

Hafslund ASA

Valuation report to the Board of Directors regarding announced bid from Bidco (City of Oslo)

12 June, 2017

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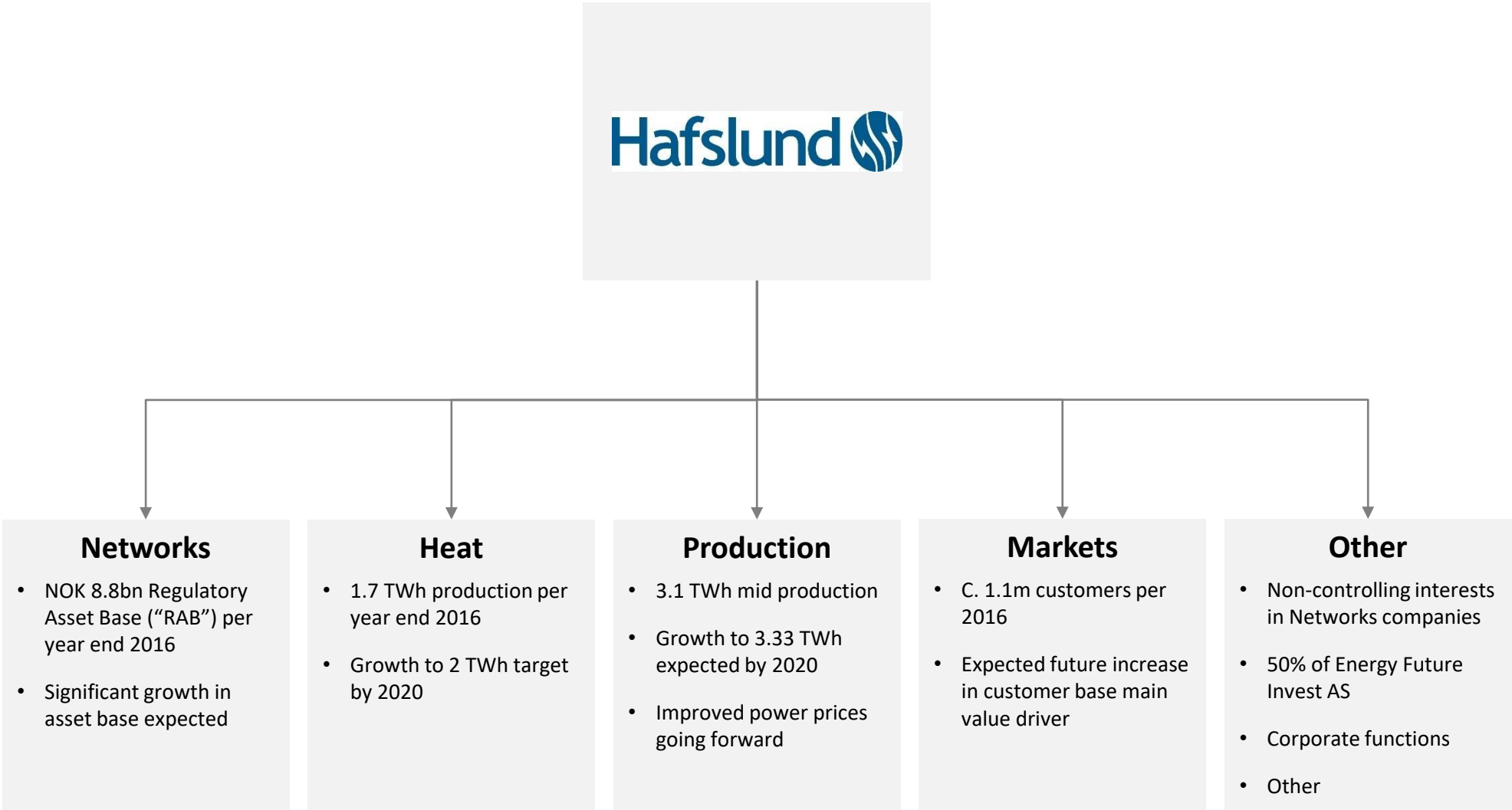
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Background

- SB1 Markets has been requested by the Board of Directors (the "**Board**") of Hafslund ASA ("**Hafslund**") to perform a valuation of the Company's shares from a financial point of view in connection with the voluntary cash offer ("**Offer**") by Oslo kommune ("**OK**"), through a wholly owned company ("**Bidco**"), for all the shares in Hafslund
- SB1 Markets is continually engaged in the valuation of businesses and their securities in connection with mergers and acquisitions, competitive bidding, secondary distributions of listed and unlisted securities, private placements and valuations for corporate and other purposes. SB1 Markets' Energy and Utilities team is familiar with Hafslund as the team members have acted as financial advisors within the industry over the past 20 years
- The valuation is made on objective criteria to the extent possible, based on generally and recognized valuation methods that have been deemed applicable. The valuation is based upon commercial, economic and other conditions available that can be validated (and that have been made available to us) on the date of this presentation. SB1 Markets emphasizes that a valuation of this nature will always contain elements of uncertainty
- SB1 Markets present two value estimates for Hafslund
 - Expected transaction value as of today
 - The sum of what each of Hafslund's business segments could alternatively be sold for today
 - A key value driver is what comparable companies have been sold for recently
 - DCF
 - The sum of the future expected cash flow, discounted by the estimated applicable discount rate, for each of Hafslund's business segments
 - The equity value according to each of the two methodologies is found by subtracting a normalized net interest bearing debt throughout the year
- Short-term investors tend to look at the expected transaction value, while long-term investors tend to look more at the DCF value

