

SUSTAINABILITY REPORT 2018

SMÅKRAFT MARCH 2019



SUSTAINABILITY IN SMÅKRAFT



Småkraft is a producer of renewable energy. Our fleet of 106 hydropower plants is scattered all across Norway, and delivers a mean annual production capacity of 1,1 TWh. That makes Småkraft Europe's largest owner and operator within its niche.

Small-scale hydropower borrows water which naturally flow in the river and utilizes the topography of the landscape to produce renewable and sustainable electricity. A minimum water level is maintained in the original river and the water used to produce electricity is returned once it passes through the turbine. The electricity grid transports and distributes our electricity out to consumers.

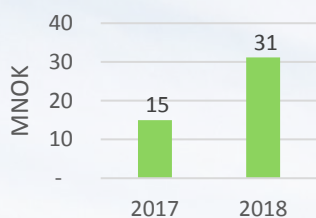
The values created are shared with our stakeholders which include owners, creditors & debt investors, local land owners, local municipalities, local societies and society in general. For more than 15 years, Småkraft has invested heavily in the generation of new renewable energy for the Nordic and European power markets. Our contribution to one of the biggest challenges of our time, the transformation to a renewable and sustainable society, is to continue our commitment to grow in the cleanest energy sector of them all, hydropower.

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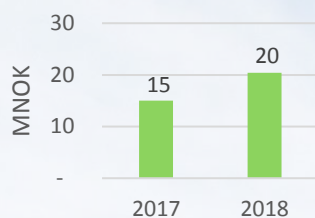
SMÅKRAFT AT A GLANCE

Payments to land owners



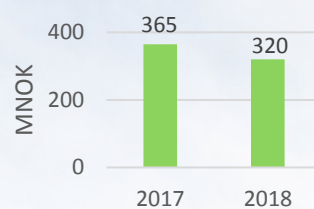
Paid landlease represents payments to landowners based upon the respective accounting period.

Payments to municipalities



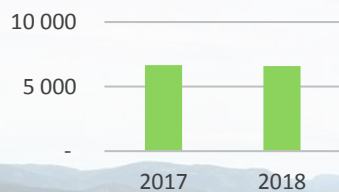
Paid property tax represents payments directly to the municipalities where the power plants are located.

Investments in powerplants



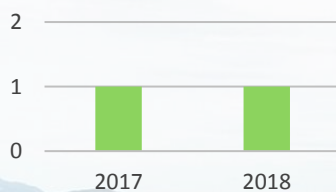
Investments in powerplants represent accumulated paid amounts to the sellers of the powerplants.

CO2- reductions tCO2e

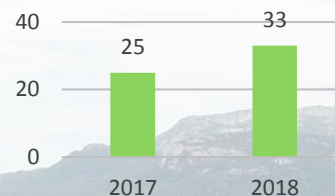


t CO2 e based on actual production during 2018 and 2017

Environmental incidents

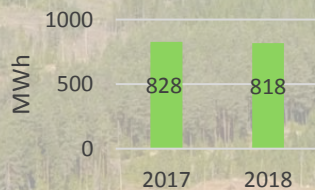


HSE- trainings



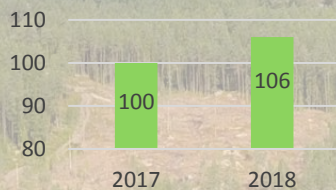
Operators having performed HSE- trainings last 3 years.

Production



Production is defined as the amount of produced energy delivered into the grid.

Number of power plants



Employees



HIGHLIGHTS 2018

January	February	March
April	May	June
	<p>2 by 22", Småkraft's long-term strategic plan finalized, securing continued development of new small-scale hydropower plants for the years to come.</p> <p>Småkraft signed deals to acquire the Røfsdalselva and Helgåa hydropower plants</p>	<p>Småkraft's financing framework achieved dark green certification with Cicero, proving that our long-term investments are sustainable and part of a low carbon future.</p> <p>Småkraft finalized the acquisition of the Grøslandselva hydropower plant.</p>
July	August	September
<p>The Norwegian Institute for Environmental Science mapped biodiversity and living conditions of the freshwater pearl mussel in the water courses of the Follsja power plant.</p>		<p>Småkraft achieved a score of 66 in the annual GRESB sustainability benchmark study, 1st of the Nordic energy producers, and 4th in Europe.</p> <p>Småkraft held HSE- courses in Mo i Rana for selected operators.</p> <p>Småkraft finalized the acquisitions of the Sigdestadelva and Sandneselva hydropower plants.</p>
October	November	December
<p>Småkraft initiated work to upgrade its HSE- framework, its routines and reporting procedures.</p> <p>Småkraft finalized the acquisition of the Fiskløyva hydropower plant</p>	<p>Småkraft issued its first Green Bond with solid interest from investors.</p>	<p>Småkraft finalized the acquisitions of the Kvitåi and Grytendal hydropower plants.</p> <p>Småkraft signed contracts for the acquisitions of the Sveingard and Ritaelva hydropower plants from Nordkraft.</p>

INTRODUCTION BY THE CEO

This year, Småkraft wants to highlight how we work with sustainability. In a supplement to the annual report we want to demonstrate how we and our business affect people, societies, wildlife and the environment. The report describes how we work with these issues and how we evaluate the associated risks.



In Småkraft, we have always cared about sustainability. We produce some of the cleanest energy in the world and look after an important and priceless heritage.

However, to us sustainability is much more than producing energy in a renewable way. It is about sharing the river resources with local landowners and communities. Our sustainability involves maintaining and improving the safety of our employees, our suppliers and third parties. We build expertise brick by brick and share it with everyone we work with. Our sustainability is about reducing the negative effects from our production on the environment and on the biodiversity of plants, fish and wildlife. In short it is about doing the right things, and to be honest and transparent in everything we do.

