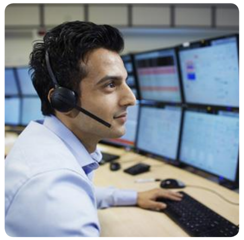
Hafslund

QUARTERLY REPORT

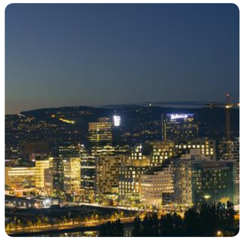
2017 FOURTH QUARTER

Contents

2017
EBITDA
MNOK
1,634



Net debt /
EBITDA
4.0



Highlights Q4 2017 and provisional annual result

- EBITDA for the year of NOK 1,634 million (NOK 1,636 million) and NOK 510 million for the quarter.
- Profit after tax on continuing operations for the year of NOK 612 million (NOK 661 million) and NOK 250 million for the quarter, decline for the year due to higher financial expenses.
- Hafslund Nett has boosted its efficiency and thus strengthened its position as one of Norway's most efficient network operators.
- Robust financing structure established with new NOK 2.5 billion credit facility.
- Final settlement on divested businesses completed in the fourth quarter.
- Stable and solid operations maintained through an extensive transaction process.

Transaction and financial figures

Hafslund AS was established on 4 August 2017 after Hafslund ASA had been de-listed from the Oslo Stock Exchange, and Hafslund AS had been spun off from Hafslund ASA. Hafslund Marked, Hafslund Varme and Hafslund Produksjon were divested to Fortum, E-CO and the City of Oslo effective 4 August 2017. Following the transaction, Hafslund AS's main business comprises Hafslund Nett. All references to "the transaction" in this report refer to the entire transaction in Hafslund ASA implemented on 4 August 2017. The divested businesses are reported net after tax in the 2016 figures and in the year-to-date figures to July 2017. The balance sheet figures for 2016 relate to the former Hafslund ASA Group.

Key figures

Q4 2016	Q4 2017	Income statement (NOK million)	Year 2017	Year 2016
1,495	**1,479**	Sales revenues	**5,169**	4,824
428	**510**	EBITDA	**1,634**	1,636
237	**321**	Operating profit	**962**	964
201	**269**	Profit/loss before tax and discontinued operations	**756**	816
194	**(146)**	Net result from discontinued operations, after tax	**3,702**	741
383	**104**	Profit after tax	**4,315**	1,402
		Capital and equity		
36%	**31%**	Equity ratio	**31%**	36%
5.8	**4.0**	Net debt/EBITDA	**4.0**	5.8
13%	**19%**	FFO/net debt	**19%**	13%
9,480	**6,554**	Net interest-bearing debt	**6,554**	9,480
22,730	**12,404**	Capital employed	**12,404**	22,730
		Other key figures		
5,882	**5,810**	Energy delivery Networks (GWh)	**19,576**	19,524
697	**709**	Number of network customers ('000)	**709**	697
17	**30**	KILE cost	**87**	76
352	**409**	Costs not covered by income ceiling	**1,610**	1,315
404	**516**	Investments	**1,602**	1,009
8,817	**9,817**	NVE capital	**9,817**	8,817
16	**21**	HSE: Total number of injuries per million working hours (H2)	**21**	16

Figures in NOK unless otherwise stated. The figures for 2016 are stated in parentheses.

Summary Q4 2017

HSE

Four injuries were reported in the fourth quarter of 2017, including one lost-time injury. As of December 2017, the H2 indicator (rolling 12-month number of injuries per million working hours) was 21, compared with 16 as of December 2016. The company is actively endeavouring to reducing the number of injuries across the business.

Fourth-quarter performance

Hafslund posted EBITDA of NOK 510 million (NOK 428 million) and an operating profit of NOK 321 million (NOK 237 million) in the fourth quarter of 2017.

At NOK 52 million (NOK 36 million), financial expenses for the fourth quarter include a reduction of NOK 18 million (NOK 30 million) due to changes in the market value of the share of the loan portfolio that is recognised at fair value caused by higher forward interest rates.

The tax expense for the fourth quarter closed on NOK 19 million (NOK 11 million). This includes a positive effect of NOK 48 million due to a lower deferred tax liability as of 31 December 2017 following a one percentage point decrease in the Norwegian general tax rate from 2018. The profit after tax on continuing operations came in at NOK 250 million (NOK 189 million).

The loss on discontinued operations after tax of NOK 146 million (profit of NOK 194 million) relates to the final settlement for the shares in the divested companies following completion of the transaction in August 2017. This resulted in a total net profit after tax from continuing and discontinued operations of NOK 104 million (NOK 383 million) in the reporting period.

