

# Annual report



2019

# Contents

1

[Highlights in 2019](#)  
[Key figures](#)  
[Message from the CEO](#)

2

[Vision, values and strategies](#)  
[Board of Directors, Hafslund E-CO AS](#)  
[Organisation and management](#)  
[A sustainable Hafslund E-CO](#)  
[Analytical information and key figures](#)

3

[Report from the Board of Directors 2019](#)  
[Financial statements and notes - Hafslund E-CO Group](#)  
[Financial statements and notes - Hafslund E-CO AS](#)  
[Declaration](#)  
[Auditor's report](#)



# Highlights in 2019



## Hafslund E-CO and Eidsiva integrate their operations

On September 30, Eidsiva Energi and Hafslund E-CO combined their operations in a joint production and a joint grid company. Significant integration work has been initiated to facilitate efficient operations and to achieve the Group's goals. Operationalisation of the new organisation, establishment of a common IT platform and implementation of initiatives to extract economies of scale is central in the ongoing work. The integration of two strong centres of competence within power production and distribution provides a unique starting point for long-term value creation.



## New production capacity

Vamma 12, the new power production unit in Nedre Glomma was officially opened on 18 September 2019. The Vamma hydropower plant is the largest run-of-river production unit in Norway with an installed capacity of 128 MW and a mean annual production of 1 TWh. Vamma 12 will have a net contribution of 230 GWh of new, emission-free power production. The invested amount is, as previously stated, NOK 980 million.



## Three power plants under construction

Hafslund E-CO currently participates in three construction projects, Nedre Otta, Tolga and Mork. Together, the completion of Rosten power plant in 2018 and Vamma 12 in 2019, along with these ongoing developments, will provide around 1 TWh of additional renewable energy each year.



## Solid results

2019 was a solid year for the hydropower operations, which contributed to a strong underlying operating profit for the Group (operating profit excluding unrealised gains/losses on power price and foreign exchange contracts) of NOK 4,422 million, whereof NOK 3,723 million from continuing operations. Volume produced of 13.6 TWh and an achieved price of 39.2 øre per kWh were the main drivers for the solid results.



## Volatile power prices

The Group's results are strongly exposed to changes in power prices. Favourable prices contributed to a solid result in 2019. High power prices were also expected in 2020 but abnormal weather conditions and the corona crisis have put considerable pressure on forward power prices. and significantly weaker results are expected for 2020.



## New business concepts

The business area New Energy has developed two business concepts, Hafslund Rådgivning (Hafslund Consultancy) and Ladeklar (Fully Charged which constructs and operates electrical vehicle infrastructure for housing cooperatives and condominiums). A letter of intent has also been signed with the Port of Oslo to establish a joint entity to construct, own and operate zero-emission solutions in the port. These and other concepts and joint solutions will be further developed going forward.



## The Group strategy

The Group strategy was aligned with the changes in the structure following the Eidsiva transaction and the Group's vision "For a renewable and fully electric future" in 2019. According to the updated strategy, Hafslund E-CO aims to:

- Grow organically and through consolidation
- Innovate and apply new technology
- Attract and develop employees and develop a leading centre of excellence
- Accelerate the electrification of Norway
- Lead by being the most profitable power group

# Key figures

NOK million

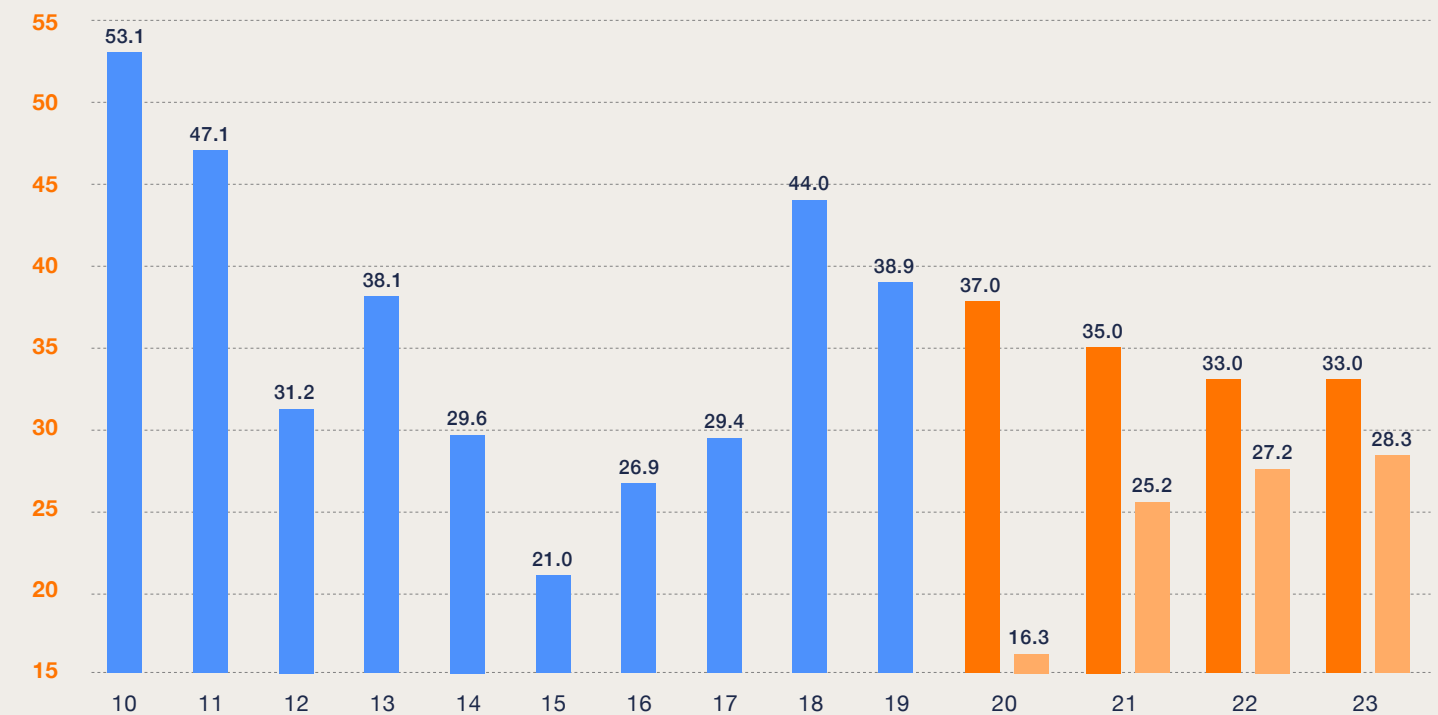
	2019	2018
<b>FINANCIAL KEY FIGURES<sup>1</sup></b>		
Revenues	10 437	10 786
EBITDA	6 072	5 504
Operating profit (EBIT)	5 060	4 413
Underlying operating profit	4 422	4 790
Profit before tax	8 773	3 908
Profit after tax	6 511	1 605
Gain on sale of Hafslund Nett	-4 351	-
Profit after tax adjusted for gain on sale of Hafslund Nett	2 160	1 605
Net interest-bearing debt	10 340	14 293
Subordinated debt (not included in net interest-bearing debt)	5 764	3 847
Equity	33 107	16 501
Total assets	65 274	49 180
Capital employed	51 275	37 048
Investments in fixed assets (continuing operations)	701	604
ROE (%)	7%	10%
ROCE (%)	10%	12%
Net interest-bearing debt/EBITDA (x)	1,7	2,6
FFO/Net interest-bearing debt (%)	34%	27%
Equity share (%)	51%	34%
<b>OTHER KEY FIGURES</b>		
Number of employees	411	623
H2 - Total number of injuries per million hours worked	8,1	9,2
Produced volume (TWh) <sup>2</sup>	13,6	14,3
Achieved price (øre/kWh)	39,2	41,1

<sup>1</sup>Key figures include continued and discontinued operations.

<sup>2</sup>Deviations from normal production of 17 TWh is due to lower inflow of water vs normal and Eidsiva Vannkraft only being included from the fourth quarter of 2019.

**10%** ROCE | **13.6 TWh** Produced hydropower | **NOK 2,160 million** Adjusted profit for the year

Power price 2010 - 2023 EUR/MWh



■ Forward price at 1 Dec ■ Forward price at 13 March ■ Spot price

# Message from the CEO

2019 was a good year. Eidsiva Energi and Hafslund E-CO joined forces and united their operations in larger and stronger units engaged in hydropower production and power distribution. Measured in terms of gross value, this partnership represents the largest transaction ever undertaken in mainland Norway. While good electricity prices produced a high net profit in 2019, 2020 has started mild and wet, which has reduced electricity prices substantially. So although we can look back on a record-breaking year in 2019, 2020 will be greatly affected by the change in market prices.

The coronavirus that reached Norway in March 2020, affects our Group, the power industry and the community at large. We have established a contingency organization that continuously assesses and implements measures to secure the power supply, in addition we continuously follow the advice of the authorities.

The measures significantly affect employees, their relatives and the Norwegian society, but these measures are important to prevent the spread of the virus.

The spread of the virus has led to a significant fall in stock prices, a fall in energy prices and a fall in the Nordic power demand. The long-term



effects of the corona virus are currently uncertain, but we must be prepared for reduced power demand and low power prices, which will further weaken our earnings.

### **Strong companies**

The partnership with Eidsiva Energi has created large and more robust operations. The new power grid operator, now called Elvia, is Norway's largest by far. The company is well positioned to provide good solutions and reasonable prices to over 900,000 distribution grid customers. The business provides a stable return to its owner Eidsiva Energi, in which Hafslund E-CO holds a 50 per cent stake.

The new hydropower generating company, comprising what were previously Eidsiva Vannkraft and E-CO Energi, is now called Hafslund E-CO and has an annual output of 21 TWh, corresponding to 15 per cent of Norway's electricity production.

### **Major changes – solid results**

Work is well underway at both Hafslund E-CO and Eidsiva Energi to integrate the newly combined operations.

At Hafslund E-CO, many people have faced challenges through 2019, in connection with the transactions, organisational changes and new reporting lines. At the same time, we have performed well operationally. As a Group, we have delivered an underlying result far above historic levels. I am pleased and proud of the excellent work performed by all our employees through 2019, and the results that they have achieved.

I am confident that we now have stronger business areas and are better placed to meet the future.

### **Hedging gains in 2019**

In late December, following a period of buoyant and stable power markets through 2018 and 2019, we experienced once again how important temperature, precipitation and wind are for the Nordic power system. A great deal of wind and precipitation, combined with record high temperatures, caused a sharp drop in prices at the end of December. This has continued into 2020.

Effective hedging of power production through 2019, and particularly for the first few months of 2020, has contributed to substantial hedging gains in the 2019 financial statements. The fall in spot and forward prices through the close of 2019 and into 2020 means that we anticipate far weaker results in 2020.

Effective operations, partial price hedging, and the high production volumes that are expected will to some extent soften the impact of the fall in prices. A large and unified hydropower production company forms a solid foundation for further efficiency improvements, enabling us to deliver good results even in years when electricity prices are low. Our new size means that the effect of increased competence will help ensure that all our 79 power plants can be operated more efficiently over time. The Group's IT competence and capacity is currently being ramped up and will be further reinforced going forward.

### **Zero injuries – our highest priority**

Avoiding work-related injuries is absolutely our number one priority. Although we are constantly improving, there is still a long way to go to reach our goal of zero injuries. Our efforts to avoid injuries will be reinforced, along with measures to improve the working environment and the environment in our watercourses, and to combat climate change. In addition to steadily expanding our renewable energy production, we are also evaluating how our remaining greenhouse gas emissions from production and transport can be reduced.



### **New business concepts**

In 2019, we started two new business concepts: Ladeklar and Hafslund Rådgivning. Hafslund Rådgivning advises public and private sector undertakings on electrification and other measures to reduce their greenhouse gas emissions. Ladeklar has already signed more than 50 contracts with housing associations and commonhold property owners, who want to install electric vehicle charging points. We intend to start similar ventures in the years to come.

### **The future is renewable and fully electric!**

If we are to reach our climate goals, we must make it possible for fossil energy sources to be replaced by a growing volume of renewable energy. We work towards framework conditions that enable hydropower production to increase, and that this – along with other types of renewable energy – will make Norway a more renewable-based nation. Increased opportunities for improved transmission infrastructure, both nationally and internationally, are also important for further value creation and reduced greenhouse gas emissions in Europe.

In the near term, our focus is to ensure good operation of our socially critical infrastructure at a critical time marked by the corona pandemic. The effects of a protracted corona situation are difficult to predict, but we will do our utmost to ensure that the power supply remains undisturbed.

Hafslund E-CO will continue to increase its efforts to create a renewable and fully electric future!

A handwritten signature in black ink, appearing to read 'Finn Bjørn Ruyter', positioned above a horizontal dotted line.

Finn Bjørn Ruyter  
CEO

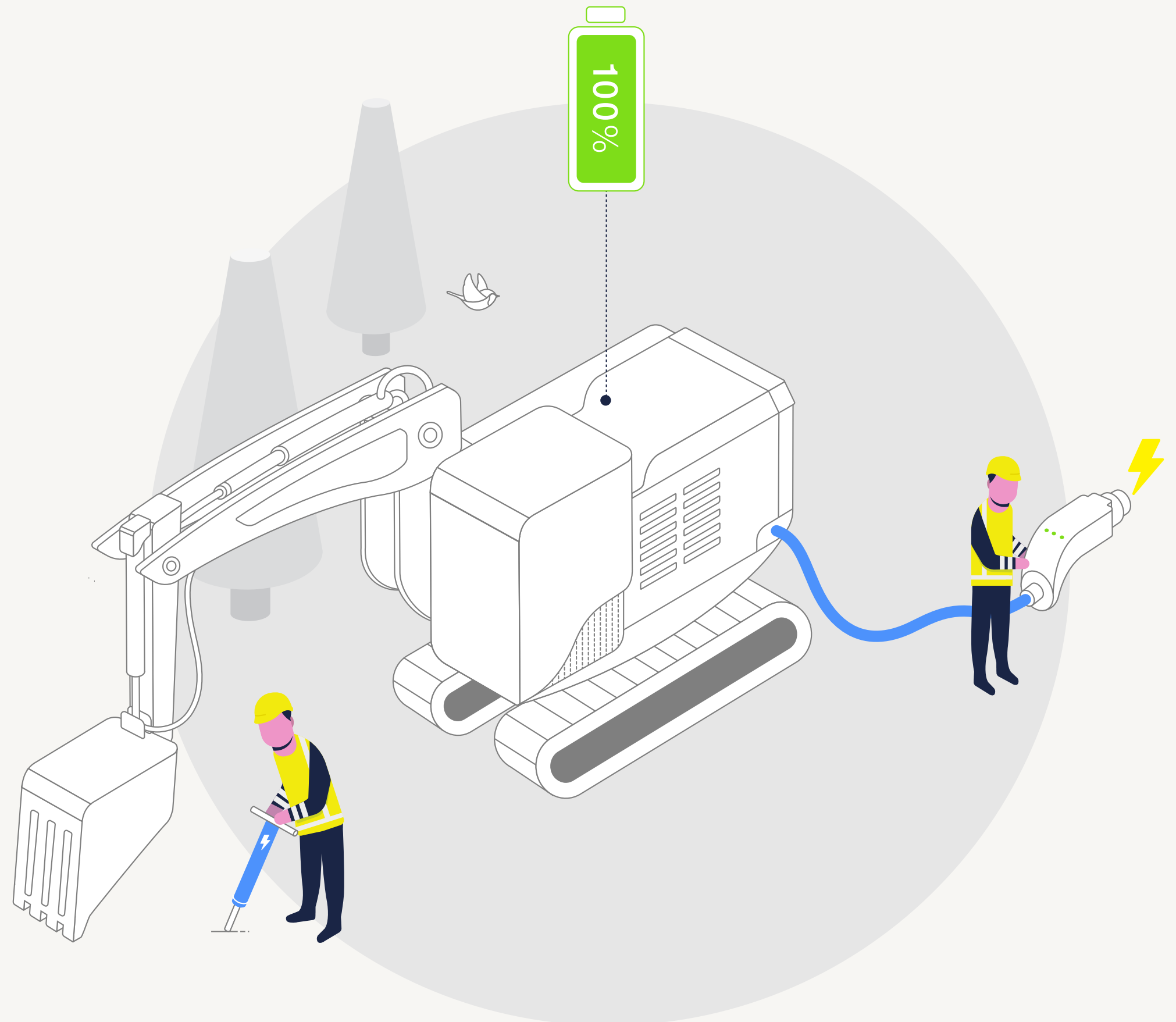
# The fully electric construction site

*A reality in 2019*

For renewable energy to have climate value, it must reach the users and replace fossil sources of energy. Hafslund E-CO aims to contribute to the electrification of construction sites. Oslo, as one of the first cities in the world, got a fully electric construction site in 2019. Experience from this site will be used to develop additional services for electrification of building and construction activities.

## 0 CO<sub>2</sub> emission

*An emissions-free excavator of 30 tonnes used on construction sites will reduce emissions of the greenhouse gas CO<sub>2</sub> by 100 tonnes of CO<sub>2</sub> equivalents a year. At the same time, the local noise load will be reduced considerably, and the excavator will not have a negative effect on air quality.*



# Contents

2

[Vision, values and strategies](#)

[Board of Directors, Hafslund E-CO AS](#)

[Organisation and management](#)

[A sustainable Hafslund E-CO](#)

[Analytical information and key figures](#)



# Vision, values and strategies

Hafslund E-CO is a vital player in the work to realise a renewable and fully electric future. After the Eidsiva transaction the Group has fortified its position as a driving force for consolidation in the power industry. The Group's strategy, the vision and the company's core values: open, responsible and innovative, is the basis for the work that will ensure that Hafslund E-CO also in the future reaches its business goals.

## Big milestone - big changes

Hafslund E-CO has a clear growth strategy and the Eidsiva transaction was an important milestone on the road to realize the Group's strategic goals. The transaction resulted in significant changes for Hafslund E-CO, which went from having power grid operations as an integrated part of the core business, to have significant ownership interests in Norway's largest power grid operator, Elvia, through the ownership in Eidsiva Energy. At the same



time, the focus on hydropower production was strengthened and the Group now operates more than 21 TWh hydropower production capacity.

## Hafslund E-CO's vision

### For a renewable and fully electric future

The vision "for a renewable and fully electric future" is ambitious. It gives direction for the Group's strategic work and contributes to ensure that all employees in Hafslund E-CO works towards a common goal. Our goal is also topical for the society at large at a time when climate challenges need to be addressed, and a transition to extended use of electricity for machines and technical devices is in progress. In this change Hafslund E-CO takes a leading role for a better climate and, through our electrification efforts within New Energy, contribute to facilitate the use of electrical solutions where fossil energy sources previously were used.

## Hafslund E-CO's values

### Open, responsible, innovative

Hafslund E-CO's core values have remained the same since the company was formally established after the merger of Hafslund and E-CO Energi in 2018. The values "open", "responsible" and "innovative" describe who we are and who we desire to be. The core values represent the Group's culture and serves as a guideline to how we act. Everyone must recognise themselves in the values. Yet also find them something to strive for.

### Open means that we

- appreciate differences and diversity
- welcome changes
- develop each other by sharing experience and knowledge

### Responsible means that we

- always try to do better
- show confidence and keep what we promise
- appreciate quality and honesty

### Innovative means that we

- are curious about new ways of work and new tools
- dare to challenge
- dare to fail

## Hafslund E-CO's social responsibility

### Generating long-term values through renewable energy, the secure supply of energy and development of a smart and fully electrified zero-emissions society

Our social mission describes our place in society and the role the Hafslund E-CO Group will play moving forward. This involves taking a long-term approach to investing and managing the Group's hydropower assets, and unequivocally choosing renewable ahead of fossil solutions.

It also commits us to ensuring high availability and uptime in our power production facilities. Key social tasks and critical social functions depend on a well-functioning and reliable energy supply system. The coronavirus outbreak in March 2020 will place extraordinary demands on our operations. The consequences of a protracted situation are difficult to predict, but as a power producer, we are implementing several measures to maintain the power supply in a situation where access to electricity will be critical to us all.

## Group strategy

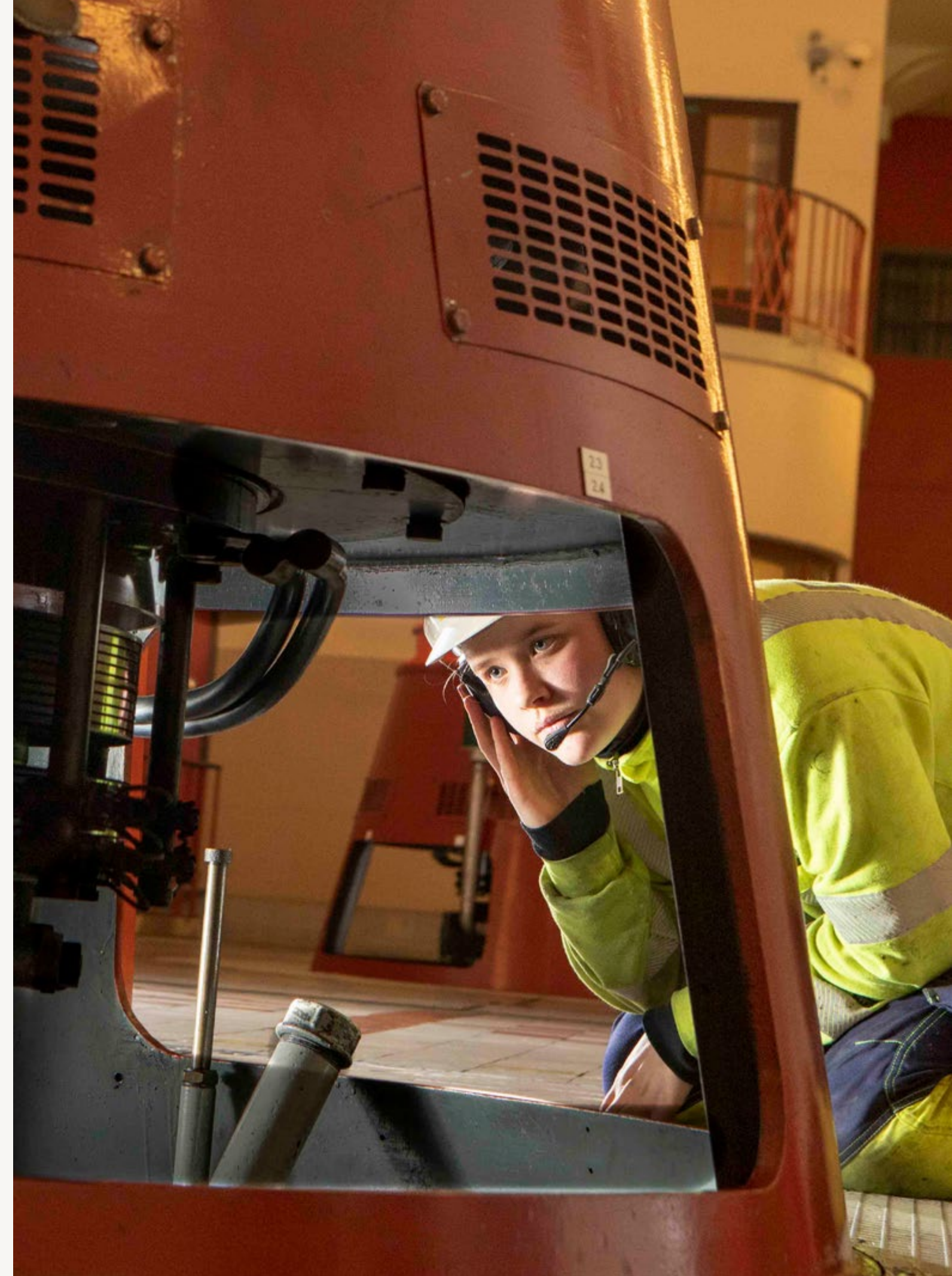
### Hafslund E-CO has five main strategic goals

Hafslund E-CO's strategy has been named the "VITAL" strategy. By giving the strategy a name, we hope to make it more understandable and accessible to the individual employees of the Group. In the financial report for the first half of 2019 the Group's main strategic goals were presented. Through the fall of 2019, the strategy has been further developed and adapted to a new company structure and new focus areas following the Eidsiva transaction. The strategy highlights Hafslund E-CO's five main objectives:

1. Grow organically and through consolidation
2. Innovate and apply new technology
3. Attract and develop employees and develop a leading centre of excellence
4. Accelerate the electrification of Norway
5. Lead by being the most profitable power group

### Grow

Hafslund E-CO has already fortified its position as a strong driver for consolidation in the industry with the completion of the Eidsiva transaction. We believe that there is a clear correlation between size and efficiency in the power industry. Economies of scale should benefit both owners and residents. Hafslund E-CO will continue to look for consolidation partners but will also aim to grow organically through capacity increases in existing power plants.



### Innovate

Hafslund E-CO actively works to implement new technology. Among other things, the Group aims to implement sensor-based maintenance at all power stations, apply machine learning, including predictive maintenance and error detection, and automation of processes in areas such as power trading and production management.

### Attract

We believe that in the future, competence will make the difference between companies that really succeed and those that do not. Hafslund E-CO will establish a leading centre of competence by developing our existing team and attracting necessary new talents.

### Accelerate

In 2018, the business area Ny Energi was established. Through innovation, business development and active ownership in start-up companies, Ny Energi will develop electrification solutions for the future, and thus contribute to accelerate the electrification of Norway.

### Lead

Hafslund E-CO focus on profitability and has great ambitions when it comes to ensuring lasting and high profitability. In addition to safeguarding good profitability in our own operations, it is crucial for us to ensure optimal return on partly owned companies by taking an active ownership role.

The Group's strategy is not a static document. Hafslund E-CO's main strategic objectives are dynamic and will be updated continuously as we move forward based on new knowledge and changes in our surroundings.



# 1,500 m<sup>3</sup> per second

*For Hafslund E-CO, the goal is to get the most power out of every available drop of water to the least possible disadvantage for the environment. The upgrades to the Vamme power station in 2019 increased the capacity from 1,000 to 1,500 m<sup>3</sup> per second. This means reduced water loss and increased production of renewable and emission free power.*



# Hafslund E-CO's five strategic goals



## Grow

*Grow organically and through consolidation*



## Innovate

*Innovate and apply new technology*



## Attract

*Attract and develop employees and develop a leading centre of excellence*



## Accelerate

*Accelerate the electrification of Norway*



## Lead

*Lead by being the most profitable power group*

# The smart city

With Ladeklar, we work to accelerate the use of electric cars, heading for a renewable and fully electric future. By offering housing cooperatives to take the investment we make it an easier choice to install a proper charging system. With a charging system in place, it's easier for residents to choose electric when they select their next car. So far, we have delivered about 270,000 fossil-free kilometers through our charging solutions, and we have saved Oslo and Eastern Norway for 32 tonnes of CO<sub>2</sub>.

## Electrification

*Anything that can be electrified should be electrified if there are cost-effective measures that bring society faster and smarter to an emission-free future*



# Board of Directors of Hafslund E-CO AS

The board consists of eight members, three of whom are elected by the employees. Following the Eidsiva transaction, two of the employee-elected representatives were changed from October 1. There were no other changes to the Board of Directors throughout the year. The Board has good representation of both genders and has appointed an audit committee and a compensation committee as subcommittees of the Board.

The Board adds both in-depth and broad experience to important decisions in the Group, hereunder decisions related to further development of the hydropower operations, follow-up of shareholdings in equity accounted investees including the ownership in Eidsiva Energi, as well as opportunities within New Energy, digitalisation, environment and sustainability and financial management. There were eight ordinary board meetings and one telephone board meeting in 2019 and the Board actively participated in the execution of the transaction with Eidsiva and also participated in the development of the Group's strategy that will enable growth, and ensure that the Group develops to the benefit of the owner, the employees and other stakeholders. The Board has also been a driving force for developments within innovation, electrification and digitalisation in the Group. To achieve continuous improvement and innovation in a rapidly changing industry, the Board believes that further consolidation is needed.





## Alexandra Bech Gjørv

### Board Chair

Alexandra Bech Gjørv is CEO of SINTEF, one of Europe's largest research institutes.

#### Background:

Alexandra is a qualified lawyer from the University of Oslo, Oxford University in the UK and Suffolk University in Boston, USA.

#### Other offices and previous experience:

Alexandra has extensive industrial experience from management positions at Equinor and Norsk Hydro, where she among other was responsible for the development of the companies' New Energy business, Group director HR, HSE and CSR as well as holding several management positions in Hydro Automotive. Alexandra was previously Chair of Eidsiva Energi and a director of the French company Technip, as well as Schibsted, Norske Skog and NRK. Between 2009 and 2015, Alexandra was a partner in the law firm Hjort, where she specialised in employment law, energy law and investigations. She also headed the 22 July Commission, which was ordered by Norway's parliament following the Oslo bombing and subsequent shootings on Utøya in 2011.

## Board

[Alexandra Bech Gjørv](#)

Bente Sollid Storehaug

Bjørn Erik Næss

Bård Vegar Solhjell

Mari Thjømøe

Arvid Amundsen

Jan Petter Knudsen

Gunnar Ola Braaten

[Next chapter](#) →



## Bente Sollid Storehaug

### Director

Bente Sollid Storehaug is Managing Director of Digital Hverdag AS.

#### Background:

Bente has a degree in political science and executive studies from INSEAD (international board education), BI Norwegian Business School (mentoring) and MIT (Blockchain innovation).

#### Other offices and previous experience:

Bente founded Digital Hverdag AS in 1993 and led the company through a series of mergers and acquisitions leading up to the company's IPO on the Stockholm Stock Exchange. Since 2000, she has worked as CEO and served as chairman of the board of several technology companies. Today she is an independent adviser and investor. She has been a board member of start-ups and listed companies. She is Chair of the Boastcom Group and a director of the Eika Group, Polaris Media ASA, Europris ASA and the car group, Motor Gruppen AS.

## Board

Alexandra Bech Gjørv

[Bente Sollid Storehaug](#)

Bjørn Erik Næss

Bård Vegar Solhjell

Mari Thjømøe

Arvid Amundsen

Jan Petter Knudsen

Gunnar Ola Braaten

[Next chapter](#) →



## Bjørn Erik Næss

### Director, Chair of the Audit Committee

Bjørn Erik Næss stepped down as CFO of DNB ASA on 1 March 2017, a position he held for nine years. Bjørn Erik currently serves on several boards.

#### Background:

Bjørn Erik has a master's degree in business administration from the Norwegian School of Economics (NHH) and has completed a management programme at Darden Business School in the USA.

#### Other offices and previous experience:

Bjørn Erik was previously SVP and CFO of Aker Kværner ASA, and held similar positions in Orkla and Carlsberg (Denmark). He has gained extensive experience from management roles both in Norway and internationally over the last 25 years. He is also Chair of Axactor AS, and a director of DNB Livsforsikring AS, Luminor AB and Aker Kverner Holding AS. He is also the chair of the corporate assembly and election committee in Telenor ASA.

## Board

Alexandra Bech Gjørsv

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Gunnar Ola Braaten

[Next chapter](#) →



## Bård Vegar Solhjell

### Director

Bård Vegar Solhjell is a director at NORAD, the Norwegian Agency for Development and Cooperation

#### Background:

Bård Vegar has a degree in Political Science from the University of Oslo.

#### Other offices and previous experience:

Bård Vegar previously held political positions at national level. He has been Minister of Environment, Minister of Education and Research and State Secretary for the Office of the Prime Minister in Jens Stoltenberg's "red-green" coalition government. From 2009 to 2017, he was member of Parliament for Akershus (Viken), and between 2007 and 2015, Deputy Leader of Norway's Socialist Left Party. He is a regular columnist for three Norwegian newspapers where he mainly writes about the climate, energy and other social issues. He has written four books on key economic and political issues, the most recent of which was entitled "Jakta på makta. 12 råd for effektiv påvirkning" (The hunt for power. 12 tips for effective influence) in cooperation with Ketil Raknes (2018). He is Deputy Chair of the Fritt Ord (Free Word) Foundation, and is a director of the Oslo School of Architecture and Design and the by:Larm Music Festival. He has also been Secretary General of the World Wide Fund for Nature Norway (WWF).

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Gunnar Ola Braaten

[Next chapter](#) →



## Mari Thjømøe

Director and member of the  
Audit Committee

Mari Thjømøe runs her own investment and consultancy company.

### Background:

Mari has a master's degree in business administration from the BI Norwegian Business School/American Graduate School of International Business, and is a qualified CFA/Chartered Financial Analyst from the Norwegian School of Economics (NHH).

### Other offices and previous experience:

Mari was formerly CFO and acting CEO of Norwegian Property, CFO of the life insurance company KLP Forsikring, and SVP at Statoil ASA (now Equinor). She serves on the boards of several companies, including the Danish non-life insurance group Tryg AS, Scatec Solar ASA, TF Bank AB (Chair), Norconsult AS (Vice-Chair), Nordic Mining ASA and SINTEF's governing board. She was Chair of the Norwegian Investor Relations Association for many years, and was also Deputy Chair, and Chair of the Audit Committee at E-CO Energi Holding AS between 2013 and 2018.

## Board

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Arvid Amundsen

Jan Petter Knudsen

Gunnar Ola Braaten

[Next chapter](#) →



## Arvid Amundsen

### Director (Employee Representative)

Arvid Amundsen has been with E-CO Energi since 1987, and currently works in the maintenance department in Hol in Hallingdal.

#### Background:

Arvid has a certificate of apprenticeship as a painter and a two-year programme for energy operators from Sogndal and Tromsø. He also has post degree training within electrical power generation and distribution networks from the Labro School in Kongsberg.

#### Other offices and previous experience:

Arvid was Senior Union Representative in the Hallingdal–Aurland Solbergfoss (HAS) branch of the EL&IT trade union from 2006 to 2008, when he also served on E-CO Vannkraft's board of directors. He has completed several terms as the union's site representative, senior employee safety representative and employee safety representative. He was a member of the E-CO Energi Holding AS board from 2016 to 2018 before he was appointed director of the Hafslund E-CO AS board as an employee representative. He is also Group Union Representative for EL&IT.

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[Arvid Amundsen](#)

Jan Petter Knudsen

Gunnar Ola Braaten

[Next chapter](#) →



## Jan Petter Knudsen

### Director (Employee Representative)

Jan Petter Knudsen started in Vinstra Kraftselskap, a majority owned company of Hafslund E-CO in 1981 and is currently working as a technician in Eidsiva Vannkrafts technical department in Lillehammer.

#### Background:

Jan has a certificate of apprenticeship as machine fitter from NEBB in Oslo. He has 1-year post degree machine training in addition to post degree training from the Labro School in Kongsberg. Jan has also completed coaching training at Inland University.

#### Other offices and previous experience:

Jan has previously represented the employees at the board of Vinstra Kraftselskap and Vannkraft Øst. He has held different positions within the EL&IT trade union and been senior union representative in Innlandet and a member of the National Executive Committee. He is the leader of the TU (tillitsmannsuvalget) in Eidsiva Vannkraft and a leader of the working environment committee (AMU).

## Board

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Arvid Amundsen

[Jan Petter Knudsen](#)

Gunnar Ola Braaten

[Next chapter](#) →



## Gunnar Ola Braaten

### Director (Employee Representative)

Gunnar Ola Braaten started in E-CO Energy in 2016 and currently is an operations coordinator at the operations central at Gol.

#### Background:

Gunnar Ola has an engineering degree within electrical power.

#### Other offices and previous experience:

Gunnar Ola is representative for the engineering union NITO. He was an employee elected member of the board in E-CO Energi Holding from 2018. Gunnar Ola also has experience from the Norwegian Railway Services (VY) and Bane NOR (the Norwegian national railway infrastructure).

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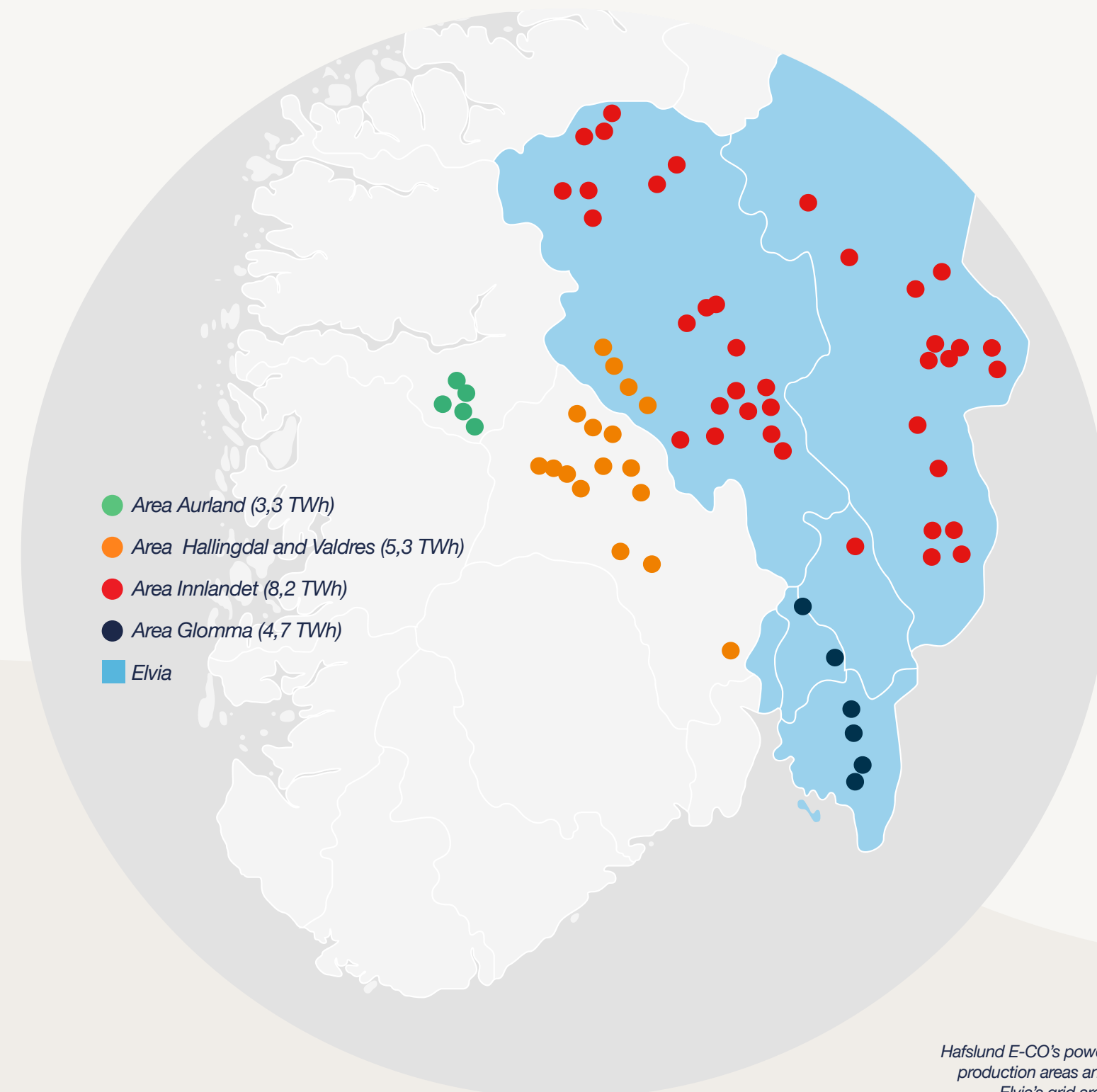
[Next chapter](#) →

# Organisation and management

The integration of the core activities in Eidsiva Energi and Hafslund E-CO contributed to confirm Hafslund E-CO's position as Norway's second-largest hydropower producer. Through the 50 per cent ownership in Eidsiva Energi, Hafslund E-CO is also a co-owner of the largest grid company in Norway, and engaged in bioenergy, broadband and power sales.

## Hafslund E-CO – a changing Group

The transaction between Hafslund E-CO and Eidsiva Energi implied a bundling of the main activities in the two groups at subsidiary level. The bundling of Hafslund E-CO's hydropower operations and Eidsiva Vannkraft, as well as the grid operations in Eidsiva Energi and Hafslund Nett is expected to boost competitiveness and profitability through increased economies of scale, operational efficiencies and digitalisation. A larger organisation will also facilitate the establishment of stronger centres of excellence. Together, these measures will make Hafslund E-CO a more attractive employer, enable the Group to offer more competitive solutions and over time lay the foundations for higher dividends to our owners.



This make Hafslund E-CO better equipped to maintain a strong position in a constantly evolving industry and pave the way for further growth and new opportunities within both hydropower production and New Energy.

### Hydropower operations in Hafslund E-CO consists of three subgroups

1. E-CO Energi and subsidiaries that owns and operates power plants in Aurland, Viken and Innlandet – in total approximately 17,7 TWh whereof 13,7 TWh is owned.
2. Hafslund Produksjon Holding and subsidiaries that owns and operates power plants in the lower parts of the river Glomma – in total approximately 3,3 TWh.
3. Oslo Lysverker that owns and operates the power plant Hammern in Oslo – in total approximately 20 GWh.

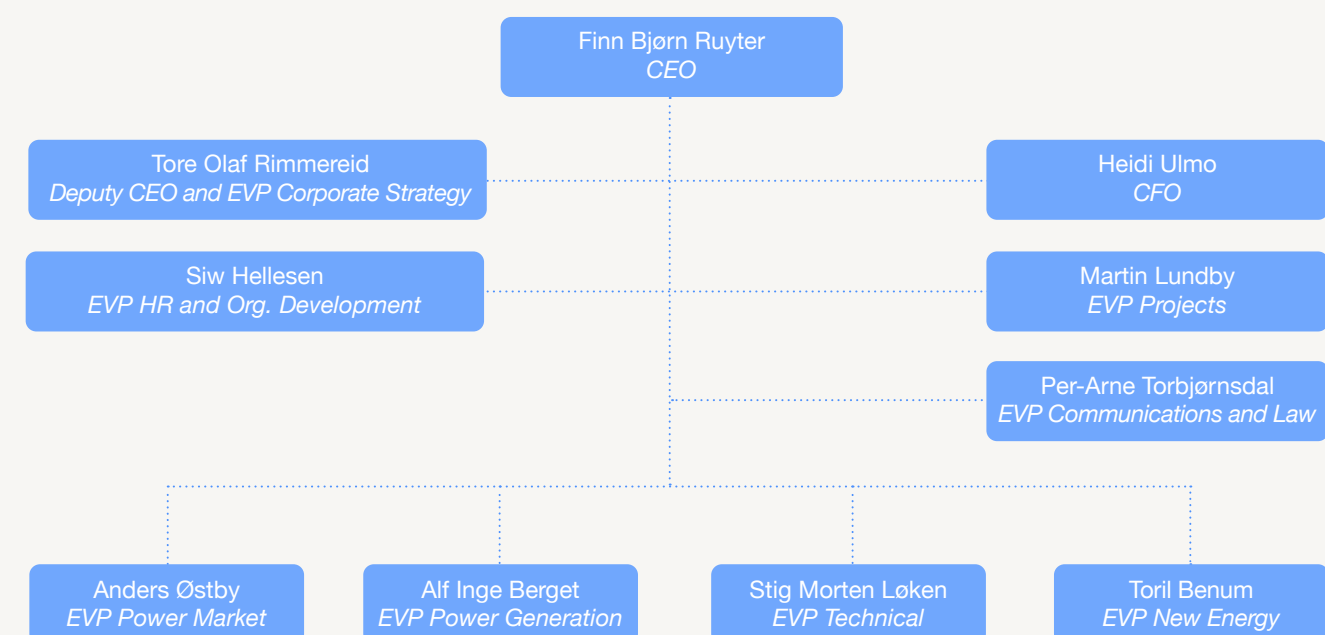
Eidsiva Energi is a minority owner in E-CO Energi with an ownership of 42.8 per cent (whereof Hafslund E-CO has an indirect ownership through its' 50 per cent share in Eidsiva Energi, which gives Hafslund E-CO a combined direct and indirect ownership in E-CO Energi of 78.6 per cent, while Svartisen has a 10 per cent ownership in Hafslund Produksjon Holding. Hafslund E-CO is also minority owner in NorthConnect, a planned new interconnector to the UK.