Our foundation is solid. We work within an advantageous and predictable regulatory environment, which facilitates investments in new renewable energy to the benefit of shareholders, creditors, employees and local societies. At the same time we are conscious of our responsibility and of the effects our hydropower plants may have on mother nature. We continuously maintain the minimum water flow in the rivers, set by the concession, and work relentlessly on other

mechanisms that reduce our footprint. These include, but are not limited to guiding fish safely around the turbine wheel, releasing floods to clean the habitats of the freshwater pearl mussel, ensuring that the terrain in which we operate returns to its natural ecosystem, implementing safety measures like alarms, fences and roadblock to make sure that no one gets hurt, and equally important we conduct comprehensive training for our employees and partners.

Still, our mindset is that we, through continuous learning, can do better. With only 20 employees we cannot be everything to everyone. Our success depends on prioritizing the right things and understanding the risks involved.

With our sustainability report we provide insight into our business. Not just what we do, but also why.

In the end this is about sharing and contributing. To show you our thought processes, our implementing measures and conclusions. Why wouldn't we? It makes us all better.

In Småkraft we are proud of our past, our present and our future, but we are well aware that the toughest job lies ahead of us.

*Chief Executive Officer
Halle Aslaksen*

HOW SMÅKRAFT WORKS WITH SUSTAINABILITY

Småkraft works along a strategic plan called “2 by 22”. The name refers to our ambition of growing to 2 TWh in mean annual production capacity by the end of 2022. The added hydropower plants will release new renewable energy into the Norwegian, Nordic and European markets and contribute to the energy transition. Sustainability and Environmental, Social and Governance topics (“ESG”) are fundamental to, and well-integrated in the strategic plan.

Historically, Småkraft has been a relatively small company in which a structured approach to ESG issues were lacking. With “2 by 22”, we have endured on a 5-year journey to make sustainability risk based, structured and fully integrated into working processes, procedures and reporting structure. The work started with the release of a sustainability policy in 2017. The following year Småkraft focused on structuring processes, data gathering and increasing the reporting frequency and accuracy. This year, in 2019, our goal is to fully integrate sustainability in risk assessments, steering mechanisms and reporting.

The Småkraft sustainability plan is based upon the United Nations’ Sustainability Goals, which we believe are relevant to our business. They make it easier to recognize what the sustainability work in Småkraft actually entails.

We have assessed who the stakeholders in our business are. They have been categorized and by frequently communicating with them, we have developed an understanding of typical ESG topics of their interests. In-depth interviews based on these, allowed us to arrive at a shortlist of areas of most importance to our stakeholders. An external

consultancy firm was chosen to conduct the interviews to ensure objectivity.

Lastly, a structured survey was carried out internally to find out which sustainability matters were most important to our staff.

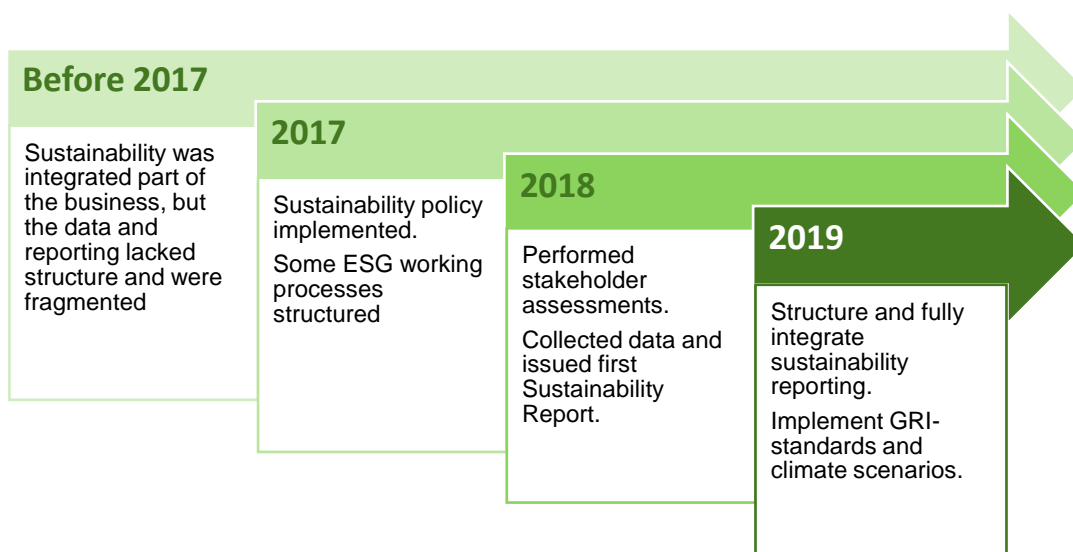
The sum of these efforts highlights which subjects are most relevant in the ESG materiality assessment, and these form the framework of the continued work for the years to come.

The materiality assessment determines which data we collect and how sustainability related issues are reported. We attempt to gather and present quality data as objectively as possible. In cases with interpreted data, this has been done to give as relevant information as possible. The dataset relevant

to the environment comprises partly directly measured data, partly own reported aggregated numbers, partly average calculations and partly estimates. Cases in which estimates have been used are clearly marked. The accuracy of the different sets of data will vary some, since it has been collected in different ways. For 2018, we do not report in line with the Global Reporting Initiative (“GRI”), but have tried to structure the report in a way that makes it both recognizable and comparable

“As a long- term responsible investor of pension money and shareholder of Smakraft, we welcome the firm’s first Sustainability Report. Transparency for private infrastructure investments is key to us and contributes to a social license to operate”

Majority Shareholder APG



UNITED NATION'S SUSTAINABILITY GOALS

Småkraft's assessment of the sustainability goals

Småkraft AS acknowledges the U.N. Sustainability Goals and their role in exterminating poverty, fight inequality and stop the climate changes within 2030. We see our business in a larger context, and our vision is that local and small initiatives accumulated, will add up to significant and material effects.