Cash flow in the fourth quarter

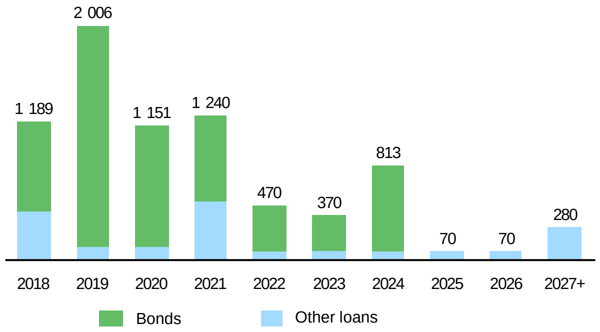
The net cash inflow from operating activities of NOK 416 million (net inflow of NOK 132 million) includes NOK 138 million in increased working capital (NOK 146 million) due to a higher delivered energy volume. At the end of the quarter, net working capital totalled NOK 524 million. The prior-year figure includes an additional NOK 157 million in cash flows from discontinued operations.

At NOK 510 million, fourth-quarter EBITDA were NOK 44 million lower than the related cash flow from operations before changes in working capital. This was attributable to payment of interest and tax totalling NOK 66 million, in addition to result effects of non-cash items in the amount of NOK 110 million. At the reporting date, net investments of NOK 632 million primarily related to higher AMS activities, as well as final settlement for the shares relating to discontinued operations, of which NOK 146 million has been repaid.

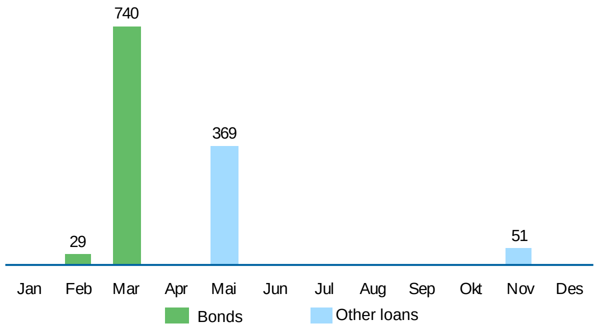
Financing and capital

At the end of the fourth quarter, Hafslund had net interest-bearing debt of NOK 6.6 billion and an average coupon rate for the loan portfolio of 2.9 percent. The average term to maturity is 3.1 years.

Annual maturity profile of loans as of December 2017 (NOK million)



Maturity profile for the next 12 months as of December 2017 (NOK million)



Hafslund maintains solid financial key figures and at the end of the fourth quarter had a net debt/EBITDA ratio of 4.0. Hafslund's capital structure has been aligned with operations following the transaction. The aim is to maintain a similar credit profile to that of the former Hafslund ASA. Hafslund's capital requirements will rise slightly towards the end of 2018, in part due to the completion of the roll-out of automatic meters (the "AMS project"). The company's net-interest bearing debt/EBITDA ratio is not expected to exceed 5.

At the end of the fourth quarter, Hafslund had cash and cash equivalents of NOK 1,105 million and a credit facility of NOK 500 million maturing in October 2018. In the fourth quarter an agreement was also entered into with a syndicate of six banks for two credit facilities totalling NOK 2,502 million. One facility is for NOK 504 million with a term of three years (plus an option for up to two years) while the second is for NOK 1,998 million with a term of five years (plus an option for up to two years). Hafslund has a robust financing structure with sufficient liquidity to cover at least the next 12 months' maturities.

Summary 2017

Performance 2017

In 2017 Hafslund posted an operating profit of NOK 962 million, which was on a par with 2016. The net profit after tax of NOK 4,315 million (NOK 1,402 million) includes a gain on the sale of NOK 3,225 million on completion of the transaction, and a profit after tax on the business disposals in August of NOK 477 million (NOK 741 million). The profit after tax on continuing operations for the year closed on NOK 612 million (NOK 661 million), mainly due to increased financial expenses in 2017.

Hafslund posted sales revenues of NOK 5,169 million (NOK 4,824 million) in the year under review. The increase is primarily attributable to a higher network rental effective 1 January 2017, due to a higher network rental to Statnett and a higher national tax on electrical power. The operating profit of NOK 962 million generated a return on capital employed of 8 percent based on the year-end balance sheet.