Through the 50 per cent ownership in Eidsiva Energi, Hafslund E-CO is a co-owner in Elvia, Norway's largest grid company as well as Eidsiva Energi's activities within bioenergy, broadband and power sales.

Hafslund E-CO AS (the parent company of the Group) is 100 per cent owned by the City of Oslo. A simplified organisation structure is included in the Board of Director's report.

## Management

Hafslund E-CO had 411 employees at the end of 2019 and the Group CEO is Finn Bjørn Ruyter. The inclusion of Eidsiva Vannkraft and the secretion of Hafslund Nett resulted in changes to the group management in 2019. SVP Networks and managing director Hafslund Nett, Kristin Lian, stepped out of the management team as of 30. September 2019 taking on the position as managing director of the combined grid company, Elvia. At the same time Stig Morten Løken, previously managing director of Eidsiva Vannkraft was appointed EVP Technical. Martin S. Lundby was appointed EVP Projects on 1. January 2020. After the changes, group management consists of 10 people and their job is to facilitate and actively participate in the process to identify and implement measures that contribute to strategic goal achievement. The group management of Hafslund E-CO consists of people with considerable cross-functional as well as specialised in-depth knowledge that together will contribute to move the group forward on the road to a fully electric future.





## Finn Bjørn Ruyter

### CEO

Finn Bjørn Ruyter was appointed CEO of Hafslund E-CO AS on 4 July 2018. He was previously CEO of Hafslund ASA/AS, a position he held since January 2012.

#### Background:

Finn Bjørn holds a Masters degree in Engineering from the Norwegian University of Science and Technology (NTNU) and has an MBA from BI Norwegian Business School.

#### Other offices and previous experience:

Before becoming CEO of Hafslund ASA/AS, Finn Bjørn was CFO of the Hafslund Group from 2010 to 2011. Between 1991 and 1996, he worked in power trading at Norsk Hydro, while from 1996 to 2009, he headed the power trading activities at Elkem, before later joining the company's energy division. From 2009 to 2010, he was COO of the Philippine hydropower company SN Aboitiz Power, based in Manila. Finn Bjørn is a director in Equinor ASA, Vistin Pharma ASA, Fortum Oslo Varme AS, Syslo AS and Europower AS

## Management

[Finn Bjørn Ruyter](#)

Tore Olaf Rimmereid

Heidi Ulmo

Alf Inge Berget

Stig Morten Løken

Anders Østby

Toril Benum

Siw Hellesen

Per-Arne Torbjørnsdal

Martin S. Lundby

[Next chapter](#) →



## Tore Olaf Rimmereid

### Deputy CEO and EVP Corporate Strategy

Tore Olaf Rimmereid was appointed Deputy CEO and EVP Corporate Strategy on 1 September 2018. He was previously CEO of E-CO Energi, a position he held since September 2009.

#### Background:

Tore Olaf has an MBA from the Norwegian School of Economics and is also a Chartered Financial Analyst.

#### Other offices and previous experience:

Before joining E-CO Energi, he was Director of Administration and Finance at NRK and CFO at Sparebank1. He is currently also Chairman of the board in the foundation Asplan, a director in Space Norway AS, Kruse Smith AS and Transparency International Norway. He has experience from numerous boards and has been Chair of Energy Norway and deputy Chair in DNB ASA.

## Management

Finn Bjørn Ruyter

[Tore Olaf Rimmereid](#)

Heidi Ulmo

Alf Inge Berget

Stig Morten Løken

Anders Østby

Toril Benum

Siw Hellesten

Per-Arne Torbjørnsdal

Martin S. Lundby

[Next chapter](#) →



## Heidi Ulmo

### CFO

Heidi Ulmo has been CFO of Hafslund E-CO AS since 1 August 2018. She was CFO of Hafslund ASA/AS from August 2012.

#### Background:

Heidi has an MSc in International Accounting and Finance from the London School of Economics, and an MBA from the University of Strathclyde in Glasgow (UK). She is also a Chartered Financial Analyst (CFA).

#### Other offices and previous experience:

From 2010 to 2012, Heidi was Director of Corporate Finance at DNB Markets. Between 2007 and 2010, she was CFO of Infratek ASA, and from 2005 to 2007, she was responsible for Investor Relations and Corporate Strategy at Hafslund ASA. Between 1996 and 2005, she gained wide-ranging experience from PwC in London and McKinsey in Oslo, as well as from Carnegie Investment Banking's Corporate Finance department in Oslo. She is also a director of the cooperative building association OBOS.

## Management

Finn Bjørn Ruyter

Tore Olaf Rimmereid

[Heidi Ulmo](#)

Alf Inge Berget

Stig Morten Løken

Anders Østby

Toril Benum

Siw Hellesen

Per-Arne Torbjørnsdal

Martin S. Lundby

[Next chapter](#) →



## Alf Inge Berget

### EVP Power Generation

Alf Inge Berget took up his position as EVP Power Generation and Managing Director of E-CO Energi AS on 1 September 2018. He was previously COO of E-CO Energy AS, a position he held since 2008

#### Background:

Alf Inge has a degree in Electrical Engineering from Oslo College of Engineering and additional qualification in Business Economics. He also holds a Master of Management degree from BI Norwegian Business School.

#### Other offices and previous experience:

Before joining E-CO Energi, Alf Inge was CEO of Eltel Networks in Norway. He was previously employed by the Hafslund Group as CEO of Hafslund Fakturaservice. He also currently serves on the board of HydroGen.

## Management

Finn Bjørn Ruyter

Tore Olaf Rimmereid

Heidi Ulmo

[Alf Inge Berget](#)

Stig Morten Løken

Anders Østby

Toril Benum

Siw Hellesen

Per-Arne Torbjørnsdal

Martin S. Lundby

[Next chapter](#) →



## Stig Morten Løken

### EVP Technical

Stig Morten Løken took up his position as EVP Technical and Managing Director of Eidsiva Vannkraft on 30. September 2019. He was previously Managing Director at Eidsiva Vannkraft, a position he held since 2016.

#### Background:

Stig Morten holds a Masters degree in Engineering from the Norwegian University of Science and Technology (NTNU)

#### Other offices and previous experience:

Løken has over 20 years of experience from various management functions in hydropower generation, both from power trading, production management, project management and management of operating and maintenance organisations. From 2012, he managed Eidsiva Vannkraft's operations, which included a production portfolio of about 7.5 TWh distributed across 48 power plants, and the development of several large hydropower projects. He is chairman of the board of The Association of Bægnavassdragets Regulation and board member of Ecohz AS and Glommens- and Laagens Regulation Association.

## Management

Finn Bjørn Ruyter

Tore Olaf Rimmereid

Heidi Ulmo

Alf Inge Berget

[Stig Morten Løken](#)

Anders Østby

Toril Benum

Siw Hellesten

Per-Arne Torbjørnsdal

Martin S. Lundby

[Next chapter](#) →



## Anders Østby

### EVP Power Market

Anders Østby took up his position as EVP Power Market on 1 September 2018. Prior to this, he was Managing Director of Hafslund Produksjon AS, a position he held since 2008.

#### Background:

Anders holds a Masters degree in Electrical Engineering from Heriot-Watt University in Edinburgh (UK) and has also studied finance and project management at BI Norwegian Business School.

#### Other offices and previous experience:

Anders has been Senior Vice President Production at Hafslund ASA, and Managing Director of Hafslund Produksjon. He has also been responsible for construction of Hafslund's new power stations at Kykkelsrud and Vamma. He was previously Director of Hafslund Operatør's Markets division, Director of Network Development and Operations Manager and Departmental Manager for the Planning Department at Hafslund Nett.

## Management

Finn Bjørn Ruyter

Tore Olaf Rimmereid

Heidi Ulmo

Alf Inge Berget

Stig Morten Løken

[Anders Østby](#)

Toril Benum

Siw Hellesen

Per-Arne Torbjørnsdal

Martin S. Lundby

[Next chapter](#) →



## Toril Benum

### EVP Ny Energi

Toril Benum took up her position as EVP New Energy on 1 September 2018. Toril has been Project Director of the AMS project at Hafslund Nett since May 2015 and Director of Projects and Development at Hafslund Nett since March 2017.

#### Background:

Toril holds a Masters degree in Mechanical Engineering from the Norwegian University of Science and Technology (NTNU).

#### Other offices and previous experience:

Before joining Hafslund Nett, Toril was CIO of Veidekke ASA (2010–2015), and has also held several management positions at Aker Solutions.

## Management

Finn Bjørn Ruyter

Tore Olaf Rimmereid

Heidi Ulmo

Alf Inge Berget

Stig Morten Løken

Anders Østby

[Toril Benum](#)

Siw Hellesen

Per-Arne Torbjørnsdal

Martin S. Lundby

[Next chapter](#) →



## Siw Hellesen

### EVP HR and Organisational Development

Siw Hellesen took up her position as EVP HR and Organisational Development on 1 September 2018. She was previously Senior Vice President HR and Competence at Hafslund Nett.

#### Background:

Siw holds a Masters degree in Political Science (cand.polit.) from the University of Bergen and has a MBA in strategy from the Norwegian School of Economics.

#### Other offices and previous experience:

Between 2015 and 2016, Siw was Director of Organisational Development at Hafslund ASA, and from 2011 to 2015, Department Manager for Organisational Development. Siw joined Hafslund ASA in 2008 as an Organisational Consultant. In 2007, she was HR Manager at Orkla Brands, and between 2002 and 2006, a Senior Advisor at the Ministry of Education and Research.

## Management

Finn Bjørn Ruyter

Tore Olaf Rimmereid

Heidi Ulmo

Alf Inge Berget

Stig Morten Løken

Anders Østby

Toril Benum

[Siw Hellesen](#)

Per-Arne Torbjørnsdal

Martin S. Lundby

[Next chapter](#) →



## Per-Arne Torbjørnsdal

### EVP Communication and Law

Per-Arne Torbjørnsdal took up his position as EVP Corporate Communications and Law on 1 September 2018. He was previously SVP Corporate Strategy and Communication at E-CO Energi AS.

#### Background:

Per-Arne holds a Masters degree in Law (cand.jur.) from the University of Oslo, specialising in international energy law at the University of Leiden in the Netherlands. He also has a Business Administration degree from BI Norwegian Business School.

#### Other offices and previous experience:

From 2010 to 2017, Per-Arne was SVP Corporate Development, and from 2002 to 2010, SVP Communication and Public Affairs at E-CO Energi AS. Between 1997 and 2001, he served as Chief of Staff on the Norwegian Conservative Party's City Council group and later Political Advisor to the Vice Mayor for finance at the City of Oslo. He advises the energy policy committees at Energy Norway and the European industry organisation Eurelectric.

## Management

Finn Bjørn Ruyter

Tore Olaf Rimmereid

Heidi Ulmo

Alf Inge Berget

Stig Morten Løken

Anders Østby

Toril Benum

Siw Hellesten

[Per-Arne Torbjørnsdal](#)

Martin S. Lundby

[Next chapter](#) →



## Martin S. Lundby

### EVP Projects

Martin S. Lundby took up the position as EVP Projects on 1 January 2020. He came from the position as acting CFO, a position he had from June 2018 while Heidi Ulmo was on maternity leave.

#### Background:

Martin has an MSc in Industrial Economics and Technology Management from the Norwegian University of Science and Technology (NTNU)

#### Other offices and previous experience:

Before taking up his position as acting CFO, Martin was Head of Finance and Investor Relations at Hafslund ASA/AS from January 2016. Between 2013 and 2015, he was a business developer at Hafslund ASA focusing on M&A and strategy, and he has also served as Board Secretary at Hafslund ASA. From 2011 to 2013, he worked as a transaction adviser at EY.

## Management

Finn Bjørn Ruyter

Tore Olaf Rimmereid

Heidi Ulmo

Alf Inge Berget

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Anders Østby

Toril Benum

Siw Hellesen

Per-Arne Torbjørnsdal

[Martin S. Lundby](#)

[Next chapter](#) →

# A sustainable Hafslund E-CO

The emission-free society of the future rests on two pillars: renewable energy-production and emission-free energy carriers. Hafslund E-CO's vision, for a renewable and fully electric future, is built on these pillars. The Group's core activity is to produce clean, renewable energy and deliver smart electrification solutions. Through our core activity Hafslund E-CO plays an important role on the way to a sustainable society, where the use of fossil energy sources is replaced by emission-free renewable energy.

Hafslund E-CO is dependent on a good relationship with stakeholders and therefore works closely with the corporate sector, municipalities and local communities. The Group's activities help to secure jobs, safeguard society's supply of clean energy and increase value creation. In this way, Hafslund E-CO creates value locally, regionally and nationally, while contributing to lower greenhouse gas emissions, which has a positive effect globally.



## Corporate social responsibility – material areas

Hafslund E-CO's objective is that the entire organisation is sustainable. We strive to ensure that the Group's impact on the environment and society is as positive as possible.

Hafslund E-CO supports the UN sustainable development goals. The 17 sustainable development goals that entered into force in 2016, sets the agenda for a mutual effort towards a more sustainable world. All countries, companies and individuals are encouraged to do their part to achieve the 17 goals and eradicate poverty, fight inequality and stop climate changes by 2030.

The Group has conducted a materiality analysis within corporate social responsibility. The analysis is based on what is considered significant for Hafslund E-CO and equivalently for the Group's stakeholders. The analysis highlights both risks and opportunities, and has identified four



key areas crucial for attaining Hafslund E-CO's strategic goals:

- Reliable producer of renewable energy and supplier of electrification solutions (#7, #9, #12)
- Ethical business conduct and competence in focus (#3, #8, #10)
- Environmental impact (including climate change, electrification and effect on the external environment) (#6, #11, #13, #15)
- Responsible supply chain and local value creation (#4, #8)

The prioritised areas in the materiality analysis supports many of the UN sustainable development goals, and a reference to the relevant goals is provided in parentheses.

### Reliable producer of renewable energy and supplier of electrification solutions

Hafslund E-CO owns, develops and operates hydropower plants and critical infrastructure, helps maintain the supply demand balance in the market and sells power in the wholesale market. In addition, the Group contributes to develop smart electrification solutions through their innovation and business development activities. The Group's business creates significant socio-economic ripple effects, contributes to long-term job security and safeguards society's supply of clean energy.

Society expects an uninterrupted supply of energy. Hafslund E-CO's social responsibility is to ensure safe and reliable production and supply of renewable energy and development of a smart and fully electric zero emission society.

The hydropower industry, with its reservoir power plants, provides renewable power production, also during periods of low precipitation. This allows the Group to contribute to the efficient utilisation of hydropower

resources and to the balance and quality of the power system. The Group continuously works to increase power production and thereby reduce Norway and Northern Europe's greenhouse gas emissions in the long term.

### **Ethical business conduct and competence in focus**

The Group's code of conduct governs the work on ethics and anti-corruption. All employees must behave with respect and integrity towards their colleagues, business associates, customers or others with whom they encounter through their work.

The Group's ambition is to be an attractive place to work and the Group aims to have a working environment based on loyalty and trust – and a corporate culture that attracts, and further develops competent and motivated employees.

Job satisfaction and a good working environment are crucial if the Group is to retain competent employees. Extensive employee satisfaction surveys are therefore conducted on a regular basis, normally every second year, to gain insight into how our employees perceive their job and the Group culture.

With regards to ethical conduct, the Group's code of conduct requires Hafslund E-CO's employees and board members to avoid situations that may give rise to personal and/or financial conflicts of interest. To facilitate reporting of events of concern, Hafslund E-CO has a dedicated whistleblowing channel.

Hafslund E-CO should also be a safe place to work, without accidents, injuries or losses. The Group has a zero vision for injuries and a target sick leave rate of less than 3.5 per cent. For the Group as a whole, we

recorded a total of four lost-time injuries and five non-lost-time injuries involving our own employees and suppliers working at the Group's facilities in 2019. This corresponds to an injury rate of 3.6 lost-time injuries per million working hours (H1 indicator) and a total injury frequency (number of lost-time and non-lost-time injuries per million working hours H2 indicator) of 8.1 for the Group. Hafslund E-CO had a sick leave rate of 2.3 per cent in 2019. To reduce the overall sick leave rate, several measures including follow-up training for managers, as well as targeted measures at the individual level are implemented.

### **Environmental impact**

As a power producer, Hafslund E-CO's environmental impact is mainly within three areas: climate change, electrification and the external environment. Thanks to our renewable energy production, the Group makes an important contribution to attaining environmental goals by counter-acting unwanted climate change and promoting the electrification of society. While our activities affect the external environment both aesthetically and as a result of changes in water flow and water temperature in regulated rivers and watercourses, the Group aims to conduct its environmental interventions as low impact as possible.

#### ***Climate changes***

The world is currently facing much greater environmental challenges than ever before. Average temperatures are rising, and the world is experiencing more extreme weather events than previously. Recent climate changes are largely manmade, partly due to emissions of greenhouse gases from burning fossil fuels. The UN's Sustainable Development Goal number 13 states that it is necessary to "take urgent action to combat climate change and its impacts". One of the proposed measures is to invest more in renewable energy.

Producing renewable energy is the Group's most important contribution to combat climate change. If the Group's emission-free hydropower production of 13.6 TWh in 2019 were to be replaced by gas power, this would correspond to an emission increase of approximately 5 million tonnes of CO<sub>2</sub> – the same as what 2.5 million cars emit in a year. The total emissions associated with the Group ongoing operations were 5,800 tonnes of CO<sub>2</sub> in 2019.

One of the benefits of hydropower is that only negligible levels of greenhouse gases are emitted after a power plant has been built. Life cycle analyses (LCA) show the total emissions in a product's lifecycle from the extraction of raw materials to production, distribution, use, reuse, maintenance and recycling – to final disposal, including all transportation involved. Life cycle analyses of various power production techniques show that hydropower has very low emissions.

The research institute Østfoldforskning has calculated emissions from several Norwegian hydropower plants through life cycle analyses and the calculations show that the emissions from a typical Norwegian hydropower plant are 2.39 g CO<sub>2</sub> equivalents per kWh. For Hafslund E-CO's total production of 13.6 TWh, the institute's analysis indicates emissions from the entire life cycle corresponding to about 32,600 tonnes of CO<sub>2</sub> or roughly the same as 16,000 cars emit within a year. The net environmental gain from electrifying the energy supply is thus substantial.

The Group's CO<sub>2</sub> emissions related to day-to-day operations are largely related to unplanned emissions of sulphur hexafluoride (SF<sub>6</sub>). The harmful greenhouse gas is used as an insulation and cut-off medium in switching stations. The sale of the grid business reduces the Group's SF<sub>6</sub> emission

considerably. In 2019, the emissions of SF<sub>6</sub> was 11.6 kg, compared to 45,4 kg in 2018. Converted into emissions from cars, this equals approximately 100 cars per year.

In addition to minimising emissions from day-to-day operations, the Group aims to limit greenhouse gas emissions from administration and transport. The Group is therefore actively using emission-free vehicles in operations where possible. Video conferencing is also used to limit business travel. Emissions from flights, helicopter use, electricity consumption and fuel for cars and machines fluctuate from year to year depending on the level of activity. A project has been initiated to further reduce the greenhouse gas emissions during development, maintenance and daily operation of the Group's power plants. The project goal is to map all types of emissions and recommend measures that will result in emission cuts.

To further contribute to replacing fossil energy sources by emission free power moving forward, the Group is continuously making improvements and implementing new projects. One hydropower plant upgrade project (Vamma 12) was put into operation in 2019. Three additional power plants are under construction (Nedre Otta, Mork and Tolga). Furthermore, the Group is a co-owner of an interconnector project that is currently in the licensing process (NorthConnect). Increased exchange capacity makes it possible to exchange renewable energy across borders, and thereby reduce the use of fossil energy.

### ***Electrification***

Transition from fossil to electrical consumption is a prerequisite for the transition to an emission-free, climate-neutral society. For Hafslund E-CO, this electrification of society represents a business opportunity.



## Vamma 12 – facts

- *Vamma was the largest run-of-river power plant also prior to the installation of the 12th turbine. After the upgrade the plant has a production capacity of 1.58 TWh, or more than 1% of total Norwegian power production.*
- *Vamma's 12th turbine increases the capacity of the Vamma power plant from 1,000 to 1,500 cubic meters per second*
- *The entire river Glomma can pass through the new turbine alone under normal winter water flow.*
- *The new turbine utilises a weight equivalent to approximately 100 African savanna elephants falling 28 meters per second.*
- *The new turbine is the first in the world constructed without printed drawings.*

The Group plays an important role in the electrification of the transport sector.

Hafslund E-CO, through “Ladeklar” and the ownership in Eidsiva Energi and Norway’s largest grid company, is facilitating the implementation of electric vehicles in the network area, right from the regional network and out to the end customer. The Group is in close contact with and assists various operators of public transportation, as well as private customers, housing cooperatives and other providers of charging stations by facilitating services and providing electrical solutions. With the business concept “Ladeklar”, Hafslund E-CO takes the investment when installing charging infrastructure in housing cooperatives and thereby lowers the hurdle for electrification for the residents. Further contribution to electrification is the evaluation of emission free ports in Oslo.

### *The external environment*

Within a few decades, the energy system must exclusively be based on renewable, carbon-neutral energy sources. Hafslund E-CO plays an important role as a producer and distributor of renewable energy, and we work continuously to ensure that our activities are carried out in a way that has as little impact on the environment as possible. The Group shall also keep the environmental impact of internal operations at a low level. The construction, operation and maintenance of hydropower plants does affect the natural environment. The effects are mainly local and related to physical interventions in nature and the impact on biodiversity through changes in water flow and water temperature.

When power plants are constructed, dams reviewed and reinvestment takes place in power production, Hafslund E-CO actively seeks solutions that keeps the impact of environmental interventions as low as possible

and use knowledge-based techniques that represent best practice. Our facilities shall also be operated in such a way that the Group experiences no environmental nonconformities. The Group's licenses are subject to minimum and maximum regulated water levels, and requirements for minimum water flow in absolute quantities that must be met at all times.

In total Hafslund E-CO registered one violation of the licensing regulations during 2019. The deviation was related to the minimum flow in Hallingdalselva (the Hallingdal river) from Strandefjordsdammen. The waterflow was for a period 1.8 m<sup>3</sup>/s, which is below the minimum water flow requirement of 2.5 m<sup>3</sup>/s. The deviation was reported to NVE. NVE is not pursuing the case further. In addition, there have been three undesirable events, where measures are implemented, and the events are closed.

The Group is implementing landscape and improvement measures where there are defined needs, and the goal is to use such measures to reduce the impact of our operations on the external environment. In line with public orders, trout is stocked in several mountain lakes, a measure that creates good fishing lakes for the benefit of locals and visitors alike. In 2019, the company Hallingfisk opened one of Europe's most modern aquaculture facilities in Kleivi in Hallingdal. The facility will produce fry for regulated waters in Hallingdal. The Group also participates in several research projects to assess whether the measures initiated have the anticipated effect and investigates whether it is possible to improve the fish welfare through other measures, such as by changing the operating schedules at Hafslund E-CO's facilities.

In rivers where there is no requirement for minimum water flow, but where increased water flow may have a positive environmental impact, we have

introduced voluntary minimum water flow requirements. This reduces energy production, but it is a loss the Group is happy to accept if it produces a positive environmental impact. In 2019, the loss in profit from voluntary water release in Aurland and Hallingdal was approximately NOK 4.9 million.

Regulating watercourses also has positive environmental effects beyond the production of clean energy. During flood periods, the Group has, on several occasions, been able to contribute to reducing the amount of water in rivers and watercourses, thereby averting flooding and damage to property and the environment.

For several dam reconstructions, our production operations have required pitching stone for the dams. Hafslund E-CO was the first hydropower producer to convert quarries into lakes or extensions of existing lakes. This method has been used with success in several projects and is now included in the guidelines from the Norwegian Water Resources and Energy Directorate for dam rehabilitation. In 2019, a new quarry (quarry lake) was established at Strandevatn during the rehabilitation of the dam at Strandevatn.

The impact on the external environment of Hafslund E-CO's other activities largely derives from buildings, transport and externally sourced services, including transport and contracting activities. The Group continuously works to minimise the negative effects of these activities.

For further information reference is made to the separate environmental report.

### **Responsible supply chain and local value creation**

Hafslund E-CO is committed to maintaining the highest ethical standards

in all business operations. We communicate this message within the Group by promoting one of the Group's core values: responsible. By showing respect and responsibility, Hafslund E-CO's goal is to build a solid reputation, both internally and in society at large. This is crucial for achieving good cooperation, which in turn will contribute to creating increased value in the local communities in which the Group operates.

Hafslund E-CO has implemented the "Oslo model", which is an umbrella term for a number of credibility provisions that are included in contract terms for the purchase of goods, services and construction.

The Group places strict requirements on suppliers of all goods and services. All suppliers and their subcontractors must conduct their business in accordance with nationally and internationally recognised principles and guidelines (related to human and labour rights, corruption, health, safety and the environment). The Group carries out purchases in line with good business practice.

Hafslund E-CO has established a separate code of conduct for suppliers based on international ILO and UN conventions. The choice of suppliers and partners is an important aspect of our work to achieve a sustainable industry, and Hafslund E-CO wants to take greater responsibility for the environmental and social impacts in the value chain that the group is part of. Efforts to influence suppliers and partners to reduce emissions, improve environmental management and secure good social conditions will be maintained.

The Group's purchasing principles stipulate that:

- Hafslund E-CO shall, as far as possible, together with suppliers, find good environmental and climate solutions.

- Suppliers must ensure that all equipment used in watercourses is dry before use, and disinfected if necessary, to prevent the spread of organisms between different watercourses.
- Hafslund E-CO requires suppliers to be registered in UNCE (formerly Sellicha) to qualify for delivery of goods and services to the Group's major projects, and only suppliers with environmental management systems are used.

In 2018, Hafslund E-CO introduced credibility requirements to counteract workplace crime and social dumping in the construction industry. The requirements are designed to ensure decent working conditions for employees and contractors, limit the number of participants in the supply chain and provide for an increase in apprenticeships and trained professionals. These requirements have been well received in the supplier market, and in 2019 the suppliers were followed up to ensure compliance with the requirements.

Hafslund E-CO's business generates values in the local communities where the Group operates. Employees receive salaries, municipalities and authorities receive taxes and fees, and local suppliers are awarded challenging assignments, while our owner receives dividends. The Group seeks to use local service providers and partners where this is practicable. Having a short distance between the suppliers and our facilities contributes to environmental savings and secures local jobs.

In 2019, the Group contributed NOK 789 million to about 70 host municipalities. This contribution came in the form of natural resource and property taxes, licence fees and concessionary power. In total, the Group contributed over NOK 2.7 billion in taxes and fees in 2019,

while the dividend paid to the Group's owner, the City of Oslo, was NOK 1 284 million. In addition, landowners receive compensation for the use of their land. In 2019 about NOK 40 million was paid out to compensate landowners.

### Other social involvement

In addition to creating jobs, paying taxes and fees, increasing demand for local goods and services and securing the power supply, the Group's activities also contribute to society in other ways.

#### By-products of production

A by-product of watercourse development is a surplus of material in the form of rock and crushed stone. This material is delivered to depots which can be used for local community development. Our production operations work to ensure that surplus material can be used locally as part of road construction, cement production or other purposes that benefit society.

#### Children and young people

The Group has set aside funds to support the activities of children and youth in their local communities. Financial support is provided to sports teams, associations and young sporting and cultural talents in the local communities where Hafslund E-CO has major production facilities, such as in Aurland, Hallingdal, Innlandet and Viken. Hafslund E-CO is a partner for the Energy Centre at Hunderfossen Family Park, an experience centre that focuses on hydropower and other renewable energy.

Oslo was European Green Capital in 2019 and in this regard Hafslund E-CO arranged a climate week for school children. 30 classes from the seventh grade had an exciting day visiting a power plant and discussing how we may achieve a renewable and fully electric future.



“

The UN's sustainable development goal # 13, argues that we must “take urgent action to combat climate change and its impacts”. In 2019, 30 classes from the seventh grade participated in the discussion on how to achieve a renewable and fully electric future.

### Innovation and branding

Innovative is one of the Group's values. Innovative means, among other things, the ability to continuously improve and challenge the operations. A lot of our effort is to put new tools and technology to use, but we also work to find new and more efficient solutions for our operations, maintenance and development effort. One example of this is our cooperation with the technology company Cognite regarding digitalisation of the power plants. In 2019 a pilot was developed at our Nes power plant where the ambition is to make use of sensor data to optimise operational- and maintenance procedures.

At Hafslund E-CO, our employees are searching for the solutions of tomorrow and our collaboration with StartupLab is part of our efforts to strengthen innovation work in the Group. Through the cooperation with StartupLab, pilots for good solutions are developed. If a pilot is considered business viable, Hafslund E-CO may invest in the concept. One such example is Heimdall Power, who delivers digitalisation solutions for grid infrastructure.

Hafslund E-CO also participates, as one of a few industrial partners, in the Antier-programme, a programme that connects entrepreneurs with established industry partners to validate ideas at an early stage. Hafslund E-CO is also one of 15 participants in the innovation project Mobilitetsflokken. The project target is to find new solutions to challenges related to urbanisation and transportation needs.

### Climate and the environment

Hafslund E-CO collaborates with the environmental organization Zero. Zero has a strong professional apparatus and is a good sparring partner for the Group on the issues of energy production and electrification. The cooperation with Zero has focused on support to establish emission

free construction sites, as well as cooperation to improve the framework conditions for renewable energy.

### Humanitarian initiatives

The Group partners with the Norwegian Red Cross. The largest share of our support goes to international "Water for Life" projects. Clean water is crucial not only in the acute phase after disasters, but also in long-term humanitarian work. Further support for the Red Cross goes to Norwegian Red Cross Search and Rescue Corps, primarily in the areas where the Group operates.

The Group also partners with the Norwegian Air Ambulance Foundation. This partnership contributes to enhancing the expertise of the emergency services personnel in Hallingdal. With its helicopter base in Ål, the Norwegian Air Ambulance provides safe, fast and efficient ambulance service for the entire region.

### Culture

Hafslund E-CO owns and manages Hafslund Manor in Sarpsborg. Since the 1400s, Hafslund Manor has been a manor house of international quality. Today, it offers a beautiful historical backdrop for courses, conferences, weddings and other special events. The manor is used both internally and externally in a variety of ways. The main house is open for guided tours and certain events. The park is always open to the public.

### On the road to a renewable and fully electric future

Environment, sustainability and corporate social responsibility are central to Hafslund E-CO. By working continuously on projects that contribute to lasting value creation, such as by replacing fossil energy sources with clean energy, the Group plays an important role in a sustainable society on the road to a renewable and fully electric future.

# Analytical information and key figures

Hafslund E-CO wishes to “lead the industry and become the most profitable power group in Norway”. The goal is to generate long-term value through efficient production and the sale of renewable energy, and contribute to the development of a smart and fully electric zero-emissions society.

## Value creation

As a commodity, electricity is subject to major price fluctuations linked to supply and demand. Renewable (hydro, wind and solar) energy competes with power generated from thermal power plants (coal, gas and nuclear power) in the European market. Hafslund E-CO primarily engages in renewable hydropower generation, but since the merger with Eidsiva Vannkraft also partly owns wind power production facilities through respective 20 per cent stakes in Austri Raskiftet (commissioned winter 2018/2019) and Austri Kjølberget (under construction). For the foreseeable future, most of the Group’s value creation will derive from the production and sale of hydropower.

To become a leader in renewable hydropower production will require us to utilise water to achieve the highest possible price in the market whenever there is a need for power. New technology, including advanced algorithms



and data-driven models, is now being actively used to make good commercial market decisions. We are also using sensor technology at some power plants to improve the efficiency of maintenance and production decisions.

Hafslund E-CO has a goal of being the most efficient producer of renewable energy with full digital integration from planning through to construction, operation and maintenance. To achieve our goals, the Group is focusing on understanding and optimising revenue and cost drivers.

## Value drivers for hydropower production

### The Norwegian Hydropower system

The Norwegian hydropower system has a normal annual production of around 136 TWh<sup>1</sup> and an aggregate power capacity of 32,700 MW<sup>2</sup>. Norway currently has more than 800 reservoirs, with a storage capacity equivalent to around 87 TWh. The 30 largest reservoirs, three of which are wholly or partly owned by Hafslund E-CO, account for almost half of the total capacity.

Norway has around half of Europe's total reservoir capacity<sup>3</sup>. Large storage capacity and high installed capacity provide the Norwegian hydropower system with significant flexibility. Most of Norway's reservoirs were built before 1990, but upgrades and expansions of power plants have increased reservoir utilisation capacity in recent years. Relatively little growth is expected in hydropower production in Norway in the next few years, as capacity investments in renewable energy are largely being channelled towards solar and wind power. In 2019, production in Norway was down on the previous year due to low reservoir levels at the start of the year as well as lower-than-normal inflow throughout the

period. A free commodity and high percentage of partially influenceable operating costs mean that the main drivers of value creation in hydro-power production are the produced volume and power price level.

### Revenue drivers

Hafslund E-CO's hydropower business is managed and operated by the subsidiaries E-CO Energi including underlying units (changed name to Hafslund E-CO Vannkraft) and Hafslund Produksjon Holding including underlying units. Generated power is sold in the Nordic wholesale market, and power revenues are determined by the produced volume and achieved price.

### Volume

Hafslund E-CO is Norway's second-largest hydropower producer, with an annual mean production of around 17 TWh (around 12 per cent of total power production in Norway), where the takeover of Eidsiva Vannkraft AS on 30 September 2019 increased the annual mean production by around 3.0 TWh. Total production capacity is now around 5,200 MW. Our largest and Norway's third-largest power plant, Aurland 1, has an annual mean production of more than 2 TWh (equivalent to the annual consumption of roughly 110,000 households). For more information about our power plants' capacity, please visit Hafslund E-CO's website, [www.hafslundeco.no](http://www.hafslundeco.no). In 2019, Hafslund E-CO's total production amounted to 13.6 TWh, down 0.7 TWh from 2018, despite a contribution of 0.6 TWh from the takeover of Eidsiva Vannkraft from the fourth quarter.

<sup>1</sup>TWh – One terawatt hour equals one billion kilowatt hours. This roughly equates to the annual power consumption in Drammen.

<sup>2</sup>MW – a measurement of the power, or consumption of energy (one megawatt equals 1,000 kilowatts). The highest-ever energy consumption measured in Norway was 23,969 MW (6 January 2010).

<sup>3</sup>Source: NVE, "The power market and the Norwegian power system"; provides information on normal annual production, power capacity, number of reservoirs and percentage of the European market capacity.

The decrease compared to 2018 is attributable to lower inflow to the power plants and lower-than-normal reservoir levels at the start of the year.

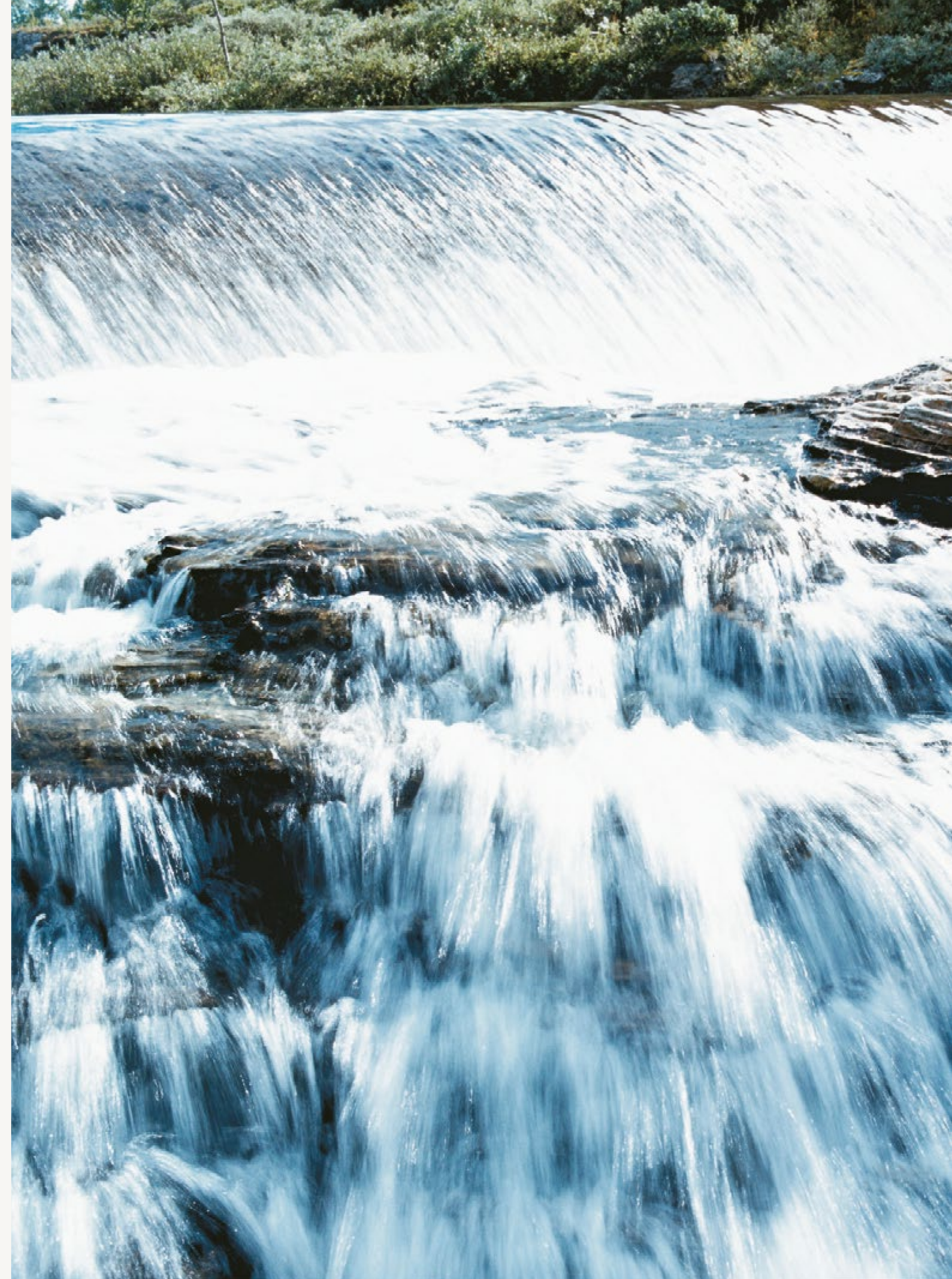
#### *Flexible power and reservoir utilisation*

Hafslund E-CO has both flexible (reservoir-based) and intermittent (run-of-river) hydropower production. The company has a total reservoir capacity of around 8.0 TWh, which corresponds to around 45 per cent of the Group's annual mean production.

The benefit of flexible production is that it can be adapted to demand for power and fluctuations in power prices (water is saved in periods of high inflow and low consumption and used in periods of low inflow and high consumption). Inflow for Norwegian hydropower can vary by up to 60 TWh a year, from 100 TWh in dry years to 160 TWh in wet years. The reservoirs make it possible to adapt hydropower production to the various challenges created by the vagaries of the Nordic climate. In run-of-river plants, which do not have significant reservoir capacity, production is determined by the inflow.

Flexible hydropower offers benefits currently unmatched by other renewable production technologies. This is because flexible hydropower can deliver power when it is needed, unlike wind and solar farms that can only deliver power when the weather conditions permit and where only a limited amount of power can be stored.

Individual producers can determine how they utilise their reservoirs within the licensing requirements for minimum water flow and regulations for maximum and minimum water levels. The basic challenge in utilising hydropower reservoirs is that it is impossible to accurately predict the



future inflows to the power plants, or how high demand will be. Consequently, decisions to produce now or save water will always be subject to uncertainty.

### ***Power prices***

In addition to the weather, coal, gas and emissions allowance prices, exchange capacity with the continent, and changes in power consumption are all important drivers of the Nordic power price.

#### *Prices of alternative energy sources,*

#### *CO2 emissions allowances and exchange capacity*

Since the Norwegian power system is linked to the Nordic and European power market, the alternative to using the water for production would be to import power from neighbouring countries. This means that power prices in areas Norway can exchange power with will impact the production decisions of Norwegian hydropower producers. The Nordic power system is becoming ever-more closely linked to the continent through increased exchange capacity, where the cost of coal- and gas-fired production capacity in Europe also affects Nordic pricing. At the same time, the share of intermittent power (solar and wind power) in the Nordic region and the rest of Europe is rising. Sharp falls in both coal and gas prices during 2019 affected the price of hydropower towards the end of the year.

The increase in European emissions allowance prices witnessed in 2018 continued into the first half of 2019, slowing slightly towards the end of the year. In recent years, the EU has implemented measures to reduce the significant surplus of quotas seen in the market. Some of the surplus quotas are transferred to a Market Stability Reserve (MSR).

This reserve can be re-introduced to the market, but only at a limited rate and if the surplus falls below a certain level. This measure is effective in the current phase of EU ETS (phase 3). The EU has also revised the emissions targets for phase 4 of EU ETS (2021–2030), which has resulted in a lower volume of offered quotas in the upcoming period. The emissions targets for phase 4 are expected to be revised to satisfy the obligations of the Paris Agreement.

In recent years, higher CO2 emission prices in Europe, together with falling gas prices, have increased incentives to replace coal production with gas and other energy sources that generate lower emissions. These have resulted in a reduction in coal-fired energy production, a trend that is expected to continue. Higher emissions allowance prices will be a driver of the price of power and will vary in line with the price of individual energy carriers (for example gas).