Therefore, we compare our business with the Sustainability Goals and build our ESG policies on theses. We have ambitious targets and are privileged as a company, since we produce the cleanest form of energy. We actively steer the nature of our business to achieve several of the UN goals. These are:



- Goal 5: Gender Equality
- Goal 6: Clean Water and Sanitation
- Goal 7: Affordable Energy for all
- Goal 8: Decent Work and Economic Growth
- Goal 9: Industry, Innovation and Infrastructure
- Goal 11: Sustainable Cities and Communities
- Goal 12: Responsible Consumption and Production
- Goal 13: Climate Action
- Goal 14: Life below water
- Goal 15: Life on land

How Småkraft prioritizes the sustainability goals

Småkraft is well positioned with as many as 9 of the goals more or less integrated in the way we operate. Still, we recognize that some of the biggest challenges when working on Sustainability and ESG related matters are fragmented areas of responsibility, and lack of priorities & focus.

In our ESG- policy, Småkraft has selected the 4 sustainable goals that are most important to us:

- Goal 7: Affordable Energy for all**
- Goal 11: Sustainable Cities and Communities**
- Goal 13: Climate Action**
- Goal 15: Life on land**



STAKEHOLDER ASSESSMENT

Several interest groups show interest in Småkraft and how we interact with our surroundings. Through dialogue, meetings, feedback and discussions, we have identified the following Stakeholders:



Kvassteinåga in Els fjorden
Vefsn Municipality,
Nordland

MATERIALITY ASSESSMENT

Based upon the stakeholder assessment, Småkraft had an independent consultant firm interviewing stakeholders. We also performed a survey of employees in the company. These interviews and surveys are the foundation for the materiality assessment.

External stakeholders	High		How our business affects local communities	Compliance: environmental regulations
		Stakeholder dialogue	How we contribute to society	Climate- risks
			Environmental risk assessments and action plans	HSE Renewable Energy Biodiversity
	Medium	Indirect economic contribution		
Energy consumption		Society: risk assessments and action plans		
	Green house gas emissions	Human rights		
	Corporate Governance	Training		
	Water quality			
Low				
	Pollution	Human rights and supply chain	Good employer	
	Ethics and anticorruption	Environmental focus through the value chain	Polution	
	Market behavior		HSE in value chain	
			Equality and diversity	
		Low	Medium	High
		Internal		



ESG- FOCAL AREAS

Based on the assessments, the following areas have been selected as most relevant for Småkraft. We give priority to, and focus work on these topics.

Environment:

Energy and Climate
Biodiversity
Emissions
Local Pollution

Social

HSE – own employees, partners and suppliers
Creating Values in Communities

Governance

Ethical behaviour and anti-corruption
Gender Equality and Diversity



*Urdsdalselva power plant,
Vefsn municipality,
Nordland*

CHAPTER 1: ENVIRONMENT

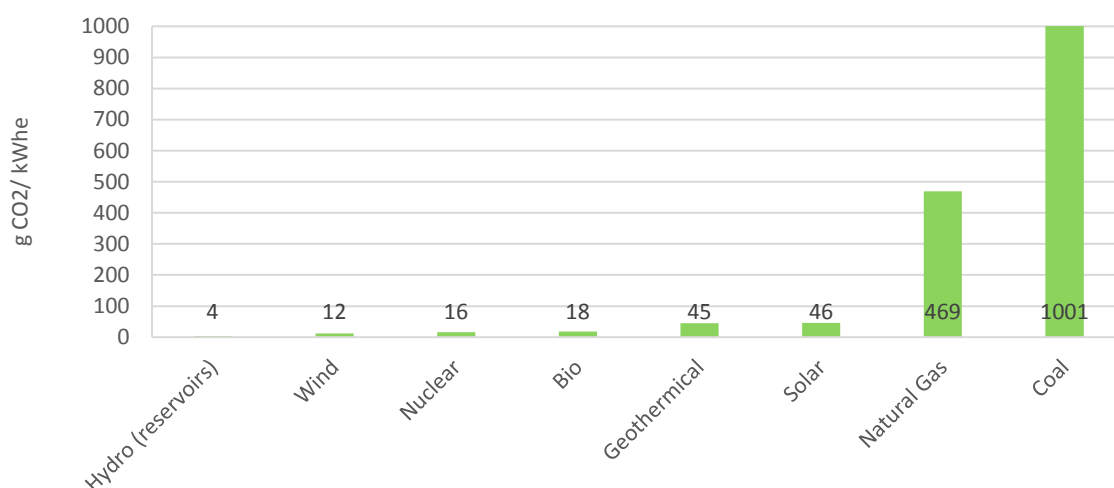


Energy and Climate

Our production

Småkraft produces renewable energy. With 4 gCO₂/ kWh, Hydropower is the technology with the lowest emissions over the lifetime of the powerplants. Hydropower plants have very life expectancy compared to most other forms of energy production.

Emissions from different technologies producing energy (50 percentile)¹



Together with our partners, Småkraft develops new small-scale hydropower projects that trigger new renewable energy in the Norwegian, Nordic and European Energy Markets. In line with Sustainability Goal 7, new renewable energy is the most important means to reduce climate change.

