a common Nordic end-user market would be most welcome.

– What are your ambitions for 2011?
2010 and 2011 to date have been extremely demanding for both our customers and the energy industry as a whole. At the start of the year customers received unusually high electricity bills and the industry had to reconsider the consequences of potential power rationing. That was the serious backdrop at the start of 2011. In future it will be important to implement measures that strengthen our customer relations both in terms of deliveries and services. At the same time we must take further steps to consolidate our position as Norway's leading company within renewable energy and energy-related infrastructure.

In short

Business concept: Delivering energy solutions and infrastructure for the future – simply and efficiently.

Hafslund is focusing strongly on the development and construction of a wide range of renewable energy systems. At the same time Hafslund is a market leader in the construction and operation of electricity supply and district heating infrastructures – absolute necessities in the modern world. Hafslund considers reliability of production and supply within these areas as part of its corporate social responsibility.

Core values

Integrity means that we:

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

Courage means that we:

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

Spirit means that we:

- are engaged in our work
- show both pride and pleasure in our work
- exhibit good spirit and humour.

Strategic priorities and focus areas

- Hafslund's energy generation shall be boosted through growth within renewable energy, and alternative energy and heat.
- Hafslund shall enhance its role as a key infrastructure company through a continued focus on construction and operation of electricity grids and district heating.
- The Group's venture bodies shall identify and further develop new investments and business opportunities with a view to securing long-term value creation.
- Hafslund's position as a leading electricity supplier shall be maintained and enhanced through increased efficiency and quality, high service levels and product development.
- Hafslund has a firm foothold in the Nordic electricity market, and shall drive strategic development by contributing to more efficient markets and customer-orientated solutions.
- In 2010 Hafslund consciously targeted increased customer satisfaction and is returning steadily improving results in this area. Higher customer satisfaction will remain an important focus area moving forward.
- The Group shall continue its work to secure appropriate expertise and improved performance through systematic organisational development, and by focusing intently on professional recruitment processes.
- The Group shall further develop its business culture based on Hafslund's core values in order to create an evolving and attractive workplace, and secure a good reputation.

Highlights

Nordic focus
The acquisition of the Swedish electricity sales companies Göta Energi and Energibolaget was an important step for Hafslund on the road towards becoming a leading player in the future Nordic end-user electricity market.

Green energy to Borregaard
In March, Hafslund opened its new plant for exploitation of the energy potential in waste at Borregaard's industrial site in Sarpsborg. The plant is an outstanding example of how practical cooperation between an energy supplier and an industrial enterprise can benefit the climate.

The pellets giant
In June, the Minister of the Environment and International Development Erik Solheim officially opened Hafslund's pellets plant BioWood Norway at Averøya in Møre og Romsdal County. The plant is the largest of its kind in Europe and will produce wood pellets for use in e.g. coal power plants, as a replacement for coal.

Fibre divestment
In December, Hafslund sold its fibre network activities to the private equity fund EQT V. The divestment was part of Hafslund's move towards a stronger focus on the renewable energy core area.

District heating from bio oil
In 2010, Hafslund started using environmentally friendly bio oil in several local district heating centrals. Bio oil is a renewable source of energy and one of several measures to increase the renewable percentage in heat production.

Aerial check-ups
Previously, the pylons in the power grid were checked up on by mechanics climbing them and making visual observations. A new and far more efficient method was introduced in 2010, involving helicopters flying along the grid cables taking high-resolution pictures. These pictures are then later analysed on computers.

Environment festival in Frognerparken
On the World Environment Day on 5 June, 35 000 children and adults attended the Hafslund environment festival for children in Frognerparken, a park in central Oslo. Live music by famous artists and many exciting activities were on offer.

Pure festival energy
Hafslund became the Øya Festival's first main sponsor and will ensure that the festival runs on clean energy, instead of using harmful diesel generators.

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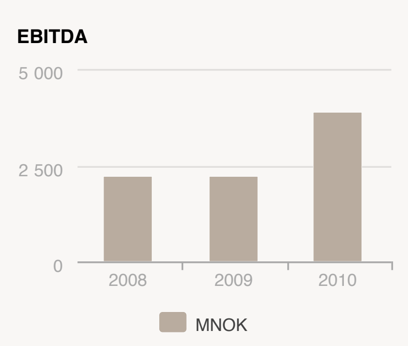
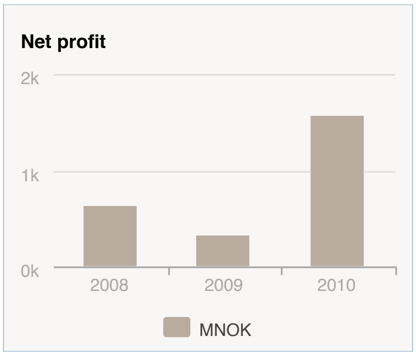
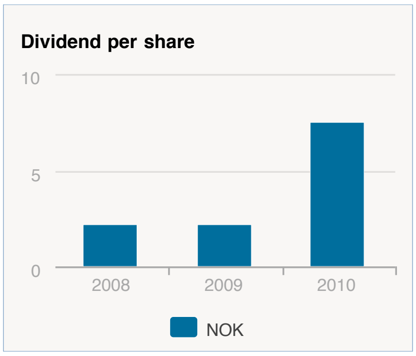
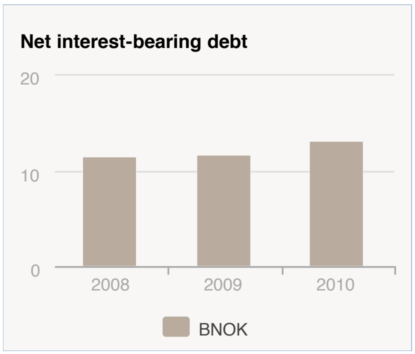
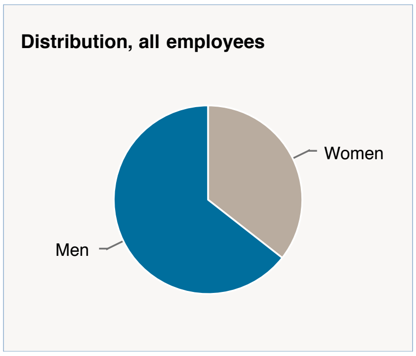
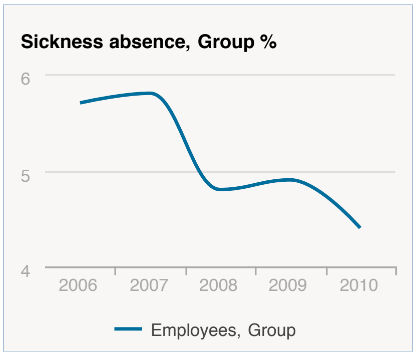












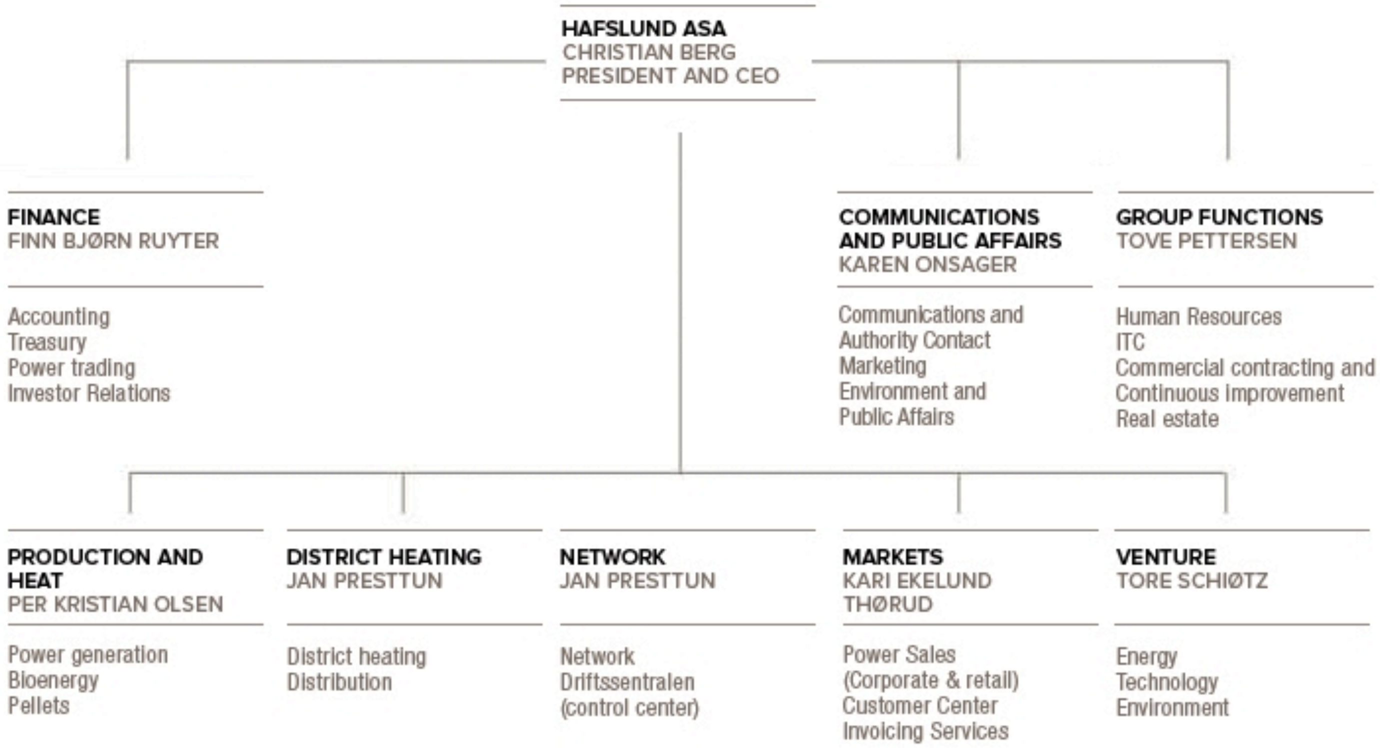
Key figures

Income statement (excluding REC)	2010	2009	2008	2007	2006	2005*
Sales revenues	**15 829**	10 670	11 056	8 625	9 799	8 097
EBITDA	**3 914**	2 213	2 224	2 643	2 717	2 314
Operating profit	**2 644**	1 331	1 374	1 751	2 048	1 649
Profit/loss before tax and discontinued operations	**2 173**	670	689	1 306	1 716	1 139
Net profit for the year	**1 583**	335	637	1 158	1 024	819
REC – effect on net profit for the year	**(1 975)**	(137)	(16 537)	12 198	10 626	356
Equity and cash flow						
Net cash flow from operations	**565**	1 879	1 085	140	1 467	1 262
Investments in operations and expansion	**1 702**	1 698	1 752	3 166	1 176	782
Capital employed (excluding REC)	**25 444**	22 438	22 525	21 239	16 833	16 159
REC market value	**1 584**	3 432	4 542	19 430	12 016	1 363
Equity ratio (%)	**35 %**	39 %	41 %	65 %	53 %	31 %
Net interest-bearing liabilities	**13 067**	11 601	11 442	10 102	9 379	9 528
NOK per share (excluding REC)						
Net profit	**8,11**	1,71	3,26	5,93	5,25	4,20
Dividend **	**7,50**	2,25	2,25	3,00	17,75	2,25
Cash flow from operations	**2,89**	**9,63**	**5,56**	**0,72**	**7,52**	**6,47**

* The profit before tax for 2005 has not been adjusted for the result from discontinued operations (Infratek and Sikkerhet Privat)

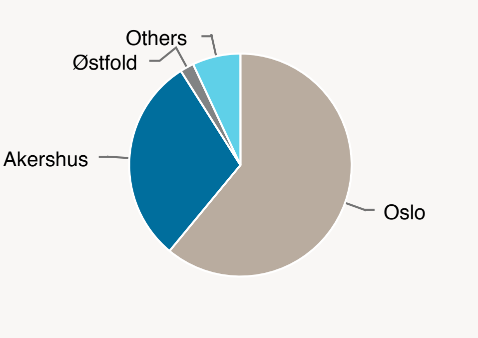
** In 2010 and 2006 an additional extraordinary dividend of NOK 5,00 and NOK 15.00 per share was paid.

Organisation

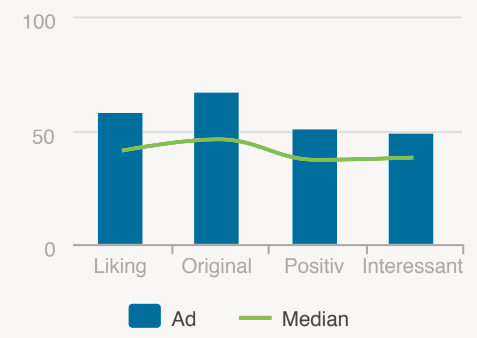


All visual data

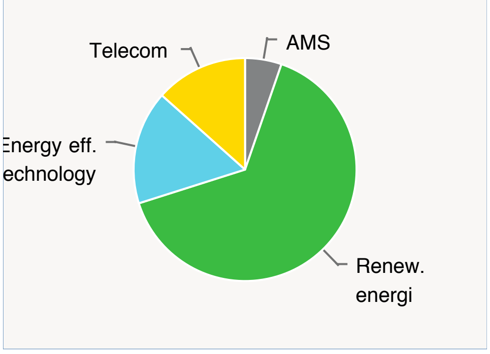
Childrens environment festival: visitors



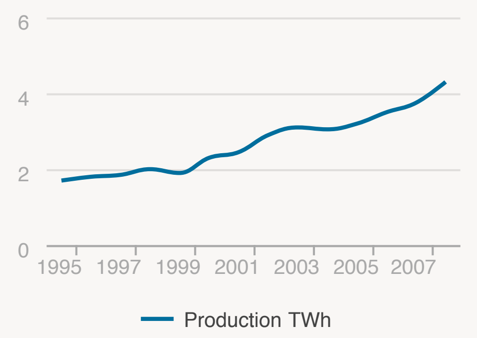
Ad in Aftenposten on Øya collaboration



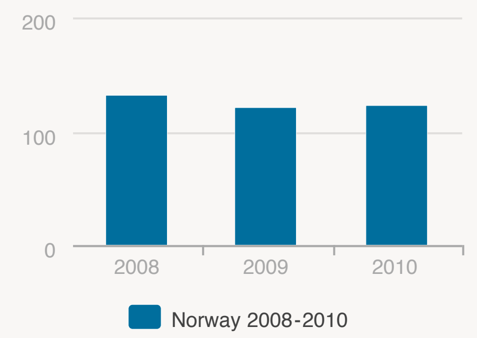
Share of Venture portfolio – incl. REC



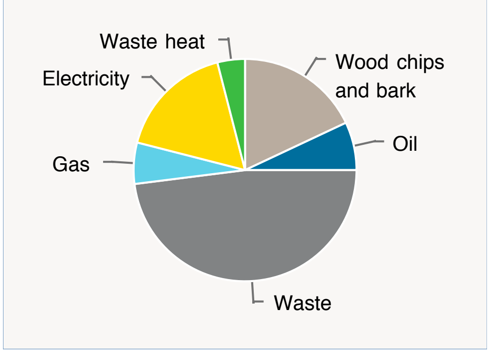
Production district heating Norway TWh



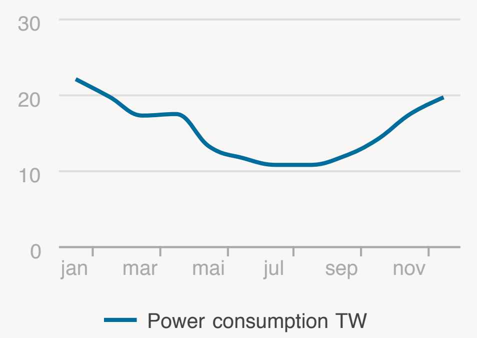
Total power consumption Norway TWh



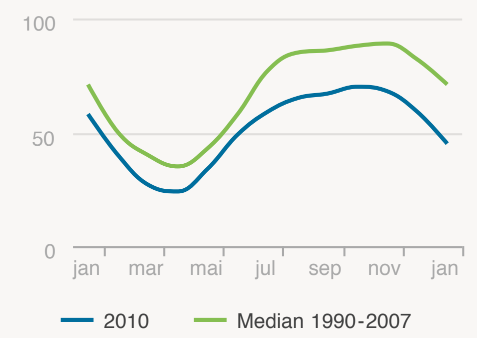
Fuel types Norwegian district heating



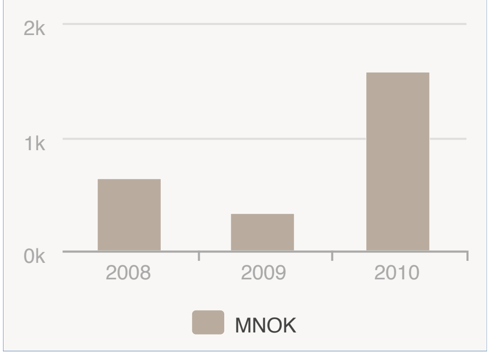
Power consumption Norway TW



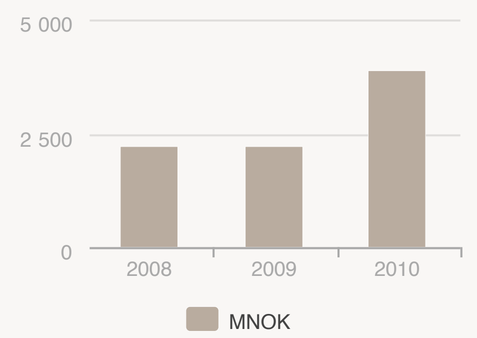
Reservoir hydro power Norway %



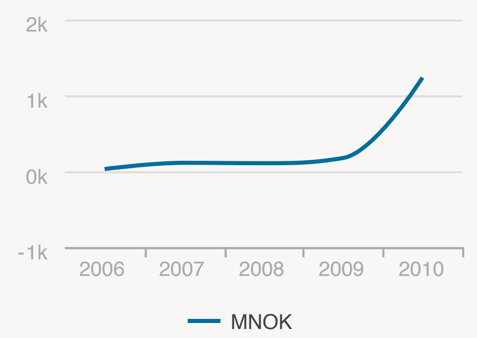
Net profit



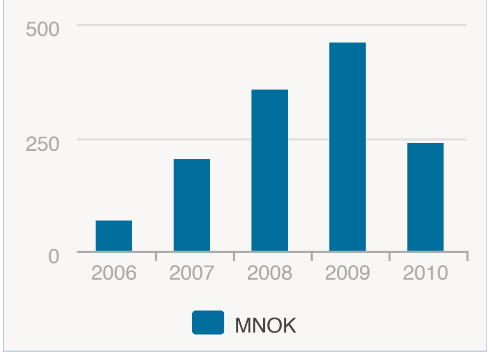
EBITDA



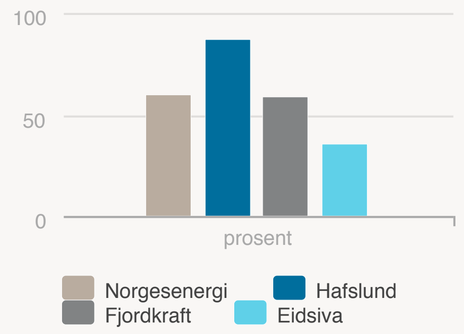
Realised capital (excl. REC)



Invested capital (excl. REC)

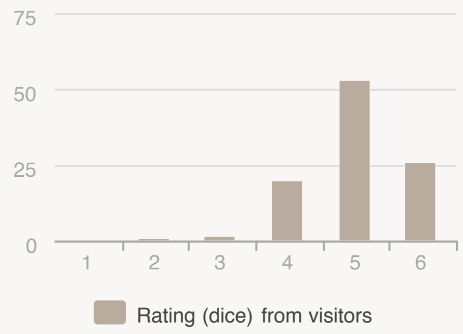


Knowledge of electricity suppliers

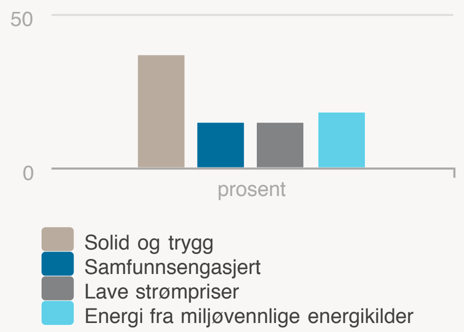


Knowledge of Hafslund as organizer

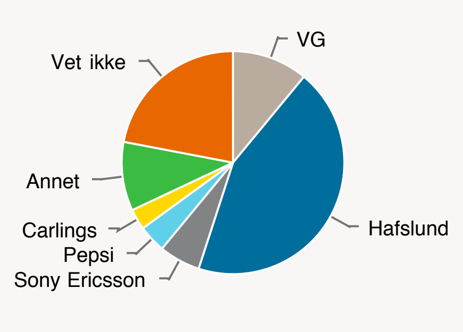
Childrens environmental festival



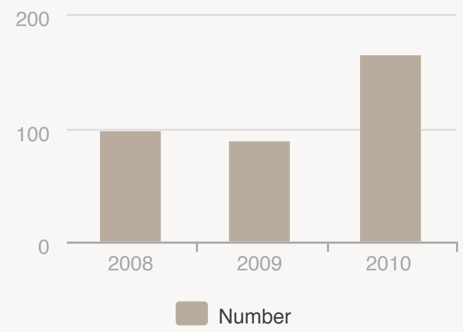
Oppfatning av Hafslund som strømlev.



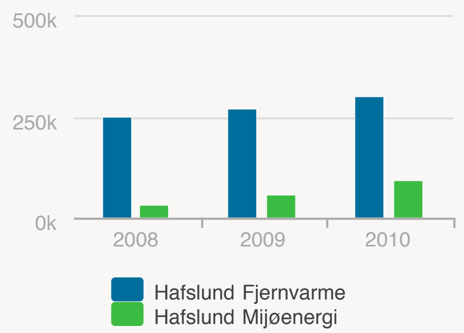
Øya Festival: Knowledge of partners



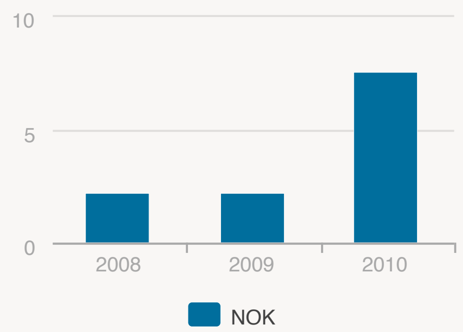
Recruitment



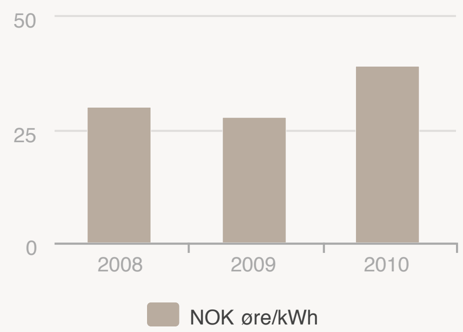
GHG savings, tonnes CO2



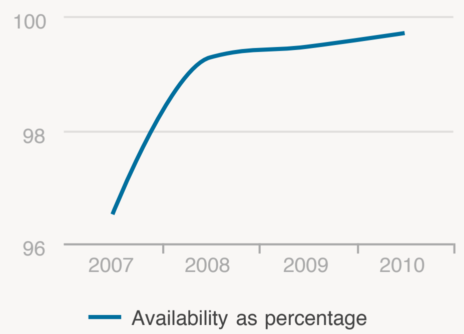
Dividend per share



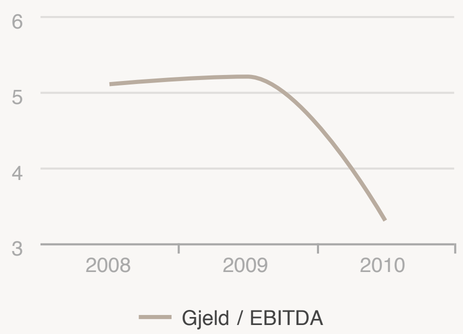
Achieved power prices



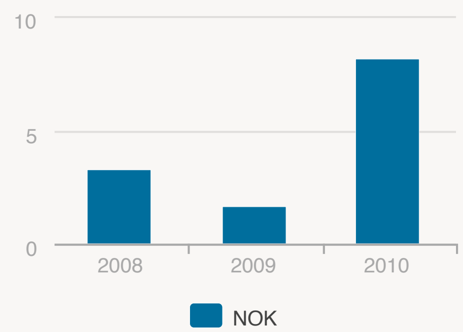
ICT-systems, availability as percentage



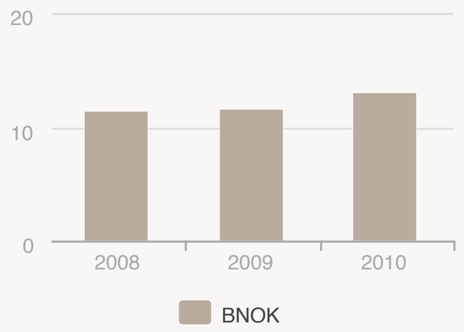
Gjeld / EBITDA



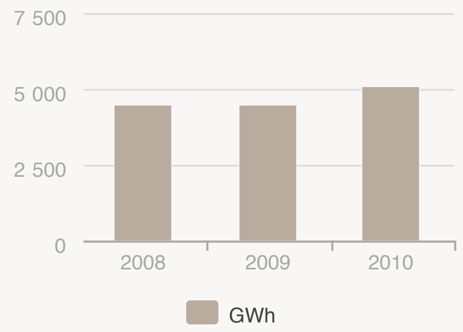
Earnings per share (excl. REC)



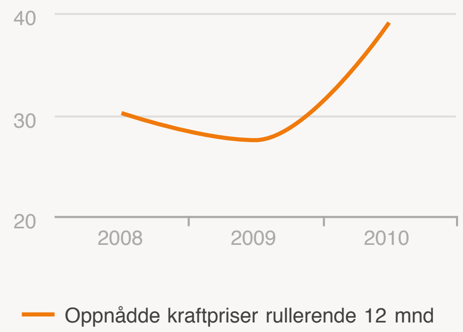
Net interest-bearing debt



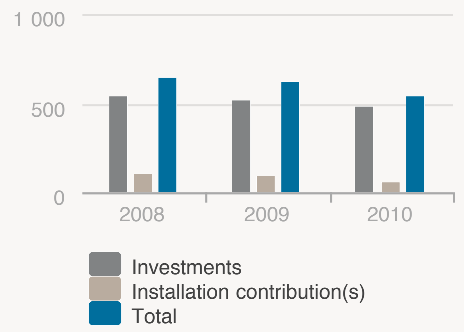
Energy production Heat & Power



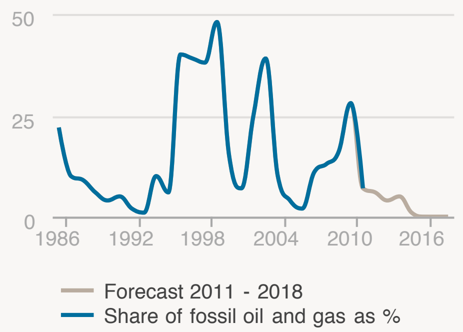
Kraftpriser rullerende 12 mnd - øre/kWh



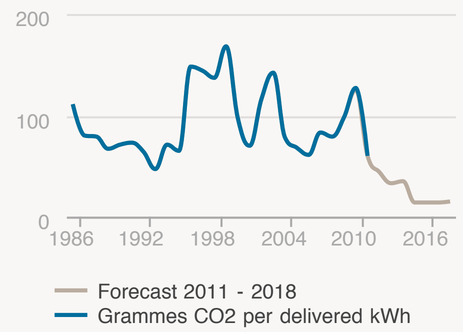
Investments Hafslund Nett MNOK



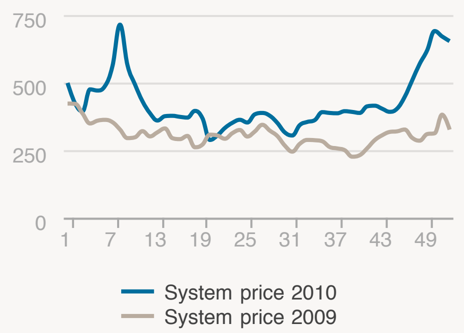
Hafslund Fjernvarme (District Heating)



Hafslund Fjernvarme (District Heating)

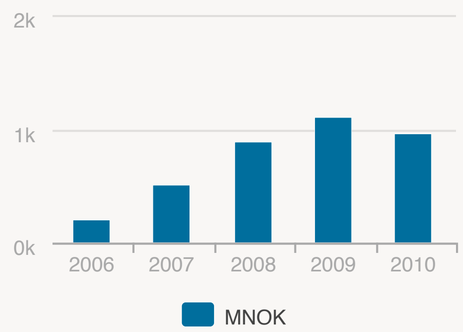


System price 2009 and 2010 NOK/MWh

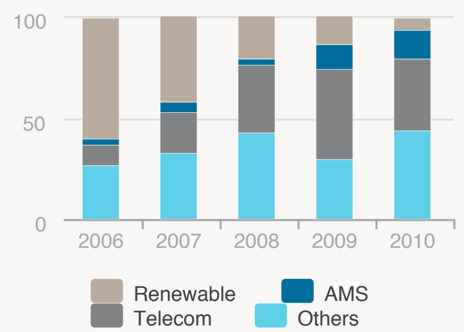


CSR og CSI % in 2010

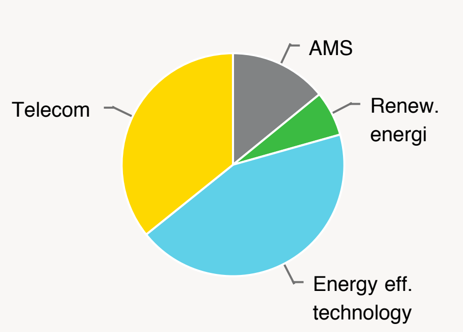
Portfolio value (excl. REC)



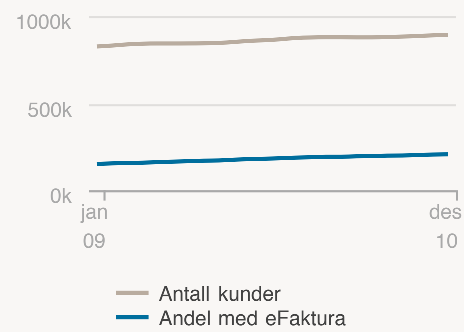
Change in distribution %



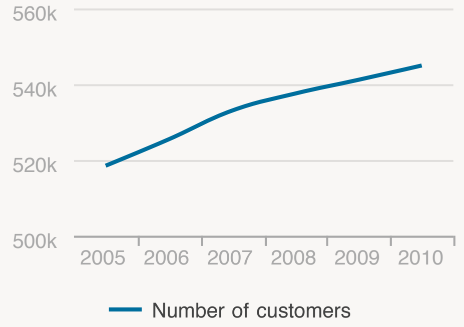
Share of Venture portfolio – excl. REC



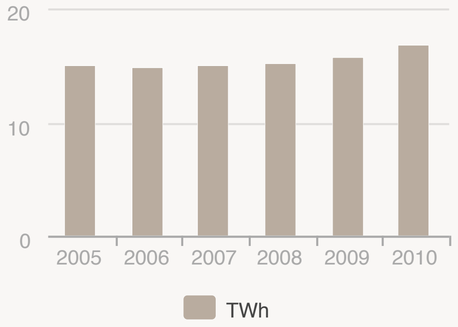
Kundeutvikling 2009-2010



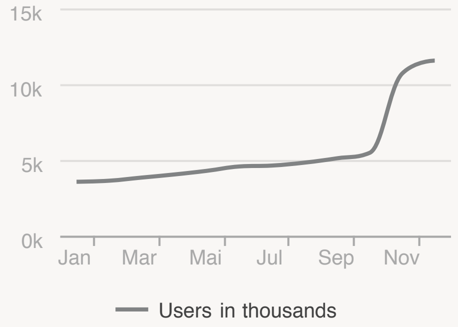
Number of customers - Networks



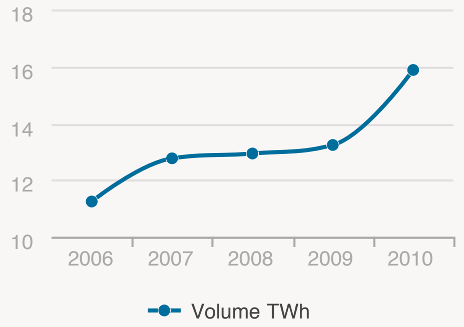
Delivered energy in TWh



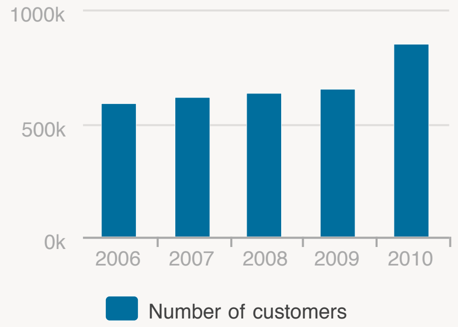
Hafslund Online - Number of users 2010



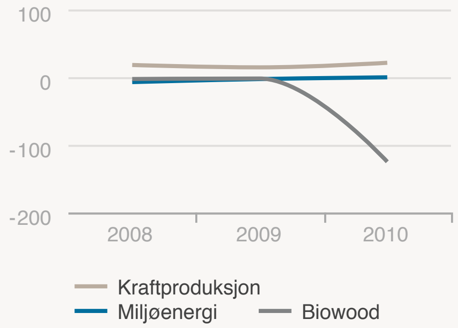
Delivery volume TWh to el. customers



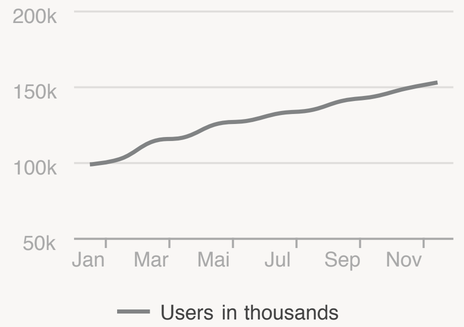
Total number of el. customers



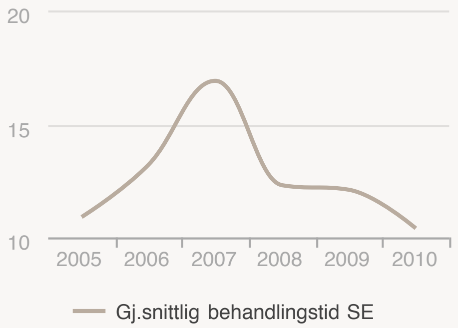
Produksjon og varme: Avkastning engasje



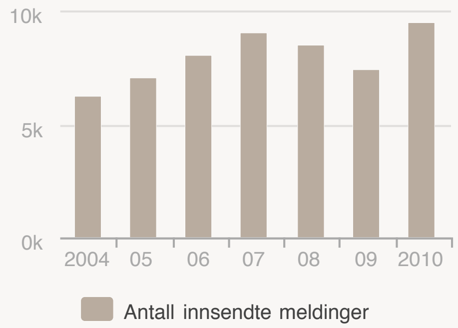
My Page - Number of users 2010



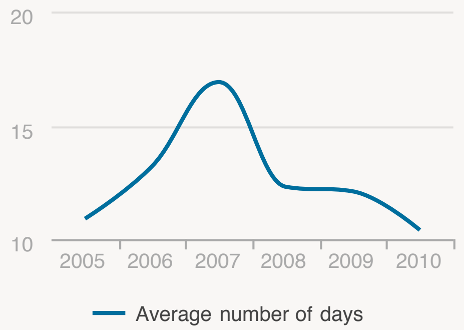
Behandlingstid - dager



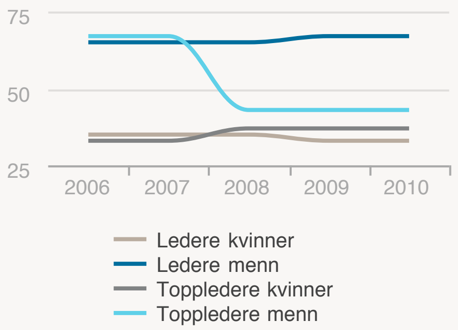
Antall innsendte meldinger



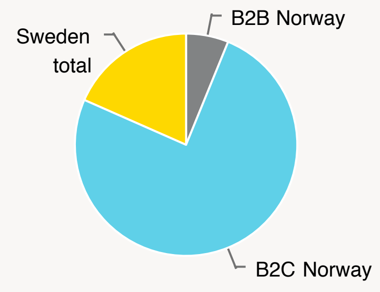
Processing time installation enquiries



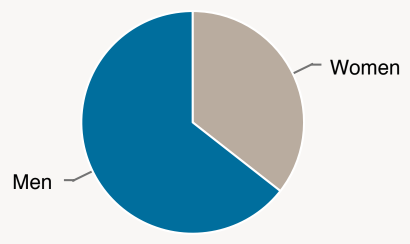
Fordeling ledelse konsern %



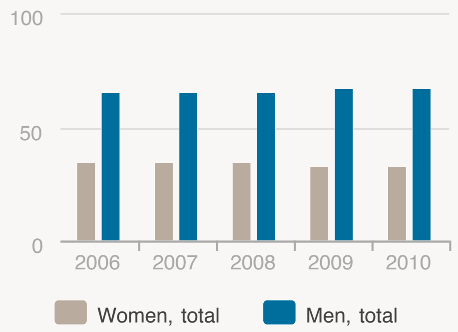
Distribution, customers Norway/Sweden



Distribution, all employees

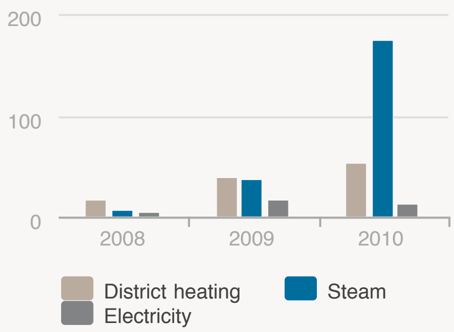


Distribution, women/men, Group

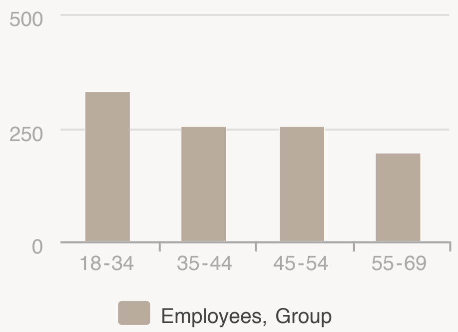


Sickness absence, Group %

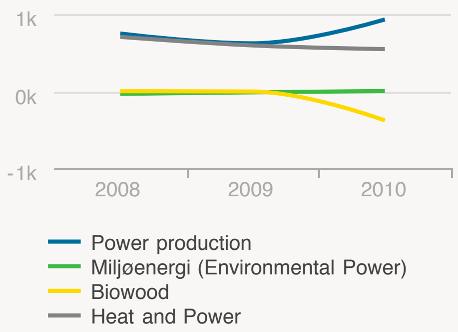
HME Energy delivery GWh



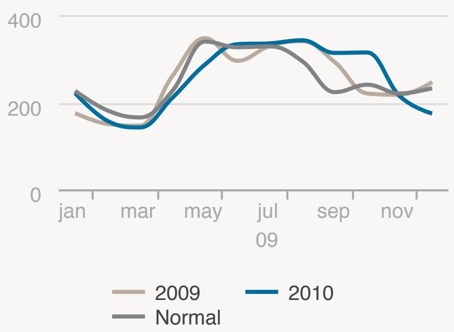
Age distribution, Group



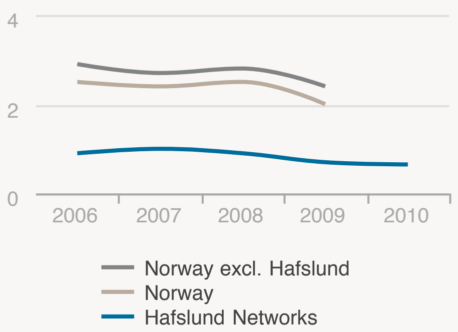
Operating profit/loss MNOK



Production profile Power prod. GWh

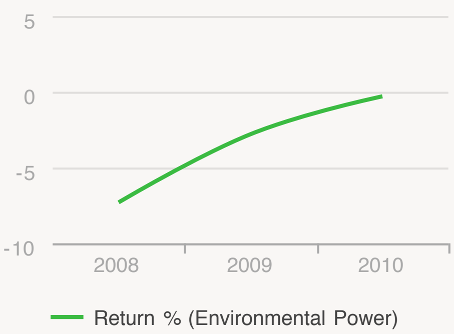


Outage time per customer (hours)

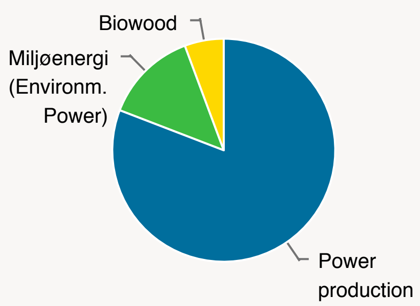


Number of employees, Group

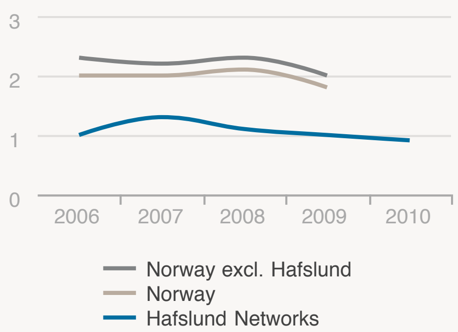
Return on employed capital, Miljøenergi



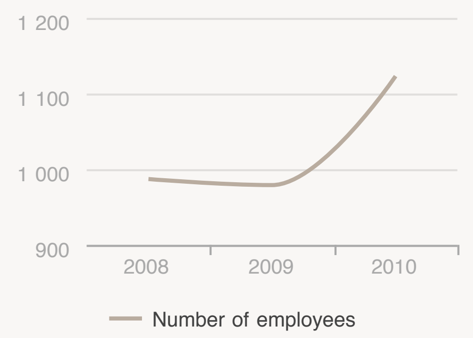
Capital employed MNOK



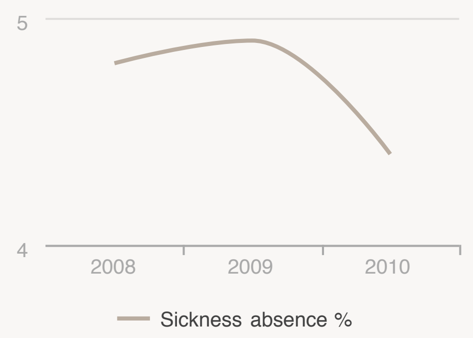
Number of outages per customer



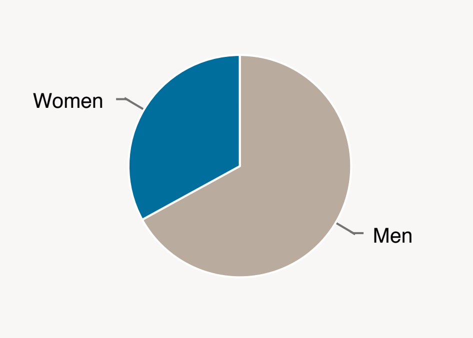
Number of employees



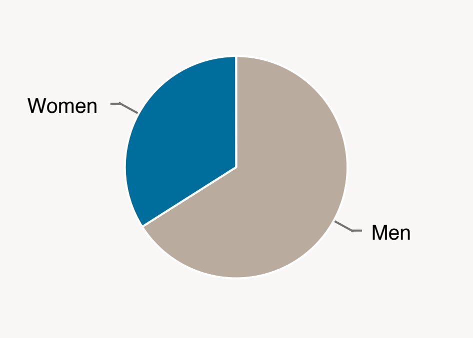
Sickness absence



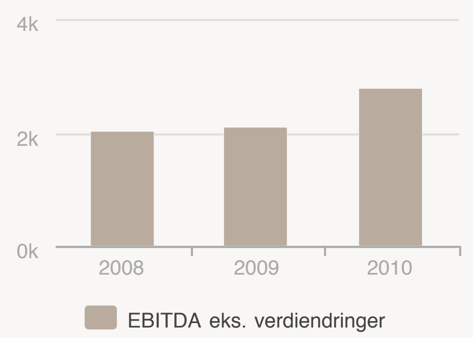
Gender distribution, managers



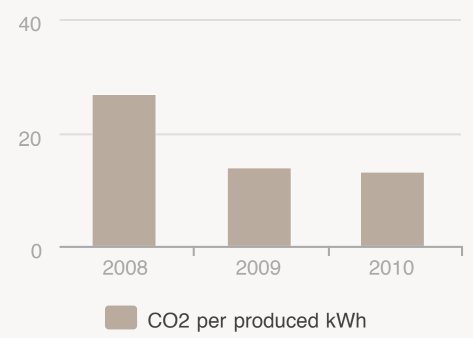
Gender distribution, employees



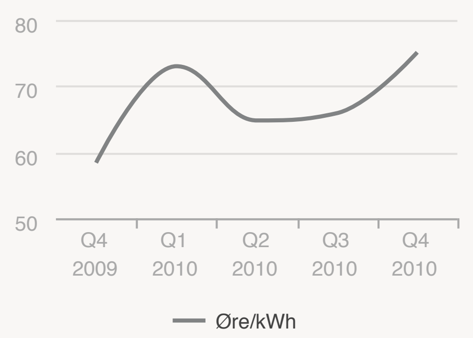
EBITDA MNOK



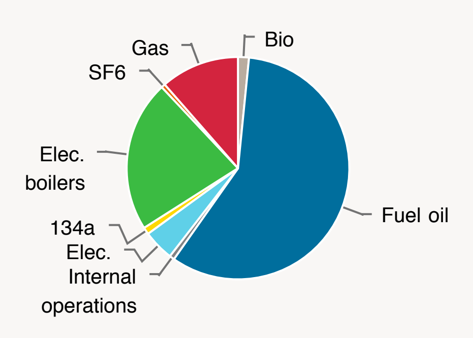
Hafslund Miljøenergi



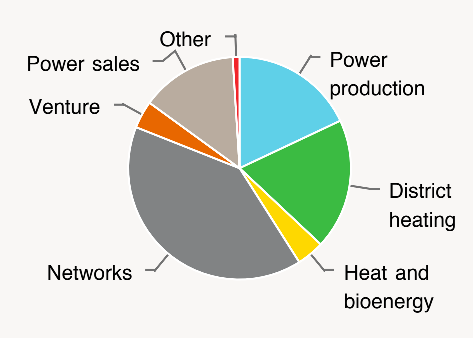
District heating price



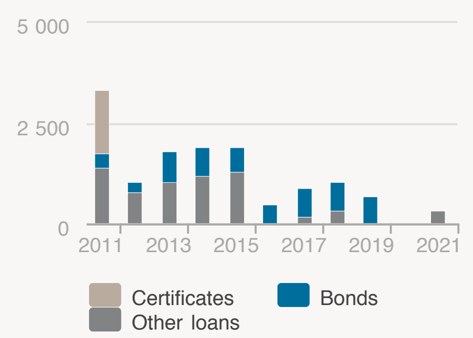
Total CO2 em. Hafslund, tonnes



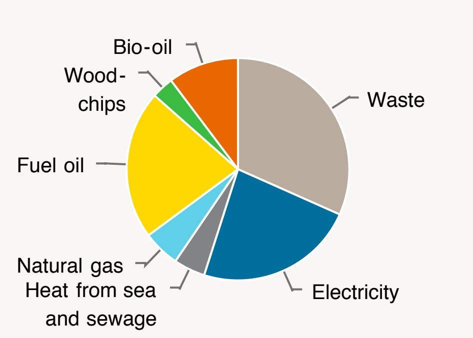
Distribution, capital employed (excl REC)