Increased exchange capacity impacts the power price through higher power flows between the Nordic and European power systems, and is required to ensure satisfactory distribution of the gradually increasing share of intermittent production (solar and wind power), and to reduce the risk of electricity shortages in years of low precipitation. Norway was a net importer of power in 2019. Increased exchange capacity is also narrowing price differences between Norway and other countries; however, these differences will also become more variable as the volume of intermittent power increases.

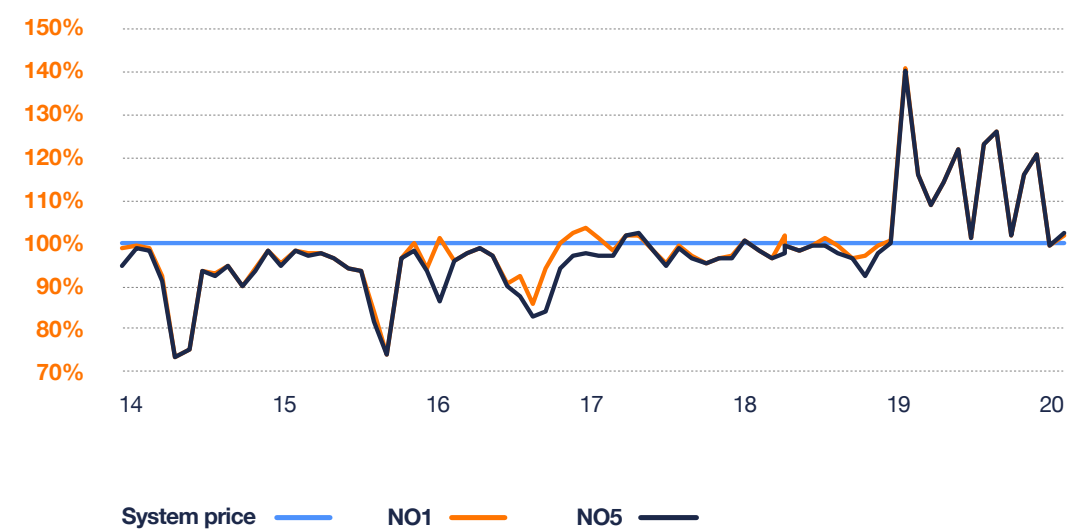
#### *The electricity certificate scheme*

The launch of the Norwegian–Swedish electricity certification scheme has led to higher investments in unregulated, renewable energy. Power

### System price 2014–2019 (øre/kWh)



### NO1 and NO5 – Deviations from system price 2014–2019



producers who develop new renewable energy production are allocated electricity certificates that can be sold in the market. The sale of certificates therefore generates additional revenue for producers in addition to income they receive from the sale of power. This is contributing to an increase in the supply of renewable energy and consequently lower prices. There has been a major increase in electricity-certificate-scheme-related production in recent years. The market has now recognised that there will be a surplus of quotas in the future, and certificate prices fell in 2019.

#### Concessionary power

Hafslund E-CO is awarded perpetual concessions for developing and operating hydropower plants, in return for which the company is obliged to supply concessionary power to local and county authorities each year. This obligation is covered by both physical deliveries and a financial settlement scheme whereby Hafslund E-CO pays the difference between the spot and concessionary power price to the party entitled to receive concessionary power. In 2019, 0.9 TWh of power produced by Hafslund E-CO was sold under these conditions at an average price of 12.4 øre per kWh.

#### Market prices

The system price in the Nordic region is the reference price for the Nordic power market. The achieved price is affected by the price area in which production takes place. Norway is divided into five price areas. Hafslund E-CO is active in areas NO1 and NO5, at around 60 per cent in NO1 and 40 per cent in NO5 since the takeover of Eidsiva Vannkraft. The graphs show the change in the system price and area prices for NO1 and NO5 between 2014 and 2019.

### *Power derivatives*

As a power producer, Hafslund E-CO is exposed to fluctuations in market prices and volume uncertainty. Hafslund E-CO has an active hedging strategy and performs ongoing power analyses. The Group price-hedges future power in order to reduce the power price risk and stabilise the Group's earnings. Market risk is managed using financial instruments, wherever possible in the Nordic power market. The power derivatives help reduce volatility in achieved prices. The Group has introduced frameworks for hedging a proportion of hydropower production volumes for up to 15 years into the future to further reduce risk relating to future cash flows.

To be able to follow the market closely and dynamically, as well as build up expertise in different instruments, the Group engages in trading activities alongside hedging activities. These activities are intended to generate a positive long-term return and are used as analytical input.

### **Cost drivers**

Operating costs for hydropower operations are relatively low and are independent of price and volume. Total operating costs in 2019 comprised 65 per cent partially influenceable costs and around 35 per cent influenceable costs. The partially influenceable costs consist of energy purchases and transmission costs (around 15 per cent), property tax, licence fees and compensation (around 30 per cent) and depreciation, amortisation and impairments (around 20 per cent). The influenceable costs consist of salaries and other payroll costs (around 10 per cent), and other operating costs such as maintenance, IT, staff and invoiced support functions (around 25 per cent).



Hafslund E-CO monitors changes in its competitiveness compared to other operators. For purposes of comparison, the key figure cost per kWh is usually calculated using the denominator normal production, but due to the fact that Eidsiva Vannkraft has only been fully consolidated since the fourth quarter of 2019, actual production volume has been used to calculate these values for 2018 and 2019. The influenceable cost per kWh in 2019 was 4.3 øre per kWh, up from 3.7 øre per kWh due to lower production, a reinforced support services organisation and higher absolute costs following the consolidation of Eidsiva Vannkraft. The decrease in production volume compared with 2018 is attributable to lower inflow to the power plants and lower-than-normal reservoir levels at the start of the year.

Resource rent tax is a special tax on Norwegian hydropower, which pushes the total cost up. The hydropower industry has a marginal tax rate of 59 per cent, made up of general corporation tax at 22 per cent and resource rent tax at 37 per cent.

### Development in key figures, hydropower

The table next to the text shows the development in selected key figures for hydropower activities in the Hafslund E-CO Group for the financial years 2018 and 2019.

Mill. kroner	2019	2018
<b>FINANCIAL KEY FIGURES</b>		
Revenues	6 046	5 164
Energy purchases and transmission	-265	-338
Property tax and licensing fees	-505	-279
Depreciation and amortisation	-322	-367
<b>Total partially influenceable costs</b>	<b>-1 092</b>	<b>-984</b>
Salary and other personnel costs	-201	-228
Other operating costs	-392	-300
<b>Total influenceable costs</b>	<b>-592</b>	<b>-528</b>
<b>Total operating expenses</b>	<b>-1 684</b>	<b>-1 512</b>
Profit/loss from equity-accounted investees	1	17
<b>Operating Profit (EBIT)</b>	<b>4 364</b>	<b>3 669</b>
<b>Profit after tax</b>	<b>1 952</b>	<b>1 223</b>
Investments in fixed assets	701	604
Produced volume (TWh)	13,6	14,3
Number of employees	411	185
Nordic system price (øre/kWh)	38,4	42,2
Achieved price	39,2	41,1
Achieved price (øre/kWh)/Nordic system price (øre/kWh) (%)	102%	97%
Influenceable costs per kWh (øre/kWh)	4,3	3,7
Operating cost per kWh (øre/kWh)	12,4	10,6

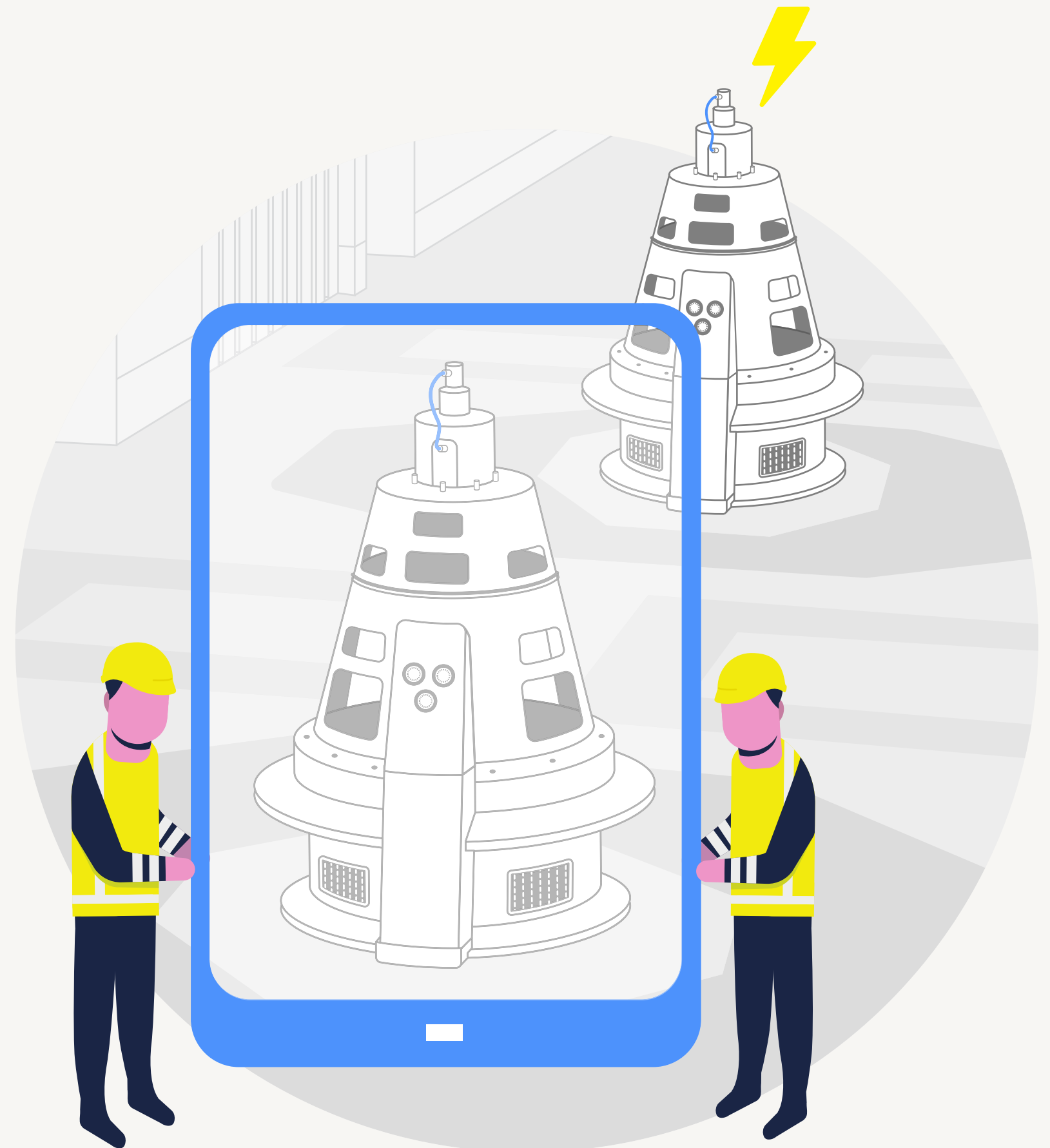
# Innovation

Innovative is one of the Group's values and it means putting new tools and technology to use, but also work to find new and more efficient solutions for our operations, maintenance and development effort. One example of this is our cooperation with the technology company Cognite regarding digitalization of the power plants. In 2019 a pilot was developed at our Nes power plant where the ambition is to make use of sensor data to optimise operational- and maintenance procedures.



## Digital twin

*A digital twin is a digital representation of a physical object or process. The benefits of a digital twin is the possibility to improve process efficiency, identify the need for maintenance before it is too late as well as visualizing substantial changes and the consequences of such.*



## Definitions and alternative performance measures

Measure	Definition
EBITDA	EBIT + Depreciation
Net interest-bearing debt	Gross interest-bearing debt - Interest-bearing receivables
Interest-bearing receivables	Cash and cash equivalents + money market funds + long-term interest-bearing receivables
Capital employed	Equity + Net interest-bearing debt + Taxes payable
ROE	Profit for the year adjusted for gain on sales/ Ending balance Equity
ROCE	EBIT / Ending balance Capital employed
Debt / EBITDA	Ending balance Net interest-bearing debt / EBITDA
FFO / Debt	(EBITDA - interest paid excl. Interest paid on subordinated debt - taxes paid) / Ending balance Net interest-bearing debt
Power production	Total production in power plants in TWh
Achieved power price	Weighted power price including concession power and realized power price hedging
Underlying operating profit (EBIT)	EBIT adjusted for unrealised change in value power price- and currency exchange contracts

NOK million	2019	2018
<b>GROSS AND NET INTEREST-BEARING DEBT</b>		
Long-term interest-bearing debt	18 199	18 533
Value change loan portfolio	-268	-185
Short-term interest-bearing debt	701	3 052
<b>Gross interest-bearing debt inkl subordinated debt</b>	<b>18 632</b>	<b>21 399</b>
Subordinated debt	-5 764	-3 847
<b>Gross interest-bearing debt excl subordinated debt<sup>1</sup></b>	<b>12 868</b>	<b>17 553</b>
Money market funds	-	200
Cash and cash equivalents	2 444	2 993
Other long-term interest-bearing receivables	84	67
<b>Net interest-bearing debt</b>	<b>10 340</b>	<b>14 293</b>
<b>CAPITAL EMPLOYED</b>		
Equity	33 107	16 501
Net interest-bearing debt	10 340	14 293
Subordinated loans	5 764	3 847
Taxes payable	2 064	2 408
<b>Capital employed<sup>2</sup></b>	<b>51 275</b>	<b>37 048</b>

<sup>1</sup>Subordinated debt has been removed from the calculation of gross and net interest-bearing debt in 2019 as subordinated debt from an investor point of view has been viewed as equity. The corresponding figure for 2018 has been recalculated.

<sup>2</sup>Deferred tax and deferred tax assets have from 2019 been removed from the calculation of capital employed as the recognised values generally related to acquired technical goodwill. The corresponding figure for 2018 has been recalculated.

## Definitions and alternative performance measures (cont.)

NOK million	2019	2018
<b>UNDERLYING OPERATING PROFIT</b>		
Operating profit (EBIT)	5 060	4 413
Unrealised changes in power price and foreign exchange contracts	-638	376
<b>Underlying operating profit</b>	<b>4 422</b>	<b>4 790</b>
<b>ROCE / RETURN ON CAPITAL EMPLOYED</b>		
EBIT	5 060	4 413
Divided by:		
Ending balance capital employed	51 275	37 048
<b>ROCE / return on capital employed</b>	<b>10%</b>	<b>12%</b>
<b>ROE / RETURN ON EQUITY</b>		
Profit for the year	6 511	1 605
Gain on sale of Hafslund Nett	4 351	-
Profit for the year adjusted for gain on sale of Hafslund Nett	2 160	1 605
Divided by:		
Ending balance equity	33 107	16 501
<b>ROE / return on equity</b>	<b>7%</b>	<b>10%</b>

NOK million	2019	2018
<b>DEBT / EBITDA</b>		
Net interest-bearing debt	10 340	14 293
Divided by:		
EBITDA	6 072	5 504
<b>Debt / EBITDA</b>	<b>1,7</b>	<b>2,6</b>
<b>FFO / DEBT</b>		
EBITDA	6 072	5 504
Paid interest excl interest paid on subordinated debt	-455	-405
Paid taxes	-2 122	-1 297
Divided by:		
Net interest-bearing debt	10 340	14 293
<b>FFO / Debt</b>	<b>34%</b>	<b>27%</b>

# Contents

3

[Report from the Board of Directors 2019](#)

[Financial statements and notes -](#)

[Hafslund E-CO Group](#)

[Financial statements and notes -](#)

[Hafslund E-CO AS](#)

[Declaration](#)

[Auditor's report](#)



# Report from the Board of Director's 2019

For Hafslund E-CO, 2019 was a year of strong financial performance dominated by the completion of the Eidsiva Energi transaction. Favourable power prices and efficient operations enabled the hydropower operations to post an impressive set of results. The transaction with Eidsiva Energi and the integration of the grid and hydropower operations means that Hafslund E-CO is well equipped for a renewable and fully electric future. At the same time, the large price movements into 2020 underline that the company's results are strongly influenced by natural conditions and global crises such as the corona pandemic.

## **A major hydropower producer and the Eidsiva transaction**

In 2019, Hafslund E-CO completed a transaction with Eidsiva Energi, which involved the bundling of the two groups' main activities. The hydropower operations are now part of Hafslund E-CO, while the grid operations are incorporated in Eidsiva Energi. As part of the transaction, Hafslund E-CO acquired a 50 per cent shareholding in Eidsiva Energi.

The transaction with Eidsiva Energi represents an important milestone



*Statsminister Erna Solberg  
åpnet kraftverket Vamma 12 i  
september 2019*

for Hafslund E-CO and will significantly assist the Group in achieving its five main strategic goals: grow, innovate, attract, accelerate and lead. The integration confirms Hafslund E-CO's position as Norway's second-largest hydropower producer with an operational portfolio of 21 TWh of renewable hydropower each year, of which 17 TWh is owned. Hafslund E-CO believes that the significant scope of the transaction could facilitate further consolidation of the Norwegian hydropower industry – in which Hafslund E-CO wishes to play a leading role.

The bundling of Hafslund E-CO's and Eidsiva Vannkraft's hydropower production, as well as Eidsiva Energi's and Hafslund Nett's grid operations, are expected to boost competitiveness and profitability through increased economies of scale, operational efficiencies and digitalisation. A larger organisation will also facilitate the establishment of stronger centres of excellence. Together, these measures will make Hafslund E-CO a more attractive employer, enable the Group to offer more competitive solutions and over time lay the foundations for higher dividends to our owners. They also make Hafslund E-CO better equipped to maintain a strong position in a constantly evolving industry and pave the way for further growth and new opportunities within both hydropower production and New Energy.

In the integration with Eidsiva Energi, Hafslund E-CO, via its shareholding

# 13,6 TWh

## Power production

*Hafslund E-CO is the second largest producer of hydropower in Norway with a normal production of 17 TWh.*



<sup>1</sup>Produced volume 2019 of 13.6 TWh deviates from normal production of 17 TWh due to lower water inflow compared to normal and that Eidsiva Vannkraft only is included with production in the fourth quarter of 2019.

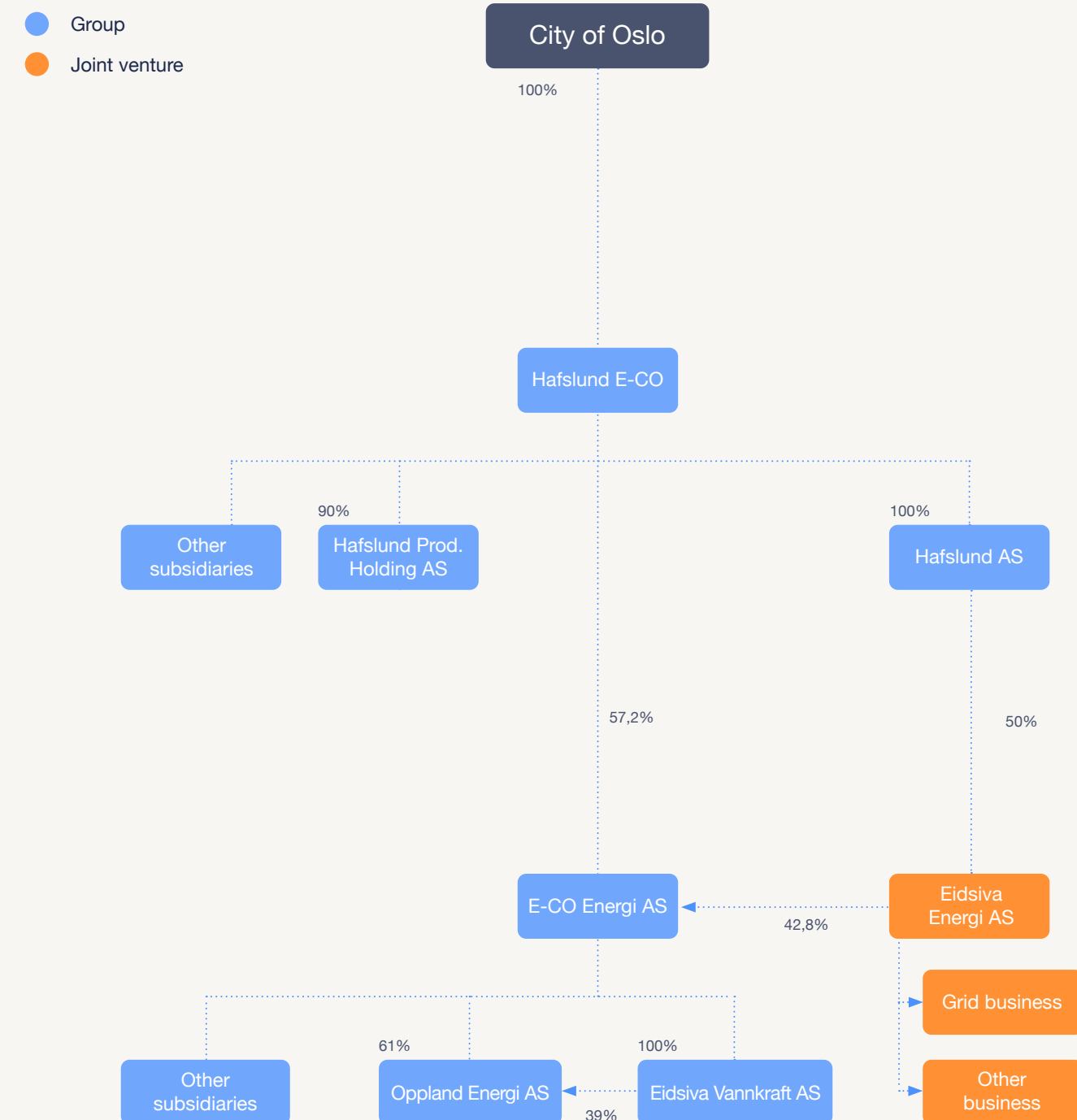
<sup>2</sup>Hafslund Nett and Eidsiva Energi Nett were merged with effect from 1 January 2020 and the name was changed to Elvia.

in E-CO Energi, acquired Eidsiva Vannkraft in return for Eidsiva Energi acquiring a non-controlling 42.8 per cent interest in E-CO Energi. At the same time, Hafslund Nett was transferred to Eidsiva Energi in return for Hafslund E-CO acquiring a 50 per cent stake in Eidsiva Energi. Following the transaction, Eidsiva Energi owns 100 per cent of the grid operations, which as of 1 January 2020 was bundled in a joint grid company called Elvia. Elvia is Norway's largest power grid company, and both owns and operates the grids in Oslo and Innlandet as well as large areas of Viken (formerly Akershus and Østfold). Eidsiva Energi also owns businesses engaged in bioenergy, broadband and power sales in addition to its non-controlling interest in Hafslund E-CO's hydropower operations. Through direct and indirect shareholdings, Hafslund E-CO now owns 78.6 per cent of the combined hydropower operations. Hafslund E-CO also has a 90 per cent stake in Hafslund Produksjon Holding, which owns hydropower plants in the lower part of the Glomma river.

The parent company Hafslund E-CO AS and E-CO Energi Holding AS merged in December 2019 in order to simplify the Group structure and to transfer the Group's debt to the parent company. This resulted in the following (simplified) structure for the Hafslund E-CO Group at the end of 2019 (illustration to the right).

### Hydropower

Hafslund E-CO owns 79 hydropower plants that together produce more than 17 TWh of electricity and operate more than 21 TWh of electricity. The hydropower plants are located in Oslo, Viken, Vestland, Innlandet and Agder and consist of reservoir power plants and run-of-river power plants. The power is sold in the wholesale power market. The largest production facilities are located in Aurland,



Note: E-CO Energi AS changed name to Hafslund E-CO Vannkraft AS and Eidsiva Vannkraft AS changed name to Hafslund E-CO Vannkraft Innlandet AS effective from 2020. The company names E-CO Energi and Eidsiva Vannkraft are used throughout the annual report for 2019.

Hallingdal and Nedre Glomma. A further 1 TWh is being organically developed between 2018 and 2021. In 2018, the construction of the Rosten hydropower plant in Sel municipality was completed while in 2019 the twelfth unit at Vamma hydropower plant in Skiptvet municipality was finished. In addition, 2020 will see the opening of Nedre Otta hydropower plant in Vågå/Sel followed by Tolga hydropower plant in Østerdalen and Mork hydropower plant in Lærdal in 2021.

### Shareholding in Eidsiva Energi

Through Eidsiva Energi, Hafslund E-CO owns 50 per cent of Norway's largest electricity power grid company, Elvia, which has 900,000 customers and constructs, operates, maintains and renews the grid in Innlandet, Viken and Oslo. Power grid operations are a natural monopoly with publicly regulated revenues, which provides stable and relatively predictable earnings. Eidsiva Energi is also active in bioenergy, broadband and electricity sales.

### Strategy, business development and Ny Energi (New Energy)

The merger with Eidsiva Energi has strengthened Hafslund E-CO's position within hydropower. In the first half-year report 2019, the Group's core strategic goals, VITAL, were presented. During autumn 2019, the strategy was further developed and adapted to the new Group structure and new focus areas. In accordance with the VITAL strategy, Hafslund E-CO aims to:

- Grow organically and through consolidation
- Innovate and apply new technology
- Attract and develop employees and develop a leading centre of excellence
- Accelerate the electrification of Norway
- Lead by being the most profitable power group

To further reinforce the Group's vision "For a renewable and fully electric future", a new business area called New Energy was established in 2018, with the remit of developing innovative solutions within areas such as electrical infrastructure and smart city solutions. In 2019, New Energy established two business concepts Ladeklar (Fully Charged) and Hafslund Rådgivning (Hafslund Advisory).

Ladeklar builds and operates infrastructure for electric vehicles for housing cooperatives and associations and in the first few months of the year alone won contracts with several such organisations, as well as contracts to operate charging facilities for office buildings.

Hafslund Rådgivning offers advisory services within sustainable implementation of electric infrastructure and new energy solutions to the corporate market. Among other projects, Hafslund Rådgivning is assisting the Port of Oslo with the Enova project "Sydhavna energisystem" which is intended to facilitate zero-emission solutions, local production of renewable energy and energy system solutions for both sea transportation and onshore activities.

Hafslund E-CO has also signed a letter of intent with the Port of Oslo to establish a joint venture to build, own and operate zero emission solutions in the port. These and other concepts and solutions will be further developed to contribute to the electrification of Oslo and to reach the climate targets.

## The hydropower market in 2019

### Area prices, Nordic system prices and forward prices

The average spot price for both price area NO5 (Western Norway) and NO1 (Eastern Norway) in 2019 was 38.7 øre per kWh, which represent reductions of 2.7 øre and 3.3 øre respectively from 2018. At 29.3 øre per kWh, June was the month with the lowest spot price during the reporting year in both NO1 and NO5.

Power prices in the Nordic region are extensively affected by power prices in the rest of continental Europe. In 2019, the Nordic system price was 38.4 øre per kWh, compared to 42.2 øre per kWh in 2018. The German system price was 1.3 Euro per MWh below the Nordic system price.

The forward market was less volatile in 2019 compared to 2018. The average forward price for 2020 fell by 3 øre per kWh during 2019, closing the reporting period at 36 øre per kWh. The average estimated power prices for 2021 and 2022 were both approximately 33 øre per kWh at the end of 2019, which was roughly on a par with the start of the reporting period. However, future power prices have fallen significantly since the start of 2020, due to mild and wet weather and the corona outbreak. As of mid-March, the spot price/forward power price for 2020 was 18.5 øre per kWh.

### Price-hedging

Hafslund E-CO has an active hedging strategy and performs ongoing analyses in order to hedge power sales in the Nordic power market. In order to mitigate the risk connected with the uncertainty of future power prices and production volume, the Group hedges its income from the



# 38.4 øre per kWh

### Nordic system price

*The Nordic system price was 38.4 øre per kWh in 2019.  
This is a reduction of 3.8 øre per kWh from 2018.*

production of power through financial power price derivatives. The hedged portion of production varies in line with expected market developments and production volumes.

### Consumption and hydropower production

Norwegian power consumption increased to 137 TWh in 2019 (from 136.2 TWh in 2018). The rise was driven by an increase in power used for oil and gas extraction, increased electrification as well as increasing prosperity and population growth. Going forward, increased electrification is expected to be an important driver for higher demand for power, where the electrification of the oil and gas industry (expected demand increase between 10 and 12 TWh per annum) will play a major role mainly affecting the demand for power in NO5. Total power production in 2019 amounted to 134 TWh (down from 146.4 TWh in 2018). The decrease was attributable to lower inflow throughout the year, combined with lower-than-normal reservoir levels at the start of 2019. Together, the above factors meant that Norway was a net importer of power in 2019. The corona virus may result in a reduced demand for power. The long-term consequences of the corona virus are unknown.

### Results, cash flow, financial position and equity – Group

Unless otherwise stated, the previous year's figures are stated in parentheses. The shareholding in Hafslund Nett is included in the Group's financial statements until 30 September 2019 under discontinued operations. The shareholdings in respectively Eidsiva Energi and Eidsiva Vannkraft are recognised in the Group's financial statements under continuing operations from the fourth quarter of 2019. Contributions from continuing operations and discontinued operations are discussed

separately. No proforma figures have been prepared for 2018 for the Eidsiva transaction. For further information on the impact of the integration of Hafslund E-CO and Eidsiva Energi in the financial statements, please see Note 1.5 Transaction with Eidsiva Energi.

### Results

In 2019, the Hafslund E-CO Group posted an operating profit of NOK 5,060 million, which is 15 per cent up vs. 2018<sup>3</sup> despite lower power prices and lower volume produced compared to the year before. The profit increase is driven by unrealised changes in the value of power price and foreign exchange derivatives in the amount of NOK 638 million compared to NOK – 376 million the year before. The operating profit from continuing operations totalled NOK 4,361 million, while the operating profit from discontinued operations amounted to NOK 699 million. The Group recorded an underlying operating profit (operating profit excluding unrealised gains/losses on power price and foreign exchange contracts) of NOK 3,723 million.

The profit after tax for the reporting period amounted to NOK 6,511 million. This includes a recognised gain on the sale of Hafslund Nett of NOK 4,351 million. The recognised gain accounts for 50 per cent of the total gain on the sale, while the remaining 50 per cent is still recognised through the indirect shareholding in Hafslund Nett via the Group's 50 per cent shareholding in Eidsiva Energi. Adjusted for the sale of Hafslund Nett, the profit after tax in 2019 was NOK 2,160 million. This represents a year-on-year increase of NOK 555 million. The total comprehensive income for the period adjusted for the sale of Hafslund

<sup>3</sup>Hafslund E-CO consisting of the hydropower operations and the grid operations in Hafslund Nett.

Nett in 2019 corresponds to a return on equity (ROE) of 7 per cent (10 per cent). The return on capital employed (ROCE) closed the period on 10 per cent (12 per cent). The reduction in ROE and ROCE is attributable to an increased capital base related to the Eidsiva transaction. The Group

NOK million	2019	2018
<b>EBITDA</b>	<b>6 072</b>	<b>5 504</b>
Operating profit (EBIT)	5 060	4 413
Gain on sale of Hafslund Nett	4 351	-
Profit after tax	6 511	1 605
Profit after tax adjusted for gain on sale of Hafslund Nett	2 160	1 605

posted sales revenues of NOK 9,640 million in the year under review (NOK 11,411 million). The reduction is mainly attributable to loss of revenue from power grid operations following the sale of Hafslund Nett, a decrease in the achieved power price and lower power production. For further information on prices and power production, please refer to the section on the hydropower operations. Sales revenues from continuing operations totalled NOK 5,429 million, which represents a year-on-year reduction of NOK 500 million. Realised and unrealised gains from power price and foreign exchange contracts amounting to NOK 664 million (losses of NOK 741 million) are recognised under other gains/losses. Operating revenues fell by NOK 349 million to NOK 10,437 compared to 2018. Operating revenues from continuing operations closed on NOK 6,133 million, compared to NOK 5,216 million in 2018 mainly due to gains/losses on power price and foreign exchange contracts. Net financial

items totalled NOK 3,713 million, including NOK 4,351 million from the sale of Hafslund Nett. Adjusted for this sale, the Group posted net financial expenses of NOK 638 million, up NOK 113 million on the previous year. Continuing operations recorded net financial expenses of NOK 526 million (NOK 425 million). The tax expense of NOK 2,262 million (NOK 2,303 million) consists of NOK 2,133 million (NOK 2,188 million) from continuing operations and NOK 129 million (NOK 115 million) from discontinued operations. Tax expenses includes resource rent tax on the Group's hydropower production of NOK 1,185 million (NOK 1,346 million).

### Cash flow, financial position and equity

In 2019, EBITDA from continuing operations totalled NOK 4,781 million (NOK 3,974 million). The Group paid combined tax and interest of NOK 2,742 million (NOK 1,724 million) and reduced its working capital by NOK 532 million in the reporting period (increase of NOK 274 million). Unrealised changes in the value of derivatives and other non-cash generating income and expenses reduced the cash flow from operating activities by NOK 761 million (increase of NOK 258 million). This resulted in a net cash flow from operating activities for the year of NOK 1,809 million (NOK 2,234 million). The net cash flow from discontinued operations was 1,080 million (NOK 1,429 million).

The net cash flow from investing activities from continuing operations in the reporting period was NOK 3 358 million (NOK -632 million). The amount includes cash effects from the transaction with Eidsiva Energi of NOK 4,277 million, of which 3,300 in cash remuneration and the remainder as working capital adjustments for Hafslund Nett and cash in Eidsiva Vannkraft. The cash consideration was given to achieve a reasonable

capital structure in both Hafslund E-CO and Eidsiva Energi. The installation of the 12th unit at Vamma represented an important milestone in 2019. Vamma is Norway's largest run-of-river power plant and the total investments for the project is NOK 980 million. The cash flow from investing activities in discontinued operations was NOK -1,069 million (NOK -1,546 million). The Group is currently experiencing a period of high investments driven by upgrades in production capacity and dam refurbishments. In 2019, gross investments from continuing operations amounted to NOK 701 million (NOK 604 million), which equals 167 per cent of the annual depreciation charge (163 per cent).

The cash flow from financing activities from continuing operations in the reporting period was NOK -5,930 million (NOK -4 million). Following the completion of the transaction, all debt was transferred to the parent company<sup>4</sup>. New loans were also assumed as part of continuing operations in 2019. Total dividends of respectively NOK 1,284 million and NOK 35 million were paid to the City of Oslo and to non-controlling interests in 2019 for the 2018 accounting year.

At the reporting date, the Group had total assets of NOK 65,274 million (NOK 49,180 million). The recognised value of waterfall rights and goodwill was NOK 17,368 million and NOK 6,211 million respectively (NOK 12,914 million and NOK 3,560 million), while the recognised value of property, plant and equipment was NOK 19,819 million (NOK 25,370 million). The increase in waterfall rights and goodwill is mainly attributable to the acquisition of Eidsiva Vannkraft, which was initially recognised at fair value. The reduction in property, plant and equipment is attributable to the sale of Hafslund Nett. Investments in equity-accounted investees increased from NOK 416 million in 2018 to

NOK 16,877 million in 2019 as a result of the 50 per cent shareholding in Eidsiva Energi. Equity effects from the sale of the non-controlling interest in E-CO Energi and the acquisition of the non-controlling interest in Oppland Energi, as well as the gain on the sale of Hafslund Nett, increased equity from NOK 16,501 million in 2018 to NOK 33,107 million in 2019.

At the end of 2019, net-interest bearing debt excluding subordinated loans totalled NOK 10,340 million. The key credit figures net-interest bearing debt/EBITDA and FFO/net-interest bearing debt were 1.7 and 34 per cent respectively. The outstanding subordinated loans were NOK 5,764 million. Resource rent tax reduces the key figure FFO/ net interest bearing debt. The Group has a robust financing structure with long-term committed revolving credit facilities. At the end of 2019, the Group had unused revolving credit facilities of NOK 1,800 million (including overdraft facilities of NOK 300 million), and no financial debt covenants connected to the companies' loan agreements.

## **Performance – hydropower, shareholding in Eidsiva Energi, discontinued operations**

### **Hydropower**

#### **Results**

2019 was a solid year for the hydropower operations with an operating profit of NOK 4,364 million, including the contribution from Eidsiva Vannkraft from the fourth quarter of 2019. This is an improvement of NOK 695 million compared to 2018 despite lower achieved power price and lower power production. The improvement is mainly attributable to unrealised gains from power price and foreign exchange contracts, compared to unrealised losses in 2018. The underlying operating profit (operating

<sup>4</sup>The NOK 1,917 million subordinated loan from Eidsiva Energi AS is recognized in the subsidiary Eidsiva Vannkraft AS.

profit excluding unrealised changes in the value of power price and foreign exchange contracts) in 2019 was NOK 3,832 million, down NOK 213 million on the previous year.

The hydropower operations achieved a profit before tax of NOK 4,145 million (NOK 3,364 million) and a profit after tax of NOK 1,952 million (NOK 1,223 million). Taxes amounted to NOK 2,193 million (NOK 2,141 million) including resource rent tax of NOK 1,185 million (NOK 1,346 million). This corresponds to an effective tax rate of 53 per cent (63 per cent) on profit before tax. The change in the effective tax rate compared to 2018 is mainly a result of realized gains and losses and unrealised changes in power price and exchange contracts which are excluded from resource rent tax.

#### ***Power prices and realised profit from hedging***

The hydropower operations achieved an average power price of 39.2 øre per kWh in 2019, which represents a reduction of 1.9 øre per kWh against 2018. The achieved power price includes physical power sales (including sales of concessionary power and industrial contracts of 0.9 TWh). In comparison, the Nordic system price was 38.4 øre per kWh in 2019, a reduction of 3,8 øre per kWh from 2018. The lower achieved power price compared to the previous year reduced the year-on-year operating profit by approximately NOK 255 million. The realised profit from power price contracts was NOK 20 million (NOK – 365 million), an increase of NOK 385 million compared to 2018.

#### ***Produced volume***

The hydropower business generated a total of 13.6 TWh of power in 2019, which represents a reduction of 0.7 TWh compared to 2018. The reduction in production volume reduces the operating profit compared



to 2018 by NOK 247 million. Eidsiva Vannkraft contributed a 0.6 TWh increase in production during the fourth quarter, while low reservoir levels going into the reporting period and low inflow resulted in a 1.3 TWh decrease in production at other hydropower production facilities. Preliminary estimates of power production in Norway in 2019 show a decrease of 8 per cent compared to 2018, which is consistent with Hafslund E-CO's experiences in 2019. Efficient operations and resource utilisation resulted in good availability at the power plants, which experienced no significant operational interruptions during 2019.

### Costs and investments in operations

Total operating costs, including depreciation, amortisation and impairments amounted to NOK 1,684 million in the reporting period. This represents an increase of NOK 172 million from 2018. Influenceable costs (salaries and other personnel expenses and other operating expenses) were NOK 592 million in 2019, an increase of NOK 64 million from 2018. Influenceable costs per kWh amounted to 4.3 øre, compared to 3.7 øre in 2018. The cost increase is mainly attributable to the 100 per cent consolidation of costs relating to Eidsiva Vannkraft from 1 October 2019 and the reinforcement of support functions, while lower production volume further increases the cost per kWh.

The hydropower business invested a total of NOK 680 million (NOK 604 million) excluding capitalised interest, of which approximately NOK 300 million is attributable the construction of new power plants. In 2019, Vamma 12, a new unit at Vamma Power Plant, was completed. At the end of 2019, the hydropower operation was involved in the expansion of three further power plants. The completion of Rosten Power Plant in 2018 and Vamma 12 in 2019, as well as the three ongoing power

plant expansions will provide around an additional 1 TWh of renewable energy per year.

### New power plants 2019–2021

Vamma 12 (new unit at Vamma Power Plant):	Nedre Otta Power Plant (managed by Nedre Otta DA):	Tolga Power Plant:	Mork Power Plant:
<ul style="list-style-type: none"> <li>• Commissioned: May 2019</li> <li>• Capacity: Around 1 TWh, including additional production of around 230 GWh renewable energy, per year.</li> <li>• Accumulated investments at the end of 2019: NOK 980 million, of which the Group's share comprises 90 per cent.</li> <li>• Contingency effect: Vamma 12 will replace a significant share of production currently generated by Vamma's other units, while the old units will continue to be used in flood periods.</li> </ul>	<ul style="list-style-type: none"> <li>• Expected commissioning: 2020.</li> <li>• Capacity: Around 315 GWh renewable energy per year.</li> <li>• Accumulated investments at the end of 2019: NOK 1 020 million, of which the Group's share comprises 50 per cent.</li> </ul>	<ul style="list-style-type: none"> <li>• Expected commissioning: H2 2021.</li> <li>• Capacity: Around 205 GWh renewable energy per year.</li> <li>• Accumulated investments at the end of 2019: NOK 509 million, of which the Group's share comprises 75 per cent.</li> </ul>	<ul style="list-style-type: none"> <li>• Expected commissioning: Q4 2020.</li> <li>• Capacity: 44 GWh renewable energy per year.</li> <li>• Accumulated investments at the end of 2019: NOK 57 million of which the Group's share comprises 67 per cent.</li> </ul>

### Shareholding in Eidsiva Energi

Other continuing operations consist of Hafslund E-CO AS, shareholdings in Eidsiva Energi, Hafslund Hovedgård (Hafslund Manor), a few smaller partly owned companies and part of the Group's loan portfolio prior to the change of debtors in autumn of 2019.

## Results

The operating loss (EBIT) from continuing operations in the reporting period amounted to NOK 3 million (loss of NOK 66 million). The share of profit from non-controlling interests, including Eidsiva Energi in the fourth quarter came in at NOK 71 million. The net loss for the reporting period closed on NOK 250 million (loss of NOK 233 million).

### Discontinued operations (Hafslund Nett)

The grid operation, Hafslund Nett, was transferred to Eidsiva Energi and recognised as part of the grid operations of the Eidsiva Group, later named Elvia, following the completion of the transaction between Hafslund E-CO and Eidsiva on 30 September 2019. In the nine months to 30 September 2019, Hafslund Nett posted an operating profit of NOK 699 million (NOK 811 million) and a profit after tax of NOK 4,809 million, including a NOK 4,351 million gain on the sale of Hafslund Nett (NOK 615 million). At the end of the third quarter of 2019, Hafslund Nett's total investments amounted to NOK 1,038 million.