	2018	2017	Kilde / Forklaring
Produced Energy (GWh)	818	828	Energy fed into the grid
Production Capacity (GWh)	1 155	1 065	Normal hydrological production capacity year end
Småkraft's share of Production Capacity GWh	1 114	1 024	Normal hydrological production capacity year end
Number of Power Stations end of year	106	100	
Installed Capacity end of year (MW)	348	317	
CO ₂ - reduction (tCO ₂ e)	6 591	6 671	Please see Factors and report quality in Appendix for details on how this is calculated. Based on Production numbers above

¹ Moomaw, W., P. Burgherr, G. Heath, M. Lenzen, J. Nyboer, A. Verbruggen, (2011)

Energy Consumption

During the production of energy, power stations must be kept at adequate temperatures so that two-way communication with the control systems can be established and maintained, between the operational headquarter and the individual hydropower plant. Additional energy will also be consumed by automated processes.

	2018	2017	Source/ Explanation
Consumed energy power stations (GWh)	0,85*	0,55*	According to main energy supplier
Consumed energy head quarter (GWh)	0,08	0,08	According to landlord
Total consumed energy (GWh)	0,93	0,63	
Consumed energy from district heating (GWh)	0,05	0,04	According to landlord
Acquired and cancelled Guarantees of Origin (GWh)	1,0	0	Confirmed and verified by Axpo.

* Småkraft does not have any system to measure consumed energy in the power stations in 2017 or 2018. We believe that the measured energy consumption is lower than actual consumption. Småkraft works to improve the measurements, and measured consumption in 2018 is more representative than in 2017.

Småkraft has brought and cancelled own Guarantees of Origin to track consumed energy. More information about this could be found under «Emissions».

Biodiversity

Minimal water levels

Energy production from small-scale hydropower plants affects the local environment around the power station and installations. These are not a natural part of the surrounding environment, and some parts may act as physical barriers for the life in- and around the rivers.

To produce electricity, Småkraft utilizes some of the water that runs in the river. The remaining water flow in the original river, between the intake and the power station, will at times be lower than it would have been without the infrastructure development. This may affect the biodiversity in and around the river, hence our business has

“Our experience shows that Småkraft works seriously with biodiversity. In our river the number of fresh water pearl mussels has increased after we commissioned the power plant. ”

Land owner

impact on Sustainability Goal nr. 14 “Life on Land” and nr. 15 “Life in Water.”

Some of our hydropower plants are subject to minimum water flow regulations, given by the concession. This means that they must let a certain level of water remain in the original river, provided there is water available. Maintaining minimum water flow in the parts of the river affected by our operations, helps reduce the negative impact on biodiversity. For periods when the water flow in the river is too low to produce energy, and/or the excess of water is more than power station can swallow, the

river will flow with its natural water levels.

Our installations control the minimum water flow automatically at any given moment in time. The released water volumes per second are displayed at the power station along with the requirements set by the concession, for by-passers to observe. Additionally, Småkraft has an ongoing project showing minimum water flow live at our home page.

Småkraft has some plants that do not have minimum water flow requirements. These plants are either too old to qualify for such requirements, or the authorities did not deem it necessary. Still, on several of these, we have implemented mitigating measures. For example, by releasing additional water from the intake.

	2018	2017	Source/ Explanation
Registered violations to minimum water flow requirements	7	3	
Reported violations	0*	0*	

*None of the violations were deemed necessary to report. These violations were all corrected within hours, or we compensated the violations by releasing extra water over the dams in the period with reduced minimum water flow.

Bypass valves

Many of our power plants have so called bypass valves. These installations prevent sudden reductions in water level in the river downstream, following abrupt power station stops. Without bypass valves there is a potential to trap fish or leave them stranded. Bypass valves are a concessionary requirement, and the functionality of these are an announced priority for the supervisory authorities.

Other biodiversity measures

When developing new hydropower plants, Småkraft and our partners, evaluate how our activities affect the biodiversity around the power plant. Typically, we gather assessments and studies from competent and objective consultancy firms. These analyzes relate specifically to individual plants, since the surrounding environment will vary from case to case. The corresponding implemented measures will therefore also vary.

During the operational phase, changes in conditions are monitored and the need for implementing risk reducing initiatives is systematically evaluated.

Throughout 2018, our power plants were subject to the following measures:

- internal environmental audits

- environmental training of local operators
- controlled rinse floods
- scientific investigations
- cooperation with biologists to design and build eel- traps

The portfolio also counts a few hydropower plants with reservoirs. These reservoirs have set requirements for highest and lowest allowed water level. This is done to reduce the negative impacts on the landscape.

Småkraft releases water to fish hatcheries on two of its power plants, namely Lauvsnes and Tau.

	2018	2017	Source / Explanation
Power stations in protected watercourses	1	1	Hølera power station.
Power stations in national important salmon watercourses	1	1	Holmen power station
Power stations in conservation areas.	1	1	Holmen power station
Physical or economical displaced inhabitants	0	0	
Sanctions because of violated rules and regulations	0	0	



Kvassteinåga kraftverk,
Vefsn municipality, Nordland

Emissions

Our greenhouse gas emissions and how we work with these

As a producer of renewable energy, Småkraft's net emissions are negative. Still, isolated parts of our operations will have climate gas emissions.

Our power plants are spread all over Norway and travelling there often face us with large distances, inaccessible locations and challenging logistics. The normal means of transportation would usually involve a private or leased car, and/or a public airplane, which contribute to direct emissions. Such emissions are registered and assessed by us as a direct consequence of our operations, ref. Scope 1.

The Småkraft operational model relies on competent operators, living close by our installations, who can operate and maintain the hydropower plant locally, as a first line preparedness. This gives fast response time and creates good competencies. Additionally, the need for our internal employees to travel to the power plants is reduced. Our operational staff only travel when needed. This helps reduce travel-initiated climate gas emissions, and costs.

One of the most important Småkraft measure is our continued work to automate and robotize our fleet. More autonomic plants reduce the need for manual visits, and further reduce the emissions of greenhouse gases.