Hafslund Group overview



Valuation methodology

Comments

- Discounted cash flow (“DCF”)
 - Reviewed historical performance and estimated expected future development for each of Hafslund’s business segments, based on available information
 - Future unlevered cash flow to each of Hafslund’s business segments is discounted by the relevant discount factor for the segment, thus adjusting for the opportunity cost of capital
 - The sum of the discounted cash flows yields Hafslund’s Enterprise Value (“EV”)
 - DCF-equity value of Hafslund ASA is found by deducting the net interest bearing debt from the EV
- Expected transaction value today
 - Represents SB 1 Markets’ estimate of what Hafslund’s expected transaction value is as of today
 - Value driver for each of Hafslund’s business segments are multiplied with relevant valuation multiples of recent, comparable transactions
 - The basis for each of Hafslund’s business segment is dependent on the market practice for each of these segments
 - Networks: Regulatory Asset Base (“RAB”)
 - Heat: EBIT
 - Production: NOK / kWh
 - Markets: IPO valuation indication from six leading Nordic investment banks
 - The equity value is the sum of the expected transaction value as of today for each of its business segments, minus net interest bearing debt

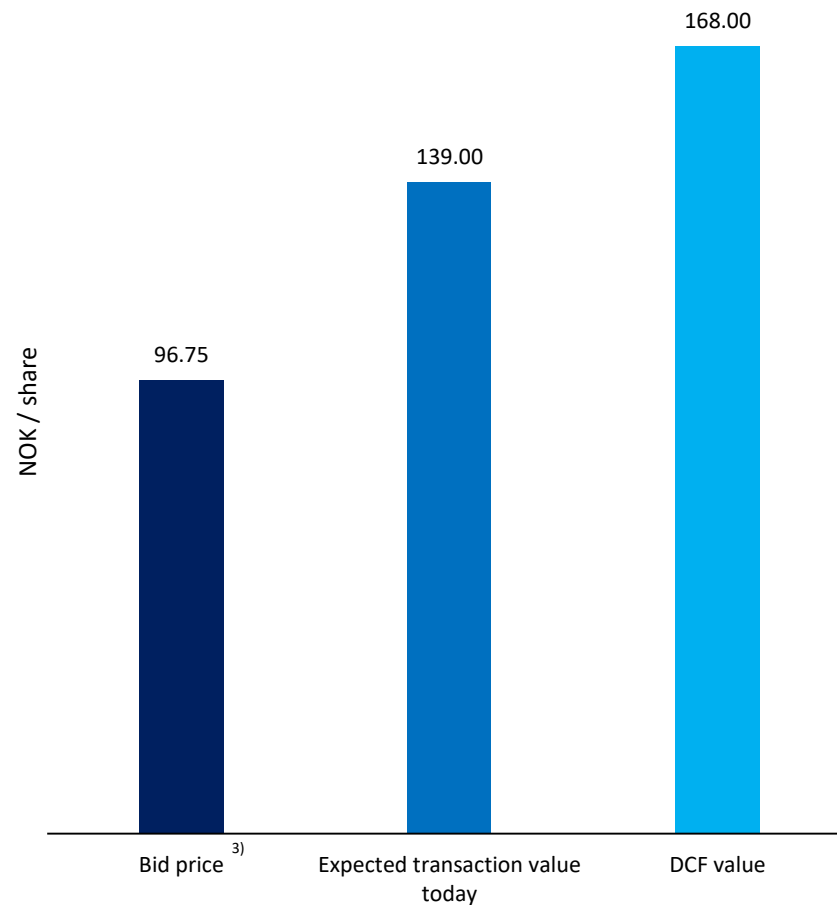
Overview of analyzes executed

Business	DCF	Expected transaction value today	SOTP
Networks	✓	✓	
Heat	✓	✓ ¹⁾	
Production	✓	✓	
Markets	✓	✓ ²⁾	
Other		✓	
Hafslund ASA			✓

1) No relevant peer transactions to Hafslund Heat found in Norway, as other transactions being significantly smaller
 2) IPO valuation indication from six leading Nordic investment banks