## Corporate social responsibility

Hafslund E-CO is responsible for any social consequences caused by the Group's operations with regard to the external environment, working conditions, human rights and other social issues. Corporate Social Responsibility has a high strategic priority and permeates the company's entire value chain and operations. The Group has drawn up ethical guidelines that apply to all employees at majority-owned companies and suppliers. Hafslund E-CO constantly strives to promote the Group's values to employees, suppliers and partners. You can read more about corporate social responsibility in the section "A sustainable Hafslund E-CO".

## HSE

Hafslund E-CO shall maintain high standards for health, safety and the environment (HSE), and shall consider HSE in all processes and activities. Hafslund E-CO aims to experience zero injuries among its own employees and suppliers, and systematically works to reduce the number of injuries. Reporting of undesired incidents and close follow-up of serious incidents and near misses are a key part of our systematic HSE work.

A total of four lost-time injuries and five non-lost-time injuries were recorded for company employees and suppliers working at Hafslund E-CO's facilities in 2019. This corresponds to an injury frequency for the Group of 3.6 lost-time injuries per million working hours (H1 indicator) and a total injury frequency (number of lost-time and non-lost-time injuries per million working hours, H2 indicator) of 8.1. Three of the lost-time injuries in 2019 involved company employees and one injury related to a supplier. We are continually working on measures to reduce the injury frequency. HSE at Eidsiva Energi is followed up by the company's board and reported as part of both internal and external reporting.

### Employees

At the end of 2019, the Group employed 411 staff in majority-owned companies. All work shall be based on the Group's values: open, responsible and innovative. Management and employee organisations cooperate constructively to address the various challenges facing the Group, and this relationship was key to the successful conclusion of the Eidsiva transaction.

At the reporting date, 19 per cent of the Group's workforce were women. Group management consists of three women and seven men. We will

continue to strive to establish a more equal gender distribution through targeted recruitment, internal development programmes and competence development. Hafslund E-CO shall not discriminate on grounds of gender, ethnicity, national origin, descent, skin colour, language, religion or beliefs in areas such as pay, promotion or recruitment.

### Sickness absence

Hafslund E-CO has set a goal of maintaining the Group's overall sickness absence rate below 3.5 per cent. In 2019, sickness absence at Hafslund E-CO closed on 2.3 per cent. The company works through targeted management and training measures in order to maintain a low sickness absence rate. We also arrange joint professional and social activities to promote a common culture and maintain a good working environment, and run several company sports teams.

### Competence

Leading centres of excellence are essential for our success and for enabling us to develop our existing employees and attract required new talents. The Group aims to build one of Norway's strongest centres of excellence in hydropower production.

The merger of Hafslund E-CO, E-CO Energi and Eidsiva Vannkraft was our main focus in 2019. During the autumn, we implemented several integration activities centring on the establishment of a shared organisation. Creating an integrated company with staff functions on one level and strong line organisations in order to bundle competence and facilitate strong competence resource pools was a key element of this process.

Group management was changed and approximately 400 staff were

assigned to the new organisation in close cooperation with the Group's employee representatives. The Group's digital resources were also significantly reinforced and specific key technical roles were advertised both internally and externally. Keeping employees informed of developments played a key role in the successful integration.

The Group systematically works on developing the competence of managers and employees. Hafslund E-CO has an internal group development programme and in 2019, a total of 25 participants attended the Group's talent development programme, GNIST. Going forward, it will be important to reinforce our efforts within strategic competence development, establish common development processes and strengthen critical competence within our various professional and specialist fields. We will also continue our integration work in collaboration with employee representatives in order to operationalise the new organisation, establish a common culture and leverage long-term synergy effects to achieve the Group's goals.

### Government relations and framework conditions

For Hafslund E-CO to be able to create long-term value and help realise a renewable and fully electric society, it is critical that central decision-makers receive good input about the impact of official framework conditions. This will allow us to contribute to better political and regulatory decisions.

### Need for stable framework conditions

Norway has set ambitious regional, national and international goals for reduction of greenhouse gas emissions. Hydropower is uniquely positioned to satisfy future needs for emissions-free, flexible and profitable power. Hydropower is flexible and can help balance production from

other sources such as wind and solar power. In addition, a reliable and modern power grid will play a critical role in the phasing out of greenhouse gas emissions, including through electrification of the transport sector and building and construction sites.

To ensure that renewable power has a climate value, it must reach consumers and replace fossil energy sources both in and outside the Nordic market. For businesses exposed to competition, market-based, technology-neutral and predictable tools must be further developed to enable climate goals to be achieved in the most cost-effective manner possible. Stable, long-term regulation will be critical to securing efficient operations and realising the right socio-economic investments.

### Consequences of resource rent taxation

An expert committee, headed by former Director General of the Norwegian Water Resources and Energy Directorate (NVE) Per Sanderud, presented proposals for a new power taxation system in September 2019. The proposals involved the phasing out of the municipal schemes and sharpening of resource rent taxation. Lowering the activation threshold for resource rent taxation and retaining the structure of the existing tax-free allowance were also proposed. The power municipalities and the entire renewable sector were unenthusiastic about the proposed changes. In February 2020, the government decided not to action the Power Tax Committee's proposals. Hafslund E-CO takes the view that the structure of resource rent taxation results in the deferral or shelving of socio-economically profitable projects. This is because the tax-free allowance is currently significantly lower than the interest rate at which the power producers finance their operations, with the result that the normal return is not protected.



### Development of interconnectors

Exchange of power with neighbouring countries has many benefits for society. It protects the population from power deficits in dry years and helps our neighbouring countries to replace fossil with renewable power. It is essential for society and the energy companies that we fully exploit Norwegian production, and interconnectors make a key contribution in this context.

Hafslund E-CO is participating in NorthConnect, a planned interconnector to the UK. NorthConnect is beneficial for society and will exchange power between Norway's hydropower-centric and Scotland's wind-power-dominated power systems. In December, NVE announced its decision on NorthConnect's licence application. NVE confirmed that the cable will be socially beneficial. The review has been submitted for public consultation with a deadline of March 2020.

### Revision of framework conditions

Hydropower production is subject to licensing conditions including water flow and water level requirements, as well as regulations for safety in dams and waterways. Changes in regulatory conditions can potentially limit production. The revision of framework conditions is an authority-regulated process designed to evaluate regulatory environmental measures. Hafslund E-CO has established a productive cooperation with the host municipalities on revision of these framework conditions. NVE is responsible for recommending the new regulatory conditions, while the Ministry of Petroleum and Energy takes the final decision on the new conditions for the next 30 years.

We have also worked on equalisation of the power grid rental and functional differentiation of the DSO role for the grid companies over the last year. We have continued this work together with Eidsiva Energi since the merger on 30 September.

### Risk management

Hafslund E-CO's business is exposed to risk in several areas. The most important risks are of a financial, regulatory and political, operational and reputational nature. Risk management is an integral part of the Group's business activities and is designed to secure achievement of strategic and operational goals. Guidelines and frameworks have been established for managing risk across the Group. The Group's overall risk is assessed by the Audit Committee and the Board of Directors. The purpose of risk management is to take the right risk based on the Group's risk propensity and risk capacity, competence, gearing and development plans. The outbreak of the coronavirus, discussed under Outlook, may result in significant financial, operational and regulatory consequences for the Group.

### Financial risk

#### *Market risk*

As a power producer, Hafslund E-CO is exposed to fluctuations in power market prices and volume uncertainty, and manages this risk through measures including active market participation. All power trading is subject to adopted frameworks and followed up through reporting to Group management and the board. Within these frameworks, the Group hedges some future hydropower production and takes up active positions in the power market.

The scope of hydropower production hedging may vary based on an overall assessment of market prices and future developments that could impact power production. The Group's hedging strategy takes account of resource rent taxation, where an increase in the spot price of power is expected to have a neutral or positive effect on expected cash flow after tax. Most of the Group's revenues derive from the sale of power in EUR, which is translated to NOK on an ongoing basis. Costs are mainly incurred in NOK. The Group may enter into loan agreements and other agreements in foreign currency where appropriate.

Foreign exchange risk is managed using the forex market. All loans in foreign currency and some of the power price-hedged volume are currency-hedged. Hafslund E-CO uses Value at Risk (VaR) as one of its operational risk management targets for power price risk. VaR describes the maximum loss that could be expected for a power portfolio during a given period at a given confidence level. Exposure is followed up by Risk Management and reported to Group management and the board.

The Group is also exposed to interest rate risk on interest-bearing loans, while resource rent tax is exposed to interest rate risk through the tax-free allowance. However, the company endeavours to reduce interest rate risk by leveraging the Group's inherent interest-hedging by correlating the interest rate exposure relating to the tax-free allowance with interest on borrowings.

#### ***Credit and counterparty risk***

Credit and counterparty risk is the Group's risk of losses resulting from counterparties/customers not being able to fulfil their obligations to Hafslund E-CO. The Group is exposed to credit and counterparty risk,

including through financial and physical power trading and in connection with financing activities. Most of the hydropower production is currently sold on the spot market. Counterparty risk on entering longer-term physical and financial contracts is managed using clearing, guarantees and settlement mechanisms. Exposure is closely followed up and contract counterparties are continually assessed. Counterparty risk relating to trading in interest rates and foreign currency is limited by defining lower limits for approved counterparties' credit ratings, and by diversifying exposure over several counterparties. Historically, the Group has experienced low losses on receivables.

#### ***Liquidity risk***

Liquidity risk is the risk that the Group will not be able to service its financial liabilities as they mature. The Group is exposed to liquidity risk to the extent that cash flows from the business do not correspond with financial liabilities. The cash flows vary in line with factors such as market prices, seasonal fluctuations and investment levels.

The Group's strategy for managing liquidity risk is to maintain sufficient liquid funds at all times so that the Group can service financial liabilities on maturity, including for extraordinary events, without risking unacceptable financial or reputational loss.

Liquidity risk is minimised by analysing expected inflows and outflows and assuming short- and long-term borrowings. The Group has established long-term, committed drawdown facilities in order to secure availability of liquidity, also in periods when it may be difficult to obtain financing in the markets. At the reporting date, unutilised drawdown facilities amounted to NOK 1,500 million (NOK 4,002 million). The Group also



has a liquidity reserve in the form of bank deposits and money market funds, and unutilised bank credit facilities of NOK 300 million.

### Regulatory and political risk

Hafslund E-CO operates licensed activities, subject to regulation from NVE and other authorities. Consequently, the Group is impacted by changes in framework conditions within a number of areas. Regulatory and statutory changes could potentially have a major impact on future financial results, and risks are closely followed up through continuous work on framework conditions.

The production operations is subject to licensing conditions including water level requirements and regulations for safety in dams and waterways. Changes in regulatory conditions can potentially limit power production. The competitiveness of flexible hydropower is also dependent on market regulation in the physical and financial power markets. In addition, the grid operations Hafslund E-CO owns through Eidsiva Energi is a natural monopoly with publicly regulated earnings, where changes in the regulation model are possible.

### Operational risk

Hafslund E-CO is exposed to operational risk along its entire value chain. The greatest operational risk attaches to ongoing operations and project implementation, where line managers are responsible for day-to-day risk management. The Group has also implemented a major transaction involving the integration of two significant businesses and is entering into new business concepts through New Energy. The business areas manage operational risk through measures such as systematic maintenance, detailed operational procedures, controls, contingency

plans, etc. The Group aims to leverage artificial intelligence, machine learning and data from sensors to make better operational, maintenance and investment decisions. The Group has entered into insurance agreements, including for damage to the company's production facilities and other property. Liability insurance has also been taken out, including for dam liability, which covers third-party injuries or damage to third-party property. The Group also has insurance policies for lost power production due to stoppages. Risk relating to security of supply is a key focus area, and the Group closely monitors cybersecurity in line with digital developments in the power system. Hafslund E-CO participates in KraftCERT, a centre of excellence for the energy industry that assists its members with advice and management of safety-critical ICT events. The Group did not experience any targeted attacks in 2019, nor any non-targeted attacks that compromised security. Hafslund E-CO have established systems for registering and reporting critical conditions, undesired incidents and injuries. Analyses are performed on an ongoing basis with a view to evaluating and planning any required measures.

### Internal control

Internal control is a key element of risk management at Hafslund E-CO. The Group has internal functions for risk monitoring, internal control and compliance with laws and regulations. We also engage suitable external competence to carry out internal control and internal audit projects where necessary. Financial reporting risk is a high priority, and we are actively working to reinforce this area and introduce clearly delineated roles, responsibilities and duties for accounting processes in the new Group. Procedures and routines have been established for reporting, including controls and documentation. These controls focus on areas deemed to present the highest risk of errors in the financial

statements. Hafslund E-CO has systems and the competence to produce accurate financial reports and is focusing on harmonising reporting across our recently integrated businesses.

All the Group's companies are subject to legislation, regulations, regulatory requirements and internal guidelines. Management of risk of inadequate compliance with laws and regulations is a constant focus area. This work is performed with support from our specialist functions. Internal awareness campaigns are used to reinforce knowledge and secure compliance in key focus areas such as data protection. Hafslund E-CO shall be a responsible player within all parts of our operations, and is focusing on ensuring compliance by identifying risks and implementing risk-reducing measures.

The integration of Hafslund AS and E-CO Energi Holding AS in 2018, and subsequently Eidsiva Vannkraft AS in 2019, have highlighted several differences between the reporting units with regard to internal control procedures. These have been analysed, and work on harmonisation and continuous improvements is ongoing across the Group.

### Corporate governance

The City of Oslo wholly owns Hafslund E-CO AS. The board has adopted principles for corporate governance in line with the Norwegian Code of Practice for Corporate Governance of 17 October 2018 (the "NCGB recommendation") and the City of Oslo's principles for sound governance of limited companies. These principles are intended to support the owner's goals and contribute to long-term value creation, as well as secure the owner's and other stakeholders' trust in the board, management and the company. A declaration on corporate governance in accordance

with section 3-3b of the Norwegian Accounting Act is available on the company's website.

### **The work of the Board of Directors**

The board comprises eight members, three of whom are elected by the employees. In connection with the Eidsiva transaction, Johnny Kjørnås and Per Luneborg from Hafslund Nett AS stepped down from Hafslund E-CO AS's board from 30 September. Gunnar Braaten from E-CO Energi AS and Jan Knudsen from Eidsiva Vannkraft AS were elected as new employee representatives effective 1 October. During the negotiations for the Eidsiva transaction, Hafslund E-CO's administration and employee representatives agreed that Hafslund Nett should have the right to appoint an observer on Hafslund E-CO's board for a transitional period. Per Luneborg was accordingly designated as an observer with no power of proposal or voting rights on the board of Hafslund E-CO on behalf of Hafslund Nett. Hafslund E-CO satisfies the requirements for representation of both genders on the Board of Directors of listed companies. Hafslund E-CO's Board works in accordance with the adopted rules of procedure for the board. There is agreement within Hafslund E-CO not to establish a Corporate Assembly. Consequently, the board reports directly to the General Meeting.

The board's Compensation Committee prepares matters for review by the board and resolutions on compensation and other associated matters concerning the company's senior executives. The Compensation Committee comprises Alexandra Bech Gjørsv (Chair), Bente Sollid Storehaug and Bård Vegar Solhjell. Johnny Kjørnås stepped down from the Compensation Committee when he left the board of Hafslund E-CO. Gunnar Braaten was appointed a new member of the Compensation Committee.

For further information about remuneration paid to senior executives and board members and the board's declaration and determination of salaries and other remuneration paid to senior executives, please refer to Note 7.1 Remuneration paid to senior executives and board members. The board's Audit Committee assists the board with the preparation of the financial statements and internal control. The Audit Committee comprises Bjørn Erik Næss (Chair) and Mari Thjømøe. Per Luneborg stepped down from the Audit Committee when he left the board of Hafslund E-CO, and has not been replaced. The Audit Committee satisfies the requirement that at least one member shall be independent of the Group's operations and have an accounting or auditing qualification. Individual board members' experience and competence are described in the section on the Board of Directors in the annual report.

The board held eight ordinary meetings and one telephone meeting in 2019. In 2019, the board actively participated in the implementation of the transaction with Eidsiva. The board has also focused on further developing the Group's strategy to facilitate growth and ensuring that the company develops in the best interests of the owner, the company's employees and other stakeholders. The board has also concentrated on developing group-wide competence within innovation, electrification and digitalisation.

### **The parent company Hafslund E-CO AS**

The parent company Hafslund E-CO AS was established in July 2018 and in 2019 consisted of administration and various support functions. As of 2020, shared support functions have been reassigned to the subsidiary E-CO Energi, where the majority of the Group's business is conducted. Group liabilities were also transferred to the parent company during 2019. In 2019, Hafslund E-CO posted an operating profit (EBIT) of

NOK -122 million, compared with -13 million for the period March to December 2018. The net profit after tax for 2019 was NOK 11,035 million (1,323 million). Gain on disposal of 42.8 per cent of E-CO Energi was equivalent to NOK 10.4 billion.

### Dividend and appropriation of profit for the year

The dividend is determined each year in consultation with the owner so as to maintain the company's capital requirements and credit rating. Due to a significant fall in future power prices and considerable uncertainty regarding the long-term effects of the corona virus, the Board of Directors have decided not to propose a dividend for the 2019 financial year at the Annual General Meeting. The Board of Directors will continuously evaluate the Group's equity and liquidity position, and at a later date return with a proposal for an additional dividend for the financial year 2019 at an extraordinary general meeting. The board proposes that Hafslund E-CO's net profit for the year be appropriated as follows:

<b>Net profit for the year in Hafslund E-CO AS's financial statements</b>	<b>NOK 11,035 million</b>
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#### APPROPRIATIONS:

To other equity	NOK 11,035 million
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### Going concern assumption

In accordance with the requirements of the Norwegian Accounting Act, the board confirms that the annual financial statements have been prepared in accordance with the going concern principle and that the company satisfies these conditions.

### Outlook

The transaction with Eidsiva Energi means that Hafslund E-CO has increased its relative ownership in hydropower production and decreased its relative ownership in the grid operations. As a consequence, the Group's financial results are highly exposed to changes in power prices where sales revenue is a function of achieved power prices and produced volume. The expectation for 2020 was that the same favorable power prices experienced in 2019 would continue. However, an unexpected change in the weather and mild temperatures at the beginning of 2020 have put power prices under significant pressure. Expected results for 2020 therefore indicate a significant decrease compared to 2019 based on the power market's forward prices. The power price for 2020 per mid-March is expected at 18.5 øre per kWh. A change in power prices of 10 øre per kWh over the year will, given full spot price exposure and a normal production of 17 TWh, change the operating profit with approximately NOK 1,500 million. Hafslund E-CO is an active participant in the power market in order to be able to hedge cash flows and capitalise on market outlooks, and partially price-hedge future power sales.

The outbreak of the coronavirus that started in China in December 2019, was detected in Norway towards the end of February 2020. The outbreak has resulted in the introduction of strict measures from the authorities in an effort to slow down further spreading of the virus. The coronavirus, in combination with sharp falls in the price of oil has contributed to significant reduction in the stock index and reduced the demand for power. Reduced activity in power-intensive industry will result in further drop in the demand for power. The long-term effects

of the coronavirus are yet to be seen and the consequences of further spreading of the virus may influence the Group's operational possibilities, while reductions in the demand for power and power prices will impair the Group's profit further. Hafslund E-CO operates critical infrastructure and has as a consequence of the coronavirus set up an emergency organisation that follows up the advice given by the authorities. In addition, actions to hedge parts of the power production have been implemented while other operational actions are under review and additional capital has been secured to pay running obligations. Persistent low prices will influence the Group's liquidity, solidity and dividend capacity.

The transaction with Eidsiva and the following integration activities were key focus in 2019. In 2020 emphasis will be on operational efficiency, exploiting economies of scale and other synergies, including the establishment of a joint IT-platform. The increased size of the Group facilitates a stronger internal knowledge-based environment. The new Group structure also strengthens the power to drive innovation within operations, maintenance and market operations within the hydropower operations. Through the New Energy business, Hafslund E-CO aims to develop new zero emission solutions for customers and to contribute to the acceleration the electrification of Norway. The transaction with Eidsiva provides new possibilities for growth, both organically and through structural initiatives. Hafslund E-CO will continue to contribute to the consolidation of the power industry and continuously evaluate structural projects and possibilities. The business opportunities

that lay ahead in a renewable and fully electric society will be capitalised on and contribute to increased profitability, at the same time establishing Hafslund E-CO as the most profitable hydropower company in Norway based on its vision of "a renewable and fully electric future".

The Board wants to thank the employees for the effort put in to facilitate a good integration process and achieve the Group's targets.

Oslo, 26 March 2020

### The Board of Directors of Hafslund E-CO AS

			
Alexandra Bech Gjerv Board Chair	Bente Sollid Storehaug	Bjørn Erik Næss	Bård Vegar Solhjell
			
Mari Thjomøe	Arvid Amundsen	Jan Petter Knudsen	Gunnar Ola Braaten
			
Finn Bjørn Ruyter CEO			

# Contents

## Financial Statements and notes Hafslund E-CO Group

### 3

#### **Financial statements**

[Consolidated statement of comprehensive income](#)

[Consolidated statement of financial position](#)

[Consolidated statement of cash flows](#)

[Consolidated statement of changes in equity](#)

#### **Notes**

##### **Part 1 - General**

[Note 1.1 General information](#)

[Note 1.2 General accounting policies](#)

[Note 1.3 Changes in accounting policies](#)

[Note 1.4 Changes in standards and interpretations with future effect](#)

[Note 1.5 Transaction with Eidsiva Energi](#)

##### **Part 2 - Operations**

[Note 2.1 Revenues and other income](#)

[Note 2.2 Energy purchases and transmission expenses](#)

[Note 2.3 Salaries and other personnel costs](#)

[Note 2.4 Property tax and license fees](#)

[Note 2.5 Other operating costs](#)

##### **Part 3 – Non-current assets**

[Note 3.1 Property, plant and equipment](#)

[Note 3.2 Intangible assets and goodwill](#)

[Note 3.3 Impairment testing](#)

[Note 3.4 Leases](#)

[Note 3.5 Equity-accounted investees](#)

[Note 3.6 Joint arrangements and joint operations](#)

##### **Part 4 – Provisions and liabilities**

[Note 4.1 Other liabilities and obligations](#)

[Note 4.2 Guarantees](#)

##### **Part 5 – Financial instruments, capital structure and equity**

[Note 5.1 Financial instruments](#)

[Note 5.2 Interest-bearing debt](#)

[Note 5.3 Maturity structure, financial liabilities](#)

[Note 5.4 Financial risk management](#)

[Note 5.5 Fair value](#)

[Note 5.6 Derivatives and hedging](#)

[Note 5.7 Capital management](#)

[Note 5.8 Share capital and shareholder information](#)

[Note 5.9 Non-current receivables](#)

[Note 5.10 Trade and other receivables](#)

[Note 5.11 Cash and cash equivalents](#)

[Note 5.12 Trade and other current non-interest-bearing liabilities](#)

[Note 5.13 Financial items](#)

##### **Part 6 - Taxes**

[Note 6.1 Taxes](#)

##### **Part 7 – Remuneration and pension costs**

[Note 7.1 Remuneration to senior executives and board members](#)

[Note 7.2 Pensions](#)

##### **Part 8 – Group companies**

[Note 8.1 Consolidated companies](#)

[Note 8.2 Non-controlling interests](#)

##### **Part 9 – Other information**

[Note 9.1 Related party transactions](#)

[Note 9.2 Contingencies](#)

[Note 9.3 Events after the reporting period](#)

[Note 9.4 Integration Hafslund and E-CO Energi in 2018](#)

## Consolidated statement of comprehensive income - 1 January - 31 December

NOK million	Note	2019			2018		
		Continuing operations <sup>1</sup>	Discontinued operations	Hafslund E-CO Group	Continuing operations <sup>1</sup>	Discontinued operations	Hafslund E-CO Group
Sales revenue	2.1	5 429	4 211	9 640	5 929	5 482	11 411
Other gain/loss	2.1	664	-	664	-741	-	-741
Other operating revenue	2.1	40	93	133	27	89	116
<b>Revenues and other income</b>	<b>2.1</b>	<b>6 133</b>	<b>4 304</b>	<b>10 437</b>	<b>5 215</b>	<b>5 571</b>	<b>10 786</b>
Energy purchases and transmission	2.2	-234	-2 233	-2 467	-303	-2 926	-3 229
Salary and other personnel costs	2.3	-285	-168	-453	-268	-290	-558
Property tax and other imposed costs and compensations	2.4	-505	-12	-517	-376	-16	-392
Other operating costs	2.5	-401	-602	-1 003	-265	-810	-1 075
Profit/loss from equity-accounted investees	3.5	72	2	74	-30	2	-28
<b>EBITDA</b>		<b>4 781</b>	<b>1 291</b>	<b>6 072</b>	<b>3 974</b>	<b>1 530</b>	<b>5 504</b>
Depreciation and amortisation	3.1	-420	-592	-1 012	-372	-719	-1 091
<b>Operating profit (EBIT)</b>		<b>4 361</b>	<b>699</b>	<b>5 060</b>	<b>3 602</b>	<b>811</b>	<b>4 413</b>
Interest income	5.13	19	4	23	34	9	43
Interest expense	5.13	-533	-117	-650	-483	-90	-573
Gain from sale of the grid business <sup>2</sup>	1.5, 5.13	3	4 351	4 354	-	-	-
Other finance income/costs	5.13	-14	1	-13	24	1	25
<b>Net financial items</b>	<b>5.13</b>	<b>-526</b>	<b>4 239</b>	<b>3 713</b>	<b>-425</b>	<b>-80</b>	<b>-505</b>
<b>Profit before tax</b>		<b>3 834</b>	<b>4 939</b>	<b>8 773</b>	<b>3 177</b>	<b>731</b>	<b>3 908</b>
Income taxes	6.1	-2 133	-129	-2 262	-2 188	-115	-2 303
<b>Profit after tax</b>		<b>1 702</b>	<b>4 809</b>	<b>6 511</b>	<b>990</b>	<b>615</b>	<b>1 605</b>

<sup>1</sup>The notes to the statement of comprehensive income apply to discontinued operations.

<sup>2</sup>NOK 3 million in this line item is gain from sale of other investments.

## Consolidated statement of comprehensive income - 1 January - 31 December (cont.)

NOK million	Note	2019			2018		
		Continuing operations <sup>1</sup>	Discontinued operations	Hafslund E-CO Group	Continuing operations <sup>1</sup>	Discontinued operations	Hafslund E-CO Group
<b>PROFIT ATTRIBUTABLE TO</b>							
Owners of the parent company		1 437	4 809	6 246	804	615	1 419
Non-controlling interests	8.2	265	-	265	186	-	186
<b>ITEMS THAT MAY BE RECLASSIFIED TO PROFIT OR LOSS IN SUBSEQUENT PERIODS</b>							
Hedging reserve	5.6	5	-	5	14	-	14
Translation reserve		1	-	1	-	-	-
Income tax effects		5	-	5	-4	-	-4
<b>Total items that may be reclassified to profit or loss in subsequent periods</b>		<b>11</b>	<b>-</b>	<b>11</b>	<b>10</b>	<b>-</b>	<b>10</b>
<b>ITEMS THAT MAY NOT BE RECLASSIFIED TO PROFIT OR LOSS</b>							
Actuarial gains (losses) on defined benefit plans		5	-	5	21	269	290
Income tax effects		-14	-	-14	-7	-59	-66
Equity-accounted investees - share of OCI	3.5	50	-	50	-	-	-
<b>Total items that may not be reclassified to profit or loss</b>		<b>41</b>	<b>-</b>	<b>41</b>	<b>14</b>	<b>210</b>	<b>224</b>
<b>Other comprehensive income</b>		<b>52</b>	<b>-</b>	<b>52</b>	<b>24</b>	<b>210</b>	<b>234</b>
<b>Total comprehensive income</b>		<b>1 754</b>	<b>4 809</b>	<b>6 563</b>	<b>1 014</b>	<b>825</b>	<b>1 839</b>
<b>TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO</b>							
Owners of the parent company		1 485	4 809	6 295	828	825	1 653
Non-controlling interests	8.2	268	-	268	186	-	186

<sup>1</sup>The notes to the statement of comprehensive income apply to discontinued operations.

## Consolidated statement of financial position - 31 December

NOK million	Note	2019	2018
<b>ASSETS</b>			
Deferred tax assets	6.1	479	319
Intangible assets	3.2	23 579	16 475
Property, plant and equipment	3.1	19 819	25 370
Right-of-use assets	3.4	69	-
Equity-accounted investees	3.5	16 877	416
Non-current financial derivatives	5.6	883	928
Other non-current receivables	5.9	721	786
<b>Non-current assets</b>		<b>62 427</b>	<b>44 295</b>
Inventory		13	31
Trade receivables	5.10	236	472
Other non-interest-bearing current receivables	5.10	108	1 186
Shares and other financial assets	5.11	-	202
Current financial derivatives	5.6	45	1
Cash and cash equivalents	5.11	2 444	2 993
<b>Current assets</b>		<b>2 847</b>	<b>4 885</b>
<b>Assets</b>		<b>65 274</b>	<b>49 180</b>

NOK million	Note	2019	2018
<b>EQUITY AND LIABILITIES</b>			
Paid-in capital	5.8	15 395	15 395
Other equity		15 011	-962
Non-controlling interests	8.2	2 701	2 068
<b>Equity</b>		<b>33 107</b>	<b>16 501</b>
Non-current interest-bearing debt	5.2	18 199	18 533
Lease liabilities	3.4	70	-
Deferred tax liabilities	6.1	8 146	4 380
Pension liabilities	7.2	51	114
Non-current financial derivatives	5.6	5	93
Other liabilities and obligations	4.1	1 704	1 294
<b>Non-current liabilities</b>		<b>28 176</b>	<b>24 414</b>
Trade payables	5.12	366	395
Other current non-interest-bearing liabilities	5.12	831	2 060
Taxes payable	6.1	2 064	2 408
Current financial derivatives	5.6	28	350
Current interest-bearing debt	5.2	701	3 052
<b>Current liabilities</b>		<b>3 990</b>	<b>8 265</b>
<b>Equity and liabilities</b>		<b>65 274</b>	<b>49 180</b>

## Consolidated statement of cash flows - 1 January - 31 December

Mill. kroner	Note	2019	2018
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>			
<b>EBITDA</b>		<b>4 781</b>	<b>3 974</b>
Gain/loss from sale of assets		2	-
Profit/loss from equity-accounted investees		-74	-
Unrealised changes in derivatives		-626	376
Changes in inventories		-9	4
Changes in trade receivables and other non-interest-bearing receivables		479	-391
Changes in trade payables and other non-interest-bearing liabilities		62	114
Other non-cash income and expenses		-63	-118
<b>Cash flow from operating activities</b>		<b>4 551</b>	<b>3 958</b>
Interest paid		-620	-426
Taxes paid		-2 122	-1 298
<b>Net cash flow from operating activities - continuing operations</b>		<b>1 809</b>	<b>2 234</b>
Net cash flow from operating activities - discontinued operations		1 080	1 429

Mill. kroner	Note	2019	2018
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>			
Investments in property, plant and equipment		-701	-604
Acquisitions of business		-167	-31
Cash paid to equity-accounted investees		-45	-
Cash effects transaction with Eidsiva Energi		4 277	-
Other investment activities		-5	3
<b>Cash flow from investment activities - continuing operations</b>		<b>3 358</b>	<b>-632</b>
Cash flow from investment activities - discontinued operations		-1 069	-1 546
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>			
Changes in interest-bearing debt		-2 768	650
Adjustment due to non-cash effect of subordinated debt to Eidsiva Energi	1.5	-1 917	
Dividends paid and other equity transactions	5.8	-1 319	-663
Other financing activities		74	8
<b>Cash flow from financing activities - continuing operations</b>		<b>-5 930</b>	<b>-4</b>
Cash flow from financing activities - discontinued operations		-	-635
<b>Changes in cash and cash equivalents</b>		<b>-750</b>	<b>846</b>
Cash and cash equivalents at 1 January		3 195	2 349
Foreign currency gains/losses on cash and cash equivalents		-	-1
<b>Cash and cash equivalents at 31 December</b>	<b>5.11</b>	<b>2 444</b>	<b>3 195</b>

## Consolidated statement of changes in equity - 1 January - 31 December

NOK million	Share capital	Share premium	Other equity	Equity attributable to owners of the parent	Non- controlling interests	Total equity
<b>Equity at 31 December 2017</b>	<b>2 166</b>	<b>7 456</b>	<b>5 608</b>	<b>15 230</b>	<b>1 896</b>	<b>17 126</b>
<b>COMPREHENSIVE INCOME 2018</b>						
Profit for the year	-	-	1 419	1 419	186	1 605
Other comprehensive income	-	-	234	234	-	234
<b>Total comprehensive income for the year</b>	<b>-</b>	<b>-</b>	<b>1 653</b>	<b>1 653</b>	<b>186</b>	<b>1 839</b>
<b>TRANSACTIONS WITH OWNERS</b>						
Ordinary dividends for 2017	-	-	-985	-985	-13	-998
Other capital distribution	-	-	-1 500	-1 500	-	-1 500
<b>Total transactions with owners</b>	<b>-</b>	<b>-</b>	<b>-2 485</b>	<b>-2 485</b>	<b>-13</b>	<b>-2 498</b>
Other changes in equity	-	-	-3	-3	-	-3
Other changes in equity, equity accounted investees	-	-	39	39	-	39
Reclassification as a result of integration Hafslund and E-CO Energi	-2 066	7 839	-5 773	-	-	-
<b>Equity at 31 December 2018</b>	<b>100</b>	<b>15 295</b>	<b>-962</b>	<b>14 433</b>	<b>2 068</b>	<b>16 501</b>

## Consolidated statement of changes in equity - 1 January - 31 December (cont.)

NOK million	Share capital	Share premium	Other equity	Equity attributable to owners of the parent	Non- controlling interests	Total equity
<b>Equity at 31 December 2018</b>	<b>100</b>	<b>15 295</b>	<b>-962</b>	<b>14 433</b>	<b>2 068</b>	<b>16 501</b>
<b>COMPREHENSIVE INCOME 2019</b>						
Profit for the year	-	-	6 246	6 246	265	6 511
Other comprehensive income	-	-	49	49	3	52
<b>Total comprehensive income for the year</b>	<b>-</b>	<b>-</b>	<b>6 295</b>	<b>6 295</b>	<b>268</b>	<b>6 563</b>
<b>TRANSACTIONS WITH OWNERS</b>						
Ordinary dividends for 2018	-	-	-1 284	-1 284	-35	-1 319
Equity transactions in connection with the transaction with Eidsiva Energi	-	-	11 087	11 087	421	11 508
<b>Total transactions with owners</b>	<b>-</b>	<b>-</b>	<b>9 803</b>	<b>9 803</b>	<b>386</b>	<b>10 189</b>
Other changes in equity	-	-	31	31	-23	8
Other changes in equity, equity accounted investees	-	-	32	32	-	32
Implementation of IFRS 16 Leases	-	-	-187	-187	-	-187
<b>Equity at 31 December 2019</b>	<b>100</b>	<b>15 295</b>	<b>15 011</b>	<b>30 406</b>	<b>2 701</b>	<b>33 107</b>

Oslo, 26 March 2020

### The Board of Directors of Hafslund E-CO AS

Alexandra Bech Gjerv  
Board chair

Bente Sollid Storehaug

Bjørn Erik Næss

Bård Vegar Solhjell

Mari Thjømøe

Arvid Amundsen

Jan Petter Knudsen

Gunnar Ola Braaten

Finn Bjørn Ruyter  
CEO

## Note 1.1 General information

Hafslund E-CO is an integrated energy and infrastructure group owned 100 percent by the City of Oslo.

The Group operates power generation through its subsidiaries E-CO Energi, Eidsiva Vannkraft and Hafslund production. In addition to operating an annual production of more than 20 TWh, the new production company owns hydroelectric power plants which together produce more than 17 TWh, enough power to supply more than 2.2 million people. The power plants are located in Oslo, Viken, Innlandet, Vestland and Agder.

Hafslund E-CO also has significant ownership in grid operations through its 50 per cent share in Eidsiva Energi. Eidsiva Energi owns 100 per cent of the shares in Hafslund Nett and Eidsiva Nett with approximately 900,000 customers. Hafslund Nett and Eidsiva Nett merged with effect from 1 Januar 2020 and the merged company is called Elvia. The grid area includes Oslo and Innlandet as well as large parts of Viken (in previous Østfold and Akershus).

The Group's subsidiary Ny Energi utilises the expertise of the companies to create new growth opportunities, with the main emphasis on electrification.

Hafslund E-CO has a 49 per cent ownership interest in Fredrikstad Energi AS, and is part-owner in the project NorthConnect, which is planning an electrical "interconnector" between Norway and Scotland.

The company's head office is in Oslo. The consolidated financial statements were authorised for issue by the Board of Directors on 26 March 2020.

## Note 1.2 General accounting policies

### Basis for preparation of the annual financial statements

The consolidated financial statements for Hafslund E-CO AS for 2019 have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU.

The consolidated financial statements have been prepared on the historical cost basis, with the exception of some assets and liabilities that are measured at fair value. Please see note 5.5 Fair value for a more detailed description. Preparation of financial statements in accordance with IFRSs requires the use of estimates and judgements. Items significantly impacted by judgements or assumptions and significant estimates are described in the relevant notes.

All amounts are stated in NOK million unless otherwise stated. Notes which explain line items in the consolidated statement of comprehensive income applies to continued operations.

### Currency

The consolidated financial statements are presented in Norwegian kroner (NOK), which is the parent company's and the subsidiaries' functional currency. All amounts are stated in NOK million unless otherwise stated. Items denominated in foreign currency in the statement of financial position are translated at the exchange rate at the balance sheet date. Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions.

## Note 1.3 Changes in accounting policies

### IFRS 16 Leases

The Group implemented IFRS 16 Leases on 1 January 2019 and has applied the modified retrospective transition method, where the accumulated effect of initial application of IFRS 16 is adjusted against retained earnings as at 1 January 2019. The comparative figures have not been amended as a result of transition to IFRS 16 applying this method.

For a description of the Group's principles and effects of the transition to IFRS 16, please see note 3.4 Leases.

### Amendments to IFRS 9 and IFRS 7 as a result of the reform of IBOR-based interest rates

The Group early-adopted the amendments to IFRS 9 and IFRS 7 with effect from 1 January 2019, with retrospective application. The changes have no effect on comprehensive income, financial position or cash flows, but requires increased disclosure requirements regarding the risk and uncertainty associated with the IBOR reform. This is discussed in more detail in note 5.4 Financial risk management.

### Presentation of discontinued operations

Hafslund E-CO has chosen to present discontinued operations in a separate column in the statement of comprehensive income as it, in the Group's opinion, provides the best information for the users of the financial statements. This is a change since discontinued operations were previously presented as a single item in the statement of comprehensive income.

## Note 1.4 Changes in standards and interpretations with future effect

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2019 reporting periods and have not been early adopted by the Group. The Group does not expect the changes in these standards and interpretations to have a significant impact on the consolidated financial statements but will assess the impact when transactions and events arise that are affected by these changes. The Group's intention is to implement the relevant changes at the effective date provided that the EU adopts the changes prior to the presentation of the consolidated financial statements.

In 2019, the Group has early-adopted the amendments to IFRS 9 and IFRS 7 that relate to the reform of IBOR-based interest rates. For further details, please see note 1.3 Changes in accounting policies.

### Note 1.5 Transaction with Eidsiva Energi

The Boards of Eidsiva Energi and Hafslund E-CO agreed in the fall of 2018, through a letter of intent, to explore the possibility of integrating the main activities in the two groups. In March 2019, the Boards agreed on the main features of an integration agreement and in the spring of 2019 the owners of Eidsiva Energi gave their approval. At the City Council meeting on June 19, the City of Oslo granted its approval and the companies' general meetings dealt with and approved the integration in June 2019. The transaction was completed on 30 September 2019.

The rationale for the integration was to strengthen and streamline the production and grid operations within the two groups by merging the production companies in the Hafslund E-CO structure, merging the grid companies in the Eidsiva structure, and initiating a close cooperation between Hafslund E-CO and Eidsiva Energi through joint ownership.

The combination of two strong competence environments within hydro-power generation and electrical supply provides a unique starting point for creating long-term value.

The integration is mainly a swap of assets transaction that has resulted in the following:

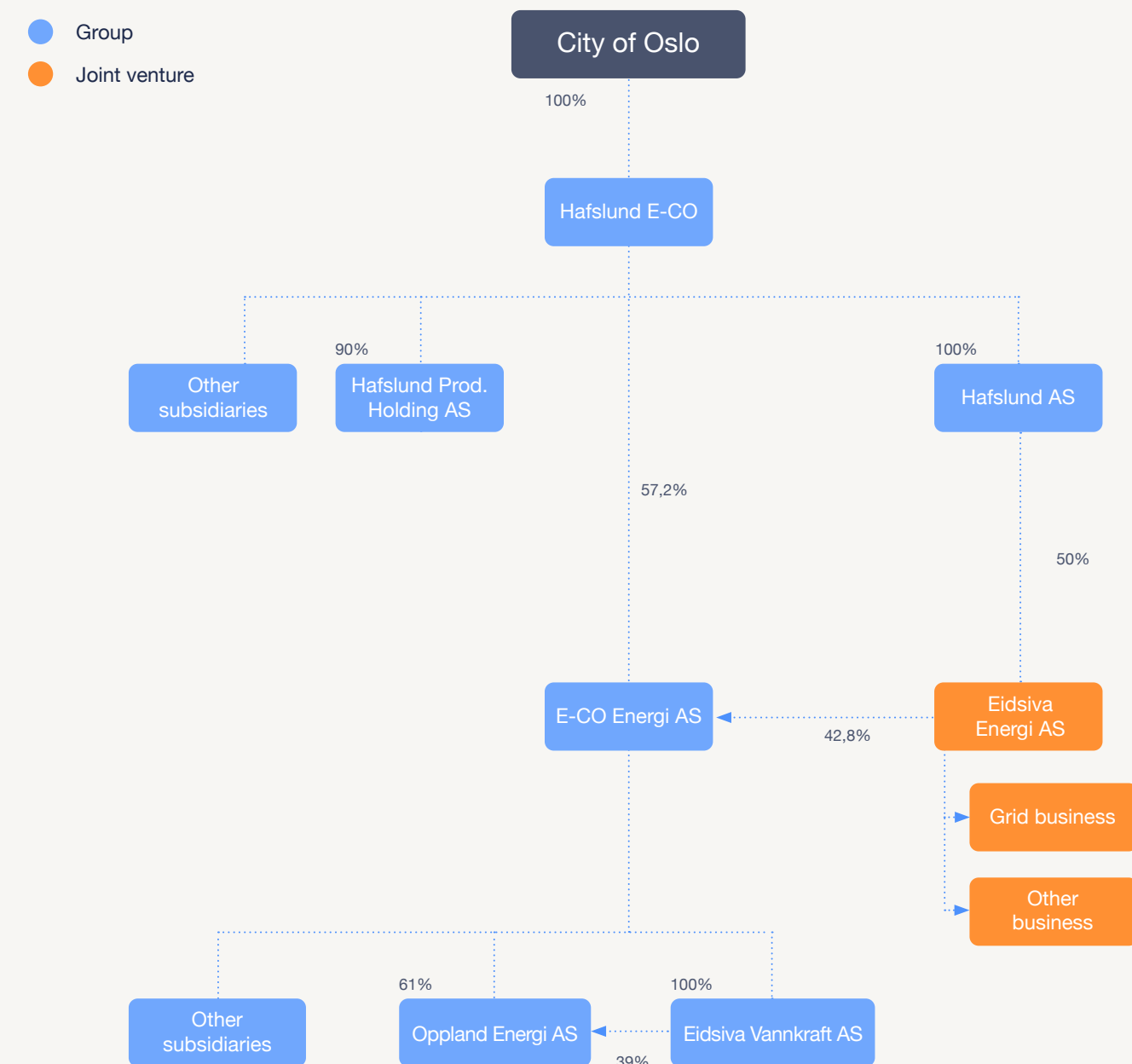
**ACQUIRED**

- Eidsiva Vannkraft<sup>1</sup> has been transferred to Hafslund E-CO from Eidsiva Energi and is thus a wholly owned subsidiary of the Hafslund E-CO Group.
- Hafslund E-CO becomes owner of 50 per cent of Eidsiva Energi.
- Hafslund E-CO received NOK 4 083 million in cash from Eidsiva Energi
- Hafslund E-CO, via its subsidiary Eidsiva Vannkraft AS, issued a subordinated loan of NOK 1,917 million with Eidsiva Energi as the lender.