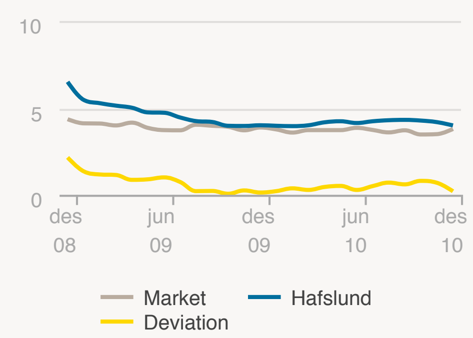
Loan maturities MNOK 2011 > 2021



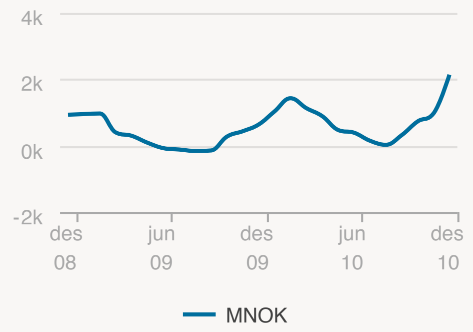
Energy input Hafslund Fjernvarme GWh



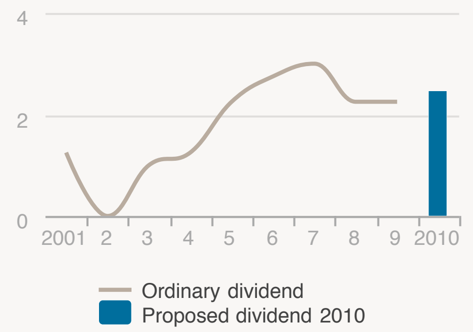
Change in interest rate % 2008 - 2010



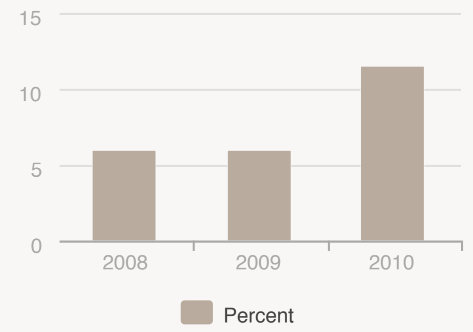
Working capital 2008 - 2010



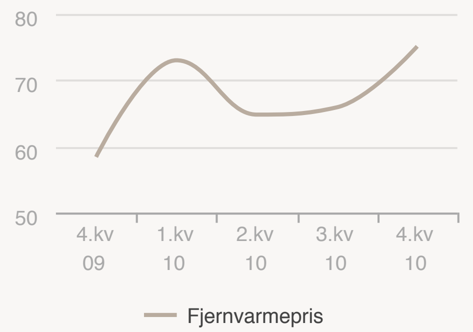
Ordinary dividend NOK per share



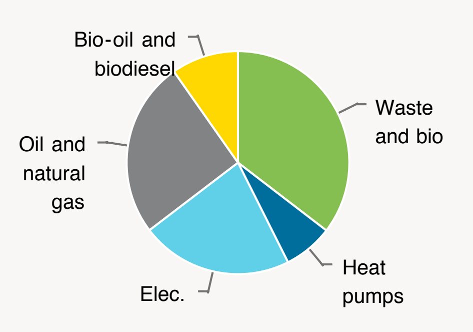
Return on capital employed



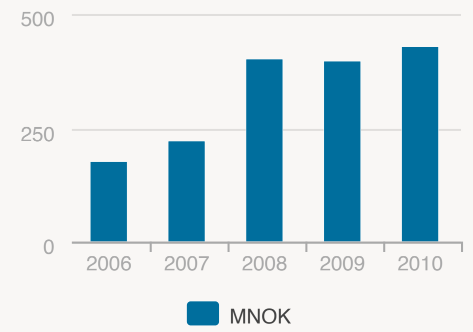
FV-priser per kvartal



Volume per energy carrier GWh

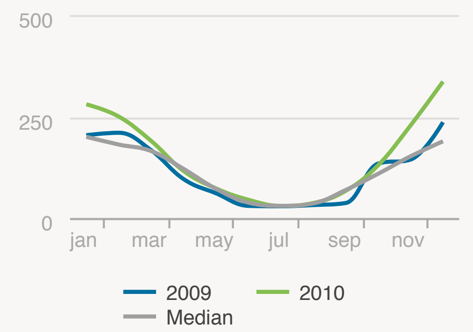


Investments per year District Heating

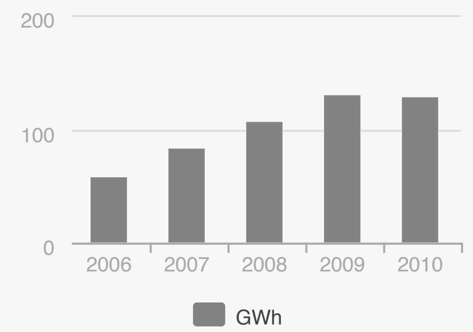


Production cost District Heating

Actual prod. vs. mean prod. GWh



Volume new customer contracts (GWh)



Group Management

1

Christian Berg (b. 1969)

President and CEO

Mr Berg was appointed President and CEO of Hafslund in October 2006. He was previously Deputy CEO and CFO. Mr Berg became Hafslund's CFO in 2001 and before that served as manager of Group Financial Investments. Mr Berg joined Hafslund in 1998, having previously worked at Price Waterhouse in corporate finance consulting. He has also served as General Manager of the investment company Brothers AS. Mr Berg serves on the boards of AS Hamang Papirfabrik and was previously on the board of Renewable Energy Corporation ASA (REC) and Oslo Pensjonsforsikring AS. He also serves on the Nomination Committee at Infratek ASA, Oslo Børs Holding ASA and Renewable Energy Corporation ASA (REC). Mr Berg holds an MBA from the Norwegian School of Economics and Business Administration (NHH). Mr Berg and his related parties own 3,000 Class A and 15,556 Class B shares in Hafslund.

2

Finn Bjørn Ruyter (b. 1964)

Senior Vice President Finance (CFO)

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

5

Per Kristian Olsen (b. 1950)

Senior Vice President Heat & Power

Mr Olsen has been Senior Vice President Heat & Power since January 2009, having previously served as SVP Heat & Infrastructure since November 2005. Prior to this he was SVP Operations from November 2003 and before that SVP Networks. Before joining Hafslund in March 2002, Mr Olsen was President and CEO of Fredrikstad Energi AS. He has also been CEO of Skanska AS. Mr Olsen serves on the industrial policy committee of Energy Norway. He is a graduate engineer from Østfold University College and holds both a degree in business management and a Master in Management and Administration from BI Norwegian School of Management. Mr Olsen and his related parties own 1,000 Class A and 19,000 Class B shares in Hafslund.

3

Jan Presttun (b. 1950)

Senior Vice President District Heating and Networks

Mr Presttun has been Senior Vice President District Heating since January 2009 and SVP Networks since 2 September 2009. He was CEO of Hafslund Fjernvarme from January 2007 until September 2009. From February 2002 until January 2007 Mr Presttun was CEO of Hafslund Nett, having worked in various capacities within Viken Energinett (currently Hafslund Nett) since 2000. Mr Presttun joined Hafslund/Viken Energinett in connection with the 1999 acquisition of Energiselskapet Asker og Bærum Nett (EAB Nett), where he was CEO. He serves on the board of EB Nett. Mr Presttun qualified as a chartered engineer at the Norwegian Institute of Technology (NTH) and holds a business degree from BI Norwegian School of Management. Mr Presttun and his related parties own 2,956 Class B shares in Hafslund.

8

Kari Ekelund Thørud (b. 1975)

Senior Vice President Markets

Ms Ekelund Thørud has been Senior Vice President Markets since 1 September 2009. She joined Hafslund in September 2004 and was previously Managing Director of Hafslund Strøm AS, where she was responsible for day-to-day operations and development of Hafslund's electricity operations. Ms Ekelund Thørud had previously been financial director of Hafslund ASA's Heat and Infrastructure business area as well as advisor to the Senior Vice President Markets at Hafslund ASA. She has previously served as Senior Executive Officer at the Norwegian Water Resources and Energy Directorate (NVE). Ms Ekelund Thørud is a board member of Eidsiva Nett Holding AS and Mallin AS. She holds an MBA specialising in International Company Management, and has completed Financial Energy Analysis studies as NHH Executive at the Norwegian School of Economics and Business Administration. Ms. Ekelund Thørud and her related parties own 327 Class B shares in Hafslund.

6

Tore Schiøtz (b. 1957)

Senior Vice President Venture

Mr Schiøtz has been Senior Vice President Venture since November 2006 and CEO of Hafslund Venture since 2001. During this time he has played a key role in the development of Hafslund's shareholding in Renewable Energy Corporation ASA (REC). Before joining Hafslund, Mr Schiøtz was CEO of the investment company Centurum AS. He also has extensive experience from Storebrand Spar, most recently as investment director, and as a consultant at Accenture. Mr Schiøtz has a degree in business management and is an authorised financial analyst (AFA). He is Chairman of the Board of Fesil, board member of REC and sits on the boards of a number of Hafslund Venture's portfolio companies. Mr Schiøtz and his related parties own 6,200 Class A and 3,129 Class B shares in Hafslund.

7

Tove Pettersen (b. 1970)

Senior Vice President Shared Services

Ms Pettersen took up the position of Senior Vice President Shared Services in April 2007, having previously served as SVP Corporate. Before that Ms Pettersen was SVP, Markets until September 2005 and SVP, Power Sales from December 2001 until August 2003. Ms Pettersen joined Hafslund in 1997 from Hedmark Energi and has held key roles in industrial investment and power trading. She was previously employed at Hedmark Energi. Ms Pettersen is Deputy Chair of Energy Norway and serves on the boards of Infratek ASA, Client Computing Europe ASA and Vital Forsikring ASA. She holds an MBA from the Norwegian School of Economics and Business Administration (NHH). Mr Pettersen and her related parties own 3,300 Class A and 4,212 Class B shares in Hafslund.

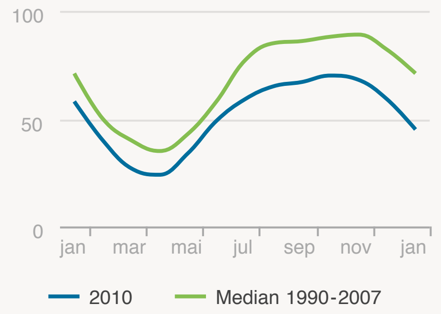
4

Karen Onsager (b. 1976)

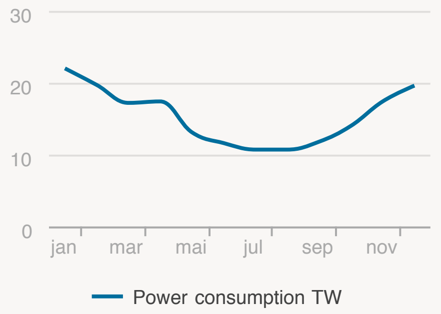
Senior Vice President Communications and CR

Ms Onsager has been Senior Vice President Communications and Corporate Responsibility since September 2008. Ms Onsager joined Hafslund in 2005 where she has been responsible for the Group's information work and market communications. Ms Onsager was previously Head of Information for Hafslund's Markets business unit. Before joining Hafslund, Ms Onsager was Head of Information for Dressmann and Head of Information at Metropol TV. Mrs Onsager graduated from Goldsmiths College, University of London, with a degree in Communications, specialising in journalism and TV production. Ms Onsager and her related parties own 327 Class B shares in Hafslund.

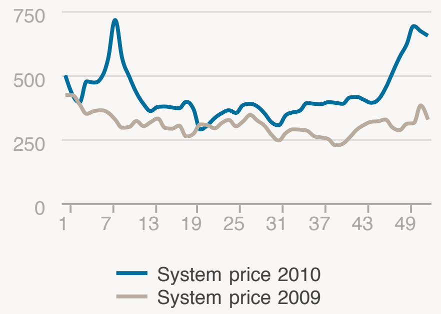
Reservoir hydro power Norway %



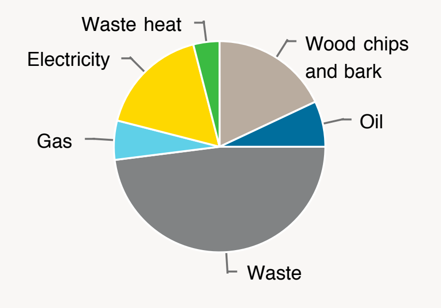
Power consumption Norway TW



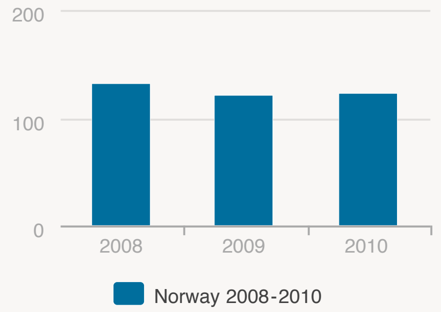
System price 2009 and 2010 NOK/MWh



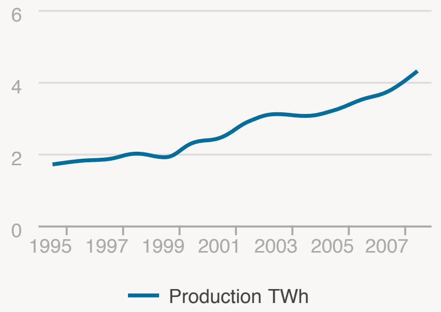
Fuel types Norwegian district heating



Total power consumption Norway TWh



Production district heating Norway TWh



Market and business conditions

Hafslund is a leading energy company that produces, distributes and sells energy. The company's operations are diverse and encompass different markets.

Hafslund shall further enhance its existing business areas, assist structural development of the energy sector and identify new and adjacent areas in which to further develop the Group.

In 2010 Hafslund engaged in further contact with the authorities and initiatives to influence business policies, in particular regarding grid regulation and the waste area.

The energy market in 2010

In 2010 Norway's reservoirs were generally significantly lower than the median for the period 1990–2007. At the start of the year reservoir levels were around ten percent lower than the median, while at the end of the year they were around 25 percent lower. From the middle of November reservoir levels were lower than at any other time during the period 1999–2007.

The average system price in 2010 was a record high of 425.2 NOK/MWh. The average system price in 2009 was 306.5 NOK/MWh, compared with an average system price for the period 2000–2010 of 270.4 NOK/MWh. The system price fluctuated significantly during the year, peaking at 714.0 NOK/MWh in Week 8 and 690.5 NOK/MWh in Week 50, and recording a lowest weekly average of 287.7 NOK/MWh in Week 20.

The Oslo spot price was on a par with the system price for most weeks in 2010, with the exception of Week 1, when it was around 100 NOK/MWh lower, and Week 8, when it was around 200 NOK/MWh higher.

The high price level in 2010 is attributable to high consumption due to cold weather at either end of the year, extremely low reservoir levels and lengthy periods of downtime

at the Swedish power plants. At times during the year there were also major differences in the spot price in different price areas due to capacity-related issues.

In 2010 Hafslund continued its strategy of selling its own electricity on the spot market without any significant degree of price hedging. The risk to which Hafslund is exposed in the power market is regulated by the Group's risk frameworks.

On average the power price achieved in 2010 was 42.2 percent higher than in 2009. Annual production was 0.8 percent higher than normal levels.

Networks

The business conditions for Networks are constantly evolving, where any changes could impact Hafslund's value creation.

In Hafslund's opinion financial regulation of the grid business – the revenue ceiling system – does not promote the achievement of efficiency targets or the required level of investment in the grid.

In its letter dated 24 June 2008 the Norwegian Water Resources and Energy Directorate (NVE) proposed that Hafslund Nett should have its own operating control function and maintain a minimum staffing level corresponding to around 250 full-time equivalents. Hafslund has appealed the proposal. The Ministry of Petroleum and Energy (OED) has given the NVE's proposal suspensive effect, meaning that it may not be implemented before the appeal has been finally settled by the Ministry.

A proposed instruction from the OED dated 13 November 2008 regarding staffing level requirements in regulated activities offers a limited degree of opportunity for network owners to outsource essential services which form part of monopolistic activities. If the instruction is adopted and the NVE's measures become law, Hafslund Nett will have to change its business model and increase its staffing levels by more than 50 full-time equivalents.

Hafslund has spun off its electrical contracting business into a separate listed group and experiences of using external contractors have been positive. Hafslund believes that the staffing regulation is unnecessary, and that there are no professional or actual grounds for adopting the regulation.

In 2007 the OED gave the NVE the go-ahead to commence work on the introduction of automatic metering for all electricity consumers. After some postponements the deadline for replacing current meters with AMS equipment was set as 1 January 2018. In January 2011 it was proposed that the deadline be brought forward to the end of 2016. Hafslund will wait for the start-up and large-scale roll-out and adoption of final measures and frameworks before deciding on a course of action. One of the most critical aspects will be to adopt a financing model that lays down satisfactory financial frameworks, predictability and incentives for the implementation of a rational introduction. In 2009 Hafslund commenced a project intended to facilitate the introduction of AMS in Hafslund's grid area.

Power production, heat and district heating

Through the Climate Agreement adopted by the Storting in 2008 and espousal of the EU's Climate Directive, Norway has undertaken to significantly boost renewable energy production. Hafslund believes that both an increased focus on research and an appropriate support system for renewable energy will be required for this to happen. It will be particularly important to develop appropriate support schemes for heat and electricity power production.

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

In recent years Hafslund has received support from Enova for a number of projects to procure and facilitate utilisation of significant volumes of renewable energy.
Hafslund Miljøenergi's new waste-to-energy plant, Borregaard Waste to Energy (HME-

BWtE), which supplies Borregaard's industrial plant in Sarpsborg with environmentally friendly industrial steam entered operation in March 2010. In June 2010 the BioWood Norway pellets factory was commissioned at Averøya in Møre og Romsdal. In December 2009 Enova granted Hafslund support for a bio-based combined heat and power plant which is due to be constructed at the Borregaard industrial site.

The shortage of waste was a significant problem for Norwegian waste-to-energy plants and combined heat and power plants in 2010. Differences in prices and charges in Norway and Sweden make it profitable to transport residual waste over long distances to Swedish incineration plants. The statutory waste incineration fee was abolished in October 2010; however, this has not been enough to stop the export of waste.

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

Hafslund Fjernevarme and Hafslund Miljøenergi have actively collaborated with several industry organisations on initiatives to secure equal business conditions with regard to export restrictions and waste prices.

Following the revision of the Norwegian Planning and Building Act it is now a legal requirement to connect newbuilds in areas covered by district heating licences. In addition to the main rule on the obligation to connect, there is also an exemption provision which allows local authorities to exempt buildings from this obligation if they can offer a more environmentally friendly heating solution. The City of Oslo is currently reviewing an exemption application under the Norwegian Planning and Building Act for an area in Ensjø. Since this is the first exemption application under the new legislation, the City of Oslo is taking steps to establish a technical basis for assessing such applications.

A joint Norwegian-Swedish certificate market for renewable electricity will enter into force in 2012. Together the countries will deliver 26 TWh of renewable electricity production under a certification system that is expected to result in around 200 NOK/MWh of support for new renewable electricity production. Hafslund welcomes the introduction of the certificate market, and is contributing to the review currently being performed by the industry association Energy Norway.

Power sales

The market for power sales comprises around 100 suppliers and is characterised by strong price competition and low margins.

Hafslund is Norway's largest electricity supplier with 694,000 customers in Norway at the end of 2010. The company serves a further 257,000 customers through wholly and partly owned companies in Sweden. These companies are subject to different business frameworks and offer differing terms to customers. Some power suppliers have access to reasonably priced licensed power, which offers clear competitive advantages. Other suppliers require prepayment from customers, which in many cases is not shown in price comparisons conveyed to consumers through the media.

The power companies offer different power agreements, which primarily mirror price developments on the Nord Pool Spot power exchange. High wholesale prices resulted in generally higher prices to end-users in 2010 compared with 2009, in particular during the winter, and resulted in a strained power situation.

Hafslund must be prepared for further strained power situations and higher prices in the future. This will require flexible staffing at the customer service centre, adaptable payment solutions, extensive information on customer options and collaboration with the social security and tax offices.

Business areas

Hafslund has been generating hydropower for more than 110 years. We are now increasing the efficiency of our hydropower plants, extending the district heating network and constructing new waste- to-energy facilities. Hafslund is upgrading its power distribution grid and encourage our customers to choose more environmentally friendly forms of energy and implement measures to cut their energy consumption.

Hafslund has five business areas and three staff areas.

Heat & Power

We have been renewable for more than 110 years.

Disctrict heating

District heating contributes to an cleaner enviroment.

Networks

Upgrading the power distribution grid is an important area for Hafslund.

Markets

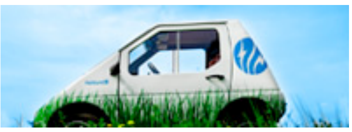
The best and most environmentally friendly kilowatt hour is the one you don’t use.

Venture

We invest in renewable energy and energy efficient techology.

Finance

We prepare and present financial management information.

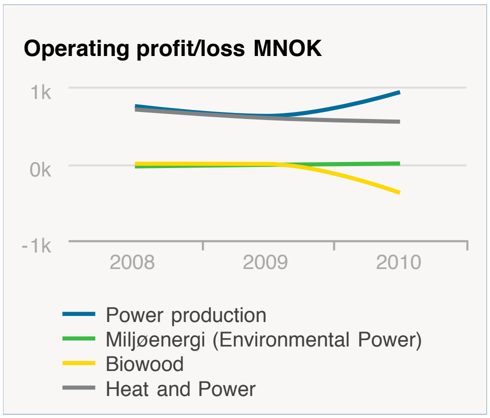


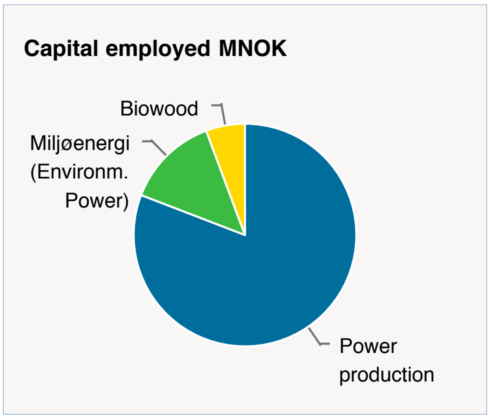
Communications & CR

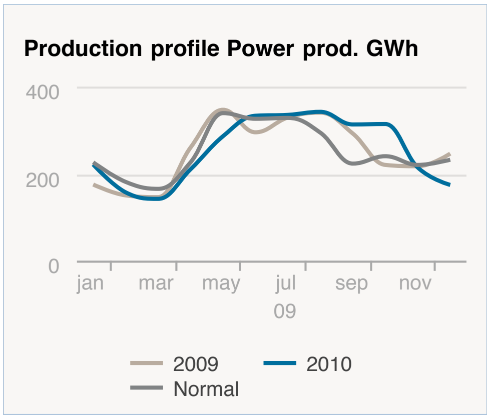
We contribute to highlighting the company’s positive contributions to securing a more energy-efficient future.

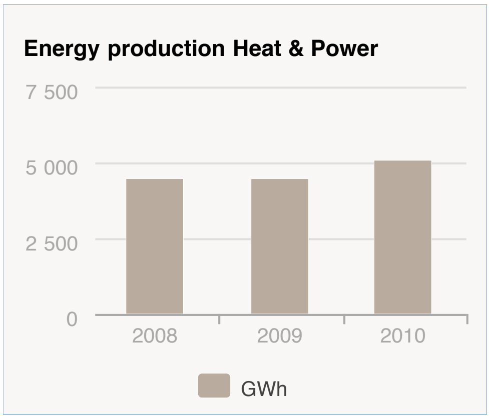
Shared services

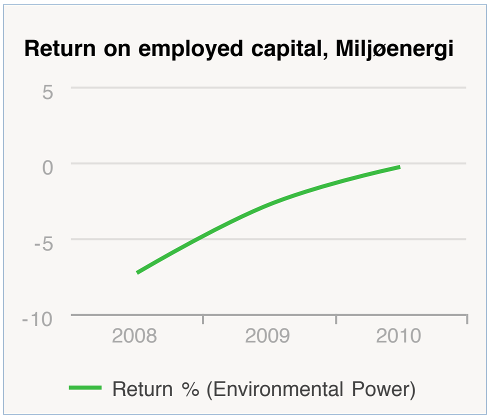
Securing appropriate expertise and improved performance through systematic organisation development.

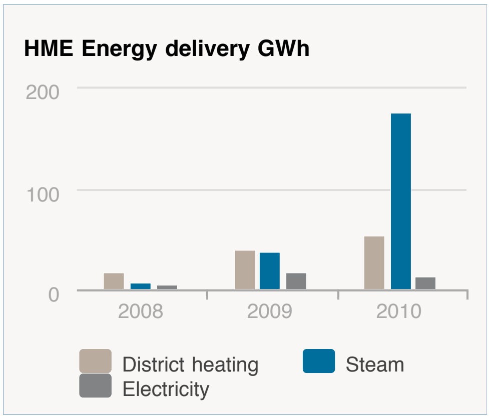












Heat & Power

Heat & Power is responsible for all tasks connected to all the Group's power production activities, and heat production and bioenergy business outside Oslo and Akershus. The BioWood Norway AS wood pellets factory in Averøy and Cogen AS, which owns shares in combined heat and power plants in Spain, are part of the Heat & Power portfolio.

Hafslund's long-established traditions within environmentally friendly hydropower production are continuing through the Group's focus on new business development within heat production for industrial steam, district heating and power production based on renewable sources. Heat & Power has significant expertise within the organisation and is recruiting an increasing number of skilled younger employees in order to augment the business area's future commercial opportunities.

First new run-of-river hydropower plant in 25 years

Kykkelsrud Power Plant, constructed in 1903, was decommissioned in September 2008, and is being replaced by a new run-of-river hydropower plant as part of Kykkelsrud Fossumfoss Power Plant. The new power plant, FKF4, is situated in the intake channel of the former Kykkelsrud power station, and has an installed capacity of 40 MW. FKF4 is the first new run-of-river hydropower plant to be opened by Hafslund for 25 years. Other important events in 2010 included significant maintenance work and the upgrading of some of the oldest generators at Vamma in order to boost plants' installed capacities and working lives. These projects will contribute a total of 120 GWh of new hydropower production.

Focus on environmental energy

What do we do?

Power production

Hafslund Produksjon has four run-of-river hydropower plants in Glomma between Øyeren and Fredrikstad and four small-scale power plants in Eidsvoll. Total production in 2010 amounted to 3,041 GWh. This production will be increased by 100 GWh in 2011.

Heat

The business includes the BioEL energy recovery plant in Fredrikstad with an annual production of 184

Hafslund Miljøenergi establishes and operates environmental energy production plants based on wood pellets, wood powder, woodchips and biogas, and waste-to-energy plants. The company was established based on an agreement entered into with Borregaard in 2007 to construct, own and operate a waste-to-energy plant at Borregaard's industrial site in Sarpsborg. The plant will supply steam to replace heavy oil in industrial processes. The plant was officially opened in March 2010. Hafslund Miljøenergi owns the BioEl energy recovery plant and a 33.3 percent stake in Mosseporten Miljøenergi AS.

Increased pellets conversion

BioWood Norway AS aims to produce 450,000 tonnes of pellets a year, which is equivalent to around 2 TWh, or enough energy to supply all the homes in Møre og Romsdal county municipality. The main market for BioWood will be heat-intensive process industries close to the coast or river courses in northern Europe. Secure access to refined biofuel will boost conversion from fossil fuels to renewable energy sources. BioWood Norway is located in Averøy in Møre og Romsdal.

Three questions for Per Kristian Olsen

Senior Vice President Heat & Power

1. What were Heat & Power's main achievements in 2010?
Activity levels were very high throughout the entire business area in 2010. The opening of HME-BWtE, the biofuel-based energy plant at Borregaard, in March and the commissioning of the BioWood Norway pellets factory in June were both important milestones. Power production delivered record results despite the upgrading of the oldest generators at Vamma Power Plant. Power production is also on schedule with the construction of a new run-of-river hydropower plant, FKF4, at Kykkelsrud.

2. What were the biggest challenges you faced in 2010?
The waste market continued to be impacted by falling available volumes and rising exports. The abolition of the final waste treatment fee led to some improvement in the market. Technical challenges resulted in BioWood Norway postponing the start-up of production of environmentally friendly wood pellets. In addition, the price of "green" energy carriers such as pellets, which are sold to European heat and power producers, remained particularly low in the period.

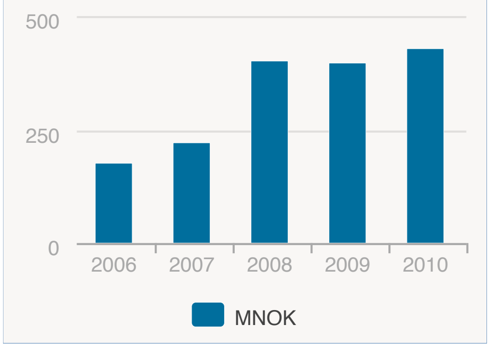
3. What are your ambitions for 2011?
In 2011 Hafslund will open its first new run-of-river hydropower plant for 25 years – FKF4. Pilot production is expected to start at BioWood Norway, followed by full production of wood pellets.

GWh of steam, district heating and electricity, along with HME-BWtE, the biofuel-based waste-to-energy plant at Borregaard, which produces 231 GWh of industrial steam per annum.

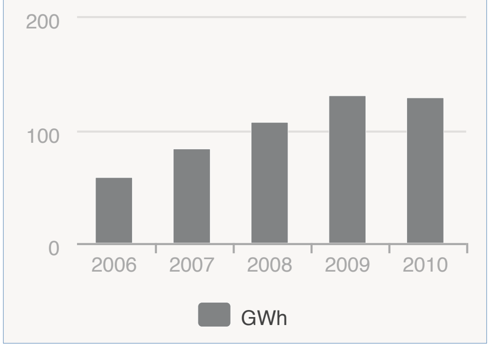
Pellets
BioWood Norway AS pellets factory in Averøy produces 450,000 tonnes of wood pellets each year (equivalent to 2 TWh).

Combined heat and power plants
Hafslund owns 44.8 percent of the Spanish company Cogen, which constructs, owns, operates and maintains combined heat and power plants. These power plants produce electricity, steam and heat.

Investments per year District Heating

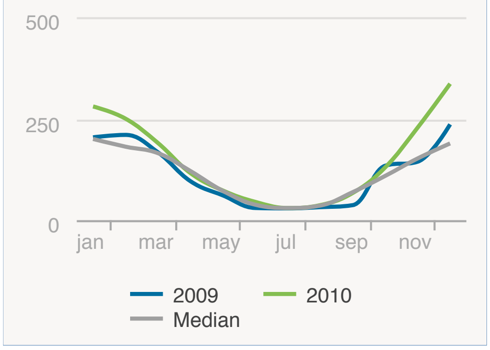


Volume new customer contracts (GWh)

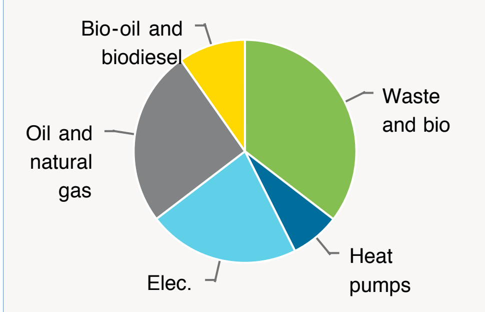


Production cost District Heating

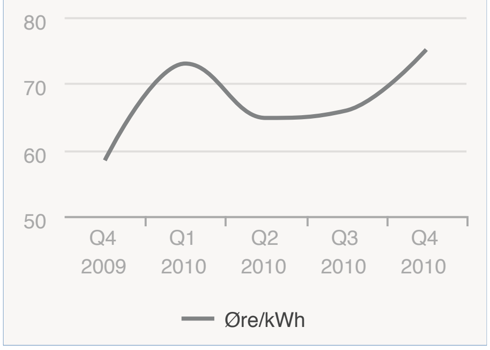
Actual prod. vs. mean prod. GWh



Volume per energy carrier GWh



District heating price



District heating

The District Heating business area produced and distributed around 1.8 TWh of district heating in Oslo and Akershus in 2010. This corresponds to the heating requirements of around 180,000 homes.

Norway's largest district heating producer
Hafslund Fjernvarme produces, distributes and sells district heating. The company is Norway's largest supplier of district heating and is responsible for around a third of all district heating generated in Norway.

The company uses heat purchased from the City of Oslo's waste incineration plants for its district heating production. It also uses energy from its own bioenergy- and heat-pump-based plants. Peak loads are covered using heat generated from electric boilers, LNG and oil-fired boilers. The main production plants are located at Klemetsrud and Haraldrud. Under the current framework conditions the potential for district heating in Oslo is around 2–2.25 TWh.

The company distributes around 1.8 TWh of heat to commercial and public buildings, local housing cooperatives and individual homes in the Oslo region. More than 4,100 customers in blocks of flats, row houses or commercial premises are connected to Hafslund's district heating grid. Hafslund Fjernvarme produces and runs district heating for Oslo Gardermoen Airport and the surrounding areas. Heat is also delivered to Kolbotn centre and Mastermyr Business Park. The annual rate of expansion of district heating in Oslo has increased from 35–40 GWh to 128 GWh.

What do we do?

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

Licence area and customers
Hafslund has a licence to construct district heating in Oslo and Oppegård, and at Gardermoen and Jessheim. District heating is supplied to 1,000

District heating – improving Oslo's air quality

District heating is the most environmentally friendly way to heat Oslo, as it utilises surplus heat from sewage and the combustion of waste, cardboard, paper and wood. These are resources that would otherwise go to waste. The aim is for 95 percent of district heating production to be based on renewable energy sources. In many cases district heating is replacing heat generated from old oil-fired boilers. Measurements show that high chimneys with stringent cleaning requirements emit significantly less local pollution than many lower emission points. Increasing the share of district heating reduces dust and CO_2 emissions, thereby improving air quality. Oslo's district heating is currently undergoing substantial expansion. District heating can play an important role in helping to achieve the City of Oslo's ambitious environmental and air quality targets.

Three questions for Jan Presttun

Senior Vice President District Heating

What were District Heating's main achievements in 2010?

We have achieved our annual growth targets and are now selling 128 GWh of district heating to new customers. The company has started to produce heat based on bio-oil to replace fossil-based fuel oil.

What were the biggest challenges you faced in 2010?

The construction of district heating plants in Oslo's streets presents a number of challenges for the city's inhabitants. It is therefore important to highlight the environmental benefits of district heating to the general public. The winter of 2010 saw historically low temperatures. This, in addition to many new customer connections, enabled Hafslund Fjernvarme to achieve record-high production of 1,782 GWh in 2010.

What are your ambitions for 2011?

Our ambition is to continue profitable expansion activities in Oslo and Akershus. We will also focus on optimal operation of our production facilities. Initiatives to boost the share of renewable energy sources used in district heating production will be maintained, where bio-oil will remain an important energy source.

District heating is supplied to [illegible] commercial buildings, 600 blocks of flats and 2,550 individual homes.

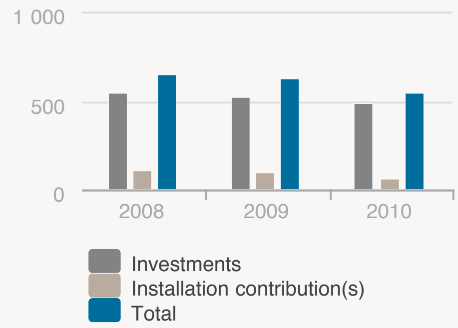
Production and operation

A total of 14 production plants in Oslo and Akershus generate 1.8 TWh of district heating each year, primarily using renewable energy sources. Fossil-based energy sources are increasingly being replaced by biofuel, waste-generated heat and heat pumps, and by the use of pellets and bio-oil.

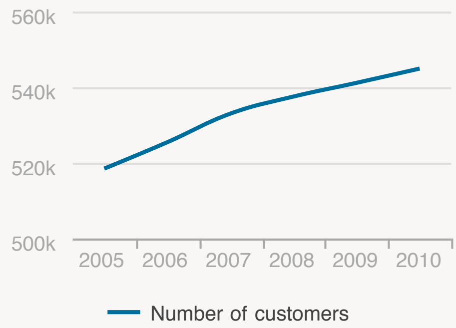
Construction

New customers with a total requirement of 128 GWh were connected to the district heating grid in 2010. This corresponds to the heating requirements of 12,800 homes. In 2010 excavation work started to supply district heating to a number of housing cooperatives with blocks of flats in Oslo.

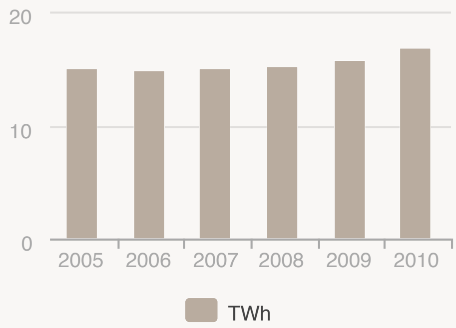
Investments Hafslund Nett MNOK



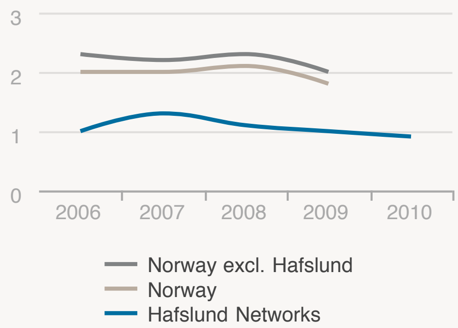
Number of customers - Networks



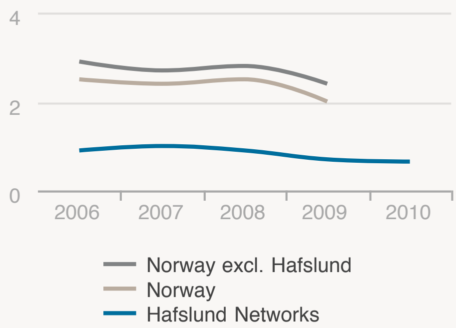
Delivered energy in TWh



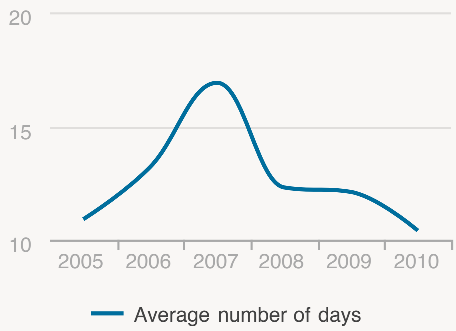
Number of outages per customer



Outage time per customer (hours)



Processing time installation enquiries



Networks

Hafslund Nett is Norway's largest grid operator with 545,000 grid customers in an area with around 1.4 million people.

Hafslund Nett owns and operates parts of the central distribution grid in Oslo, is the regional grid owner in Oslo, Akershus and Østfold, and owns the distribution grid in Oslo and in most of Akershus. The central grid was sold to Statnett with effect from the end of the year; however, the sale is contingent on the approval of the Norwegian Water Resources and Energy Directorate (NVE). In 2010 the total energy consumption in our operating areas was 23.4 TWh, up almost six percent on 2009, while Hafslund's distribution grid distributed around 16.8 TWh of electricity, a year-on-year increase of just over six percent.

Secure power supply

Hafslund Nett is continuing its targeted work to guarantee a stable, robust and safe grid at all times, offering good security of supply across the entire distribution grid area. In recent years investments in the regional grid, in particular in Oslo's central areas, have been prioritised. This has reduced the number of grid outages.
The average customer experienced 0.9 outages in 2010, with an average duration of 39 minutes. This resulted in uptime of 99.99 percent, which makes Hafslund one of Norway's leading performers in terms of security of supply. Consumers have little tolerance for outages, and the company aims is to meet the expectations of customers and society as a whole. Consequently, the main focus in 2010 involved continuing initiatives to secure reliable and efficient power supplies in the licence area and several major projects were implemented.

What do we do?

Hafslund Nett
Hafslund Nett is Norway's largest grid operator. The company owns and operates parts of the central distribution grid in Oslo. The company is regional grid owner in Oslo, Akershus and Østfold, and owns the distribution grid in Oslo and most of Akershus. The number of grid customers is around 545,000 and 1.4 million people live in the company's catchment area. Total electricity consumption in the regional grid is around 23.4 TWh.

Systems Control Centre
Hafslund Driftssentral's cutting-edge

Increased investment

Hafslund has significantly ramped up its investments in recent years. In total the distribution grid business plans to spend around NOK 3 billion on grid maintenance and investments in the period 2011–2013. Investments and maintenance are included in the base used by the NVE to establish the business's annual revenue ceiling. Hafslund Nett remains one of Norway's most reasonably priced grid owners.

Framework conditions

In Hafslund's opinion the NVE's financial regulation of the grid business does not support the achievement of efficiency targets and requisite investment in the grid. The same also applies to regulation of staffing and organisation. Hafslund is therefore collaborating with other grid companies to change the current regulatory system to achieve more suitable framework conditions for the industry.

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

Three questions for Jan Presttun

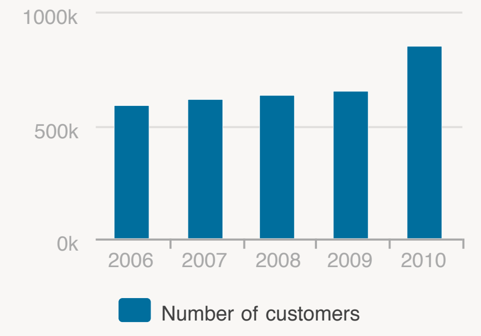
Senior Vice President Networks

What were Network's main achievements in 2010?
The upgrading of the Oslo distribution grid was particularly important and we are also starting to reap the rewards of previous maintenance and investment. Supply quality is very good, and fault and grid outage statistics show that both the number and duration of grid outages have fallen compared to 2009.

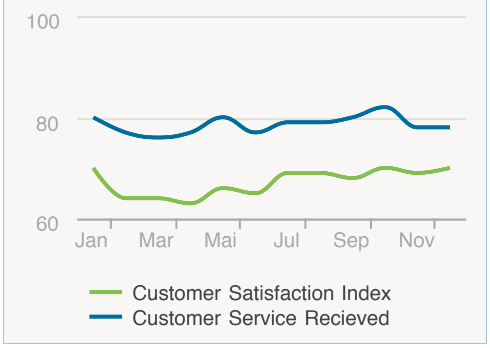
What were the biggest challenges you faced in 2010?
2010 featured heavy grid loads caused by long periods of severe cold. However, we were able to maintain sound supply quality in all periods. There was also a marked upturn in construction activities in our supply area, and Hafslund Nett handled 3,500 projects of varying sizes on behalf of customers in 2010. Higher construction activities have a knock-on effect on grid construction. Despite a strong order book we improved our processing time.

What are your ambitions for 2011?
First of all we will maintain sound security of supply for our customers. We shall also improve our procurement processes. Each year we spend significant sums of money on tender processes on the external market, and it is important that these are formulated so that as many parties as possible submit tenders on both the Norwegian and international supplier markets.

