

Småkraft AS – Green Bonds Framework

19 July 2018

1. Introduction

Småkraft AS is the largest small scale hydro power company in Norway which invests, develops and operates small-scale hydropower plants in cooperation with local landowners. The company currently operates 100 river hydro power plants with a total annual production of approximately 1 TWh of renewable zero emission energy. The company was established in 2002.

Småkraft AS has an ambition to grow its small scale hydro power plants portfolio significantly from the current 1TWh over the next four years. The company intends to acquire environmentally sound small scale hydro power plants in Norway that are both technically and economically efficient.

This Green Bonds Framework is developed in alignment with the Green Bond Principles 2018¹.

2. Use of Proceeds

“**Eligible Projects**” means a selected pool of projects, funded in whole or in part, by Småkraft, or its subsidiaries that promote the transition to low carbon and climate resilient growth and a sustainable economy.

Eligible Projects:

- **Renewable energy** including small scale hydro power and related infrastructure.

Småkraft does not own nor operate, and will not invest in nuclear or fossil energy generation projects.

Småkraft Green Bonds can be used to finance the acquisition and development of new Eligible Projects, to renovate and upgrade existing Eligible Projects and to refinance existing Eligible Projects. The division of the allocation of Green Bond

¹ See International Capital Market Association, ICMA:

<https://www.icmagroup.org/assets/documents/Regulatory/Green-Bonds/June-2018/Green-Bond-Principles---June-2018-140618-WEB.pdf>

proceeds between new projects and refinancing² will be included in the annual Green Bond Investor Letter (see section 5 below).

3. Process for Project Evaluation and Selection

Eligible Projects are selected by representatives from the Business Development, Operations and Finance departments, where the project selection is based on a consensus approach.

4. Management of Proceeds

An amount equal to the net proceeds of the issue of the Green Bonds will be credited to a special account that will support Småkraft's funding of Eligible Projects. As long as the Green Bonds are outstanding and the special account has a positive balance, at the end of every fiscal quarter, funds will be deducted from the special account and added to Småkraft's Green Project Portfolio in an amount equal to all disbursements made during such quarter in respect of financing and/or refinancing of Eligible Projects. Until disbursement to Eligible Projects, the special account balance will be placed in liquidity reserves and managed accordingly. If, for any reason, a financed Eligible Project no longer meets the eligibility criteria, it will be removed from the Green Project Portfolio.

5. Reporting

To enable investors to follow the development of Småkraft's project development and provide insight into the company's priority areas, Småkraft will provide an annual Green Bond Investor Letter to investors including:

- a) a list of the projects financed including allocated amounts, a brief description of the projects and their expected environmental impacts;
- b) information about the division of the allocation of Green Bond proceeds between new projects and refinancing.

Småkraft recognizes the importance of transparency and investors' interest in impact reporting on projects financed with Green Bonds. It is Småkraft's ambition to report on the major expected/actual amount of renewable energy capacity added/restored/connected/distributed for renewable projects where feasible.

6. External Review

To secure alignment with national and international guidelines Småkraft has obtained an external second party opinion from the Centre for International Climate and Environmental Research – Oslo (CICERO) who will issue a Second Opinion. The Second Opinion as well as the Green Bond Framework will be made publically available on Småkraft's web site.

² New projects are defined as projects that have been finalized within one year before the approval in accordance with section 3 of this Green Bonds Framework