**DISPOSED OF**

- Hafslund Nett<sup>2</sup> has been transferred to Eidsiva Energi and ceases to be a subsidiary of the Hafslund E-CO Group.
- Eidsiva Energi becomes owner 42.8 per cent of E-CO Energi<sup>3</sup>.

The Group structure after the transaction is as follows (simplified presentation):



<sup>1</sup>Eidsiva Vannkraft AS changes its name to Hafslund E-CO Vannkraft Innlandet AS after 31 December 2019.  
<sup>2</sup>Hafslund Nett AS merged with Eidsiva Nett AS as of 1 Januar 2020. The merged grid company's name is Elvia AS.  
<sup>3</sup>E-CO Energi AS changes its name to Hafslund E-CO Vannkraft AS after 31 December 2019.



**Note 1.5 Transaction with Eidsiva Energi** *(cont.)*

Hafslund Nett has, until the completion of the transaction, been a consolidated subsidiary of Hafslund E-CO, and results for Hafslund Nett in the period 1 January to 30 September 2019 are therefore included in the Group's total profit and presented as discontinued operations. Following the transaction, Hafslund Nett, through a 50 per cent ownership interest in Eidsiva Energi and joint control is included as an investment that is accounted for according to the equity method in Hafslund E-CO's consolidated financial statements.

Hafslund E-CO's total ownership in E-CO Energi after the transaction is 78.6 per cent (57.2 per cent directly and 21.4 per cent indirectly through the ownership of Eidsiva Energi).

**Consideration in the transaction**

The transaction with Eidsiva is a swap of assets transaction with cross ownership between the parties. The consideration paid and received in the transaction consists of shares, subordinated loans and cash, and is based on estimated fair values.

The values of the shares exchanged in the transaction are determined as a result of valuations by both parties (Hafslund E-CO and Eidsiva). External advisors are used to assist in the value estimation. The shares that are exchanged are not listed and therefore have no observable market value. Therefore, valuation models based on discounted cash flows have been used. The valuations are based on the method, estimates and assumptions set by Hafslund E-CO and Eidsiva Energi.

Fair value estimation involves inherent uncertainty. There is no contingent consideration in the transaction with Eidsiva Energi.

**Costs related to the transaction**

The Group incurred costs of NOK 44 million. These costs have been included in other operating costs in the consolidated statement of comprehensive income.

**Acquisition of 100 per cent of Eidsiva Vannkraft**

On 30 September 2019 (the acquisition date), Hafslund E-CO acquired through its subsidiary E-CO Energi 100 per cent of the shares in Eidsiva Vannkraft from Eidsiva Energi, and at the same time gained control of the company.

Eidsiva Vannkraft owns power production in wholly owned and partially owned hydropower plants in Hedmark, Oppland and Sør-Trøndelag as well as two wind turbines. The acquisition of Eidsiva Vannkraft was part of a major asset swap transaction, as described above. The transaction is a business combination that is accounted for using the acquisition method.

At the time of the acquisition of Eidsiva Vannkraft, the Group also acquired 38.6 per cent of Oppland Energi AS, which was already recognised as a subsidiary of the Hafslund E-CO Group (pre-transaction ownership: 61.4 per cent). The consideration relating to the acquisition of Oppland Energi is the acquisition of a non-controlling interest. This part of the transaction is therefore accounted for as an equity transaction that does not affect the book value of the assets and liabilities of Oppland Energi in the consolidated financial statements.

### Note 1.5 Transaction with Eidsiva Energi (cont.)

Eidsiva Vannkraft is accounting wise part of the Hafslund E-CO Group from the date of acquisition, 30 September 2019, and has contributed revenue of NOK 262 million and profit before tax of NOK 134 million for the period 30 September to 31 December 2019. The profit contribution from Eidsiva Vannkraft is without results from Oppland Energi, which was consolidated before the acquisition.

If the acquisition of Eidsiva Vannkraft had occurred on 1 January 2019, the Group's consolidated pro-forma revenue and profit before tax would have been NOK 6.2 billion and NOK 4.3 billion respectively for continuing operations. These amounts have been calculated using Eidsiva Vannkraft's results, with the following adjustments:

- Elimination of results from Oppland Energi which, in Eidsiva Vannkraft, is accounted for using the equity method and which is already included in the Group's results as it has been a subsidiary throughout the reporting and comparative period.
- Depreciation of identified excess for the period 1 January to 30 September.

#### *The consideration*

The fair value of the consideration transferred was NOK 13,629 million, including consideration for the non-controlling interest in Oppland Energi.

There are no contingent considerations in the transaction with Eidsiva Energi.

#### *Identifiable assets and liabilities assumed*

The following table summarises the recognised amounts of assets acquired and liabilities assumed at the date of acquisition.

NOK million	Note	30.09.2019
<b>IDENTIFIABLE ASSETS ACQUIRED AND LIABILITIES ASSUMED</b>		
Power stations and dam facilities	3.1	6 482
Waterfall rights	3.2	4 432
Facilities under construction	3.1	363
Other non-current assets		783
Cash and cash equivalents		194
Current assets		129
Non-current liabilities		-498
Deferred taxes	6.1	-1 309
Current liabilities		-363
<b>Total identifiable assets acquired and liabilities assumed</b>		<b>10 213</b>
Deferred taxes	6.1	-3 251
Goodwill as a result of deferred taxes	3.2	3 251

The main assets acquired in the transaction are power stations, dams and waterfall rights. The Group has taken over 38 power plants and a calculation of fair value/company values has been carried out for each power plant in order to arrive at the fair value of assets and liabilities acquired.

The fair value of the waterfall rights is estimated as the difference between the fair value of the consideration and the fair value of other identified intangible and tangible assets. Since it is not possible to estimate cash flows only related to the waterfall rights/concessions, the value is estimated as the residual value after deducting other identified assets from the total value of each CGU (cash generating unit). Please see note 3.3 Impairment testing for discussion of CGUs.

## Note 1.5 Transaction with Eidsiva Energi *(cont.)*

### Goodwill/deferred tax

Goodwill in the transaction is related to deferred taxes, which is calculated by using an effective tax rate (including resource rent tax) of 55.8 per cent.

### Transfer of 100 per cent of Hafslund Nett - discontinued operations

As part of the transaction, the Group transferred its grid business, Hafslund Nett AS (the "grid business"), to Eidsiva Energi AS as of 30 September 2019. The grid business was transferred free of external debt, with the exception of working capital.

The grid business was transferred to Eidsiva Energi against Hafslund E-CO receiving 50 per cent of the shares in Eidsiva Energi. The ownership of Eidsiva Energi is thus a joint venture with Innlandet Energi AS and the Åmot municipality, which together own the remaining 50 per cent in Eidsiva Energi. As the Group, through its ownership of Eidsiva Energi, continues to own 50 per cent of Hafslund Nett, 50 per cent of the accounting gain from the asset transfer is recognised as part of comprehensive income, which is the part of the asset transfer that is considered realised for the Group. The gain from the asset transfer of the grid business is NOK 8.7 billion, of which NOK 4.35 billion has been recognised in the line item Gain from sale of the grid business in the consolidated statement of comprehensive income.

The results of the grid business are presented in a separate column in the consolidated statement of comprehensive income as "discontinued operations". Comparative figures are presented accordingly.

Following the transaction, Hafslund Nett is no longer a subsidiary, but an investment owned through the joint venture Eidsiva Energi AS. The part of Hafslund Nett that the Group still owns through the

ownership of Eidsiva Energi is accounted for at continuity values in the consolidated financial statements.

### Transfer of 42.8 per cent of E-CO Energi

As part of the transaction, Eidsiva Energi acquired 42.8 per cent of the shares in E-CO Energi and thus became a non-controlling owner in E-CO Energi. The transfer is an equity transaction that causes Eidsiva Energi to be allocated a share of equity that applies to E-CO Energi. The Group uses the so-called "look-through approach" when calculating non-controlling interests. This means that non-controlling interests, i.e. Eidsiva Energi's interests in E-CO Energi, are calculated at 21.4 per cent. The calculation of non-controlling interests and the accounting for the ownership in Eidsiva Energi under the equity method and applying the "look-through approach" is discussed in note 8.2 Non-controlling interests and note 3.5 Equity-accounted investees, respectively.

### Acquisition of 50 per cent of Eidsiva Energi

The Group acquired 50 per cent of Eidsiva Energi through a private placement in connection with the integration and establishes joint control of the company together with Innlandet Energi (Eidsiva Energi's owners in Hedmark and Oppland) and Åmot municipality, which owns 49.4055 per cent and 0.5945 per cent respectively in Eidsiva Energi.

Eidsiva Energi owns Norway's largest grid company, Elvia, with about 900,000 customers, in addition to businesses operating within bioenergy, broadband and power sales.

The ownership is accounted for using the equity method and the Group uses the so-called "look-through approach" which means that it adjusts for indirect ownership of already consolidated companies. Please see note 3.5 Equity-accounted investees for further discussion.

## Note 2.1 Revenues and other income

### Key accounting policies

The Group's revenue mainly comprise revenue from sales from power in the wholesale market. The main principles for accounting for income from Hafslund E-CO's revenue streams are described below.

### Revenue

#### *Power revenue*

Produced power is mainly sold via the Nord Pool Spot exchange and by bilateral agreement to Fortum Hedging AS.

The performance obligation is mainly power and the transaction price is the consideration the Group expects to receive, at either spot price, regulated price or contractual price. The performance obligation is fulfilled over time, which means that the revenue is recognised for each unit delivered, at transaction price. Hafslund E-CO a practical approach in accordance with IFRS 15 where power revenue is accounted for at the amount that the entity is entitled to invoice. The right to invoice arises when the power is produced and delivered, and the right to invoice the will normally correspond directly to the value for the customer.

The Group takes the view that the exchange (Nord Pool) should be regarded as a customer since the Group has an enforceable contract with Nord Pool AS. The same applies to Fortum Hedging AS.

As a principal rule, power revenue from own production is generally presented as gross revenue in profit or loss. Purchases are recognised as gross cost of sales if purchases and sales are administered

independently, are designated gross on Nord Pool and the purchase is within the Group's commercial needs for purchases of power as part of the Group's ordinary activities. In addition, Hafslund E-CO has entered into bilateral agreements for the sale of power to industrial companies. These contracts are recognised under the same principles as other power sales.

### Concessionary power

The Group is obliged to deliver concessionary power to municipalities and county authorities at either a regulated OED (Ministry of Petroleum and Energy) price or an estimated full cost. Hafslund E-CO does not consider revenue from delivery of concessionary power to derive from a customer contract as defined in IFRS 15 but applies the same principles in IFRS 15 by analogy and therefore also presents revenue from the sale of concessionary power as sales revenue.

### Other gain/loss

#### *Power derivatives*

E-CO Energi uses power price derivatives and foreign currency derivatives to hedge future sales revenue. The Group does not apply hedge accounting for hedging of power revenue. Realised and unrealised value changes related to derivatives for financial hedging of future sales revenue is recognised and presented as Other gain/loss. Also please see note 5.1 Financial instruments and note 5.6 Derivatives and hedging.

#### *Power contracts*

The Group has a financial power contract to compensate for lost production. Value adjustments of the power contract are presented as Other gain/loss.

## Note 2.1 Revenues and other income (cont.)

NOK million	2019	2018
<b>REVENUES AND OTHER INCOME</b>		
Power revenue	5 220	5 800
Concessionary power	94	78
Grid rental/actual revenue	65	51
Industrial contracts	50	-
<b>Sales revenue</b>	<b>5 429</b>	<b>5 929</b>
Realised gains/losses power derivatives	39	-364
Unrealised gains/losses power derivatives	638	-376
Value adjustments power contracts	-13	-
<b>Other gains/ losses</b>	<b>664</b>	<b>-741</b>
Other operating income	40	27
<b>Other operating income</b>	<b>40</b>	<b>27</b>
<b>Revenues and other income</b>	<b>6 133</b>	<b>5 215</b>

Due to the nature of the business, the Group does not have contract balances of significance as spot contracts are settled daily.

The Group did not have any remaining performance obligations as of 31 December 2019.

Performance obligations and principles for revenue recognition:

Performance obligation	Revenue recognition principle
Power revenue	Based on the right to invoice the customer (at the time of delivery)

## Note 2.2 Energy purchases and transmission costs

NOK million	2019	2018
<b>ENERGY PURCHASES AND TRANSMISSION EXPENSES</b>		
Energy purchases	12	62
Transmission costs	221	241
<b>Energy purchases and transmission costs</b>	<b>234</b>	<b>303</b>

Transmission costs primarily relate to feed-in costs to the transmission grid.

## Note 2.3 Salaries and other personnel costs

NOK million	2019	2018
<b>SALARIES AND OTHER PERSONNEL COSTS</b>		
Wages and salaries	271	221
Employers' national insurance contributions	41	30
Pension costs	-54	16
Other personnel costs	27	1
<b>Salaries and other personnel costs</b>	<b>285</b>	<b>268</b>
Average number of full-time equivalents employed in the Group	247	216

Pension costs are discussed in more detail in note 7.2 Pensions.

## Note 2.4 Property tax and other costs and compensations

### Key accounting policies

#### Property tax

Property tax is classified and recognised under operating expenses in the income statement in the year it is levied.

#### Licence fees

License fees are paid annually to the government and local authorities for the right to use waterfalls. Such fees are recognised as costs in the period to which they relate. Please see note 4.1 Other liabilities and obligations for a more detailed description of power obligations.

NOK million	2019	2018
<b>PROPERTY TAX AND OTHER IMPOSED COSTS AND COMPENSATIONS</b>		
Property tax	188	223
License fees	99	89
Regulation costs and other compensations	218	64
<b>Property tax and other imposed costs and compensations</b>	<b>505</b>	<b>376</b>

Property tax is calculated based on valuations determined in accordance with Section 8 of the Norwegian Property Tax Act. The tax rate is a maximum of 0.7 per cent.

## Note 2.5 Other operating costs

NOK million	2019	2018
<b>OTHER OPERATING COSTS</b>		
Maintenance	114	205
Purchase of external services	149	50
Office expenses	51	35
Insurance	26	25
Sales and marketing expenses	7	6
Loss on receivables	-4	-
Reimbursement of operating expenses from part- owners	-72	-91
Other items	130	35
<b>Other operating costs</b>	<b>401</b>	<b>265</b>
<b>AUDITOR'S FEES (NOK'000)</b>		
Mandatory audit	3 062	2 533
Other assurance services	389	56
Tax consultancy services	239	663
Other non-audit fees	807	3 348
<b>Total auditor's fees</b>	<b>4 497</b>	<b>6 600</b>

The breakdown includes auditor's audit fee for the entire Group. Other advisory services include assistance in connection with the transaction with Eidsiva in 2019 and the establishment of the Hafslund E-CO Group and related affairs in 2018. Of the total audit fees for 2019, NOK 70 thousand is related to audit performed by EY and the remaining part from PwC. Value added tax is not included in the fee specification.

## Note 3.1 Property, plant and equipment

### Key accounting policies

Property, plant and equipment is measured at cost less accumulated depreciation and impairment. Depreciation starts when the asset is completed and available for use. Facilities under construction are reclassified to power stations and dam facilities after successful test operation, which is the time when the asset is considered available for use.

The cost of property, plant and equipment is the purchase price, including levies/taxes and costs directly related to making the asset available for use.

Borrowing costs attributable to procurement, design or production of a qualifying assets are added to the cost. A qualifying asset is an asset that requires a long time to be prepared for its intended use or sale, for example a hydropower plant.

Expenses incurred after an operating asset has been taken into use, such as ongoing maintenance, are recognised in profit or loss, while other expenses (periodic maintenance) that are expected to generate future economic benefits are capitalised. The carrying amount of replaced parts is deducted and recognised in profit or loss.

The depreciation method and period are assessed annually, and any changes are recognised as change in estimate.

For details of impairment policies for property, plant and equipment, please see note 3.3 Impairment testing.

### Key estimates and assumptions

Property, plant and equipment is depreciated over the asset's expected useful life. Expected useful lives are estimated based on experience, history and discretionary judgements relating to technical use and profitability and are adjusted to reflect any changes in expectations. Residual value is taken into account in determining depreciation, and assessment of residual value is also subject to estimates.

Provisions are not recognised for asset retirement obligations since there is no right of reversion to state ownership for the Group's hydro-power plants.

### Note 3.1 Property, plant and equipment (cont.)

NOK million	Power stations and dam facilities	Networks	Technical equipment and chattels	Other property	Facilities under construction	Property, plant and equipment
<b>YEAR ENDED 2018</b>						
Balance at 1 January	10 661	9 634	1 241	102	2 593	24 230
Operating investments	665	837	819	83	-171	2 233
Acquisition and disposal of business	-3	-8	-3	34	-	21
Depreciation for the year	-360	-510	-219	-3	-	-1 091
Impairment for the year	-	-	-	-	-	-
Other items	76	-	-12	-95	8	-23
<b>Balance at 31 December</b>	<b>11 039</b>	<b>9 953</b>	<b>1 827</b>	<b>120</b>	<b>2 430</b>	<b>25 370</b>
<b>At 31 December 2018</b>						
Cost	20 995	18 269	2 849	304	2 430	44 847
Accumulated depreciation	-9 956	-8 316	-1 023	-183	-	-19 478
Accumulated impairment	-	-	-	-	-	-
<b>Balance at 31 December</b>	<b>11 039</b>	<b>9 953</b>	<b>1 827</b>	<b>120</b>	<b>2 430</b>	<b>25 370</b>

### Note 3.1 Property, plant and equipment (cont.)

NOK million	Power stations and dam facilities	Networks	Technical equipment and chattels	Other property	Facilities under construction	Property, plant and equipment
<b>YEAR ENDED 2019</b>						
Balance at 1 January	11 039	9 953	1 827	120	2 430	25 370
Operating investments	1 063	318	147	11	248	1 787
Sale of Hafslund Nett	-	-9 915	-1 757	-7	-1 644	-13 323
Acquisition of Eidsiva Vannkraft	4 716	-	1 724	41	363	6 844
Depreciation for the year	-374	-377	-177	-4	-	-932
Impairment for the year	-	-16	-	-	-	-16
Other items	-32	37	9	121	-45	90
<b>Balance at 31 December</b>	<b>16 413</b>	<b>-</b>	<b>1 772</b>	<b>282</b>	<b>1 352</b>	<b>19 819</b>
<b>At 31 December 2019</b>						
Cost	27 677	36	1 873	337	1 352	31 275
Accumulated depreciation	-11 138	-36	-101	-55	-	-11 330
Accumulated impairment	-126	-	-	-	-	-126
<b>Balance at 31 December</b>	<b>16 413</b>	<b>-</b>	<b>1 772</b>	<b>282</b>	<b>1 352</b>	<b>19 819</b>
<b>Depreciation period (number of years)</b>	4-100	10-50	3-30	100/ No depreciation	No depreciation	

#### Discussion of key matters

The table above also includes shareholdings in facilities that are owned through joint operations. Details of joint operations are given in note 3.6 Jointly controlled operations and joint operations.

In 2019, Hafslund E-CO has capitalised borrowing costs of NOK 35 million for qualifying assets (NOK 63 million). The average interest rate on borrowings has been applied to calculate the capitalised borrowing costs.

The transaction with Eidsiva Energi has resulted in the Group disposing of networks and other operating assets and acquiring power stations and dam facilities as well as other operating assets.

## Note 3.2 Intangible assets and goodwill

### Key accounting policies

Intangible assets, which in Hafslund E-CO consist of waterfall rights and goodwill, are recognised at cost. Goodwill and intangible assets with an indefinite useful life are not amortised but tested for impairment each year.

For details of principles relating to impairment of intangible assets and goodwill, please see Note 3.3 Impairment testing.

### Key estimates and assumptions

The hydropower business has perpetual licences (no right of reversion to state ownership). Purchased waterfall rights are therefore deemed to be perpetual and are not amortised. The rights are classified as intangible assets since the Group takes the view that acquired waterfalls do not have physical substance but that the Group has paid for the right to utilise future precipitation and snow melt to generate power.

### Discussion of key matters

The additions to waterfall rights and goodwill in 2019 is primarily related to the acquisition of Eidsiva Vannkraft in connection with the transaction with Eidsiva Energi. The transaction is discussed in note 1.5.

NOK million	Waterfall rights	Goodwill	Intangible assets
<b>2018</b>			
Balance at 1 January	12 350	3 540	15 890
Additions	564	-	564
Other items	-	20	20
<b>Balance at 31 December</b>	<b>12 914</b>	<b>3 560</b>	<b>16 475</b>
<b>At 31 December</b>			
Cost	12 914	3 560	16 475
Accumulated amortisation	-	-	-
Accumulated impairment	-	-	-
<b>Balance at 31 December</b>	<b>12 914</b>	<b>3 560</b>	<b>16 475</b>
<b>2019</b>			
Balance at 1 January	12 914	3 560	16 475
Additions	4 432	3 274	7 706
Transfer from property, plant and equipment	25	-	25
Disposals	-	-623	-623
Amortisation	-3	-	-3
<b>Balance at 31 December</b>	<b>17 368</b>	<b>6 211</b>	<b>23 579</b>
<b>At 31 December</b>			
Cost	17 371	6 211	23 582
Accumulated amortisation	-3	-	-3
<b>Balance at 31 December</b>	<b>17 368</b>	<b>6 211</b>	<b>23 579</b>

## Note 3.3 Impairment testing

### Significant accounting policies

Property, plant and equipment, intangible assets, goodwill and equity accounted investees are monitored on an ongoing basis for indications of possible impairment. Cash-generating units with intangible assets with an indefinite useful economic life and goodwill are considered for indications of impairment semi-annually. In the case of indications of impairment, impairment tests are carried out immediately. If the impairment tests indicate that the balance sheet values are no longer justifiable, impairments are taken to the recoverable amounts. Impairment tests are carried out when cash flows related to the cash-generating units are identified and discounted by using a risk-adjusted, market-related required rate of return.

In considering impairment, fixed assets are grouped into cash-generating units (CGUs) which is the lowest level where it is possible to distinguish independent incoming cash flows.

Equity accounted investees are tested for impairment when there are indications of impairment. Investments are impaired if the recoverable amount, estimated as the higher of the fair value less selling costs or the value in use, is lower than the capitalised value.

At each reporting date, assessments are made for the potential reversal of earlier impairments on property, plant and equipment.

Impairments of goodwill are not reversed.

### Significant estimates and assumptions

#### *Cash-generating units*

*Power production:* The Group has defined the power plant as the lowest level of cash-generating units, except for the power plants that are operated together and with magazines in the same watercourse.

#### *Equity accounted investees:*

Each investment is a CGU. The 50 per cent share in Eidsiva Energi acquired in the transaction September 30th 2019 is the material investment in this category.

#### *Uncertainty regarding estimates*

The Group has significant property, plant and equipment and intangible assets which consist of power plants, dams, waterfall rights and goodwill. There is uncertainty regarding estimates related to Property, plant and equipment and Intangible assets, since both valuation and estimated useful life of assets are based on future information that is encumbered by a high degree of uncertainty. Intangible assets are considered to represent the greatest uncertainty. The value of the intangible assets is mainly derived from separate valuations and is generally capitalised in connection with business combinations.

The Group's cash-generating units are tested for impairment annually. At the end of each reporting period (semi-annually) the Group considers whether there are indications of possible impairment. Where possible impairment is indicated, impairment tests are carried out.

Whether or not these are indicators that may indicate a need for impairment is a discretionary assessment. Typical indicators of impairment

### Note 3.3 Impairment testing *(cont.)*

may, for example, be changes in market prices, agreements, negative events or other operational conditions.

The calculation of value in use is based on several discretionary assessments and assumptions pertaining to future cash flows, where future power prices, production volumes and the discount rate are critical factors.

#### ***Budget and forecast assumptions***

The impairment tests performed were based on the budget for 2020. In order to estimate revenue for the power production the first five years are based on observable market prices (forward curve from Nasdaq), and from then on a price curve based on the Group's expectations on long-term power prices has been used. The estimated price curve has been benchmarked against price curves from external parties (MarkedsKraft Low). The production volumes are based on the Group's long-term production plans. The projected cash flows are calculated after tax.

#### ***Discount rate***

The discount rate for power production is the Group's nominal after tax discount rate of 4.9 per cent.

#### ***Results***

The impairment tests performed showed that the balance sheet values for property, plant and equipment, waterfall rights and goodwill are justifiable. A sensitivity test was performed on the most critical variables, for example the increase in the discount rate of 1 per centage point and a negative shift in the applied price curve. The Group shows good robustness in the performed sensitivity analysis.

The equity-accounted investees mainly consist of the 50 per cent share in Eidsiva Energi, which was recognised at fair value per September 30th 2019. Per year end 2019 no indications of impairment have been identified for this investment.

The table below shows capitalised amounts per year end 2019:

NOK million	31.12.2019
Property, plant and equipment	19 819
Goodwill	6 211
Waterfall rights	17 368
Right-of-use assets	69
Equity-accounted investees	16 877
<b>Sum recognised value of tested assets</b>	<b>60 344</b>

## Note 3.4 Leases

### Implementation of IFRS 16 and impact on the consolidated financial statements

Hafslund E-CO rents a power station, office space and other operating equipment.

Implementation of IFRS 16 entails the recognition of right-of-use assets and lease liabilities and has not had a significant effect on Hafslund E-CO's consolidated financial statements. The Group has used the modified retrospective transition method, whereby the total effect of the initial application of IFRS 16 is adjusted against retained earnings as of 1 January 2019. Comparative figures have not changed as a result of the transition to IFRS 16 using this method. Some leases are recognised at a calculated value as if IFRS 16 has always been used. For the other leases, the right-of-use asset is recognised at the value of the lease liability as of 1 January 2019.

The implementation of IFRS 16 had the following effect on the consolidated financial statements as of 1 January 2019:

NOK million	Total	Of which continuing business
<b>IMPLEMENTATION EFFECT 1 JANUAR 2019</b>		
Right-of-use assets	990	16
Deferred tax asset	52	1
<b>Total assets</b>	<b>1 043</b>	<b>16</b>
Lease liabilities	1 229	19
Equity	-186	-2
<b>Total equity and liabilities</b>	<b>1 043</b>	<b>16</b>

The implementation effect mainly concerned Hafslund Nett, which was disposed of in connection with the transaction with Eidsiva Energi on 30 September 2019. The implementation effect for continuing operations is shown in a separate column in the table above.

Movements in right-of-use assets and lease liabilities in 2019 are summarized in the table below.

NOK million	1 January 2019	Acquisition of Eidsiva Vannkraft 30 September 2019	Other changes in 2019	31 December 2019
Right-of-use assets continuing business	16	58	-5	69
Lease liabilities continuing business	19	59	-7	70

The change in right-of-use assets and lease liabilities mainly applies to leases in Eidsiva Vannkraft that were acquired in connection with the transaction with Eidsiva Energi on 30 September 2019. For further discussion of the transaction, please see note 1.5 Transaction with Eidsiva Energi.

## Note 3.5 Equity-accounted investees

### Key accounting policies

The Group's equity accounted investees are associates and joint ventures. Associates are entities over which Hafslund E-CO has significant influence, but not control. Significant influence will generally exist when the Group has a shareholding of between 20 and 50 per cent of the voting rights. Joint ventures are entities where Hafslund E-CO has joint control with one or more other owners. Associates and joint ventures are accounted for using the equity method in the consolidated financial statements.

The Group has 50 per cent ownership in the joint venture Eidsiva Energi and has two subsidiaries where a proportion of the subsidiaries is owned through the joint venture. The Group has chosen to apply the so-called "look-through approach" when calculating non-controlling interests (please see note 8.2 Non-controlling interests) and the recognition of the share of profit from the subsidiaries coming from the joint venture is treated consistently with this approach. This means that the share of profit that applies to these subsidiaries is eliminated before the share of profit from the joint venture is included in the consolidated financial statements. Hafslund E-CO believes that the "look-through approach" gives a more accurate picture of the Group's results and financial position, since under this double counting of results of subsidiaries where the joint venture has ownership interests is avoided. The ownership of Eidsiva Energi was established in connection with the integration of the operations of Hafslund E-CO and Eidsiva on 30 September 2019. Please see note 1.5 Transaction with Eidsiva Energi for further description of the transaction. Hafslund E-CO transferred its subsidiary Hafslund

Nett to Eidsiva Energi and received shares in Eidsiva Energi. As the Group continues to own Hafslund Nett indirectly through its ownership of Eidsiva Energi, 50 per cent of the gain from the sale is not recognised in the consolidated total comprehensive income but eliminated against the consideration for the ownership interest in Eidsiva Energi.

### Key estimates and assumptions

Based on an overall assessment considering size and complexity, Eidsiva Energi AS and Fredrikstad Energi AS are considered to be a significant joint venture and associate, respectively. None of the Group's associates or the joint venture are listed or has observable market values.

### Note 3.5 Equity-accounted investees (cont.)

Company name	Acquisition date	Registered office	Share-holding	Voting rights	Type of investment	Included in balance at	
						31.12.2019	31.12.2018
Eidsiva Energi AS	2019	Hamar	50 %	50 %	Joint venture	x	
Rakkestad Energi AS	2001	Rakkestad	33 %	33 %	Associate		x
Trøgstad Energiverk AS	2014	Trøgstad	49 %	49 %	Associate		x
Kraftcert AS	2014	Lysaker	33 %	33 %	Associate		x
Fredrikstad Energi AS	2014	Fredrikstad	49 %	49 %	Associate	x	x
Energy Future Invest AS	2012	Gjøvik	50 %	50 %	Associate		x
NGK Utbygging	2014	Oslo	25 %	25 %	Associate	x	x
Glomma og Laagens Brukseierforening	1918	Lillehammer		26,9 %	Associate		x
NorthConnect AS	2010	Kristiansand	22 %	22 %	Associate	x	x
North Connect KS	2011	Kristiansand	20 %	20 %	Associate	x	x
Raskiftet Vindkraft DA	2019	Trysil/Åmot	20 %	20 %	Associate	x	
Austri Kjølberget DA	2019	Våler	20 %	20 %	Associate	x	

#### 2019

NOK million	Eidsiva Energi AS	Fredrikstad Energi AS	Other	Total
<b>BALANCE AT 1 JANUARY 2019</b>	-	<b>220</b>	<b>196</b>	<b>416</b>
Share of profit after tax	95	-3	-11	80
Depreciation excess values	-7	-	-1	-8
Equity accounted investees' share of OCI	50	-	-	50
Additions/disposals	16 038	-	311	16 349
Other equity changes	-	44	-55	-10
<b>Balance at 31 December 2019</b>	<b>16 176</b>	<b>261</b>	<b>440</b>	<b>16 877</b>

#### 2018

NOK million	Fredrikstad Energi AS	Other	Total
<b>BALANCE AT 1 JANUARY 2018</b>	<b>189</b>	<b>128</b>	<b>317</b>
Reclassification <sup>1</sup>	-	69	69
Share of profit after tax	-17	-18	-36
Depreciation excess values	9	-1	8
Additions/disposals	-	19	19
Other equity changes	40	-1	39
<b>Balance at 31 December 2018</b>	<b>220</b>	<b>196</b>	<b>416</b>

Eidsiva Energi AS is one of Norway's largest regional energy and broadband groups, with operations primarily in Innlandet (previous Hedmark and Oppland County). Following the integration with Hafslund E-CO, the company owns 42.8 per cent of E-CO Energi and is the owner of Norway's largest grid business. The head office is in Hamar. The company is owned by Hafslund E-CO (50 per cent), Innlandet Energi (49.4 per cent) and Åmot municipality (0.6 per cent).

Fredrikstad Energi AS is a Norwegian energy group with operations that mainly include the construction, operation and maintenance of grids and sales of energy, mainly in local markets. Fredrikstad Energi AS is headquartered in Fredrikstad.

<sup>1</sup>Holdings in Glomma og Laagens Brukseierforening and NorthConnect were in 2017 classified as joint operations and financial asset, respectively

## Note 3.6 Joint arrangements and joint operations

### Significant accounting policies

The Group co-operates with other parties in the development and operation of power plants which are arranged as either a company with divided liability or as a co-ownership. These joint arrangements are split between joint ventures, joint operations and joint operations without joint control. For the two latter arrangements the owner companies are entitled to dispose of their relative share of the power production after the deduction of commitments to deliver concessionary power.

#### Joint arrangements

A joint arrangement is an arrangement where two or more parties have joint control. Joint control is present when decisions about relevant activities require unanimity between the parties that share control. Investments in joint arrangements are classified as either joint operations or joint ventures. Joint ventures are arrangements where the joint venturers are entitled to the net assets and dividends of the arrangement instead of rights to dispose of their share of the power production and the obligation to cover a share of the costs. Joint ventures are accounted for using the equity method, please see note 3.5.

Joint operations are arrangements under which the joint operators have rights to the assets and a responsibility for the obligations, and the right to dispose of their share of the power production and the obligation to cover a share of the costs. For joint operations the Group accounts for its interest in the arrangement's assets, liabilities, revenues and costs. The Group's interest coincides with the share in all cases.

#### Joint operations without joint control

Some power plants are organised as either a company with divided liability or as a co-ownership without joint control. Ownership in these power plants entails that the Group has the right to dispose its share of the power production and an obligation to cover its share of the costs and owns a share in the assets and a share of the liabilities. Joint operations without joint control are accounted for in the same manner as joint operations.

### Significant estimates and assumptions

The Group considers the rights and obligations that arise from each arrangement and especially evaluates if there is either a net dividend or an entitlement to a share of the power production and an obligation to cover a share of the costs. The Group also considers joint control and unanimity. The considerations sometimes require judgement and the interpretation of underlying agreements, but the Group also considers how the arrangements are operated in practice.

### Note 3.6 Joint arrangements and joint operations (cont.)

The Group has an interest in the following joint operations and joint operations without joint control:

Company name	Classification	Registered office	Shareholding	Voting rights
Foreningen til Hallingdalsvassdragets regulering	Joint operations w/o joint control	Oslo		73,5 %
Glommens og Laagens Brukseierforening	Joint operations w/o joint control	Lillehammer		70,0 %
Forening til Bægnavassdragets regulering	Joint operations w/o joint control	Hønefoss		38,3 %
Vinstra Kraftselskap DA	Joint operations w/o joint control	Lillehammer	95,0 %	
Aurlandsverkene	Joint operations w/o joint control	Oslo	93,0 %	
Storbrofoss Kraftanlegg DA <sup>1</sup>	Joint operations	Lillehammer	80,0 %	
Opplandskraft DA	Joint operations w/o joint control	Lillehammer	75,0 %	
Rosten Kraftverk	Joint operations w/o joint control	Lillehammer	72,0 %	
Lya Kraftverk	Joint operations w/o joint control	Oslo	70,0 %	
Solbergfoss	Joint operations	Oslo	66,7 %	
Usta Kraftverk	Joint operations w/o joint control	Oslo	57,1 %	
Nes Kraftverk	Joint operations w/o joint control	Oslo	57,1 %	
Øvre Otta DA	Joint operations	Lillehammer	55,0 %	
Sarp Kraftverk	Joint operations	Sarpsborg	50,0 %	
Nedre Otta DA	Joint operations	Lillehammer	50,0 %	
Embretsfosskraftverkene DA	Joint operations	Drammen	50,0 %	
Kraftverkene i Orkla	Joint operations w/o joint control	Rennebu	12,0 %	
Uvdalsverkene	Joint operations w/o joint control	Porsgrunn	10,0 %	

<sup>1</sup>The Group has a 80 per cent ownership in Storbrofoss Kraftanlegg DA, but has rights to 100 per cent by agreement until 2050. Storbrofoss Kraftanlegg has a 20 per cent ownership in Bagn Kraftverk DA

## Note 4.1 Other liabilities and obligations

### Significant accounting policies

#### *Liabilities to the land owner*

Under various agreements, the Group is obliged to pay compensation and supply free power to land owners as compensation for the inconvenience of having their waterfall used and providing space for hydropower production. The liabilities for annual compensation and free power are classified as non-current liabilities under the line item Other liabilities and obligations. The contra entry is waterfall rights, which are classified as intangible assets. The asset is not depreciated if there is no right of reversion and the asset is considered perpetual.

#### *Free power – agreement on net financial settlements*

Free power agreements signed with land owners, which depend on the power price and are settled financially, are recognised at fair value with subsequent measurement at fair value through profit or loss.

#### *Free power – settled in kind*

The Group considers its contracts related to the physical delivery of free power to fall within the scope of the «own use» exception. The Group recognises a provision equal to the present value of the full cost.

#### *Cash compensations*

The Group treats perpetual cash compensations with regular CPI-adjusted annual amounts as financial liabilities that are recognised at fair value with subsequent measurement at amortised cost.

#### *Concessionary power*

The Group has been awarded perpetual licenses relating to the development and operation of hydropower plants and, as a result of this, the Group has annual obligations to supply concessionary power to municipalities and counties. Parts of the commitment are covered by physical deliveries, while parts have established a practice involving a financial settlement, where the Group pays the difference between the spot price and the concessionary power price to the party entitled to concessionary power. At the end of 2019, concessionary power supplied in return for financial consideration added up to a total volume of 38 GWh. Concessionary power is not recognised as a liability on the balance sheet.

#### *License fees*

License fees are not recognised as a liability on the balance sheet. Paid license fees are expensed as they accrue.

#### **Other liabilities**

Other liabilities are recognised at fair value with subsequent measurement at amortized cost.

## Note 4.1 Other liabilities and obligations (cont.)

NOK million	2019	2018
<b>FINANCIAL LIABILITIES TO LANDOWNERS</b>		
Free power - settled in cash	253	131
Cash compensation to landowners	1 417	1 105
<b>Financial liabilities to landowners</b>	<b>1 670</b>	<b>1 235</b>
<b>OTHER FINANCIAL LIABILITIES</b>		
Other financial liabilities	1	40
<b>Other financial liabilities</b>	<b>1</b>	<b>40</b>
<b>PROVISIONS FOR OBLIGATIONS TO LANDOWNERS</b>		
Free power - settled in kind	33	19
<b>Provisions for obligations to landowners</b>	<b>33</b>	<b>19</b>
<b>Other liabilities and obligations</b>	<b>1 704</b>	<b>1 294</b>

## Note 4.2 Guarantees

E-CO Energi AS has issued a surety guarantee for Eidsiva Vannkraft AS's timely fulfillment of all obligations under the agreement on subordinated loan from Eidsiva Energi AS of NOK 1,917 million. If interest rates are reduced (in the event that the annual result is not sufficient to pay the interest in full) to a greater extent than interest rates are reduced in accordance with the corresponding provision in the subordinated loan agreement between Hafslund E-CO AS and E-CO Energi AS, E-CO Energi AS shall compensate Eidsiva Energi AS so that interest rates are reduced proportionately in both loan conditions. Similarly, Eidsiva Energi AS undertakes to compensate Hafslund E-CO AS in the same way if interest payments in accordance with the loan agreement between Hafslund E-CO AS and E-CO Energi AS are reduced to a greater extent than in the loan agreement between Eidsiva Energi AS and Eidsiva Vannkraft AS. The purpose is to ensure that the lenders are treated equally under the two subordinated loan agreements.

The Group has issued a surety guarantee for an amount of EUR 1 million for its share of NorthConnect KS.

The Group purchases bank guarantees to secure certain liabilities. As of 31 December 2019, these guarantees amounted to NOK 5 million in employee tax deduction guarantees (NOK 26 million), NOK 0 million in rental guarantees (NOK 34 million) and NOK 0.2 million in contract and payment guarantees (NOK 1 million).

## Note 5.1 Financial instruments

### Key accounting policies

Financial instruments are recognised when the Group becomes party to the contractual terms of the instrument.

#### *Classification and measurement*

Financial assets and liabilities are classified into three categories: amortised cost, fair value through other comprehensive income and fair value through profit or loss. The classification is dependent on the method of initial recognition and the valuation is based on the Group's business model for management of its financial instruments and the characteristics of the cash flows for the individual financial instrument.

Financial instruments are not reclassified after initial recognition unless the Group changes its model for management of its financial assets.

#### *Amortised cost*

Financial assets that the Group holds to collect contractual cash flows are recognised at fair value and subsequently measured at amortised cost. The main instruments in this category are trade receivables, other receivables and bank deposits.

Financial liabilities are recognised at fair value and as a main rule subsequently measured at amortised cost. Financial liabilities such as CPI-adjusted cash compensations to land owners, trade payables, bond loans, commercial papers and other loans are classified as amortised cost.

#### *Fair value through other comprehensive income*

The Group has entered into combined interest and currency swaps to convert principal payments on loans in foreign currency to principal payments in NOK. The currency portion of the derivative is designated as a hedging instrument in a cash flow hedge, with changes in fair value through other comprehensive income to the extent that the hedge is effective. Hedge accounting is discussed in more detail in Note 5.6 Derivatives and hedging.

For financial liabilities, changes in fair value attributable to changes in inherent credit risk are recognised through other comprehensive income, while the remaining change in value is recognised through profit or loss.

#### *Fair value through profit or loss*

Financial assets that are neither measured at amortised cost nor at fair value through other comprehensive income are measured at fair value through profit or loss. This primarily applies to financial power contracts, power derivatives and currency futures.