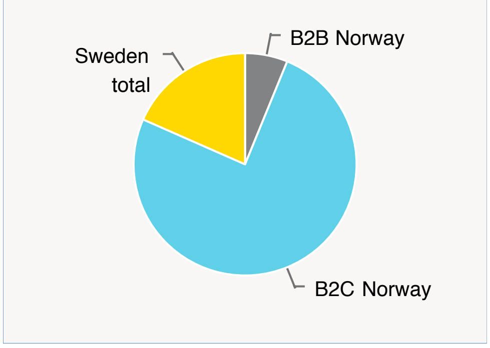
Total number of el. customers



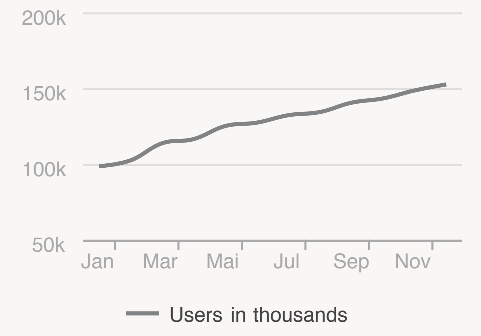
CSR og CSI % in 2010



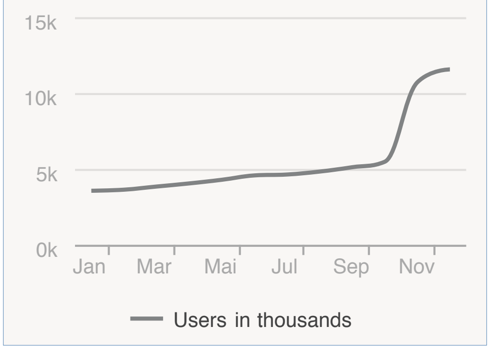
Distribution, customers Norway/Sweden



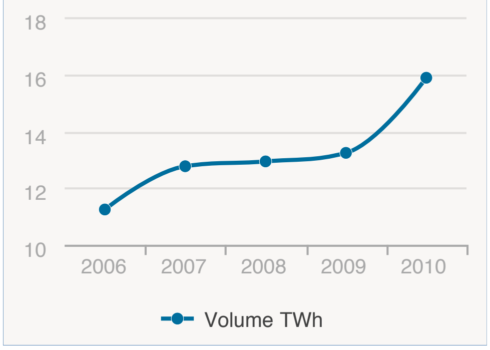
My Page - Number of users 2010



Hafslund Online - Number of users 2010



Delivery volume TWh to el. customers



Markets

The Markets business unit offers electricity to the retail and business markets and is responsible for the majority of all customer service and invoicing under the Hafslund brand name. The business unit also deals with electricity sales generated by subsidiaries in Norway and Sweden.

Electricity sales

We continued to expand our customer base in 2010. In Norway the total number of customers rose by 35,000 during the year, while the aggregate volume of electricity supplied in 2010 amounted to 14.9 TWh, an increase of 1.7 TWh against 2009. The electricity supply companies posted satisfactory results in 2010.

Hafslund Strøm aims to lead the way in offering its customers environmentally friendly energy and energy solutions. As part of its environmental initiatives Hafslund Strøm is committed to helping reduce electricity consumption. Consequently in 2010 the company implemented further measures to facilitate energy savings for its retail and business customers. This will continue to be an important focus area in the future.

In 2010 the business area realised further growth ambitions through the acquisition of the Swedish companies Göta Energi AB (100 percent) and Energibolaget i Sverige Holding AB (49 percent), which have a combined total of 260,000 customers.

What do we do?

Hafslund Strøm is Norway's largest electricity supplier with customers in the retail and business market. NorgesEnergi is a national low-price supplier of electricity to retail customers and small and medium-sized businesses. Fredrikstad EnergiSalg, Hallingkraft, Røyken Kraft and Total Energi in Norway and Göta Energi in Sweden are strong regional electricity companies. Energibolaget i Sverige is a national low-price

Services
Hafslund Kundesenter (Customer Service Centre) and Hafslund Fakturaservice (Invoicing Service) both play an important role in securing high levels of customer satisfaction.

Despite extremely challenging conditions in the electricity market in 2010 our customers reported steadily increasing levels of satisfaction with our service. A marked increase in the number of enquiries to the customer service centre did not adversely impact service levels, which remained satisfactory throughout most of the year, with rapid response times for telephone calls, e-mails and letters. The Customer Service Centre can offer help and advice in 15 different languages.

Hafslund Fakturaservice issues repeat invoices to almost 900,000 customers on behalf of Hafslund companies. One of our goals is to communicate electronically with as many customers as possible through channels such as text messages and e-mail. Just over 200,000 customers pay their bills using e-invoices, a figure we are constantly looking to boost.

In 2010 work started on a major system and organisational development project in connection with changes to Group systems for customer information, job orders and invoicing. The project is due to be implemented in 2011.

company in Sweden and Finland with both retail and business customers. In 2010 Hafslund sold 8.4 TWh to the retail market and 4.5 TWh to the business market. At the end of 2010 the combined number of customers in Norway, Sweden and Finland was 950,000.

Services
Hafslund Fakturaservice manages customer systems, collates consumption data and invoices all the Group's electricity and grid customers. Hafslund Customer Service Centre is responsible for customer service for Hafslund Nett and Hafslund Strøm. Inforum Norge produces folders for estate agents containing information an offers for homebuyers.

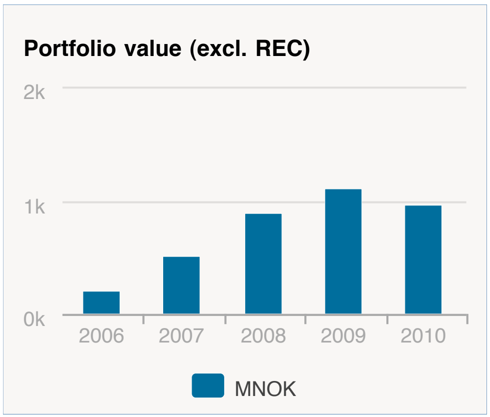
3 questions for Kari Ekelund Thørud

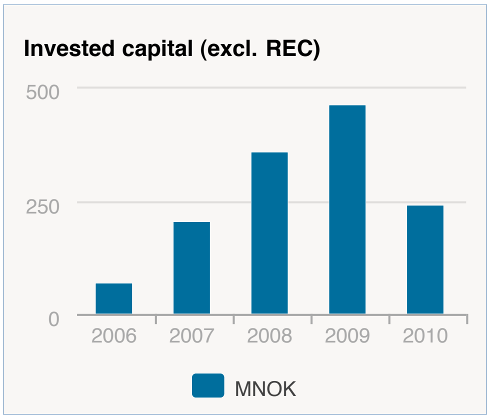
Senior Vice President Markets

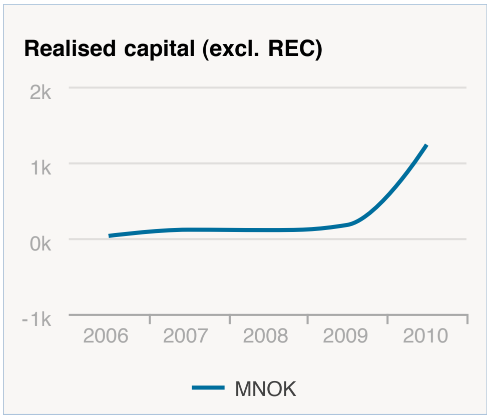
1. What was Market's main achievement in 2010?
In the past year we successfully positioned ourselves for the forthcoming joint Nordic end-user market through the strategically important acquisition of two companies in Sweden. We are also justly proud of the fact we have more – and more satisfied – customers, whom we can offer an expanded range of exciting products.

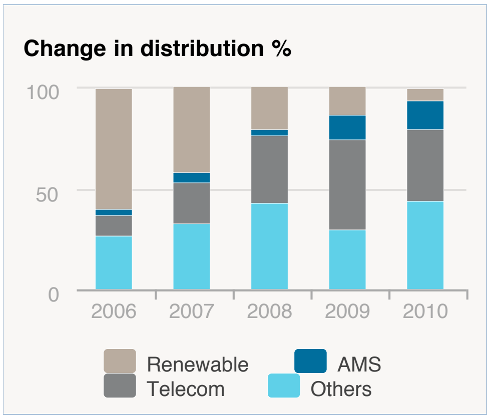
2. What were the biggest challenges you faced in 2010?
The volatile power market, featuring unpredictable and strongly fluctuating prices, made life difficult for customers and proved a challenge in terms of the Group's risk management. The number of enquiries increased as growing number of customers expressed payment concerns.

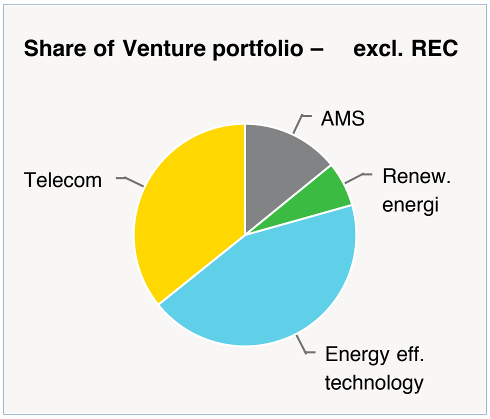
3. What are your ambitions for 2011?
We are currently focusing on introducing new and improved core systems and further enhancing our products. The customer is always our number one priority and we intend to continue gaining additional satisfied customers through various measures, for example by providing incentives to reduce electricity bills, be more environmentally friendly and gain better control of consumption. It is also important for us to contribute to the development of our Swedish-based companies.

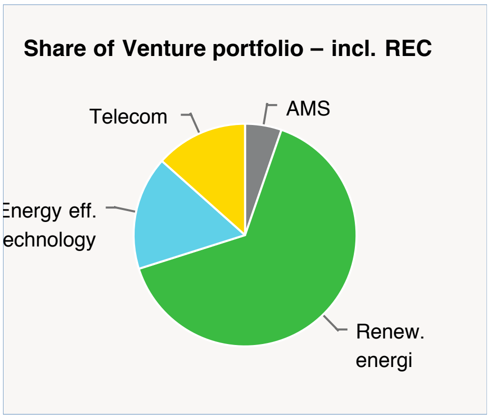












Venture

Venture invests in areas relating to Hafslund's operations within the alternative and renewable energy sectors as well as energy-related services and technology.

These investments help to develop new business and investment opportunities for the Group. Venture assists the portfolio companies through board work, and its extensive network of contacts, industry knowledge, significant strategic expertise and long-standing experience as an active owner.

Rising power prices and global warming are making investments within renewable energy increasingly financially attractive, and demand for future energy production based on renewable energy sources is strong and looks set to stay. With regard to energy, Venture sees particular opportunities relating to solar energy, wind power and biofuel, while in terms of energy-efficient technology, the business area focuses on automatic metering systems and next generation lighting.

The Venture portfolio includes the wholly owned subsidiaries Embriq Holding AS, whose companies supply automatic metering systems and IT operating solutions to the public and private sectors, Hafslund Telekom Nettjenester AS, which delivers online and telephony services to the same sectors, and NextNet AS which delivers wireless and mobile broadband to both private and commercial customers.

Venture is a significant shareholder in the solar energy company Renewable Energy Corporation ASA (REC) and the majority shareholder in the mobile phone operator Network Norway AS.

What do we do?

Venture invests in the following main areas:

Renewable energy
Companies that deliver products and services within silicon-based solar energy (REC, Metallkraft) and new and efficient solutions within wind power (ChapDrive).

Automatic metering systems (AMS)
Companies that deliver products, software and services throughout the value chain for automatic metering (Embriq Systems, Embriq Services AB).

Venture identifies investments within established investment criteria, and which can provide a solid return on invested capital. The investment horizon is normally three to eight years. Initial investments tend to be between NOK 6 million and NOK 60 million, and subsequent investments may be made. Acquired shareholdings are normally between 10 and 40 percent. Active ownership is exercised through measures such as board involvement.

At the end of 2010 the portfolio comprised 12 companies with a total value of NOK 2.54 billion. At the same time, based on a listed share price of NOK 17.79 per share, REC had a market capitalisation of NOK 1.58 billion. The shareholding in REC accounted for 62.3 percent of values in the portfolio. In 2010 the portfolio achieved a return of -20.72 percent including REC, and 86.91 percent excluding REC.

In December 2010 the wholly owned company Hafslund Fibernett was sold to the private equity fund EQT V. During the year Venture also sold its shareholding in Elis, and received its final payment from the Latin Power Fund.

IT and telecoms
Companies that deliver services within data operation, online and telephony services, wireless broadband and mobile telephony (Embriq Operations, Hafslund Telekom Nettjenester, NextNet, Network Norway).

Energy-efficient technology
Companies that offer energy-saving and environmentally friendly products and technology (GLO, Pure Mobility).

Three questions for Tore Schiøtz

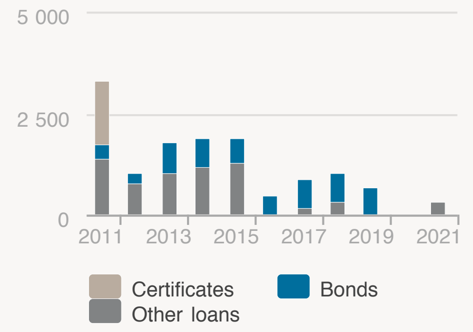
Senior Vice President Venture

1 What were Venture's main achievements in 2010?
Following a tough 2009, in which we experienced a number of setbacks, one goal for 2010 was to return Venture to normal operating mode. 2010 was characterised by operating and financial improvements in several of the portfolio companies. Transaction market activities rose, as illustrated by Fesil's sale of the Holla smelting works to Wacker Chemie in June and the sale of Hafslund Fibernett to the private equity fund EQT V in December.

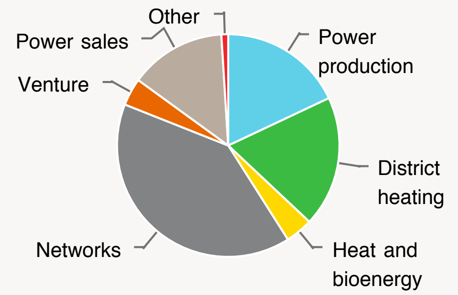
2 What were the biggest challenges you faced in 2010?
In 2010 it became clear that the financial crisis, which hit hard in 2009, was by no means over. Securing access to long-term and effective financing solutions continued to prove demanding in 2010, although not to the same extent as in 2009.

3 What are your ambitions for 2011?
The main focus for Venture in 2011 will be to develop and highlight the values in our portfolio. Following the sale of Hafslund Fibernett, much of the attention will be on our significant investments in Network Norway and Embriq. In addition, some of the portfolio companies are now large and mature enough to be considered for sale.

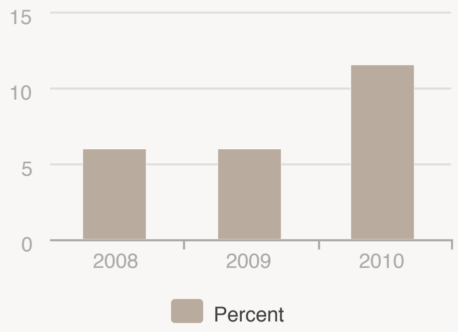
Loan maturities MNOK 2011 > 2021



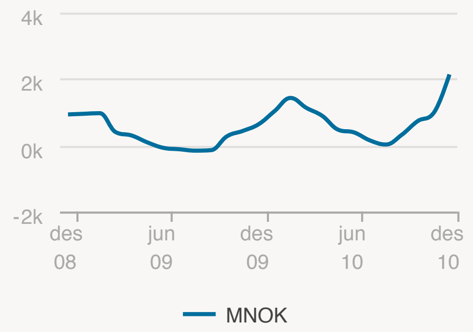
Distribution, capital employed (excl REC)



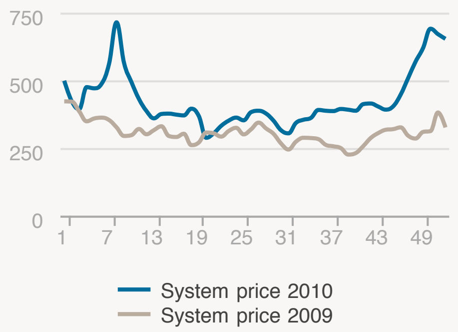
Return on capital employed



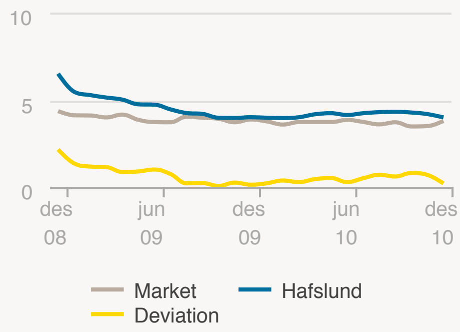
Working capital 2008 - 2010



System price 2009 and 2010 NOK/MWh



Change in interest rate % 2008 - 2010



Finance

Finance is responsible for financial information, risk management, financing and liquidity management, the pension funds and investor contact. The Power Trading department, which is in charge of the Group's wholesale power trading activities, is also part of the Finance function.

Financial information

The Finance department prepares financial management information for managers, the board and the financial markets. Reporting is performed monthly to management and the board, quarterly to the market, whilst more extensive reporting is provided in the Group's annual report. The Group has a separate insourced accounting centre which is responsible for day-to-day accounting for most of the Group's subsidiaries. This central, consolidated accounting expertise safeguards the quality of the accounting function and draws up shared guidelines for the Group.

Borrowings and liquidity

The Treasury department is responsible for all the Group's borrowings and manages foreign exchange risk and day-to-day liquidity management. Treasury actively endeavours to identify optimal gearing structures to minimise the Group's overall finance costs. Hafslund is a major issuer of bonds on the Norwegian market, but also secures significant external financing outside Norway.

The funded pension schemes are organised in Hafslund Offentlige Felles Pensjonskasse and Hafslund Private Felles Pensjonskasse. The total funds under

What do we do?

Finance

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

Treasury

Is responsible for all borrowing, handles foreign exchange risk and day-to-day liquidity management.

management amount of just over NOK 2.2 billion.

Power trading

The Power Trading department is the hub of all power trading activities, including risk management and hedging strategies. The department is responsible for physical and financial trading with regard to the Group's own electricity production and the hedging of end-user supplies, as well as purchases to cover grid losses by the Group's own local and regional distribution grids. The department takes active positions in the Nordic wholesale power market. The majority of trades are cleared through the Nasdaq OMX.

Three questions for Finn Bjørn Ruyter

Senior Vice President Finance (CFO)

1 What were Finance's main achievements in 2010?

The services provided by Finance are valued by both internal and external stakeholders. It is critical that the services we deliver are of the highest quality. I believe we achieved this in 2010.

2 What were the biggest challenges you faced in 2010?

With extremely high power prices, combined with high power consumption caused by the cold weather, the latter part of 2010 proved extremely demanding. This resulted in high levels of committed capital throughout the fourth quarter of 2010 and into 2011. Thanks to a solid financial capacity and good drawdown facilities, Hafslund successfully weathered this period.

3 What are your ambitions for 2011?

We shall maintain the provision of high-quality and timely services – both internally and externally. We will also continue to efficiently tackle and solve new challenges.

Also administers the Group's two pension funds.

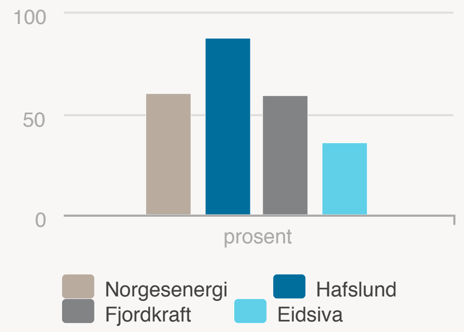
Accounting service

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

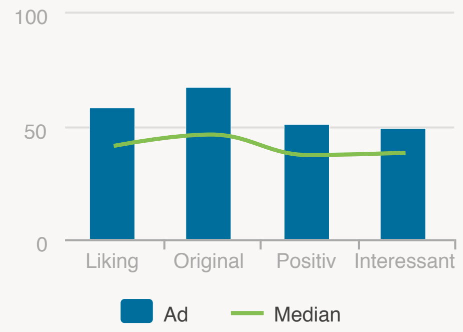
Power trading

Is the Group's unit responsible for all wholesale power trading, including risk management and hedging strategy.

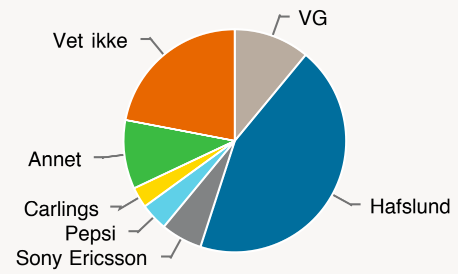
Knowledge of electricity suppliers



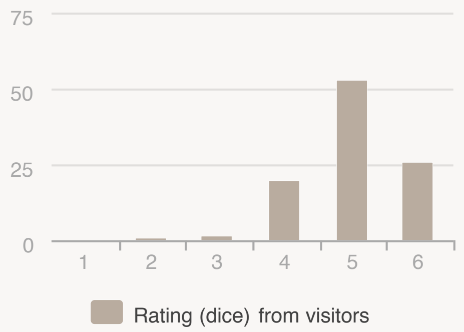
Ad in Aftenposten on Øya collaboration



Øya Festival: Knowledge of partners

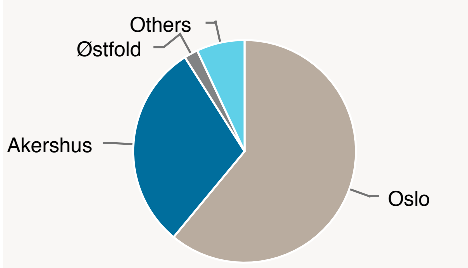


Childrens environmental festival



Knowledge of Hafslund as organizer

Childrens environment festival: visitors



Communications and Corporate Responsibility

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

The environment and ethical trading

Hafslund's board has adopted an environmental policy that provides guidance for the entire Group. The environmental policy commits Hafslund to making ongoing and systematic improvements in its environmental initiatives and diminishing the business's environmental impact. Environmental management has been introduced in each company in order to identify how the individual companies can reduce their environmental footprint. In 2010 a new web-based environmental and climate accounting system was introduced to ensure more reliable collation of figures and more efficient Group-wide environmental management.

Both Hafslund Fjernvarme and Hafslund Miljøenergi were environmentally certified to ISO 14001 in 2010. The company's head office at Drammensveien 144 has also been certified as an Environmental Beacon (Miljøfyrtårn).

Hafslund purchases goods and services from various external suppliers. Ethical trading represents an important part of Hafslund's corporate social responsibility work. The Group is a member of the Initiative for Ethical Trading (IEH), which aims to safeguard

What do we do?

Corporate Communications

takes care of the Group's internal and external communication activities. This includes media relations, the annual report and the Group's intranet. The unit also assists Group companies with strategic work involving politicians and regulatory authorities.

Marketing

works to create and adapt advertising

human and employee rights, development and the environment. Hafslund regards placing clear demands on national and international suppliers along the value chain as an integral part of the Group's corporate social responsibility. As far as is possible, the companies undertake to ensure that suppliers operate ethically and that employee rights and care of the environment are taken into account throughout the supplier value chain.

Communication and reputation work

A key objective of the Group's communication and reputation work is to raise knowledge and awareness of the positive contributions Hafslund makes to society. In 2010 we further consolidated the work we performed in 2009 with regard to campaigns and events intended to raise Hafslund's profile within this area and on the Group's focus on environmental solutions.

On World Environment Day, Saturday 5 July, more than 30,000 people gathered in Oslo's Frogner Park to attend Hafslund's Children's Climate Festival. The purpose of the Festival was to inform, engage and commit people on the environment and renewable energy. It is also important to focus on the next generation in order to help secure future solutions to environmental challenges. Surveys carried out at the festival showed that 96 percent of people were aware that Hafslund had arranged the festival, while 89 percent of respondents regarded it as natural for the Group to become involved in environmental issues. The event received an average mark of five out of six, with as many as one of four people giving the festival six out of six. Hafslund's Children's Environmental Festival also won the prize for Event of the Year from the Norwegian Sponsoring and Event Association and was nominated for the European Excellence Awards and CSR Awards in the USA.

In 2010 Hafslund became the first main sponsor of the Øya Festival The music festival is held in the Medieval Park in Oslo in August each year, and has a reputation as an extremely environmentally friendly festival. In addition to providing financial support, Hafslund helped to reduce Øya's energy consumption by 80 percent by installing a fixed power supply to the Medieval Park, allowing the festival to forego polluting generators. The partnership was advertised on Oslo's trams and in the press, and 53 percent (median 40 percent) of those surveyed said they had seen the advertising. In surveys of collaboration partners carried out at the actual festival, Hafslund scored highest in terms of awareness among the public, both aided and unaided.

In December 2010 Hafslund launched its new winter advertising campaign on national Norwegian TV and cinemas in greater Oslo with the message that saving electricity can be fun. Research carried out by Hafslund has revealed that customers wish to learn about ways to save electricity. A steadily increasing number of the Group's customers are increasingly focusing on energy efficiency in order to both spare the environment and save money. Film is one of several media used by the company to convey simple ways of being more energy-efficient in our day-to-day lives. The winter campaign was supported by web-, print- and social-media-based communication initiatives. Surveys show that Hafslund's reputation rose by as much as seven points in Oslo and Akershus following the advertising campaign, the largest increase in the Group's reputation recorded following such campaigns.

Contact with the authorities

Hafslund aims to further enhance its renewable energy business – and under the most favourable possible framework conditions. Dialogue with the regulatory authorities and politicians is therefore important. Hafslund held several meetings with relevant political bodies and authorities in 2010.

campaigns and material and ensures the follow-up and coordination of all the Group's marketing activities. The unit is also responsible for developing and running the Group's website.

Environment and Corporate Social Responsibility

The unit is responsible for the consequences of the Group's business activities with respect to the environment, social conditions and ethical considerations. This unit works at both Group level and as an adviser to the various Group companies on the environment and social responsibility.

Sponsorship activities

The unit takes care of and develops sponsorship activities in collaboration with the companies, and is responsible for events involving the general public managed by the Group.

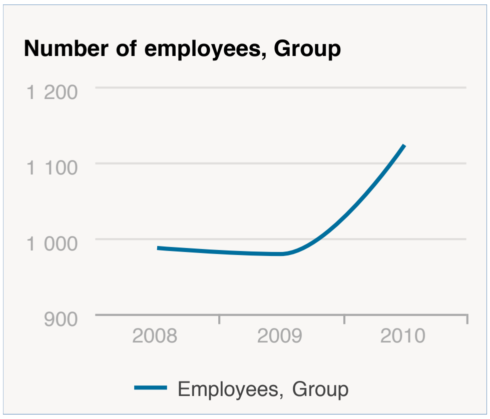
Three questions for Karen Onsager

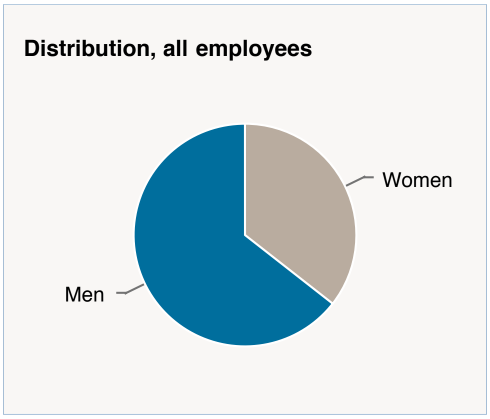
Senior Vice President

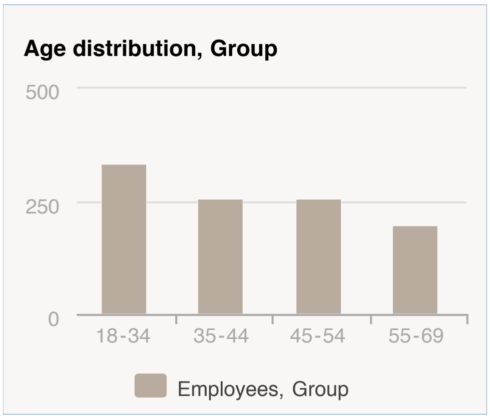
1 What were Communications and Corporate Responsibility's main achievements in 2010?
We continued to focus on the environment and ethics throughout the Group and have established a solid platform for our corporate social responsibility initiatives.
We have also implemented several advertising campaigns to reinforce Hafslund's reputation and raise the Group's profile. Surveys indicate that these, together with other reputation initiatives, are paying dividends. We have made good progress with our social-media-based activities, which have proved both informative and exciting. We are also obviously very proud of the significant interest aroused by Hafslund's Children's Climate Festival in Frogner Park in June.

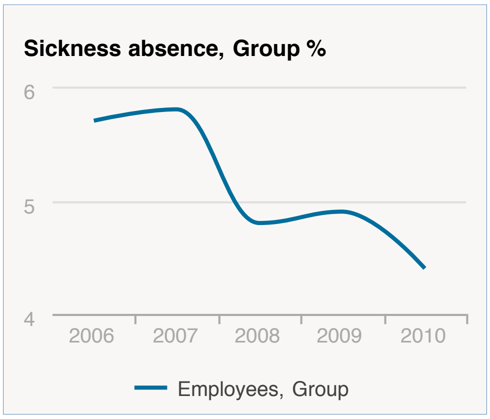
2 What were the biggest challenges you faced in 2010?
High electricity prices of the autumn and winter, together with potential scarcities in Norway, have presented a communications challenge for the entire industry. We have also faced a number of challenges regarding the Group's business parameters and are still encountering a lack of predictability in important framework conditions for our business.

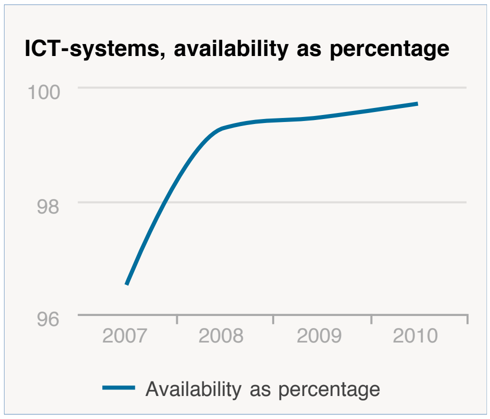
3 What are your ambitions for 2011?
In 2011 we shall further build on our positive performance in 2010, and continue to raise the profile of Hafslund as a future-orientated and environmentally friendly energy and infrastructure company. We shall also continue to deliver high quality services to the rest of the Group, and further pursue work on environmental management. We are also looking forward to getting to grips with a number of further exciting events and communication measures in 2011.











Shared services

Shared services supports the Group's strategic and commercial goals by delivering efficient support processes and services, establishing guidelines to promote a progress-orientated culture, and developing and coordinating Group-wide projects and programmes.

Expertise for the future
Hafslund's HR policy aims to ensure that the company attracts, recruits and retains employees who reflect the diversity of the environments in which the Group operates. Securing critical expertise for the future is of key importance, and the quality of recruitment work was reinforced during the year. The annual review of the Group's personnel resources and manager and employee surveys provide important indicators regarding further recruitment requirements and expertise development work.
HSE work is continually being improved. In addition to reinforcing work on reporting, the company has adopted a focus on internal HSE audits. Future work will be further systematised through the adoption of a Group-wide HSE non-compliance system.

ICT platform of the future
Hafslund will face a number of major changes regarding its ICT structures and applications in the next few years. Directives on automatic meter reading will necessitate the renewal of large areas of the application portfolio. Therefore, in addition to work on stable and efficient operations, the main priority in 2010 has been future-proofing the ICT platform. Shared goals have been established in several key areas in order to secure coordinated and predictable ICT initiatives. Foundations have been laid for further modernisation of the operating platform, for example through

What do we do?

Human Resources (HR)
Develops and monitors the Group's central procedures and initiatives for recruiting, developing and retaining appropriately skilled employees. The business unit is also responsible for ongoing HSE work and initiatives to strengthen the business culture.

ICT – Group
Is responsible for all Group-wide ICT infrastructure, applications and functionality.

Contracts and continuous

heightened virtualisation of central applications. The Group will implement a number of ICT projects in the coming years.

Contracts and continuous improvement
Quality-assurance of the Group's contracts and commercial processes, together with the raising of expertise on, monitoring of and negotiations regarding the entering into of contracts will continue to play a key role as changes in framework conditions and trading patterns give rise to constantly changing requirements. The business unit has contributed expertise and procedures to facilitate a culture of continuous improvement in several Group-wide processes. Improvement opportunities are highlighted and gains are leveraged in the form of lower costs and improved quality. The ambition is to establish a shared Hafslund approach to continuous improvement and help ensure that central targets for outstanding operations are achieved.

Property
Work was performed on efficient property operation and subletting of areas not utilised by the Group throughout the year. The property development projects will continue to be accorded high priority in future; however, a number of declarations including those in connection with development in the Sarpsborg site have taken longer than expected.

improvement
Quality-assures contracts and contract processes, helps to develop and monitors colleagues' expertise on contract processing, and assists Group companies and departments with expertise and procedures intended to promote a culture of continuous improvement.

Property
Manages, runs and maintains the Group's owned and leased properties, and works to optimise values of owned property through sales and development.

Three questions for Tove Pettersen

Senior Vice President Shared Services

1 What were Shared Services' main achievements in 2010?
Delivering constantly improving services that are valued by the business units. This included reinforced recruitment initiatives and a focus on expertise and sound ICT operating quality. This was complemented by the adoption of a coordinated approach to future challenges, further improvement, quality and HSE initiatives and efficient operations in general.

2 What were the biggest challenges you faced in 2010?
Tailoring services and projects to suit a constantly evolving Group and business units. In 2010 this resulted in a significantly increased focus on and scope of some services, and consolidation of activities in other areas.

3 What are your ambitions for 2011?
We will continue to enhance the quality of supplies in all areas and provide solid support and help to secure outstanding operations and continuous improvement across the Group. Important ICT and property projects will be completed in line with expectations, and future expertise requirements will be guaranteed through the recruitment of additional committed and skilled colleagues.

Corporate Social Responsibility

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

Hafslund's corporate social responsibility policy is based on the Group's vision, core values and corporate culture.

Hafslund adopts the Norwegian government's definition of corporate social responsibility ("Corporate Social Responsibility in a Global Economy"), which essentially states that corporate social responsibility involves the integration of social and environmental considerations into daily operations and in line with stakeholder interests. It further states that "corporate social responsibility is a question of what businesses do voluntarily in addition to complying with existing legislation and regulations in the country in which they operate".
The goals of Hafslund's corporate social responsibility policy are for the Group to act as a responsible corporate citizen, to create trust and credibility with regard to the Group's activities, and to build and maintain the confidence of our stakeholders.

These goals will be realised by:

- Exercising clear, effective corporate governance to encourage the greatest possible value creation over time
- Helping to promote sustainable development through the generation and distribution of renewable and alternative energy
- Implementing business activities in a way that ensures the least possible

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

Christian Berg
President and CEO

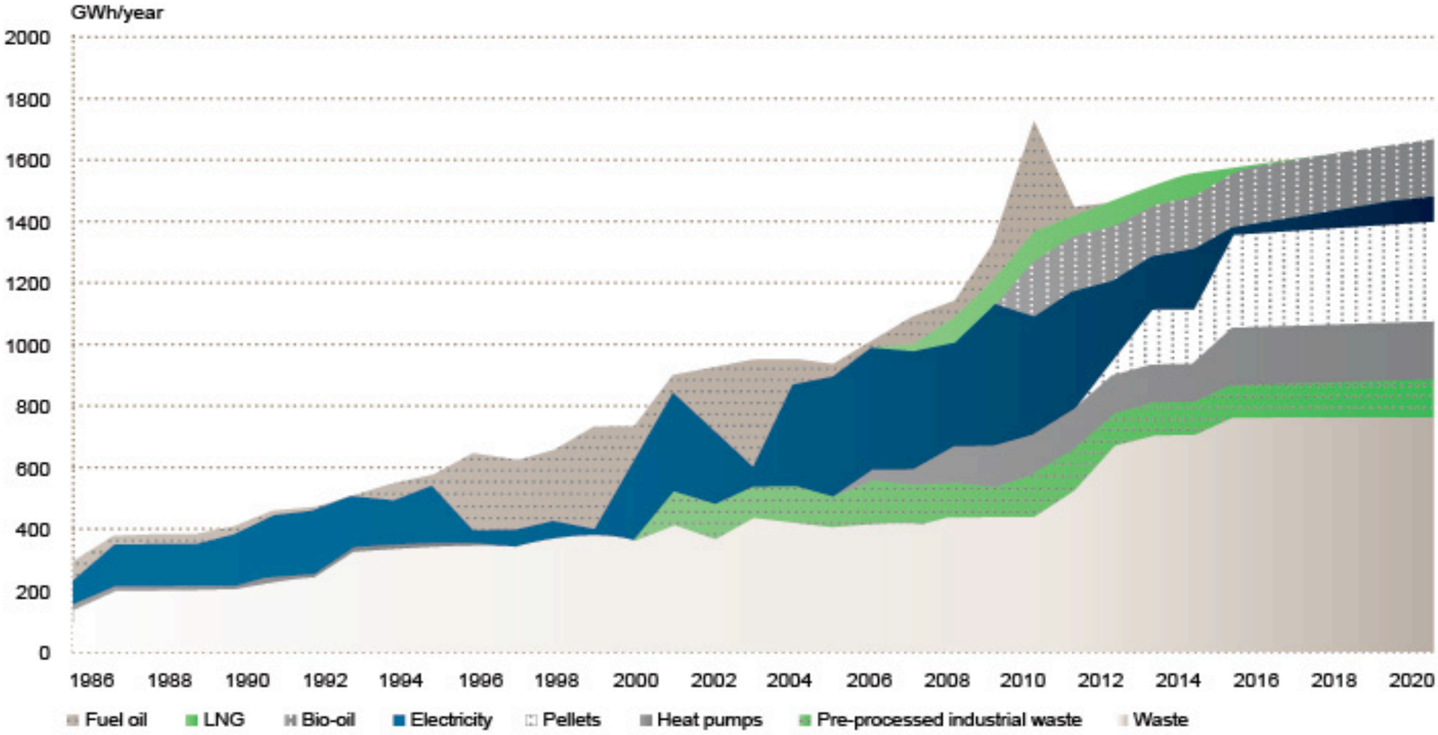
adverse impact on the external environment

- Maintaining high ethical standards in carrying out business activities, and taking economic, environmental, and social factors into account when making decisions
- Running the business in accordance with internationally recognised principles and guidelines for the conduct of business, employee and human rights principles, and the precautionary principle
- Supporting socially beneficial goals that adhere to the same values that form the Group’s core values, reinforce the Group’s image, and help the Group achieve its other goals

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

In 2010 the Group started revision of the Group’s Social Responsibility Strategy, and formulated and commenced implementation of structured work regarding environmental management and ethical trading. The work is expected to be completed during 2011.

Historic and planned energy input factors for Hafslund Fjernvarme's district heating production



Environment

The energy system of the future will be based on renewable energy sources. Hafslund has therefore set a goal to increase its production of power and heat based on renewable sources of energy, while phasing out all use of fossil energy. We will also keep the environmental impact from our own operations at a low and acceptable level.

About the reporting
The data used in this report have been obtained from the organisation through the companies' annual and interim reports, accounting systems and reports to public authorities. The report covers all companies active in Norway in 2010 where Hafslund is the majority owner. The GRI index provides an overview of where the various topics and indicators in line with the Global Reporting Initiative (GRI) can be found in the report. The environmental data have not been subjected to an independent audit.

Methodology for calculating of greenhouse gas emissions
The calculation methodology and CO_2 factors used have a major impact on the presented total greenhouse gas emissions. There is currently no common standard for which factors to use for different sources of energy. This means that transparency as regards methodology is important to be able to make any comparison and assessment of the environmental performance of different companies.

Hafslund has applied a methodology where we use real average figures for a historical period as the basis for calculating CO_2 factors. In addition, we use life-cycle analyses as a basis for the factors where possible, which means that we include emissions from production, refining and transport of e.g. oil and bio fuel. For waste, bio fuel, fuel oil and gas, factors calculated by the Swedish Environmental Protection Agency and others have been used. The factor for electricity has been calculated by Hafslund, based on figures from Vattenfall and others.

Energy source in heat production	CO_2 factor used (grams per kWh)	Commentary
Incineration of municipal residual waste and refined trade waste	0[1]	Residual waste also contains some fossil materials, mainly plastics, which release fossil CO_2 when burned. It is important to point out that these emissions would have occurred in any case, and that disposal in a landfill would have resulted in higher greenhouse gas emissions over time. Incineration and energy exploitation of the waste is therefore sound resource use.
Bio (woodchips and bio oil)	13	Includes emissions related to logging/harvesting, processing and transport of fuel.
Flexible power for boilers and other use of electricity	116	Calculated by Hafslund on the basis of an average for the Nordic power mix for the years 2005-2008.
Fuel oil	294	The emissions include production, refining and transport of fuel.
LNG	221	Emissions include production, refining and transport of fuel.

1 In comparison with the 2009 annual report, the waste factor has been changed to harmonise with other incineration plants and to take into account the fact that CO_2 will be produced by waste in any case, through incineration or disposal in landfills, making it wrong to assign this emission to the stage in the process that recovers the energy of the waste.

Environmental Management

The Group constantly endeavours to improve its environmental performance with regard to both core activities and internal operations. Effective environmental management therefore forms a natural part of Hafslund's corporate social responsibility initiatives.

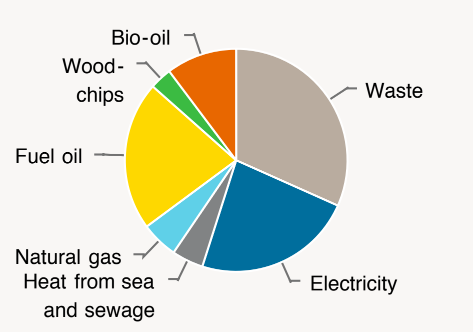
The environmental management systems are tailored to suit individual companies' needs, but all the systems adhere to the main principles of the ISO improvement cycle.

The Group companies which have the greatest impact on the environment, Hafslund Fjernmvarme and Hafslund Miljøenergi, are now both certified in accordance with the ISO 14001 environment standard. Hafslund Miljøenergi was certified in 2010. The head office at Drammensveien 144 was also certified as an Eco-lighthouse during 2010.

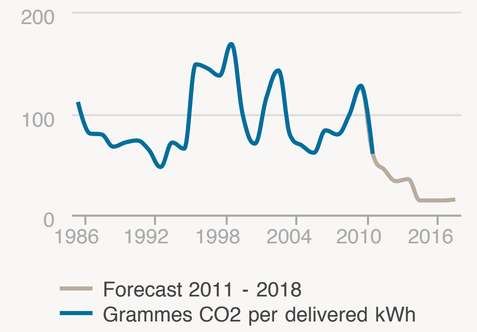
A number of monitoring and reporting systems have been put in place to keep track of the Group's environmental impact. Emissions from waste incineration plants are monitored round the clock and immediate action is taken if an environmental parameter is breached.

During 2010 Hafslund also commissioned a new web-based environmental and climate accounting system which centralises and improves the quality of collation and processing of environmental data from the entire Group, thereby further improving the Group's environmental performance.

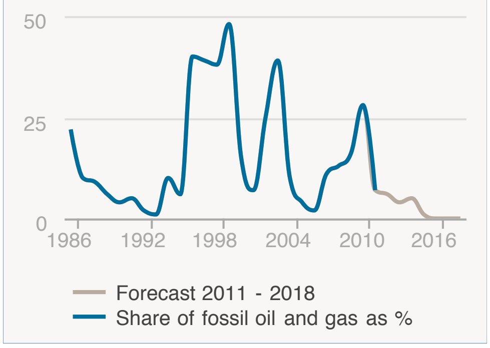
Energy input Hafslund Fjernvarme GWh



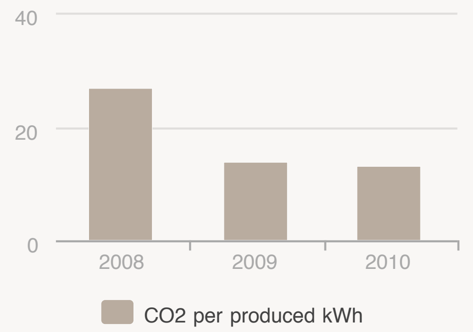
Hafslund Fjernvarme (District Heating)



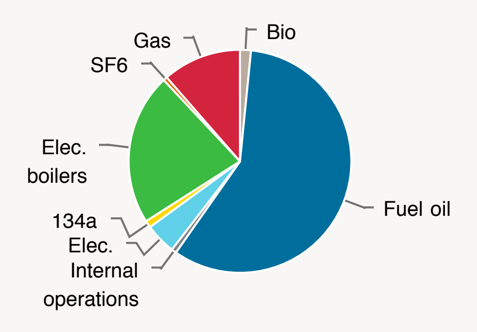
Hafslund Fjernvarme (District Heating)



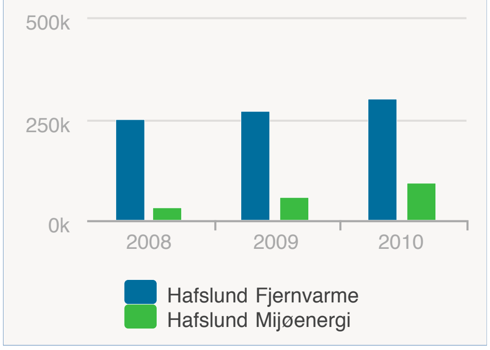
Hafslund Miljøenergi



Total CO2 em. Hafslund, tonnes



GHG savings, tonnes CO2



Environmental impact of the Group’s core business

Focus on sustainable energy production

Hafslund’s electricity production is primarily based on run-of-river hydropower plants that generate no air emissions and that otherwise have very little impact on the environment. An important part of Hafslund’s corporate social responsibility involves exploiting the Glomma watercourse as optimally as possible to avoid wasting water that could potentially be used for power generation. This requires well planned maintenance and efficient management of the generating facilities. In 2010 uptime at Hafslund’s Glomma power stations amounted to 99.41 percent.