At NOK 206 million, financial expenses in 2017 were up NOK 58 million on the previous year. The increase is primarily attributable to costs of NOK 25 million relating to two short-term credit facilities established in connection with the transaction in Hafslund ASA, compensation for bondholders for the reassignment of bond loans from Hafslund ASA to Hafslund AS, and a foreign exchange loss of NOK 1 million compared with a gain of NOK 35 million in 2016. Financial expenses were further positively impacted by NOK 75 million (NOK 87 million) due to a reduction in the market value of loans recognised at fair value as a result of a higher forward interest curve.

The tax expense of NOK 143 million (NOK 155 million) includes a positive effect of NOK 48 million due to a lower deferred tax liability as of 31 December 2017 following a one percentage point decrease in the Norwegian general tax rate to 23 percent effective 2018.

At NOK 4,315 million, the net profit for the year, adjusted for the profit from discontinued operations of NOK 3,702 million, generated a return on equity of 13 percent in 2017.

Cash flow in 2017

The cash flow from operating activities came in at NOK 2,437 million (NOK 2,045 million) in 2017. The net cash inflow from investing activities amounted to NOK 1,245 million (outflow of NOK -1,116 million) due to contributions from discontinued operations of NOK 2,794 million (NOK -173 million). Including a dividend payment of NOK 722 million in 2017, the net cash flow to interest-bearing debt was NOK 2,960 million (NOK 343 million).

At the reporting date, net interest-bearing debt amounted to NOK 6,554 million, while the net debt/EBITDA ratio and the equity ratio were 4.0 percent and 31 percent respectively. Hafslund has a robust financing structure with long-term committed drawdown facilities. At the end of 2017, the Group had unutilised drawdown facilities of NOK 3,002 million. None of Hafslund's loan agreements impose any financial covenants.

Networks

▶ Key financial figures

NOK million	Q4 2017	Q4 2016	Year 2017	Year 2016
Sales revenues	**1,462**	1,357	**5,066**	4,757
Gross contribution	**907**	852	**3,035**	3,028
EBITDA	**515**	459	**1,675**	1,654
Operating profit	**327**	308	**1,014**	1,056
Energy delivery (GWh)	**5,810**	5,882	**19,576**	19,524
Number of customers ('000)	**709**	697	**709**	697
Costs not covered by income ceiling	**409**	352	**1,610**	1,315
Investments	**516**	404	**1,602**	1,009
NVE capital	**9,817**	8,817	**9,817**	8,817
Capital employed	**12,608**	11,870	**12,608**	11,870

Networks posted sales revenues of NOK 1,462 million in the quarter, up NOK 105 million on the comparable prior-year period. The increase was primarily attributable to a higher network tariff. At 5,810 GWh, the energy delivery for the fourth quarter was on a par with the previous year. Combined costs for the overhead network (Statnett) and energy purchases to cover network losses amounted to NOK 532 million (NOK 472 million) in the quarter. The increase primarily relates to a rise in the costs for the overhead network (Statnett) of NOK 57 million. This generated a gross contribution of NOK 907 million (NOK 852 million) for the fourth quarter.

At NOK 392 million, fourth-quarter operating expenses were on a par with the previous year (NOK 393 million). Costs of operation and maintenance were also broadly the same as the previous year.

At NOK 515 million, fourth-quarter EBITDA were up NOK 56 million on the previous year.

Networks' net profit for the year of NOK 1,014 million was NOK 42 million lower than the net profit for 2016. This was better than the guidance at the end of the third quarter, in part due to lower maintenance costs and costs relating to network faults. While EBITDA were up by NOK 21 million, higher depreciation expenses of NOK 63 million reduced the overall net profit. The increase in depreciation is primarily attributable to good progress in investment projects and higher investments in the AMS project.

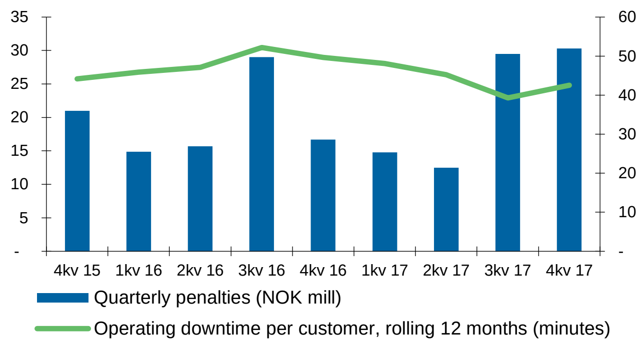
At the end of 2017, Networks had cumulative surplus income of NOK 387 million, compared with NOK 187 million 12 months previously. The increase in surplus income is partly attributable to Hafslund Nett's desire to maintain the network rental charge as stable as possible.