Financial liabilities that are not classified at amortised cost or that are not designated as hedging instruments are initially recognised at fair value and subsequently at fair value through profit or loss. This mainly applies to land owner compensation dependent on power price, financial power contracts and currency futures that are liabilities in the balance sheet.

#### *Derecognition of financial instruments*

A financial asset is derecognised when the rights to receive cash flows

## Note 5.1 Financial instruments (cont.)

from the asset have expired, or the Group has transferred its rights to collect cash flows from the asset and the Group either has transferred all substantive risks and rewards relating to the instrument, or the Group has not transferred or retained all substantive risks and rewards relating to the instrument but has transferred control of the asset.

A financial liability is derecognised when it has been redeemed, cancelled or matures. When an existing financial liability is replaced by another liability to the same lender on materially different terms, or the provisions for an existing liability have changed significantly, this is treated as a cancellation of the original liability and a new liability is recognised. The difference between the carrying amounts is recognised in profit or loss.

### Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position when there is a legally enforceable right to offset, and there is an intention to settle the asset and liability net.

NOK million	Fair value through profit or loss	Fair value through OCI	Amortised cost	Total
<b>2019</b>				
<b>FINANCIAL ASSETS</b>				
Non-current receivables	337	3	381	721
Non-current derivatives	-	883	-	883
Current derivatives	45	-	-	45
Trade receivables	-	-	236	236
Other current receivables	-	-	108	108
Cash and cash equivalents	-	-	2 444	2 444
<b>Financial assets</b>	<b>382</b>	<b>886</b>	<b>3 169</b>	<b>4 437</b>
<b>FINANCIAL LIABILITIES</b>				
Current interest-bearing debt	-	-	701	701
Non-current interest-bearing debt	-	-	18 199	18 199
Current derivatives	28	-	-	28
Non-current derivatives	-	5	-	5
Other liabilities	253	-	1 417	1 670
Trade payables	-	-	366	366
Other current non interest-bearing liabilities	-	-	831	831
<b>Financial liabilities</b>	<b>281</b>	<b>5</b>	<b>21 514</b>	<b>21 800</b>

## Note 5.1 Financial instruments (cont.)

NOK million	Fair value through profit or loss	Fair value through OCI	Amortised cost	Total
<b>2018</b>				
<b>FINANCIAL ASSETS</b>				
Non-current receivables	50	-	786	836
Shares and other financial assets	2	-	200	202
Non-current derivatives	-	928	-	928
Current derivatives	1	-	-	1
Trade receivables	-	-	472	472
Other current receivables	-	-	1 186	1 186
Cash and cash equivalents	-	-	2 993	2 993
<b>Financial assets</b>	<b>53</b>	<b>928</b>	<b>5 638</b>	<b>6 619</b>
<b>FINANCIAL LIABILITIES</b>				
Current interest-bearing debt	818	-	2 234	3 052
Non-current interest-bearing debt	-	-	18 533	18 533
Current derivatives	350	-	-	350
Non-current derivatives	11	82	-	93
Other liabilities	131	-	1 144	1 275
Trade payables	-	-	395	395
Other current non interest-bearing liabilities	-	-	2 060	2 060
<b>Financial liabilities</b>	<b>1 310</b>	<b>82</b>	<b>24 366</b>	<b>25 758</b>

## Note 5.2 Interest-bearing debt

NOK million	Loan amounts	Currency	Due date	31.12.2019	31.12.2018
Bond issue in the Norwegian market	100	NOK	2019	-	100
Private placement in the American market	50	USD	2019	-	433
Bond issue in the Norwegian market	500	NOK	2019	-	500
Certificate in the Norwegian market	500	NOK	2019	-	500
Bond issue in the Norwegian market	500	NOK	2019	-	500
Bond issue in the Norwegian market	600	NOK	2019	-	600
Bond issue in the Norwegian market	305	NOK	2019	-	305
The Nordic Investment Bank	3 221	NOK	2020-2030	3 221	3 322
Certificate in the Norwegian market	600	NOK	2020	600	-
Bond issue in the Norwegian market	750	NOK	2020	-	750
Bond issue in the Norwegian market	300	NOK	2020	-	300
Bond issue in the Norwegian market	400	NOK	2020	-	400
Bond issue in the Norwegian market	750	NOK	2020	-	750
Bond issue in the Norwegian market	400	NOK	2022	400	400
Bond issue in the Norwegian market	500	NOK	2022	500	500
Private placement in the American market	75	USD	2023	659	649
Bond issue in the Norwegian market	300	NOK	2023	300	300
Bond issue in the Norwegian market	450	NOK	2024	450	450
Bond issue in the Norwegian market	293	NOK	2024	293	293
Private placement in the American market	290	NOK	2024	290	290
Private placement in the American market	25	USD	2026	220	216
Private placement in the American market	910	NOK	2027	910	910
Private placement in the Japanese market	5 000	JPY	2028	405	394
Bond issue in the Norwegian market	250	NOK	2029	250	250
Private placement in the Japanese market	5 000	JPY	2029	405	394
Private placement in the American market	723	NOK	2029	723	723

## Note 5.2 Interest-bearing debt (cont.)

NOK million	Loan amounts	Currency	Due date	31.12.2019	31.12.2018
Bond issue in the Norwegian market	200	NOK	2030	200	200
Loan from Eidsiva Vannkraft AS	96	NOK	2030	-	96
Bond issue in the Norwegian market	200	NOK	2031	200	200
Private placement in the American market	125	USD	2031	1 099	1 082
Private placement in the German market	30	EUR	2031	296	297
Private placement in the American market	848	NOK	2032	848	848
Private placement in the American market	600	NOK	2033	600	600
Subordinated loan the City of Oslo	2 347	NOK	2037	2 347	2 347
Subordinated loan Oslo Energi Holding AS (subsidiary of City of Oslo)	1 500	NOK	2037	1 500	1 500
Subordinated loan Eidsiva Energi AS	1 917	NOK	2039	1 917	-
<b>Interest-bearing debt translated to NOK</b>				<b>18 632</b>	<b>21 398</b>
Carrying amount of interest-bearing debt related to fair value hedges				268	172
Fair value adjustment loan portfolio				-	13
<b>Interest-bearing debt, balance at 31 December 2019</b>				<b>18 900</b>	<b>21 583</b>
Hereof current interest-bearing debt				701	3 052
Hereof non-current interest-bearing debt				18 199	18 533

## Note 5.2 Interest-bearing debt *(cont.)*

Loans denominated in foreign currency are hedged into NOK by entering into interest and currency swaps which exchange the principal payments in foreign currency to principal payments in NOK. The table above shows the value of the loan translated at the balance sheet rate, before the effect of interest and currency swaps.

As shown in the table above, the Group has two subordinated loans from the City of Oslo and Oslo Energi Holding AS (wholly owned by the City of Oslo) respectively. The Group also has a subordinated loan of NOK 1,917 million issued by its subsidiary Eidsiva Vannkraft to Eidsiva Energi. These loans are discussed in more detail in Note 5.4 Financial risk management and Note 9.1 Related party transactions.

NOK million	2019	2018
<b>CHANGES IN INTEREST-BEARING DEBT</b>		
<b>Current interest-bearing debt at 1 January</b>	<b>3 052</b>	<b>2 197</b>
Increase in current interest-bearing debt	1 100	1 800
Repayment of current interest-bearing debt	-3 552	-3 497
Transfer from non-current interest-bearing debt	101	2 552
<b>Current interest-bearing debt at 31 December</b>	<b>701</b>	<b>3 052</b>
<b>Non-current interest-bearing debt at 1 January</b>	<b>18 532</b>	<b>17 430</b>
Increase in non-current interest-bearing debt	1 917	3 700
Repayment of non-current interest-bearing debt	-2 296	-151
Transfer to current interest-bearing debt	-101	-2 552
The effect of currency fluctuations	51	189
Effect of fair value hedges	96	-43
Other changes	-	-41
<b>Non-current interest-bearing debt at 31 December</b>	<b>18 199</b>	<b>18 533</b>

### Note 5.3 Maturity structure, financial liabilities

The table shows undiscounted cash flows for each interval. The effect of combined interest rate and currency derivatives that swap principal payments in foreign currency to Norwegian kroner is included in the table regardless of whether the derivative is a liability or asset, so that the table net shows the principal amount actually paid in Norwegian kroner.

The maturities for land owner compensation and free power is not included in the table as these are primarily everlasting contracts.

NOK million	Within 12 months	1 to 3 years	3 to 5 years	More than 5 years	Total as of 31.12.2019
<b>FINANCIAL LIABILITIES RELATED TO DERIVATIVES</b>					
Interest and currency derivatives	-	-	-230	-411	-641
Currency futures	28	-	-	-	28
<b>Derivative financial liabilities</b>	<b>28</b>	<b>-</b>	<b>-230</b>	<b>-411</b>	<b>-613</b>
<b>OTHER FINANCIAL LIABILITIES</b>					
Non-current interest-bearing debt	-	1 460	2 132	14 338	17 931
Current interest-bearing debt	701	-	-	-	701
Trade payables and other current liabilities	1 197	-	-	-	1 197
<b>Non-derivative financial liabilities</b>	<b>1 898</b>	<b>1 460</b>	<b>2 132</b>	<b>14 338</b>	<b>19 829</b>

NOK million	Within 12 months	1 to 3 years	3 to 5 years	More than 5 years	Total as of 31.12.2019
<b>FINANCIAL LIABILITIES RELATED TO DERIVATIVES</b>					
Interest and currency derivatives	-124	-	-220	-370	-714
Power derivatives	304	-	-	-	304
Currency futures	45	-	-	-	45
<b>Derivative financial liabilities</b>	<b>225</b>	<b>-</b>	<b>-220</b>	<b>-370</b>	<b>-365</b>
<b>OTHER FINANCIAL LIABILITIES</b>					
Non-current interest-bearing debt	-	2 791	1 689	13 880	18 360
Current interest-bearing debt	3 052	-	-	-	3 052
Trade payables and other current liabilities	2 456	-	-	-	2 456
<b>Non-derivative financial liabilities</b>	<b>5 508</b>	<b>2 791</b>	<b>1 689</b>	<b>13 880</b>	<b>23 868</b>

## Note 5.4 Financial risk management

Hafslund E-CO's business is exposed to risk in several areas. The most important of these are of a market, regulatory, financial, operational, reputational and political nature. Risk management is an integral part of the Group's business activities and is designed to secure achievement of strategic and operational goals. Guidelines and frameworks have been established for the management of risk in the business areas. The Group's overall risk is assessed by the Audit Committee and the Board of Directors. The purpose of risk management is to take the right risk based on the Group's risk capacity and ability, expertise, solidity and development plans.

### Market risk

As a power producer, Hafslund E-CO is exposed to fluctuations in market prices and volume uncertainty, and the Group manages risk through market participation. Power price fluctuations, together with factors that affect production volumes, will significantly impact the profitability of Hafslund E-CO's production operations. The Group's risk management derives from the utilisation of water resources in the reservoirs and from entering into physical and financial contracts. A strategy, systems and reporting routines have been established to manage risks relating to power production. Exposure must always be kept within defined limits and risk management is followed up through reporting to the Management and the Board.

Prices for part of the future hydropower production are hedged within adopted frameworks. The scope of hedging may vary, based on an overall assessment of market prices and future developments that could impact the power production. The Group also takes up active positions in the

energy market. The Group's hedging strategy takes account of resource rent taxation, where an increase in the spot price of power is expected to have a neutral or positive effect on expected cash flows after tax. Risk management includes reporting of expected outcome of financial results.

Instruments that can be used to hedge future power production include bilateral price hedging agreements, futures, forward contracts, EPADs (Electricity Price Area Differentials) and options. Hafslund E-CO achieves area prices for physical power sales. Use of hedging instruments with other price references could reduce the effectiveness of hedging due to deviations from the area price. Where appropriate, the Group uses EPADs to hedge area price variances.

The currency market is used to manage currency risk deriving from hedging where the value of hedged production can be fully or partly hedged from euro to Norwegian kroner.

The Group has the following exposure and sensitivity from financial power contracts at +/- 30 per cent change in power prices:

Financial power contracts (NOK million)	31.12.2019	+30 %	-30 %
Forward contracts	253	-283	283
Bilateral agreements	1	-92	92
Other financial power contracts	288	-106	106
<b>Total effect on profit after tax</b>		<b>-303</b>	<b>303</b>
<b>Total effect on equity</b>		<b>-375</b>	<b>375</b>

## Note 5.4 Financial risk management (cont.)

### Interest rate risk

Hafslund E-CO is mainly exposed to interest rate risk through its financing activities in Norwegian kroner and in foreign currency (Note 5.2). The Group's operating revenues and cash flows from operations are also sensitive to interest rate fluctuations to some degree. The Group is exposed to fluctuations in interest rates due to the fact that some of its interest-bearing debt is subject to floating interest rates. This exposure is primarily managed using instruments that balance the weighting of financing at floating and fixed interest rates.

The Group's loan portfolio has the following ratio of floating and fixed interest rates:

Distribution of fixed and floating interest rate on the Group's loan portfolio NOK Million	Nominal amounts 31.12.2019	Nominal amounts 31.12.2018
<b>FIXED INTEREST RATE</b>		
Debt with fixed interest rate	8 714	9 629
Effect of interest rate swaps	-3 193	-3 693
<b>Loan amount with fixed interest rate after effect of interest rate swaps</b>	<b>5 521</b>	<b>5 936</b>
<b>FLOATING INTEREST RATE</b>		
Debt with floating interest rate	3 514	7 115
Effect of interest rate swaps	3 193	3 693
<b>Loan amounts with floating interest rate after effect of interest swaps</b>	<b>6 707</b>	<b>10 808</b>

The table above is exclusive of subordinated loans

Based on the Group's interest rate exposure at the reporting date, a change in interest rates of  $\pm 0.5$  percentage points over the entire curve would result in a change in the Group's direct borrowing costs (after tax) of approximately  $-/+$  NOK 26 million (NOK 60 million).

By the end of 2019, 6 707 NOK million of the Group's debt was quoted with NIBOR as the reference rate including the effect of interest rate swaps. This means that a change from NIBOR to an alternative reference rate would impact the Group's interest rate exposure. A task force initiated by the Central Bank of Norway has suggested that NIBOR should be replaced by a reformed NOWA-rate («Norwegian Overnight Weighted Average»), but a decision on this matter has not yet been made. A central difference between NIBOR and NOWA is that NIBOR is a forward-looking term rate (for instance for 3 or 6 months), while NOWA is a historical overnight rate determined by actual transactions in the market for overnight loans between selected Norwegian Banks. The Group monitors the ongoing discussion and will consider the consequences more closely if a more detailed suggestion regarding NIBOR emerges. Please see also note 5.6 Derivatives and hedging for the consequences of interest rate reform on the Group's hedge accounting.

Hafslund E-CO is exposed to a limited scope of indirect interest rate risk in relation to currency and power derivatives. No correlation has been observed between the interest rate level and prices in the power market.

At the reporting date, Hafslund E-CO had subordinated loans from Oslo Energi Holding AS (wholly owned by the City of Oslo) of NOK 1,500 million and from the City of Oslo of NOK 2,347 million (NOK 2,347 million). The average interest rate for 2019 was 4.88 and 5.44 per cent respectively.

**Note 5.4 Financial risk management** (cont.)

The Group also has a subordinated loan to Eidsiva Energi AS of NOK 1,917 million (NOK 0 million), where the average interest for 2019 was 5.44 per cent. If the consolidated profit for the year after interest is a loss, the interest charge is reduced by the loss amount or to zero. This reduction is final, and the interest amount is not repaid at a later time. These loans do not have the same interest rate exposure as the Group's other loans.

**Currency risk**

Loans in foreign currency are hedged into NOK by entering into interest rate and currency swap agreements at the time of initial borrowing. Monetary items and borrowings in foreign currency are measured at the rate at the balance sheet date. Currency losses or gains are recognised in profit or loss as a currency gain or currency loss, unless the item is part of an accounting hedge and the hedge is effective (see Note 5.6). Ineffectiveness is recognised in profit or loss. The Group has no material receivables or investments in foreign currency.

The Nordic power markets use EUR as a trading and clearing currency. This means that the Group receives most of its power revenues from physical and financial trading in EUR, while most of the Group's costs are incurred in NOK. The Group uses forward exchange contracts to reduce/hedge the consequences of mismatches in foreign currency revenues and costs in NOK. The hedging horizon for foreign currency is limited to five years. Future sales of power are hedged using power derivatives. Spot sales of power are recognised at the transaction rate. Other transactions denominated in foreign currency are also recognised using the transaction rate. Power production is mainly sold via the Nord Pool Spot exchange or directly to Fortum Hedging AS. Power is sold in EUR,

and the resulting revenues are converted to NOK on an ongoing basis. The Group has entered into combined interest rate and currency swaps to reduce currency exposure on borrowings in foreign currency. Fluctuations in foreign currency against NOK will therefore not materially impact the Group's borrowing costs.

**Credit risk**

The Group is exposed to credit risk mainly through trade and other current receivables within its core activities (note 5.1) as well as counterparty risk on entering into financial derivatives (note 5.6).

The Group's main counterparties for physical power sales are Nord Pool Spot and Fortum Hedging AS. The Group has entered into agreements that permit gains to be offset against losses (ISDA agreements) with all counterparties for financial derivatives. Trading in power derivatives is primarily settled through NASDAQ OMX Commodities.

Credit risk is limited through diversification and by determining a lower limit for approving the creditworthiness of counterparties. Interest rate and currency derivatives are only entered into with banks with a minimum "investment grade" rating. The Group assesses credit risk for its actual exposures on an ongoing basis. Counterparties in new exposures are subject to counterparty assessments.

**Liquidity risk**

Liquidity risk is the risk that the Group will not be able to service its financial liabilities as they mature. The Group is exposed to liquidity risk to the extent that cash flows from operations do not correspond with financial liabilities. Hafslund E-CO's cash flows vary in line with factors such as market prices, seasonal fluctuations and investment levels.

The Group's strategy for managing liquidity risk is always to maintain sufficient liquid funds so that financial liabilities can be redeemed on maturity, including for extraordinary events, without risking unacceptable financial or reputational loss.

The Group's interest-bearing debt and related maturities are presented in Note 5.2. The maturity structure for debt and other financial liabilities, including derivatives and other current liabilities are presented in Note 5.3. Liquidity risk is minimised by analysing expected inflows and outflows and assumption of current and non-current borrowings. To minimise refinancing risk, i.e. the risk of not being able to refinance a loan or cover a short-term liquidity requirement on normal commercial terms, the Group has established long-term, committed drawdown facilities in order to secure availability of liquidity, including in periods when it may be difficult to obtain financing in the markets. At the reporting date, unused drawdown facilities amounted to NOK 1.5 billion (NOK 4.0 billion).

In order to reduce liquidity risk, the Group also holds a liquidity reserve in the form of bank deposits. As additional security against turbulence in the finance markets and potential losses of financing sources, the Group has established (unused) bank credit lines of NOK 300 million.

## Note 5.5 Fair value

### Key accounting policies

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

#### *Fair value hierarchy:*

Fair value measurements are classified at the following levels:

- Level 1: Valuation is based on listed prices in active markets for identical assets or liabilities.
- Level 2: Valuation is based on inputs other than listed prices covered by Level 1 that are observable for the asset, either directly or indirectly.
- Level 3: Valuation is based on non-observable inputs for the asset or liability.

The Group endeavours to maximise the use of observable data where possible.

### Key estimates and assumptions

When there is no listed market price in an active market, fair value is calculated by discounting future cash flows. Future cash flows are discounted based on the market interest curve, which is in turn derived from available swap rates.

For the valuation of financial power contracts and compensation to land owners that depend on power price the Group has applied the forward

## Note 5.5 Fair value (cont.)

curve from Nasdaq for five years, and then the Group's long-term price expectation.

The reasonableness of the estimated present value of forward exchange contracts, interest rate and currency swaps, as well as interest rate swaps, assessed for reasonableness against valuations from contract counterparties.

Financial instruments measured at fair value:

NOK million	Level 1	Level 2	Level 3	Total fair value at 31.12.2019	Balance at 31.12.2019
<b>FINANCIAL ASSETS MEASURED AT FAIR VALUE</b>					
Other long-term receivables	-	-	340	340	340
Interest and currency derivatives	-	-	883	883	883
Power derivatives	-	45	-	45	45
<b>Total financial assets measured at fair value</b>	<b>-</b>	<b>45</b>	<b>1 223</b>	<b>1 268</b>	<b>1 268</b>
<b>FINANCIAL LIABILITIES MEASURED AT FAIR VALUE</b>					
Interest and currency derivatives	-	-	5	5	5
Power derivatives	-	28	-	28	28
Compensation to landowners and free power	-	-	253	253	253
<b>Total financial liabilities measured at fair value</b>	<b>-</b>	<b>28</b>	<b>258</b>	<b>286</b>	<b>286</b>

NOK million	Level 1	Level 2	Level 3	Total fair value at 31.12.2018	Balance at 31.12.2018
<b>FINANCIAL ASSETS MEASURED AT FAIR VALUE</b>					
Other long-term receivables	-	-	49	49	49
Interest and currency derivatives	-	929	-	929	929
<b>Total financial assets measured at fair value</b>	<b>-</b>	<b>929</b>	<b>49</b>	<b>978</b>	<b>978</b>
<b>FINANCIAL LIABILITIES MEASURED AT FAIR VALUE</b>					
Interest and currency derivatives	-	93	-	93	93
Power derivatives	-	350	-	350	350
Compensation to landowners and free power	-	-	131	131	131
Interest bearing debt	-	818	-	818	818
<b>Total financial liabilities measured at fair value</b>	<b>-</b>	<b>1 261</b>	<b>131</b>	<b>1 392</b>	<b>1 392</b>

Please see note 5.2 Interest-bearing debt for more information about the Group's interest-bearing debt.

For other financial liabilities measured at amortised cost the value is approximately equal to fair value. Financial assets measured at amortised cost primarily consist of accounts receivable and other receivables where amortised cost is approximately equal to fair value.

## Note 5.5 Fair value (cont.)

NOK million	Level 1	Level 2	Level 3	Total fair value at 31.12.2019	Balance at 31.12.2019
<b>FINANCIAL LIABILITIES MEASURED AT AMORTISED COST</b>					
Other current non-interest bearing liabilities	-	-	831	831	831
Trade payables	-	-	366	366	366
Compensation to landowners and free power	-	-	1 670	1 670	1 670
Interest bearing debt	-	19 145	-	19 145	18 900
<b>Total financial liabilities measured at amortised cost</b>	<b>-</b>	<b>19 145</b>	<b>2 868</b>	<b>22 013</b>	<b>21 768</b>

NOK million	Level 1	Level 2	Level 3	Total fair value at 31.12.2018	Balance at 31.12.2018
<b>FINANCIAL LIABILITIES MEASURED AT AMORTISED COST</b>					
Other current non-interest bearing liabilities	-	-	719	719	719
Trade payables	-	-	395	395	395
Compensation to landowners and free power	-	-	1 163	1 163	1 163
Interest bearing debt	-	16 912	-	16 912	16 918
<b>Total financial liabilities measured at amortised cost</b>	<b>-</b>	<b>16 912</b>	<b>2 277</b>	<b>19 189</b>	<b>19 195</b>

Interest-bearing debt measured at amortised cost	16 918
Interest-bearing debt measured at fair value	818
Subordinated loan, measured at amortised cost, fair value not estimated	3 847
<b>Interest-bearing debt at 31 December 2018</b>	<b>21 584</b>

### Discussion of key matters

There were no changes in the measurement of fair values during the reporting period that resulted in transfers between levels 1 and 2 and no transfers in or out of level 3.

## Note 5.6 Derivatives and hedging

### Key accounting policies

#### Introduction

The Group has contracts relating to revenue hedging of future power production and to swap interest rate terms and hedging of currency exposure in connection with borrowings.

The Group has entered into financial hedging agreements for power revenues in EUR, and also uses forward exchange contracts to swap settlements from EUR to NOK. The Group does not apply hedge accounting for power hedging or forward exchange contracts. This means that unrealised changes in value are recognised through profit or loss under “Other gain/loss”.

The Group has entered into two interest rate swaps that exchange the interest rate terms on bond loans in NOK from fixed to floating interest rates. The interest rate swaps are used to balance interest rate exposure for the Group’s loan portfolio. Interest rate swaps entered into to exchange terms from fixed to floating interest rates for bond loans in NOK are treated as fair value hedges.

The assessments for hedge accounting could be affected by the uncertainty related to interest rate reform and the possible transition from NIBOR to a reformed NOWA, see also note 5.4 Financial risk management. The Group has in 2019 early adopted the changes in IFRS 7 and 9 which give temporary relief for some of the assessments for hedge accounting regarding uncertainty from the interest rate reform. This entails that the Group’s hedge accounting can be continued despite

uncertainty arising from the interest rate reform. The relief is temporary and lasts until the uncertainty regarding interest rate reform no longer affects the assessments regarding hedge accounting. Please see further information about hedge accounting and the interest rate reform below in the section on interest rate exposure.

The Group has a policy of reducing currency risk for all new borrowings in foreign currency by exchanging payments of principal amounts and fixed interest rates in foreign currency to NOK in a 1:1 ratio using combined interest rate and currency swaps. The combined agreements also exchange interest rate terms from fixed to floating rates so that the Group receives fixed interest payments in foreign currency and pays a floating interest in NOK. The exchange from fixed to floating interest rates in foreign currency is treated as a fair value hedge, while the exchange from payment of floating interest and principal amounts in foreign currency to NOK is treated as a cash flow hedge.

Derivatives are both initially and subsequently recognised at fair value in the balance sheet. The accounting treatment of associated gains and losses depends on whether the derivatives are designated as hedging instruments and whether the hedging relationship is deemed to be a cash flow hedge or a fair value hedge. In both cases, the ineffective portion of the hedge is recognised through profit or loss, with forward exchange contracts presented as other operating revenues and changes in value of derivatives relating to the Group’s financing as finance costs. Derivatives that the Group has not designated for hedge accounting are measured and presented at fair value with changes in value through profit or loss. All derivatives are presented under Derivatives in the balance sheet, split between assets and liabilities and non-current and current items.

## Note 5.6 Derivatives and hedging (cont.)

### Hedge accounting

#### Hedging

The criteria for entering a hedging relationship are determined in the Group's risk management strategy and involve a qualitative and prospective approach to assessing hedge effectiveness. Both the hedged item and the hedging instrument are designated and documented when hedging relationships are established and sources of ineffectiveness are identified. The Group only designates contracts with external parties as hedging instruments.

The Group has the following hedging relationships: (nominal value: + indicates the principal amounts paid by the Group, and - indicates the principal amounts received by the Group):

NOK million						
Reference	Hedged item	Currency	Nominal amount	Due date	Interest rate	Line-item in balance sheet*
A	Fixed rate loan	USD	50	2019	5.19 %	Non-current interest-bearing debt
B	Fixed rate loan	NOK	500	2022	4.35 %	Non-current interest-bearing debt
C	Fixed rate loan	USD	75	2023	4.77 %	Non-current interest-bearing debt
D	Fixed rate loan	USD	25	2026	4.95 %	Non-current interest-bearing debt
E	Fixed rate loan	JPY	5 000	2028	1.51 %	Non-current interest-bearing debt
F	Fixed rate loan	JPY	5 000	2029	1.38 %	Non-current interest-bearing debt
G	Fixed rate loan	NOK	250	2029	4.40 %	Non-current interest-bearing debt
H	Fixed rate loan	USD	125	2031	3.14 %	Non-current interest-bearing debt
I	Fixed rate loan	EUR	30	2031	2.29 %	Non-current interest-bearing debt

\*The first year's instalment is classified as current interest-bearing debt.

## Note 5.6 Derivatives and hedging (cont.)

NOK million

Reference	Hedging instrument	Currency	Nominal amount	Due date	Interest rate	Line-item in balance sheet*
A	Combined interest rate and currency swap	USD	-50	2019	5.19 %	Non-current financial derivatives
A	Combined interest rate and currency swap	NOK	309	2019	6M NIBOR + 0.4 %	Non-current financial derivatives
B	Interest rate swap	NOK	-500	2022	4.35 %	Non-current financial derivatives
B	Interest rate swap	NOK	500	2022	3M NIBOR + 2.8 %	Non-current financial derivatives
C	Combined interest rate and currency swap	USD	-75	2023	4.77 %	Non-current financial derivatives
C	Combined interest rate and currency swap	NOK	429	2023	3M NIBOR +0.86 %	Non-current financial derivatives
D	Combined interest rate and currency swap	USD	-25	2026	4.95 %	Non-current financial derivatives
D	Combined interest rate and currency swap	NOK	143	2026	3M NIBOR +0.86 %	Non-current financial derivatives
E	Combined interest rate and currency swap	JPY	-5 000	2028	1.51 %	Non-current financial derivatives
E	Combined interest rate and currency swap	NOK	301	2028	6M NIBOR +0.92 %	Non-current financial derivatives
F	Combined interest rate and currency swap	JPY	-5 000	2029	1.38 %	Non-current financial derivatives
F	Combined interest rate and currency swap	NOK	296	2029	6M NIBOR +0.87 %	Non-current financial derivatives
G	Interest rate swap	NOK	-250	2029	4.40 %	Non-current financial derivatives
G	Interest rate swap	NOK	250	2029	3M NIBOR + 2.4 %	Non-current financial derivatives
H	Combined interest rate and currency swap	USD	-125	2031	3.14 %	Non-current financial derivatives
H	Combined interest rate and currency swap	NOK	1 036	2031	3M NIBOR +1.524 %	Non-current financial derivatives
I	Combined interest rate and currency swap	EUR	-30	2031	2.29 %	Non-current financial derivatives
I	Combined interest rate and currency swap	NOK	237	2031	6M NIBOR +1.1 %	Non-current financial derivatives

## Note 5.6 Derivatives and hedging (cont.)

The Group's hedging instruments are presented under Derivatives, and are recognised in the statement of financial position at the following amounts:

NOK million	Fair value of hedging instruments		Change in fair value used to measure inefficiency in the period
	Assets	Liabilities	
<b>31 DECEMBER 2019</b>			
Combined interest rate and currency swap	879	-	55
Interest rate swap	4	5	-23
<b>Total</b>	<b>883</b>	<b>5</b>	<b>32</b>
<b>31 DECEMBER 2018</b>			
Combined interest rate and currency swap	906	82	153
Interest rate swap	22	-	-4
<b>Total</b>	<b>928</b>	<b>82</b>	<b>149</b>

### Cash flow hedges

New borrowings in foreign currency are hedged in NOK by entering combined interest rate and currency swaps, where payments of fixed interest and principal amounts in foreign currency are exchanged to payment of floating interest and principal amounts in NOK. Exchanges from fixed to floating interest rates in foreign currency are treated as fair value hedges. Payments of principal amounts and floating interest rates in foreign currency are consistently hedged to NOK in a 1:1 ratio to limit the Group's currency exposure, and these cases are treated as cash flow hedges.

### Currency risk

The Group is exposed to currency risk on payments of principal amounts and floating interest in foreign currency. Currency risk and variability of cash flows are reduced by exchanging from foreign currency to NOK through combined interest rate and currency swaps. Under such arrangements, cash flows for payments of principal amounts and floating interest rates in foreign currency are designated as hedged items, and cash flows from the derivative are accordingly designated as hedging instruments. The basis spread is excluded from the designated hedging instrument.

There is an economic relationship between the hedged item and the hedging instrument because the critical terms for exchanging from foreign currency to NOK match. Hedge effectiveness is assessed on a qualitative basis.

Each reporting period, a fair value calculation of the currency portion of the derivative is carried out, and changes in value of the effective portion of the hedge are recognised in other comprehensive income until the period when changes in value of the hedged item affects profit or loss. The ineffective portion of the hedge is expensed under "Other finance income/costs."

Ineffectiveness in the hedge could arise from the fair value of credit risk affecting the hedging instrument, but not the hedged item.

## Note 5.6 Derivatives and hedging (cont.)

The hedging reserve has changed as follows:

NOK million	Foreign currency loans at the exchange rate on the balance sheet date	Change in fair value of hedged item, recognised in profit or loss	Change in fair value of hedging instrument, recognised in profit or loss	Line-item in profit or loss
<b>31 December 2019</b>	3 083	51	-51	Other finance income/costs
<b>31 December 2018</b>	3 465	190	-190	Other finance income/costs

Movements in the cash flow hedging reserve:

NOK million	Hedging reserve
Change in fair value through other comprehensive income 2018	14
Deferred tax	-4
<b>31 December 2018</b>	<b>-57</b>
Change in fair value through other comprehensive income 2019	5
Deferred tax	5
<b>31 December 2019</b>	<b>-47</b>

The ineffective portion of the cash flow hedge recognised through profit or loss was immaterial in 2019 and 2018.

### Fair value hedges

The Group's loan portfolio includes loans with both fixed and floating interest rate terms, and the Group has used derivatives to exchange interest terms for some loans from fixed to floating rates. This applies to both bond loans in NOK for which interest rate swaps have been entered, and loans in foreign currency for which combined currency and

interest rate swaps have been agreed. The purpose of swapping from fixed to floating interest is to balance the Group's interest rate exposure.

### Interest rate exposure

Bond loans in NOK for which interest rate swaps from fixed to floating interest rates have been entered are recognised as fair value hedges. Interest rate hedges from fixed to floating interest rates in foreign currency from combined currency and interest rate swaps are designated and valued in the same way. In 2019 the Group early adopted the changes in IFRS 7 and 9 ("Interest Rate Benchmark Reform") regarding the interest rate reform. The changes give temporary relief by allowing the assumption that specific considerations for hedge accounting is not affected by uncertainty arising from the interest rate reform.

The hedged risk arises from changes in value of fixed interest payments that mainly derive from changes in swap rates (OIS) and NIBOR interest rates. In accounting terms, changes in value in the hedged risk offset changes in value in the hedging instrument in profit or loss.

There is an economic relationship between the hedged item and hedging instrument because the key terms for exchanging from fixed to floating interest rates match. Hedge effectiveness is assessed on a qualitative basis. Ineffectiveness in the hedge could arise from differing settlement times for interest payments/establishment of interest rates between the hedged item and the hedging instrument, as well as the fair value of credit risk affecting the hedging instrument, but not the hedged item.

The ineffective portion of the fair value hedge recognised through profit or loss under "Other finance income/costs" was immaterial in 2019 and 2018.

## Note 5.7 Capital management

Hafslund E-CO's capital management is intended to ensure that the Group has financial flexibility in the short and long term and maintains a high credit rating. The Group aims to achieve cash flows that ensures competitive returns for the owner through dividends without disadvantaging the Group's creditors.

In addition to cash and cash equivalents, the Group's liquidity reserve consists of unused long-term drawdown facilities. Hafslund E-CO has access to diversified loan sources and primarily uses bond loans, banks and international private placement markets.

The Group has long-term financing that ensures financial room to maneuver even when it is difficult to gain financing in the markets.

The loan portfolio (excluding subordinated loans) comprises a balanced mix of loans with a maturity structure between 1 and 14 years, an average term of 8 years. The maturity structure of the Group's interest-bearing debt and other financial liabilities are shown in notes 5.2 and 5.3.

At the end of 2019, the Group had unused drawdown facilities considered sufficient to cover the Group's refinancing requirements over the next 12 months. External borrowing has been centralised at parent company level Hafslund E-CO, and the capital needs of the respective subsidiaries are normally covered through internal loans, primarily through corporate cash pooling systems, in combination with equity. The capital structure in the subsidiaries is adapted to commercial considerations, as well as legal and tax-related considerations.

The Group attaches importance to ensuring a balanced and reasonable capital composition that maintains reasonable equity based on the risk and scope of the business.

The Group's loan covenants prohibit the pledging of assets as collateral security. Some loan agreements also stipulate that material assets cannot be disposed of without approval, while some have an ownership clause requiring more than 50 per cent of shares issued by Hafslund E-CO AS to be directly or indirectly owned by the City of Oslo. This means that, in accordance with stipulated terms, lenders can demand that the loans be redeemed if the City of Oslo's direct or indirect shareholding in these companies falls to 50 per cent or below. The Group's loan agreements do not impose any other covenants.

The Group does not have an official credit rating, but actively monitors quantitative and qualitative factors that affect the Group's creditworthiness. Hafslund E-CO aims to maintain a credit profile corresponding to an investment grade-rating and monitors its asset management by following the development of its equity ratio, net interest-bearing debt and cash flows from operations. The Group's capital consists of net interest-bearing debt and equity.

The Group is not subject to any external requirements with regards to the management of its capital structure other than with regards to market expectations and the owner's dividend requirements.

## Note 5.7 Capital management (cont.)

NOK million	2019	2018
<b>NET INTEREST BEARING DEBT</b>		
Current interest-bearing debt	701	3 052
Non-current interest-bearing debt*	12 435	14 686
Fair value adjustment loan portfolio/fair value hedges	-268	-185
Long-term interest-bearing assets	84	67
Money market funds	-	200
Cash and cash equivalents	2 444	2 993
<b>Net interest-bearing debt</b>	<b>10 340</b>	<b>14 293</b>
<b>Unused drawing rights</b>	<b>1 800</b>	<b>4 302</b>
<b>EQUITY SHARE (%)</b>		
Equity	33 107	16 501
Assets	65 274	49 180
<b>Equity share</b>	<b>51%</b>	<b>34%</b>

\*Subordinated debt of NOK 5 764 million (NOK 3 847 million) is not included in the calculation of net interest-bearing debt.

## Note 5.8 Share capital and shareholder information

NOK million	Number of shares	Share capital	Premium fund	Paid in capital
<b>PAID IN CAPITAL</b>				
As of 31 December 2019	100 000	100	15 295	15 395

Hafslund E-CO has no treasury shares. All shares are owned by the City of Oslo. The company merges with its fully owned subsidiary E-CO Energi Holding AS, with accounting effect from 1 January 2019. The merger was carried out as a simplified parent-subsidary merger. Dividends paid in 2019 was NOK 1,284 million to the City of Oslo and NOK 35 million to non-controlling interests, totaling NOK 1,319 million.

## Note 5.9 Non-current receivables

### Key accounting policies

All non-current receivables mature more than one year from the balance sheet date. The fair value of non-current receivables corresponds to their book value.

NOK million	2019	2018
<b>OTHER NON-CURRENT RECEIVABLES</b>		
Other non-current interest-bearing receivables	84	67
Other non-current non-interest-bearing receivables	471	181
Net pension funds	120	538
Non-current equity investments	46	-
<b>Other non-current receivables</b>	<b>721</b>	<b>786</b>

## Note 5.10 Trade receivables and other current receivables

### Key accounting policies

Accounts receivables contain both receivables that arise as a result of contracts with customers and other types of receivables. Receivables arising from contracts with customers are recognised at the agreed amount, reduced by expected credit loss. Other receivables and accruals are recognised at fair value and measured in subsequent periods at amortised cost.

### Key estimates and assumptions

Inaccurate assessment of the customers ability to pay could result in losses on receivables that subsequently must be written down through profit or loss. The Group estimates and recognises a provision for expected losses based on historic figures. The Group deems the credit risk to be acceptable.

NOK million	2019	2018
<b>TRADE RECEIVABLES</b>		
Trade receivables	236	494
Provisions loss on receivables	-	-23
<b>Trade receivables</b>	<b>236</b>	<b>472</b>
<b>OTHER NON-INTEREST-BEARING CURRENT RECEIVABLES</b>		
Other non-interest-bearing current receivables	107	442
Accrued non-invoiced income	-	704
Accrued other income/pre-paid expenses	2	40
<b>Other non-interest-bearing current receivables</b>	<b>108</b>	<b>1 186</b>

Please see note 2.1 for further discussion of revenues and contract balances.

## Note 5.11 Cash and cash equivalents

### Key accounting policies

Cash and cash equivalents include the Group's liquid assets and comprise bank deposits and other short-term, highly liquid investments with original maturities of three months or less.

NOK million	2019	2018
<b>CASH AND CASH EQUIVALENTS</b>		
Bank deposits	2 177	2 379
Withholding tax (restricted assets)	25	17
Other restricted assets	242	597
<b>Cash and cash equivalents</b>	<b>2 444</b>	<b>2 993</b>
<b>OTHER LIQUID FINANCIAL ASSETS</b>		
Money market funds	-	200
<b>Other liquid financial assets</b>	<b>-</b>	<b>200</b>

### Discussion of key matters

The Group's available cash and cash equivalents mainly consist of bank deposits. The Group also have an overdraft facility of NOK 300 million, which was unused at 31 December 2019.

Hafslund E-CO AS has syndicated drawdown facility totaling NOK 1,500 million maturing in July 2022. The drawdown facility is used as a back-stop for loan maturities and as a general liquidity reserve. The drawdown facility was unused at 31 December 2019.

### Note 5.11 Cash and cash equivalents *(cont.)*

The Group has a corporate cash pooling system with Nordea and DNB, respectively. A corporate cash pooling system entails joint and several liability among the participating companies. Hafslund E-CO AS's accounts constitute single, direct accounts for transactions with its banks, while deposits into and withdrawals from the respective subsidiaries' accounts are treated as intercompany balances with Hafslund E-CO AS.

Of the Group's other restricted funds, NOK 242 million is pledged as security for power trading activities and NOK 25 million is pledged as security for tax deductions. The Group also purchases bank guarantees as a security for tax deductions and other liabilities. Please refer to note 4.2 Guarantees for further information.

### Note 5.12 Trade payables and other current non-interest-bearing liabilities

#### Key accounting policies

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. The main rule is that trade and other current payables are classified as current if they fall due within one year. Trade and other current payables are measured at fair value in the balance sheet on initial recognition and subsequently at amortised cost.

NOK million	2019	2018
<b>TRADE PAYABLES</b>		
Trade payables	366	395
<b>Trade payables</b>	<b>366</b>	<b>395</b>
<b>OTHER CURRENT NON-INTEREST-BEARING LIABILITIES</b>		
Value added tax	206	774
Charges related to salaries	48	354
Accrued interest	404	371
Accrued energy and transmission costs	-	7
Other accrued costs	-	373
Other short-term liabilities	173	182
<b>Other current non-interest-bearing liabilities</b>	<b>831</b>	<b>2 060</b>

## Note 5.13 Financial items

### Key accounting policies

Currency gains and losses that derive from operational hedging of power sales are reported under revenues as other gains/losses. Value adjustments of receivables and liabilities in foreign currency are recognised as currency gains/losses under financial income/ financial expenses, respectively.