A small proportion of the Group’s power production during 2010 came from its new energy recovery facility, BioEl Fredrikstad, which derives power from the incineration of waste.

The areas of the Group’s core businesses that have the most significant environmental impact are primarily those associated with the production of heat (district heating and steam for industry). Most of the base load for district heating is generated through the incineration of residual waste, biomass and the use of heat pumps. The incineration and utilisation of energy in residual waste, which consists of whatever is left after recovery and recycling, allows a resource to be exploited that would otherwise be lost. The incineration of waste is also preferable to land filling as not only are greenhouse gas emissions significantly lower, but this also allows waste energy to replace other fossil energy carriers. The use of modern emission reduction technology in connection with incineration therefore results in a very low level of air emissions.

In the absence of Hafslund’s heat-generating operations, heating requirements would have to be met by other, generally far less environmentally friendly, solutions. The alternative for many smaller and often older plants would be to burn fuel oil, increasing the environmental impact both with respect to greenhouse gas emissions and local air pollution (primarily particle emissions and NO_x). Many people also consider district heating to be the most environmentally friendly method of heating, not least because it uses energy from low value sources that would otherwise remain unexploited.

Greenhouse gas emissions and other emissions to air

Hafslund Fjernvarme

Hafslund's greenhouse gas emissions stem mainly from the production of district heating in Oslo and at Gardermoen. Most of the base-load emissions derive from the incineration of residual waste and biomass (chippings), and the use of heat pumps, which produce extremely low levels of greenhouse gas emissions. Emissions derive largely from peak loads during cold weather (electricity, oil and gas). In 2010 significant portions of the peak load were covered by bio-oil for the first time.

Total emissions of greenhouse gases in 2010 amounted to around 200,000 tonnes of CO_2. Per kWh delivered to customers this equated to 127 grammes of CO_2. The corresponding prior-year figure was 98 grammes. The increase is primarily attributable to the fact that 2010 was an unusually cold year (number of degree days 18% above average), which meant that production of district heating rose by more than 400 GWh against budget. The increased demand was met using peak load boilers fuelled by fossil oil, natural gas and bio-oil.

By comparison, burning fuel oil alone causes emissions of approximately 294 grammes CO_2 per kWh, while the average for electricity generated in Europe is around 500 grammes per kWh. In very many cases district heating is replacing oil boilers, thereby realising significant climate benefits, despite the observed increase in emissions in 2010.

The company has unequivocally committed to achieving a significant reduction in greenhouse gas emissions in future years, by increasing the proportion of renewable energy sources used in heat production, including for peak loads during the coldest periods. Residual waste, pellets, wood chips, bio-oil and heat pumps are among the energy sources intended to displace gas and fuel oil. The system does not currently derive sufficient peak load from renewable energy sources, but this is expected to change in the next few years. Hafslund has also pledged to the City of Oslo to phase out all fossil oil and gas by the end of 2016.

Tetrafluoroethane (R134-a) is used as a refrigerant in heat pumps. The gas is not poisonous, but has a powerful greenhouse effect if it leaks out. Emissions in 2010 corresponded to around 2,000 tonnes of CO_2-equivalents.

Hafslund's incineration plants are also responsible for emissions to air of a more local and regional nature, such as dust/particles, NO_x and SO_2. Emissions from the waste incineration plant are treated in a modern treatment plant, which is subject to rigorous emission controls to which the Group endeavours to adhere at all times. Aggregate emissions of NO_x from boilers amounted to 250 tonnes. Without district heating the emissions from older oil boilers would have been significantly higher than current levels. See also key figures.

Hafslund Miljøenergi

The company's greenhouse gas emissions mainly stem from the company's use of support fuel in the waste incineration plants (oil and gas). Emissions of greenhouse gases totalled around 4,100 tonnes of CO_2in 2010. Per kWh delivered to customers this amounts to around 15 grammes of CO_2. The comparable figure for emissions in 2009 was 25 grammes per kWh. The decrease is attributable to higher energy sales.

Hafslund's incineration plants are also responsible for emissions of a more local and regional nature, such as dust/particles, NO_x and SO_2. The emissions are treated in a modern treatment plant, and the plants are subject to rigorous emission controls to which the Group endeavours to adhere at all times. Emissions of NO_x totalled 53 tonnes. See also key figures.

Hafslund Nett
Greenhouse gas emissions from Hafslund Nett's business are primarily non-planned emissions of sulphur hexafluoride (SF_6). The gas is used as an insulating and circuit-breaking medium in high-voltage facilities. Sulphur hexafluoride, which is regulated by the Kyoto Agreement, is an extremely powerful greenhouse gas, with 23,900 times more impact than carbon dioxide. The gas is used in high-voltage facilities because it allows the installations to be far more compact, something that is often essential in view of the space available. This is especially important because Hafslund Nett is currently increasing the voltage in the regional network in Oslo. Sulphur hexafluoride is not normally consumed in the facilities, but is encapsulated in order to maintain the installations' technical performance. In 2010 Hafslund's installations contained around 20,000 kg of sulphur hexafluoride. Emissions totalled around 49 kg, compared with 45 kg in 2008.

BioWood Norway
The plant was under construction and was only in pilot operation for brief periods during 2010. Minor amounts of biomass, electricity and propane were used.

Grid losses
The loss of electricity as it passes through the grid constitutes a social cost. This makes it important to ensure the efficient transfer and distribution of electricity, with the lowest possible transmission losses. In 2010 transmission losses in Hafslund Nett's power grids amounted to 1,228 GWh, compared with 1,141 GWh in 2009. This amounts to less than one percent of Norway's annual electricity output. Hafslund is one of the grid operators in Norway with the lowest transmission losses in percentage terms and fewest power outages. Nevertheless, the very size of the grid losses indicates the importance of keeping these at a minimum. The observed increase against 2009 is attributable, inter alia, to an increase in transmission volumes.

In order to reduce grid losses, it is important to keep both maintenance and investment at a level that is efficient in socio-economic terms. Hafslund works constantly to reduce grid losses and imposes stringent demands on suppliers of components and equipment in order to keep losses to a minimum. The increase in voltage to 132 kV currently taking place in the centre of Oslo will reduce annual grid losses by over 30 GWh.

Applying the same CO_2 factor to grid losses for our other electricity consumption, this equates to emissions of around 142,000 tonnes.

Waste
Most of the waste from Hafslund's core business activities consists of ash from its incineration plants. The disposal and use of this ash is strictly regulated. All ash that cannot be disposed of at regular waste facilities is sent to NOAH's facility for non-organic hazardous waste at Langøya near Holmestrand. The ash is used to neutralise other hazardous waste, such as acids, thus increasing processing efficiency at Langøya and reducing the use of other raw materials and processing techniques.

A total of 27,365 tonnes of bottom ash and 15,686 tonnes of fly ash were removed from the incineration facilities during 2010.

Undesirable environmental incidents
Undesirable environmental incidents can be defined as unplanned events that may

affect the environment. For Hafslund the most relevant types of incidents are:

- Air emissions from incineration plants exceeding permitted levels
- Discharges of oil from cables into the ground (leakages)
- Emissions of fuel oil to the ground or waste water
- Emissions of refrigerants from heat pumps (leakages)
- Discharges of hydraulic fluid from electricity production into the river system

Occasionally emission levels from the Group’s incineration plants may briefly exceed maximum permitted levels. These situations are dealt with immediately and the local authorities are informed as a matter of routine. In 2010 no excess emissions occurred that were regarded as having significant environmental consequences.

Hafslund Nett still has some high voltage cables that use oil as its insulating medium. If cables of this type are damaged, oil may leak into the ground. The oil used in the cables is not considered directly toxic. It decomposes chemically in the ground in the course of about 30 days, but may still harm the environment if large concentrations are discharged into vulnerable environments, e.g. sources of drinking water and popular fishing rivers.

The total of leaked cable oil in 2010 amounted to 6,902 litres, a reduction of 17 percent against 2009. Over a period of ten years oil-filled cables will be replaced by plastic-insulated cables that do not harm the environment if they are damaged.

Unplanned emissions of refrigerants from heat pumps totalled 1,630 kg.

In 2010 Hafslund Fjernvarme was responsible for some discharges of fuel oil to waste water. Contingency arrangements functioned as intended, and all incidents were quickly dealt with. The incidents did not result in any major environmental damage.

Environmental impact of the Group’s own activities

Property management

Hafslund owns and leases properties in Oslo, Akershus and Østfold. Some of these are sublet to third parties. During 2010 Hafslund occupied an area of around 31,000 m^2, with energy consumption totalling approximately 9.5 GWh, 1.4 GWh of which came from the Group’s own district heating output. Energy consumption increased in most buildings from 2009 to 2010, primarily due to the fact that the year was significantly colder than normal.

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

The head office at Drammensveien 144 was certified as an Eco-lighthouse in 2010.

Transport and communication

The Hafslund Group had a fleet of around 110 motor vehicles at its disposal in 2010, of which around 20 were electric cars. Many of the e-cars are included in a pool, and can be used by staff for travel to and from meetings. Total petrol consumption was 25,000 litres, while total diesel consumption was 70,000 litres.

Many employees also use their own vehicles for business travel. Consumption of fuel for this purpose is estimated at 85,000 litres.

The Group’s employees undertook around 800 flights during 2010 which were registered through the company’s travel agent. This gave rise to a total of 85 tonnes of greenhouse gas emissions. In addition there were a number of flights not registered by the travel agent. All carbon emissions relating to air travel are compensated through the purchase of UN-approved climate quotas.

The Group’s unequivocal goal is to further reduce its transport-related environmental impact. Employees are encouraged to use telephone and video conferences so far as such is practically possible, and for which the company can provide excellent facilities.

When new vehicles are purchased stringent environmental requirements are set in order to ensure that vehicles are no larger than they need to be. Employees with high business-mileage can also receive training on fuel-efficient driving. Not least we endeavour to encourage employees to cycle to work, and in this connection arranged a dedicated cycle maintenance day in 2010, where cycles could checked and repaired free of charge by professional technicians.

ICT

Hafslund continued to focus on “Green IT” in 2010. This essentially involves using as few servers as possible in the most efficient possible way, as this reduces the need for both electricity and cooling. Virtually all employees have a laptop, and standard printer formats are set to double-sided and black & white.

Purchased services

Hafslund is a major purchaser of various external transport, logistics and construction services. Such services, for example excavation and transport, have an impact on the environment, often for relatively brief periods. Hafslund endeavours to minimise the environmental impact of such work. In many cases these types of measures are required to reduce long-term environmental impacts, for example the laying of district heating pipes.

More than a power supplier

Hafslund wants its customers to be both satisfied and environmentally aware. Regardless of the type of energy we use, the kilowatt hour we do not use will always be the most environmentally friendly. We therefore wish to help our customers to use energy in the most efficient way possible, and in 2010 we implemented several activities with this in mind, including energy-saving campaigns in national media, and commercials. We also display a large amount of relevant information on our website.

The web-based energy-saving system Hafslund Online has been further enhanced and is being actively used by several major business customers as a tool to save energy.

Key figures environment

Energy consumption and emissions:

		Input factors	GWh added	Tonnes carbon equiv..	GWh heat produced
Core business areas	Heat production Hafslund District heating	Residual waste	595	0	
		Biomass, wood chips	60	780	
		Bio oil	193	2.509	
		Heat pumps	129	4.988	
		Electricity boiler	394	45 704	
		Olje	407	119 658	
		LNG	101	22 321	
		Electricity processing	25	2 854	
		Loss of R134a		2 119	
		Total	**1 879**	**200 933**	**1 779**
	Heat production and cogeneration Hafslund Miljøenergi	Olje	4	1 176	
		Propane	7	1 437	
		Waste	348	0	
		Electricity processing	13	1 485	
		Total	**372**	**4 097**	**316**
	Power distribution Hafslund Nett	Loss of SF_6		1 181	
Other operations	Real estate management	Electricity	8,1	936	
		District heating	1,4	0[1]	
		Total	**9,5**	**936**	

Transport	Petrol / diesel	1,8	550
	Airplane	0,7	160
	Total	**2,5**	**710**
Sum totalt		**2 263**	**206.676**

[1] Included in other emissions from district heating

In comparison with the 2009 annual report, the waste factor has been changed to harmonise with other incineration plants and to take into account the fact that CO_2 will be produced by waste in any case, through incineration or disposal in landfills, making it wrong to assign this emission to the stage in the process that recovers the energy of the waste.

Energy production:

		GWh
Hafslund Produksjon	Run-of-river power	3 052
Hafslund Miljøenergi	Residual waste	14

Other emissions from heat production plants

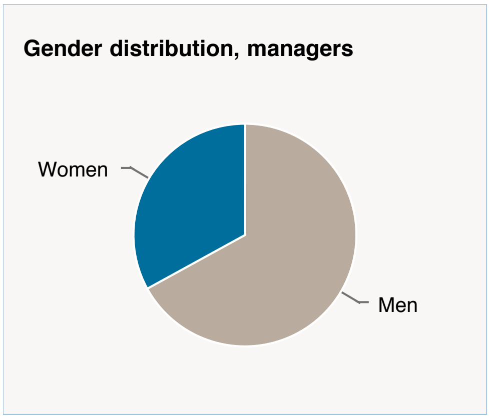
Hafslund District heating:

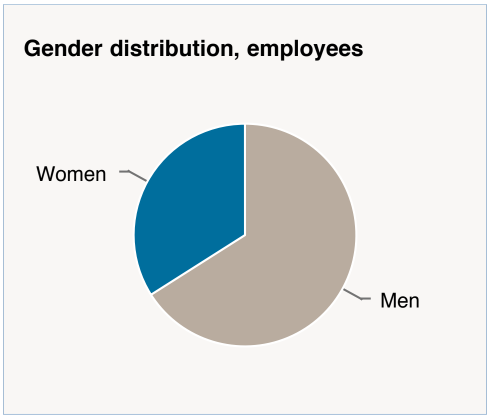
Parameter	**Quantity**	**Comment**
NO_x	250 tonnes	From boiler fuelled by residual waste, oil, gas and biomass
Dust	81 kg	From boiler fuelled by residual waste
SO_2	2,1 tonnes	
HCl	1,0 tonn	
HEavy metals	37,1 kg	
Hg	166 grams	
Cd + Tl	28,9 grams	
Dioxins + furans	40,1 mg	

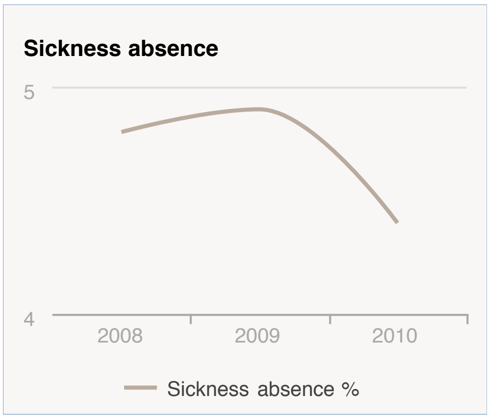
Hafslund Miljøenergi:

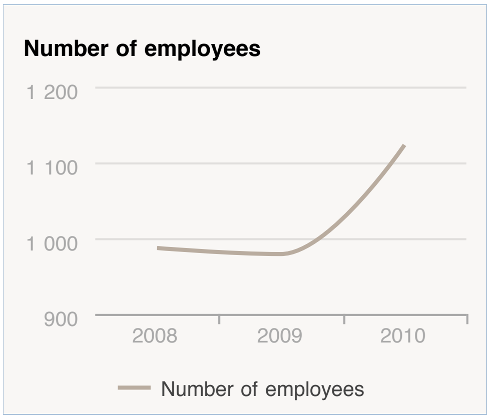
Parameter	**Quantity**	**Comment**

NO_x	53 tonn	From boiler fuelled by residual waste.
Støv	435 kg	
SO_2	12,8 tonnes	
HCl	1,6 tonnes	
Heavy metals	8,7 kg	
Hg	280 grams	
Cd + Tl	25,9 grams	
Dioxins + furans	3,8 mg	









Social responsibility

Hafslund's HR policy aims to ensure that the company attracts, recruits and retains employees who reflect the diversity of the environments in which the Group operates. By systematically promoting health, safety and environmental protection (HSE), we aim to provide all employees with a pleasant and safe working environment.

A human resources policy that recognises different phases in life

Our employees are the key to achieving our strategic and commercial objectives, and their expertise is an important factor in the Group's success. Hafslund seeks committed employees who take active responsibility for themselves, their colleagues and society at large. One of our goals is for all our employees to be happy and successful in their work and to develop both personally and professionally. All employees with the requisite ability and commitment are afforded the opportunity to pursue a lifelong career in the Group's various areas of operation. We have made it a priority to develop personalised strategies to suit employees in different phases of life. Examples include flexible working hours and home offices where appropriate, personal development plans and learning opportunities. We encourage and support employees who take part in cultural, humanitarian or sports-related activities. The Group also provides financial and other support to organisations involved in such activities. As an employer, Hafslund aims to be the first choice in the job market – for existing and potential employees alike.

HSE

The aim of Hafslund's HSE programme is to create a pleasant and safe working environment for our employees. Hafslund shall take care of the company's physical working environment, buildings and assets. HSE shall contribute to operational safety and profitability. Each company has its own HSE advisers, and there is a Group HSE coordinator to develop and manage Group-wide HSE policies, and follow up HSE work in the companies. HSE officers and advisers participate in a Group-wide HSE forum alongside representatives from the occupational health service and the Norwegian Labour and Welfare Administration (NAV). Hafslund has signed a corporate agreement with Hjelp24, an occupational health service provider, covering all business units and employees. We have also established a corporate policy with regard to alcohol and drug abuse.

Inclusive Workplace

The Group seeks to implement an HR policy that is inclusive, transparent and verifiable. Hafslund is part of the Inclusive Workplace (IA) programme and has drawn up a dedicated HR policy. One goal is to give all committed and able employees the opportunity for career progression throughout their working lives. Another goal is to maintain lifelong contact with all our former employees. A partnership established with our senior and pensioner associations helps us in these aims.

Ethics

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

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

Ethical trading

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

In association with Ethical Trading Initiative Norway, we have drawn up a code of conduct for our suppliers and internal procedures governing the companies' work on ethical trading. As part of this work key employees responsible for procurement and other relevant parties receive training on this topic. The Group constantly strives to follow up suppliers including through self-reporting, and where required by entering into dialogue on necessary changes at suppliers. In the fourth quarter of 2010 these procedures were submitted for revision, with the process due to be completed in the first quarter of 2011.

Our code of conduct for suppliers sets out the objectives of Hafslund's ethical trading programme and is based on ILO and UN conventions, addressing issues such as:

- Forced labour
- Freedom to unionise
- Child labour
- Discrimination
- Brutal treatment
- Health, safety and the environment
- Wages

- Working hours
- Proper terms of employment
- Marginalised population groups
- The environment
- Corruption and bribery

Along with ongoing work on self-certification in the supplier chain, an additional focus area in 2011 will be our responsibilities regarding the use of foreign labour.

Ethical investments
By investing in a socially responsible manner, Hafslund Venture will secure sound financial returns at the same time as considering the companies' ethical conduct. The investment strategy shall take into account human and employee rights, the environment and ethical business principles in line with Hafslund's adoption of the Initiative for Ethical Trading (IEH).

Hafslund Venture's ethical guidelines on investments are intended to both avoid investment in companies that trade unethically and to motivate companies to make constant improvements.

In order to achieve this, and to clarify our position with regard to our investment objects, partners, employees and other stakeholders, we have laid down Hafslund's ethical guidelines for investments:

1. Hafslund Venture shall practise active ownership through board representation, expertise transfer from the Hafslund Group, contribution to development and value creation within the company, as well by adopting a long-term investment operational horizon rather than embracing short-term speculation.
2. Hafslund Venture shall invest in business related to renewable energy, energy-reducing measures and emission reductions, and in business in connection with Hafslund's existing interests.
3. Hafslund Venture shall not invest in business that contravenes international standards, principally UN conventions on:

- Human rights
- Employee rights
- The environment
- Weapons
- Corruption
- Tobacco

or which in any other way breaches Hafslund's ethical guidelines for suppliers.

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

Detailed guidelines have been drawn up for all employees whose work involves contract negotiations, since this is potentially a particularly vulnerable area. The Group runs courses on ethics for employees involved in contractual negotiations. 40 people attended the course in 2010.

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

Society

Hafslund collaborates with a number of sporting, cultural, humanitarian and environmental organisations, as well as bodies involved in education and research.

The Group constantly works with various combinations of collaboration partners that reflect Hafslund’s values and diversity in society in general.

Sport
Vålerenga Football Club (VIF) has a long-established reputation as a very society-orientated club, illustrated for example in its focus on amateur football and initiatives such as Jobbsjansen, a training programme for young poeople between the ages of 17 - 23 from different ethnic backgrounds, and Vålerenga Against Racism. In 2010 Hafslund relinquished its status as VIF’s main official sponsor and became one of the club’s general sponsors. Consequently Hafslund now adopts a greater focus on the club’s amateur football project and a slightly reduced focus on elite football than in the past. The project involves developing participating local football clubs’ technical and administrative expertise. A total of 27 clubs in the greater Oslo area are involved.

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

Environment
In 2010 several measures were taken to further enhance Group stakeholders’ knowledge of Hafslund’s initiatives on the environment and renewable energy.

Hafslund's Children's Environmental Festival 2010

On Saturday 5 June 2010 Norway's largest children's environmental festival was held in Frogner Park. Well over 30,000 visitors participated in various activities for children regarding the environment and renewable energy and saw a number of artists perform. The idea behind arranging a free event on World Environment Day was to inspire and engage children and young people on the subjects of environment and renewable energy, and thus stimulate curiosity and learning. Children are our future and the people who will have to find answers to today's environmental challenges.

Bellona Environmental Foundation

Hafslund has developed a close collaboration with the environmental foundation Bellona, whom it uses as an advisor and sparring partner with regard to environmental questions. Hafslund selected Bellona as a partner because the foundation supports Hafslund's vision and is solution-oriented in its approach to the development of both renewable energy sources and energy efficiency initiatives.

The most environmentally friendly kWh is the one you don't use.

Renewable energy is a scarce resource to be cherished and wisely managed Consequently, Hafslund is committed to communicating energy efficiency measures to the Group's stakeholders through various channels. Both Hafslund.no and Hafslundnett.no provide information on optimal ways for consumers to cut electricity consumption in order to both save money and spare the environment. The Group has also communicated energy saving through films, advertising and information sent out with invoices.

Launch of Green Choice

During the Øya Festival in August Hafslund launched the Green Choice supply agreement. The agreement is based on certificates of origin which guarantee that the customer receives 100 percent renewable energy. The customer pays an annual fee of NOK 100, and in the first year Hafslund donates the same amount to an environmental initiative of the customer's choice. The two environmental causes between which customers can currently choose are tree-planting in Africa in collaboration with the Green Belt Movement and preservation of the rainforests in collaboration with the Rainforest Foundation. Apart from the NOK 100 donation, the agreement costs the same as Hafslund's spot agreement.

Humanitarian initiatives

Collaboration with Médecins sans Frontières

Hafslund is one of the few main sponsors of Médecins sans Frontières in Norway. Médecins sans Frontières assists people in need, victims of natural and humanitarian disasters and of armed conflict without discriminating on grounds of race, religion, philosophy or political allegiance. This coincides with both Hafslund's vision and its core value of courage. There is a reciprocal element to Hafslund's collaboration with Médecins sans Frontières, with representatives providing company employees with information on its activities in crisis-hit areas. Norwegian broadcaster TV2's Artist Gala in December 2010 raised funds for Médecins sans Frontières. Hafslund made its customer service centre available for the event and more than 100 of Hafslund's employees voluntarily gave up a Saturday evening to man the telephone lines. The Group also encouraged customers and other stakeholders to become field partners through various communication channels. In total Médecins sans Frontières gained more than 4,000 new field partners that evening.

Culture

Pure festival energy in collaboration with the Øya Festival

In 2010 Hafslund established a green collaboration with the Øya Festival which enabled the festival to run exclusively on renewable energy for the first time. Polluting diesel generators, which tend to be used by the vast majority of festivals, were finally

consigned to history. In collaboration with the Øya Festival and the City of Oslo, Hafslund laid cables in the Medieval Park where the festival was held thereby ensuring that the festival was fuelled by pure festival energy. The joint initiative with Hafslund enabled the festival to reduce its energy consumption by 80 percent. The collaboration also gained international attention and inspired other festivals to embrace alternative energy solutions. As collaboration partner in 2011 Hafslund will continue to play an active role in making the popular festival even more environmentally friendly, including by continuing to focus on energy efficiency at the festival.

Hafslund Manor

The Group attaches great importance to preserving Hafslund Manor both as a national heritage site and as a meeting place for Hafslund's employees. Throughout its history the manor has been a centre for artistic, cultural and technical achievement. This diversity can be viewed through guided tours in the summer months or by attending a variety of cultural events held at the manor.

Romeriksfondet (The Romerike Fund)

The fund was established by Hafslund in collaboration with the local newspaper Romerikes Blad. Funds are distributed ten times a year to support measures benefiting children and young people in Romerike.

Research and development

The Norwegian University for Life Sciences and CenBio

Hafslund contributes to the funding of four professor 2 positions at the Norwegian University for Life Sciences (UMB), in order to boost research, education and the development of expertise in the field of bioenergy in Norway.

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

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

The Norwegian University of Science and Technology

In 2010 Hafslund entered into a five-year agreement to finance Norway's first professorship in the electricity grid of tomorrow, Smart Grid at the Norwegian University of Science and Technology (NTNU). The collaboration provides Hafslund with access to new expertise in this area. The Group is also represented on the board of the new National Centre for Smartgrid at the NTNU.

Other

Hafslund also supports Junior Achievement Norway, Newton Realfagsenter Nannestad and INSPIRIA (previously Østfold Science Center) in order to inspire, commit and boost knowledge of young people within science, renewable energy and the environment.

Board of Directors' Report

The past year will be remembered as a year of major investments and projects for Hafslund. 2010 saw the construction of both a waste-to-energy plant and Europe's largest pellets factory, and the near-completion of a new power station at Kykkelsrud. Upgrading of the Oslo and Akershus distribution grid and growth in district heating supplies in the Norwegian capital also continued.

The Group has recently adopted a clearer focus on renewable energy generation and further infrastructure development, while power sales have grown steadily. We will continue to further refine this strategy in future in order to help reinforce Hafslund's position as a supplier of renewable energy.

In 2010 the Power Sales business expanded into Sweden through agreements to purchase 49 percent of the shares in the power sales company Energibolaget i Sverige Holding AB (EBS), and a 100 percent stake in Göta Energi AB. The two acquisitions will give the Group the opportunity to position itself for a joint Nordic end-user market.

Excluding the fall in the value of the investment in Renewable Energy Corporation (REC), Hafslund posted a post-tax profit of NOK 1,583 million in 2010. This result was up NOK 1,249 million on 2009 and reflects improved underlying operations from all operating units, in part due to higher power prices and energy production than in 2009. The result was also significantly impacted by a profit of NOK 875 million on the sale of Hafslund Fibernett AS and an impairment of NOK 300 million on the pellets plant at Averøya.

At the end of 2010 total assets amounted to NOK 29.6 billion, while net interest-bearing liabilities totalled NOK 13.1 billion. The Group has a strong balance sheet and an equity ratio of 35 percent. Hafslund has a robust financing structure with long-term committed drawdown facilities.

In recent years the Group has consciously focused on reinforcing the company's reputation, and surveys show that this work is now paying dividends. The interface with customers is an important factor in these initiatives, and the various companies in the Hafslund Group implemented several measures in 2010 to further boost their performance in this area. An important objective of Hafslund's reputation work has also been to highlight the positive contributions the Group makes to society, and during the year several different campaigns and events were arranged, which were well received by the general public.

Over the past year Hafslund has ramped up its focus on the Group's corporate social responsibility, and in particular on the external environment and follow-up of the Group's suppliers.

Finance
Result for the year

The Hafslund Group posted sales revenues of NOK 15.8 billion (NOK 10.7 billion) and an operating profit of NOK 652 million (NOK 1,194 million) in 2010. All operating units enjoyed stable operations and returned improved year-on-year results, with the exception of Heat and Bioenergy, which is still in a start-up phase. The result was also significantly impacted by the following three items:

1. The disposal of Hafslund Fibernett AS for NOK 1,477 million, and a resulting profit of NOK 875 million.
2. A reduction in the value of the investment in REC, which negatively impacted the result by NOK 1,991 million (NOK 137 million).
3. Weak European market conditions for pellets for heat and power generators, which resulted in the recognition of an impairment of NOK 300 million for the pellets plant at Averøya.

The comments below refer to the Group's results, excluding the effect on results of the investment in REC.

At NOK 2,644 million, the operating profit was up on the prior-year figure by NOK 1,313 million and represented a return on capital employed of 11.5 percent (6.0 percent). The strong result was significantly influenced by the profit on the sale of the fibre optics business and was achieved despite the impairment of the pellets plant. Higher power prices and increased demand for district heating helped the power generation and district heating businesses to post a combined profit of NOK 1,094 million, up NOK 385 million on 2009. Networks' operating profit came in at NOK 532 million, an improvement of 8 percent against the prior year. The growth within Power sales is continuing, both through organic growth and acquisitions. Power sales posted an operating profit of NOK 348 million, a year-on-year increase of NOK 108 million.

Finance costs of NOK 471 million (NOK 661 million) reflect an average coupon rate of 4.2 percent and average interest-bearing liabilities of NOK 11.6 billion during 2010. The tax expense of NOK 573 million equates to an effective tax rate of 26 percent, based on a pre-tax profit of NOK 2,173 million. The tax expense includes basic interest tax of NOK 257 million for the power generation business. The profit of NOK 875 million on the sale of shares in Hafslund Fibernett AS is within the exemption model and resulted in a tax charge of NOK 8 million.

Hafslund recorded a post-tax profit of NOK 1,583 million (NOK 335 million), excluding REC. Both the undiluted and diluted earnings per share figures were NOK 8.1 (NOK 1.7). The annual financial statements have been prepared on the going concern assumption.

Cash flow
The Group's cash generated from operations before changes in working capital was NOK 2,219 million, a rise of NOK 1,044 million against 2009. Higher power prices and high power consumption increased the working capital by NOK 1,654 million during 2010, resulting in a cash flow from operations of NOK 565 million (NOK 1,879 million). The operating profit before depreciation and amortisation of NOK 3,913 million, excluding result effects from REC, was NOK 1,700 million higher than the related cash flow from operations before changes in working capital. The difference is primarily attributable to the profit of NOK 875 million on the sale of Hafslund Fibernett, where settlement was received on 20 January 2011, payment of interest and tax of NOK 685 million, and result effects of non-cash items in the amount of NOK 140 million relating to items including market value changes of shares and derivatives.

Net investments in 2010 totalled NOK 1,531 million (NOK 1,636 million). Recent years' expansion projects within Power Generation and Heat and Bioenergy are now close to completion. The level of investment in 2010 should be viewed in the context of these projects, alongside continuing organic growth within district heating in Oslo, ongoing reinvestments in the distribution grid business and expansion through the acquisition of power sales businesses.

In 2010 a dividend of NOK 2.25 (NOK 2.25) per share was paid, corresponding to NOK 439 million. The Group's total cash flow from investing activities and dividends of NOK 1,970 million was financed through cash flow from operations of NOK 565 million and increased net interest-bearing liabilities of NOK 1,405 million.

Capital
At the end of the year net interest-bearing liabilities amounted to NOK 13.1 billion (NOK 11.6 billion). The increase in this item is in part attributable to the receipt of settlement on the sale of Hafslund Fibernett of NOK 1,477 million in January 2011 and a NOK 1,654 million rise in working capital in 2010. The Group has a solid balance sheet and an equity ratio of 35 percent, along with a robust financing structure with long-term committed drawdown facilities. As a result of this, and a strong and stable underlying cash flow from operations, the Group is deemed to be financially robust with regard to ongoing refinancing and further future growth. None of Hafslund's loan agreements impose any covenants.

The business units
Hafslund ASA is a leading electricity generator and one of the few electricity generators in the Nordic region to be publicly listed.

The company has produced clean hydropower since 1898, and is heavily engaged in the production of district heating and bioenergy to meet tomorrow's energy requirements. Hafslund is Norway's largest power grid owner and largest power sales company and supplies around 33 percent of all district heating in Norway. At the end of 2010 the Group's business units comprised Heat and Power, District Heating, Networks, Markets and Venture. The Group also has central administrative functions organised in the areas: Finance, Shared Services, and Communications and Corporate Responsibility. Operations mainly take place in Norway and Sweden, and the Group is headquartered in Oslo.

Heat and Power

The Heat and Power business unit comprises the results units Power Generation, Environmental Energy and BioWood. In 2010 the power generation business posted sales revenues of NOK 1,196 million, up 40 percent on 2009. The rise in sales is partly attributable to higher power prices. The power generation business returned an operating profit of NOK 929 million, up NOK 311 million on the previous year. The achieved sales price of 391 NOK/MWh was 116 NOK/MWh higher than the year before. Due to a spot-based pricing strategy, Power Generation's financial performance will to a large extent be driven by day-to-day fluctuations in the price of electricity. Power production of 3,041 GWh was around one percent higher than both normal production and the previous year.

The recent extensive expansion and upgrading project is now in its final phase. This includes a 40 MW power plant at Kykkelsrud. The plant will provide around 100 GWh extra production capacity and is due to be commissioned in the second quarter of 2011. The overall project will also help extend the lifespan of the existing plants. The oldest generators at Vamma Power Station have also been upgraded, with work scheduled for completion in spring 2011. The projects have an overall investment budget of around NOK 500 million, NOK 250 million of which has been earmarked to increase production capacity.

BioWood Norway AS, Hafslund's investment in wood pellets production at Averøya near Kristiansund, was officially opened in June 2010. The plant will have an annual production capacity of 450,000 tonnes, corresponding to around 2 TWh of energy. The start-up of BioWood Norway has proved more challenging than expected and has resulted in a temporary stoppage in pilot production. Pilot production is now expected to take place in the first half of 2011, with a gradual scale-up to full production during 2011.

Due to the strained market situation incorporating weak margins, and with market overcapacity expected to prevail for some time to come, an impairment of NOK 300 million was recognised for the pellets factory in 2010.

In 2010 Hafslund Miljøenergi opened a new waste-to-energy plant at Borregaard industrial site in Sarpsborg. The company is in a growth phase and is evaluating several renewable energy development projects. Hafslund Miljøenergi's sales revenues of NOK 115 million (NOK 49 million) in 2010 reflect the start-up of the new plant. The company made an operating loss for the year of NOK 2 million (loss of NOK 19 million), which should be viewed in the context of the fact that the company is in a start-up phase and the currently challenging waste market.

District Heating

The District Heating business segment comprises the district heating business in Oslo and Akershus. Sales revenues for the district heating business totalled NOK 1,144 million (NOK 747 million). Operating profit before depreciation amounted to NOK 283 million (NOK 213 million) while the operating profit was NOK 165 million (NOK 91 million). The achieved district heating price was 722 NOK/MWh (608 NOK/MWh), and aggregate output of 1,782 GWh (1,382 GWh). The volume increase was partly driven both by customer growth and high consumption caused by the cold weather that book-ended the year. While higher volumes and high district heating prices boosted total sales revenues, the contribution margin was pushed down, primarily on the back of high production costs.

In 2010 District Heating made total investments of NOK 432 million (NOK 397 million). The company's annual reinvestment requirements are in the region of NOK 50 million, with any investments over this level increasing capacity.

2010 was characterised by historically cold temperatures during the winter months. This, in addition to a high number of new customer connections, enabled Hafslund Fjernvarme to achieve record-high output of 1,782 GWh in 2010. The company connected 161 new customers, with an aggregate energy requirement of 128 GWh. Hafslund Fjernvarme primarily uses waste heat, heat pumps, bioenergy and electricity in district heating production. In the last quarter the company started to utilise large amounts of bio-oil in production.

Networks

The Networks business unit comprises the grid owner and operator Hafslund Nett AS and the systems control centre Hafslund Driftssentral AS. Sales revenues for the Networks business totalled NOK 4,804 million (NOK 3,385 million). This forms the basis for a revenue ceiling established by the Norwegian Water Resources and Energy Directorate (NVE) of NOK 2,287 million, excluding transfer costs and grid loss costs, which represents an increase of NOK 181 million on 2009. At NOK 532 million, the operating profit in 2010 was up 8 percent on 2009.

Hafslund Nett will continue to work systematically to ensure its power transmission grids offer a stable, robust and safe service, with a high security of supply throughout its area of coverage. In recent years investments in the regional distribution grid, in particular in Oslo's central areas have been prioritised. These initiatives have led to a steady reduction in the number of grid outages and to the company being among Norway's most reliable suppliers. In 2010 the average customer at Hafslund experienced an outage of around 40 minutes.

Overall, Networks plans to spend around NOK 3.0 billion on maintenance and grid investments in the period 2011-2013. Investments and maintenance are included in the annual revenue ceiling which the NVE sets for the business. Hafslund Nett's grid rental prices are among the most reasonable in Norway. At the end of the year the company had a total of 545,000 grid customers (541,000).

In December 2010 Hafslund Nett entered into an agreement to sell central distribution grid facilities and associated properties in Oslo to Statnett SF. The agreement has a framework of NOK 331 million and is likely to enter into force during the second quarter of 2011. The sale will generate a profit in the region of NOK 20 million for Hafslund. The agreement includes the sale of the central distribution grid in the Smestad, Sogn, Ulven and Furuset substations, along with associated properties. These substations are junctions for electricity supply to Oslo.

Markets

The Markets business area comprises the results units Power Sales, Invoicing Services and the customer service centre. The Nordic market is generally migrating towards a joint Nordic end-user market for electricity. To position itself for this, and as part of the Group's expressed growth ambitions, in May and June 2010 Hafslund acquired respectively 100 percent and 49 percent of the shares in the Swedish power sales companies Göta Energi AB and Energibolaget i Sverige Holding AB (EBS). Together the companies have around 260,000 customers, and the combined price of the shares was NOK 210 million. In January 2010 NorgesEnergi purchased all the shares in Total Energi ASA. Total Energi has around 15,000 customers and is located in Florø.

Power Sales posted an operating profit of NOK 348 million (NOK 240 million) in the year under review. In 2010 the market proved challenging for electricity sales companies. Lengthy periods of high prices, major variations in the area prices and the establishment of new price areas in Norway presented new market challenges and resulted in greater complexity and heightened requirements for control and risk management. Despite this, the power sales business turned in another set of strong results in 2010. During the year the electricity companies launched several new electricity agreements and additional services for the private market. Several of the companies offer agreements with various pricing measures and maximum price guarantees. These guarantee that the customer, regardless of the price of electricity, will never pay more than an agreed maximum price. These agreements were well received by customers, and at times during 2010 proved extremely beneficial for consumers who had taken up such options.

At the end of 2010 Hafslund had a total of 694,000 electricity customers (655,000). This includes the customer portfolios belonging to Hafslund Strøm, NorgesEnergi, Fredrikstad EnergiSalg, Hallingkraft, Total Energi and Røyken Kraft (Hafslund owns a 51 percent stake). The Group has a further around 257,000 customers in Sweden and Finland as a result of the acquisitions of Göta Energi and EBS (in which Hafslund owns a 49 percent stake).

In 2010 Hafslund's power companies sold 14,984 GWh (13,208 GWh) of electricity in Norway, of which 10,476 GWh (8,880 GWh) was sold to the private market and 4,520 GWh (4,328 GWh) to the business market. This makes Hafslund Norway's largest private market electricity supplier. Hafslund also wishes to reinforce its position in the business market, and, in addition to the focus on business customers at Hafslund Strøm, NorgesEnergi also started to sell electricity to small and medium-sized companies in 2010.

Hafslund's customer service centre, Hafslund Kundesenter, has been systematically working for several years to provide customers with an improved customer experience and to better equip the company to manage an increasing volume of enquiries. At times in 2010 the electricity market was extremely challenging. This resulted in a marked increase in the number of enquiries to the customer centre, which at times proved difficult to manage. Despite major traffic and a high number of enquiries the company's ongoing customer surveys in 2010 revealed both a steady and increasing improvement in customers' opinions of the customer service centre and Hafslund as a supplier. The improvement work based on Lean methodology will continue into 2011.

Hafslund Fakturaservice supplies metering, invoicing and collection services to the Group's companies. This includes ongoing invoicing of more than one million end-customers. In order to meet the challenges that will arise in connection with the requirement for all electricity meters to be read electronically in future, and to expand and reinforce the company's service offering, a major system and organisation development project was initiated in 2010. This was designed to adapt the company's core systems for invoicing of customers and for automatic meter management. The phasing-in of the new systems will be ongoing throughout 2011 and 2012, and the project is expected to be fully completed in the second quarter of 2012.

Venture

The Hafslund Venture's business area's investments comprise 11 companies of various sizes. In addition to the investment in Renewable Energy Corporation (REC), the most important are investments in Network Norway AS, Fesil AS, Cogen AS, and in the wholly owned companies Embriq AS and Hafslund Telekom Nettjenester AS.

Excluding results effects from the investment in REC, in 2010 Venture posted an operating profit of NOK 887 million (loss of NOK 162 million). At the end of the year the wholly owned company Hafslund Fibernett AS was sold to the private equity fund EQT for NOK 1,477 million, resulting in a profit of NOK 875 million. Settlement for the sale was received in January 2011. The operating profit was negatively impacted in the amount of NOK 1,991 million (NOK -137 million) due to the impairment on the investment in REC.

The investment in REC was part of Venture's focus on renewable energy sources. Hafslund's shareholding at the end of year was 8.93 percent. Based on a listed price of NOK 17.79 per share, this equated to a market capitalisation of NOK 1,583 million.

The Norwegian mobile telephony market is in a state of flux. Hafslund Venture has been leveraging its shareholding in Network Norway to actively investigate the opportunities resulting from this situation. The construction of Network Norway's own mobile phone grid is proceeding according to plan, and the company is generally performing positively.

The restructuring of Embriq AS continued in 2010, including through the sale of the software company Elis AS and the acquisition of the consultancy company Integrate AS. Embriq supplies products, software and services along the entire value chain for automatic meter reading, including settlement, invoicing and customer information systems.

As the largest shareholder in Fesil (49.9 percent) Hafslund Venture was actively involved in the sale process for Fesil's silicon plant at Holla to the German company Wacker. This helped release equity of NOK 533 million for Fesil, of which NOK 121 million was paid as a dividend to shareholders. In February 2011 Hafslund sold its shareholding in Fesil for NOK 375 million.

In 2009 Venture invested in GLO AB, which is a company that develops new, cutting-edge technology within LED-based lighting. During 2010 GLO made significant technological advances, and the company is well on the way to commercialising this technology.

In 2011 Hafslund Venture will continue to focus on further developing the companies in the existing portfolio.

Government relations and business policy

The regulatory framework drawn up by the authorities has a major impact on the Group. In 2010 Hafslund performed further work on government relations and business policy issues, in particular within distribution grid regulation and the waste area. Hafslund Fjernvarme and Hafslund Miljøenergi have, in conjunction with Waste Management Norway, the Norwegian District Heating Association, KS Bedrift (the Norwegian association of local authority-owned enterprises) and Energy Norway (the Norwegian electricity industry association), been actively engaged in efforts to secure fair and equal framework conditions, including with regard to export restrictions and waste prices.

The Group has been represented on the project that Energy Norway has implemented with the Norwegian District Energy Association (Defo) and KS Bedrift, with the objective of helping change regulation of the networks business.

The notified Staffing Regulation for the Norwegian Energy Act could adversely impact grid operators that have outsourced parts of their operations to third parties. Hafslund believes the regulation to be unnecessary. The company has positive experiences of using external contractors and has spun off its electrical contracting business to a separate listed group (Infratek). This model has shown itself to function well.

Corporate social responsibility (CSR)

Hafslund is responsible for any social consequences caused by the Group's operations with regard to impact on the external environment, human rights, working conditions and other social issues. This responsibility permeates Hafslund's entire value chain and business, and also includes Hafslund's procurements and investments.

Hafslund adopts the Norwegian government's definition of corporate social responsibility ("Corporate Social Responsibility in a Global Economy"). Throughout 2010 the Group has focused on reinforcing CSR in the Group's companies, primarily targeting environmental management and ethical trading. This work is ongoing and will continue into 2011.

Environmental performance

Effective environmental management is a natural part of Hafslund's corporate social responsibility. In 2010 most of the Group units were actively involved in this area. The two companies responsible for the majority of energy consumption and emissions, Hafslund Fjernvarme and Hafslund Miljøenergi, are both certified to ISO 14001. The head office at Drammensveien 144 was also certified as an Environmental Beacon (Miljøfyrtårn) during the year.

The bulk of Hafslund's energy consumption and emissions are associated with the production of heat. The high proportion of renewable energy used as input factors means greenhouse gas emissions are low in relation to the volume of energy produced. This remained the case in 2010, even though the year saw an increase in emissions due to the cold weather and resulting high demand, which meant that fossil energy carriers were used more than budgeted. Incineration plants also produce emissions of a more local and regional nature, such as particle emissions, NO_x and SO_x. Emission levels are generally much lower than the maximum limits set by the authorities. Any emissions exceeding maximum limits have been quickly dealt with. Hafslund has specific plans to increase the proportion of renewable energy used as input factors for the production of heat. Oslo has set a target of running all its district heating on non-fossil energy sources by 2016.