Assuming normal energy demand, planned network tariffs and forward power prices, as well as planned maintenance and cost changes, Networks' operating profit for 2018 is expected to come in slightly lower than in 2017.

▶ Operations

Hafslund Nett's security of supply is among the best of any network operator in Norway. The table below shows the change in operating downtime per customer in minutes (right axis) and the KILE cost (left axis). KILE is the quality-adjustment of the income ceiling for non-delivered energy.

KILE cost and operating downtime per customer



General operating conditions in Hafslund Nett's supply area were slightly more unstable in the fourth quarter. The increase in the number of operating stoppages in the quarter was in part due to Storm Ylva (23 November) and Storm Alina (7 December), as well as more challenging snowfalls towards the end of the year. The increase in the KILE cost was primarily attributable to an incident in the regional network (the most expensive fault of the year) and a cable fire in the distribution network in Pipervika. Total KILE costs in the fourth quarter totalled NOK 30 million, compared with NOK 17 million in the comparable prior-year period.

▶ Investments

Fourth-quarter investments closed on NOK 516 million (NOK 404 million). These primarily relate to the AMS project, along with internal investments in the supply network. The AMS project is making good progress, and by the end of the year 412 400 meters of a total of 658 000 meters for household customers have been installed.

Investments rose by NOK 593 million (59 percent) for the year as a whole. The AMS project is responsible for around half of the increase. The remainder of the increase is attributable to higher investments in the regional and distribution network.

At the end of the fourth quarter, Networks had capital employed of NOK 12.6 billion (NOK 11.9 billion) and NVE capital of NOK 9.8 billion (NOK 8.8 billion).

Other business

NOK million	Q4 2017	Q4 2016	Year 2017	Year 2016
Operating loss Other business	**(6)**	(72)	**(52)**	(92)

Other business posted a total operating loss of NOK 6 million in the fourth quarter. Other business comprises staff functions, Bio-El Fredrikstad, associates and changes in the value of interest-rate derivatives. Staff functions consisted of the former parent company Hafslund ASA until 4 August, and subsequently the new company Hafslund AS, and include transaction costs relating to the spin-off. Staff functions have been scaled down in Hafslund AS compared with the former Hafslund ASA. The 2016 figures for other business include impairments.

Other matters

▶ Settlement transaction

Final purchase calculations and settlement for discontinued operations relating to the transaction in Hafslund ASA were completed in the fourth quarter of 2017. The settlement in August 2017 was reduced by NOK 146 million, primarily due to tax and working capital adjustments, and was accompanied by a corresponding reduction in Hafslund ASA's cash and cash equivalents.

Outlook

The agreed transaction between the City of Oslo and Fortum was completed on 4 August 2017. Hafslund ASA was de-listed from the Oslo Stock Exchange and spun off and Hafslund Marked, Hafslund Varme and Hafslund Produksjon were subsequently sold. The main business of Hafslund AS now comprises Hafslund ASA's former Networks operations. The business is now wholly owned by the City of Oslo.

In implementing the spin-off of the former Hafslund Group and the transfer of the divested businesses to E-CO and Fortum, importance was attached to maintaining deliveries to customers, securing stable and efficient operations and upholding expertise levels and the performance of the former business areas. Hafslund has delivered Group services to the divested businesses for a transitional period, and work to embed Hafslund and the divested businesses with their new owners is progressing well.

Hafslund owns and operates the bulk of the regional and distribution network in Oslo, Akershus and Østfold, and is the largest network operator in Norway, with around 700,000 customers. Hafslund also owns 49 percent of Fredrikstad Energi AS which has 94,000 network customers, as well as shares in two smaller network operators. Ownership of the regulated network business provides a solid basis for stable and predictable returns.

Networks' long-term earnings are influenced by the business area's relative cost efficiency compared with the rest of the networks industry, interest rate fluctuations and changes in public regulations. Digitalisation of the value chain and the customer interface are absolutely critical to achieving efficient operations and retaining satisfied customers.

Hafslund has focused on being a company geared for growth in infrastructure solutions for renewable energy, while also focusing on digitalisation, automation and customer interfaces in the Networks business. This work is paying off – Hafslund Nett has boosted its efficiency and thus strengthened its position as one of Norway's most efficient network operators. Hafslund will continue its growth and improvement initiatives and will facilitate and contribute to a further electrification of society.