NOK million	2019	2018
<b>INTEREST INCOME</b>		
Interest income	18	25
Other financial income	1	9
<b>Interest income</b>	<b>19</b>	<b>34</b>
<b>INTEREST EXPENSE</b>		
Interest expense	-568	-528
Capitalised interest expense	35	45
Interest expense IFRS 16	-1	-
<b>Interest expense</b>	<b>-533</b>	<b>-483</b>
<b>OTHER FINANCIAL INCOME/COSTS</b>		
Currency gains or losses	-17	12
Change in loans recognised at fair value	13	48
Profit from investments in shares	3	5
Other financial income or cost	-11	-41
<b>Other financial income/costs</b>	<b>-11</b>	<b>24</b>
<b>Net financial items</b>	<b>-526</b>	<b>-425</b>

## Note 6.1 Taxes

### General information

Apart from ordinary income tax, Hafslund E-CO's power production activities are subject to separate rules for taxation of hydropower production companies. The Group is therefore also charged resource rent tax and natural resource tax.

### Ordinary income tax

The tax expense primarily consists of taxes payable and changes in deferred tax. Payable income tax is calculated at 22 per cent (23 per cent). Deferred tax is calculated based on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes, as well as the tax loss carried forward, where a tax rate of 22 per cent (22 per cent) is applied.

### Resource rent tax

The resource rent tax depends on the profit and accounts for 37 per cent (35.7 per cent) of the net resource rent income for each power plant. Resource rent income is calculated based on each power plant's production hour-by-hour, multiplied by the spot price during the corresponding hour. The achieved prices are used for deliveries of concessionary power and industry contracts with more than 7 years duration. The resource rent income is reduced by operating expenses, tax-related depreciation and non-taxable income to arrive at net resource rent income. Non-taxable income is stipulated based on the average tax-related value of production equipment for the year in the power plant, multiplied by a prescribed interest rate. The prescribed interest rate was 1.2 per cent for 2019 (0.7 per cent).

**Note 6.1 Taxes** (cont.)

Negative resource rent income that has arisen in a power plant after 2006 can be coordinated with positive resource rent income from other power plants. The negative resource rent income that arose prior to 2007, with interest, can be offset against positive resource rent income from the same power plant only. Negative resource rent income is included in the calculation of deferred tax/deferred tax assets in resource rent taxation along with deferred tax/tax assets related to temporary differences pertaining to production equipment in power production to the extent this can feasibly be offset.

The resource rent tax in profit or loss consists of this year's payable resource rent tax plus the change in deferred resource rent tax. Deferred resource rent tax is calculated the same way as deferred tax on ordinary income tax, using a nominal resource rent rate of 37 per cent (37 per cent).

**Natural resource tax**

Natural resource tax is calculated based on the individual power plant's average power production over the past seven years without regard to profitability. The maximum tax rate is set at 0.13 NOK (0.13 NOK) per kWh. Natural resource tax can be offset against taxes payable from ordinary income tax.

Natural resource tax carried forward is offset against deferred tax in the balance sheet. If it is likely that the natural resource tax represents a final payment where a set-off is not likely, it is expensed through profit or loss.

**Property tax**

Power production operations are also subject to property tax, which is up to 0.7 per cent of the taxated value. Property tax is recognised as an operating expense. Please see note 2.4 Property tax and license fees.

**Significant accounting principles**

Deferred tax and deferred tax assets are offset as far as the Group has a legally enforceable right to set off assets and liabilities, and these are levied by the same tax authority. The same applies for deferred tax and deferred tax assets related to resource rent tax. Deferred tax positions related to ordinary income tax cannot be offset against tax positions related to resource rent tax.

**Significant estimates and assumptions**

Management continuously assesses the validity of material assumptions made in the tax assessments where applicable tax laws are the object of interpretation. Provisions are recognised based on the management's assessment of expected tax payments.

Deferred tax assets from negative resource rent income is recognised for the portion that is expected to be offset during a 10-year period. For previous years this horizon was set at 5 years but was changed to 10 years in 2019 in accordance with management's best estimates. By the end of 2019 negative resource rent income of NOK 348 million (NOK 677 million) was not recognised as a deferred tax asset. With a nominal tax rate of 37 per cent this equals a non-recognised tax asset of NOK 129 million (NOK 250 million).

## Note 6.1 Taxes (cont.)

The timing for when negative resource income can be offset is estimated based on the expectation of production volumes and forward curves.

NOK million	2019	2018
<b>TAX EXPENSE</b>		
Income tax payable	733	875
Changes in deferred tax	199	-96
Resource rent tax payable	1 195	1 346
Changes in deferred resource rent tax	-13	62
Natural resource tax	185	143
Natural resource tax offset against income tax	-185	-143
Natural resource tax carried forward	18	-
Too little/much tax set side in previous years	2	-
Other	-1	1
<b>Tax expense for the year</b>	<b>2 133</b>	<b>2 188</b>

NOK million	2019	2018
<b>Deferred tax through other comprehensive income</b>		
Hedging reserve 22 %	1	4
Hedging reserve 37 %	-6	-
Actuarial gains and losses 22 %	1	5
Actuarial gains and losses 37 %	13	2
<b>Deferred tax through other comprehensive income</b>	<b>9</b>	<b>11</b>
<b>RECONCILIATION OF NOMINAL TAX RATE AGAINST EFFECTIVE TAX RATE</b>		
<b>Profit before tax</b>	<b>3 834</b>	<b>3 177</b>
22 % (23 %) of profit before tax	844	731
22 % (22 %) of permanent differences	1	5
22 % (23 %) of profit from equity accounted investees	-16	6
22 % (23 %) of actuarial gains and losses	-	1
Change in tax rate from 23% to 22%	-	-1
Payable resource rent tax	1 195	1 346
Change in deferred tax, negative resource rent tax carried forward (37 %)	-87	-50
Change in deferred tax resource rent tax (37%)	74	62
Change in resource rent tax rate from 35.7% to 37%	-	8
Too little/much tax set side in previous years	2	-
Other	120	81
<b>Tax expense for the year</b>	<b>2 133</b>	<b>2 188</b>
Effective tax rate	56%	69%

**Note 6.1 Taxes** (cont.)

NOK million	31.12.2019	31.12.2018
<b>DEFERRED TAX</b>		
<b>General income tax</b>		
Derivatives	1 220	-106
Receivables	12	-
Power contracts	288	-
Property, plant and equipment	16 038	13 034
Provisions for liabilities	-2 429	-2 495
Pensions	44	403
Tax losses carried forward	-532	-415
Negative temporary difference, not offset	-	77
<b>Total</b>	<b>14 641</b>	<b>10 499</b>
Tax rate	22%	22%
Deferred tax (tax asset)	3 221	2 310
Natural resource rent tax carried forward	-15	-
Net deferred tax (tax asset)	3 206	2 310
Of which deferred tax asset	-	-
Of which deferred tax	3 206	2 310

NOK million	31.12.2019	31.12.2018
<b>DEFERRED TAX</b>		
<b>Resource rent tax</b>		
Property, plant and equipment	13 327	5 410
Receivables	11	-
Pensions	66	27
Industry contracts	3	-
Provisions for liabilities	-60	-
Resource rent tax losses carried forward including interest	-1 645	-1 382
Unrecognised resource rent tax carried forward	348	677
<b>Total</b>	<b>12 051</b>	<b>4 732</b>
Tax rate	37%	37%
Deferred resource rent tax	4 459	1 751
Of which deferred tax asset	-479	-319
Of which deferred tax	4 939	2 070
<b>Deferred tax (tax asset) in the balance sheet:</b>		
Deferred tax asset	-479	-319
Deferred tax	8 146	4 380
<b>Total</b>	<b>7 667</b>	<b>4 061</b>

## Note 6.1 Taxes (cont.)

### CHANGES IN DEFERRED TAX (GENERAL INCOME TAX)

NOK million	Derivatives	Receivables	Power contracts	Property, plant and equipment	Provisions for liabilities	Pensions	Tax losses carried forward	Temporary differences not set off	Total
<b>Deferred tax 1 January 2019</b>	<b>-23</b>	<b>-</b>	<b>-</b>	<b>2 868</b>	<b>-549</b>	<b>89</b>	<b>-91</b>	<b>17</b>	<b>2 310</b>
Sale of Hafslund Nett	-	-	-	-1 073	5	-78	1	-17	-1 162
Acquisition of Eidsiva Vannkraft	-8	11	66	1 833	-16	-21	-	-	1 865
Deferred tax through tax expense	305	-9	-3	-98	25	6	-27	-	199
Deferred tax through other comprehensive income	-5	-	-	-	-	14	-	-	9
<b>Deferred tax 31 December 2019</b>	<b>269</b>	<b>2</b>	<b>63</b>	<b>3 529</b>	<b>-534</b>	<b>9</b>	<b>-117</b>	<b>-</b>	<b>3 221</b>

### CHANGES IN DEFERRED RESOURCE RENT TAX

NOK million	Property, plant and equipment	Receivables	Pensions	Industry contracts	Provisions for liabilities	Resource rent tax losses carried forward	Unrecognised resource rent tax losses	Total
<b>Deferred resource rent tax 1 January 2019</b>	<b>2 002</b>	<b>-</b>	<b>10</b>	<b>-</b>	<b>-</b>	<b>-511</b>	<b>250</b>	<b>1 751</b>
Correction balance at 1 January 2019	18	-	-	-	-	-	-	18
Acquisition of Eidsiva Vannkraft	2 860	19	-36	7	-23	-131	-	2 697
Deferred resource rent tax through tax expense	51	-15	37	-	1	-	-	74
Deferred resource rent tax through other comprehensive income	-	-	13	-6	-	-	-	7
Changes in resource rent tax losses carried forward	-	-	-	-	-	33	-121	-87
<b>Deferred resource rent tax 31 December 2019</b>	<b>4 931</b>	<b>4</b>	<b>24</b>	<b>1</b>	<b>-22</b>	<b>-609</b>	<b>129</b>	<b>4 459</b>

## Note 7.1 Remuneration to senior executives and board members

### Remuneration to senior executives and board members of Hafslund E-CO in 2019.

From date	Up to and including date	Name	Position	Salaries, holiday pay and fees	Bonus <sup>1</sup>	Benefits in kind	Pension costs	Borrowings 31.12.2019
01.01.2019	31.12.2019	Finn Bjørn Ruyter	CEO	4 558 848	708 948	315 330	661 371	425 000
01.01.2019	31.12.2019	Tore Olaf Rimmereid	Deputy CEO and SVP Corporate Strategy	2 987 922	439 034	198 834	406 277	-
01.09.2019	31.12.2019	Heidi Ulmo <sup>3</sup>	CFO (Chief Financial Officer)	972 729	121 540	77 564	155 808	160 000
01.01.2019	31.08.2019	Martin S. Lundby (acting until 31.8.2019) <sup>3</sup>	CFO (Chief Financial Officer - acting)	1 042 901	194 709	55 096	115 716	581 250
01.01.2019	31.12.2019	Alf Inge Berget	SVP Power Generation and Managing Director of E-CO Energi AS	2 629 377	425 872	227 207	237 653	726 666
01.01.2019	30.09.2019	Kristin Lian	SVP Networks and Managing Director of Hafslund Nett AS	1 912 126	470 602	154 600	187 486	200 000
01.01.2019	31.12.2019	Toril Benum	SVP New Energy	2 039 490	342 585	227 083	271 896	530 000
01.01.2019	31.12.2019	Siw Hellesen	SVP HR and Organisational Development	1 936 801	325 456	190 875	249 473	525 000
01.01.2019	31.12.2019	Per-Arne Torbjørnsdal	SVP Corporate Communications and Legal	2 154 562	319 298	156 027	249 625	550 000
01.01.2019	31.12.2019	Anders Østby	SVO Power Market	1 811 116	300 140	166 833	233 700	535 000
01.10.2019	31.12.2019	Stig Morten Løken	SVP Technical and Managing Director of Eidsiva Vannkraft AS	488 568	80 013	36 109	34 574	-
01.01.2019	31.12.2019	Alexandra Bech Gjørsv	Chair	402 175	-	-	-	-
01.01.2019	31.12.2019	Bente Sollid Storehaug	Board Member	244 863	-	-	-	-
01.01.2019	31.12.2019	Bjørn Erik Næss <sup>2</sup>	Board Member	286 063	-	-	-	-
01.01.2019	31.12.2019	Bård Vegar Solhjell	Board Member	244 863	-	-	-	-
01.01.2019	31.12.2019	Mari Thjømøe <sup>2</sup>	Board Member	286 063	-	-	-	-
01.01.2019	31.12.2019	Arvid Amundsen	Board Member (employee representative)	865 962	43 100	46 068	51 232	-
01.01.2019	30.09.2019	Per Luneborg <sup>2</sup>	Board Member (employee representative)	869 349	-	6 661	-	-
01.01.2019	30.09.2019	Johnny Kjørnås	Board Member (employee representative)	985 005	-	8 580	85 535	-
02.10.2019	31.12.2019	Jan Petter Knudsen	Board Member (employee representative)	237 577	-	1 869	1 881	-
02.10.2019	31.12.2019	Gunnar Ola Braaten	Board Member (employee representative)	358 737	35 590	2 715	42 020	-

<sup>1</sup>Applies to bonus achievement or the relevant period. Bonus to senior executives is a maximum of 25 per cent of fixed salary.

<sup>2</sup>Includes remuneration for work in the Audit Committee.

<sup>3</sup>Salaries in the parental leave period is not included.

## Note 7.1 Remuneration to senior executives and board members *(cont.)*

### Remuneration to senior executives and board members of Hafslund E-CO AS in 2018

From date	Up to and including date	Name	Position	Salaries, holiday pay and fees	Bonus <sup>1</sup>	Benefits in kind	Pension costs	Borrowings 31.12.2018
04.07.2018	31.12.2018	Finn Bjørn Ruyter	CEO	2 159 533	555 084	113 094	293 760	485 000
01.09.2018	31.12.2018	Tore Olaf Rimmereid	Deputy CEO and SVP Corporate Strategy	858 071	229 167	55 479	189 726	-
01.08.2018	31.12.2018	Heidi Ulmo	CFO (Chief Financial Officer) - parental leave	929 616	103 979	94 558	142 954	220 000
01.08.2018	31.12.2018	Martin Lundby (acting from 1.8.2018)	CFO (Chief Financial Officer) - acting	625 000	187 500	33 599	30 045	345 000
01.09.2018	31.12.2018	Alf Inge Berget	SVP Power Generation and Managing Director of E-CO Energi AS	836 743	212 685	109 243	183 890	-
01.09.2018	31.12.2018	Kristin Lian	SVP Networks and Managing Director of Hafslund Nett AS	844 274	201 041	53 522	91 376	260 000
01.09.2018	31.12.2018	Toril Benum	SVP New Energy	666 667	166 667	59 003	75 213	590 000
01.09.2018	31.12.2018	Siw Hellesen	SVP HR and Organisational Development	663 549	158 333	50 796	72 618	585 000
01.09.2018	31.12.2018	Per-Arne Torbjørnsdal	SVP Corporate Communications and Public Affairs	604 141	166 667	60 441	162 582	-
01.09.2018	31.12.2018	Anders Østby	SVP Power Market	626 667	156 667	53 456	62 882	595 000
23.10.2018	31.12.2018	Alexandra Bech Gjørv	Chair	187 500	-	-	-	-
04.07.2018	23.10.2018	Hilde Tonne	Chair, interim	75 000	-	-	-	-
04.07.2018	31.12.2018	Bente Sollid Storehaug	Board member	93 750	-	-	-	-
04.07.2018	31.12.2018	Bjørn Erik Næss <sup>(2)</sup>	Board member	93 750	-	-	-	-
04.07.2018	31.12.2018	Bård Vegar Solhjell	Board member	93 750	-	-	-	-
04.07.2018	31.12.2018	Mari Thjømøe <sup>(2)</sup>	Board member	93 750	-	-	-	-
04.07.2018	31.12.2018	Arvid Amundsen	Board member (employee representative)	423 349	-	5 286	24 610	-
04.07.2018	31.12.2018	Per Luneborg <sup>(2)</sup>	Board member (employee representative)	418 834	-	1 681	-	-
10.08.2018	31.12.2018	Johnny Kjønnås	Board member (employee representative)	594 697	-	1 681	70 356	-

<sup>1</sup>Applies to bonus achievement for the relevant period. Bonus to senior executives is a maximum of 25 % of fixed salary.

<sup>2</sup>Includes remuneration for work in the Audit Committee

## Note 7.1 Remuneration to senior executives and board members (cont.)

### Remuneration to senior executives in 2018, before Hafslund E-CO AS was established

From date	Up to and including date	Name	Position	Salaries, holiday pay and fees	Bonus <sup>1</sup>	Benefits in kind	Pension costs	Borrowings 31.12.2018
01.01.2018	03.7.2018	Finn Bjørn Ruyter <sup>(1)</sup>	CEO Hafslund AS	1 980 334	926 080	113 440	278 789	485 000
01.01.2018	31.8.2018	Tore Olaf Rimmereid <sup>(2)</sup>	CEO E-CO Energi AS	2 076 996	1 554 270	81 053	160 920	-
01.01.2018	31.7.2018	Heidi Ulmo	CFO Hafslund AS	1 637 938	396 770	161 405	199 931	220 000
18.06.2018	31.7.2018	Martin Lundby (acting from 18.6.2018)	CFO Hafslund AS	156 800	97 789	11 111	8 961	345 000
01.01.2018	31.8.2018	Alf Inge Berget	COO E-CO Energi AS	1 266 795	220 315	478 524	214 549	-
01.01.2018	31.8.2018	Kristin Lian	SVP Networks and CEO Hafslund Nett AS	1 491 103	436 370	124 638	143 568	260 000
01.01.2018	31.8.2018	Per-Arne Torbjørnsdal <sup>(2)</sup>	SVP Corporate Strategy and Communication E-CO Energi AS	1 266 337	1 108 252	150 987	210 987	-

<sup>1</sup>The CEO's bonus was a maximum of 50 % of fixed salary for the relevant period.

<sup>2</sup>Bonus includes "stay on bonus" of NOK 1,150,000 for Rimmereid and NOK 820,000 for Torbjørnsdal.

<sup>3</sup>Applies to bonus achievement for the relevant period.

## Note 7.1 Remuneration to senior executives and board members *(cont.)*

The overview above shows the remuneration of senior executives in the Hafslund E-CO Group for 2019 and 2018.

Board remuneration and remuneration for work in the audit and compensation committee apply to Hafslund E-CO AS.

Senior executives in 2019:

Name	Position	Comment
Finn Bjørn Ruyter	CEO	
Tore Olaf Rimmereid	Deputy CEO and SVP Corporate Strategy	
Heidi Ulmo	CFO (Chief Financial Officer)	
Alf Inge Berget	SVP Power Generation	
Stig Morten Løken	SVP Technical	Started 01.10.2019
Anders Østby	SVP Power Market	
Torill Benum	SVP New Energy	
Siw Hellesen	SVP HR and Organisational Development	
Per-Arne Torbjørnsdal	SVP Corporate Communications and Legal	
Martin Sleire Lundby	SVP projects	
Kristin Lian	SVP Networks	Up to and including 30.09.2019

### The Board's Compensation Committee

The Board of Hafslund E-CO AS has a dedicated Compensation Committee. The Compensation Committee advises the Board on all matters pertaining to the company's remuneration paid to the CEO. The Committee keeps up to date on and proposes guidelines for determination of remuneration paid to senior executives in the business. In addition, the Committee functions as the advisory body for the CEO regarding compensation schemes that essentially cover all employees, including Hafslund E-CO's bonus system and pension plan.

### Declaration on the determination of salaries and other remuneration

Remuneration paid to senior executives at Hafslund E-CO complies with guidelines and the declaration on determination of salaries and other remuneration paid to senior executives. The Board issues a declaration on the determination of salaries and other remuneration paid to the CEO and Group management. This is included below.

### Guidelines for remuneration paid to senior and other executives in the Hafslund E-CO Group

Remuneration paid to the CEO, Group management and other management in the Hafslund E-CO Group must be based on these guidelines. The guidelines must be consistent with the City of Oslo's guidelines for compensation schemes for senior executives in limited companies that are majority owned by the municipality.

### The Board of Directors

The Board adopts the CEO's terms and conditions of employment, and oversees the general terms and conditions of other senior Group executives. These terms are evaluated and adopted by the Board each year.

### **Note 7.1 Remuneration to senior executives and board members** *(cont.)*

If the CEO wishes to offer members of Group management or other senior executives remuneration not covered by these guidelines, this must be presented to the Board for approval. In such cases, the Board must justify and minute why the guidelines have been deviated from in each case.

The Board also determines the terms for the company's incentive scheme for managers and key individuals based on a recommendation from administration and the Compensation Committee.

#### **Terms and conditions, CEO**

Remuneration paid to the CEO must be competitive in relation to responsibilities and the industry in general. The remuneration must furthermore act as an incentive for long-term value creation through development of the enterprise and profit improvements and reflect the employee's experience and level of expertise. The remuneration comprises a fixed salary, bonus, an interest-free and instalment-free loan and a pension plan in accordance with the Group's prevailing schemes for Group management, in addition to a branded electric car. The bonus scheme is capped at 25 per cent of the fixed salary. The bonus is determined annually based on Group targets and objective individual targets. The CEO receives benefits in kind on a par with other senior Group executives. The retirement age is 70, and the CEO is a member of the Group's mandatory occupational pension plan (OTP) which provides 6 per cent of salary between 1 and 7.1 times the National Insurance Scheme's basic amount (G) and 18 per cent of salary between 7.1 and 12 G. Pension compensation providing a gross additional income of 16 per cent will be paid for basic salary

over 12 G on the condition that the CEO is a member of the defined contribution scheme. The CEO has the right to terminate his employment with an early retirement plan (AFP), in accordance with the prevailing regulations at any point in time. The CEO has a disability pension plan providing compensation of 66 per cent of salary over 12 G and is also covered by a collective accident insurance plan. The CEO has a six-month notice period. On leaving the company, he is entitled, on certain conditions, to continue receiving salary payments for 12 months (after the end of the notice period). Severance pay is reduced by any salary received from a new employer during the severance pay period. In such cases, severance payments are reduced by 66 per cent of the lower of the monthly severance pay and the new salary.

#### **Terms and conditions, other Group Management**

Remuneration for other Group management comprises a fixed salary, bonus, interest-free and instalment-free loans and pension under the Group's prevailing schemes for Group management. The bonus scheme is capped at 25 per cent of the fixed salary. The bonus is determined annually based on Group targets, company targets/business targets, objective individual targets and subjective individual assessments. Group management receives benefits in kind on a par with other senior Group executives. Group management covered by the defined contribution plan receive pension compensation providing a gross additional income of 16 per cent for salary over 12 G. The plan is similar to the plan for other employees in the Group with salaries over 12 G and a defined contribution plan. Group management receives a disability pension providing compensation of 66 per cent of salary between 12 and 30 G.

Group management has a six-month notice period. On leaving the

**Note 7.1 Remuneration to senior executives and board members** (cont.)

company, Group management is entitled, on certain conditions, to continue receiving salary payments for up to 12 months (after the end of the notice period). Severance pay is reduced by any salary received from a new employer during the severance pay period. In such cases, severance payments are reduced by 66 per cent of the lower of the monthly severance pay and the new salary.

**Fixed Salary**

Group management's fixed salary is based on the duties performed and level of responsibility, as well as the employee's expertise and length of service in the position. Salaries should be competitive in relation to responsibilities and industry levels.

**Annual bonus**

An annual bonus system has been established to act as an incentive for additional effort and value creation. Bonuses will be paid based on the added value generated by the employee or groups of employees. The bonus scheme for the CEO and other Group management is capped at 25 per cent. The bonus is established annually and Group targets are determined by the Board.

The targets and the weighting must be adapted to the needs of the individual company/enterprise. The annual bonus will be paid out after the presentation of the preliminary consolidated annual financial statements. The disbursed bonus is not included in the calculation basis for holiday pay or pension benefits. Should legislation require such benefits to be calculated based on salary including bonus, the bonus will be reduced by the amount necessary

to limit the bonus including other benefits to the total value determined in accordance with the above provisions. Board fees from work performed for Group companies can be deducted from the annual paid bonus.

**Pensions**

Senior and other executives should have a pension plan in accordance with the prevailing pension plan for the Group. Group employees who are members of the mandatory occupational pension are covered by an additional pension plan for salaries over 12 G. Pension compensation providing a gross additional income of 16 per cent will be paid for salary over 12 G. The retirement age for managers is 70. Managers are entitled to take early retirement in accordance with the prevailing AFP-agreement at any one time. Group management has a disability pension providing compensation of 66 per cent of salary between 12 and 30 G.

**Period of notice and severance pay**

Senior and other executives have a notice period of six months. In specific cases and depending on the position, salary payments may continue for 6 to 12 months beyond the ordinary notice period. Severance pay is not included in the basis for calculation of holiday pay or pension benefits. If the employee should begin a new job while receiving such pay, severance payments will be reduced by 66 per cent of the lower of the monthly severance payments and the new monthly salary. If a manager takes up a new position before the end of the notice period, the reduction mechanism applies to the entire severance pay period. In accordance with section 15 of the Norwegian Working Environment Act, severance pay entitles the employer to terminate the employment relationship at any time without further justification on full payment of severance pay.

## Note 7.1 Remuneration to senior executives and board members (cont.)

### Borrowings

Interest-free loans can be awarded for car purchases. Such loans are written down over 10 years in accordance with adopted guidelines. In addition, an annual operating subsidy can be awarded, as determined by the administration. The employee must pledge satisfactory security on property. Executive Vice President Stig Morten Løken does not have a car loan, but a company car scheme that has been continued from Eidsiva.

### Benefits in kind

Benefits in kind mainly relate to expenses for broadband (home office), mobile phones and newspapers.

### Holidays

Senior executives are entitled to holidays in line with the provisions of the Norwegian Annual Holidays Act and the Group's prevailing internal guidelines. Holiday pay is calculated based on basic salary. Additional benefits are not included in the calculation basis.

## Note 7.2 Pensions

Hafslund E-CO is obliged to have pension schemes for its employees according to the Occupational Pensions Act. The Group's pension schemes, which include both defined benefit and defined contribution plans, satisfies the requirements of the law. As of 31 December 2019, 421 employees were covered by the Group's pension schemes, including 190 in public defined benefit plans, 6 in private defined benefit plans and 225 employees in defined contribution plans. The defined benefit plans entitle employees to defined future benefits. These are essentially depending on the number

of years of service and the salary level at retirement age. The pension schemes are organised in Hafslund pension fund, E-CO Energi pension fund and insurance companies. In addition, some pensions are provided directly from the companies.

NOK million	31.12.2019	31.12.2018
<b>Liability recognised:</b>		
Present value of accrued pension liabilities for funded defined benefit plans	1 540	2 942
Fair value of pension assets	-1 659	-3 435
<b>Actual net pension liabilities for funded defined benefit plans</b>	<b>-120</b>	<b>-494</b>
Present value of pension liabilities for unfunded plans	49	69
<b>Net pension liabilities recognised (incl. Employer's National Insurance contributions)</b>	<b>-70</b>	<b>-423</b>
Net pension liabilities recognised	-51	-114
Net pension assets recognised	121	537
<b>Changes in the defined benefit pension liabilities during the year:</b>		
Pension liabilities at 1 January	3 007	3 110
Employer's National Insurance contribution	2	15
Present value of accrued pension entitlements for the year	23	20
Interest cost	40	71
Experience adjustments	-74	-
Changes in estimates	54	-52
Benefits paid	-78	-159
Liabilities on disposal and acquisition of business	-1 385	3
<b>Pension liabilities at 31 December</b>	<b>1 589</b>	<b>3 007</b>

## Note 7.2 Pensions (cont.)

NOK million	31.12.2019	31.12.2018
<b>Change in fair value of pension assets during the year:</b>		
Fair value of pension assets at 1 January 2018	3 436	3 262
Interest income	40	76
Changes in estimates	59	237
Total contributions	40	2
Total payments from fund	-78	-149
Pension assets on settlements and acquisitions	-1 838	8
<b>Fair value of pension assets at 31 December</b>	<b>1 659</b>	<b>3 436</b>
<b>Movement in actuarial gains and losses recognised in other comprehensive income</b>		
Accumulated amount recognised in other comprehensive income 1 January, adjusted for deferred tax liabilities	642	418
Recognised in other comprehensive income in the period in accordance with the actuarial calculation before tax	5	289
Additions/disposals of subsidiaries during the period	-609	-
<b>Accumulated amount recognised in other comprehensive income</b>	<b>38</b>	<b>707</b>
Deferred tax liabilities related to actuarial losses recognised in other comprehensive income during the period	-8	-66
<b>Accumulated amount after tax recognised in other comprehensive income</b>	<b>30</b>	<b>642</b>
<b>The following financial assumptions have been applied:</b>		
	<b>2019</b>	<b>2018</b>
Discount rate	2.30%	2.60%
Yield	2.30%	2.60%
Annual salary increase	2.25%	2.75%
Adjustment of National Insurance Scheme's basic amount (G)	2.00%	2.50%
Adjustment of current pensions, public plan	1.25%	1.75%

The discount rate is calculated on the basis of a complete interest rate curve that takes into account the fact that pension payments will mature at different points in time in the future. The curve is calculated based on prices of the OMF interest rate (covered bonds) on 31 December 2019, as calculated by the Norwegian Accounting Standards Board. Annual salary growth is calculated based on historical observations. Salary growth is on average set to 2.25 per cent over the period of service for the individuals included in the pension funds.

Demographic assumptions used in the calculations are based on the IR73 disability rate converted to intensity method and K2013BE mortality table.

NOK million	2019	2018
Accrued pension benefits for the year	13	33
Net interest costs	-	-6
Employer's National Insurance contribution	-	3
Recognized experience adjustments	-79	-
<b>Pension costs</b>	<b>-65</b>	<b>28</b>
<b>Pension costs defined contribution plans</b>	<b>11</b>	<b>18</b>
<b>Total pension costs</b>	<b>-54</b>	<b>46</b>

## Note 7.2 Pensions (cont.)

Sensitivity of pension liabilities to changes in the weighted financial assumptions:

NOK million	Impact on pension liabilities		
	Change	Increase in assumption	Decrease in assumption
Discount rate	0,5%	-7,7%	6,4%
Salary increase	0,5%	0,4%	-2,4%
Adjustment of National Insurance Scheme's basic amount (G)	0,5%	4,3%	-6,0%
Life expectancy	1 year	4,0%	-4,0%

Pension funds are invested in bonds, money market placements, shares and real estate. The bonds and money market instruments are issued by Norwegian and foreign states, municipalities, finance institutions and enterprises. Bonds in foreign currency are currency hedged to NOK. Equity investments include both Norwegian and foreign shares.

The real estate investments are in Norwegian commercial property. Any estimate deviation is distributed proportionally between the individual asset classes.

Pension assets comprise:

NOK million	31.12.2019		31.12.2018	
	Value	%	Value	%
Equity instruments	635	38%	1 348	39%
Interest-bearing instruments	879	53%	1 993	58%
Property	144	9%	95	3%
<b>Fair value pension assets</b>	<b>1 659</b>	<b>100%</b>	<b>3 436</b>	<b>100%</b>

In 2019, plan contributions were invested as follows:

NOK million	Level 1 Listed prices	Level 2 Observable prices	Level 3 Non-observable prices	Total
Equity instruments	-	635	-	635
Interest-bearing instruments	-	879	-	879
Property	-	-	144	144
<b>Total</b>	<b>-</b>	<b>1 515</b>	<b>144</b>	<b>1 659</b>

In 2018, plan contributions were invested as follows:

NOK million	Level 1 Listed prices	Level 2 Observable prices	Level 3 Non-observable prices	Total
Equity instruments	-	1 056	292	1 348
Interest-bearing instruments	-	1 993	-	1 993
Property	-	-	95	95
<b>Total</b>	<b>-</b>	<b>3 049</b>	<b>387</b>	<b>3 436</b>

From 1 January 2020 public service pensions for employees born after 31 December 1962 change. As a result, accrued pension rights until 31 December 2019 for employees born after 31 December 1962 are set as entitlement. Earnings for pensions from 1 January 2020 for employees born after 31 December 1962 will be in a public pension in a so-called contribution model (the "Allowance scheme"). After agreement with union representatives, Hafslund E-CO has decided not to switch to a new public service pension (the "Allowance scheme"). Employees applies to will instead be transferred to the Group's defined contribution scheme with

## Note 7.2 Pensions (cont.)

associated risk coverage. The Group has chosen to incorporate into the actuarial calculation as of 31 December 2019 the effect of employees born after 31 December 1962 switching to defined contribution plans and the termination of "old" public service pension schemes from 31 December 2019. The transition to defined contribution pension has resulted in NOK 40.8 million in reduced capitalised pension liabilities as of 31 December 2019.

## Note 8.1 Consolidated companies

### Key accounting policies

The consolidated financial statements include Hafslund E-CO AS and its subsidiaries. All enterprises over which the Group exercises control are deemed to be subsidiaries.

The Group exerts control over an enterprise if, and only if, Hafslund E-CO can claim the following:

- Power over the investee,
- Exposure, or rights, to variable returns from its involvement with the investee, and
- The ability to use its power over the investee to affect the amount of the investor's returns.

Hafslund E-CO normally deems that it has control when the Group holds at least 50 per cent of the voting rights in an enterprise. If necessary, the subsidiaries' financial statements are adjusted so that they are consistent with the Group's accounting policies. Intercompany sales and

balances, and gain and losses deriving from intercompany transactions, are eliminated. Subsidiaries are consolidated from the time the Group achieves control and are de-consolidated from the time control ceases.

SUBSIDIARIES DIRECTLY OWNED BY HAFSLUND E-CO AS	Registered office	Ownership interest	Voting rights
Hafslund AS	Oslo	100,0 %	100,0 %
E-CO Energi AS <sup>1</sup>	Oslo	57,2 %	57,2 %
Hafslund Produksjon Holding AS	Oslo	90,0 %	90,0 %
Oslo Lysverker AS	Oslo	100,0 %	100,0 %
Hafslund Hovedgård AS	Sarpsborg	100,0 %	100,0 %
Hafslund Ny Energi AS	Oslo	65,0 %	65,0 %

COMPANIES CONTROLLED BY SUBSIDIARIES	Registered office	Ownership interest	Voting rights
Hafslund Handel AS	Oslo	100,0 %	100,0 %
Eidsiva Vannkraft AS	Oslo	100,0 %	100,0 %
Hafslund Produksjon AS	Askim	100,0 %	100,0 %
Oppland Energi AS	Lillehammer	100,0 %	100,0 %
Sarp Kraftstasjon AS	Askim	100,0 %	100,0 %
Mork Kraftverk AS	Oslo	67,0 %	67,0 %
Hallingfisk AS	Hol	68,5 %	68,5 %

Hafslund E-CO AS owns 57.2 per cent of the shares in E-CO Energi AS. Eidsiva Energi AS owns the remaining 42.8 per cent. Through its 50 per cent ownership in Eidsiva Energi AS, the effective ownership share is 78.6 per cent. See also Note 3.5 Equity-accounted investees for how ownership is reflected in the consolidated financial statements.

<sup>1</sup>The Group's shareholding is 78.6 per cent (57.2 per cent directly and 21.4 per cent indirectly through the 50 per cent ownership in Eidsiva Energi)

## Note 8.2 Non-controlling interests

### Key accounting policies

IFRS does not regulate how to treat cases where a parent company owns a subsidiary where a share of the subsidiary is owned through a company that is recognised using the equity method.

The Group has chosen to use the “look-through approach” – meaning that the share that is owned indirectly is included in the share of the parent company when calculating the non-controlling interests.

As of 30 September there is a non-controlling interest in E-CO Energi AS amounting to 21.4 per cent, which is calculated as follows using the “look-through approach”:

Non-controlling interests, using the "look-through approach"	Shareholding
The Group's direct shareholding	57,2 %
The Group's shareholding through 50 % shareholding in Eidsiva Energi	21,4 %
The Group's shareholding "look-through approach"	78,6 %
Total shareholdings	100,0 %
<b>Non-controlling interests applying the “look-through approach”</b>	<b>21,4 %</b>

The table below presents an overview of information related to the Groups' subsidiaries where there are substantial non-controlling interests, before Group eliminations. The subsidiary E-CO Energi AS was 100 per cent owned until the transaction with Eidsiva Energi. Please refer to note 1.5 Transaction with Eidsiva Energi.

E-CO Energi and Hafslund Produksjon are subgroups of Hafslund E-CO and the amounts disclosed is for each subgroup.

NOK million	E-CO Energi	Hafslund Produksjon Holding	Total
<b>NCI percentage</b>	<b>21,4 %</b>	<b>10,0 %</b>	
Non-current assets	33 358	3 325	
Current assets	4 612	686	
Non-current liabilities	-25 897	-46	
Current liabilities	-2 927	-628	
Net assets	9 147	3 337	
<b>Net assets attributable to NCI</b>	<b>1 860</b>	<b>839</b>	<b>2 699</b>
Revenue	4 162	1 224	
Profit	1 475	442	
OCI	12	-	
Total comprehensive income	1 487	442	
<b>Profit allocated to NCI</b>	<b>221</b>	<b>44</b>	<b>265</b>
<b>OCI allocated to NCI</b>	<b>3</b>	<b>-</b>	<b>3</b>

In addition to the non-controlling interests in the table above there are non-controlling interests of NOK 2 million in other subsidiaries.

## Note 9.1 Related party transactions

All subsidiaries, associates and joint arrangements as specified in Notes 8.1 Consolidated companies, 3.5 Equity-accounted investees and 3.6 Joint arrangements are deemed to be related parties of the Group. The Group's management and Board are also defined as related parties, as specified in note 7.1 Remuneration to senior executives and Board members. Transactions with subsidiaries are eliminated in the consolidated financial statements and are not disclosed in this note.

The City of Oslo owns 100 per cent of Hafslund E-CO AS.

### *Subordinated loan from the City of Oslo*

The Group has a subordinated loan from the city of Oslo, with an outstanding balance as of 31 December 2019 of NOK 2,347 million (NOK 2,347 million). At the same date, accrued interest on the loan amounted to NOK 128 million (NOK 128 million). The loan had an interest rate of 5.44 per cent, no instalments and matures on 31 December 2037.

### *Subordinated loan from Oslo Energi Holding AS*

The Group has a subordinated loan from Oslo Energi Holding AS, which is 100 per cent owned by the City of Oslo, with an outstanding balance as of 31 December 2019 of NOK 1,500 million (NOK 1,500 million). At the same date, accrued interest on the loan amounted to NOK 73 million (NOK 37 million). The loan was put in place in connection with the establishment of Hafslund E-CO in 2018. The loan had an interest rate of 4.88 per cent, no instalments and matures on 31 December 2037.

On 11 February 2019, the District Court of Oslo pronounced a ruling on the determination of the settlement sum for minority shareholders in the former Hafslund ASA. The District Court established a market value for the shares in Hafslund ASA of NOK 147.13 per share, compared with the compulsory purchase price of NOK 96.76 per share as of 3 August 2017. Oslo Energi Holding AS has appealed the District Court's ruling, and the case was up for judgement in Borgarting Court of Appeal in February/March 2020. Due to the coronavirus the case was halted on 13 March 2020 and it is uncertain when the case will restart. The Court of Appeal will make its own assessment of what is the right value level, so it is difficult to predict what will be the final price. For example, if the court decides on a share price near the District Court's decision, then this will mean that Hafslund E-CO will have to repay in the order of NOK 0.5 billion of the subordinated loan to Oslo Energi Holding AS. The remaining amount to the minority shareholders will be covered by funds already allocated to Oslo Energi Holding AS. The legal judgment therefore has a potential liquidity effect for Hafslund E-CO, but does not affect the company's key financial ratios, as the outstanding amount of the subordinated loan will be reduced accordingly.

### *Subordinated loan from Eidsiva Energi AS*

The Group has a subordinated loan from the 50 per cent owned joint venture Eidsiva Energi AS, with an outstanding balance as of 31 December 2019 of NOK 1,917 million. The loan was established in 2019 in connection with the Eidsiva transaction, see note 1.5 Transaction with Eidsiva Energi. As of 31 December 2019, accrued interest on the loan amounted to NOK 26 million. The loan had an interest rate of 5.44 per cent, no instalments and matures on 31 December 2039.

**Note 9.1 Related party transactions** *(cont.)****Receivable on Fredrikstad Energi AS***

The Group has a long-term receivable from the associate Fredrikstad Energi AS, with a principal amount of NOK 49 million, in the form of a bond listed on the Nordic ABM. The loan matures on 19 December 2114. Fredrikstad Energi AS can redeem the loan the first time on 29 December 2025 (call date) and then every 5 years until maturity. The interest rate is 7 per cent until the call date in 2025 and thereafter 1-year NOK swap rate plus margin of 3.5 per cent. As of 10 years after the call date in 2025, the margin is increased to 4.5 per cent. The loan has a condition of so-called bypassed coupon payment if the interest coverage ratio falls below 2.5 per cent. For 2018 no interest was paid, while for 2019 interest of NOK 3 million was paid in full.

***Acquisition of Hafslund Hovedgård from Oslo Energi Holding AS***

Hafslund E-CO AS acquired Hafslund Hovedgård AS from Oslo Energi Holding AS in April 2019, with consideration in cash. The consideration of NOK 167 million was based on a valuation carried out by a third party. Hafslund E-CO AS and Oslo Energi Holding AS are both wholly owned by the City of Oslo.

**Note 9.2 Contingencies****Hafslund Energy Trading**

Hafslund Energy Trading Hafslund Energy Trading LLC (“HET”), which is owned by Hafslund Produksjon Holding, performed power trading activities in California (USA) between 1999 and 2001. During this period, there was a power crisis and since 2001 HET and public authorities in California (“California Parties”) have been in dispute, with the latter

claiming that HET must repay the capital. The Group believes that the probability of the Norwegian parent company being held liable is low and has consequently not recognised a provision in the financial statements.

**Note 9.3 Events after the reporting period**

The financial statements are considered authorised for issue once they have been approved by the Board of Directors. After this point, the General Meeting and regulatory authorities may refuse to approve the financial statements but may not change them. Events that take place before the financial statements are authorised for issue and related to matters that were known at the end of the reporting period, will be included in the information basis for determining accounting estimates and therefore be fully reflected in the financial statements. Events relating to matters that were not known at the end of the reporting period are disclosed if they are material. At the time of the presentation of the financial statements, there were no known material events after the reporting period that were expected to have an impact on the Group’s income statement for 2019 or its statement of financial position as of 31 December 2019.

Favourable prices at the level of 2019 were expected in 2020, but unexpected weather changes and very mild temperatures at the start of 2020 have put considerable pressure on power prices. The expected results for 2020 therefore shows a significant weakening compared to 2019 based on forward power prices.