It is in society's best interests that the water resources of the Glomma river system be exploited in the most efficient way possible. In 2010 production uptime at Hafslund's electricity generating facilities stood at 99.41 per cent. It is also important for Hafslund to make sure that the energy produced actually arrives at its business and private customers' locations without significant interruptions or energy losses, and at the lowest possible cost to society. The ongoing conversion of the main distribution grid in Oslo will further reduce grid losses.

Hafslund Nett has facilities which use sulphur hexafluoride (SF_6), which is a potent greenhouse gas. The company does its utmost to keep emissions to a minimum. Detailed accounts are kept of such emissions, which in 2010 amounted to 49.4 kg.

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

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

Hafslund is well positioned to support the political targets within the climate policy, both nationally and internationally, in line with the EU's 20-20-20 climate package. Initiatives to increase our focus on renewable energy, as well as reduce our environmental impact, will continue in 2011.

Social responsibility

Employees, equality and anti-discrimination measures

At the end of the year Hafslund employed 1,123 staff (996).

The Group carries out annual manager and employee reviews and manager, key employee development programmes, and stages a variety of training and development schemes for all employees. A new standard for annual reviews for all employees has been implemented.

At the end of the year 33.5 percent of the Group's workforce were women. The areas of training and study from which Hafslund largely recruits have traditionally had a low take-up among women. At the end of the year three of the eight members of Group management were women. Five of the board's ten members were women, four of whom were elected by the shareholders, while one was elected by the employees.

The Group is working systematically, through management development programmes and other measures, to recruit more women to supervisory positions within the organisation and to those parts of the business where the percentage of women employees has traditionally been low. Where there are salary differences between women and men Hafslund aims to reduce and eliminate these by means of gradual salary harmonisation. Hafslund is keen to reflect the diversity in the societies in which the company operates. The workforce therefore comprises employees of different experience, age, gender, ethnic background and interests. Hafslund's customer service centre has entered into a collaboration agreement with NAV (the Norwegian Labour and Welfare Administration), where one of the main goals is to recruit employees from differing ethnic backgrounds.

Health, safety and the environment

The Group entered into the government's inclusive working life (IA) scheme in March 2005, and continuously strives to offer training and to raise the awareness of managers with respect to HSE, and to develop the Group's health and safety organisation. The focus on HSE was further prioritised and followed up in all parts of the Group in 2010. It is a general requirement that all managers at Hafslund integrate HSE work and thinking into their daily work to a level beyond their statutory obligations, and that HSE be a prioritised area on all managers' agendas.

Common HSE targets and an HSE action plan have been drawn up for the entire Group. Hafslund has entered into a Group-wide agreement with the company health service provider Hjelp24. An HSE audit was implemented by the central Group function in two of the companies, as part of the audit plan for all companies in the Group. Eight such audits are planned for 2011.

The positive downward trend in overall sickness absence continued in 2010. The sickness absence rate in 2010 was 4.4 percent, which was down 12 percent on 2009, and a larger fall than recorded by comparable companies. Total sickness absence amounted to 19,010 days. The sickness absence rate in the individual businesses varied from 1 percent to 10.5 percent.

The various companies work closely with NAV and Hjelp24 to identify and implement measures to reduce sickness absence. During 2010 there were no accidents or personal injuries that were deemed to be serious. A total of seven injuries were reported, one of which involved two days' absence. The annual work satisfaction surveys show the Group's working environment to be sound.

Ethics and corruption

Hafslund is committed to maintaining high ethical standards in all its commercial operations. The Group has, as the first and to date only company in the power industry, been a member of the Initiative for Ethical Trading (IEH) since 2008. In 2010 Hafslund leveraged its membership to continue to place clear ethical demands on its suppliers in order to ensure that these exercise their business operations in line with internationally recognised principles and guidelines on human and employee rights, the environment and corruption. To prevent the possibility of corruption, bribery or conflicts of interest, Hafslund has drawn up a code of conduct for its employees, which has been approved by Hafslund's Board of Directors. Hafslund Venture has further laid down ethical guidelines for investments, where the intention is to avoid investing in companies that trade unethically, and to encourage companies to make continuing improvements.

Risk

Hafslund's business operations are exposed to regulatory, legal, financial, political and market risks, in addition to operational risks. Risk assessment is an integral part of all business activities, and the Group's overall risk is assessed by the board itself. Hafslund has established guidelines and frameworks for active risk management in a number of areas.

The Group has several long-term committed drawdown facilities in order to secure availability of liquidity even in periods when it may be difficult to obtain financing in the markets.

The market price of electricity is one of several important factors affecting the Group's financial performance. This is in particular true of the power generation business. The power sales business seeks to reduce the uncertainty associated with electricity price fluctuations through hedging. Counterparty risk in the power market is minimised through the use of standardised contracts which are settled via Nasdaq OMX Commodities. Hafslund's increasing focus on renewable energy means the Group will be increasingly exposed to risks relating to input factors other than electricity. This is in particular true with respect to district heating, waste incineration and wood pellets production, and encompasses input factors such as waste and woodchips. The Group has a dedicated risk assessment team that evaluates and draws up strategies with which to manage this kind of risk within the risk profile determined by the board.

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

Several of the Group's energy supply businesses are subject to public licences and a large degree of public regulation. This applies in particular to the power generation, district heating and power grid businesses. The power grid business is a natural monopoly with publicly regulated earnings. The power grid business' current regulatory regime is somewhat unpredictable with regard to the level of future revenue ceilings and future returns on grid investments. The key risk element for the power sales business relates to its customer base. At any given time the business has a substantial volume of accounts receivable due from customers. However, the bulk of these are relatively small receivables from private customers, and losses have traditionally been marginal.

Ownership structure and shareholders

Hafslund ASA has two classes of shares, with A-shares granting voting rights at general meetings of the Group's shareholders. The reason for this is historical and deviates from the Norwegian Code of Practice for Corporate Governance. At the end of 2010 the Group's share capital totalled NOK 195,186,264, divided between 115,427,759 A-shares and 79,758,505 B-shares. As of 31 December 2010 the price of an A-share was NOK 70.00, while the price of a B-share was NOK 69.25. At the end of the year Hafslund's market capitalisation totalled NOK 13.6 billion. The return (change in value + dividend) in 2010 totalled 3.8 percent. By comparison, the Oslo Stock Exchange's main index OSEBX (OSEBX is adjusted for dividends) rose by 16.5 percent.

As of 31 December 2010 the City of Oslo was Hafslund ASA's largest shareholder, with 53.7 per cent of share capital, comprising 58.5 percent of A-shares and 46.8 percent of B-shares. Fortum Forvaltning AS was the second-largest shareholder. Fortum Forvaltning AS held 34.1 percent of the share capital, comprising 32.8 percent of A-shares and 36.0 percent of B-shares. At the close of the year Hafslund held 451,161 treasury B-shares.

The work of the Board of Directors

Hafslund's Board of Directors has complied with the previously adopted board mandate and guidelines for the board's activities. New principles for corporate governance were adopted in 2010, and are amended on an ongoing basis in line with the Norwegian Code of Practice for Corporate Governance. A description of principles for corporate governance, and non-compliances with the above Code are discussed in the annual report. The board's work is based on good corporate governance.
Hafslund meets the statutory requirements relating to gender balance on boards of ASA companies. The board carries out an annual appraisal of its working practices, competence and working relationship with Group management. The board's Compensation Committee advises the board on a number of matters including on the remuneration paid by the company to its President and CEO.

In 2010 the board established an Audit Committee. The Audit Committee's remit is to assist the board in performing its duties regarding preparation of the financial statements and evaluation of the company's internal controls.

The Annual General Meeting held on 6 May 2010 voted to expand the board from five to seven members. The following board members were elected with a term of office until the 2012 Annual General Meeting: Birger Magnus, Maria Moræus Hanssen, Kristin Bjella and Susanne Jonsson. Hans Kristian Rød was elected as board member with a term of office until 2011. There is agreement within Hafslund not to establish a Corporate Assembly. Consequently the board reports directly to the general meeting and the shareholders.

Dividend and allocation of profit

At the Annual General Meeting to be held on 4 May 2011 the board will propose that a dividend of NOK 2.50 per share be paid for the 2010 financial year. As a result of the capital released on implemented sales (in 2010 and to date in 2011), the board will propose an additional dividend of NOK 5,00 per share, resulting in an aggregate dividend of NOK 7.5 per share, a total of NOK 1,463 million. The board proposes the following allocation of Hafslund ASA's net loss of NOK 36 million:

Transferred from other equity:	NOK -1,499 million
Proposed divided:	NOK 1,463 million
Total allocated:	NOK -36 million

Less these allocations the company's distributable reserves stood at NOK 4,683 million as of 31 December 2010.

Outlook

Hafslund's overarching objective is to consolidate its position as Norway's leading integrated energy company on the back of profitable growth. The board believes the company and its management have the necessary experience and expertise to develop the company accordingly.

Hafslund is affected by steps taken by governments in Norway and Europe to curb global warming. This will have an impact both on electricity prices and which renewable energy projects it will be economically viable to invest in the future. The EU's 20-20-20 climate package provides a good example of political decisions which are crucial to Hafslund's future investments and growth. Hafslund is well positioned to support the political climate targets being set and to participate in the business opportunities the climate policies afford.

Hafslund's financial performance is directly affected by fluctuations in the price of electricity. This applies in particular to power generation and district heating, while revenues from power grid operations are largely affected by changes in the regulatory framework.

The board considers Hafslund to be well equipped to meet the challenges the Group will face in the time ahead. The focus on renewable energy, its grid operations and its position in the electricity market make Hafslund well placed to develop its role as Norway's leading integrated power company. The board believes that Hafslund has established a sound commercial and financial platform for satisfactory development.

The Group has recently adopted a clearer focus on renewable energy generation and further infrastructure development, while power sales have grown steadily. A further concentration on this strategy is expected in the foreseeable future.

The Board of Directors of Hafslund ASA
Oslo, 22 March 2011

Birger Magnus
Chairman of the Board

Hanne Harlem   Ole Ertvaag   Hans Kristian Rød
Deputy Chairman

Kristin Bjella   Maria Moræus Hanssen   Susanne Jonsson

Per Orfjell   Per Luneborg   Tyra Marie Hetland

Christian Berg
President and CEO

Board members

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Birger Magnus (b. 1955)

Chairman

Birger Magnus (b. 1955) was previously CEO of the media company Schibsted and has been Chairman of Aftenposten and VG. Magnus was a partner in the consultancy company McKinsey from 1985 until 1996. He has also been Chairman of Storebrand ASA, Statoil Fuel & Retail ASA, bMenu A/S and Magnus & Co A/S, and served on the boards of Aschehoug, Kristian Gerhard Jebsens Skibsrederi and the Kristian Gerhard Jebsen Foundation. He qualified as a civil engineer at the Norwegian Institute of Technology and has an MBA from the French business school INSEAD. Neither Magnus nor his related parties own any shares in Hafslund.

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Hanne Harlem (b. 1964)

Vice Chair

Ms Harlem chairs the board of the South-Eastern Norway Regional Health Authority (Helse Sør-Øst) and is also a director of Aker ASA and Faroe Petroleum plc. She is a former Minister of Justice, Commissioner of the City of Oslo, and senior executive at Norsk Hydro. Until May 2007 she was Chief Executive of the University of Oslo. Ms Harlem has previously served on the board of Oslo Energi AS and other companies. She has also chaired the board of Oslo Energi Produksjon AS. Ms Harlem has a degree in law. She was first elected to Hafslund’s Board of Directors on 3 May 2007, and her current term runs until the 2011 Annual General Meeting. Neither Ms Harlem nor her related parties own any shares in Hafslund.

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Ole Ertvaag (b. 1963)

Board member

Mr Ertvaag is Founding Partner and CEO of HitecVision AS. He has 20 years’ experience from the Norwegian and international oil industry and the finance sector. Since 2000 he has managed HitecVision, one of Norway’s largest private equity funds with funds under management of approximately NOK 10 billion. Prior to this he was CFO and COO of the listed oil technology group Hitec ASA. Mr Ertvaag has previously held a number of directorships in listed and unlisted companies. Over the past ten years he has been instrumental in a large number of acquisitions, mergers/demergers, company disposals and stock market flotations. He has a degree in economics from the BI Norwegian School of Management. Mr Ertvaag was first elected to Hafslund's Board of Directors on 3 May 2007. His current term runs until the 2011 Annual General Meeting. Neither Mr Ertvaag nor his related parties own any shares in Hafslund.

4

Maria Moræus Hanssen (b. 1965)

Board member

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

3

Kristin Bjella (b. 1958)

Board member

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

10

Hans Kristian Rød (b. 1953)

Board member

Hans Kristian Rød is an employee of Fortum Nordic AB. His employment at Neste Corporation began in 1991 and at Fortum in 1997, when the latter company was established through a merger between Neste and Ivo. Mr Rød has held executive positions in the oil, gas, and energy sectors. He served as CEO of Fortum Petroleum AS from 1994 and headed Fortum's oil and gas business from 1998. Since 2003 Rød has been in charge of Fortum's energy-related activities in Norway. He is a board member of Infratek ASA, PA Resources AB, North Energy AS, Ishavskraft AS and Fredrikstad Energi AS, in addition to serving on the boards of several Fortum Group companies. Mr Kristian Rød holds a degree in business administration from the Norwegian School of Management (1978) and an MBA from the University of Wisconsin, Madison (1980). Neither Rød nor his related parties own any shares in Hafslund; however, Fortum owns 37,8553,110 Class A and 28,706,339 Class B Hafslund shares.

9

Susanne Jonsson (b. 1957)

Board member

Susanne Jonsson has been employed as Vice President Corporate Controller at Fortum Corporation since 2002. She is responsible for the Fortum Corporation's internal and external financial reporting, legal structure and tax. Jonsson has worked in the energy industry since the mid-1990's when she was employed as CFO of Stockholm Energi. Stockholm Energi merged with Birka Energi in 1998, where Jonsson was a member of the Group's management team. Jonsson has a further15 years' experience as an accountant at audit firm PriceWaterhouseCoopers. She is a qualified chartered accountant. Neither Jonsson nor her related parties own any shares in Hafslund; however, Fortum owns 37,853,110 Class A and 28,706, 339 Class B Hafslund shares.

2

Tyra Marie Hetland (b. 1948)

Board member (employee representative)

Ms Hetland is an elected employee representative and a senior adviser at Hafslund Fakturaservice AS. She was previously General Manager of Rælingen E-verk and Finance Manager at Romerike Energi AS. She has also worked on energy resource accounts in the research department of Statistics Norway. Ms Hetland has a degree in corporate finance from BI Norwegian School of Management. She was elected as a deputy member of Hafslund's Board of Directors in 2007. She was re-elected by the employees on 9 November 2010 with a term of two years. She has been an area representative for the EL&IT trade union at Hafslund Markets since 2007. Ms Hetland and her related parties own 2,956 Class B shares in Hafslund.

6

Per Orfjell (b. 1952)

Board member (employee representative)

Mr Orfjell is an elected employee representative and a special adviser at Hafslund. He has worked as a fitter at Oslo Lysverker, and has served as a head of department at Oslo Energi AS since 1992 and Viken Energinett AS since 1996. He is a qualified energy systems fitter. Mr Orfjell was first elected to Hafslund's Board of Directors on 1 October 1998. He was re-elected by employees on 9 November 2010 for a term of two years. Per Orfjell is the senior representative of the Norwegian Union for Municipal and General Employees at Hafslund. Mr Orfjell and his related parties own 152 shares in Hafslund.

7

Per Luneborg (b. 1967)

Board member (employee representative)

Mr Luneborg is an elected employee representative and senior adviser at Hafslund Nett AS. He holds a degree in electrotechnical and economy-related studies from Narvik University College. He joined Oslo Energi AS in 1996 and has worked as a senior engineer, group leader and project manager in several companies connected to Hafslund's grid operations. Mr Luneborg was first elected to Hafslund's Board of Directors as a deputy member in 2003. He became a full member in December 2007. He was re-elected by employees on 9 November 2010 for a term of two years. Mr Luneborg has been a representative for the Norwegian Society of Engineers and Technologists (NITO) at Hafslund since 2003. Per Luneborg and his related parties own 177 Class B shares in Hafslund.

Accounts and notes - Group

Consolidated income statement

		1 January – 31 December	
NOK million	**Notes**	**2010**	**2009**
Revenue	5	**15 829**	10 670
Cost of sales		**(10 871)**	(6 364)
Salaries	18, 21	**(582)**	(772)
Result of investment in Renewable Energy Corporation ASA	10	**(1 991)**	(137)
Other (losses)/gains - net	19, 27	**1 058**	48
Other operating expenses	20	**(1 564)**	(1 418)
Share of profit/(loss) of associates and joint ventures	8	**43**	49
Operating profit before depreciation, amortisation and impairments		**1 922**	**2 076**
Depreciation, amortisation and impairments	6, 7	**(1 270)**	(882)
Operating profit		**652**	**1 194**
Finance costs	22	**(471)**	(661)
Profit before income tax		**181**	**533**
Income tax expense	23	**(573)**	(335)
Profit for the year		**(392)**	**198**
Profit attributable to			
Owners of the parent		**(393)**	202
Non-controlling interest		**1**	(4)
Earnings per share from continuing and discontinued operations			
attributable to owners of the parent (NOK per share)			
Basic earnings per share from continued operations (= diluted earnings per share)	14	(2,0)	1,0

The Notes on pages 1 to 28 are an integral part of these consolidated financial statements.

Consolidated statement of comprehensive income

		1 January – 31 December	
NOK million	**Notes**	**2010**	**2009**
Profit for the year		**(392)**	**198**
Other comprehensive income:			
Fair value change of investment in Renewable Energy Corporation ASA	10	**138**	(965)
Tax on fair value change of investment in Renewable Energy Corporation ASA		**(2)**	8
Currency translation differences		**11**	(5)
Other comprehensive income for the year, net of tax		**147**	**(962)**
Total comprehensive income for the year		**(245)**	**(764)**
Attributable to:			
Owners of the parent		**(246)**	(760)
Non-controlling interest		**1**	(4)
Total comprehensive income for the year		**(245)**	**(764)**

The Notes on pages 1 to 28 are an integral part of these consolidated financial statements.

Consolidated balance sheet

		31 December	
NOK million	**Notes**	**2010**	2009
Assets			
Property, plant and equipment	6	**18 557**	18 809
Intangible assets	7	**2 389**	2 282
Investments in associates and joint ventures	8	**430**	439
Long-term receivables	11	**360**	603
Non-current assets		**21 736**	22 133
Inventories		**59**	25
Trade and other receivables	9, 12	**5 188**	2 129
Derivative financial instruments	3, 9	**74**	41
Financial assets	9, 10	**2 327**	4 258
Cash and cash equivalents	9, 13	**211**	311
Current assets		**7 859**	6 764
Total assets		**29 595**	28 897
Equity and liabilities			
Share capital and premium	14	**4 275**	4 275
Retained earnings		**6 184**	6 868
Non-controlling interests		**5**	11
Total equity		**10 464**	11 154
Borrowings	9, 16	**10 259**	9 805
Deferred income tax liabilities	17	**2 971**	2 951
Retirement benefit obligations and other provisions	18, 25	**57**	316
Non-current liabilities		**13 287**	13 072
Trade and other payables	9, 15	**1 917**	1 711
Derivative financial instruments	3, 9	**2**	53
Current income tax liabilities	23	**525**	166
Borrowings	9, 16	**3 400**	2 741
Current liabilities		**5 844**	4 671
Total liabilities		**19 131**	17 743

Total equity and liabilities	**29 595**	28 897

Board of Directors of Hafslund ASA
Oslo, 22 March 2011

Birger Magnus
Chairman of the Board

Hans Kristian Rød Ole Ertvaag Hanne Harlem

Tyra Marie Hetland Kristin Bjella Per Luneborg Per Orfjell

Maria Moræus Hanssen Susanne Jonsson

Christian Berg
President and CEO

The Notes on pages 1 to 28 are an integral part of these consolidated financial statements.

Consolidated statement of cash flows

		1 January - 31 December	
NOK million	**Notes**	**2010**	**2009**
Cash flows from operating activities	**24**	**1 250**	**2 881**
Interest paid		**(536)**	(627)
Income tax paid		**(149)**	(375)
Net cash generated from operating activities		**565**	**1 879**
Purchases of property, plant and equipment (PPE) and acquisition of subsidiary	6, 7	**(1 646)**	(1 653)
Proceeds from sale of PPE		**5**	43
Purchase of shares		**(501)**	(658)
Sale of shares		**611**	631
Net cash used in investing activities		**(1 531)**	**(1 636)**
Change in interest-bearing receivables		**226**	(99)
Proceeds from borrowings		**7 158**	6 755
Repayments of borrowings		**(6 107)**	(6 867)
Dividends and purchase/sale of treasury shares		**(439)**	(439)
Net cash used in financing activities		**838**	**(650)**
Net decrease in cash and cash equivalents		**(128)**	**(407)**
Cash and cash equivalents at beginning of year		**311**	681
Exchange gains/(losses) on cash and cash equivalents		**28**	37
Cash and cash equivalents at end of year	**9, 13**	**211**	**311**

The Notes 1 to 28 are an integral part of these consolidated financial statements.

Consolidated statement of changes in equity

NOK million	Notes	Share capital	Share premium	Other reserves	Fund 1)	Translation differences	Retained earnings	Equity attributable to owners of the parent	Non-controlling interest	Total equity
Equity as of 1 January 2009		195	4 080	76	1 013	9	6 987	12 360	170	12 530
Profit for the year							202	202	(4)	198
Comprehensive income					(957)	(5)		(962)		(962)
Other comprehensive income					**(957)**	**(5)**	**202**	**(760)**	**(4)**	**(764)**
Transactions with owners:										
Change in non-controlling interests									(154)	(154)
Change in treasury shares 2)	14						(1)	(1)		(1)
Dividends relating to 2008							(438)	(438)		(438)
Other equity effects							(19)	(19)		(19)
Equity as of 31 December 2009		**195**	**4 080**	**76**	**56**	**4**	**6 731**	**11 142**	**11**	**11 154**
Profit for the year							(393)	(393)	1	(392)
Comprehensive income					136	11		147		147
Other comprehensive income					**136**	**11**	**(393)**	**(246)**	**1**	**(245)**
Transactions with owners:										
Change in non-controlling interests									(7)	(7)
Dividends relating to 2009							(439)	(439)		(439)
Other equity effects							1	1		1
Equity as of 31 December 2010		**195**	**4 080**	**76**	**192**	**15**	**5 900**	**10 458**	**5**	**10 464**

1) The Fund represents the net increase in fair value of financial instruments classified as available for sale, until such time as the investments are disposed of or it is established that the investments' values do not exceed their book value.

2) Please refer to Note 14 regarding ownership of Hafslund treasury shares.

The board has proposed a dividend of NOK 7.50 per share for the 2010 financial year, of which NOK 5.00 per share represents an extraordinary distribution. The corresponding figure for 2009 was an ordinary dividend of NOK 2.25 per share.

The Notes 1 to 28 are an integral part of these consolidated financial statements.

Notes Group

Note 1 General information

Hafslund ASA ("the company") and its subsidiaries (together "the Group") are one of the largest listed power groups in the Nordic region. Hafslund is Norway's largest grid, power sales and district heating company, and a medium-sized Norwegian power producer. Hafslund also owns 8.93 percent of the listed solar energy company Renewable Energy Corporation ASA through Hafslund Venture AS.

The Hafslund Group operates its business through subsidiaries and associates and is primarily active within the Norwegian market. The company is headquartered in Oslo and is listed on the Oslo Stock Exchange. The consolidated financial statements were adopted by the company's board on 22 March 2011.

Note 2 Summary of significant accounting policies

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

2.1 Basis of preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards and IFRIC interpretations as adopted by the EU. These financial statements contain no differences between IFRSs as established by the EU and the IASB.

The consolidated financial statements have been prepared under the historical cost convention, as modified by: Revaluation of derivative instruments, available-for-sale financial assets, and financial assets and financial liabilities at fair value through profit or loss.

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

a) New and amended standards adopted by the Group

The Group adopted the following new and amended standards in 2010:

- IFRIC 18, Transfers of Assets from Customers, clarifies the requirements of IFRSs for agreements in which an entity receives from a customer an item of property, plant and equipment that the entity must then use either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services (such as a supply of electricity, gas or water). In some cases, the entity receives cash from a customer that must be used only to acquire or construct the item of property, plant and equipment in order to connect the customer to a network or provide the customer with ongoing access to a supply of goods or services (or to do both). The amendment will not have a material impact on the consolidated financial statements.

b) Standards and amendments early adopted by the Group

- IFRS 24 Related Party Disclosures (revised) supersedes IAS 24 issued in 2003. IAS 24 (revised) is mandatory for periods beginning on or after 1 January 2011. Earlier application, in whole or in part, is permitted.

  The revised standard clarifies and simplifies the definition of a related party and removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities. The Group applies the revised standard from 1 January 2010. See also Note 26 on related party transactions.

c) New and amended standards and interpretations mandatory, but not currently relevant to the Group

- IFRIC 17 Distribution of Non-cash Assets to Owners. This interpretation provides guidance on accounting for arrangements whereby an entity distributes non-cash assets to shareholders either as a distribution of reserves or as dividends. IFRS 5 has also been amended to require that assets are classified as held for distribution only when they are available for distribution in their present condition and the distribution is highly probable.

- IFRIC 9 Reassessment of Embedded Derivates (amended) and IAS 39 Financial instruments: Recognition and Measurement. This amendment to IFRIC 9 requires an entity to assess whether an embedded derivative should be separated from a host contract when the entity reclassifies a hybrid financial asset out of the fair value through profit or loss category. This assessment is to be made based on circumstances that existed on the later of the date the entity first became a party to the contract and the date of any contract amendments that significantly change the cash flows of the contract. If the entity is unable to make this assessment, the hybrid instrument must remain classified as at fair value through profit or loss in its entirety.

- IFRIC 16 Hedges of a Net Investment in a Foreign Operation (amended). This amendment states that, in a hedge of a net investment in a foreign operation, qualifying hedging instruments may be held by any entity or entities within the Group, including the foreign operation itself, as long as the destination, documentation and effectiveness requirements of IAS 39 that relate to a net investment hedge are satisfied. In particular, the Group should clearly document its hedging strategy because of the possibility of different designations at different levels of the Group.

- IAS 38 Intangible Assets (amended) clarifies guidance in measuring the fair value of an intangible asset acquired in a business combination and permits the grouping of intangible assets as a single asset if each asset has a similar useful economic life.

- AS 1 Presentation of Financial Statements (amendment). The amendment clarifies that the potential settlement of a liability by the issue of equity is not relevant to its classification as current or non-current.

- IAS 36 Impairment of Assets. The amendment clarifies that the largest cash-generating unit (or group of units) to which goodwill should be allocated for the purposes of impairment testing is an operation segment, as defined by paragraph 5 of IFRS 8, Operating Segments (that is, before the aggregation of segments with similar economic characteristics).

- IFRS 2 (amended) Group Cash-settled Share-based Payment. In addition to incorporating IFRIC 8, Scope of IFRS 2, and IFRIC 11, IFRS 2 – Group and Treasury Share Transactions, the amendments expand on the guidance in IFRIC 11 to address the classification of group arrangements that were not covered by that interpretation.

d) New standards, amendments and interpretations issued but not effective for the financial year beginning 1 January 2010 and not early adopted

In the annual financial statements for 2011 or later the following issued new standards, amendments and interpretations will be mandatory. The Group has not early adopted any of these.

- IFRS 9 Financial Instruments (new). This standard is the first step in the process to replace IAS 39, Financial Instruments: Recognition and Measurement. IFRS 9 introduces new requirements for classifying and measuring financial assets and is likely to affect the Group's accounting for its financial assets. The standard is not applicable until 1 January 2013 but is available for early adoption. However, the standard has not yet been endorsed by the EU.
  The Group is yet to assess IFRS 9's full impact. However, initial indications are that it may affect the Group's accounting for its debt available-for-sale financial assets, as IFRS 9 only permits the recognition of fair value gains and losses in other comprehensive income if they relate to equity investments that are not held for trading. In the current reporting period, the Group recognised NOK 138 million of such gains in other comprehensive income.

- IAS 32 (amended) Classification of Rights Issues. The amendment applies to annual periods beginning on or after 1 February 2010. Earlier application is permitted. The amendment addresses the accounting for rights issues that are denominated in a currency other than the functional currency of the issuer. Provided certain conditions are met, such rights issues are now classified as equity regardless of the currency in which the exercise price is denominated. Previously, these issues had to be accounted for as derivative liabilities. The amendment applies retrospectively in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors. The Group will apply the amended standard from 1 January 2011.

- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments, effective 1 July 2010. The interpretation clarifies the accounting by an entity when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor of the entity to extinguish all or part of the financial liability (debt-for-equity swap). It requires a gain or loss to be recognised in profit or loss, which is measured as the difference between the carrying amount of the financial liability and the fair value of the equity instruments issued. If the fair value of the equity instruments issued cannot be reliably measured, the equity instruments should be measured to reflect the fair value of the financial liability extinguished. The Group will apply the interpretation from 1 January 2011, subject to endorsement by the EU. It is not expected to have any impact on the Group's financial statements.

- IFRIC 14 (amendments) Prepayments of a Minimum Funding Requirement. The amendments correct an unintended consequence of IFRIC 14, IAS 19 – The Limit on A Defined Benefit Asset, Minimum Funding Requirements and Their Interaction. Without the amendments, entities are not permitted to recognise as an asset some voluntary prepayments for minimum funding contributions. This was not intended when IFRIC 14 was issued, and the amendments correct this. The amendments are effective for annual periods beginning on or after 1 January 2011. Earlier application is permitted. The amendments should be applied retrospectively to the earliest comparative period presented. The Group will apply these amendments for the financial reporting period commencing on 1 January 2011.

- Various standards were amended in 2010. The amendments include a series of minor changes to the following standards and interpretations that could be relevant for the company: IFRS 1, IFRS 3, IFRS 7, IAS 1, IAS 27, IAS 34 and IFRIC 13. The changes in IFRS 3 and IAS 27 apply for accounting years starting on or after 1 July 2010 while the other changes apply to accounting years beginning on or after 1 January 2011. The changes are yet to be approved by the EU.

- IFRS 7 (amendment) Financial Instruments: The additional disclosures introduce new information requirements relating to continued risk exposure for assets that have been derecognised in the balance sheet and transferred to assets that continue to be fully or partially recognised in the balance sheet. The Group will introduce systems to capture this information, but it is not yet possible to say whether or to what extent the revised standard will impact the note disclosures. The amendment applies for annual financial statements beginning on or after 1 July 2011. There will not be a requirement to restate additional information for comparative figures. The amendment is yet to be approved by the EU.

2.2 Consolidation

a) Subsidiaries

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The Group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interest issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree's net assets.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair of the value of the net assets of subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the statement of comprehensive income (Note 2.6).

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

b) Transactions and non-controlling interests

The Group treats transactions with non-controlling interests as transactions with equity owners of the Group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

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

c) Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20 and 50 percent of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost. The Group's investment in associates includes goodwill identified on acquisition, net of any accumulated impairment loss. Companies over which the Group exerts significant influence, but which are included in the venture portfolio, are exceptions to this rule. (See Note 2.9.)

The Group's share of its associates' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.
Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies

adopted by the Group.

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

When the Group no longer has a significant influence any residual ownership interest is measured at fair value with changes in value being recognised through profit or loss. Thereafter the fair value is deemed to equate to cost and the interest is valued as a financial asset. Amounts previously recognised in other comprehensive income relating to this company are reclassified through profit or loss. On the reduction of assets in an associate where the Group maintains significant influence, a proportionate share of amounts previously recognised in other comprehensive income is reclassified through profit or loss.

d) Joint ventures

Hafslund operates Glommens og Laagen Brugseierforening jointly with other stakeholders. The association is recognised as a joint venture in the consolidated financial statements. The Group's shareholding in the venture is recognised using the equity method. The shareholding in the joint venture was recognised at cost at the time of acquisition, and subsequently adjusted to reflect changes in Hafslund's share of the joint venture's net assets. Hafslund recognises a share of the venture's result corresponding to its shareholding in the venture in the income statement.

Hafslund owns a 49 percent stake in Energibolaget i Sverige Holding AB, and together with other shareholders exerts a significant influence on the company. The Group's share in the company is consolidated on a line-by-line basis applying proportionate consolidation from the time control is transferred to the Group.

2.3 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocation resources and assessing performance of the operating segments, has been identified as the steering committee that makes strategic decisions.

2.4 Foreign currency translation

a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The consolidated financial statements are presented in NOK, which is both the functional currency of the parent company and the Group's presentation currency.

b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

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

Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets, such as equities classified as available for sale, are included in other comprehensive income.

c) Group companies

The results and financial position of all the Group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

a) The balance sheet is translated at the closing rate at the reporting date.
b) The income statement is translated at the average rate.
c) Translation differences are recognised in other comprehensive income and specified separately in equity.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

2.5 Property, plant and equipment

Property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items, including directly attributable borrowing costs. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

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

Power facilities	20 – 50 years
Other renewable energy facilities	5 – 50 years
Grid facilities	14 – 50 years
Fibre optic networks, technical equipment and chattels	3 – 30 years
Other property	20 – 50 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.7).
Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within other (losses)/gains – net in the income statement.

2.6 Intangible assets

a) Waterfalls

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

b) Goodwill

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

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

c) Customer portfolios

Customer portfolios are recognised at fair value at the acquisition date. The customer portfolios have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method over the expected agreement period.

2.7 Impairment of non-financial assets

Assets that have an indefinite useful life – for example, goodwill or intangible assets not ready to use – are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

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

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

2.9 Financial assets

2.9.1 Classification

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

a) Financial assets at fair value through profit or loss

This category has two sub-categories: i) financial assets held for trading and ii) financial assets that management has initially designated at fair value through profit or loss. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term, or if management has designated the asset in this category. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if they are held for trading purposes, or if expected to be settled within 12 months after the end of the reporting period.

The Group has significant share investments in a venture portfolio. Venture portfolio risk is managed from the perspective of the overall portfolio and the portfolio is valued at fair value through profit or loss.

b) Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. The Group's loans and receivables comprise trade and other receivables in the balance sheet, and cash and cash equivalents (see Note 2.12 and 2.13).

c) Available-for-sale financial assets
Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of it within 12 months of the end of the reporting period.

2.9.2 Recognition and measurement
Regular purchases and sales of financial assets are recognised on the trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the income statement. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

Gains or losses arising from changes in the fair value of the financial assets at fair value through profit or loss category are presented in the income statement within other (losses)/gains – net in the period in which they arise.

When securities classified as available for sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the income statement as result of investment in Renewable Energy Corporation ASA.

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. For equity investments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the separate consolidated income statement. Impairment losses on shares and similar instruments recognised in the income statement are not reversed through the income statement. When securities classified as available for sale are sold or impaired, the accumulated fair value adjustments recognised in other comprehensive income are reclassified in the income statement.

2.10 Derivative financial instruments and hedging activities
Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. Changes in the fair value of derivatives are recognised as other (losses)/gains – net. Hafslund does not apply hedge accounting.

Licensed power
The purpose of licensed power is essentially to secure the provision of electrical power to local authorities at a reasonable price. Agreements on financial settlement have been entered into for some licensed power agreements. Hafslund has elected to change its policy for accounting for licensed power agreements with financial settlement, from recognising the financial liability in the balance sheet to ongoing recognition as an expense in the income statement. The change has been made due to the fact that licensed power is deemed to be a statutory obligation, and not a contract in accordance with IAS 39. The change in accounting policy resulted in the following changes in the consolidated income statement and balance sheet figures for 2009:

Other (losses)/gains	Tax	Annual	Property, plant and	Retained	Deferred	Other

– net	expense	result	equipment	earnings	tax	liabilities	Derivatives
(37)	22	(15)	(100)	89	112	(100)	(200)

Changes have been incorporated into the comparative figures in the income statement and balance sheet and in Notes 3, 6, 9, 17 and 23.

2.11 Inventories

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

2.12 Trade receivables

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

2.13 Cash and cash equivalents

In the consolidated statement of cash flows, cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less and bank overdrafts. In the consolidated balance sheet, bank overdrafts are shown within borrowings in current liabilities.

2.14 Share capital

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

2.15 Trade payables

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

2.16 Borrowings

Borrowings are measured, managed and followed up based on their fair value in accordance with internal risk management procedures, and changes in fair value are communicated in internal management reporting. Borrowings are recognised at fair value through profit or loss in accordance with the fair value option (FVO). New borrowings that are managed and reported at fair value from the time of acquisition will also be recognised in accordance with the FVO in subsequent accounting periods. Borrowings are initially recognised at fair value. Transaction costs in connection with borrowings measured at fair value through profit or loss are immediately recognised as expenses. Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period. New borrowings taken out after 1 January 2010 are recognised at amortised cost.

2.17 Income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively. The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date. Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination. Deferred income tax is determined using tax rates and laws that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled. Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

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

Taxation of power production business

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

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

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

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

2.18 Employee benefits

a) Pension obligations

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

Defined benefit plan

A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, and which is financed through payments to insurance companies or pension funds. The pension payment is usually dependent on one or more factors such as age, years of service and compensation. The liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of reporting period less the fair value of plan assets, together with adjustments for unrecognised past-service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash flows using a discount rate based on the interest rate on ten-year Norwegian government bonds. The average remaining vesting period of the beneficiaries of defined benefit schemes is calculated at around ten years.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions in excess of the higher of ten percent of the value of pension assets or ten percent of the value of pension liabilities are recognised in the income statement over a period corresponding to the employees' expected remaining employment period. Past-service costs are recognised immediately in income, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortised on a straight-line basis over the vesting period.

Defined contribution plans

A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. The Group pays contributions to publicly or privately administered pension insurance plans on a mandatory or contractual basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

b) Bonus schemes

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

c) Termination benefits

Termination benefits are payable when employment is terminated before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to a termination when the entity has a detailed formal plan to terminate the employment of current employees without possibility of withdrawal. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to their present value.

2.19 Provisions

Provisions for environmental restoration, restructuring costs and legal claims are recognised when: a) the Group has a present legal or constructive obligation as a result of past events, b) it is probable that an outflow of resources will be required to settle the obligation and c) the amount has been reliably estimated. Restructuring provisions comprise lease termination penalties and employee termination payments. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2.20 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminating sales within the Group.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and when specific criteria have been met for each of the Group's activities as described below. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

a) Sales of power
Sales of power are recognised in the income statement at the time of delivery to the customer.

b) Grid rental
Grid rental is recognised in income at the time of invoicing. The amount recognised in income in individual years corresponds to the volume delivered in the period, settled at the established tariff in force at any one time. Permitted income comprises the revenue ceiling established by the regulator (the Norwegian Water Resources and Energy Directorate – NVE) plus transmission costs, Enova mark-ups and property tax less interruption costs. Income surpluses/shortfalls, which represent the difference between grid rental recognised in income and permitted income are deemed to constitute regulatory liabilities/assets that do not qualify for recognition in the balance sheet on the grounds that a contract has not been entered into with a particular customer and the resulting receivable is therefore theoretically contingent on a future delivery. The tariffs are managed based on the rationale that the annual income will over time correspond to the permitted income. Income surpluses arise if the grid rental recognised in income is higher than the permitted income, and will have a positive impact on the result. On the same principle, income shortfalls will negatively impact the result. The result for 2010 was impacted by an income shortfall of NOK 203 million while the result for 2009 was impacted by an income shortfall of NOK 16 million. At the end of 2010 an income shortfall of NOK 16 million was not recognised in the balance sheet.

c) Sale of other goods and services
Sales of goods are recognised when a Group entity has delivered products to the customer. Sales of services are recognised in the income statement in the period in which services are performed. Revenue from material contracts is recognised under the percentage-of-completion method. The stage of completion is measured on the basis of direct expenses incurred as a percentage of the total expenses to be incurred. The percentage of sales revenue connected to future performed services is recognised as deferred income in the balance sheet on the sale and subsequently recognised in income in line with the delivery of the services.

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

2.21 Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

The Group leases certain property, plant and equipment. Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges. The corresponding rental obligations, net of finance charges, are included in other long-term payables. The interest element of the finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the useful life of the asset and the lease term.

2.22 Dividend distribution

Dividend distribution to the company’s shareholders is recognised as a liability in the Group’s financial statements in the period in which the dividends are approved by the company’s shareholders.

Note 3 Financial risk management

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

a) Power price and volume risk
Several of the Group's profit units are exposed to risk associated with the power market. The inherent exposure to the market primarily derives from the Group's ownership of power generation facilities, distribution grid activities and power sales to customers. An element of risk also attaches to district heating activities in that prices are based on customers' alternative (electrical) heating costs. The same applies to Hafslund Miljøenergi AS's waste-to-energy plants, where price mechanisms contained in sales contracts mean that revenues are to a lesser or greater extent dependent on the power price. Hafslund also actively takes positions in the power market through the activities of the Group's power trading department. All trading in the market is carried out by the power trading department, although trading performed on behalf of other business units is done so at the risk and expense of the relevant business unit.

Risk management of the Group's power trading activities is based on board-approved strategies. With regard to power production volume, Hafslund adheres to a strategy of being fundamentally exposed to spot market prices. Power price fluctuations, together with factors (primarily weather conditions) that affect production volumes, are thus of significant importance for the profitability of Hafslund's power generation activities. In the case of power sales activities, risk management is directed at minimising margin fluctuations.

Hafslund uses Value at Risk as an operational risk management target for power price risk. Daily Value at Risk (DVaR) reports are distributed to Group management each week and a summary of the reports is included in the Group's monthly management reporting. As of 31 December 2010 the DVaR for Hafslund's aggregate power portfolio amounted to NOK 105 million (2009: NOK 76 million). The The majority of the risk is attributable to the risk that falling prices would negatively impact the value of the future production portfolio of Hafslund's power generation business. For the purposes of risk management, it has been necessary to establish an accrual horizon in respect of this production portfolio. This has been set at the current year plus two years. Standardised power market derivative products, such as futures, forwards, CFDs and options, are used to achieve the desired risk-reducing effect in respect of power portfolios. Hedging instruments are mainly traded at or cleared with the Nordic Power Exchange, Nasdaq OMX.

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

All other factors remaining constant, a 7.5 percent change in the EUR/NOK and SEK/NOK rates would have an effect on post-tax profits of +/- NOK 10 million as a result of changes in the value of Hafslund's portfolio of currency derivatives as of 31 December 2010 (2009: +/- NOK 22 million). Based on historical data and the assumption of normal distribution, the probability of an adverse exchange rate fluctuation of more than 7.5 percent during any single year is less than 10 percent. EUR- and SEK-denominated derivative contracts are entered into to hedge future currency positions associated with power derivatives which the power sales business holds for hedging purposes, as well as to reduce the foreign exchange risk associated with future EUR cash flows from sales of power production.

Interest rate risk

Hafslund's operating revenues and cash generated from operations are largely independent of interest rate fluctuations. The Group's grid distribution activities are an exception, since there is a significant interest-related component to determination of the revenue ceiling. Under the grid regulatory regime currently in force, the requisite return on employed grid capital is linked to the average annual interest rate on five-year Norwegian government bonds. The Group is also exposed to interest rate risk in relation to interest-bearing liabilities. The company's cash flow will be affected by interest rate fluctuations on variable-interest loans. The fair value of all the company's borrowings taken out before 31 December 2009 will be affected by changes in interest rates, including changes in credit spreads. In the course of 2010, the change in credit spreads, viewed in isolation, resulted in a NOK 49 million reduction in the fair value of the loan portfolio (2009: NOK 147 million). Credit spreads are affected by terms, liquidity and risk. The major banks publish estimates for Hafslund's credit spreads with differing terms based on observable prices on the bond market. In calculating changes in the fair value of the loan portfolio due to changes in Hafslund's credit spreads, an interpolated average change in credit spreads is applied for a duration corresponding to the duration of Hafslund's debt.

Hafslund's loan portfolio comprises a mixture of fixed-interest and variable-interest loans. Interest rate derivatives are used to reduce fluctuations in cash flow associated with finance costs. By applying frameworks adopted to manage interest rate risk, the board has determined that the proportion of fixed-interest rate loans in the loan portfolio should lie between 30 and 60 percent. As of 31 December 2010 approximately 67 percent of the Group's debt was floating rate (2009: 58 percent). In a simulation test of sensitivity to major interest rate fluctuations, the portfolio of loans and interest rate derivatives as of 31 December 2010 was tested against a change of +/- 1.5 percent across the yield curve. Based on historical data, there is approximately 90 percent certainty that interest rate fluctuations will not exceed this spread during any one year. However, such a change in interest rates would increase/decrease the Group's annual finance cost by NOK 131 million (adjusted for tax effect). The corresponding figure based on the interest rate portfolio as of 31 December 2009 would have been +/-NOK 196 million. This takes into account changes in interest expenses as a result of fluctuations in the floating interest rate, changes in the fair value of fixed-rate loans and changes in the fair value of interest rate derivatives. Because grid activities' regulated revenue ceiling also varies with interest rate fluctuations, the overall effect of interest rate fluctuations on pre-tax profits would in fact be less marked.

d) Share-price risk

The Group's venture business makes equity investments in alternative and renewable energy and in energy-related services and technologies. The Venture portfolio is recognised at fair value in the balance sheet. The portfolio includes a shareholding in the listed solar power company Renewable Energy Corporation ASA (REC). As of 31 December 2010 this shareholding comprised approximately 62 percent of the total value of the investment portfolio. Fluctuations in REC's share price will impact balance sheet values and changes in value through profit or loss. The shareholding in REC is classified as available for sale with changes in value being recognised in other comprehensive income. Based on an implicit volatility and the beta for REC as of 31 December 2010 a change in value could be 38 percent. A 38 percent fluctuation in REC's share price would impact equity in the amount of NOK 601 million (2009: 42 percent; NOK 1,441 million).