Calculation of climate gas emissions

We calculate climate gas emissions based upon energy consumption from transportation and installations and buildings. We include these elements in Scope 1 and Scope 2 CO₂e- emissions in line with the GHG- protocol methodology. CO₂e- emissions are climate gas emissions where the different climate gases have been recalculated to the equivalent of CO₂- emissions.

Our climate gas emissions from energy consumption have been reduced by cancelling guarantees of origins ("GoOs"). GoOs is a methodology used to track electricity consumption and to document that a given amount of energy is produced by a specific energy source. The EU renewable directive (Directive 2001/77/EC) constructed this methodology to give consumers the possibility to choose between renewable and non- renewable energy.

Cancelling GoOs, the Group has reduced the emissions from consumed energy. Statnett cancels GoOs for the consumed energy for 2018 and the previous year. Electricity is a neutral energy bearer without direct emissions. The various sources that generate the power, however, have related emissions. The GoOs, that Statnett awards renewable energy producers in Norway, document that the groups energy production is based on Norwegian hydropower. We calculate the climate gas emissions from electricity based on a factor of 530 g CO₂/ kWh, which corresponds to the European production mix, in line with the Norwegian Water and Energy Authority (NVE) declaration of 2016.

Transport	2018	2017	Source / Explanation
Km driven in car (according to paid car allowance)	60 155	58 915	Based on paid car allowance
Km driven (company car)	69 999	52 343	Based on driving registrations.
Total km per car	130 154	111 258	
Km per employee	6 850	6 181	
Km el- car	104	700	Based on paid car allowance
Km per airplane	Not measured	Not measured	We do not have systems to measure this reliable

Klimagassutslipp (tCO2)	2018	2017	Source / Explanation
Company cars or per car allowance	0,577	0,566	Calculated based on 2016 SSB- numbers (assume use of petrol cars)
Flyreiser	Not measured	Not measured	
Totale klimagassutslipp (tCO2)	0,577	0,566	

Local pollution

During 2018, Småkraft did not register any violations of the regulation requirements on our power plants. We encountered one environmental situation, when an excavator incident caused some oil-spills during maintenance work on one of our penstocks. No oil was found in the river afterwards.

The business does not emit any significant ozon- reducing pollution. We have therefore not prioritized data-gathering in this area.

	2018	2017	Source / Explanation
Serious environmental incidents	0	0	A significant incident were the effects are still visible one month after the incident.
Environmental incidents	1*	1**	Any incident that negatively influences the environment

* Oil- spilling from excavator at Ursdalen Power Plant. No oilspill observed in the river.

** Oilspill at Osvatn Powerplant. All observed oil was collected, no registered oil spill in the river.



Årvik kraftverk,
Ullensvang herad,
Hordaland

CHAPTER 2: **SOCIAL**



HSE – our employees, suppliers and third parties

Småkraft owns and operates power plants which utilizes kinetic energy from the water to produce electricity of different voltages. Without proper security measures the hydropower plants may impose serious danger on our own employees, partners, suppliers and third parties.

We train our own employees and associated partners in the areas of health, safety and security. Småkraft employees participate in regular training courses and the company arrange training sessions for third party operators. We have security routines and regularly report on health and security related issues.

During 2018, Småkraft has updated routines with regards to its HSE- framework and reporting structures. We do this to make sure that we have unified routines. Particular focus is paid on routines and reporting frequencies by our suppliers and operators.

When it comes to third party, Småkraft builds physical and psychological barriers to dangerous areas in and around our hydropower plants. We install fences, tolls, signs, locked doors, alarm systems and information posters.

During 2018, we have implemented safety measures such as:

- Built new fences and upgraded old ones.
- Built other physical barriers
- Installed alarm systems to warn about changes in water flow
- New and more informative signs and posters
- Training sessions for selected operators within the fields HSE and environment.
- Training of own personnel
- Audits
- New processes, routines and reporting methods
-

	2018	2017	Source/ Explanation
Employees	20	19	
Average sick leave	0,9%	1,9%	
Employees that will retire the next five years	0%	0%	
Employees that will retire the next 10 years	5%	0	
Operators who have performed training courses the last three years	33	25	
Numbers of reported HSE-incidents	25	4	During 2018, Småkraft implemented new reporting routines

How Småkraft creates values locally

Småkraft's installations may have negative impact on the water in the river, and this could potentially damage tourism and outdoor life. The appearance of the hydropower plants could be visually disturbing in areas without other human made installations. They could also be of hindrance to people wanting to utilize the area affected by our infrastructure.

Småkraft wants to reduce these negative consequences as much as possible. We monitor requirements in the concession, and do our best to make sure that our hydropower plants fit into the surroundings in a good way. Still, some negative consequences are probably inevitable for the local society.

"APG are a long-term responsible investor of pension money of about 4.5 mio Dutch citizens. By fairly sharing the fruits of our investments with landowners, municipalities and local businesses, we aim to contribute to the well-being of stakeholders and development of local communities"

Majority Shareholder APG



Therefore, one of Småkraft's main goals, is to share the values we create with the communities. This is closely related to the sustainability goal nr. 11 «Sustainable cities and societies». We pay out land

"Småkraft will, in its nature, have a negative impact on local conditions. For us as landowners, it is important that such consequences are addressed seriously. Småkraft does. We believe it is important that the landowners who feel the negative consequences on daily basis, get positive values from the power plants, as well. This is the core of the Småkraft-model."

Andreas Råheim, land owner Hølera power plant and Reinli power plant.

lease to the land owners of the rivers that we use to produce energy. This is done through private lease agreements. We also pay property tax to the local municipality, which provides services for local residents, and local suppliers are used to develop new projects. Resources nearby our installations make up our first line operators. This builds competence and supports local employment.