Hafslund will ramp up its investments to NOK 1.8 billion in 2018, compared with an average of NOK 0.7 billion between 2013 and 2015 and NOK 1.3 billion between 2016 and 2017. In addition to ongoing investments in operations and expansion, the Group's future investments will be characterised by investments of NOK 2.1 billion in automatic meters at all customers and associated new ICT systems. The installation of automatic meters is due to be completed in 2018, with investments levels expected to be scaled back to investments in ongoing operations and growth from 2019.

Hafslund AS aims to maintain a similar credit profile to that of the former Hafslund ASA.

The company is achieving solid underlying organic growth due to population growth and investments in the network. At the same time, new growth opportunities are sought both organically and structurally. Hafslund aims to play a key role in the expected consolidation of the sector.

Oslo, 14 February 2018

Hafslund AS

Board of Directors

Consolidated income statement

Q4 2016	Q4 2017	NOK million	Year 2017	Year 2016
1,495	**1,479**	Sales revenues	**5,169**	4,824
(509)	**(560)**	Purchases of goods and energy	**(2,047)**	(1,756)
985	**919**	**Gross contribution**	**3,122**	3,068
(13)	**7**	Net financial items	**16**	14
(124)	**(139)**	Personnel expenses	**(346)**	(349)
(420)	**(277)**	Other operating expenses	**(1,158)**	(1,097)
428	**510**	**EBITDA**	**1,634**	1,636
(162)	**(189)**	Depreciation and amortisation	**(672)**	(642)
(30)	**-**	Impairments	**-**	(30)
237	**321**	**Operating profit/loss**	**962**	964
(66)	**(70)**	Interest expenses, etc.	**(281)**	(235)
30	**18**	Change in value of loan portfolio	**75**	87
(36)	**(52)**	**Financial expenses**	**(206)**	(148)
201	**269**	**Profit/loss before tax and discontinued operations**	**756**	816
(11)	**(19)**	Tax expense	**(143)**	(155)
194	**(146)**	Gain on business disposals, after tax	**3,702**	741
383	**104**	**Profit after tax**	**4,315**	1,402

Consolidated statement of Other comprehensive income

384	**104**	**Profit after tax**	**4,315**	1,402
(13)		Changes in value of hedging contracts, cash flow hedging		(124)
		Credit risk, loans valued at fair value.	**(4)**	
12	**(8)**	Translation differences	**(8)**	(63)
3	**1**	Tax	**1**	31
2	**(7)**	**Total items to be reclassified to income statement**	**(11)**	(156)
(135)	**87**	Change in pension estimates	**66**	(137)
34	**(11)**	Tax	**(16)**	34
(101)	**76**	**Total items not to be reclassified to income statement**	**50**	(103)
285	**173**	**Other comprehensive income for the period, allocated to:**	**4,354**	1,143
285	**173**	Profit/loss attributable to shareholders of Hafslund ASA	**4,354**	1,143
-	**-**	Profit attributable to non-controlling interests	**-**	-
285	**173**	Other comprehensive income after tax	**4,354**	1,143

Consolidated balance sheet

NOK million	31.12.17	31.12.16	30.09.17	30.09.16
Intangible assets	**624**	2,880	**624**	2,890
Property, plant and equipment	**11,937**	19,610	**11,610**	19,297
Financial assets	**321**	542	**336**	459
Receivables and inventories	**1,335**	3,135	**720**	1,875
Cash and cash equivalents	**1,105**	572	**2,066**	421
Assets	**15,323**	26 740	**15,355**	24,941
Equity (controlling interests)	**4,762**	9,567	**4,656**	9,288
Equity (non-controlling interests)	**0**	4	**0**	4
Provisions	**1,224**	3,553	**1,167**	3,679
Long-term interest-bearing debt	**6,462**	7,870	**6,504**	7,719
Current interest-bearing debt	**1,197**	2,193	**1,803**	1,794
Current non-interest-bearing debt	**1,678**	3,553	**1,225**	2,458
Debt and equity	**15,323**	26,740	**15,355**	24,941

Equity reconciliation

NOK million	2017	2016
Equity at start of period	**9,571**	**9,013**
Other comprehensive income for the period	**4,354**	**1,143**
Spin-off	**(1,510)**	
Dividends	**(7,668)**	**(587)**
Change in non-controlling interests	**(4)**	
Other equity effects	**19**	**1**
Equity at end of period	**4,762**	**9,571**