The other companies in the Venture portfolio are not listed on any stock exchange, but if the rest of the portfolio were to experience a similar change in value (38 percent, respectively 62 percent), the impact on the equity would total NOK 363 million (2009: NOK 468 million) for the Group.

e) Liquidity risk

Liquidity risk arises to the extent that cash flows from the business do not correspond with financial obligations. The cash flow from power trading activities will vary according to a number of factors including spot-market price levels. Accordingly the Group has established long-term, committed credit facilities in order to secure availability of liquidity, including in periods when it may be difficult to obtain financing in the markets. Unused credit facilities as of 31 December 2010 totalled NOK 3.7 billion (2009: NOK 4.6 billion).

f) Credit risk

Most of the Group's debtors are private individuals who purchase electricity and/or district heating. A vendor loan note with a par value corresponding to NOK 310 million was issued in connection with the sale of Hafslund Fibernett to the PE fund EQT V. This apart, Hafslund has no significant concentration of credit risk. Follow-up and invoicing of trade receivables are centralised in a separate unit, Hafslund Fakturaservice (billing). Counterparty risk relating to power trading activities is minimised through extensive use of standardised contracts that are settled via Nasdaq OMX. Interest rate and foreign currency risk mandates, which are determined by the board, contain guidelines as to the creditworthiness of institutional counterparties. The majority of overdue trade receivables as of 31 December 2010 relate to the Markets business unit, and primarily to trade receivables with private electricity customers. A provision of approximately NOK 37 million has been recognised to cover potential bad debts on these receivables, which is NOK 7 million higher than the previous year. The level of overdue trade receivables rose in 2010, partly due to new restrictions regarding disconnection of customer's supplies during the winter due to payment default. There was four-percent increase in the number of reminders while the number of cases transferred to debt collection increased by just under two percent.

This increase was half as much as in 2009.

The ageing profile of trade receivables in the Markets business area as of 31 December 2010 is shown below:

NOK million

2010	**Not yet due**	**0-60 days**	**60-90 days**	**90-120 days**	**>120 days**	**Total**
Trade receivables	473	171	27	19	72	762
2009						
Trade receivables	367	114	12	6	50	549

Maturity profile for financial items:

NOK million

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

2009	**0-6 months**	**6-12 months**	**1-3 years**	**3-5 years**	**>5 years**	**Total**
Interest rate derivatives	-1	-8	-34		-16	-59
Currency derivatives	7	4	6		-11	6
Power derivatives	11	3	14	13	4	45
Borrowings	-1 943	-801	-4 164	-2 756	-2 882	-12 546
Trade payables	-478					-478
Total	**-2 404**	**-802**	**-4 178**	**-2 743**	**-2 905**	**-13 032**

Capital risk management

The Group monitors capital risk management based on the development of the equity ratio, net interest-bearing liabilities and the cash generated from operations. At the end of 2010 the equity ratio was 35 percent. Hafslund has long-term financing that ensures financial room to manoeuvre even when it is difficult to obtain financing in the markets. At the end of 2010 the Group had unused credit facilities deemed sufficient to cover the Group's refinancing requirements over the next 12 months.

NOK million	**2010**	**2009**
Total borrowings	**13 659**	12 546
Cash and cash equivalents and interest-bearing receivables	**(592)**	(945)
Net interest-bearing liabilities	**13 067**	11 601
Operating profit before depreciation and amortisation	**1 922**	2 076
Total equity	**10 464**	11 154
Total equity %	**35 %**	39 %

Total capital	29 595	28 897

Fair value estimation

Financial instruments

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1. Instruments included in level 1 comprise the investment in Renewable Energy Corporation AS, classified as available for sale. The portfolio of assets at fair value through profit or loss covers 11 investment objects (the venture portfolio) that are not listed on an exchange or OTC list. The fair value of financial instruments that are not traded in an active market is determined using valuation methods. These valuation methods maximise the use of observable market data where it is available. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. See note 9.

Trade and other receivables

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

Interest rate, foreign exchange and power derivatives

The fair value of interest rate swap agreements is calculated as the present value of estimated, future cash flows, based on effective swap rates at the reporting date. The fair value of foreign currency contracts is calculated by using effective rates in the forward market at the reporting date. The fair value of foreign exchange options is calculated by applying option pricing models based on the effective rates in the forward market at the reporting date. The fair value of power derivatives traded on the Nordic power exchange Nasdaq OMX Commodities (formerly Nord Pool) is established by reference to the applicable prices on the latter exchange at the reporting date. The value of power derivatives traded elsewhere is estimated as the present value of future cash flows, based on forward prices on Nasdaq OMX Commodities at the reporting date. In the case of material long-term contracts, a discounting factor is applied to cash flows.

Borrowings

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

Trade and other payables

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

Note 4 Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Any deviations between estimates and fair values are recognised in the period in which these become known where such deviations relate to this period. If the deviations relate to both the current and future periods, the deviation is recognised over the various periods affected.

Estimates and assumptions, where judgements have a material effect on the balance sheet value of assets and liabilities in the next accounting year are discussed below:

Power sales and network activities
Final settlement of power consumption for the year for a large proportion of the Group's electricity and network customers is made after the Group has finalised its annual financial statements. The above revenues are estimated based on the power volumes that have been physically delivered during the period. The physically delivered volume is apportioned in accordance with consumption forecasts for each customer group and price plan. Some uncertainty attaches to the volume apportioned to the various price segments. Accrued revenues recognised in the balance sheet at the end of 2010 amounted to NOK 1,844 million. Historically there have been variations of up to +/- NOK 80 million compared with the final invoicing figures.

Estimated impairment of goodwill and property, plant and equipment
The Group tests annually whether goodwill and property, plant and equipment has suffered any impairment, see Note 2.7. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates, see Note 7 for a description of impairment testing.

Fair value borrowings
Borrowings that are valued at fair value are measured by discounting the borrowings' cash flows. The discount rate applied is the Norwegian swap interest rate, adjusted upwards for Hafslund's credit spreads. Seen in isolation, the change in credit spreads during 2010 results in a reduction in the loan portfolio's fair value of NOK 49 million.

Pension benefits
The present value of the pension obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) for pensions include the discount rate. The Group determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the Group considers the interest rate on Norwegian government bonds that have terms to maturity approximating the terms of the related pension liability. Other key assumptions for pension obligations are based in part on current market conditions. Were the discount rate applied to differ by ten percent, the carrying amount of pension obligations would change by an estimated +/–7 percent. Additional information is disclosed in Note 18.

I**nvestments in shares**
The fair value of the Group's share investments that are not traded on an active market are established using valuation techniques. As far as possible the Group assesses and selects methods and assumptions that are based on market conditions at each reporting date. See Note 9 for a more detailed description of the valuation of investments in shares.

Contingencies
When evaluating contingencies, management must exercise its judgement in order to determine the extent to which, on the balance of probabilities, an event would be likely impose a financial liability on the Group. Management must also use its best estimates to assess the likely amount of future payments. See Note 25 for a more detailed description of contingencies.

Note 5 Segment information

Operating segments are reported in a manner consistent with the internal reporting used by Group management (the chief operating decision-maker) to assess profitability and performance. The reportable operating segments primarily derive their revenue from the production, sale and distribution of energy, with the exception of Venture. Other services included in the segments include supplies of automatic metering systems, and operation of IT and telephone solutions. Intersegment sales are made in accordance with the arm's length principle.

Group management assesses the performance and profitability of the operating segments based on a measure of operating profit and return on capital employed. Interest income and interest expenses are not allocated to segments since this type of activity is managed by a central finance department that manages the Group's liquidity situation.

NOK million		**Power production**		**District heating**		**Networks**		**Power sales**
	2010	**2009**	**2010**	**2009**	**2010**	**2009**	**2010**	**2009**
Gross segment sales	1 196	856	1 144	747	4 804	3 385	8 021	4 787
Intersegment sales	3	3	3	2	41	33		
Total revenue	**1 193**	**853**	**1 141**	**746**	**4 763**	**3 352**	**8 021**	**4 787**
Operating profit	929	618	165	91	532	493	348	240
Finance costs	(46)	(44)	(67)	(45)	(109)	(148)	1	30
Income tax expense	(504)	(344)	(28)	(16)	(108)	(177)	(101)	(78)
Profit for the year	**381**	**231**	**72**	**32**	**316**	**181**	**258**	**200**
Depreciation operating assets	(43)	(43)	(118)	(122)	(546)	(542)	(4)	(2)
Impairments operating assets								
Amortisation intangible assets							(8)	(6)
Losses on receivables					(41)	(30)	(32)	(22)
Capital employed	**4 377**	**4 277**	**4 550**	**4 080**	**9 668**	**9 396**	**3 427**	**1 980**
Investments	171	175	449	401	485	521	180	3

NOK million		**Venture**		**Heat and bioenergy**		**Other business**		**Eliminations**		**Group**
	2010	**2009**	**2010**	**2009**	**2010**	**2009**	**2010**	**2009**	**2010**	**2009**
Gross segment sales	549	779	115	49	634	596	(633)	(529)	15 829	10 670
Intersegment sales	35	28	6	6	547	459	(633)	(529)		
Total revenue	**515**	**751**	**109**	**43**	**87**	**138**			**15 829**	**10 670**
Operating profit/loss	(1 104)	(299)	(386)	(27)	170	77			652	1 194
Finance cost	(75)	(107)	(413)	(33)	239	(314)			(471)	(661)
Income tax expense	44	191			123	88			(573)	(335)
Profit for the year	**(1 135)**	**(215)**	**(297)**	**(24)**	**15**	**(208)**			**(392)**	**198**

Depreciation operating assets	(83)	(73)	(35)		(25)	(44)		(853)	(826)
Impairments operating assets	(50)	(28)	(300)		0	(19)		(350)	(47)
Amortisation intangible assets	(55)				(1)	(3)		(64)	(9)
Losses on receivables	(3)	(12)			19	14		(57)	(49)
Capital employed	**3 844**	**4 937**	**1 037**	**1 066**	**125**	**136**		**27 028**	**25 870**
Investments	163	193	215	362	41	45		1 702	1 698

Reconciliation of capital employed to equity:

NOK million	2010	2009
Capital employed	**27 028**	25 870
Income tax payable	**(525)**	(166)
Deferred income tax liabilities	**(2 971)**	(2 951)
Borrowings	**(13 659)**	(12 546)
Cash and cash equivalents	**211**	311
Interest-bearing receivables	**348**	468
Other	**32**	168
Total equity	**10 464**	**11 154**

Analysis of revenue by category:

NOK million	2010	2009
Power sales	**8 069**	4 837
Power production	**1 179**	839
District heating sales	**1 138**	745
Distribution revenue	**4 496**	3 168
Other revenue	**947**	1 081
Total	**15 829**	**10 670**

The majority of revenue derives from energy customers localised in and around Oslo, Akershus and Østfold, where the company is also based.

Note 6 Property, plant and equipment

NOK million	Fibre-optic network, technical and other equipment	Power facilities	District heating and other renewable energy facilities	Grid facilities	Facilities under construction	Other property	Total
Book value as of 31 December 2008	**862**	**3 719**	**2 909**	**8 669**	**1 523**	**321**	**18 002**
Financial year 2009							
Book value as of 1 January 2009	862	3 719	2 909	8 669	1 523	321	18 002
Reclassification as of 1 January 2009					149	(149)	
Additions	109	38			1 485	4	1 636
Capitalised borrowing costs					42		42
Transferred from facilities under construction	16	132	564	478	(1 190)		
Disposals at book value				(4)	(17)	(10)	(31)
Depreciation 2009	(167)	(49)	(159)	(461)		(4)	(840)
Book value as of 31 December 2009	**820**	**3 840**	**3 314**	**8 682**	**1 992**	**162**	**18 809**
As of 31 December 2009							
Cost	2 019	6 910	3 766	12 990	2 005	194	27 884
Cumulative depreciation and impairments	(1 198)	(3 070)	(452)	(4 307)	(13)	(31)	(9 072)
Book value as of 31 December 2009	**820**	**3 840**	**3 314**	**8 682**	**1 992**	**162**	**18 809**
Financial year 2010							
Book value as of 1 January 2010	820	3 840	3 314	8 682	1 992	162	18 809
Additions	49	47			1 366	9	1 471
Capitalised borrowing costs					55		55
Transferred from facilities under construction	316	(132)	909	433	(1 526)		
Discontinued	(550)				(24)		(574)

operations	[illegible]					[illegible]		[illegible]
Disposals at book value								
Depreciation 2010	(191)	(43)		(151)	(465)		(4)	(854)
Impairments 2010	(50)					(300)		(350)
Book value as of 31 December 2010	**394**	**3 712**		**4 072**	**8 650**	**1 563**	**167**	**18 557**
As of 31 December 2010								
Cost	1 765	6 825		4 674	13 422	1 876	202	28 764
Cumulative depreciation and impairments	(1 371)	(3 113)		(603)	(4 772)	(313)	(35)	(10 208)
Book value as of 31 December 2010	**394**	**3 712**		**4 072**	**8 650**	**1 563**	**167**	**18 557**
Capitalisation rate borrowing costs						3,5		
Depreciation percentage	**3-33**	**2-5**		**2-20**	**2-7**		**0-5**	

See Note 7 for information on impairment testing.

As of 31 December 2010 the Group's total future lease commitments associated with office premises and transformer substations recognised at nominal value amounted to NOK 1,511 million.

NOK million	
2011	120
2012	123
2013	124
2014	126
2015	129
2016 and later	889
Total lease obligations	**1 511**

The leases are operating leases and have varying payment dates, price-regulating clauses, and lease prolongation rights. In 2010 rent amounting to NOK 117 million was recognised in the income statement for leases of office premises and transformer substations.

Note 7 Intangible assets

NOK million	Customer portfolios	Waterfall rights	Total	Goodwill	Total intangible assets
Book value as of 31 December 2008	**38**	**253**	**291**	**2 018**	**2 309**
Financial year 2009					
Acquisition of subsidiary				5	5
Additions				10	10
Impairments				(25)	(25)
Amortisation	(9)		(9)	(8)	(17)
Book value as of 31 December 2009	**29**	**253**	**282**	**2 000**	**2 282**
As of 31 December 2009					
Cost	77	356	433	2 566	3 000
Cumulative amortisation and impairments	(48)	(103)	(151)	(566)	(718)
Book value as of 31 December 2009	**29**	**253**	**282**	**2 000**	**2 282**
Financial year 2010					
Acquisition of subsidiary	13		13	152	165
Additions	2		2	9	11
Discontinued operations				(5)	(5)
Impairments				(50)	(50)
Amortisation	(10)		(10)	(4)	(14)
Book value as of 31 December 2010	**34**	**253**	**287**	**2 102**	**2 389**
As of 31 December 2010					
Cost	92	356	448	2 722	3 170
Cumulative amortisation and impairments	(58)	(103)	(161)	(620)	(781)
Book value as of 31 December 2010	**34**	**253**	**287**	**2 102**	**2 389**

Impairment testing of non-amortisable intangible assets
Goodwill is allocated to the Group's cash-generating units (CGUs). Intangible assets with indefinite useful lives and goodwill are not amortised, but are tested annually for impairment. Where particular indications of potential impairment exist, impairment tests are performed more frequently.

The recoverable amount of a CGU is calculated based on the value the asset is expected to generate for the business. Cash flows associated with the assets are identified and discounted. Cash flow calculations are based on a number of estimates, which include assumptions relating to economic development, power prices, oil prices and the regulatory regime governing grid activities. Power and oil prices are based on listed forward prices. The current revenue framework model for grid activities is expected to continue until the terminal year. Future cash flows are used to budget for 2011, and for forecasts until the terminal year. Cash flows beyond the terminal year are estimated using a growth rate equal to Norges Bank's inflation target of 2.5 percent.

For units where future cash flows are predictable over the longer term, as for power generation activities, grid activities and district heating activities and heat and bioenergy, these are calculated for a period in excess of five years. The applied pre-tax discount rate reflects the specific risk of the results unit.

The table below shows the book values of operating assets, intangible assets and goodwill allocated to the individual results units (CGUs):

NOK million **Business**	**Operating assets**	**Non-amortisable intangible assets**	**Goodwill**	**Discount rate**	**Terminal year**
Power production	4 090	253		8,1 %	2017
Distribution grid	9 188		266	7,1 %	2041
District heating	3 881		577	8,8 %	2025
Power sales	9	34	1 205	9,3 %	2015
Venture	122		34	10,6 % - 20,7 %	2015
Heat and bioenergy	980			8,7 % - 11,3%	2030
Other business	287		20	13,6 %	2015
Total	**18 557**	**287**	**2 102**		

If the discounted value of future cash flows is lower than the carrying amount, the operating asset is written down to the recoverable amount. The recoverable amount is the higher of the value in use and net sales value. The estimated value in use is used as the recoverable amount for all CGUs. If the impairment test results in a positive value, this indicates that the value is intact. Sensitivity analyses are performed to assess the robustness of the values in the event of, for example, a decrease in power prices of 200 NOK/MWh, a 1 TWh reduction in power generation, a 20 percent change in the terminal value and discount rate. The applied pre-tax discount rate reflects the specific risk of the results unit.

In 2010 impairment testing was performed in the Heat and Bioenergy and Venture business units. The recognition of an impairment for the Heat and Bioenergy business unit is due to weak market conditions and reduced contribution margins within the European pellets market. The Group has reassessed future cash flows from the pellets business and consequently the plant has been written down by NOK 300 million. The book value after the write-down amounts to NOK 240 million.

In the case of the CGUs Embriq and Nextnet, which are included in Venture's results, the recoverable amount is lower than the book value and an impairment requirement of NOK 100 million has been identified. Both goodwill and property, plant and equipment have each been written down in the amount of NOK 50 million. Performed impairment tests and sensitivity analyses confirm that the book values for other CGUs exceed their calculated recoverable amounts.

Note 8 Investments in associates and joint ventures

NOK million	Year of acquisition	Cost	Registered office	Shareholding	Voting share
Rakkestad Energiverk AS	2001	43	Rakkestad	33 %	33 %
Infratek ASA	2009	380	Oslo	43,30 %	43,30 %
Glommens og Laagens Brukseierforening			Lillehammer	22,34 %	22,34 %

NOK million	2010	2009
Book value as of 1 January	**439**	87
Additions		380
Share of profit/loss	**50**	12
Dividends	**(55)**	(40)
Costs, Infratek ASA	**(4)**	
Book value as of 31 December	**430**	**439**
Amortisation of goodwill for the year	1	1
Goodwill as of 31 December	7	8

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

	Registered in	Assets	Liabilities	Revenue	Profit for the year
Rakkestad Energiverk AS	Rakkestad	33	8	19	2
Infratek ASA	Oslo	103	301	1 185	55
Glommens og Laagens Brukseierforening	Lillehammer	56	7	12	(7)
Total		**192**	**317**	**1 217**	**50**

Hafslund's investment in Energibolaget i Sverige Holding AB is recognised as a joint venture. See Note 27 for further information.

Note 9 Financial instruments by category

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

NOK million	Assets at fair value through profit or loss	Available-for-sale	Loans and receivables	Total
Assets as of 31 December 2010				
Long-term receivables			360	360
Shares and shareholdings	743	1 584		2 327
Derivatives	74			74
Trade and other receivables			5 188	5 188
Cash and cash equivalents			211	211
Total financial assets as of 31 December 2010	**817**	**1 584**	**5 759**	**8 160**
Assets as of 31 December 2009				
Long-term receivables			603	603
Shares and shareholdings	826	3 432		4 258
Derivatives	41			41
Trade and other receivables			2 129	2 129
Cash and cash equivalents			311	311
Total financial assets as of 31 December 2009	**867**	**3 432**	**3 043**	**7 342**

Liabilities as of 31 December 2010	Liabilities at fair value through profit or loss	Other financial liabilities at amortised cost	Total
Borrowings	13 659		13 659
Derivatives	2		2
Trade and other payables		1 917	1 917
Total financial liabilities as of 31 December 2010	**13 661**	**1 917**	**15 578**
Liabilities as of 31 December 2009			
Borrowings	12 546		12 546
Derivatives	253		253
Trade and other payables		1 711	1 711
Total financial liabilities as of 31 December 2009	**12 799**	**1 711**	**14 510**

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

The Group holds significant share investments in a venture portfolio. The Venture portfolio is managed from an overall risk and reporting perspective and valued at fair value. The shareholding in Renewable Energy Corporation ASA (REC) is valued at fair value through equity, see Note 10, available-for-sale financial assets. Other investments are valued at fair value through profit or loss. Exceptions to the above are companies where Hafslund has a controlling shareholding, which are included in the scope of consolidation. Changes in the fair value of share investments are recognised as other (losses)/gains – net.

Investments whose market value exceeds NOK 10 million at the end of 2010:

NOK million	**Number of shares**	**Shareholding**	**Book value 2010–12–31**
Renewable Energy Corporation ASA	89 037 031	8,93 %	1 584
Total available-for-sale financial assets			**1 584**
Fesil AS	46 453 880	49,90 %	369
Network Norway AS	103 550 732	26,53 %	259
Cogen ASA	1 013 344	44,81 %	46
Glo	247 031	10,98 %	43
Chapdrive AS	2 023 315	13,65 %	14
Other			12
Total financial assets at fair value through profit or loss			**743**

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

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

The following table shows the Group's assets and liabilities measured at fair value as of 31 December 2010:

	Method 1	**Method 2**	**Method 3**	**Total**
Financial assets at fair value through profit or loss:				
Shares and shareholdings	1 584	64	679	2 327
Derivatives			74	74
Total assets	**1 584**	**64**	**753**	**2 401**
Financial liabilities at fair value through profit or loss:				
Borrowings		13 659		13 659
Derivatives		2		2
Total liabilities		**13 661**		**13 661**

The following table presents changes in instruments classified using level 3 as of 31 December 2010:

	Shares and shareholdings	**Derivates**	**Total**
Opening balance	407	41	448
Sales in the period	(39)		(39)
Transfer from level 2	311		311
Profits/losses recognised in income statement		33	33

Closing balance	**679**	**74**	**753**

Valuations of investments other than REC are primarily based on levels 2 or 3. If shares in the relevant shareholding are traded, the valuation will be based on the effective share price for the most recent transaction. However, shares in several of the companies in which investments are held are not subject to extensive trading. If there are no relevant transactions on which to base a valuation, alternative valuation methods are used. No “day one profits" have been identified. Changes in value will depend on future profit performance corresponding with the assumptions forming the basis of the valuation.

Note 10 Available-for-sale financial assets

The item available-for-sale financial assets comprises the Group's shareholding in Renewable Energy Corporation ASA. The value recognised in the balance sheet reflects fair value based on the quoted share price at the end of year of NOK 17.79. On 19 November 2008 the investment was reclassified from the category financial assets voluntarily classified at fair value to the category available-for-sale financial assets. Changes in value subsequent to reclassification are recognised in other comprehensive income, with the exception of any reduction in share price deemed to be of a material and/or permanent nature. In 2010 the operating result was reduced by NOK 1,991 million due to an impairment and losses on the sale of shares. Future changes in value are recognised in other comprehensive income, with the exception of impairments in excess of the listed price as of 30 June 2010 of NOK 15.61, which will be charged to the operating result.

NOK million	**2010**	**2009**
Book value as of 1 January	**3 432**	**4 542**
Additions	**464**	624
Disposals	**459**	632
Realised (losses)/gains recognised in the income statement	**(1 991)**	(137)
Net unrealised (losses)/gains recognised directly in equity	**138**	(965)
Book value as of 31 December	**1 584**	**3 432**

The Group recognised a loss of NOK 97 million in the income statement in 2010 connected to the sale of 26 million shares in Renewable Energy Corporation ASA. The disposal of the shares reduced the shareholding by 2.6 percent. In the prior year the Group recognised a loss of NOK 137 million in the income statement connected to the sale of 18 million shares in Renewable Energy Corporation ASA, which resulted in a reduction in the shareholding of 2.7 percent.

Note 11 Long-term receivables

NOK million	**2010-12-31**	**2009-12-31**
Interest-bearing loans and receivables	**232**	468
Contributions to pension funds	**116**	116
Other	**12**	19
Total long-term receivables	**360**	**603**

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

Note 12 Trade and other receivables

NOK million	2010-12-31	2009-12-31
Trade receivables	**1 092**	830
Bad debt reserve	**(15)**	(16)
Net trade receivables	**1 077**	**814**
Accrued, non-invoiced income	**2 131**	987
Interest-bearing receivables	**20**	
Receivable on sale of Hafslund Fibernett AS	**1 377**	
Other receivables	**583**	328
Total trade and other receivables	**5 188**	**2 129**

The fair value of trade and other receivables corresponds to the book value. Maximum exposure to credit risk at the end of the year equalled the fair value of the receivables listed above. See also Note 3 for further details.

Note 13 Cash and cash equivalents

NOK million	**2010-12-31**	**2009-12-31**
Cash and cash equivalents Group account		270
Cash and cash equivalents non-Group account	**211**	41
Total cash and cash equivalents	**211**	**311**

Of the Group's total bank deposits of NOK 211 million, an amount of NOK 37 million is pledged as security for Group power trading activities. The Group has two group account schemes, one with DnB NOR and one with Nordea. A group account scheme imposes joint and several liability on the participating companies. Hafslund ASA's accounts constitute single, unified accounts for transactions with its banks, while deposits into and withdrawals from subsidiaries' accounts are treated as intercompany balances with Hafslund ASA. Companies participating in the group account schemes have joint and several unconditional liability for total credit on the two group account schemes up to a limit of NOK 400 million, which is the overall credit facility limit.

Note 14 Share capital and premium

As of 31 December 2010 Hafslund ASA's share capital comprised the following categories of shares:

NOK million	A shares	B shares	Total shares	Premium	Total
As of 31 December 2009	115	80	195	4 080	4 275
As of 31 December 2010	**115**	**80**	**195**	**4 080**	**4 275**

The shares have a par value of NOK 1. There are no outstanding share options. The B shares do not confer any voting rights. In all other respects each share grants the same rights in the company. As of 31 December 2010 Hafslund held 451,161 Class B shares (2009: 451,161 B shares).

The largest shareholders in Hafslund ASA as of 31 December 2010 comprised the following:

(Shares '000)	A shares	B shares	Total shares	Shareholding	Voting rights
City of Oslo	67 525	37 343	104 868	53,7 %	58,5 %
Fortum Forvaltning AS	37 853	28 706	66 559	34,1 %	32,8 %
Østfold Energi AS	5 201	4	5 205	2,7 %	4,5 %
Odin Norden		2 452	2 452	1,3 %	
Total > 1% shareholding	**110 579**	**68 505**	**179 084**	**91,8 %**	**95,8 %**
Total other	4 849	11 253	16 102	8,2 %	4,2 %
Total number of shares	**115 428**	**79 758**	**195 186**	**100,0 %**	**100,0 %**

Note 15 Trade and other payables

NOK million	**2010-12-31**	**2009-12-31**
Trade payables	**464**	478
Withholding taxes	**271**	392
Accrued interest expenses	**193**	200
Accrued expenses	**636**	499
Other liabilities	**353**	142
Total trade and other payables	**1 917**	**1 711**

Note 16 Borrowings

NOK million	2010-12-31	2009-12-31
Long-term borrowings		
Fixed-interest bond loans	**4 138**	4 142
Variable-interest bond loans	**1 013**	1 653
Other loans	**5 108**	4 010
Total long-term borrowings	**10 259**	**9 805**
Current borrowings		
Variable-interest bond loans	**383**	462
Certificate loans	**1 581**	2 268
Other loans	**1 436**	**11**
Total current borrowings	**3 400**	**2 741**
Total borrowings	**13 659**	**12 546**

All borrowings taken out before 1 January 2010 are recognised at fair value, which is calculated by applying a discount factor to the borrowings' cash flows. The fair value does not include accrued interest. The discount rate applied is the Norwegian swap interest rate, adjusted upwards for Hafslund's credit spreads. From 1 January 2010 new borrowings are measured at amortised cost, which amounted to NOK 4,380 million at the year end.

The nominal amount as of 31 December 2010 was NOK 13,535 million. The corresponding amount as of 31 December 2009 was NOK 12,370 million.

The following credit spreads have been applied:

		Credit spread (basis points)
Term (years)	2010-12-31	2009-12-31
0,25	**17**	10
0,5	**17**	10
1	**14**	10
2	**67**	40
3	**95**	53
4	**108**	67
5	**120**	80
6	**125**	83
7	**130**	85
8	**133**	87
9	**137**	89

10	**140**	90

Seen in isolation, the change in credit spreads during 2010 results in a reduction in the loan portfolio's fair value of NOK 49 million. The corresponding change in 2009 was an increase of NOK 147 million.

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

	2010-12-31	**2009-12-31**
0-6 months	**9 533**	8 397
1-3 years	**351**	362
Over 3 years	**3 775**	3 788
Total borrowings	**13 659**	**12 546**

Hafslund has entered into a syndicated EUR 400 million credit facility maturing on 31 May 2012. The lender is a banking syndicate comprising nine Norwegian and international banks. The credit facility is used as a back-stop for current certificate loans and as a general liquidity reserve. At the end of the year EUR 275 million remained unused. The Group also has three bilateral credit facilities totalling NOK 1,194 million. At the reporting date an amount of NOK 1,144 million remained unutilised. The Group also has a NOK 400 million credit facility with Nordea. At the end of the year an amount of NOK 324 million remained unused.

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

Maturity profile interest-bearing loans:

NOK million	**2010-12-31**	**2009-12-31**
0-6 months	**3 072**	1 943
6–12 months	**328**	801
1-3 years	**2 892**	4 164
4-5 years	**3 546**	2 756
More than 5 years	**3 820**	2 882
Total borrowings	**13 659**	**12 545**

Note 17 Deferred income tax

Deferred income tax assets and liabilities are offsett when the Group has a legal right to offset deferred income tax assets against deferred income tax liabilities. The following amounts have been recognised net (NOK million):

NOK million	2010-12-31	2009-12-31
Deferred income tax assets that reverse after more than 12 months	**104**	237
Deferred income tax assets that reverse within 12 months	**21**	
Total deferred income tax assets	**125**	**237**
Deferred income tax liabilities that reverse after more than 12 months	**3 096**	3 188
Total deferred income tax liabilities	**3 096**	**3 188**
Total deferred income tax – net	**2 971**	**2 951**

	2010	2009
Change in deferred income tax in balance sheet		
Book value as of 1 January	**2 951**	2 818
Recognised in income in the period	**22**	125
Recognised in equity in the period	**(2)**	8
Book value as of 31 December	**2 971**	**2 951**

NOK million

Deferred income tax	Property, plant and equipment	Temporary differences	Total
As of 31 December 2008	**3 002**	**12**	**3 014**
Recognised in income in the period	(26)	(20)	(46)
Recognised in equity in the period		8	8
As of 31 December 2009	**2 976**	**0**	**2 976**
Recognised in income in the period	26	(21)	5
Recognised in equity in the period	(2)		(2)

As of 31 December 2010	**3 000**	**(21)**	**2 979**

	Pensions	Borrowings and liabilities	Other	Tax loss carryforward	Total
As of 31 December 2008	**(99)**	**(39)**	**(28)**	**(30)**	**(196)**
Recognised in income in the period	20	13	128	10	171
As of 31 December 2009	**(79)**	**(26)**	**100**	**(20)**	**(25)**
Recognised in income in the period	64	(60)	(4)	17	17
Sales and acquisitions subsidiaries					
As of 31 December 2010	**(15)**	**(86)**	**96**	**(3)**	**(8)**

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

Note 18 Retirement benefit obligations

Group companies operate different pension plans organised through pension funds and insurance companies. The pension plans are generally funded through contributions made by the companies at levels largely determined on the basis of actuarial calculations. The Group operates both defined contribution and defined benefit plans. In accordance with the Norwegian Act on Mandatory Occupational Pension Schemes, with effect from 1 July 2006, agreements have been entered into concerning defined contribution plans for all companies that had not previously operated occupational pension plans for their employees. From 1 January 2010 most of the companies had taken out disability pension insurance for employees with defined contribution pensions. As of 31 December 2010 a total of 541 employees were covered by defined benefit plans through Hafslund's two pension funds. The pension funds also paid pensions to 1,125 individuals. In addition to the above, the Group has defined contribution plans with various insurance companies. Hafslund reorganised its pension plans with effect from 1 January 2007. As a consequence, the existing pension funds were closed to new members. At the same time, defined contribution plans were introduced for all new employees. Most employees are covered by the AFP early retirement plan, which is a defined-benefit pension plan covered by the agreement on voluntary early retirement between the Norwegian Confederation of Trade Unions (LO) and the Confederation of Norwegian Enterprise (NHO).

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

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

NOK million	**2010-31-12**	**2009-31-12**
Net recognised liability:		
Present value of accrued pension liabilities for funded defined benefit schemes	**2 091**	2 106
Fair value of pension assets	**(1 563)**	(1 644)
Actual net pension liability for funded defined benefit schemes	**528**	**462**
Present value of liability for non fund-based schemes	**332**	262
Non-recognised estimate deviations	**(907)**	(496)
Social security contributions	**104**	88
Net pension liabilities in the balance sheet (after social security contributions)	**57**	**316**

Changes in the defined benefit pension liability during the year:		
Pension liability as of 1 January (excluding social security contributions)	**2 367**	2 377
Present value of accrued pension entitlements for the year	**42**	48
Interest expense	**89**	85
Estimate changes	**201**	(43)
Benefits paid	**(104)**	(100)
Liabiilties re plan changes and acquisitions	**(172)**	

Pension liability as of 31 December (excluding social security contributions)	**2 423**	**2 367**

Change in fair value of pension assets:		
Fair value of pension assets as of 1 January	**1 644**	1 502
Expected return on plan assets	**92**	72
Estimate changes	**(188)**	44
Total contribution	**104**	107
Total payments from fund	**(89)**	(81)
Pension assets on acquisitions		
Fair value of pension assets as of 31 December	**1 563**	**1 644**

The minimum pension liability, which is the net present value of pension liabilities based on the current income from which pension earnings are derived at the reporting date, amounted to NOK 1,987 million as of 31 December 2010 and NOK 1,932 million as of 31 December 2009. Expected receipts during 2010 amount to NOK 122 million.

The following actuarial assumptions have been applied:	**2010**	**2009**
Discount rate	**4,00 %**	4,40 %
Expected return on plan assets	**5,40 %**	5,60 %
Future salary increases	**3,75 %**	4,00 %
Adjustment of National Insurance Scheme's basic amount (G)	**3,75 %**	4,00 %
Future pension increases	**3,00 %**	4,00 %

Demographic assumptions that form the basis of the calculations are based on the IR73 disability rate table (restated using the intensity method) and the GAP07 dynamic mortality rate table developed by GablerWassum AS.

The projected long-term return on pension assets is based on an estimated government bond interest rate as of 31 December, adjusted for differences in yield for the various investment categories in which pension assets are held. The expected long-term yield is based on long-term historic yield. The actual yield on pension assets in 2010 amounted to NOK 70 million, compared with NOK 70 million in 2009.

NOK million	**2010**	**2009**
Service cost	**42**	48
Interest expense	**89**	85
Expected return on plan assets	**(92)**	(73)
Amortisation of liability on plan changes	**(172)**	
Amortisation of estimate losses/(gains)	**25**	33
Social security contributions	**(18)**	8
Beneficiary contributions		
Pension expense defined benefit plans	**(126)**	**101**
Pension expense defined contribution plans	**15**	**15**
Total pension expense	**(111)**	**116**

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

NOK million		**2010-31-12**		**2009-31-12**
Equity instruments	**516**	**33 %**	402	24 %
Interest-bearing instruments	**985**	**63 %**	1 161	71 %
Other	**63**	**4 %**	81	5 %
Fair value of pension assets	**1 563**	**100 %**	1 644	**100 %**

Note 19 Other (losses)/gains - net

NOK million	2010	2009
Other financial assets and liabilities at fair value through profit or loss		
Fair value change of shares	**(26)**	(109)
Dividends received	**60**	2
Other finance income	**63**	49
Derivatives		
Interest rate swaps – borrowings	**24**	(12)
Forward currency contracts	**13**	66
Options	**(6)**	37
Forward contracts	**36**	14
Sale of financial assets		
Gains on the sale of shares	**893**	
Total other (losses)/gains – net	**1 058**	**48**

Note 20 Other operating expenses

NOK million	**2010**	**2009**
Maintenance costs	**670**	641
Purchase of services	**132**	142
Rent, power etc.	**168**	145
Sales and marketing costs	**124**	91
Other	**477**	399
Total other operating expenses	**1 571**	**1 418**

In 2010 the Group recognised auditors' fees totalling NOK 7.8 million (NOK 7.4 million). The fees break down as follows: NOK 5.1 million for statutory auditing, NOK 0.5 million for other certification services, NOK 1.7 million for tax consultancy services, and NOK 0.5 million for other non-auditing services.

Note 21 Employee benefit expenses

NOK million	2010	2009
Salaries	**554**	511
Social security contributions	**93**	81
Pension expenses – defined benefit plans	**(126)**	101
Pension expenses – defined contribution plans	**15**	15
Other benefits	**46**	64
Total salaries and other personnel expenses	**582**	**772**

Remuneration paid to executive employees:

NOK ’000	2010	2009
Salaries and other current remuneration paid to executive employees	**22 540**	18 243
Accrued pension entitlements	**2 861**	3 380
Board fees	**2 157**	1 858
Total remuneration paid to executive employees	**27 558**	**23 481**

NOK ’000	2010-31-12	2009-31-12
Loans to executive employees	**3 060**	**3 226**

The Group employs a total of 1,123 full-time-equivalents.

Note 22 Finance costs

NOK million	**2010**	**2009**
Interest expense borrowings	**(528)**	(571)
Fair value change of borrowings	**27**	(135)
Capitalisation of borrowing costs	**55**	43
Foreign exchange gains/(losses)	**(1)**	13
Other finance costs	**(24)**	(11)
Total finance costs	**(471)**	**(661)**

Note 23 Income tax expense

NOK million	2010	2009
Income tax payable	**525**	212
Deferred income tax liabilities	**48**	123
Total income tax expense	**573**	**335**

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to the profits of the consolidated entities as follows:

NOK million	2010	2009
Profit/loss before tax including discontinued operations	**182**	533
Income tax calculated at nominal tax rate (28%)	**(51)**	(149)
Change relating to previous year's settlement	**7**	55
Resource rent tax	**(257)**	(165)
Sale and change in value of shares	**(280)**	(79)
Permanent differences	**9**	3
Change in value deferred income tax assets		(14)
Result from associates	**13**	14
Impairment of goodwill	**(14)**	
Total income tax expense	**(573)**	(335)
Effective tax rate	**315 %**	**63 %**

The change in the effective tax rate is primarily attributable to the fact that only three percent of the return on the share investments is taxable, and the effect of resource rent tax. In 2009 the Group recognised changes in previous years' tax settlements in accordance with the change motions connected to Hatros I and Hafslund Venture, see Note 25.

Note 24 Cash generated from operations

NOK million	2010	2009
EBITDA	**1 923**	**2 076**
Adjustments for:		
- loss on sale of operating assets/business	**(870)**	(27)
- result of Renewable Energy Corporation ASA investment	**1 991**	137
- gains/losses on other financial assets at fair value through profit or loss	**(145)**	2
- other items with no cash flow effect	**6**	(11)
Changes in working capital:		
- inventories	**(34)**	89
- trade and other receivables	**(1 379)**	348
- trade and other payables	**(241)**	267
Cash generated from operations	**1 250**	**2 881**

Note 25 Contingencies

Tax-related gains on realisation of convertible bonds in Renewable Energy Corporation ASA
The case relates to Hafslund Venture AS's tax settlement for the 2006 income year, concerning tax-related consequences of the exercising of subscription rights in connection with convertible bonds in Renewable Energy Corporation ASA (REC). The bonds were acquired in various tranches in the period 2005-2006, at a total cost of NOK 494 million. On conversion in March 2006 Hafslund Venture AS received a total of 32,604,060 shares in REC. For tax purposes, Hafslund subdivided the profit on the conversion so that the profit relating to the bond portion was deemed to be taxable, while the profit relating to the subscription rights was deemed to represent non-taxable income from financial instruments in accordance with the exemption method contained in § 2-38 of the Norwegian Tax Act. Hafslund claimed that the above profit was essentially non-taxable and a smaller portion of the profit, NOK 15.3 million, was deemed to represent a profit on the receivables element and thus liable to tax. The Norwegian Central Tax Office for Large Enterprises (Sfs) determined in its change motion that the profit was taxable in its entirety since the receivables component must, in its view, be deemed to constitute the dominant element. The parties to the case have agreed that the value of the shares on conversion should be established as NOK 65 per share, bringing the total value of the shares at the time of realisation to NOK 2,119 million. The profit on the exercising of the subscription rights was thus NOK 1,625 million. In the Oslo District Court Hafslund lost both the principal ruling regarding the claim for the profit to be split into a receivable/loan portion and a subscription portion, and the secondary ruling that the convertible loans should be taxed based on a materiality view (based on what they were most similar to.) Hafslund appealed Oslo District Court’s ruling to the Court of Appeal and the ruling was upheld on 11 March 2011. Hafslund also lost the main and subsidiary view with regard to taxation. The ruling was upheld by a majority of three to two. Hafslund has decided to appeal the case to the Supreme Court with an appeal deadline of 10 April 2011.

Tax on profit on sale of shares
As part of the Group's strategy to professionalise property operations, and further streamline the grid owner function, in 2006 and 2007 the Hafslund Group span off a series of properties from Hafslund Nett AS. A total of 58 properties were transferred to 11 different property companies organised as part of the Group's property business. The shares in two of the companies were sold in 2006 and 2007 (Hatros I AS and Hatros II AS). Hafslund deemed the sale of the shares to be non-taxable in accordance with the exemption method. In June 2009 the company received a counter-ruling from the Central Tax Office for Large Enterprises that the non-taxable spin-off and subsequent sale of the shares in Hatros I AS in 2006 were covered by the principle of assigning appropriate financial responsibility. A new tax settlement for 2006 for NOK 95 million has been received and paid. Hafslund does not agree with the change motion, as the transaction is commercially motivated in line with the intention behind both the spin-off rules and exemption method, and has therefore appealed the decision to the appeal instance of the Norwegian Tax Administration. The appeal is yet to be reviewed by the above body. Hafslund has been notified that Sfs is also considering changing the settlement concerning the sale of the shares in Hatros II AS in 2007, where any tax payable would amount to NOK 172 million.

Hafslund has recognised total income tax expenses of NOK 545 million for the disputed tax cases relating to the realisation of convertible bonds in REC and the sale of shares in Hatros I AS og Hatros II AS.

Other claims
Potential adjustment liability for pension liabilities for grid activities
The case relates to premium claims from Kommunal Landspensjonskasse (KLP) alleging that Hafslund is responsible for adjustment pension liabilities relating to around 600 previous employees/pensioners in ten grid companies. Actuarial calculations show that the adjustment claim amounted to a net pension liability of NOK 181 million at the end of 2010. The claims relate to occupational pension insurance plans that were cancelled with KLP in the period 1992–2003. Hafslund has informed KLP that it rejects the claim. This is partly on the grounds that Hafslund is the wrong addressee for the claim, as Hafslund has not taken over its liabilities from the former grid operators. The rejection is further justified on the grounds that KLP has been wound up and that KLP, through established practice and a continuous pattern of conduct, has assumed liability for the adjustment liability.

In November 2008 KLP’s claim was transferred to the Norwegian pension safeguarding scheme (Sikringsordningen) established under the Norwegian Public Service Pension Fund’s transfer agreement (Overføringsavtalen) for public sector pension schemes to cover pension liabilities where the employer has ceased to trade or is not paying contributions. The Norwegian pension safeguarding scheme initiated proceedings against Hafslund in June 2009 concerning the adjustment premiums for the period 2005–2008. In October 2010 the case was heard in the Oslo District Court, which ruled that there were no grounds for the Norwegian pension safeguarding scheme's claims for recourse and fully acquitted Hafslund in the case. The Norwegian pension safeguarding scheme has appealed the ruling to Borgarting Court of Appeal. Since the ruling does not have legal effect, an estimated provision has been recognised in the 2010 financial statements in pensions and similar liabilities.

Note 26 Related party transactions

As of 31 December 2010 the City of Oslo owned 53.7 percent of the shares in Hafslund ASA. At the same date Hafslund ASA held a 43.3 shareholding in Infratek ASA. Hafslund buys and sells goods and services with its related parties the City of Oslo and Infratek ASA. All transactions between the parties are carried out on market terms. Receivables from related parties primarily arise from the sale of goods and services. Trade payables from related parties mainly arise from the purchase of goods and services.

NOK million	City of Oslo		Infratek ASA	
Income statement:				
	2010	**2009**	**2010**	**2009**
Sales of goods and services	**320**	230	**40**	
Purchases of goods and services	**110**	91	**480**	638
Balance sheet:				
	2010-12-31	**2009-12-31**	**2010-12-31**	**2009-12-31**
Receivables	**87**	62	**3**	
Trade payables	**17**	13	**64**	50

Borrowings
Two new bond loans were established from the City of Oslo in 2007 and 2008 in the respective amounts of NOK 500 million and NOK 740 million. The loans have ten-year terms. Both loans were taken out on market terms and conditions and are listed on the Oslo Stock Exchange. Norsk Tillitsmann is appointed trustee and is legal counterparty. As part of the initiative to boost the amount of buffer capital in Oslo Pensjonforsikring AS, in 2008 the City of Oslo extended a subordinated loan of NOK 1,240 million to Oslo Pensjonforsikring AS through an assignment of the above-mentioned bonds. Oslo Pensjonforsikring AS is a life insurance company that is wholly owned by the City of Oslo. The loans are included in fixed-interest bonds under long-term borrowings, see Note 16.