Specific actions Småkraft has done during 2018 include:

- Financial support of selected social initiatives
- Stopped the operation of a power plant to make river rafting possible for a period of time
- Implemented security measures to allow public swimming upstream the intake
- Worked to improve and standardize our communication with landowners.
- Participated in openings of power stations and had dialogues with land owners

	2018	2017	Source/ Explanation
Paid property tax to the local municipality	20 490 824	15 008 738	Annual Report
Paid land lease to land owners	31 228 037	14 898 524	Annual Report



*Skrevlåga power plant,
Vefsn kommune, Nordland*

CHAPTER 3: GOVERNANCE



Ethics and anticorruption

Doing the right thing and transparency

In Småkraft we believe that ethical business is about doing the right things. To make the right choices, both in big strategic decisions, as well as in the sum of all the decisions made by our employees on a daily basis. That is what makes up the culture of the company.

Småkraft is founded on the principle that we share resources with stakeholders. To us it is fundamental that we act transparently with land owners, authorities, investors and creditors. We share information about the choices we make, how we are thinking, as long as this does not interfere with our commercial interests. Stakeholders do not necessarily need to agree on all the conclusions we make, but they should at least understand where we come from.

“Småkraft understands that being big comes with responsibility. They recognize this, and they behave well. Småkraft shares with other stakeholders. They contribute in several ways, such as research on how climate change can affect small hydro power production, knowledge about taxation in our sector or knowledge about grid connection- topics.”

Stakeholder in the small hydro- sector

Anticorruption

There are several aspects to doing the right thing. We do what we say we will do, and honor the agreements we make. We contribute to an efficient small-scale hydropower market by sharing in-house resources and competencies. We do not exploit our dominant market position.

Småkraft has implemented internal control and governance mechanisms to reduce the possibility for fraud.

During 2018, Småkraft has experienced several attempts on “CEO- fraud”. Out of which none were successful.

Småkraft has not registered any corruption, where the company, employees or partners have been involved.

Market behaviour

With almost 20% of the Norwegian small-scale hydropower plants, Småkraft is an important market participant in the Norwegian small-scale hydropower segment. In our sector negative market behavior would relate particularly to acquisition and land owner processes. In sales processes, Småkraft always try to accommodate the sellers preferred methodology to ensure a fair competition, and in land owner processes we seek a transparent communication with all involved parties.

Småkraft has not faced any fines or other restrictions because of violated rules or regulations when it comes to market behavior.

Diversity and gender equality

In Småkraft we rely on the collective competencies of our employees and partners. We believe that diversity in background, interests and knowledge is important to form the best team possible to solve the tasks we face.

The power sector in general, and specifically the small-scale hydropower, has over time been dominated by men. Småkraft has an ambition to work against this imbalance, but we acknowledge that we still have a long way to go.

Previously, we have tried to encourage female candidates to apply for positions in the company, but we have observed that male applicants far outweigh the female ones. This also holds true for informal requests for employment.

As a result, Småkraft now works on introduction/trainee programs for graduating candidates. This combined with our strategy to increase our visibility, we believe will improve diversity.

	2018	2017	Source / Explanation
Share of females in the Board of Directors	20%	20%	
Number of female (male) employees in the company	2 (18)	2 (17)	Per end of year.
Share of female operators	0%	0%	
Female (men) among new employees	0 (2)	0 (1)	

CHAPTER 4: CLIMATE RISK



Introduction about climate risk

2018 clearly showed how a renewable company like Småkraft faced consequences of climate changes. In Norway it was a year with a long, dry and cold winter and an extraordinary dry and warm summer. Both seasons negatively affected the level of water running in our rivers, and the production in 2018 was low compared to a normalized year. Throughout the year power prices were high in all price areas because of the low hydrological balance.

Climate changes are unpredictable, and it is very hard to evaluate which scenarios and events will occur during the lifetime of our business. Still, we try to assess and describe climate risk from our perspective.

Our climate risk reporting describe how Småkraft possibly could be affected by future climate changes. All assessments and description of risks and possible events are subject to great uncertainty. We emphasize that we in the following risk assessment do not describe all risks and not necessarily all climate risks either.

Physical risk

Our definition:

«Risk for physical events because of climate changes»

Physical risk – actue risk

Our definition:

“Risk for acute events because of extreme weather that have negative impact on our financial position”.

Småkraft's installations converts large physical powers into electricity. Extreme floods impose increased pressure on our power plants. Such extreme situations may cause harm to the power plants. Power stations may stop, we may lose production and we may face costs to get the power station back in operation. Financial risk following such events normally will be limited, as private and public insurances cover the losses. However, if damages because of flooding over time increase, the insurance premiums may rise. This has a small impact on our financial position.

Physical risk – Chronical risk

Our definition:

«Risk that long- term changes in weather and climate have negative impact on our financial position.”

Småkraft depends to a large extent on rain to produce energy. Changes in precipitation patterns and temperatures may affect both our production and the prices in the Nordic energy market. Climate changes could potentially lead to cold winters and dry summers, which may affect our production negatively. Climate changes could also lead to more extreme rain and/ or snow melting, which would increase the water loss over our dams. However, another consequence could be warmer winters and/ or wetter summers, which would have a positive effect on our production and our achieved price discount.

Transition risk

Our definition:

«Risk that the transition to a low carbon society in line with the Paris- agreements ambitions have negative consequences for our business.”

Transition risk – Politics and regulations

Our definition:

“Risk that climate changes lead to changes in regulations that affects our business in a negative way.”