Value summary

Entity	BIDCO VALUATION		DCF ESTIMATE		EXPECTED TRANSACTION VALUE TODAY		
	Value (NOKm)	Per share (NOK) ¹⁾	Value (NOKm)	Per share (NOK) ¹⁾	Value (NOKm)	Per share (NOK) ¹⁾	Methodology
Networks	11,587 ²⁾	59.4	14,900	76.4	14,100	72.3	1.6x RAB
Heat	4,700	24.1	7,900	40.5	6,900	35.4	15.0x 2020 EBIT
Production	7,750	39.8	11,100	56.9	9,500	48.7	NOK 3/ kWh mid-level production
Markets	4,500	23.1	7,700	39.5	5,400	27.7	Mid range of IPO value indications
Other	N/A ²⁾	N/A	200	1.0	200	1.0	
EV	28,537	146.4	41,800	214.4	36,100	185.2	
NIBD	9,045	46.4	9,000	46.2	9,000	46.2	Seasonally adjusted 1Q 17 NIBD
Dividend	633	3.3					
Equity value	18,859	96.8	32,800	168.3	27,100	139.0	EV-NIBD



1) Based on 194,922,974 shares outstanding (excluding treasury shares)

2) Note valuation of "Networks" and "Other" not explicit in the bid, ref. stock exchange notification per 26 Apr. 17 and Hafslund 1Q 2017 presentation, p. 28

3) Adjusted for NOK 3.25 / share dividend

Value discussion

Networks

Value

SB1 Markets concludes that an expected transaction value for Hafslund Networks as of today is NOK 14,100m

- Implied valuation of 1.6x RAB
- EV/EBIT: 14x 2018E
- Somewhat lower than DCF value at NOK 14,900m

Value drivers

- According to the Norwegian regulator, NVE, Hafslund is one of the most efficient network operators in Norway with both regional and local networks
- Over the last decade, due to virtually zero interest rates in Europe, pension funds and insurance companies in Norway and Europe have increasingly been interested in power grids as an asset class, in order to diversify its low yielding bond portfolios into asset class with somewhat more expected yield capacity
- Due to increased incentives for consolidation in the industry, consolidation itself triggers potential re-pricing of grid companies in Norway

Heat

SB1 Markets concludes that an expected transaction value for Hafslund Heat as of today is NOK 6,900m

- Implied valuation of 1.5x capital employed
- DCF value estimated to NOK 7,900m

- Since the business delivered 6.3% return on capital employed in 2016, has Networks-like business characteristics and expected volume growth at limited CAPEX that harvest economies of scale going forward, a valuation of NOK 6,900m (1.5x 2016 capital employed) is reasonable
- Total energy production in 2016 was 1.7 TWh, 20% of heating need in Oslo. Very attractive location
- Capacity of 2.0 TWh, potential for Hafslund Heat with potential for organic growth; Customer densification, replace oil heating in Oslo, cooling, new products and services
- Attractive risk profile as income is regulated (>50%) and natural monopoly, 99 percent of the energy used for energy production came from renewable sources in 2016
- Heat also including projects within solar, renewables and energy solutions, which can be assumed to increase values (not included in value estimate)
- Effect of synergies Heat vs. Networks and digitalization not included in value estimate

Value discussion

	Value	Value drivers
Production	<p>SB1 Markets concludes that an expected transaction value for Hafslund Production as of today is NOK 9,500m</p> <ul style="list-style-type: none"> – Implied value of NOK 3.00 per kWh of mid-level production¹ – Somewhat below DCF value at NOK 11,100m, due to uncertain future power prices 	<ul style="list-style-type: none"> • The recent power transactions in the Nordic region, has shown that financial buyers pay higher prices than industrial buyers for power production • This was the case when Statkraft and its partners sold Småkraft, and when E-CO and its partners sold Norsk Grønnkraft, production of 1.2 TWh in total • Statkraft's sale of its production assets in Finland went to a financial buyer at a significantly higher price than what the current bid implies (also adjusting for differences in tax systems) • Over the last decade, due to falling interest rates, today virtually zero in Europe, pension funds and insurance companies in Europe have increasingly been interested in power production as an asset class, in order to diversify its low yielding bond portfolios into an asset class with somewhat higher expected yield capacity
Markets	<p>SB1 Markets concludes that an expected transaction value of Markets as of today is NOK 5,400m</p> <ul style="list-style-type: none"> – In line with mid range of IPO value indications, which SB1 Markets believe is a fair assessment – 6 leading Nordic investment banks presented their view to Hafslund on valuation, implying a fair EV pricing in an IPO in January 2016: Value range² NOK 4,700m – 6,100m – DCF value estimated to NOK 7,700m 	<ul style="list-style-type: none"> • Number 1 market position in Norway and Top 5 Nordic <ul style="list-style-type: none"> – 1.1m customers as of end March 2017, of which 0.382m outside Norway • Customer growth expected going forward due to increased market share and population growth • Hafslund initiated an IPO process in 2016, however set on hold due to City of Oslo's request to perform strategic review of ownership • Markets is a business areas with expected least synergies towards other business areas in Hafslund going forward, and therefore the most natural business to sell today
Other	<p>Fair value today of Other is NOK 200m</p>	<ul style="list-style-type: none"> • Investments in associates and other operational (incl. Hafslund corporate functions)

1) Adjusted for remaining CAPEX estimated at NOKm 504m for completion of Vamma expansion

2) Average of low/high values from 6 leading Nordic investment banks value range

Source: Hafslund ASA, SB1 Markets

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