Loans to related companies	**2010**	**2009**
Book value as of 1 January	**129**	73
Borrowings extended in 2010	**9**	64
Borrowings repaid in 2010	**(22)**	(15)
Interest income	**9**	10
Interest received	**(2)**	(3)
Book value 31 December	**123**	**129**

Hafslund has extended loans to companies included in the Group's Venture portfolio. As of 31 December 2010 outstanding receivables due from companies in the portfolio totalled NOK 123 million, of which loans to Network Norway comprised NOK 88 million and loans to Cogen NOK 23 million.

Note 27 Business acquisitions and disposals

Business acquisitions

The Nordic region is generally migrating towards a joint end-user market for electricity and several companies are currently positioning themselves across the various Nordic countries. This was the motivation for Hafslund's establishment in Sweden through the purchase of a 49 percent share in Energibolaget i Sverige Holding AB (EBS) with effect from 1 June 2010, with an option to acquire the remaining shares in 2013. EBS is recognised as a joint venture and Hafslund consolidates its pro rata shares of the company's income statement and balance sheet. The shares were transferred against a cash payment of NOK 131 million. The book value of the company's net assets is deemed to equate to fair value, and excess values of NOK 86 million have been classified as goodwill. Goodwill is attributable to higher revenue potentials and cost synergies triggered by the merger.

Recognised assets and liabilities in the acquired business:

NOK Million	**On acquisition**	**2010-12-31**
Intangible assets	2	5
Property, plant and equipment	6	4
Current assets	65	81
Cash and cash equivalents	59	101
Long-term liabilities	19	16
Current liabilities	68	114
Goodwill	86	86
Total	**131**	

Hafslund purchased 100 percent of the shares in Göta Energi AB with effect from 30 June 2010. The shares were transferred against a cash payment of NOK 83 million. Transaction expenses totalling NOK 0.1 million were recognised. By establishing itself in Sweden, Hafslund wishes to position itself for a joint Nordic end-user market. The book value of the company's net assets are deemed to equate to fair value, and of excess values of NOK 69 million, an amount of NOK 12 million has been identified as the value of fixed-price agreements and NOK 57 million has been classified as goodwill. Goodwill is attributable to cost synergies triggered by the merger, and intangible assets that do not qualify for separate recognition in the balance sheet.

Recognised assets and liabilities in the acquired business, where financial liabilities relate to the company's overdraft facility. The nominal value of the acquired receivables is NOK 230 million:

NOK million	
Receivables	223
Bank overdraft	(209)
Total identifiable assets	14
Value of fixed-price contracts	12
Goodwill	57
Total	**83**

Recognised 2010 sales and results figures in acquired companies, and consolidated shares:

	Göta Energi AB		**EBS**	
	Annual total	**Consolidated share**	**Annual total**	**Consolidated share**

Sales	596	249	925	252
Annual result	247	19	22	10

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

Business disposal
Hafslund sold Hafslund Fibernett AS to the PE fund EQT V with effect from 27 December 2010. The sale price was NOK 1,477 million. As part of the agreement Hafslund issued a vendor loan note of NOK 310 million, while the rest of the sales sum was settled in cash in January 2011. The assets sold were primarily property, plant and equipment. The company has a low gearing ratio, where liabilities primarily comprise tax liabilities and trade payables. The profit on the sale was NOK 875 million and has been recognised in the income statement in the line other (losses)/gains – net. Cash and cash equivalents in Hafslund Fibernett AS at the time of the sale amounted to NOK 3 million.

Note 28 Consolidated companies

Company	Country/registered office	Shareholding/voting rights %	
Hafslund ASA	Oslo	100	
Hafslund Produksjon AS	Sarpsborg	100	
Sarp Kraftstasjon AS	Sarpsborg	100	
Hafslund Miljøenergi AS	Sarpsborg	100	
Slagen Energigjenvinning AS	Sarpsborg	100	
Gassnett AS	Sarpsborg	69	
Hafslund Pellets Holding AS	Oslo	100	
Bio Wood Norway AS	Oslo	100	
Hafslund Nett AS	Oslo	100	
Hafslund Driftssentral AS	Oslo	100	
Hafslund Fjernvarme AS	Oslo	100	
Viken Fjernvarme AS	Oslo	100	
Hafslund Strøm AS	Oslo	100	
NorgesEnergi AS	Kristiansand	100	
Hallingkraft AS	Ål	100	
Røyken Kraft AS	Røyken	51	
Fredrikstad Energisalg AS	Fredrikstad	100	
Total Energi AS	Florø	100	
Gøta Energi AB	Kungälv	100	
Energibolaget i Sverige AB	Haninge	49	
Hafslund Fakturaservice AS	Oslo	100	
Hafslund Kundesenter AS	Oslo	100	
Hafslund Venture AS	Oslo	100	
Hafslund Venture II AS	Oslo	100	
Hafslund Telekom AS	Oslo	100	
Hafslund Telekom Nettjenester AS	Oslo	100	
Hafslund Fibernett AS	Oslo	100	1)
Triplenet AS	Oslo	100	1)
NextNet AS	Flekkefjord	100	
Hafslund IT AS	Oslo	100	
Cumulus IT AS	Asker	100	
Embriq Services AS	Oslo	100	
Embriq Services AB	Gøteborg, Sverige	100	
Embriq Systems AS	Oslo	100	
Policom AB	Karlstad, Sverige	100	
Integrate AS	Oslo	100	
4-Tech AS	Oslo	100	

Hafslund Delta AS	Oslo	100
Embriq AS	Oslo	100
Inforum Norge AS	Fredrikstad	100
Oslo Energi AS	Oslo	100
Hafslund Eiendom AS	Oslo	100
Viken Boligeiendom AS	Oslo	100
Ulven 1 AS	Oslo	100
Ulven 2 AS	Oslo	100
Slemdalsveien 105 AS	Oslo	100
Sinsenveien 86 AS	Oslo	100
Rosenkrantzgate 14 AS	Oslo	100
Hafslund USA Inc	USA	100
Hafslund Energy LLC	USA	100
Hafslund Energy Trading LLC	USA	100

[1)] The company was sold on 27 December 2010. The company's result has been consolidated in the period of ownership.

Accounts and notes - ASA

Income statement Hafslund ASA

		1 January – 31 December	
NOK million	**Notes**	**2010**	**2009**
Operating revenues		**220**	**260**
Salaries and other personnel expenses	3, 4	**94**	175
Depreciation, amortisation and impairments	8	**10**	11
Other operating expenses	5	**345**	204
Operating expenses		**449**	**390**
Operating loss		**(230)**	**(130)**
Result of share investments	6	**57**	38
Net financial items	6	**164**	828
Total financial items		**221**	**866**
Profit/loss on ordinary activities before tax		**(9)**	**736**
Tax on profit/loss on ordinary activities	**7**	**(27)**	**(121)**
Profit/loss for the year		**(36)**	**615**
Allocations:			
Dividends	18	1 461	438
Transferred (from)/to equity		**(1 497)**	**177**

Balance sheet Hafslund ASA

		31 December	
NOK million	Notes	**2010**	**2009**
Assets			
Deferred income tax asset	7	**27**	54
Total intangible assets		**27**	**54**
Property, plant and equipment	8	**140**	**113**
Shares in subsidiaries, associates and joint ventures	9	**16 365**	16 299
Other long-term receivables	4, 10	**3 373**	4 565
Total financial assets		**19 738**	**20 864**
Total non-current assets		**19 905**	**21 031**
Trade and other receivables	11	**3 731**	1 925
Derivatives		**6**	
Cash and cash equivalents	17		270
Total current assets		**3 737**	**2 195**
Total assets		**23 642**	**23 226**
Equity and liabilities			
Paid-in-equity		**4 350**	4 350
Retained earnings		**3 968**	5 465
Total equity	18, 19	**8 318**	**9 815**
Provisions for liabilities and charges	4	**55**	127
Long-term liabilities	14, 15	**10 836**	10 166
Total long-term liabilities and provisions		**10 891**	**10 293**
Current interest-bearing liabilities	12	**2 719**	2 266
Trade payables		**23**	21
Proposed Group contributions, dividends	18	**1 461**	523
Other current liabilities	13	**230**	308
Total current liabilities		**4 433**	**3 118**
Total equity and liabilities		**23 642**	**23 226**

Board of Directors of Hafslund ASA
Oslo, 22 March 2011

Birger Magnus
Chairman of the Board

Hans Kristian Rød   Ole Ertvaag   Hanne Harlem

Tyra Marie Hetland   Kristin Bjella   Per Luneborg

Per Orfjell   Maria Moræus Hanssen   Susanne Jonsson

Christian Berg
President and CEO

Statement of cash flow Hafslund ASA

		1 January – 31 December	
NOK million	**Notes**	**2010**	**2009**
Profit on ordinary activities before tax		**(9)**	736
Depreciation, amortisation and impairments	8	**10**	11
Other result items adjusted for liquidity effect		**158**	(10)
Accrued Group contributions		**(355)**	(927)
Change in working capital etc.		**(79)**	(82)
Change in receivables due from Group companies		**(2 390)**	669
Net cash generated from operations		**(2 665)**	**397**
Purchases of property, plant and equipment	8	**(38)**	(26)
Acquisition of subsidiaries		**(214)**	(150)
Sale of operating assets or subsidiaries			39
Change in long-term receivables		**1 192**	(307)
Net cash flow from investing activities		**940**	**(444)**
Change in interest-bearing liabilities		**1 123**	(41)
Net Group contributions received		**844**	714
Change in other long-term liabilities		**(73)**	(21)
Dividends paid		**(439)**	(439)
Net cash flow from financing activities		**1 455**	**213**
Net change in cash and cash equivalents		**(270)**	166
Cash and cash equivalents as of 1 January		**270**	104
Cash and cash equivalents as of 31 December		**(0)**	**270**

Notes ASA

Note 1 Summary of significant accounting policies

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

Operating revenues
Revenue on the sale of goods and services is recognised at the fair value of the remuneration received at the time of delivery to the customer, provided that the customer has assumed the risks and rights pertaining to the property.

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

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

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

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

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

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

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

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

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

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

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

Contingencies
Contingencies are recognised if, on the balance of probabilities, it is more likely that these will be settled than not settled. Best estimates are used to calculate settlement values.

Provisions are recognised in the event that decisions are taken to implement measures (such as restructuring measures) that materially change the scope of the business or way in which it is operated, and when such measures result in termination benefits. Provisions are calculated based on best estimates of the expenses that are expected to accrue.

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

Note 2 Significant transactions

The Nordic region is generally migrating towards a joint end-user market for electricity and several companies are in the process of positioning themselves across the various Nordic countries. This was the motivation for Hafslund's establishment in Sweden through the purchase of a 49 percent share in Energibolaget i Sverige Holding AB (EBS) with effect from 1 June 2010, with an option to acquire the remaining shares in 2013. The shares were transferred for consideration of NOK 131 million. Hafslund ASA also purchased 100 percent of the shares in Göta Energi AB with effect from 30 June 2010. Consideration for the shares amounted to NOK 83 million.

Hafslund ASA transferred the shares in Hafslund Telekom AS as contributions in kind to Hafslund Venture II AS in July 2010. The share contribution was transferred with accounting continuity. The value of the share contribution was established based on the discounted cash flow which confirmed that the share's fair value exceeded their book value. The object of the transfer was to enable Hafslund Venture II AS to take over operations of Hafslund Telekom AS.

Note 3 Employee benefit expenses

NOK million	**2010**	**2009**
Salaries	**105**	115
Social security contributions	**19**	17
Pension expenses	**(37)**	30
Other benefits	**7**	13
Total salaries and other personnel expenses	**94**	**175**

Number of full-time equivalents as of 31 December 2010	**140**	148

Note 4 Retirement benefit obligations

Pension expenses

NOK million	2010	2009
Defined benefit plans:		
Present value of accrued pension entitlements for the year	**10**	12
Interest expense on pension liabilities	**30**	27
Expected return on plan assets	**(30)**	(22)
Net amortisation	**(45)**	8
Social security contributions	**(5)**	3
Pension expense defined benefit plans	**(40)**	**28**
Defined contribution plans:		
Employer contributions	**3**	2
Total pension expenses	**(37)**	30

Pension assets and liabilities

NOK million	2010-31-12	2009-31-12
Gross pension liabilities	**750**	743
Pension assets	**(491)**	(530)
Actual net pension liabilities	**259**	213
Non-amortised deviations from plan/assumption	**(264)**	(137)
Social security contributions	**37**	33
Net pension liabilities (pension assets)	**32**	**109**
Net pension liabilities in balance sheet	**(55)**	(127)
Net pension assets in balance sheet	**23**	18

	2010-31-12	2009-31-12
Net pension liabilities as of 1 January	**109**	135
Pension expense for the year	**(40)**	28
Pension payments and payment of pension premiums	**(37)**	(54)
Net pension liabilities as of 31 December	**32**	**109**

Assumptions	**2010-31-12**	2009-31-12

Expected return on plan assets	**5,40 %**	5,60 %
Discount rate	**4,00 %**	4,40 %
Future salary increases	**3,75 %**	4,00 %
Future pension increases	**3,75 %**	4,00 %

As of 31 December 2010 the pension plans covered 117 employees.

Note 5 Other operating expenses

NOK million	2010	2009
Consultancy expenses	**34**	44
Rent, power etc.	**9**	9
Sales and marketing costs	**36**	43
Impairment of shares in Pellets Holding AS	**159**	
Other operating expenses	**107**	108
Total other operating expenses	**345**	**204**

Fees paid to auditors recognised in the income statement in 2010 for Hafslund ASA amounted to NOK 1.3 million. The fees relate to the following:

- Statutory auditing NOK 0.8 million
- Other non-auditing services NOK 0.5 million

Note 6 Result of share investments and net financial items

NOK million	2010	2009
Dividends	**55**	38
Gains on sale of shares	**2**	
Profit/loss on share investments	**57**	**38**
Interest income 1)	**462**	1 110
Interest expenses	**(652)**	(1 363)
Group contributions	**355**	927
Other finance income/(finance costs)	**(1)**	154
Net financial items	**164**	**828**

1) Hafslund ASA interest income includes intragroup interest of NOK 457 million for 2010 and NOK 1,108 million for 2009.

Note 7 Income tax expense

NOK million	2010	2009
Profit before income tax	**(9)**	736
Permanent differences	**107**	(6)
Change in temporary differences	**(95)**	(191)
Tax basis before application of tax loss carryforward and Group contributions	**3**	**539**
Utilisation of tax loss carryforward	**(3)**	(211)
Group contributions, net of tax		(300)
Group contributions, tax effect 2008		(28)
Tax basis, income tax payable	**0**	**0**
The total tax expense comprises:		
Tax on Group contributions – correction 2008		7
Change in deferred income tax liabilities	**27**	113
Income tax expense	**27**	121
Reconciliation of tax rate		
Profit before income tax	**(9)**	736
Expected income tax expense at a nominal rate of 28%	**(3)**	206
Tax effect of non-taxable income and non-deductible expenses	**29**	(86)
Income tax expense	**27**	121
Effective tax rate	**(305 %)**	16 %

The change in the effective tax rate is primarily attributable to the fact that only 3 percent of the return on share investment is taxable.

	2010-31-12	2009-31-12	2009-01-01 1)
Basis deferred income tax liabilities/income tax assets			
Short-term differences	**(11)**	(3)	(106)
Operating assets	**(97)**	(130)	(198)
Accrued pension liabilities	**13**	(57)	(78)
Tax loss carryforward		(3)	(214)
Basis deferred income tax liabilities/income tax assets	**(95)**	**(193)**	**(596)**
Deferred income tax asset in balance sheet	**(27)**	**(54)**	**(167)**

1) The adjusted opening balance is attributable to the consolidation of subsidiaries.

Note 8 Property, plant and equipment

NOK million	Machinery, technical equipment, furniture etc.	Land and other property	Facilities under construction	Total
Book value as of 31 December 2008	**27**	**81**	**0**	**108**
Additions	21	4	1	26
Disposals	(2)	(10)		(12)
Depreciation for the year	(8)	(3)		(11)
Book value as of 31 December 2009	**38**	**72**	**1**	**113**
Cost	169	95	1	265
Cumulative depreciation and impairments	(131)	(22)		(152)
Book value as of 31 December 2009	**38**	**72**	**1**	**113**
Additions	13	5	20	38
Disposals				
Depreciation for the year	(8)	(2)		(10)
Book value as of 31 December 2010	**44**	**75**	**21**	**140**
Cost	182	100	21	303
Cumulative depreciation and impairments	(139)	(25)		(164)
Book value as of 31 December 2010	**44**	**75**	**21**	**140**
Depreciation percentage	3-33	0-5		

Note 9 Shares in subsidiaries and other companies

NOK million	Year of acquisition	Registered office	Ownership/voting rights %	Recognised shareholding in company as of 2010-12-31	Book value 2010-12-31
Hafslund Venture AS	1986	Oslo	100	1 698	2 268
Sarp Kraftstasjoner AS	1987	Sarpsborg	100	113	61
Hafslund Nett AS	2009	Oslo	100	5 355	4 422
Hafslund Eiendom AS	2009	Oslo	100	640	662
Hafslund Strøm AS	2009	Oslo	100	1 646	1 348
Hafslund Fakturaservice AS	2009	Oslo	100	135	30
Hafslund Kundesenter AS	2009	Oslo	100	20	15
Hafslund Fjernvarme AS	2009	Oslo	100	1 189	3 073
Hafslund Pellets Holding AS	2009	Oslo	100	822	0
Hafslund Miljøenergi AS	2009	Sarpsborg	100	510	335
Hafslund Produksjon AS	2009	Askim	100	995	3 076
Hafslund Driftssentral AS	2009	Oslo	100	190	722
Inforum AS	2009	Fredrikstad	100	15	10
Gøta Energi AB	2010	Kungälv	100	27	83
Total shares in subsidiaries				**13 355**	**16 105**
Energibolaget i Sverige AB	2010	Haninge	49	59	131
Infratek ASA	2002	Oslo	43,3	311	129
Total shares in subsidiaries, associates and joint ventures				**13 726**	**16 365**

Hafslund Pellets Holding AS owns Biowood Norway AS, which has recognised an impairment of NOK 300 million for the pellet plant due to weak market conditions and reduced contribution margins within the European pellets market. The shares in Hafslund Pellets Holding have consequently been written down to NOK 1.

See Note 2 for details of the acquisition of Gøta Energi AB and Energibolaget i Sverige AB.

Note 10 Other long-term receivables

NOK million	**2010-12-31**	**2009-12-31**
Net pension assets in balance sheet (See Note 4)	**23**	18
Interest-bearing loans and receivables	**34**	1 231
Contributions to pension funds	**116**	116
Loans to Group companies	**3 200**	3 200
Total long-term receivables	**3 373**	**4 565**

Note 11 Trade and other receivables

NOK million	2010-12-31	2009-12-31
Trade receivables	**1**	1
Receivables due from Group companies	**3 715**	1 897
Other receivables	**15**	27
Total trade and other receivables	**3 731**	**1 925**

Note 12 Current interest-bearing liabilities

NOK million	**Interest % per 2010-12-31**	**Interest % per 2009-12-31**	**Liabilities as of 2010-12-31**	**Liabilities as of 2009-12-31**
Miscellaneous certificates and current borrowings	**2,6-3,9**	2,1-4,1	**2 693**	2 266
Overdraft facilities			**26**	
Current interest-bearing liabilities			**2 719**	2 266

Note 13 Other current liabilities

NOK million	2010-12-31	2009-12-31
Withholding taxes	**5**	8
Accrued interest	**193**	200
Other non-interest-bearing liabilities	**19**	20
Liabilities due to other Group companies	**13**	80
Total other current liabilities	**230**	**308**

Note 14 Long-term liabilities

NOK million	Interest % as of 2010-12-31	Interest % as of 2009-12-31	Liabilities as of 2010-12-31	Liabilities as of 2009-12-31
Fixed-interest bond loans	**5,0-6,3**	5,0-6,3	**4 009**	4 015
Variable-interest bond loans	**2,7-4,3**	2,2-3,8	**1 390**	2 102
Other loans	**2,8-5,2**	2,2-4,5	**5 437**	3 980
Total long-term interest-bearing liabilities			**10 836**	**10 097**
Other loans				69
Total long-term liabilities			**10 836**	**10 166**

As of 31 December 2010 the market value of current and long-term borrowings amounted to NOK 13,671 million

Maturity profile long-term interest-bearing liabilities Hafslund ASA

Year	2011	2012	2013	2014	2015	Later	Total
NOK million	710	1 056	1 815	1 909	1 909	3 437	**10 836**

Hafslund has entered into a syndicated EUR 400 million credit facility maturing on 31 May 2012. The lender is a banking syndicate comprising nine Norwegian and international banks. The credit facility is used as a back-stop for current certificate loans and as a general liquidity reserve.
At the end of the year EUR 275 million remained unused. The Group also has three bilateral credit facilities totalling NOK 1,194 million. At the reporting date an amount of NOK 1,144 million remained unutilised. The Group also has a NOK 400 million credit facility with Nordea. At the end of the year an amount of NOK 324 million remained unused.

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

Note 15 Related parties

The City of Oslo extended two new bond loans in the respective amounts of NOK 500 million and NOK 740 million in 2007 and 2008. The loans have ten-year terms. Both loans were taken out on market terms and conditions and are listed on the Oslo Stock Exchange. Norsk Tillitsmann is appointed trustee and is legal counterparty. As part of the initiative to boost the amount of buffer capital in Oslo Pensjonforsikring AS, in 2008 the City of Oslo extended a subordinated loan of NOK 1,240 million to Oslo Pensjonforsikring AS through an assignment of the above-mentioned bonds. Oslo Pensjonsforsikring AS is a life insurance company that is wholly owned by the City of Oslo. The loans are recognised under fixed interest bond in long-term borrowings in Note 16 to the consolidated financial statements.

Note 16 Risk management and financial derivatives

Interest rate swaps

The table below shows outstanding interest rate swaps as of 31 December 2010:

NOK million

Currency	Amount	Hafslund pays		Hafslund receives		Start	Maturity
NOK	200	Fixed/quarterly	4,5 %	Variable	3M Nib	20 Oct 2008	20 Oct 2011
NOK	100	Fixed/quarterly	5,0 %	Variable	3M Nib	24 Nov 2008	24 Nov 2011
NOK	200	Fixed/quarterly	4,3 %	Variable	3M Nib	22 Apr 2009	23 Apr 2012
NOK	200	Fixed/quarterly	4,1 %	Variable	3M Nib	11 Nov 2008	12 Nov 2012
NOK	200	Fixed/semi-annually	3,2 %	Variable	6M Nib	21 Jan 2009	21 Jan 2013
NOK	350	Variable/semi-annually	6M Nib+185	Fixed/annually	5 %	04 Feb 2009	04 Feb 2013
NOK	200	Fixed/annually	5,1 %	Variable	3M Nib	29 Apr 2005	11 Jul 2013
NOK	200	Fixed/semi-annually	5,4 %	Variable	6M Nib	25 Feb 2009	26 Aug 2013
NOK	200	Variable	3M Nib+120	Fixed/annually	6,2 %	09 Jan 2004	09 Jan 2014
NOK	200	Fixed/annually	4,9 %	Variable	3M Nib	09 Jan 2004	09 Jan 2014
NOK	200	Fixed/quarterly	3,8 %	Variable	3M Nib	09 Mar 2011	10 Mar 2014
NOK	200	Fixed/quarterly	4,0 %	Variable	3M Nib	09 Mar 2011	09 Mar 2015
NOK	200	Fixed/quarterly	4,0 %	Variable	3M Nib	21 May 2012	22 May 2017
NOK	500	Variable	6M Nib+200	Fixed/annually	6,3 %	21 Jan 2009	21 Jan 2019

As of 31 December 2010 the fair value of the interest rate swaps amounted to NOK -36 million.

Forward foreign exchange contracts

The company has entered into forward foreign exchange contracts. As of 31 December 2010 the fair value of these contracts amounted to NOK 6 million.

Note 17 Cash and cash equivalents

The Group purchases bank guarantees to secure some liabilities. As of 31 December 2010 these guarantees amounted to NOK 483 million for trading in the power market, NOK 50 million in tax deduction guarantees, NOK 36 million in rental guarantees and NOK 25 million in contract and payment guarantees.

Note 18 Equity

NOK million	Share capital	Premium fund	Other paid-in equity	Retained earnings	Total paid-in and retained earnings
Equity as of 31 December 2008	**195**	**4 080**	**76**	**4 443**	**8 796**
Profit for the year				615	615
Proposed dividend (NOK 2.25 per share)				(438)	(438)
Change in treasury shares			(2)	5	3
Merger of Hafslund Marked AS				616	616
Merger of Comtech Holding AS				25	25
Merger of Hafslund Varme and Infrastruktur AS				198	198
Equity as of 31 December 2009	**195**	**4 080**	**74**	**5 465**	**9 815**
Loss for the year				(36)	(36)
Proposed dividend (NOK 7.50 per share)				(1 461)	(1 461)
Equity as of 31 December 2010	**195**	**4 080**	**74**	**3 968**	**8 318**

As of 31 December 2010 Hafslund held 451,161 treasury B shares. The average purchase price was NOK 105.27 per share, making the total cost price NOK 47,494,114.

Note 19 Share capital and shareholder information

We refer to Note 14 to the consolidated financial statements.

Management declaration

Management declaration regarding the content of the annual report:

We declare to the best of our knowledge that

- the consolidated financial statements for 2010 have been prepared in accordance with IFRSs as adopted by the EU, including additional disclosures pursuant to the Norwegian Accounting Act.
- the parent company's 2010 annual financial statements have been prepared in accordance with the Norwegian Accounting Act and generally accepted accounting practice in Norway.
- the accounting information provides a true and fair view of the company's and the Group's assets, liabilities and financial position and performance as a whole.
- the report of the Board of directors provides a true and fair view of the development, performance and position of the company and the Group, together with a description of the most important risk and uncertainty factors to which the business is exposed.

Board of Directors of Hafslund ASA
Oslo, 22 2011 March 2011

Birger Magnus, Chairman of the Board	Hans Kristian Rød	Ole Ertvaag	Hanne Harlem
Tyra Marie Hetland	Kristin Bjella	Per Luneborg	Per Orfjell
Maria Moræus Hanssen	Susanne Jonsson	Christian Berg, President and CEO	

Corporate governance

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

Hafslund's corporate governance policy has been approved by Hafslund ASA's Board of Directors and updated in accordance with the latest version of the Norwegian Code of Practice for Corporate Governance (21 October 2010). With a few exceptions, Hafslund's policy complies with the Code:

- Hafslund has two classes of shares. Class A shares grant ordinary voting rights of one vote per share. Class B shares do not grant ordinary voting rights.
- Hafslund ASA is an important shareholder in Infratek ASA and as of 31 December 2010 owned a 43.3 percent stake in the company. Hafslund ASA and its subsidiaries are also an important customer and supplier of services to Infratek ASA. The Hafslund Group and Infratek ASA are therefore material related parties. Consequently situations of a related nature may arise which are considered to be ordinary arm's length business and which will therefore not be referred to the Board of Directors. Such a practice could be deemed to deviate from the Norwegian Code of Practice for Corporate Governance.
- Although the recommendations of the Norwegian Code of Practice for Corporate Governance regarding general meetings are essentially satisfied through the Articles of Association and established practice at Hafslund ASA, the company deviates slightly from the Code in that one of the instructions is for the board to ensure that "there are routines to secure independent chairing of the Annual General Meeting". Until further notice the board has resolved to deviate from the Code on this point and continue its current practice in accordance with Hafslund's Articles of Association: "The Annual General Meeting shall be chaired by the Chairman of the board or a party elected by the general meeting."
- By agreement between Hafslund ASA and the employees' trade unions, the Group does not have a Corporate Assembly.

The following is a summary of the Group's corporate governance policies. The report follows the same structure as in the Code of 21 October 2010.

1) Objectives and principles for corporate governance
Hafslund ASA's management structure should contribute to long-term value creation and ensure the confidence of the owners and other stakeholders in the Board of Directors and management, as well as clarify the division of roles between shareholders, the Board of Directors and management in accordance with and beyond statutory requirements. Hafslund reports in accordance with the Group's Articles of Association, business concept, vision and core values, as well as legislation and regulations applicable to

Norwegian listed companies.

2) Business
Hafslund's objectives are set out in Hafslund's Articles of Association (clause 3):
The company's object is to operate a business which comprises:

- production, distribution, sale and use of energy
- industry, trade, consultancy, contracting and financial activities
- other activities related to the above object, including operation and administration of the company's real estate and other resources

The objectives may be pursued by participation in or cooperation with other companies in Norway and abroad. In accordance with its Articles of Association, Hafslund operates business activities in several areas. Hafslund's vision, business concept and strategic priorities have been adopted by the Board of Directors. These form the basis for the development of the Group's activities and corporate culture. The Group's vision, business concept and strategic priorities are described in detail here. See also the Group's Articles of Association at http://www.hafslund.com.

3) Share capital and dividends
Hafslund's share capital, dividend policy and the Board of Directors' authority to implement increases in capital and share buy-backs are described under Shareholder information on pages.

4 and 5) Equal treatment of shareholders, transactions with related parties and tradability of shares
Hafslund endeavours to treat all the Group's shareholders equally. Hafslund has two classes of shares. Class A shares grant ordinary voting rights of one vote per share. Class B shares do not grant ordinary voting rights.

The company's two classes of shares have arisen as a result of historical developments. The company has no ownership restrictions other than pursuant to Norwegian licensing legislation. Within the limitations determined by legislation, Hafslund's shares may be freely transferred and acquired. In accordance with the company's principles for corporate governance and ethical guidelines, Hafslund's board members should avoid situations in which conflicts may arise between their own personal and/or financial interests and the interests of the Group. Similarly, the instructions for the activities of the board state that board members may not participate in the discussion or clarification of questions which have particular relevance for themselves, for related parties or for companies in a similar situation.

The same applies to the CEO and to the Group's other employees. Board members and senior executives should notify the board if they, directly or indirectly, have a material interest in any matter at hand or agreement being entered into by the company, if there could be any doubts with regard to independence. In the case of material transactions between the company and shareholders, board members, senior executives or individuals closely related to these parties, which are not part of normal business activities, the board should normally assess whether a valuation should be made by an independent third party. Any material transactions with related parties should be reported in the company's annual report. See Note 26 to the consolidated financial statements for a description of transactions with related parties.

6, 7, 8, 9, 10 and 15) Governing bodies, risk management, internal control, and auditor
Although the recommendations of the Norwegian Code of Practice for Corporate Governance regarding general meetings are essentially satisfied through the Articles of Association and established practice at Hafslund ASA, the company deviates slightly from the Code in that one of the instructions is for the board to ensure that ”there are routines to secure independent chairing of the Annual General Meeting”. Until further notice the board has resolved to deviate from the Code on this point and continue its current practice in accordance with Hafslund's Articles of Association which state that "the Annual General Meeting shall be chaired by the Chairman of the Board or a party elected by the general meeting."

Attendance at board meetings 2010

Name	Number of meetings attended	Number of meetings not attended	Representing
Christian Brinch	5		Independent
Mikael Lilius	4	1	Fortum
Hanne Harlem	10	2	Independent

Ole Ertvaag	10	2	Independent
Birger Magnus	7		Independent
Maria Moræus Hanssen	7		Independent
Kristin Bjella	6	1	Independent
Hans Kristian Rød	7		Fortum
Susanne Jonsson	7		Fortum
Per Orfjell	12		Employees
Per Luneborg	12		Employees
Tyra Marie Hetland	12		Employees
The members of the board have served varying terms of office, and have therefore not had cause to attend the same number of meetings.			

By agreement between Hafslund ASA and the employees' trade unions, the Group does not have a Corporate Assembly, as per Section 6-35, first and second paragraphs of the Norwegian Public Limited Liability Companies Act. The Board of Directors and management follow up the Group's internal control systems through monthly reports, which show developments of the Group and its individual companies based on financial history, forecasts and defined key figures. The Group's risk policies and guidelines are approved annually by the Board of Directors. Hafslund's auditor is elected by the AGM and is charged with investigating the way the Board of Directors and management run the company.

11 and 12) Remuneration paid to the Board of Directors and senior executives
The Nomination Committee is elected by the AGM and is charged with proposing candidates to the board and recommending the remuneration payable to board members. Board members' fees should be reasonable in relation to their duties and responsibilities and are determined by the AGM on the basis of the Nomination Committee's proposal.

Board members' fees are not performance-related and the board is not assigned share options. The board has established a Compensation Committee which advises the board in all cases which concern the remuneration paid to the CEO. The CEO's remuneration is approved by the board. The Compensation Committee should keep itself informed of all remuneration schemes for the Group's executive management. The guidelines for determining the remuneration payable to senior executives should state the main principles of the company's executive pay policy and seek to achieve identical interests between shareholders and executive management. This means that performance-related remuneration for senior executives in the form of option and bonus schemes or similar should be linked to value creation for the shareholders or profit development for the company over time, and be based on measurable conditions which the employee can influence.

13) Information and communication
The overall goals of the board's information policy are transparency and equal treatment of all shareholders. All official information, including stock market and press releases, reports and financial calendars, is available at hafslund.com and is published in both Norwegian and English.

14) Company takeover
The board will not without specific grounds seek to prevent or impede anyone from putting forward a takeover bid for the company's business or shares.

Shareholder information

Hafslund aims to provide its shareholders with competitive returns compared with alternative investments of a similar risk profile. The company endeavours to achieve such returns through a combination of value creation and dividends.

Shareholder policy and dividends

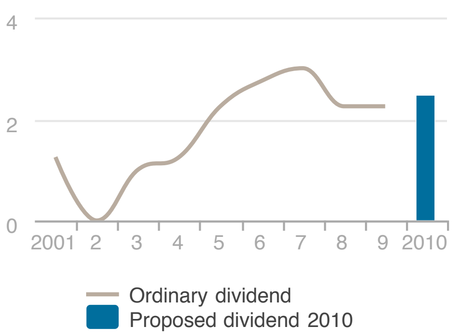
Hafslund is keen to ensure effective and transparent corporate governance in order to promote the greatest possible value creation over time and to secure confidence in the company's board and management. Timely, relevant and sufficient information on the company's activities shall create the basis for a balanced and correct valuation of shares. Equal treatment and transparency are key features in Hafslund's communications with shareholders.

The Group's long-term dividends policy is based on the payment of the equivalent of at least 50 percent of annual profits (net profit after tax) in normal years, adjusted for non-cash generating items. The ordinary dividend paid out in 2010 was NOK 2.25 per share. The Board's proposed dividend for the 2010 financial year is NOK 2.50 per share, plus an extraordinary dividend of NOK 5.00 per share. The dividend will be approved by the Annual General Meeting 4 May 2011.

Share prices and turnover

Hafslund has two classes of shares (HNA and HNB). Both share classes are listed on

Ordinary dividend NOK per share



1) In 2007, in addition paid an extraordinary dividend of NOK 15 per share.

2) The board has proposed an extraordinary

the Oslo Stock Exchange. At the end of 2010 Hafslund's total market capitalisation was NOK 13.6 billion. In 2010 Hafslund's shares generated a total return, including dividends paid, of 3.8 percent. By comparison, the OSEBX index, also adjusted for dividends paid, rose by 18.1 percent. At the end of 2010 the price of Hafslund's Class A shares was NOK 70.0, and the B-shares NOK 69.25.

The price of the Class A and Class B shares peaked at NOK 73.5 and NOK 73.0 respectively, both on 11 January 2010. The lowest respective prices paid for Class A and Class B shares were NOK 55.25 on 30 June 2010 and NOK 53.25 on 26 May 2010. A total of 5.02 million Hafslund shares were traded in 2010, compared with 5.6 million in 2009. 77 percent of share turnover in 2010 was in Hafslund's Class B shares, compared with around 73 percent in 2009. Based on trading in the share categories, both Hafslund's Class A and Class B shares are classified as OB Match on the Oslo Stock Exchange.

Share capital and shareholder structure

As of 31 December 2010 Hafslund ASA's share capital comprised 195,186,264 shares, consisting of 115,427,759 Class A shares and 79,758,505 Class B shares. The par value of both share classes is NOK 1.00 per share. The City of Oslo is the largest shareholder with a total holding of 53.73 percent and Fortum Forvaltning AS, which is owned by the Helsinki-listed energy company Fortum, is the second-largest with 34.10 percent. There were no changes in the shareholdings of the City of Oslo or Fortum during the year. The number of shareholders at the end of 2010 was 7,221.

Voting rights and ownership

Class A shares grant ordinary voting rights of one vote per share. Class B shares do not grant ordinary voting rights. The Group has no restrictions on ownership other than pursuant to Norwegian licensing legislation. Both share classes have equal dividend rights. The difference in voting rights has historically been reflected in a price difference between share classes and involves differential treatment of shareholders. However, the price difference has been considerably reduced in recent years. The Board has previously assessed the possibility of amalgamating the two share classes. However, Hafslund's largest shareholder has signalled that it would not support this.
As of 31 December 2010 the company held 451,161 Class B treasury shares. This equates to 0.23 percent of the total number of shares issued. The company did not own any Class A shares. As of the reporting date the board of Hafslund ASA did not have any authority to issue or repurchase shares in the company.

Investor relations

Hafslund keeps shareholders, banks and the financial market in general informed of important trends by means of annual and quarterly reporting, as well as releases to stock markets and the media. The company also holds regular meetings with investors and analysts and has its own investor pages on hafslund.com

RISK – Hafslund shares (applies only to Norwegian shareholders)

RISK adjustment of shares ceased from the 2006 financial year and was replaced by the shareholder model. The shareholder model is based on the premise that dividends and earnings which exceed a certain return (protection rate) established by the Norwegian Ministry of Finance should be liable to 28 percent tax on the part of the shareholder. The taxable value is the cost price of the shares (or upwardly adjusted entry value for shares acquired before 1 January 1989) plus accumulated RISK for the ownership period, adjusted if necessary for returns in the year of purchase and sale. Shareholders who can use upwardly adjusted entry value as of 1 January 1992 should use NOK 27.50 for Class A shares and NOK 30.04 for Class B shares. Of the cost price for shares in the former Hafslund Nycomed ASA, 20 percent should refer to Hafslund ASA.

Hafslunds ten largest shareholders as of 31 December 2010:

dividend of NOK 5 per share for 2010.

Contact information/Financial calendar

Analysts who monitor the company

ABG Sundal & Collier

Petter NystrømTel.:. +47 22 01 61 35

Carnegie

Marius GaardTel.:. +47 22 00 93 57

Fondsfinans

Håkon LevyTel.: +47 23 11 30 47

SEB Enskilda

Truls K. Engene, Tel.:. +47 21 00 85 59

See updated contact information and e-mail addresses at hafslund.com

Investor contacts

- Morten J. Hansen

Finance director

Tel.:. +47 908 28 577

E-mail: morten.j.hansen@hafslund.no

- Karen Onsager

Senior Vice President Communications and CR

Tel.:. + 47 920 87 007

E-mail: karen.onsager@hafslund.no

Financial calendar 2011

Annual General Meeting
4 May 2011

Publication of Q1 results
5 May 2011

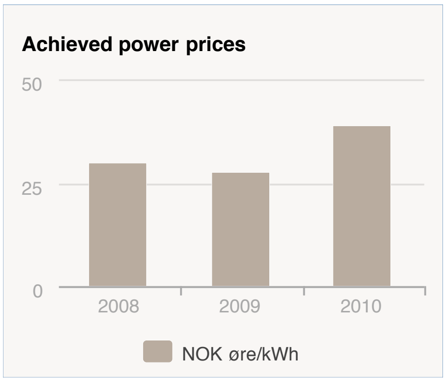
Publication of Q2 results
8 July 2011

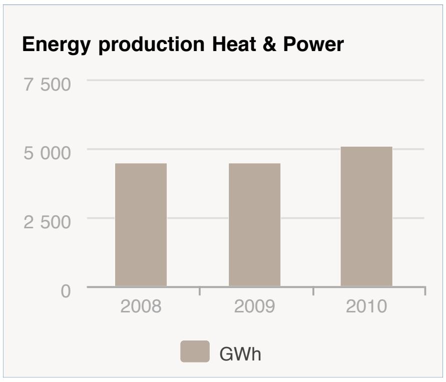
Publication of Q3 results
28 October 2011

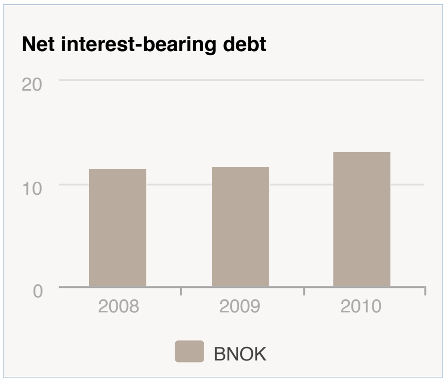
The dividend will be paid no later than two weeks after the Annual General

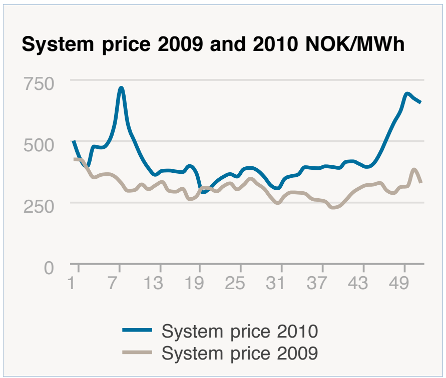
	Name	Class A shares	Class B shares	Total shareholdning	% of total	Voting rights
1	Oslo kommune	67 524 647	37 342 907	104 867 554	53.7	58,5 %
2	Fortum Forvaltning AS	37 853 110	28 706 339	66 559 449	34.1	32,8 %
3	Østfold Energi AS	5 201 416	3 938	5 205 354	2.7	4,5 %
4	ODIN Norden	.	2 452 131	2 452 131	1.3	0,0 %
5	MP Pensjon PK	.	1 579 000	1 579 000	0.8	0,0 %
6	ODIN Norge	.	1 219 050	1 219 050	0.6	0,0 %
7	Hafslund ASA	.	451 161	451 161	0.2	0,0 %
8	Folketrygdfondet	.	418 661	418 661	0.2	0,0 %
9	A/S Herdebred	107 000	271 094	378 094	0.2	0,1 %
10	Danske Invest Norske Aksjer Inst	.	332 804	332 804	0.2	0,0 %
	Total	110 686 173	72 777 085	183 463 258	94.0	95,9 %
	Total other shareholders	4 741 586	6 981 420	11 723 006	6.0	4,1 %
	Total number of shares	**115 427 759**	**79 758 505**	**195 186 264**	**100.0**	**100 %**

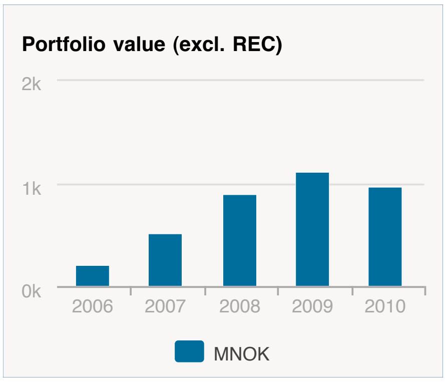
Meeting of 4 May 2011.

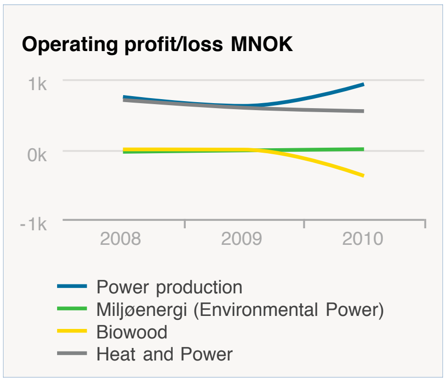












Risk management

To succeed as a supplier of energy solutions and infrastructure of tomorrow, it is important that Hafslund stays ahead of and takes an active approach to the risks which the Group and the various business units are facing at any given time.

A combination of systematic risk management, effective contingency planning and efficient internal controls is essential if Hafslund is to achieve its overall goals. The aim of Hafslund's risk management is to identify risks and opportunities, and manage these within the Group's risk appetite and in line with adopted strategies. The company has continued to pursue its policy of allowing investors to participate in risk exposure in the market. Hafslund is therefore exposed to prevailing power prices in relation to cash flows from production activities.

The Group makes a positive contribution to the environment by generating electricity and heat from clean and renewable energy sources. Hafslund manages risk with the aim of minimising negative consequences, first and foremost for people and the environment, as well as for the Group's reputation and finances. The risk of environmental accidents shall be assessed at all facilities, and risk-reducing measures are implemented where necessary. Hafslund's emergency response capability shall be well dimensioned and our employees trained to manage any environmental accidents. Activities at Hafslund shall at all times be conducted in accordance with prevailing legislation, and all employees shall act in line with the Group's core values and ethical guidelines. Hafslund has also established ethical guidelines in relation to suppliers. Should, however, any breaches of legislation or guidelines occur, Hafslund has established routines for notification, including an independent notification channel.