In the Norwegian and Nordic Power market today, the CO₂- quotas and coal prices have large impact on the power prices. Especially, prices on the CO₂- quotas is affected directly by politics and regulations. Changed quota curves affect the CO₂- prices and this affects the power prices.

The physical regulations related to our power plants relate to physical risk. If acute and chronical risk related to our power plants increase over time, new regulations may affect our power plants. This may impose need for investments and financial effects.

Transition risk – Technological changes

Our definition

"Risk that new technological solutions affect our business negatively."

Climate changes create new commercial opportunities that may result in new technological innovations and disruptions. Renewable and clean energy is one of the most important areas to achieve the ambitions of the Paris- accord and large resources are spent to create new technological solutions to solve the world's increasing need of energy. New and more cost- efficient technologies may potentially outcompete old solutions like small-scale hydropower

Transition risk – Market Changes:

Our definition:

"Risk that the market Småkraft operates in change negatively because of climate changes."

We sell renewable electricity. This leads to three revenue streams. 1) Revenues from sale of power. 2) Revenues from sale of el- certificates. 3) Revenues from sale of Guarantees of Origins. When people are more aware of the climate changes it is not unlikely that the value of renewable energy increases. We believe that it is less likely that the market for renewable energy is changed because of climate changes. However, we emphasize that there are many other factors that affect our markets other than climate changes.

Transition risk - Reputation:

Our definition:

"Risk that climate changes affect Småkraft's reputation negatively."

As our business already is aligned with the Paris- accords ambitions, we believe this risk is less relevant for Småkraft.

Liability risk

Our definition:

"Risk that Småkraft faces liabilities with connected negative economic consequences arises because of decisions (or lack of decisions) related to climate politics or climate changes."

Småkraft already operates in line with the Paris- accords ambitions. We believe that our solutions contribute positively to achieve the climate goals.

Extreme weather and especially floods may affect our installations. Independent of weather- and climate situations, Småkraft is responsible for maintaining security during dam- and penstock breaches and other critical events

How does Småkraft work with climate- risk

Physical damages on our installations and/ or other property

All Småkraft power plants except one has an approved risk classification, that states the risk related to the particular plant. The power plant without risk classification is currently in a classification process.

During the phase of receiving concession, one gets a risk classification based on objective criteria and assessments. Old power plants have classification based on application during the last ten years. Especially three items affect the risk classification:

1) danger to life and health 2) danger to other infrastructure because of breach of dam, penstock or other damages 3) danger to environment and third-party property.

Based on this classification, Småkraft performs supervision of the installations with different frequency and competence. We carry out extraordinary inspections at special events. Based on the same classification, external auditors from the authorities carry out audits of the power plants every 15th to 20th years. In connection with these audits, Småkraft have third party consultants carry out updated flooding assessments. These take into account climatic changes in the rivers. If the internal assessments or external supervisions conclude that new measures are necessary, Småkraft will prepare and implement such measures. Småkraft also reevaluates that the current classification is correct at both internal and external reviews.

Revenue loss because of volatile and extreme water flow

Småkraft is currently working on a new dynamic risk policy, which to a greater extent than before takes into account increased short- term volatility in water flow and in the price picture. This risk policy aims to reduce the risk of loss of income as a result of short- term volatility in the water flow and in the price picture. This work has been going on throughout the last quarter of 2018 and is expected to be completed during the first quarter of 2019.

Småkraft has also reviewed of all our power plants to investigate whether we have power plants that are particularly well suited, topographically, for making regulatory reservoirs. Such will be able to increase the expected annual output of the power plant with only limited interventions in the nature. This is because we plan to use natural reservoirs upstream the intake to store water during periods of high water flow. We will also obtain higher prices with such regulation reservoirs, since that will allow us to release the water when there is more need for energy and thus higher prices

This work was started in the second half of 2018. As of 31 December 2018, Småkraft has identified about 5 power plants which qualify for regulatory reservoirs. As of 31 December 2018, we have applied for the possibility of regulation at two of these power plants. Both have received a positive decision, but one has been appealed to the Ministry of Petroleum and Energy. Småkraft plans to carry out work on these installations over the next three-year period.

Småkraft has also considered adapting the capacity of power plants to be able to swallow larger volumes of water flow, but as a rule, the pipe gate is the limiting factor. It will therefore not be economically appropriate to increase capacity. In Småkraft's last license applications, however, the extinguishing capacity was usually laid on 250% of Q mites to account for greater volatility.

Together with various scientific institutions, Småkraft looks at how climate changes may affect the water patterns in our rivers in the years to come. While this work has not yet been concluded, it suggests that temperatures and the water flow in general has increased over the years and will continue to increase. Increased water flow may lead to higher production in the winter, but it also may lead to more floods that we are not able to utilize. Småkraft will continue to work with these matters and investigate how we could transfer the general scientific results to our specific power plants.