Consolidated statement of cash flow

NOK million	Q4 2017	Q4 2016	2017	2016
EBITDA	**510**	428	**1,634**	1,636
Interest paid	**(62)**	(73)	**(300)**	(350)
Tax payable	**(4)**	(8)	**(96)**	(55)
Changes in market value and other liquidity adjustments	**110**	(226)	**84**	(436)
Change in trade receivables, etc.	**(479)**	250	**269**	376
Change in working capital credits, etc.	**341**	(396)	**292**	769
Cash flow from operations discontinued operations		157	**554**	105
Cash flow from operating activities	**416**	132	**2,437**	2,045
Investments in operations and expansion	**(511)**	(426)	**(1,574)**	(1,051)
Net purchase/sale of shares, etc.	**25**	-	**25**	108
Cash flow from investing activities, discontinued operations	**(146)**	(144)	**2,794**	(173)
Cash flow from investing activities	**(632)**	(570)	**1,245**	(1,116)
Change in interest-bearing debt and receivables	**(657)**	588	**(2,426)**	(496)
Dividends and equity transactions	**(88)**	-	**(722)**	(586)
Cash flow from financing activities	**(745)**	588	**(3,148)**	(1,082)
Change in cash and cash equivalents during the period	**(961)**	**150**	**534**	(153)
Cash and cash equivalents at start of the period	**2,066**	421	**571**	724
Cash and cash equivalents at end of period	**1,105**	571	**1,105**	571

Segment reporting

Q4 2016	Q4 2017	NOK million	2017	2016
1,357	**1,462**	Networks	**5,066**	4,757
137	**17**	Other business/eliminations	**104**	67
1,495	**1,479**	**Total sales revenues**	**5,169**	4,824
308	**327**	Networks	**1,014**	1,056
(72)	**(6)**	Other business/eliminations	**(52)**	(92)
237	**321**	**Total operating profit**	**962**	964

Notes to the financial statements

1) Framework conditions and key accounting policies

The consolidated financial statements for the fourth quarter of 2017, for the period ending 31 December 2017, have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU and include Hafslund AS, its subsidiaries and associates. This interim report has not been audited.

The interim financial statements do not provide the same scope of information as the annual financial statements and should therefore be viewed in the context of Hafslund ASA's consolidated financial statements for 2016. The accounting policies and calculation methods applied in interim reporting are the same as those described in Note 2 to the consolidated annual financial statements of the Hafslund ASA Group for 2016, with the exception of IFRS 9 Financial Instruments.

The Group has decided to early-adopt IFRS 9, which replaces IAS 39, and has applied IFRS 9 from 1 January 2017. In accordance with IFRS 9 financial assets are divided into three categories: fair value through profit or loss; fair value through other comprehensive income; and amortised cost. The standard deals with the classification, measurement, recognition and de-recognition of financial assets and liabilities, and introduces new rules for hedge accounting and a new impairment model for financial assets. The following areas have been affected by IFRS 9:

- ✓ The standard essentially continues the requirements of IAS 39 for financial liabilities, where the most significant change relates to use of the fair value option for financial liabilities. In accordance with IFRS 9 changes in fair value attributable to changes in inherent credit risk are recognised in other comprehensive income. At the end of the fourth quarter of 2017, this change amounted to NOK -4 million.
- ✓ Impairments attributable to credit risk are now recognised based on expected losses rather than under previous models where losses must already have been incurred. The new impairment model has not materially impacted the consolidated figures at the end of the fourth quarter of 2017.

IFRS 9 will be of less relevance for the residual business following the disposal of Hafslund's power-exposed operations. The Group is also working to implement IFRS 15 Revenues from Contracts with Customers and IFRS 16 Leases. See Note 2 to Hafslund ASA's consolidated annual financial statements for 2016.

2) Business disposals

On 3 July 2017 the City of Oslo made a voluntary offering for all the shares in Hafslund ASA through its wholly owned subsidiary Oslo Energi Holding AS. After the compulsory acquisition of the shares of minority shareholders, the shares were de-listed from the Oslo Stock Exchange. On 4 August 2017, Hafslund ASA implemented a spin-off pursuant to company law with continuity of shareholders' shares and rights, in which all assets, rights and obligations, apart from those assets, rights and liabilities associated with Hafslund Produksjon, were spun off to the new company Hafslund AS.

From a company-law perspective Hafslund AS is the acquiring company in the spin-off described above. However, for consolidated accounting purposes the financial entity represented by the former Hafslund ASA Group is continued as the reporting entity. Since Hafslund AS acquired three of four business areas in the spin-off, the consolidated financial statements of Hafslund AS are deemed to represent a continuation of the former Hafslund ASA Group. Consequently, the values have not been re-measured in the Hafslund AS Group. The disposal of the power production segment is recognised in the consolidated financial statements as a reduction in equity as a result of the spin-off in the statement of changes in equity. The results of the power production business for the period 1 January 2016 to the spin-off date are recognised under the result from discontinued operations.