Responsibility, organisation and framework
The Board of Directors of Hafslund ASA establishes the basic rules for risk management within the Group by adopting guidelines and limits each year. The overarching guidelines cover priorities, strategies and basic principles relating to risk management as well as tolerance thresholds for important risk categories. For key financial risk factors such as power price, interest rate and currency risk, risk tolerance is established in the form of limits for maximum permitted exposure. The utilisation of risk limits is reported to management along with the development of the Group's risk profile as part of the Group's ongoing management reporting. At Hafslund the main principle is that risk responsibility should be located as close as possible to the place where the risk occurs. Operational line management therefore assumes primary responsibility for identifying and following up risk, as well as keeping within the appropriate limits for their activities. By involving the individual business units in risk management, Hafslund wishes to increase knowledge and awareness of risk and the need for any improvements. To help with the identification,

measurement and collation of risk, Hafslund has developed and implemented a reporting model for operational risk. All units beyond a certain size report an updated risk picture each year. At the same time, Group's overall contingency planning framework is also revised, so that it is based on an updated risk profile.

Financial risk factors such as power price risk, interest rate risk and foreign exchange risk are broadly similar across the various business units. Consequently, management and the exercise of risk mandates in connection with this type of risk is allocated to Hafslund's central finance functions. The centralisation of expertise on financial instruments and markets thereby secures efficient risk management.

Hafslund's risk manager is responsible for establishing and developing a common framework and terminology for risk management within the Group. The risk management function is also responsible for the overarching follow-up of financial risk, and for compiling and reporting an overall risk picture to Group management, the Audit Committe and the Board.

Risk factors

Financial market risk

Hafslund's market risk is to a large extent associated with changes in power prices, interest rates and certain key share prices and foreign exchange rates. With the exception of limited speculation with respect to power prices, Hafslund does not engage in pure trading in the financial markets.

Hafslund Venture is a financial investor that operates in the alternative and renewable energy sectors as well as within energy-related services and technology. The bulk of the investment portfolio still comprises the shareholding in Renewable Energy Corporation ASA. The company's shares are listed on the Oslo Stock Exchange, and the value of Hafslund's shareholding is directly affected by the performance of its shares.

Several of the Group's business units are exposed to fluctuations in electricity prices. Operating results for Power Generation, District Heating and Markets are affected by power prices. Price fluctuations are particularly important for Power Generation, since Hafslund has deliberately chosen to leave the production volume exposed to power price developments. The Group is to a lesser extent exposed to risk associated with other commodities, such as oil and gas, and emission quotas.

A significant share of Hafslund's currency exposure relates to the Heat & Power business unit. The Power Generation business sells its production in EUR on Nasdaq OMX. Some of this currency exposure is covered through hedging. The Group's pellets business is expected to generate both incoming and outgoing cash flows in various foreign currencies. A dedicated strategy for managing this foreign currency exposure will be drawn up. Some other Group companies also make purchases in foreign currency, primarily in USD.

The Group is exposed to interest rate risk as a result of changes in interest rates on its debt, and through the revenue framework governing power grid operations, which contain a significant interest rate element. Interest rate risk for the interest portfolio is managed holistically, where the aim is to keep the combination of floating and fixed rates within the limits approved by the Board of Directors. For a more detailed description and quantification of market risk and other financial risk factors, please refer to Note 3 to the annual financial statements.

Other input factors of a similar financial nature

Due to its focus on renewable energy, the Group is increasingly exposed to risk associated with input factors of a similar financial nature. This applies in particular to the Heat & Power business unit. Several units are variously exposed to the market for waste and waste-based fuel. The waste market is currently characterised by a drop in waste supplies and low prices. There is no functioning marketplace (exchange) for dealing with this kind of risk. For the present, this kind of risk can therefore be covered only through bilateral agreements or partnership agreements with suppliers.

The price of wood chippings and timber will also become increasingly important for Hafslund in the future. Hafslund has established a group-wide discussion forum, where market developments and strategies for these types of factors in particular are subject to evaluation.

Liquidity and credit risk

At any given time Hafslund has a considerable volume of outstanding trade receivables. The customer base mainly comprises small private customers, and bad debts have historically been very low. Hafslund has established guidelines for financial counterparties, which indicate lowest acceptable credit ratings, and as a supplementary measure assesses counterparties' financial status on an ongoing basis. The Group also endeavours to spread transactions over several counterparties.

Liquidity risk arises to the extent that cash flows from a business's activities do not correspond to its financial obligations. Hafslund's cash flows naturally vary in line with a number of factors including production volume and power prices. Consequently, a long-term committed credit facility has been established in order to secure adequate funding during periods when access to financing in ordinary loan markets is difficult.

Regulatory risk

Hafslund’s business, in particular its generation, district heating and network operations, is to a large extent subject to public regulation. Changes in such regulations represent a risk for the Group. In the case of electricity generation, this applies in particular to industry-specific taxes, fees, the regulation of watercourses and other licence conditions. In the district heating business a certain risk attaches to prices, in that prices are set on the basis of the customer’s alternative cost for electrical heating. A particular feature of grid operations is that the company's revenues are largely determined by an officially established revenue framework.

The financial regulation imposed by the Norwegian Water Resources and Energy Directorate (NVE) makes it difficult to predict future revenue frameworks and thus future returns on distribution grid investments. Hafslund consequently regards the current regime as unsatisfactory. Signals coming from a number of different sources indicate that increased attention is being paid to the consequences of the current financial regulation model. The Norwegian Ministry of Petroleum and Energy (OED) has commissioned an external evaluation of the way power grid companies are regulated. An important conclusion of the evaluation is that underinvestment is more costly for society than overinvestment, and that when further developing the financial regulation model, it is particularly important to avoid underinvestment. The evaluation also represents sound input with respect to how regulation of the revenue framework can be further developed. In addition, the NVE has initiated an effort involving industry stakeholders to identify ways of improving the current model, particularly with respect to regional distribution grids. The industry is working actively together with the producers’ association Energy Norway to assess and provide the authorities with suggestions for relevant changes to the current regime. It is unclear when any such changes may be expected to be implemented, or how extensive they may be.

On 10 March 2011 the OED adopted the so-called Competence Regulations for plant and area licence-holders. The regulations come into force 1 July 2011, and all companies must meet the regulations’ requirements by 1 July 2013. Hafslund therefore has plenty of time to align itself with the new regulations. To a large extent Hafslund Nett already meets the requirements of the new regulations. Their adoption will, therefore, not have any dramatic impact on Hafslund, though some adjustments will have to be made in the areas of emergency response and operational control. Efforts will now be initiated to evaluate in more detail what consequences the new regulations may have for Hafslund.

Operational risk

Hafslund carries out an annual assessment of risk within all the Group’s key business and staff units. Risk is calculated as a combination of probability and impact, and is classified using a traditional risk matrix. A full risk assessment was last performed in the autumn of 2010, when 157 risk scenarios were reported. The status of measures and effects of risk are followed up every six months, and a number of effective risk-reducing measures have already been initiated or implemented.

Reported risk scenarios cover a range of ongoing issues, of varying degrees of complexity, relating to companies’ business operations. Several key risk factors of an operational nature, including the following, are of significance for the Group’s businesses: Operational downtime in Heat & Power will result in a significant financial risk for several of the companies. One example is damage to turbines in the company’s hydropower plants, which could result in generating facilities being unable to fully utilise water resources. Operational downtime also involves costs for the company’s distribution activities within District Heating and Networks. Operational downtime, faults or security breaches at key staff functions, for example ICT, could be critical for the Group’s operational activities. Hafslund therefore attaches importance to clarifying the allocation of responsibilities and preventing downtime. As part of this process the Group implements a number of measures including a separate ICT security policy.

Operational risk may to a greater or lesser extent be covered by insurance. Hafslund’s insurance cover includes damage of the company’s own production and power grid facilities by acts of nature or fire, liability for damage caused to third parties and losses resulting from criminal acts.

Remuneration

Remuneration paid to the Board of Directors and Group management in 2010

The stated holding of shares in Hafslund relates to Hafslund Class B shares with the exception of the following individuals and related parties who also own Class A shares: Christian Berg (3,000), Tove Pettersen (3,300), Per Kristian Olsen (1,000), Tore Schiøtz (6,200), Finn Bjørn Ruyter (5,000) and Kristin Bjella (800). The loans which have been extended to senior executives are interest-free and are written down by a tenth of the original amount per year. The benefit is included under "Fixed salary etc.", and the interest benefit is reported. The amount payable in fees to Hafslund ASA's Board of Directors in 2010 totalled NOK 2.2 million.

Other terms and conditions, CEO

The President and CEO has a six-month period of notice. On leaving the company he is entitled, upon certain conditions being met, to continue receiving salary payments for 18 months after the notice period has come to an end. On voluntary retirement the CEO receives, upon certain conditions being met, an amount equal to the present value of a paid-up pension policy on salary exceeding 12 times the National Insurance Scheme's basic amount (G) for the time he has held the position. The retirement age is 67 with a mutual right to terminate employment with early retirement pension at 60, provided 10 years have been served in the position. The early retirement pension is set at 67 percent of basic salary from the age of 60 until reaching the normal retirement age. The CEO is entitled to a bonus capped at 30 percent of fixed salary. The bonus is determined annually based on Group, company, business and objective individual targets plus a subjective individual evaluation.

Terms and conditions relating to other members of Group management

Other members of Group management are entitled, under certain circumstances, to 12–18 months' salary on leaving the company. Remuneration consists of a fixed salary and a bonus scheme capped at 30, 50 or 75 percent of the fixed salary. The bonus is determined annually based on Group targets, company targets/business targets, objective individual targets and a subjective individual evaluation. Partly for historical reasons, remuneration deviates in some cases from the Group's guidelines for senior executive pay. Group management, with the exception of Finn Bjørn Ruyter, are members of the ordinary defined- benefit pension schemes. Ruyter was employed after the defined-benefit pension scheme was closed to new members, and is covered by the same defined contribution scheme as other new employees.

Code of Conduct

Hafslund's Code of Conduct has been approved by the Board of Directors of Hafslund ASA, and applies to all employees in the Group, employee representatives and members of the board. The guidelines regulate conduct and actions, both in the course of business and in interaction with customers, partners and colleagues. The objective is to create confidence and a good reputation. The guidelines are considered to be a minimum requirement. All employees should abide by external legislation and regulations, ethical rules of the industry and internal rules applying to Hafslund's activities. The code of conduct is based on the Group's fundamental values and addresses matters such as personal conduct, conflicts of interest, bribery, corruption and undue influence, competition and sanctions for breaches of the ethical guidelines. The ethical guidelines and the control of compliance with these are viewed in the context of the Group's guidelines for risk management, business management and good corporate governance. The guidelines should also help ensure that the Group has the confidence of customers, shareholders, public authorities and society at large. The code of conduct also forms a natural part of the Group's competence and business development activities. As far as is known there have been no cases of actual or attempted corruption in the company; neither has the Group been fined, subject to non-financial sanctions or convicted of breaches of legislation or regulations.

Further information:

For supplementary information on corporate governance please refer to:

- Hafslund's guidelines on corporate governance, which are available at hafslund.com
- Hafslund's guidelines on corporate social responsibility, which can be viewed at hafslund.com
- The Group's Articles of Association, which are displayed at hafslund.com

Remuneration paid to the Board of Directors and Group management in 2010

Name	Position	Salary and board fees	Bonus (2)	Benefits in kind	Pension scheme contributions	Loans 31 Dec 2010	Number of shares 31 Dec 2010
Christian Berg	President and CEO	3 116 958	732 554	143 648	1 222 723	370 000	18 556
Finn Bjørn Ruyter	Senior Vice President (from September)	910 769	267 857	36 467	12 060	590 000	5 000
Per Kristian Olsen	Senior Vice President	2 055 866	379 383	67 837	330 966	58 333	11 756
Jan Presttun	Senior Vice President	1 930 173	455 962	118 232	167 083	520 000	2 956
Kari Ekelund Thørud	Senior Vice President	1 725 841	508 929	145 742	206 399	530 000	327
Tore Schiøtz	Senior Vice President	2 075 866	1 307 813	146 920	330 384	510 000	9 329
Tove Pettersen	Senior Vice President	1 599 624	383 772	109 354	186 593	90 000	7 512
Karen Onsager	Senior Vice President	1 616 431	383 448	135 165	197 934	391 667	327
Gunnar Gjørtz	Senior Vice President (until October)	2 079 917	-	105 533	206 438		
Birger Magnus	Chairman of the Board (from May)	289 000					
Ole Ertvaag	Board member	205 000					
Hanne Harlem	Board member	205 000					
Hans Kristian Rød 1)	Board member (from May)	100 000					
Kristin Bjella	Board member (from May)	113 333					1 000
Maria Moræus Hanssen	Board member (from May)	109 000					
Susanne Jonsson 1)	Board member (from May)	113 333					
Per Orfjell	Employee representative	981 980		79 012	162 770	210 000	152
Per Luneborg	Employee representative	547 041		8 472	-		177
Tyra Marie Hetland	Employee representative	752 814		6 472	15 619		2 956
Christian Brinch	Chairman of the Board (until May)	280 000		4 000			
Mikael Lilius	Board member (until May)	105 000					

1) Neither Jonsson nor Rød nor their related parties own any shares in Hafslund; however, Fortum, which Jonsson and Rød represent owns 37,853,110 Class A shares and 28,706,339 Class B Hafslund shares.

2) Applies to bonuses earned in 2010 and paid in 2011.

Declaration regarding determination of salary and other remuneration for senior executives

The Board of Directors of Hafslund ASA will at the Annual General Meeting 2011 present the following declaration regarding determination of salary and other remuneration for senior executives pursuant to Section 6-16a of the Public Limited Companies Act, based on the Group's previously adopted guidelines for determination of compensation for senior executives in Hafslund.

The board's compensation committee

The board of Hafslund ASA has a special compensation committee. The compensation committee will advise the board in all matters pertaining to the company's remuneration to the CEO. The committee will keep up to date on and propose guidelines for determination of remuneration to senior executives in the Group. In addition, the committee will function as the advisory body for the CEO as regards compensation schemes that cover all employees to a significant degree, including Hafslund's bonus system and pension scheme.

Guidelines regarding determination of salary and other remuneration for senior executives in Hafslund

Remuneration to the CEO

Remuneration to the CEO must be competitive in relation to responsibilities and the industry. The remuneration must furthermore act as an incentive to long-term creation of value through development of the enterprise, positive profit and share price performance, and reflect the experience and expertise level of the employee. Remuneration will consist of fixed salary, performance-based salary of up to 50 per cent of the basic salary, pension and interest and installment-free loans. The CEO will receive benefits in kind on the same level as other senior executives in the Group. The period of notice must equal at least six months.

Remuneration for senior executives and other executives

Remuneration for the Group management is adopted by the CEO, but must be put before the board for approval if the remuneration deviates from these guidelines. Remuneration for other executives is adopted by the relevant senior vice presidents. Remuneration to senior executives and other executives must be based on the guidelines below.

Fixed salary

Fixed salary isbased on the duties performed and level of responsibility, as well as the incumbent's expertise and length of service in the position. Salaries must be competitive in relation to responsibility and industry levels.

Loans

Interest-free loans that are written down over 10 years in accordance with adopted guidelines can be given for car maintenance. In addition, an annual operating subsidy can be awarded, as determined by the administration. Should the senior executive not have need for a car, the loan can still be taken out on the same terms against other satisfactory surety.

Benefits in kind

Benefits in kind must mainly be in connection with expenses for broadband connection (home office), mobile telephone and newspapers.

Vacations

Senior executives are entitled to vacation in line with the provisions of the Annual Holidays Act and the current internal rules of the Group. Vacation pay is calculated on the basis of basic salary. Additional benefits are not included in the calculation.

Annual bonus

A bonus system has been established to create an incentive for additional effort and value creation. The bonus will be disbursed on the basis of the added value created by the employee or group of employees.

The bonus scheme is limited upwards to 50 per cent of fixed salary depending on the level of the position. The main rule is a ceiling of 30 per cent of basic salary for the Group management (level 1) and a ceiling of 20 percent of basic salary for level 2. Any exceptions from the main rule must be specifically agreed with the CEO or the board. The bonus is set annually and the Group targets are set by the board. The measured criteria in addition to the Group targets for the individual employee, as well as weighting of targets are set by the employee's immediate supervisor based on:

- Group targets x per cent of maximum bonus
- Company targets/enterprise targets x per cent of maximum bonus.
- Individual objective targets x per cent of maximum bonus.
- Subjective individual assessment up to x per cent of maximum bonus.

The targets and the weighting must be adapted to the needs of the individual company/enterprise.

The annual bonus will be disbursed after presentation of the Group's annual financial statement. Disbursed bonus is not included in the calculation of vacation pay and pension benefits. Should legislation require such benefits to be calculated on the basis of salary including bonus, the bonus will be reduced by as much as necessary to limit bonus including other benefits to the total value determined by the provisions above.

Share schemes

The CEO and Group management are covered by the Group’s share schemes for all employees. To strengthen the bonds between the employees and the Group, the company should annually consider giving all employees the opportunity to buy shares in Hafslund. The share offer should be viewed in the context of the total salary settlement for the Group.

No shares were sold to employees in Hafslund in 2010.

Option schemes

The Group does not use option schemes.

Pension

The CEO and Group management shall have a pension scheme in accordance with the current pension scheme for the Group, unless otherwise agreed with the board. The retirement age for these individuals should normally be 67. The CEO and Group management are entitled to take early retirement in accordance with the current AFP agreement.

Period of notice and pay after termination of employment

The CEO and Group management should have a six-month period of notice. In specific cases and depending on the position concerned, salary payments may continue to be made for 12–18 months after employment has been terminated. As regards the implementation of the Group’s executive salary policy for 2010, the Group’s guidelines were adopted most recently on 20 March 2007. The guidelines were first adopted on 27 October 2006. Following the adoption of the guidelines, the Group has started the work of implementing them, but will continue to respect agreements made previously. Salary, bonus and other benefits to senior executives for 2010 have been presented in the 2010 annual report, see Note 21.

Hafslund's governing bodies

Nomination Committee
The Nomination Committee is elected by the General Meeting and is charged with proposing candidates to the board and with recommending the board's and board committees' remuneration. The Committee consists of three members, elected for two years at a time.

Compensation Committee
The Compensation Committee was established by the board to review matters relating to the President and CEO's remuneration. The Compensation Committee should keep itself informed of all remuneration schemes for the Group's executive management. The Committee consists of three representatives of the board, one of whom is an employee representative.

Audit Committee
The Audit Committee is elected by and from the board members. The Committee prepares matters for the board's consideration in order to support the board in the exercising of its responsibilities regarding financial reporting, auditing, internal controls and risk management.

The auditor
Hafslund's auditor is elected by the AGM and is charged with investigating the way the Board of Directors and management run the company. The auditor should be independent. The auditor reports to the General Meeting, participates in board meetings when the annual financial statements are discussed and submits his or her views on the Group's accounting policies and internal control procedures to the board.

The General Meeting
The shareholders primarily exercise their rights by participating in and voting at the General Meeting, which is Hafslund's highest governing body. The General Meeting discusses cases in accordance with Norwegian legislation, including approving the annual financial statements and Report from the Board of Directors, distribution of dividends, election of sub-committees and the auditor, as well as amendments to the Articles of Association.

Equal treatment of shareholders is a basic principle. Notification of the General Meeting and associated documentation, including the recommendation of the Nomination Committee, should as far as possible be made available on the company website no later than 21 days before the date of the General Meeting. Hafslund ASA should send out the notification, including any associated documentation and the recommendation of the Nomination Committee to all registered shareholders no later than 14 days before the date of the General Meeting.

The Board of Directors

According to Norwegian law the board is responsible for the management of Hafslund. It should seek to secure the responsible organisation of the business, supervise management and approve plans, budgets and necessary guidelines for the Group and its subsidiaries.

Members of the Board of Directors are elected for two-year periods and must satisfy impartiality requirements. None of the board members elected by the shareholders are Hafslund employees. The board comprises eight representatives, three of whom are elected by the employees. Two board members represent the second-largest owner, Fortum. The board evaluates its own performance once a year.

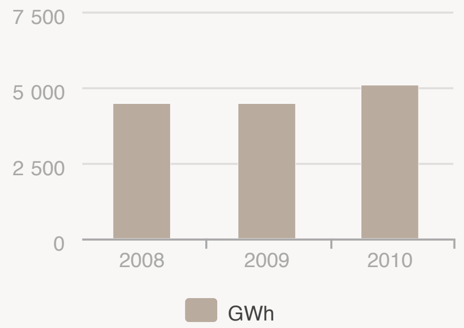
The President and CEO

Hafslund's President and CEO is responsible for the day-to-day management of the company's activities. The allocation of responsibilities between the board and the President and CEO is defined in instructions for Hafslund's Board of Directors.

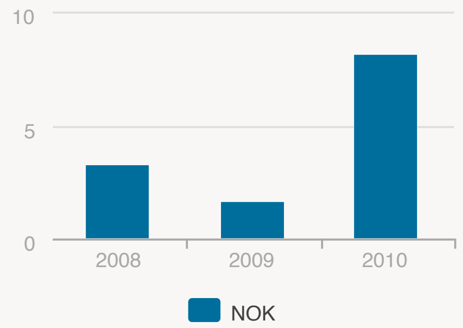
Group management

Group management consists of the President and CEO and the Group Senior Vice Presidents heading Hafslund's business units and central administrative functions. The Group Senior Vice Presidents assist the President and CEO in managing and monitoring business unit activities and in reporting to the company's Board of Directors.

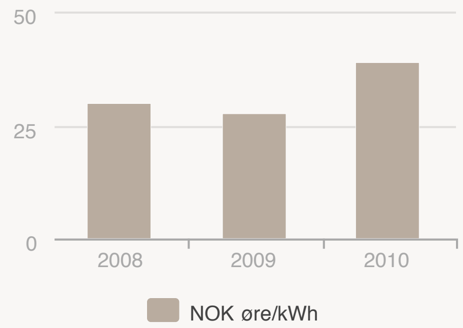
Energy production Heat & Power



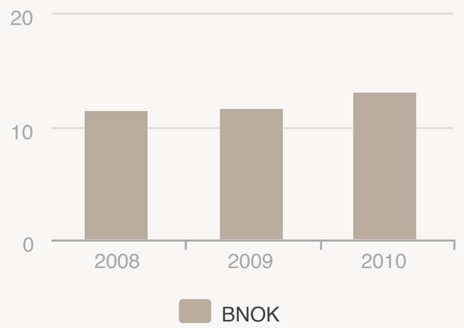
Earnings per share (excl. REC)



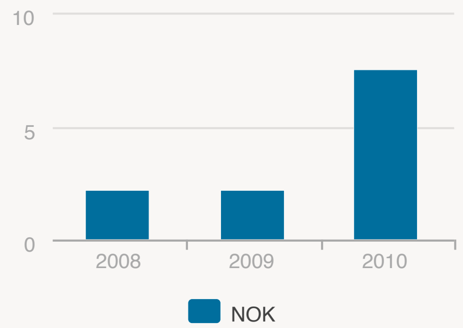
Achieved power prices



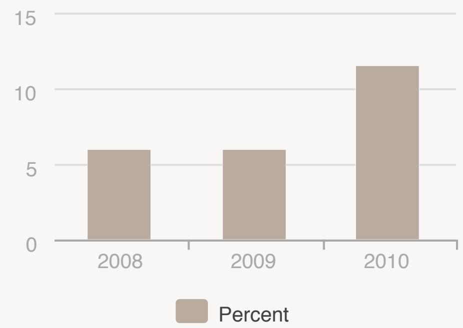
Net interest-bearing debt



Dividend per share



Return on capital employed



Analytic Information

BUSINESS SEGMENTS - KEY FIGURES

	Power production			District heating			Networks		
NOK million	**2010**	**2009**	**2008**	**2010**	**2009**	**2008**	**2010**	**2009**	**2008**
Sales revenues	**1 196**	856	998	**1 144**	747	691	**4 804**	3 385	3 352
Cost of sales				**(688)**	(384)	(311)	**(2 608)**	(1 217)	(1 463)
Salaries	**(25)**	(25)	(22)	**(41)**	(46)	(49)	**(64)**	(177)	(129)
Other operating expenses	**(199)**	(169)	(185)	**(132)**	(104)	(105)	**(1 054)**	(956)	(893)
EBITDA	**972**	661	791	**283**	213	226	**1 077**	1 035	868
Depreciation, amortisation and impairments	**(43)**	(43)	(45)	**(118)**	(122)	(130)	**(546)**	(542)	(545)
Operating profit	**929**	618	746	**165**	91	96	**532**	493	322
Investments in operations (excluding interest on building loans)	**161**	165	110	**432**	397	403	**485**	521	541
Capital employed	**4 377**	4 277	4 153	**4 550**	4 080	3 818	**9 668**	9 396	9 663
Number of employees	**29**	27	25	**56**	53	57	**203**	198	180

	Power sales			Venture			Heat and bioenergy		
NOK million	**2010**	**2009**	**2008**	**2010**	**2009**	**2008**	**2010**	**2009**	**2008**
Sales revenues	**8 021**	4 787	5 121	**549**	779	889	**115**	49	23
Other (losses)/gains – net	**16**	19	(24)	**(1 025)**	(245)	(15 596)			

Cost of sales	**(7 316)**	(4 288)	(4 623)	**(176)**	(464)	(512)	**(81)**	(22)	(16)
Salaries	**(71)**	(52)	(48)	**(130)**	(134)	(124)	**(28)**	(6)	(6)
Other operating expenses	**(290)**	(217)	(202)	**(131)**	(135)	(229)	**(57)**	(32)	(31)
EBITDA	**360**	248	224	**(914)**	(198)	(15 573)	**(51)**	(11)	(30)
Depreciation, amortisation and impairments	**(12)**	(8)	(8)	**(191)**	(101)	(81)	**(335)**	(16)	(14)
Operating profit/loss	**348**	240	216	**(1 104)**	(299)	(15 654)	**(386)**	(27)	(44)
Investments in operations (excluding interest on building loans)	**5**	3	3	**163**	183	196	**189**	342	419
Capital employed	**3 427**	1 980	2 243	**3 844**	4 937	6 196	**1 037**	1 066	715
Number of employees	**189**	88	76	**174**	182	169	**48**	29	8

	Other business and eliminations				**Group**		
NOK million	**2010**	**2009**	**2008**		**2010**	**2009**	**2008**
Sales revenues	**1**	67	(18)		**15 829**	10 670	11 056
Other (losses)/gains – net	**125**	135	(117)		**(883)**	(91)	(15 738)
Cost of sales	**(1)**	10	116		**(10 871)**	(6 364)	(6 809)
Salaries	**(223)**	(333)	(384)		**(582)**	(772)	(761)
Other operating expenses	**(294)**	248	209		**(1 571)**	(1 367)	(1 436)
EBITDA	**195**	127	(194)		**1 923**	2 076	(13 688)
Depreciation, amortisation and impairments	**(25)**	(50)	(27)		**(1 270)**	(882)	(850)
Operating profit/loss	**170**	77	(221)		**653**	1 194	(14 538)
Investments in operations (excluding interest on building loans)	**42**	35	69		**1 478**	1 645	1 742
Capital employed	**125**	136	280		**27 028**	25 870	27 067
Number of employees	**424**	402	472		**1 123**	979	987

GROUP - KEY FIGURES

	Definition	**Unit**	**2010**	**2009**	**2008**
Income statement excluding REC					
Sales revenues		NOK million	**15 829**	10 670	11 056
EBITDA		NOK million	**3 914**	2 213	2 224
Operating profit		NOK million	**2 644**	1 331	1 374
Profit before tax and discontinued operations		NOK million	**2 173**	670	689
Net profit for the year		NOK million	**1 583**	335	637
REC effect on operating profit		NOK million	**(1 991)**	(137)	(15 912)
REC effect on net profit for the year		NOK million	**(1 975)**	(137)	(16 537)
Cash flow					

Net cash flow from operations	1	NOK million	**565**	1 879	1 085
Investments in operations and expansion		NOK million	**1 702**	1 698	1 752
Return excluding REC					
Return in equity (ROE)	2	%	**16,4**	2,9	7,3
Return on capital employed (ROCE)	3	%	**11,5**	6,0	6,0
Capital structure as of 31 Dec					
Total assets		NOK million	**29 613**	28 918	30 520
Capital employed	4	NOK million	**27 028**	25 870	27 067
of which REC market value		NOK million	**1 584**	3 432	4 542
Equity		NOK million	**10 464**	11 154	12 530
Equity ratio	5	%	**35**	39	41
Net interest-bearing liabilities	6	NOK million	**13 067**	11 601	11 442
Net interest-bearing liabilities/EBITDA			**3,3**	5,2	5,1
Unused drawdown facilities		NOK million	**3 692**	4 558	4531
Other variable borrowings		%	**67**	58	63
Share-related key figures					
Number of A shares		'000	**115 428**	115 428	115 465
Number of B shares		'000	**79 759**	79 759	79 759
Number of treasury B shares		'000	**451**	451	493
Share price as of 31 Dec A shares		NOK	**70,00**	69,75	68,50
Share price as of 31 Dec B shares		NOK	**69,25**	68,75	67,50
Listed price		NOK million	**13 603**	13 535	13 293
Earnings per share excluding REC	7	NOK	**8,11**	1,71	3,26
Cash flow per share from operations	8	NOK	**2,9**	9,6	5,6
Dividend per share		NOK	**7,50**	2,25	2,25
Payout ratio excluding REC	9	%	**92**	131	69

KEY VALUE DRIVERS

Power production					
Sales price		NOK/MWh	**39,1**	27,5	30,1
Production volume		GWh	**3 041**	3 018	3 248
Production as % of normal production	10	%	**101**	97	110
District heating					
District heating price		NOK/MWh	**72,2**	60,8	64,9
Production cost		NOK/MWh	**39,6**	27,8	26,1
Contribution		NOK/MWh	**32,6**	33,0	38,8
Production volume		GWh	**1 782**	1 382	1 192
Heat and bioenergy					

Energy production	GWh	**246**	93	29
Waste	Tonnes	**114**	57	37
Networks				
NVE capital 31 Dec	NOK million	**6 163**	6 045	5 936
Revenue ceiling excl. transmission costs	NOK million	**2 891**	2 461	1 989
Revenue ceiling excl. transmission costs and network losses	NOK million	**2 287**	2106	1616
Number of customers 31 Dec	'000	**545**	541	538
Power sales				
Volume retail market Norway	GWh	**10 476**	8 910	8 388
Number of customers retail market Norway	'000	**641**	604	583
Volume corporate market Norway	GWh	**4 520**	4 328	4 548
Number of customers corporate market Norway	'000	**53**	52	55
Number of wholly and partially owned customers Swedish business	'000	**257**		
Other business – operating profit/loss				
Property		**24**		17
Customer and invoicing services		**95**	101	81
Shared services		**(129)**	(152)	(158)
Power trading		**29**	(10)	(15)
Financial income etc.		**102**	191	(61)
Other		**49**	(53)	(85)
Total operating profit/loss	NOK million	**170**	77	(221)

GRI-index

- ■ Reported
- ■ Not reported

N/A Information not available
N/R Not considered relevant

G3 Content Index - Electric Utilities Sector Supplement

	Application Level

STANDARD DISCLOSURES PART I: Profile Disclosures

1. Strategy and Analysis

Profile Disclosure	Description	Reported	Reference
1,1	Statement from the most senior decision-maker of the organization.	■	Message from the CEO, Corporate Governance, In short
1,2	Description of key impacts, risks, and opportunities.	■	Corporate Social Responsibilities, Environment, Board of Directors' Report, Risk management, Market and business conditons

2. Organizational Profile

Profile Disclosure	Description	Reported	Reference
2,1	Name of the organization.	■	Note 1 General information
2,2	Primary brands, products, and/or services.	■	Business areas, Note 28 Consolidated companies
2,3	Operational structure of the organization, including main divisions, operating companies, subsidiaries, and joint ventures.	■	Organisation, Business areas, Board members, Note 28 Consolidated companies, Hafslunds' governing bodies, Group management
2,4	Location of organization's headquarters.	■	Note 1 General information, Consolidated companies, Board of Directors' Report
2,5	Number of countries where the organization operates, and names of countries with either major operations or that are specifically relevant to the sustainability issues covered in the report.	■	Note 1 General information, Board of Directors' Report
2,6	Nature of ownership and legal form.	■	Note 14 Share capital and premium, Shareholder information, Board of Directors' Report
2,7	Markets served (including geographic breakdown, sectors served, and types of customers/beneficiaries).	■	Market and business conditons, Networks
			Note 5 Segment information, Note 28

2,8	Scale of the reporting organization.	■	Consolidated companies, Analytical information
2,9	Significant changes during the reporting period regarding size, structure, or ownership.	■	Board of Directors' Report
2,10	Awards received in the reporting period.	■	

3. Report Parameters

Profile Disclosure	Description	Reported	Reference
3,1	Reporting period (e.g., fiscal/calendar year) for information provided.	2010	
3,2	Date of most recent previous report (if any).	2009	
3,3	Reporting cycle (annual, biennial, etc.)	Yearly	
3,4	Contact point for questions regarding the report or its contents.	■	Shareholder information, Note 28 Consolidated companies
3,5	Process for defining report content.	■	
3,6	Boundary of the report (e.g., countries, divisions, subsidiaries, leased facilities, joint ventures, suppliers). See GRI Boundary Protocol for further guidance.	■	Note 28 Consolidated companies
3,7	State any specific limitations on the scope or boundary of the report (see completeness principle for explanation of scope).	Regulated by Norwegian law	
3,8	Basis for reporting on joint ventures, subsidiaries, leased facilities, outsourced operations, and other entities that can significantly affect comparability from period to period and/or between organizations.	Regulated by Norwegian law	
3,9	Data measurement techniques and the bases of calculations, including assumptions and techniques underlying estimations applied to the compilation of the Indicators and other information in the report. Explain any decisions not to apply, or to substantially diverge from, the GRI Indicator Protocols.	■	Environment
3,10	Explanation of the effect of any re-statements of information provided in earlier reports, and the reasons for such re-statement (e.g.,mergers/acquisitions, change of base years/periods, nature of business, measurement methods).	■	Environment
3,11	Significant changes from previous reporting periods in the scope, boundary, or measurement methods applied in the report.	No changes	
3,12	Table identifying the location of the Standard Disclosures in the report.	■	Gri-index
3,13	Policy and current practice with regard to seeking external assurance for the report.	■	

4. Governance, Commitments, and Engagement

Profile Disclosure	Description	Reported	Reference
4,1	Governance structure of the organization, including committees under the highest governance body responsible for specific tasks, such as setting strategy or organizational oversight.	■	Hafslund's governing bodies, Group management
4,2	Indicate whether the Chair of the highest governance body is also an executive officer.	■	Corporate Governance, Hafslund's governing bodies
4,3	For organizations that have a unitary board structure, state the number of members of the highest governance body that are independent and/or non-executive members.	■	Corporate Governance, Hafslund's governing bodies
4,4	Mechanisms for shareholders and employees to provide recommendations or	Regulated by	

	direction to the highest governance body.	Norwegian law	
4,5	Linkage between compensation for members of the highest governance body, senior managers, and executives (including departure arrangements), and the organization's performance (including social and environmental performance).	■	Remuneration
4,6	Processes in place for the highest governance body to ensure conflicts of interest are avoided.	■	Corporate Governance
4,7	Process for determining the qualifications and expertise of the members of the highest governance body for guiding the organization's strategy on economic, environmental, and social topics.	■	Corporate Governance
4,8	Internally developed statements of mission or values, codes of conduct, and principles relevant to economic, environmental, and social performance and the status of their implementation.	■	Corporate Social Responsibilities, Environment, In short
4,9	Procedures of the highest governance body for overseeing the organization's identification and management of economic, environmental, and social performance, including relevant risks and opportunities, and adherence or compliance with internationally agreed standards, codes of conduct, and principles.	■	Corporate Governance
4,10	Processes for evaluating the highest governance body's own performance, particularly with respect to economic, environmental, and social performance.	■	Corporate Governance
4,11	Explanation of whether and how the precautionary approach or principle is addressed by the organization.	■	Corporate Social Responsibilities
4,12	Externally developed economic, environmental, and social charters, principles, or other initiatives to which the organization subscribes or endorses.	■	Corporate Social Responsibilities, Social responsibility, Ethics
4,13	Memberships in associations (such as industry associations) and/or national/international advocacy organizations in which the organization: * Has positions in governance bodies; * Participates in projects or committees; * Provides substantive funding beyond routine membership dues; or * Views membership as strategic.	■	Ethics, Corporate Social Responsibilities
4,14	List of stakeholder groups engaged by the organization.	■	
4,15	Basis for identification and selection of stakeholders with whom to engage.	■	
4,16	Approaches to stakeholder engagement, including frequency of engagement by type and by stakeholder group.	■	
4,17	Key topics and concerns that have been raised through stakeholder engagement, and how the organization has responded to those key topics and concerns, including through its reporting.	■	

STANDARD DISCLOSURES PART III: Performance Indicators

Economic

Performance Indicator	**Description**	**Reported**	**Reference**
Economic performance			
EC1	Direct economic value generated and distributed, including revenues, operating costs, employee compensation, donations and other community investments, retained earnings, and payments to capital providers and governments.	■	Accounts and notes Group
EC2	Financial implications and other risks and opportunities for the organization's activities due to climate change.	■	Environment
EC3	Coverage of the organization's defined benefit plan obligations.	■	Note 2, Note 18
EC4	Significant financial assistance received from government.	■	Not material
Market Presence			
EC5	Range of ratios of standard entry level wage compared to local minimum wage at significant locations of operation.	■	

EC6	Policy, practices, and proportion of spending on locally-based suppliers at significant locations of operation.	■	
EC7	Procedures for local hiring and proportion of senior management hired from the local community at significant locations of operation.	■	
Indirect economic impacts			
EC8	Development and impact of infrastructure investments and services provided primarily for public benefit through commercial, in-kind, or pro bono engagement.	■	
EC9	Understanding and describing significant indirect economic impacts, including the extent of impacts.	■	
Availability and reliability			
System efficiency			

Environmental

Performance Indicator	Description	Reported	Reference
Materials			
EN1COMM	Materials used by weight or volume.	■	
EN2	Percentage of materials used that are recycled input materials.	■	
Energy			
EN3	Direct energy consumption by primary energy source.	■	Key figures
EN4	Indirect energy consumption by primary source.	■	Key figures
EN5	Energy saved due to conservation and efficiency improvements.	■	
EN6	Initiatives to provide energy-efficient or renewable energy based products and services, and reductions in energy requirements as a result of these initiatives.	■	More than a power supplier
EN7	Initiatives to reduce indirect energy consumption and reductions achieved.	■	Environmental impact on the Group's core business
Water			
EN8COMM	Total water withdrawal by source.	■	
EN9	Water sources significantly affected by withdrawal of water.	■	
EN10	Percentage and total volume of water recycled and reused.	■	
Biodiversity			
EN11	Location and size of land owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas.		Not applicable
EN12COMM	Description of significant impacts of activities, products, and services on biodiversity in protected areas and areas of high biodiversity value outside protected areas.	■	
EN13	Habitats protected or restored.	■	
EN14COMM	Strategies, current actions, and future plans for managing impacts on biodiversity.	■	
EN15	Number of IUCN Red List species and national conservation list species with habitats in areas affected by operations, by level of extinction risk.	■	
Emissions, effluents and waste			
EN16COMM	Total direct and indirect greenhouse gas emissions by weight.	■	Key figures
EN17	Other relevant indirect greenhouse gas emissions by weight.	■	Key figures
EN18COMM	Initiatives to reduce greenhouse gas emissions and reductions achieved.	■	Environmental impact on the Group's core business
EN19	Emissions of ozone-depleting substances by weight.	■	
EN20COMM	NOx, SOx, and other significant air emissions by type and weight.	■	Key figures

EN21COMM	Total water discharge by quality and destination.	■	
EN22COMM	Total weight of waste by type and disposal method.	■	Environmental impact on the Group's core business
EN23	Total number and volume of significant spills.	■	Environmental impact on the Group's core business
EN24	Weight of transported, imported, exported, or treated waste deemed hazardous under the terms of the Basel Convention Annex I, II, III, and VIII, and percentage of transported waste shipped internationally.	■	
EN25	Identity, size, protected status, and biodiversity value of water bodies and related habitats significantly affected by the reporting organization's discharges of water and runoff.	■	
Products and services			
EN26	Initiatives to mitigate environmental impacts of products and services, and extent of impact mitigation.	■	Environmental impact on the Group's core business
EN27	Percentage of products sold and their packaging materials that are reclaimed by category.	■	
Compliance			
EN28	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations.	■	
Transport			
EN29	Significant environmental impacts of transporting products and other goods and materials used for the organization's operations, and transporting members of the workforce.	■	
Overall			
EN30	Total environmental protection expenditures and investments by type.	■	

Social: Labor Practices and Decent Work

Performance Indicator	Description	Reported	Reference
Employment			
LA1COMM	Total workforce by employment type, employment contract, and region.	■	
LA2COMM	Total number and rate of employee turnover by age group, gender, and region.	■	
LA3	Benefits provided to full-time employees that are not provided to temporary or part-time employees, by major operations.	■	
Labor/management relations			
LA4COMM	Percentage of employees covered by collective bargaining agreements.	■	
LA5	Minimum notice period(s) regarding significant operational changes, including whether it is specified in collective agreements.	■	Regulated by Norwegian law
Occupational health and safety			
LA6	Percentage of total workforce represented in formal joint management-worker health and safety committees that help monitor and advise on occupational health and safety programs.	■	Regulated by Norwegian law
LA7COMM	Rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities by region.	■	Social responsibility
LA8	Education, training, counseling, prevention, and risk-control programs in place to assist workforce members, their families, or community members regarding serious diseases.	■	
LA9	Health and safety topics covered in formal agreements with trade unions.	■	
Training and education			
LA10	Average hours of training per year per employee by employee category.	■	
	Programs for skills management and lifelong learning that support the continued		

LA11	Programs for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings.	■	
LA12	Percentage of employees receiving regular performance and career development reviews.	■	
Diversity and equal opportunity			
LA13	Composition of governance bodies and breakdown of employees per category according to gender, age group, minority group membership, and other indicators of diversity.	Partially	Regulated by Norwegian law
LA14	Ratio of basic salary of men to women by employee category.	■	

Social: Human Rights

Performance Indicator	Description	Reported	Reference
Investment and procurement action			
HR1	Percentage and total number of significant investment agreements that include human rights clauses or that have undergone human rights screening.	■	Ethics
HR2	Percentage of significant suppliers and contractors that have undergone screening on human rights and actions taken.	■	Ethics
HR3	Total hours of employee training on policies and procedures concerning aspects of human rights that are relevant to operations, including the percentage of employees trained.	■	Ethics
Non-discrimination			
HR4	Total number of incidents of discrimination and actions taken.	■	None to report
Freedom of association and collective bargaining			
HR5COMM	Operations identified in which the right to exercise freedom of association and collective bargaining may be at significant risk, and actions taken to support these rights.	■	None to report
Child labor			
HR6	Operations identified as having significant risk for incidents of child labor, and measures taken to contribute to the elimination of child labor.	■	None to report
Forced and compulsory labor			
HR7	Operations identified as having significant risk for incidents of forced or compulsory labor, and measures to contribute to the elimination of forced or compulsory labor.	■	None to report
Security practices			
HR8	Percentage of security personnel trained in the organization's policies or procedures concerning aspects of human rights that are relevant to operations.	■	
Indigenous rights			
HR9	Total number of incidents of violations involving rights of indigenous people and actions taken.	■	None to report

Social: Society

Performance Indicator	Description	Reported	Reference
Community			
SO1COMM	Nature, scope, and effectiveness of any programs and practices that assess and manage the impacts of operations on communities, including entering, operating, and exiting.	■	
Corruption			
SO2	Percentage and total number of business units analyzed for risks related to corruption.	■	
	Percentage of employees trained in organization's anti-corruption policies and		

SO3	Percentage of employees trained in organization's anti-corruption policies and procedures.	■	Ethics
SO4	Actions taken in response to incidents of corruption.	■	Ethics
Public policy			
SO5	Public policy positions and participation in public policy development and lobbying.	■	
SO6	Total value of financial and in-kind contributions to political parties, politicians, and related institutions by country.	■	
Anti-competitive behavior			
SO7	Total number of legal actions for anti-competitive behavior, anti-trust, and monopoly practices and their outcomes.	■	Zero
Compliance			
SO8	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations.	■	

Social: Product Responsibility

Performance Indicator	Description	Reported	Reference
Customer health and safety			
PR1COMM	Life cycle stages in which health and safety impacts of products and services are assessed for improvement, and percentage of significant products and services categories subject to such procedures.	■	
PR2	Total number of incidents of non-compliance with regulations and voluntary codes concerning health and safety impacts of products and services during their life cycle, by type of outcomes.	■	
EU25	Number of injuries and fatalities to the public involving company assets, including legal judgments, settlements and pending legal cases of diseases.	■	
Product and service labeling			
PR3	Type of product and service information required by procedures, and percentage of significant products and services subject to such information requirements.	■	
PR4	Total number of incidents of non-compliance with regulations and voluntary codes concerning product and service information and labeling, by type of outcomes.	■	
PR5	Practices related to customer satisfaction, including results of surveys measuring customer satisfaction.	■	
PR6	Programs for adherence to laws, standards, and voluntary codes related to marketing communications, including advertising, promotion, and sponsorship.	■	Corporate Social Responsibilities
Marketing communications			
PR7	Total number of incidents of non-compliance with regulations and voluntary codes concerning marketing communications, including advertising, promotion, and sponsorship by type of outcomes.	■	No incidents
Customer privacy			
PR8	Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data.	■	
Compliance			
PR9	Monetary value of significant fines for non-compliance with laws and regulations concerning the provision and use of products and services.	■	No incidents