The outbreak of the coronavirus started in China in December 2019 and was detected in Norway at the end of February 2020. The outbreak has

### Note 9.3 Events after the reporting period *(cont.)*

led to public mandatory regulations to halt further spread of the virus. The coronavirus, in addition to the drop in oil prices, has brought with it a significant drop in share prices on the stock exchange and also a reduced demand for power, where the reduced activity in power intensive industries could entail a further decline in the demand for power. The long-term effects of the coronavirus are yet uncertain and the extent of the spread of the virus could impact the Group's operational opportunities, while reduced demand for power and lower power prices would weaken the Group's profits further. Hafslund E-CO operates community-critical infrastructure and has, as a result of the coronavirus, initiated a separate emergency organisation and complies with the governments' current advice at all times. In addition, steps have been taken to price hedge a part of the power production, other operational matters will be reviewed, and new capital has been obtained to secure cash flows for current liabilities. Low power prices over time will affect the Group's liquidity, debt ratios and dividend capacity.

Due to a significant fall in future power prices and considerable uncertainty about the long-term effects of the coronavirus, the Board has decided not to propose dividends for the financial year 2019. The Board will continuously evaluate the Group's financial position, and possibly propose a special dividend for the financial year 2019 if considered appropriate considering the Group's equity and liquidity.

The financial statements have been prepared in accordance with the going concern assumption. It is the Board's view that the Group satisfied these prerequisites at the time the financial statements were approved for publication.

### Note 9.4 Integration of Hafslund og E-CO Energi in 2018

On 20 July 2018 the Oslo City Council decided to combine the ownership of Hafslund and E-CO Energi under a new wholly owned parent company. Hafslund E-CO AS was established on 4 July 2018 with the subsidiaries Hafslund AS and E-CO Energi Holding AS and together established the new Group. The two subsidiaries were 100 per cent owned by the City of Oslo both before and after the integration and the transaction was therefore a business combination under common control.

IFRSs do not prescribe the accounting treatment for a business combination under common control. It was therefore necessary to refer to IAS 8 to determine the accounting treatment of the business combination between Hafslund and E-CO Energi.

In practice, IFRSs permit two approaches to the accounting treatment:

- Application of IFRS 3 and the rules on the acquisition method when the transaction takes place under common control. In such cases, all the rules of IFRS 3 must be fully applied, including identifying the acquirer (the acquisition method)
- Combine the accounting values in the two groups (continuity of interest).

Management decided to recognise the combination using book values (continuity) by combining the consolidated figures for the two subgroups. The combination is based on a retrospective approach, in which the results of the combining parties for the entire accounting year (2018) are recognised, although the formal combination took place during the year.

# Contents

## Financial statements and notes Hafslund E-CO AS

### 3

#### **Financial statements**

[Income statement](#)

[Balance sheet](#)

[Cash flow statement](#)

#### **Notes**

[Note 1 Accounting policies](#)

[Note 2 Transactions and events in 2019](#)

[Note 3 Shares in subsidiaries](#)

[Note 4 Interest-bearing debt](#)

[Note 5 Other current liabilities](#)

[Note 6 Other non-current receivables](#)

[Note 7 Equity-accounted investees](#)

[Note 8 Financial items](#)

[Note 9 Equity](#)

[Note 10 Salaries and other personnel costs](#)

[Note 11 Pensions](#)

[Note 12 Other operating costs](#)

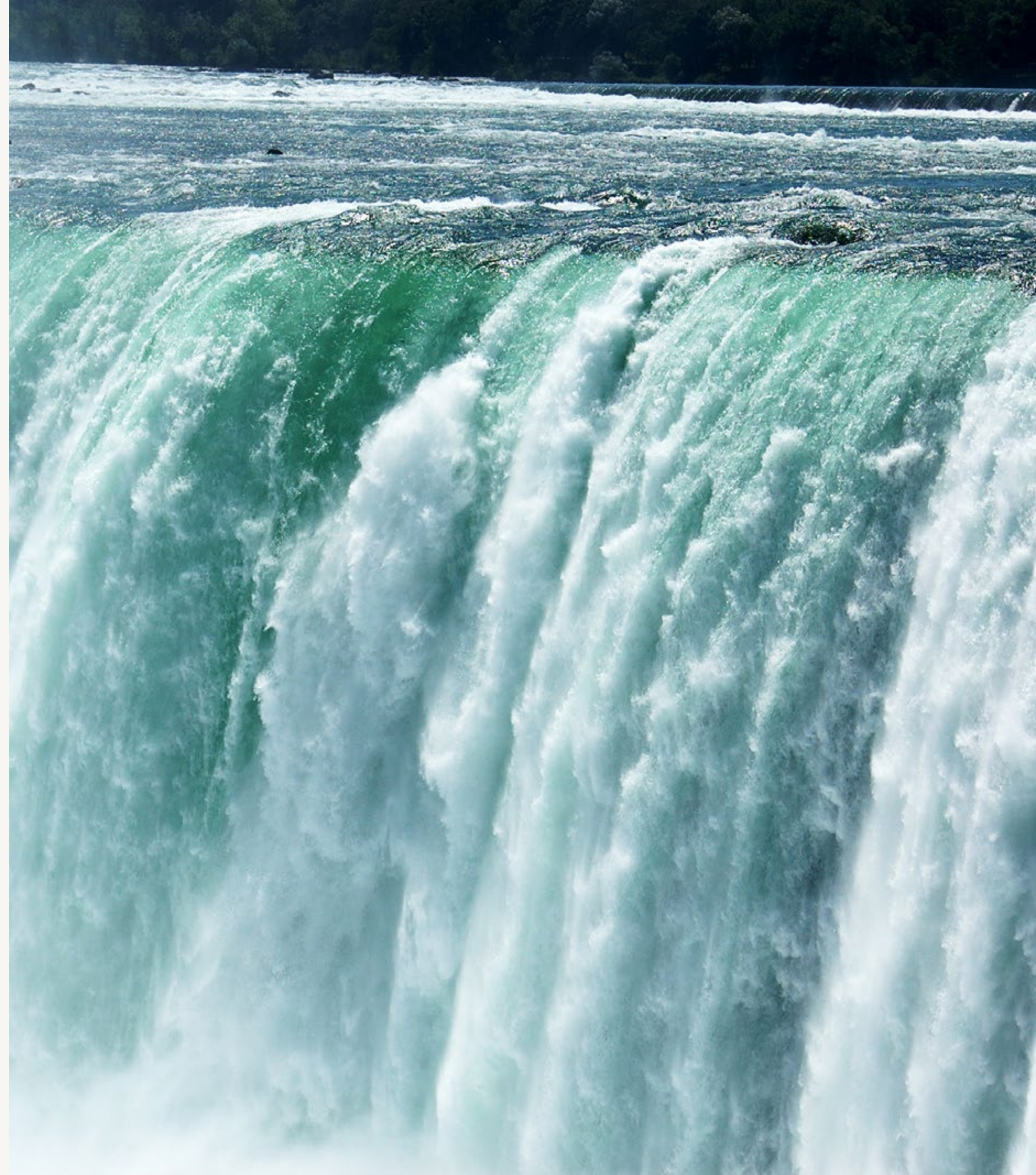
[Note 13 Guarantees](#)

[Note 14 Trade receivables and other non-interest-bearing  
current receivables](#)

[Note 15 Income taxes](#)

[Note 16 Related party transactions](#)

[Note 17 Events after the reporting period](#)



## Income statement – 1 January - 31 December

NOK million	Note	2019	2018 <sup>1</sup>
<b>Revenue</b>		<b>100</b>	<b>20</b>
Salary and other personnel expenses	10	-79	-23
Other operating expenses	12	-112	-10
Profit/loss from equity-accounted investees	7	-31	-
<b>Operating profit</b>		<b>-122</b>	<b>-13</b>
Interest income	8	407	19
Interest expenses	8	-574	-44
Other financial income/expenses	8	11 339	1 423
<b>Net financial items</b>	8	<b>11 172</b>	<b>1 398</b>
<b>Profit before tax</b>		<b>11 050</b>	<b>1 385</b>
Income taxes	15	-15	-63
<b>Profit for the year</b>		<b>11 035</b>	<b>1 323</b>

<sup>1</sup>Hafslund E-CO was established 4 July 2018. The 2018 income statement is for the period 4 July to 31 December 2018.

## Balance sheet - 31 December

NOK million	Note	2019	2018
<b>ASSETS</b>			
Property, plant and equipment		5	-
Investments in equity-accounted investees	7	75	-
Other non-current assets	6	22 677	2
Shares in subsidiaries	3	19 806	16 895
<b>Non-current assets</b>		<b>42 564</b>	<b>16 897</b>
Trade receivables	14	54	19
Other non-interest bearing current receivables	14	1 244	1 428
Shares and other financial assets		5	-
Cash and cash equivalents		4	5
<b>Current assets</b>		<b>1 308</b>	<b>1 452</b>
<b>Assets</b>		<b>43 872</b>	<b>18 349</b>

NOK million	Note	2019	2018
<b>EQUITY AND LIABILITIES</b>			
Paid in capital	9	15 395	15 395
Other equity	9	11 058	36
<b>Equity</b>	9	<b>26 453</b>	<b>15 430</b>
Non-current interest-bearing debt	4	15 374	1 500
Deferred tax liabilities	15	25	-
Pension liabilities	11	29	4
<b>Non-current liabilities</b>		<b>15 427</b>	<b>1 504</b>
Current interest-bearing debt	4	1 465	19
Trade payables		12	4
Other current non interest-bearing debt	5	484	1 329
Current tax liabilities	15	32	62
<b>Current liabilities</b>		<b>1 992</b>	<b>1 415</b>
<b>Equity and liabilities</b>		<b>43 872</b>	<b>18 349</b>

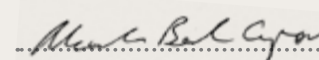
## Cash flow statement - 1 January - 31 December

NOK million	2019	2018 <sup>1</sup>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Operating profit before depreciation (EBITDA)	-122	-13
Changes in working capital	-63	18
Taxes paid	-286	-
Interest paid	-204	-
Other cash flow effects from operations	187	-
<b>Net cash flows from operating activities</b>	<b>-488</b>	<b>5</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Investments in subsidiaries	-172	-
Investments in associates and other financial investments	-14	-
Other investment activities	76	-
<b>Net cash flows from investing activities</b>	<b>-110</b>	<b>-</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Net increase in interest-bearing debt	409	-
Dividends paid	-1 284	-
Dividends and group contributions received	970	-
Cash balance taken over in merger with E-CO Energi Holding AS	502	-
Other financing activities	-	-
<b>Net cash flows from financing activities</b>	<b>597</b>	<b>-</b>
<b>Changes in cash and cash equivalents</b>	<b>-1</b>	<b>5</b>
Cash and cash equivalents at 1 January (4 July 2018)	5	-
<b>Cash and cash equivalents at 31 December 2019</b>	<b>4</b>	<b>5</b>

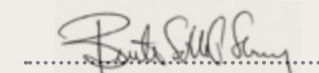
<sup>1</sup>Hafslund E-CO AS was established 4 July 2018 and the cash flows for 2018 are for the period 4 July to 31 December.

Oslo, 26 March 2020

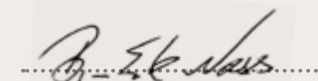
### The Board of Directors of Hafslund E-CO AS



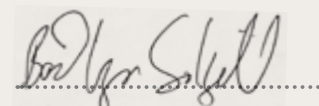
Alexandra Bech Gjørv  
Board Chair



Bente Sollid Storehaug



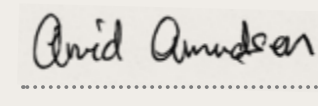
Bjørn Erik Næss



Bård Vegar Solhjell



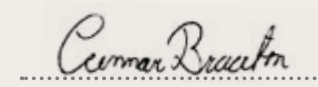
Mari Thjømøe



Arvid Amundsen



Jan Petter Knudsen



Gunnar Ola Braaten



Finn Bjørn Ruyter  
CEO

## Note 1 Accounting policies

On 20 June 2018 the Oslo City Council decided to combine the ownership of Hafslund AS and E-CO Energi Holding AS under joint board and management. Hafslund E-CO AS was established on 4 July 2018. 12 December 2019 E-CO Energi Holding was merged with Hafslund E-CO AS. The merger had accounting effect from 1 January 2019. The financial statements of Hafslund E-CO AS have been prepared in accordance with the Norwegian Accounting Act and generally accepted accounting practice in Norway (NGAAP). The company's head office is in Oslo.

### Revenue recognition

Hafslund E-CO's operating revenues consist mainly of services provided to group companies and are recognised as revenue when the service is delivered. Interest income consists of interest revenues from group companies and is recognised as income when it is earned. Dividends that are allocated in the subsidiaries are recognised in the same year as the dividend is allocated.

### Classification

Assets intended for permanent ownership or use are classified as non-current assets. Receivables that are repaid within one year, as well as assets that are not intended for permanent ownership or use for the business, are classified as current assets. Debt with maturity later than one year after the end of the financial year is classified as non-current debt. Other debt is classified as current liabilities.

### Measurement principles

#### *Trade and other receivables*

Trade and other receivables are measured at nominal value less provisions for expected losses. Provisions for losses are made based on an individual assessment of the individual receivables. The majority of the company's trade receivable are receivables from companies in the same group.

#### *Investments in subsidiaries*

Investments in subsidiaries are measured in accordance with the cost method. Investments in subsidiaries are written down to fair value when impairment is due to reasons that cannot be assumed to be temporary and it must be considered necessary in accordance with generally accepted accounting practice. Impairment losses are reversed when the basis for impairment is no longer present. Dividends received and other profit distributions from subsidiaries are recognised as financial income.

#### *Investments in associates*

Investments in associates are measured in accordance with the equity method. Dividends received are recognised in the balance sheet against the associate balance.

#### *Pensions*

See consolidated financial statements note 7.2 Pensions. Hafslund E-CO AS has applied NRS 6A, which refers to IAS 19, regarding the accounting treatment of pension costs.

**Note 1 Accounting policies** (cont.)**Income taxes**

The tax expense is based on the profit or loss before tax. The tax expense comprises taxes payable and changes in deferred tax liabilities/deferred tax assets. Taxes payable is calculated based on the taxable profit for the year. Deferred 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. Deferred tax assets relating to net tax-reducing temporary differences and tax losses carried forward are recognised 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.

**Interest-bearing liabilities**

Interest-bearing liabilities are measured at amortised cost using the effective interest method.

For all loans denominated in foreign currency, the principal payments and fixed interest in foreign currency have been swapped in a 1:1 ratio into principal payments in Norwegian kroner (NOK) and floating interest payments in Norwegian kroner by entering into combined interest rate and currency swap agreements. The hedging instruments have the same duration and maturity as the loans and there is an economic relationship between the hedging instruments and the hedged items. The hedges are accounted for as fair value hedges under NRS 18.20 (alternative 2B), and the book value of loans in the balance sheet show the principal in Norwegian kroner. Similarly, both interest costs and

accrued interest reflect the floating interest rate the company pays in Norwegian kroner.

Furthermore, terms on bond loans in Norwegian kroner have been swapped from fixed to floating interest rates using interest rate swaps. These hedges are also treated as fair value hedges in accordance with NRS 18.20 (alternative 2B). The hedging instruments have the same duration and maturity as the loans and there is an economic relationship between the hedged items and the hedging instruments. Both interest costs and accrued interest reflect the floating interest rate the company pays in Norwegian kroner.

The derivatives are not recognised in the balance sheet. Unrealised loss/gain on the derivatives offset the gain/loss from the hedged risk.

The consideration of hedge accounting could potentially have been affected by the uncertainty of a possible change from NIBOR to a reformed NOWA rate. The company has for the time being continued hedge accounting despite this uncertainty, cf. the statement from the Norwegian Accounting Foundation of 31 January 2020 "Accounting effect of the IBOR reform".

**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 Company's operating profit in order to be able to present cash flows from ordinary operating activities, investing activities and financing activities, respectively.

## Note 2 Transactions and events in 2019

### Merger with E-CO Energi Holding AS

In 2019, Hafslund E-CO AS merged with its wholly owned subsidiary E-CO Energi Holding AS, where Hafslund E-CO AS was the acquiring company. The merger was carried out as a simplified parent-subsidary merger with no consideration and was made as part of simplifying the corporate structure of the Hafslund E-CO Group.

Hafslund E-CO prepares consolidated financial statements, which before the merger included E-CO Energi Holding AS, in accordance with International Financial Reporting Standards ("IFRS") but prepares company accounts under the Norwegian Accounting Act and generally accepted accounting practice in Norway ("NGAAP"). IFRS Group values cannot be used from E-CO Energi Holding AS in Hafslund E-CO's company accounts prepared under NGAAP. The merger is therefore accounted for using the continuity method of accounting by using company book values.

The merger was carried out with accounting effect from 1 January 2019. In connection with the merger, Hafslund E-CO AS became the direct owner of the subsidiaries E-CO Energi AS, Hafslund Produksjon Holding AS and Oslo Lysverker AS.

### Sale of 42.8 per cent of the shares in E-CO Energi AS

In connection with the transaction with Eidsiva Energi, the Company disposed of 42.8 per cent of the shares in the wholly owned subsidiary E-CO Energi AS and owns 57.2 per cent in E-CO Energi AS after the transaction. For further information on the transaction with

Eidsiva Energi, see note 1.5 Transaction with Eidsiva Energi in the consolidated financial statements.

Gain from divestment of the shares of NOK 10.4 billion is recognised under financial income/expenses.

### Switching debtor on loans in Hafslund AS

A loan portfolio originally in Hafslund AS was transferred from Hafslund AS to Hafslund E-CO with effect from 10 October 2019, corresponding to an amount of NOK 2,664 million. At the same time, Hafslund E-CO received an internal loan of the same amount against Hafslund AS.

### Note 3 Shares in subsidiaries

NOK million	Registered office	Shareholding/ voting rights	Recognised value
<b>SHARES IN SUBSIDIARIES</b>			
Shares in Hafslund AS	Oslo	100%	6 427
Shares in Hafslund Hovedgård AS	Oslo	100%	167
Shares in E-CO Energi AS	Oslo	57%	5 819
Shares in Hafslund Produksjon Holding AS	Oslo	90%	7 148
Shares in Oslo Lysverker AS	Oslo	100%	245
Shares in Hafslund Ny Energi AS	Oslo	65%	1
<b>Shares in subsidiaries at 31 December 2019</b>			<b>19 806</b>
<b>SHARES IN SUBSIDIARIES</b>			
Shares in E-CO Energi Holding AS	Oslo	100%	10 468
Shares in Hafslund AS	Oslo	100%	6 427
<b>Shares in subsidiaries at 31 December 2018</b>			<b>16 895</b>

### Note 4 Interest-bearing debt

Hafslund E-CO AS has subordinated loans from the City of Oslo and Oslo Energi Holding AS respectively. The company's subordinated loans from the City of Oslo had outstanding balance as of 31 December 2019 of NOK 2,347 million (NOK 0 million). The loan had an interest rate of 5.44 per cent, no instalments and matures on 31 December 2037.

The subordinated loan from Oslo Energi Holding AS had outstanding balance as of 31 December 2019 of NOK 1,500 million (NOK 1,500 million). Oslo Energi Holding AS is 100 per cent owned by the City of Oslo, and is therefore a related party to Hafslund E-CO AS. The loan was put in place in connection with the establishment of Hafslund E-CO in 2018. The loan had an interest rate of 4.88 per cent, no instalments and matures on 31 December 2037.

If the Group's profit for the year shows deficit after interest charged on these subordinated loans, the interest rate shall be reduced by either the deficit or to NOK 0. The reduction is final, and the interest amount shall not be paid at a later date.

## Note 4 Interest-bearing debt (cont.)

NOK million	Loan amount	Currency	Due date	31.12.2019	31.12.2018
The Nordic Investment Bank	3 221	NOK	2020-2030	3 221	-
Certificate in the Norwegian market	600	NOK	2020	600	-
Bond issue in the Norwegian market	400	NOK	2022	400	-
Bond issue in the Norwegian market	500	NOK	2022	500	-
Bond issue in the Norwegian market	300	NOK	2023	300	-
Bond issue in the Norwegian market	450	NOK	2024	450	-
Bond issue in the Norwegian market	293	NOK	2024	293	-
Private placement in the American market	75	USD	2023	429	-
Private placement in the American market	290	NOK	2024	290	-
Private placement in the American market	25	USD	2026	143	-
Private placement in the American market	910	NOK	2027	910	-
Private placement in the Japanese market	5 000	JPY	2028	301	-
Bond issue in the Norwegian market	250	NOK	2029	250	-
Private placement in the Japanese market	5 000	JPY	2029	296	-
Private placement in the American market	723	NOK	2029	723	-
Bond issue in the Norwegian market	200	NOK	2030	200	-
Bond issue in the Norwegian market	200	NOK	2031	200	-
Private placement in the American market	125	USD	2031	1 036	-
Private placement in the German market	30	EUR	2031	237	-
Private placement in the American market	848	NOK	2032	848	-
Private placement in the American market	600	NOK	2033	600	-
Subordinated loan from the City of Oslo	2 347	NOK	2037	2 347	-
Subordinated loan from Oslo Energi Holding AS (owned by the City of Oslo)	1 500	NOK	2037	1 500	1 500
<b>Interest-bearing debt</b>				<b>16 075</b>	<b>1 500</b>
Hereof current interest-bearing debt				701	-
Hereof non-current interest-bearing debt				15 374	1 500
<b>Current interest-bearing debt</b>				<b>1 465</b>	<b>19</b>
Hereof drawing account in the Group account system				764	19
Hereof instalments due within one year				701	-

Hafslund E-CO has a credit facility of NOK 1.5 billion, which runs until 2022, with the option of 1 year extension. As of 31 December 2019, the facility had not been drawn.

## Note 5 Other current liabilities

NOK million	31.12.2019	31.12.2018
<b>OTHER CURRENT LIABILITIES</b>		
Group contributions	146	-
Accrued interest	336	37
Accrued dividend	-	1 284
Other short-term liabilities	1	8
<b>Other current liabilities</b>	<b>484</b>	<b>1 329</b>

## Note 6 Other non-current receivables

NOK million	31.12.2019	31.12.2018
<b>OTHER NON-CURRENT RECEIVABLES</b>		
Non-current receivables from Group Companies	22 627	-
Other non-current non-interest-bearing receivables	50	2
<b>Other non-current receivables</b>	<b>22 677</b>	<b>2</b>

Intra-group non-current receivables consist of loans to Hafslund AS totalling NOK 5,850 million, of which NOK 3,135 million constitute subordinated loans and loans to E-CO Energi AS totalling NOK 16,777 million, of which NOK 2,562 million constitute subordinated loans.

Of other non-current non-interest-bearing receivables, NOK 40 million is subordinated capital in the pension fund, and the remaining NOK 10 million is subordinated loan to the pension fund.

## Note 7 Equity-accounted investees

Company name	Acquisition date	Registered office	Shareholding	Voting rights	Type of investment	Included in balance at	
						31.12.2019	31.12.2018
NGK Utbygging	2019	Oslo	25 %	25 %	Associate	x	-
North Connect KS	2019	Kristiansand	20%	20%	Associate	x	-
North Connect AS	2019	Kristiansand	22%	22%	Associate	x	-

NOK million	NGK Utbygging	North Connect KS	NorthConnect AS	Total
<b>BALANCE AT 1 JANUARY 2019</b>	-	-	-	-
Share of profit after tax	1	-32	-	-31
Additions/disposals	23	60	7	91
Other equity changes	15	-	-	15
<b>Balance at 31 December 2019</b>	<b>40</b>	<b>28</b>	<b>7</b>	<b>75</b>

## Note 8 Financial items

NOK million	2019	2018
<b>INTEREST INCOME</b>		
Interest income	16	18
Interest income from Group companies	392	-
<b>Interest income</b>	<b>407</b>	<b>19</b>
<b>INTEREST EXPENSE</b>		
Interest expense	-496	-37
Interest expense to Group Companies	-77	-7
<b>Interest expense</b>	<b>-574</b>	<b>-44</b>
<b>OTHER FINANCIAL INCOME/EXPENSES</b>		
Dividends from subsidiaries	833	1 113
Other financial income/cost	119	310
Gain on sale of shares	10 387	-
<b>Other financial income/expenses</b>	<b>11 339</b>	<b>1 423</b>
<b>Net financial items</b>	<b>11 172</b>	<b>1 398</b>

NOK 73 million of the Company's interest expenses is interest on subordinated loans from Oslo Energi Holding AS and NOK 128 million is interest on subordinated loans from the City of Oslo.

Dividends from subsidiaries consist of dividends of NOK 309 million from E-CO Energi AS, NOK 199 million from Hafslund Produksjon Holding AS and NOK 325 million from Hafslund AS.

Other financial income mainly consists of financial income of NOK 124 million from E-CO Energi AS.

Gain on sale of shares is primarily related to the sale of 42.8 per cent in E-CO Energi AS to Eidsiva Energi AS. Please see note 1.5 Transaction with Eidsiva Energi in the consolidated financial statements for further details of the transaction.

## Note 9 Equity

NOK million	Share capital	Other paid in capital	Other equity	Total equity
<b>Equity at 4 July 2018</b>	<b>100</b>	<b>15 295</b>	<b>-</b>	<b>15 395</b>
Actuarial gains and losses			-3	-3
Profit for the year			1 323	1 323
Provision for dividend 2018			-1 284	-1 284
<b>Equity at 31 December 2018</b>	<b>100</b>	<b>15 295</b>	<b>36</b>	<b>15 430</b>
Actuarial gains and losses			-22	-22
Profit for the year			11 035	11 035
Change in equity, merger of Hafslund E-CO AS and E-CO Energi Holding AS			10	10
<b>Equity at 31 December 2019</b>	<b>100</b>	<b>15 295</b>	<b>11 058</b>	<b>26 453</b>

The total number of shares is 100,000 and the nominal value of the shares is NOK 1,000. The City of Oslo owns all the shares.

## Note 10 Salaries and other personnel costs

NOK million	2019	2018
<b>SALARIES AND OTHER PERSONNEL COSTS</b>		
Wages and salaries	56	20
Employers' national insurance contributions	8	3
Pension costs	7	-1
Other personnel costs	8	1
<b>Salaries and other personnel costs</b>	<b>79</b>	<b>23</b>
Average number of FTEs (Full-time equivalents)	29	17

For remuneration to senior executives, please see note 7.1 in Hafslund E-CO's consolidated financial statements for 2019.

## Note 11 Pensions

Hafslund E-CO is obliged to have pension schemes for its employees according to the Occupational Pensions Act. The Group's pension schemes, which include both defined benefit and defined contribution plans, satisfies the requirements of the law. As of 31 December 2019, 6 employees were covered by the Group's pension schemes, including 1 in public defined benefit plans and 5 in defined contribution plans. The defined benefit plans entitle employees to defined future benefits. These are essentially depending on the number of years of service and the salary level at retirement age. The pension schemes are organised in E-CO Energi pension fund and insurance companies.

**Note 11 Pensions** (cont.)

NOK million	31.12.2019	31.12.2018
<b>LIABILITY RECOGNISED</b>		
Present value of accrued pension liabilities for funded defined benefit plans	81	62
Fair value of pension assets	-60	-60
<b>Actual net pension liabilities for funded defined benefit plans</b>	<b>21</b>	<b>2</b>
Present value of pension liabilities for unfunded plans	8	2
<b>Net pension liabilities recognised (incl. Employer's National insurance contribution)</b>	<b>29</b>	<b>4</b>
Net pension liabilities recognised	-29	-4
Net pension assets recognised	-	-
<b>The following financial assumptions have been applied</b>		
	<b>2019</b>	<b>2018</b>
Discount rate	2,30%	2,60%
Yield	2,30%	2,60%
Annual salary increase	2,25%	2,75%
Adjustment of National Insurance Scheme's basic amount (G)	2,00%	2,50%
Adjustment of current pensions, public plan	1,25%	1,75%

The discount rate is calculated on the basis of a complete interest rate curve that takes into account the fact that pension payments will mature at different points in time in the future. The curve is calculated based on prices of the OMF interest rate (covered bonds) on 31 December 2019, as calculated by the Norwegian Accounting Standards Board. Annual salary growth is calculated based on historical observations.

Salary growth is on average set to 2.25 per cent over the period of service for the individuals included in the pension funds. Demographic assumptions used in the calculations are based on the IR73 disability rate converted to intensity method and K2013BE mortality table.

NOK million	2019	2018
Accrued pension benefits for the year	1	-
Net interest costs	-	-
Employer's National Insurance contributions	-	-
Net liability on curtailment, through profit or loss	-	2
Experience adjustments	2	-
<b>Pension costs defined benefit plans</b>	<b>3</b>	<b>2</b>
<b>Pension costs defined contribution plans</b>	<b>4</b>	<b>-1</b>
<b>Total pension costs</b>	<b>7</b>	<b>1</b>

## Note 12 Other operating costs

NOK million	2019	2018
<b>OTHER OPERATING COSTS</b>		
Maintenance	2	-
Purchase of external services	83	7
Office expenses	2	-
Sales and marketing expenses	3	-
Other items	21	2
<b>Other operating costs</b>	<b>112</b>	<b>10</b>
<b>AUDITOR'S FEES (NOK' 000)</b>		
Mandatory audit	1 003	75
Other assurance services	78	-
Tax consultancy services	182	-
Other non-audit fees	683	-
<b>Total auditor's fees</b>	<b>1 946</b>	<b>75</b>

Value-added tax is not included in the specified audit fee.

## Note 13 Guarantees

As security for certain obligations, the Company purchases bank guarantees. As of 31 December 2019, these guarantees amounted to NOK 5 million in employee tax deduction guarantees (NOK 26 million), NOK 0 million in rental guarantees (NOK 34 million) and NOK 0.2 million in contract and payment guarantees (NOK 1 million).

## Note 14 Trade receivables and other non-interest-bearing current receivables

NOK million	31.12.2019	31.12.2018
<b>TRADE RECEIVABLES</b>		
Trade receivables	54	19
<b>Trade receivables</b>	<b>54</b>	<b>19</b>
<b>OTHER NON-INTEREST-BEARING CURRENT RECEIVABLES</b>		
Receivable group contribution	188	310
Other non-interest-bearing current receivables	963	1 118
Accrued interest income from Group companies	93	-
Accrued other income/prepaid expenses	1	-
<b>Other non-interest-bearing current receivables</b>	<b>1 244</b>	<b>1 428</b>

Other current non-interest-bearing receivables consist mainly of current receivables from Group companies and dividends of NOK 309 million from E-CO Energi AS, NOK 199 million from Hafslund Produksjon Holding AS and NOK 325 million from Hafslund AS.

## Note 15 Income taxes

NOK million	2019	2018
<b>TAX EXPENSE</b>		
Income tax payable	32	62
Tax on group contribution	-41	1
Deferred tax on actuarial gain/loss against equity	6	-
Change in deferred tax liability/(asset)	17	-
Too little (much) tax set aside in previous years	2	-
<b>Tax expense in the income statement</b>	<b>15</b>	<b>63</b>
<b>RECONCILIATION OF TAX RATE</b>		
<b>Profit before tax</b>	<b>11 050</b>	<b>1 385</b>
22 % (23 %) of profit before tax	2 431	319
22 % (23 %) of permanent differences, dividends	-2 457	-257
22 % (23 %) actuarial gains and losses	6	1
22 % (23 %) Effect of unrecognised tax benefit	35	-
Too little (much) tax set aside in previous years	2	-
Effect of unrecognised deferred tax liability/(asset) at 1 January	-1	-
<b>Total tax expense</b>	<b>15</b>	<b>63</b>

NOK million	31.12.2019	31.12.2018
<b>DEFERRED TAX</b>		
Current assets	1	-
Property, plant and equipment	127	-
Other	15	-
Pensions	-29	-2
<b>Total</b>	<b>114</b>	<b>-2</b>
Tax rate	22%	22%
Deferred tax liability (asset)	25	-

## Note 16 Related party transactions

### Management fee

Please see note 6 Other non-current receivables. Hafslund E-CO has in 2019 invoiced management fee to their subsidiaries.

### Subordinated loan from the City of Oslo

Hafslund E-CO AS has a subordinated loan from the City of Oslo with a balance of NOK 2,347 million (NOK 0 million) as of 31 December 2019. The loan has no instalments and matures on 31 December 2037.

### Subordinated loan from Oslo Energi Holding AS

Hafslund E-CO AS has a subordinated loan from Oslo Energi Holding AS, which is 100 per cent owned by the City of Oslo, with balance of NOK 1,500 million (NOK 1,500 million) at 31 December 2019. The loan was put in place in connection with the establishment of Hafslund E-CO, has no instalments and matures on 31 December 2037.

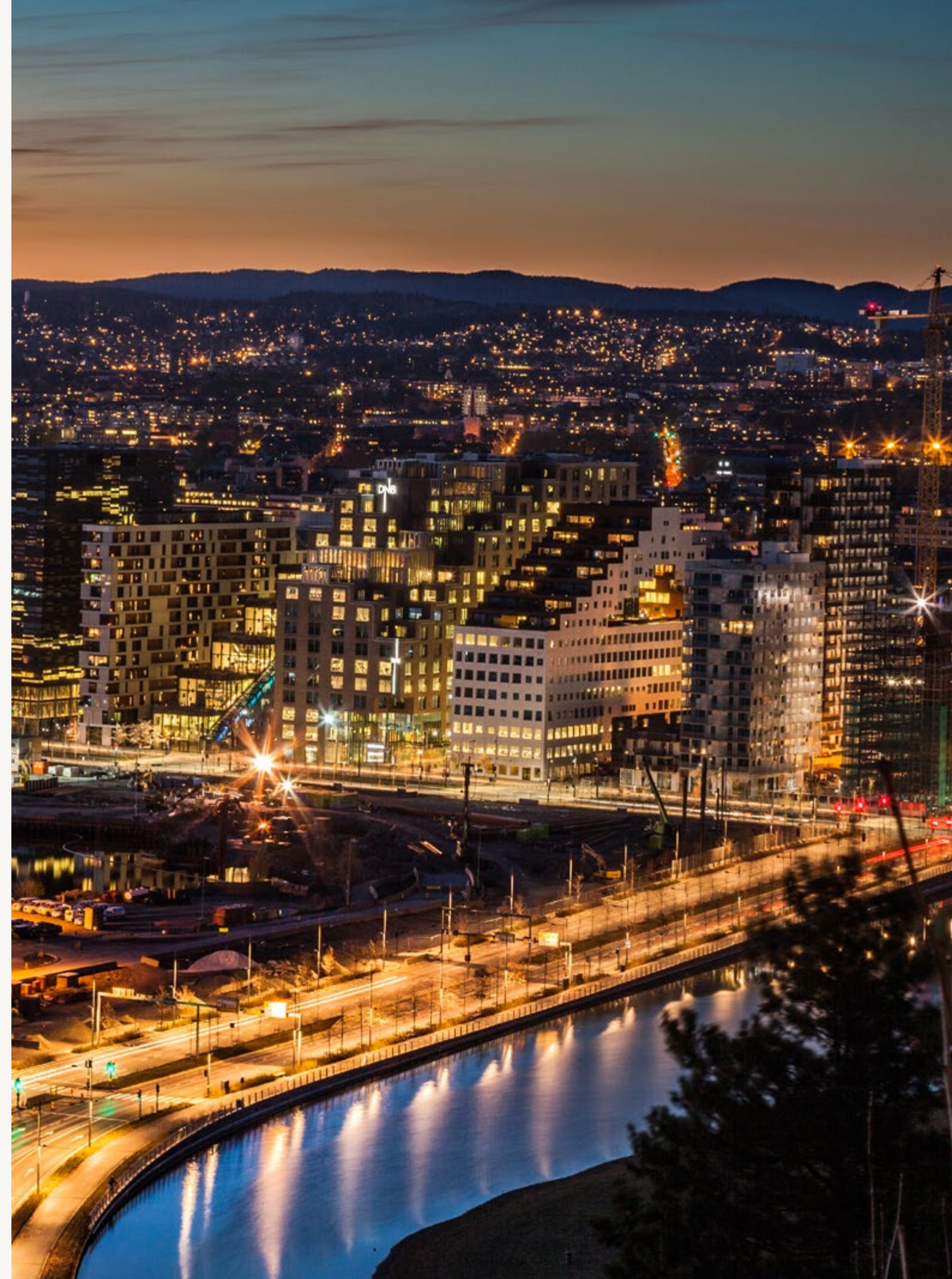
For more information about the loans and terms, see 5.2 Interest-bearing debt in the consolidated financial statements.

### Acquisition of Hafslund Hovedgård AS (Hafslund Manor)

Hafslund E-CO AS acquired Hafslund Hovedgård AS (Hafslund Manor) from Oslo Energi Holding AS in April 2019, with consideration in cash. The consideration of NOK 167 million was based on a valuation carried out by a third party.

## Note 17 Events after the reporting period

Reference is made to note 9.3 to the consolidated financial statements.



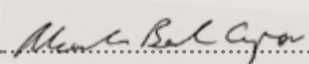
# Statement pursuant to §5-5 of Norway's Securities Trading Act

We declare to the best of our knowledge that:


- The consolidated financial statements for 2019 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 2019 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 from the Board of Directors provides a true and fair picture of the development, performance and position of the company and the Group, as well as a description of the most important risk factors and uncertainties facing the business

Oslo, 26 March 2020

## The Board of Directors of Hafslund E-CO AS



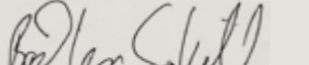
Alexandra Bech Gjorv  
Board Chair



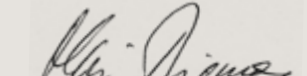
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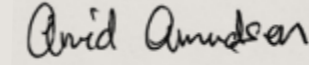
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Bård Vegar Solhjell



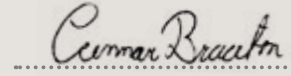
Mari Thjømøe




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Jan Petter Knudsen



Gunnar Ola Braaten



Finn Bjørn Ruyter  
CEO

# Auditor's Report



To the General Meeting of Hafslund E-CO AS

## **Independent Auditor's Report**

*Report on the Audit of the Financial Statements*

### *Opinion*

We have audited the financial statements of Hafslund E-CO AS, which comprise:

- The financial statements of the parent company Hafslund E-CO AS (the Company), which comprise the balance sheet as at 31 December 2019, the income statement and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and
- The consolidated financial statements of Hafslund E-CO AS and its subsidiaries (the Group), which comprise the statement of financial position as at 31 December 2019, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion:

- The financial statements are prepared in accordance with the law and regulations.
- The accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2019, and its financial performance and its cash flows for the year then ended in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway.
- The accompanying consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2019, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

### *Basis for Opinion*

We conducted our audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company and the Group as required by laws and regulations, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### *Key Audit Matters*

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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**Key Audit Matter**

**How our audit addressed the Key Audit Matter**

*Transactions and restructuring (see note 1.5)*

During the first half of 2019, Hafslund E-CO AS and Eidsiva Energi AS agreed to merge their core businesses within production and distribution of electricity. The transaction was formally closed and effective as of 30 September 2019.

The transaction was mainly carried out as an exchange of assets where 100 per cent of Hafslund Nett AS and 42.8 per cent of E-CO Energi AS were transferred to Eidsiva Energi AS in exchange for 50 per cent of Eidsiva Energi AS and 100 per cent of Eidsiva Vannkraft AS. In addition, different balancing transactions were carried out in order to obtain the desired capital structure within the two groups.

Due to the impact on the financial statements arising from the inherent complexity related to accounting and legal matters and the significant transaction amounts, this has been a key matter in the audit of Hafslund E-CO AS and its subsidiaries (the Group).

Please see note 1.5 to the financial statements where management explains the transaction and the nature of its execution in further detail.

We obtained and spent time understanding the content of relevant documents pertaining to company law and the underlying transactions. To further support our understanding, we carried out meetings and discussions with the company's management team and advisors.

Furthermore, our focus has been on the determination of the consideration amount and the corresponding allocation in the consolidated statements. To address this matter, we focused our attention towards the accounting solutions chosen by the management team and whether these are in accordance with the legal elements in the transactions and IFRS requirements. Through meetings and discussions, we challenged management's assessments.

The key accounting issues were related to recognition of Eidsiva Energi AS' minority share in the consolidated statements and recognition of the gain from transferring Hafslund Nett AS. Management considered this matter and concluded that Eidsiva Energi AS' minority share shall be recognized with 21.4 per cent in the consolidated statements due to the Hafslund E-CO Group's share in Eidsiva Energi AS. Moreover, through its ownership in Eidsiva Energi AS, management concluded that the Group continues to own 50 per cent of Hafslund Nett AS and has therefore recognized 50 per cent of the gain related to the transfer in the financial accounts. Our evaluations show that management's conclusions are in accordance with the legal elements in the transactions and IFRS requirements.

In addition, we performed detailed substantive procedures in order to evaluate the accuracy and completeness of recognition and presentation of transactions in the consolidated statements related to the agreement between Hafslund E-CO AS and Eidsiva Energi AS. This included an evaluation of whether the presentation in the financial statements and accompanying notes are in compliance with IFRS requirements.

(2)

*Other information*

Management is responsible for the other information. The other information comprises information in the annual report, except the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

*Responsibilities of the Board of Directors and the Managing Director for the Financial Statements*

The Board of Directors and the Managing Director (Management) are responsible for the preparation in accordance with law and regulations, including fair presentation of the financial statements of the Company in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway, and for the preparation and fair presentation of the consolidated financial statements of the Group in accordance with International Financial Reporting Standards as adopted by the EU, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's and the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern. The financial statements of the Company use the going concern basis of accounting insofar as it is not likely that the enterprise will cease operations. The consolidated financial statements of the Group use the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

*Auditor's Responsibilities for the Audit of the Financial Statements*

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error. We design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one

(3)



resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's or the Group's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company and the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company and the Group to cease to continue as a going concern.
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Board of Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

#### *Report on Other Legal and Regulatory Requirements*

#### *Opinion on the Board of Directors' report*

Based on our audit of the financial statements as described above, it is our opinion that the information presented in the Board of Directors' report and in the statements on Corporate Governance and Corporate Social Responsibility concerning the financial statements, the going concern assumption and the proposed allocation of the result is consistent with the financial statements and complies with the law and regulations.

(4)



#### *Opinion on Registration and Documentation*

Based on our audit of the financial statements as described above, and control procedures we have considered necessary in accordance with the International Standard on Assurance Engagements (ISAE) 3000, Assurance Engagements Other than Audits or Reviews of Historical Financial Information, it is our opinion that management has fulfilled its duty to produce a proper and clearly set out registration and documentation of the Company's accounting information in accordance with the law and bookkeeping standards and practices generally accepted in Norway.

Oslo, 26 March 2020

**PricewaterhouseCoopers AS**

Thomas Fraurud

State Authorised Public Accountant

*Note: This translation from Norwegian has been prepared for information purposes only.*

(5)

## Contact details

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