Immediately after the spin-off, Hafslund AS sold 100 percent of the shares in the subsidiary Hafslund Marked AS and 50 percent of the shares in the subsidiary Hafslund Varme AS to Fortum. The gain on the sale of the shares in Hafslund Market AS is recognised in the consolidated financial statements as the difference between the carrying amount in the Group and the consideration received. The results from the Markets segment for the period 1 January 2016 to the disposal date are recognised in the result from discontinued operations together with the gain.

The sale of 50 percent of the shares in Hafslund AS is recognised in the consolidated financial statements as a sell-off with loss of control. The residual shareholding is measured at fair value, with the resulting upwards revaluation recognised in income. The results from the Heat segment for the period from 1 January 2016to the disposal date are recognised in the result from discontinued operations together with the associated gains.

The residual 50 percent shareholding in Hafslund Varme AS, and receivables due from Fortum following the disposal of the shares in Hafslund Varme AS and Hafslund Marked AS, were distributed as a non-cash asset to Oslo Energi Holding AS as of 30 September 2017. This distribution is recognised at fair value in the consolidated financial statements.

The consideration for all the above transactions was measured at fair value and subject to normal purchase sum calculations. The result from discontinued operations is based on the final estimated purchase sum calculations available at the balance sheet date. Final settlement was completed in the fourth quarter of 2017.

Result from discontinued operations

NOK million	2017	2016
Operating revenues	5,428	9,126
Operating expenses	(4,660)	(7,898)
Net financial items	(47)	(69)
Profit before tax	**721**	**1,159**
Tax expense	(244)	(418)
Net profit for the period	**477**	**741**
Profit after tax	3, 225	
Result from discontinued operations	**3,702**	**741**

3) Networks – income ceiling and income surpluses/shortfalls

Permitted income for the year

Electrical power is distributed via networks, which represent a natural monopoly within the individual network business's geographic area. The Norwegian Water Resources and Energy Directorate (NVE) therefore establishes an income ceiling that represents the maximum income level the networks businesses are allowed to collect in network rental, and which is intended to provide a reasonable return on invested capital, and to cover normal operating and maintenance expenses. The regulated income ceiling, plus re-invoicing of expenses from the overhead transmission grid (Statnett) are referred to as permitted income and established for the year as a whole.

Actual income for the year

Actual income (tariff income) for a network company comprises the tariffs in effect at any given time, power consumption and actually transmitted energy volumes in the network company's supply area. In accordance with IFRS, income is recognised in the Networks business based on actual income for the year, and not permitted income as described above. However, the tariffs, or network rental charges, are determined on the premise that, over time, the Networks segment's actual income will correspond to its permitted income.

- ✓ Annual income surpluses and deficits

Permitted income will normally deviate from actual income for the year due to the effect of the weather and temperatures on the transmitted volume in the network. If actual income is higher than permitted income, this results in an income surplus; and if it is lower, in an income deficit. Under IFRS, income surpluses and income deficits are defined as regulated liabilities or assets that do not qualify for balance-sheet recognition. This is justified on the grounds that a contract has not been entered into with a particular customer and therefore the resulting receivable/liability is theoretically contingent on a future delivery.

At the reporting date Networks had an accumulated income surplus of NOK 387 million. At the end of 2016 Networks had an accumulated income surplus of NOK 187 million. The increase in surplus income is partly due to Hafslund Nett's desire to maintain the network rental charge as stable as possible.

4) Interest-bearing loans and interest derivatives

At the end of the fourth quarter of 2017, the value of the loan portfolio recognised in the balance sheet amounted to NOK 7,720 million, of which NOK 6,523 million related to long-term debt and NOK 1,197 million to current debt. The change in the fair value of loans boosted profits by NOK 18 million in the fourth quarter of 2017, while the change in the fair value of interest rate derivatives reduced profits by NOK 3 million. In the reporting period, Hafslund's credit spreads widened by around 5 basis points for maturities of less than one year. Other maturities remained virtually unchanged. The Nibor and swap interest rates widened by around 5 basis points for maturities of two to seven years. The interest rates for longer maturities remained virtually unchanged. The net effect of the above was that the market interest rate (including Hafslund's credit margins) increased moderately.

The change in the fair value of loans is recognised as financial expenses in the income statement, while any change in the value of interest rate derivatives is recognised as a net financial item in the operating result.