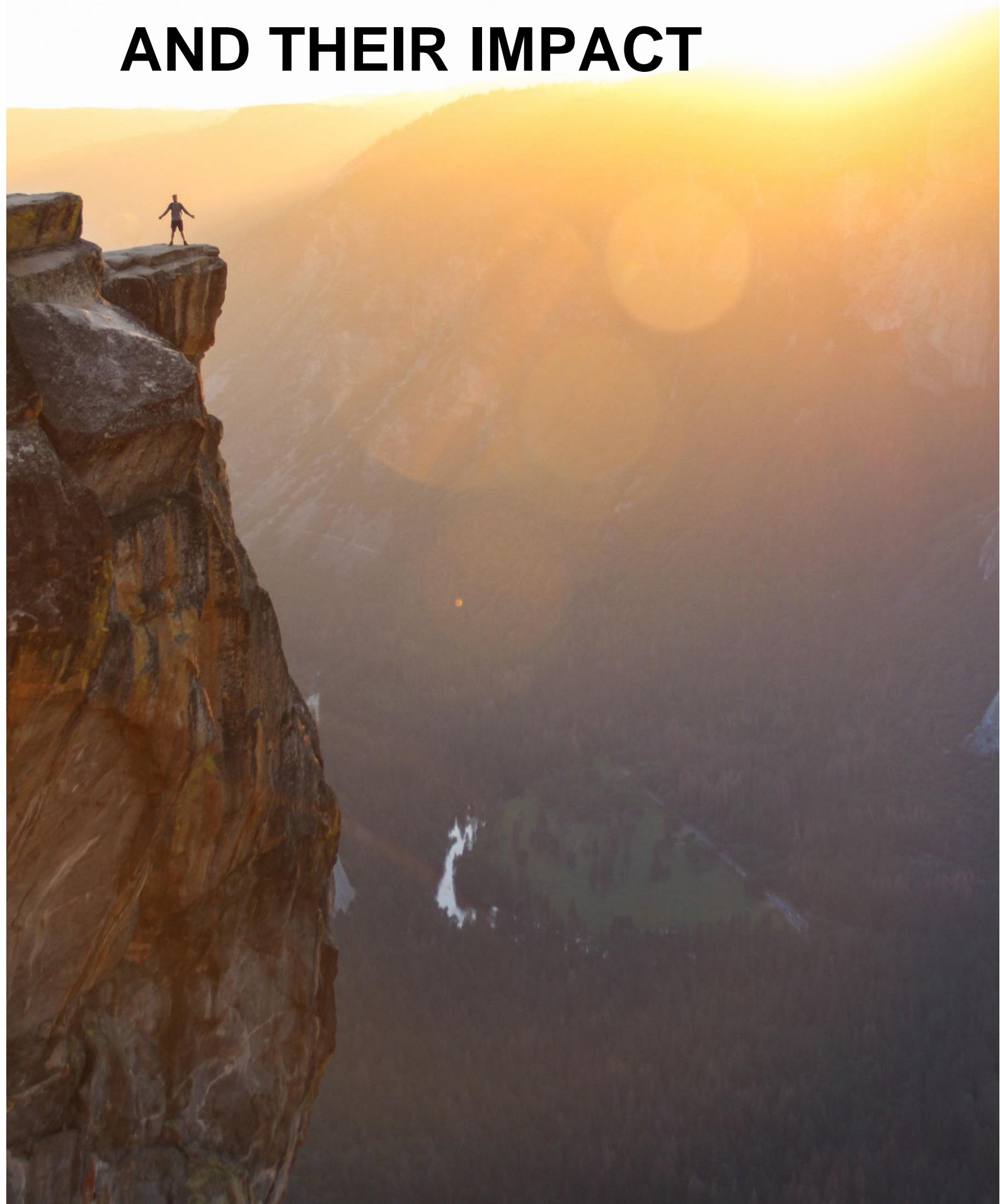
Income loss due to extremely wet years with low power prices

Småkraft is well equipped to cope with particularly wet years with associated low power prices due to our underlying financial model. Our new risk policy will have a clear goal of ensuring that downside protection in such scenarios will work.

Risk of changed licensing conditions because of climate change

Småkraft works continuously to follow up on changes in our facilities, changes around our power plants and changes in the water flow in the rivers. Småkraft believes that we are well prepared for changes in license terms by proactively following up and tackling changes in and around the power plant, which can affect the power plant over time.

CHAPTER 5: **GREEN BONDS AND THEIR IMPACT**



Statement of invested amount financed by green bond loans at 31.12.2018

Loan amount	50 MEUR
Approved instruments in accordance with the Green Bond Framework.	50 MEUR
Non- approved instruments in accordance with the Green Bond Framework.	0

	Approximately amount	Total renewable energy		New renewable energy (investment after 2000)	
		GWh	CO ₂ -reduction	GWh	CO ₂ -reduction
Total investments	5000 MNOK	1095	8 823 tCO ₂ annually	981	7904 tCO ₂
Green Bond share	50 MEUR	157 GWh	1 265 t CO ₂	157	1265 tCO ₂



*Ytre Alsåker power plant,
Ullensvang herad,
Hordaland*

APPENDIX: FACTORS AND REPORT QUALITY

Report Quality

In 2018, Småkraft does not report according to GRI or other objective sustainability standards. We have tried to structure the report so that it will be as recognizable and comparable as possible.

The report covers all companies in the Småkraft- Group. The report is not externally verified to confirm that the data collected is in objective. However, information gathered for the report and dissemination of this report has been endeavored in the best possible way. To the extent that background information is interpreted, this is done for the purpose of providing as accurate and relevant a view as possible of the particular situation. The data that form the basis for the reporting on the external environment are partly direct measurement data and partly self-reporting of aggregated figures, partly average calculations and some estimates. Where estimates have been made, the data is marked and we have tried to make as accurate estimates as possible. However, because of interpretation, the data has varying degrees of precision.

Contact person for inquiries for the report is CFO, Erik Røysem Sterud.

Calculation factors emissions

	Emission	Source
Car, 2011-model	134 g CO ₂ e/km	Statens vegvesen: average CO ₂ - emissions for cars new in 2011
CO ₂ e-emissions electricity production Norway 2016	16 g CO ₂ e/kWh	NVE 2016 declaration

Calculation factors

	Emission	Source
Yearly reduction Norwegian Hydro	8,0573 tCO ₂ e/GWh	Internal calculator built on GHG- protocol for calculating climate gas emissions.
Expected reduction for the lifetime of the powerplant	322 tCO ₂ e/GWh *40	Internal calculator built on GHG- protocol for calculating climate gas emissions. Based on a conservative assumption that remaining lifetime on average is 40 year.



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