In the fourth quarter, Hafslund entered into an agreement for two credit facilities totalling NOK 2,502 million. Facility A is for NOK 504 million with a three-year term, while Facility B is for NOK 1,998 million with a five-year term. Both the facilities have an option for a one plus one-year prolongation. The lender is a syndicate of Norwegian and international banks: Danske Bank, DNB, Handelsbanken, National Westminster Bank, Nordea and SEB. Hafslund has a credit facility of NOK 500 million maturing in October 2018. All three credit facilities were unutilised at the reporting date.

Until 31 December 2009 Hafslund's entire loan portfolio was valued at fair value through profit or loss. Since 2010 new loans have been measured at amortised cost. At the end of the fourth quarter, these amounted to NOK 6,114 million.

5) Financial Instruments by category, including hedging instruments

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

NOK million	Derivatives used for hedging purposes	Assets at fair value through profit and loss	Receivables at amortised cost	Total
Long-term receivables			294	294
Derivatives		18		18
Trade and other receivables			968	968
Cash and cash equivalents			1,105	1,105
Total financial assets as of 31 December 2017		**18**	**2,367**	**2,385**

NOK million	Derivatives used for hedging purposes	Liabilities at fair value through profit and loss	Other financial liabilities at amortised cost	Total
Loans		1,606	6,114	7,720
Trade and other current payables			1,563	1,563
Total financial liabilities as of 31 December 2017		**1,606**	**7,677**	**9,283**

Derivative financial instruments are valued either at fair value through profit or loss or for hedging purposes. Hafslund's interest rate derivatives are recognised at fair value through profit or loss.

The table below shows financial instruments at fair value by valuation method. The levels are:

1. Listed price in an active market for an identical asset or liability (level 1).
2. Valuation based on observable factors other than listed prices (level 1) either directly (prices) or indirectly (derived from prices) for the asset or liability (level 2).
3. Where it is not practicable to use only a listed price or transaction value, discounted future cash flows and the Group's own estimates are used.

NOK million	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit and loss:				
Interest rate derivatives		18		18
Total assets		**18**		**18**
Financial liabilities at fair value through profit and loss:				
Loans		1,606		1,606
Total liabilities		**1,606**		**1,606**

6) Operating assets

Investments in operating assets for ongoing operations for the fourth quarter and 2017 as a whole came in at NOK 493 million and NOK 1,578 million respectively. All the investments relate to investments in operations and expansion.

7) New tax rates in the Norwegian State Budget for 2018

The Norwegian government's Budget for 2018 included a reduction in the general corporation tax rate from 24 percent to 23 percent from 1 January 2018. This reduced the deferred tax liability for the Hafslund AS Group by NOK 48 million at the end of 2017, and generated a corresponding positive results effect through the tax expense for the fourth quarter of 2017.

8) Related party transactions

Hafslund enters into purchase and sales transactions with related parties as part of normal business operations. In 2017 Hafslund bought and sold goods and services from/to the City of Oslo. The City of Oslo owns 100 percent of the shares in Hafslund AS through Oslo Energi Holding AS. Examples of sales to the City of Oslo include network rental. Examples of purchases from the City of Oslo include waste heat from the Norwegian Waste-to-Energy Agency (EGE). Purchases from the City of Oslo relate to discontinued operations. All transactions between the parties are conducted on the arm's length principle.

The table below shows transactions with related parties:

NOK million	Sales of goods and services	Purchases of goods and services	Purchases recognised as investments	Trade receivables	Trade payables
Ytd 2017					
City of Oslo	15	4			9

Definitions

Capital employed	Equity + Net interest-bearing debt + Net tax positions
NVE capital	Finished non-current assets including a fixed percentage add-on for working capital
Equity ratio	Equity/Total capital
Net interest-bearing debt	Interest-bearing debt - Interest-bearing receivables and cash equivalents
Debt/EBITDA	Net interest-bearing debt/EBITDA for the last 12 months
Return on capital employed	Operating profit/loss/Capital employed as of 31 December2017
Return on equity	Profit/loss after tax/Equity as of 31December2017
FFO / Debt	(EBITDA – interest paid – tax paid) / Net interest-bearing debt
Costs outside the income ceiling	Costs to Statnett, other networks, ENOVA, etc.

Financial calendar

1. Fourth Quarter Report 2017 and provisional annual result – 15 February 2018
2. First Quarter Report 2018 – 7 May 2018
3. Second Quarter Report 2018 – 10 July 2018
4. Third Quarter Report 2018 – 24 October 2018

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